



# **AFRICA ACADEMY OF MANAGEMENT**

## **Sustainable Development in Africa through Management Theory, Research and Practice**

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Academy of Management**

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## Foreword

On behalf of the Africa Academy of Management, I am delighted to share with you the proceedings of the best papers of our 2nd Biennial Conference. The theme of this year's conference is "Sustainable Development in Africa through Management Theory, Research and Practice." Hosting of conferences on the continent is integral to our mission to promote and advance knowledge creation and dissemination about management in and about Africa. These proceedings will be available to others via our website as a means of sharing the papers.

There is growing evidence that Africa is "on the rise." Several African countries are experiencing economic and industrial growth. However, some academics, practitioners, and even citizens are concerned about the extent to which the developmental progress observed in those countries can be sustained. Sustainable development, the process by which the complex and interconnected social, economic and natural environment systems are harnessed to generate enduring national and progressive outcomes is facilitated by the science of management. Management science enhances not only understanding but also effective practice of social, economic and environmental components of sustainability development. Management theory, research, and practice yield knowledge on effective sustainable development.

The papers presented at the conference address various aspects of the theme from the many sub-disciplines that make up the field of management. We are so pleased to have contributions from around the world. I also want to thank our proceedings editors, Professors Moses Acquah of the Bryan School of Business and Economics, University of North Carolina at Greensboro (USA) and Professor Karel Stanz, Department of Human Resource Management, University of Pretoria (South Africa).

I also want to thank our main conference sponsor, Emerald Group Publishing, Ltd. for their continued support for our activities.

Sincerely,

*Stella M. Nkomo*

Professor Stella M Nkomo

President, Africa Academy of Management

## **The Africa Academy of Management (AFAM)**

The Africa Academy of Management (AFAM) is a professional membership organization that was formed in 2011. AFAM believes that management knowledge can make a significant contribution to the productivity and prosperity of a nation. Yet, there is a dearth of knowledge about management in Africa and several studies have identified the inadequate state of management research and scholarship about Africa relative to other regions of the world. AFAM's mission is to help close this gap by promoting research and education about management and organizations in Africa. Specifically, the objectives of AFAM are two-fold: (1) to foster the general advancement of knowledge and scholarship in the theory and practice of management among African scholars and/or academics interested in management and organization issues in Africa. Africa is defined broadly to include all of Africa and individuals of African descent in the Diaspora (i.e., The Caribbean, South America, Europe, Asia, Oceania, Middle East, and North America); and (2) to perform and support educational activities that contribute to intellectual and operational leadership in the field of management within the African context.

AFAM focuses on building and strengthening research capacity and education about management in Africa. This includes the mentoring of doctoral students, guiding and developing junior faculty, building collaborative networks among scholars, and advancing research about management in Africa. We launched the Africa Faculty Development (AFD) Workshop initiative in partnership with the Academy of Management in 2011. Since 2011, we have held two week-long AFD Workshops for doctoral students and junior faculty from African Businesses Schools in Ghana (at Ghana Institute of Management and Public Administration and in Rwanda (at University of Rwanda). These workshops have already assisted several participants to complete their doctoral studies. With a membership base of about 200 academics and practitioners from around the world, we work closely with other academic associations and our sponsors in executing our mission. Visit our website at [www.africa-aom.org](http://www.africa-aom.org) to learn more about current activities.

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## Introduction

It is now universally accepted that economic and human activities are inextricably interconnected with the natural environment, therefore the exploitation of the natural environment for the good of humankind should be done a prudent manner. As far back as 1992, The World Bank stated that “the achievement of sustained and equitable development remains the greatest challenge facing the human race” (World Bank, 1992: 1). This statement is true today as sustainable development has become the goal of most nations since the publication of *Our Common Future*, also known as the *Brundtland Report* (The World Commission on Environment and Development, 1987). According to The World Commission on Environment and Development, sustainable development is “development which meets the needs of the present without compromising the ability of future generations to meet their own needs” (1987, p. 8). The report further argues that there are two key concepts inherent in sustainable development “the concept of **needs**, in particular the essential needs of the world's poor, to which overriding priority should be given; and the idea of **limitations** imposed by the state of technology and social organization on the environment's ability to meet present and future needs” (1987, p. 8; italics in original). Sustainable development is further seen as the “process of achieving human development in *an inclusive, connected, equitable, prudent, and secure manner*” (Gladwin, Kennelly, & Krause, 1995: 878, Italics in original). Thus, sustainable development deals with environmental, ecological, economic, and social practices that foster the well-being of the world's population now and in the future. We are therefore confronted with the question: What is the role of management theory, research and practice on “the full human community, the natural environment, and a sustainable future”? (Gladwin et al., 1995: 875).

Management research, theory and practice, therefore, have a significant role to play in encouraging and enhancing sustainable development by emphasizing business models, practices and activities that recognizes the interdependent nature of the environmental, ecological, economic, and social systems. In fact, it has been stated that organizations are the only institutions with the resources, technology, the global reach, and the power to promote the changes necessary for achieving sustainable development (Hawken, 1993; Hart, 1997). These have led to the emphases being paced on sustainability issues in management research and practice in the advanced industrialized countries for almost two decades. For instance, sustainability issues in management gained momentum with the publication of the *Academy of Management Review's* Special issue, focusing on the role of management in enhancing ecological sustainability in 1995; and the Special issue of the *Academy of Management Journal*, in 2000 with an emphasis on the management of organizations in the natural environment. Furthermore, to encourage the inclusion of sustainability issues in business models of organizations, the Network for Business Sustainability (NBS) was founded in Canada in 2005 to facilitate knowledge exchange among sustainability researchers and practitioners (Bansal, Bertels, Ewart et al., 2012). Apart from its literature on sustainable business practices, the NBS has also been organizing Webinars to share knowledge on how to infuse sustainable development in firms' activities. The Webinars include best practices for firms to collaborate with other organizations to advance sustainable business, and strategies for teaching sustainability in different management disciplines such as strategy, finance and accounting, marketing and operations (Kilcoyne, 2013).

Management's function in sustainable development would include the application of management and organizational theories and practices by organizations that take into consideration their environmental, ecological, economic, and social impact on development activities. Sustainability issues in management are now widely accepted and several fields in management and organizations encourage research topics that link their fields to sustainability. The importance of sustainable development and sustainability issues particularly in Africa is evidenced by the establishment of an affiliate of NBS in South Africa – Network for Business Sustainability: South Africa (NBS: SA) in 2013. A collaborative partnership between The Gordon Institute of Business Science (GIBS) at the University of Pretoria and the Graduate School of Business at the University of Cape Town, the goal of NBS: SA is to “advance

South Africa's sustainability agenda by identifying and addressing knowledge gaps faced by practitioners" (NBS:SA, 2013: 5). This is a welcome effort since it will propel the rest of the African continent forward towards achieving the goal of sustainable development in the near future.

Africa is a continent that is endowed with abundant natural resources, but also experiencing huge social and economic development issues. With the continent of Africa experiencing considerable economic growth, which is projected to continue and even out-pace other regions of the globe, it has led to the exploitation of the natural resources indiscriminately resulting in severe environment and ecological problems (e.g., desertification, deforestation and soil erosion or degradation) (Nyang'oro, 2007). Other environmental problems confronting African are water pollution and depletion, and the inability to conserve wildlife. Despite the increase in the application of management theories to sustainability and sustainable development in the advanced industrialized world, very little research has been conducted in the African environment (Zoogah, 2013). This special issue seeks to encourage the development and/or application of management theories and methodologies to endanger sustainable development practices by organizations that could be used to address the social, economic and environmental problems confronting the African continent.

The papers in this proceeding are the best papers from the 2nd Biennial Conference of the Africa Academy of Management (AFAM) on the theme "*Sustainable Development in Africa through Management Theory, Research and Practice.*" The purpose of the conference is the highlight the importance of management in achieving sustainable development in Africa. In response for the call for papers for the conference, we received 130 submissions. Each of the papers went through a double-blind review process and 40% of the papers were accepted for the best paper proceedings. There are 51 papers in the proceedings and they are organized into five parts based on the tracks for the conference: entrepreneurship and small business; organizational behavior and human resources management; strategy and international management; general management; and public policy, administration of government and non-governmental organizations. Although, all the papers do not explicitly focus on sustainable development and sustainability, most of the papers discuss theoretical, empirical and practical issues in management that has the potential to encourage and foster sustainable development. We hope that the papers in this proceeding will stimulate your interest.

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## Part 1: Entrepreneurship and Small Business

### FINANCING AND NEW BUSINESS: QUANTITY VS. QUALITY

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### ABSTRACT

The paper investigates the effects of bank financing on regional entrepreneurial activities in China. We present contrasting findings on the role of quantity vs. quality of bank financing on new small business formation in China: While we find a consistent, significantly positive relationship between the quality of bank financing and new venture formation, we find that the quantity of supplied credit is insignificant after we control for the quality of financial intermediations in the local markets.

**Keywords:** New venture formation; Small business; Bank financing; Bank efficiency

### INTRODUCTION

Entrepreneurship involves mobilizing resources in the formation of new ventures to pursue opportunities based on commercializable innovations (Aldrich, 1990). There is a growing sense among academic researchers that the U.S. economy especially benefits from vibrant entrepreneurial activities, which also contribute to the rising leadership of U.S. firms in high-technology industries. During the entrepreneurial process, resource acquisition, especially of financial resources, is crucial for making an innovative idea into a reality (Black & Strahan, 2002; Blinks & Ennew, 1997). When a change in the technological regime necessitates the creation of new firms, this can happen relatively rapidly in the U.S., where financial markets function efficiently (Acemoglu, 2001).

The role of banks in facilitating entrepreneurial activities as well as economic growth has been well established in the existing literature (Guiso, Sapienza, & Zingales, 2004). Entrepreneurial firms are

generally small and depend heavily on the credit provided by local banking systems for their start, survival and continuous growth (Cole, Wolken, & Woodburn, 1996; Guiso et al., 2004). However, most of the research that investigates the effect of financial development or banking systems on entrepreneurship focuses exclusively on countries in North America and Europe (Black & Strahan, 2002; Blinks & Ennew, 1997; Bruton, Ahlstrom, & Obloj, 2008; Kerr & Nanda, 2009; Wall, 2004). The exploration of related domains outside of these two developed economic regions remains extremely limited. Therefore, it is our attempt to contribute to the literature and provide new evidence by empirically investigating the relation between banking institutions and entrepreneurial activities in China, one of the largest and fastest growing transitional and emerging economies in the world.

Moreover, existing studies tend to resort to the quantitative side to measure the banking sector in the economy, which emphasizes the role of banks in stimulating capital accumulation. Compared with the environment in a developed economy, the banking institutions in emerging countries are usually much more strictly regulated and their lending businesses are heavily government-directed or are regulated by government intervention (Manolova, Eunni, & Gyoshev, 2008). More importantly, lending to small businesses requires banks to rely more on “soft information” to make decisions whether to extend credit to small businesses, because the “hard information” is difficult (or almost impossible) to collect due to the small firms’ lack of bookkeeping or new establishment (Stein, 2002). Given the complicated nature of the “soft-information” processing, a measure which is purely based on the quantity dimension of banking practice (such as total bank loans or credit supplies) is simply not sufficient or even appropriate to gauge whether banks are optimizing financial resources in an economy. Therefore, it is a bit surprising how little the existing literature interrogates the quality of bank lending matters for entrepreneurial firms; most studies view the issue as resolved upon receiving a measure of quantity. Therefore, given the importance of qualitative dimensions of bank financing for new ventures, and given the lack of documentation in the field, it is our intention to contribute to the existing literature by capturing and examining both the quantity and quality sides of bank financing, to documenting and compare their different effects on new venture formation, and finally, to highlight the importance of these quality dimensions on the success of new ventures.

Among the existing studies, cross-country samples are usually used to pursue this line of inquiry. However, such an approach falls short, as the systematic differences between markedly different economies could be the hidden factors that drive the results. We argue that a research design that focuses on intra-country information rather than cross-country samples avoids this cross-country idiosyncrasy and ensures “data comparability and functional equivalence” (Sekaran, 1983). We therefore collect data from different regions in a single emerging economy, and then form a panel of 30 provinces in China over the period from 1998 to 2008 to ensure we have sufficient variations in both cross-sectional and time-series dimensions to explore our research question. From various sources, we obtain information regarding the number and output of small businesses, and we construct our measures to capture the entrepreneurial activities in local areas. We further measure both the quantity and quality sides of bank financing to examine the role played by financial intermediations in entrepreneurship. Following existing research, our quantity measure focuses on the size of the banking sector at the province level. Our quality measure is derived from aggregation of bank-specific efficiency scores.<sup>1</sup> We first estimate both profit efficiency and cost efficiency for each individual bank, and then aggregate the bank-specific efficiency score into province level according to a weighed scheme. We also control for the regional economic environment and demographic information in the regression analysis.<sup>2</sup>

We document a significantly positive relation between the quality of financing services offered by banking institutions and entrepreneurial activities in local markets. Moreover, when we control for the quality of bank financing, the quantity of supplied credit is insignificant in the model specifications. To address the possible endogeneity issue commonly found in this type of research, we perform our

analysis and report consistent results based on both a fixed effects estimator and a system General Method of Moment (GMM) estimator.

The availability of capital is one of the major challenges faced by new technological ventures in China, especially when in-house R&D becomes the driving force of industrial innovations (Sun & Du, 2010). We thereby contribute to the literature in the following two ways. First, we provide novel evidence of the effect of financial institutions and entrepreneurship in an emerging country. Our findings emphasize the importance of bank efficiency in funding entrepreneurial firms and highlight the function of screening and monitoring as performed by banking institutions. Second, our study adds to the few analyses that make an explicit distinction between the quantity and quality of bank financing (Berger, Hasan, & Klapper, 2004; Koetter & Wedow, 2006; Lucchetti, Papi, & Zazzaro, 2001), and investigates the relative importance of enhanced efficiency of financial intermediations over supplied credit in promoting entrepreneurship in the local areas.

The rest of this paper is organized as follows. Section 2 introduces background information on banking institutions in China and reviews related literature. Section 3 details the data collection and our sample. Section 4 discusses our identification strategies and reports empirical results. Section 5 summarizes and concludes.

## LITERATURE REVIEW

### Background of Banking Institutions in China

Emerging economies are characterized by an increasing market orientation, and are becoming major economic forces in the world (Bruton et al., 2008). The late twentieth century has witnessed the transformation of numerous centrally planned economies around the world into market systems. Among many emerging countries, China has followed an incremental and experimental path to reform its economy and has achieved fast growth rates for more than three decades (Prasad & Rajan, 2006). During the transformational stage, credit markets and banking system in China play a major role in channeling crucial capital from saving to investment. Meanwhile, the banking system has continuously undergone significant changes due to policy shifts.

The Chinese banking system was established in the late 1940s and followed the system of the Soviet Union. The central bank, the People's Bank of China, was founded in 1948, and took responsibility for currency issue and monetary control. The banking system expanded by launching several large state-owned banks that took over lending functions from the central bank. The Chinese banking sector was dominated by four very large state-owned banks with about three-fourths of banking assets.<sup>3</sup> Initially, these mega banks mainly served as "conduits" for the government, rather than as commercial banks. Competition in the banking sector was limited because banks were lacking in sufficient incentives to make profits out of real business lending.

It was not until in the early 1990s that the central government began to reform the financial system by separating the policy banks from commercial banks. The 1995 Commercial Bank Law of China officially states that the major objective of state-owned banks is to operate as commercial banks in accordance with market principles instead of according with policy requirements. In addition, *de novo* banks were permitted to enter into the market in the mid-1990s. In the subsequent years, a series of procedures were taken to transform urban credit unions into commercial banks, grant limited licenses to non-state commercial banks as well as foreign banks, and introduce standard accounting and prudential norms.

Additional changes were implemented after China's entry into the WTO in 2001, including the liberalization of interest rates and a relaxation of restrictions on equity ownership. For example, in 2003, the China Banking Regulatory Commission introduced its updated guidelines to encourage foreign investors to purchase shares of up to 25% of any domestic bank. In more recent years, the Chinese

government has taken cautious actions to partially privatize its banks by selling shares to both domestic and foreign investors (see, Berger, Hasan, & Zhou, 2009).

The gradual reform of the banking system in China and various regulatory changes has significantly increased bank competitions and bank efficiency. While a flourishing entrepreneurship in the private sector has been significant to the economic development of China, the role of the banking sector is still inconclusive in existing literature (Hasan, Wang, & Zhou, 2009). Given the predominant size of the banking sector in China, it would be interesting to examine both the quantitative and qualitative sides of Chinese banks and their effects on entrepreneurial activities.

### **Related Research**

Banks are essential for economic development in that they are a crucial device to screen entrepreneurs and allocate financial and real resources in an efficient way (Diamond, 1991). As Cole et al. (1996) report using the data from 1993 National Survey of Small Business Finance (NSSBF 1993), banks provide more than 60 percent of small business credit. The causal relation between the financial sector and economic development has been well established in the literature (King & Levine, 1993a, 1993b), which supports a premise dating back to 1934 that a sound financial system fosters economic growth (Schumpeter, 1934). Most of the research has been focused on the role of banks in accumulating capital, and has employed measures such as the ratio between liquid liabilities of the banking system and GDP (Gertler & Rose, 1994), the ratio of domestic credit to GDP (Rajan & Zingales, 1998), and the share of credit granted to the private sector in ratio to GDP (Beck, Clarke, Groff, Keefer, & Walsh, 2001; Wurgler, 2000) to gauge the size of financial institutions.

The purpose of this article is to examine the effect of bank financing on new venture formation given the importance of small business in the economic development (Headd & Kirchoff, 2009). As Schumpeter argues, entrepreneurship means innovation by independently owned start-ups that leads to creative destruction. However, most entrepreneurship scholars focus on innovation as a source of wealth creation but fail to recognize the wealth redistribution only occurs when innovation originates in new firms (Spencer, Kirchoff, & White, 2008). We intend to further the investigation by focusing on entrepreneurs that form and operate independent new firms (Spencer et al., 2008), especially when they are dependent upon external financing to launch their businesses (Alessandrini, Presbitero, & Zazzaro, 2009).

We argue that there exists a dynamic interaction between entrepreneurial firms and financial institutions (Peng, 2003). The decision to launch new ventures is a natural reflection of the formal and informal constraints faced by entrepreneurs in the local markets (Barney, 1991; Teece, Pisano, & Shuen, 1997). Given the limited resources of the region in which entrepreneurial firms are competing (Aldrich, 1990), young ventures tend to be rationed and are subject to a screen for credit worthiness and future prospects by banking institutions. Moreover, local banking development can affect firms' innovative activities, particularly for small firms and for firms in technology sectors (Benfratello, Schiantarelli, & Sembenelli, 2008; Alessandrini et al., 2009). Consequently, the entrepreneurial orientation of would-be entrepreneurs will be shaped by the practice of financial intermediations in local areas (Tang, Tang, Marino, Zhang, & Li, 2008).

Although the importance of bank financing for entrepreneurship has been highlighted in the existing literature, very few studies make a distinction between the quantity and quality of banking institutions (Berger et al., 2004; Koetter & Wedow, 2006; Lucchetti et al., 2001). In a Schumpeterian world, the quality of bank services should matter more than just the quantity of financial intermediation for the economic development. Stein (2002) points out that the key distinguishing characteristic of small business lending is the "softness" of information generated in the decision making process. Banks have an informational advantage in identifying entrepreneurs with the highest potential to promote innovative products, services and processes, and thus can nurture lending relationships with

entrepreneurial firms (Berger, Miller, Petersen, Rajan & Stein, 2005). Banks in the economic system function as a certification to the quality and viability of entrepreneurial firms and increase their probability of successful introducing innovation to the market (Lucchetti et al., 2001; Moore, 1988; Stiglitz & Weiss, 1988). During the lending process, banks can economize on searching costs and thus achieve aggregate savings (Allen, 1990). As both insider lenders and delegated monitors (Diamond, 1984, 1991), banks have access to entrepreneurial firms' information from the onset of a loan application, as well as from previous lending relationships, and thus are able to provide more effective monitoring at a lower cost (Roberts and Yuan, 2010). In addition, bank competition is less favorable to the emergence of new firms when information asymmetries are greater (Bonacorsi di Patti & Dell'Ariccia, 2004). Therefore, the information advantages allow local banks to alleviate free-rider problems arising from asymmetric information and may enhance entrepreneurial firms' innovation activities (Chen, Chen, & Vanhaverbeke, 2011).

In this sense, bank efficiency, which measures the relative ability of banks to efficiently utilize their resources to generate outputs, plays an important role in allocating loanable funds to entrepreneurs. We posit that in regions where banks are relatively more efficient at minimizing costs when searching for promising businesses and monitoring their lending portfolios there will be evidence of better nourished entrepreneurship and more venture formation.

In a standard cross-country setting, it is very difficult to observe and control for the set of social and cultural variables that potentially play an important role in affecting financial intermediations. Moreover, because of the sampling procedure, researchers are oftentimes forced to compare a large number of countries that possess dramatically different legal systems and institutional settings, which play an important role in shaping the practice of financial institutions (Manolova et al., 2008). For example, a bank's ability to force repayment and the cost of contract enforcement can vary widely across sample countries. Therefore, cross-country comparisons are subject to "data comparability and functional equivalence" (Sekaran, 1983). To reduce the sample biases, we examine the role of bank financing in explaining entrepreneurial activities using provincial data in China, which is one of the largest and fastest growing transitional and emerging economies in the world. By using the sub-national level data, we are able to focus on both the quantity and quality aspects of banking institutions in China, and we can largely avoid the data comparability issue in cross-nation studies because many institutional factors — such as diversity in historical experiences and cultural norms — are homogeneous for our sample regions.

## **DATA AND METHODOLOGY**

One of the major challenges in measuring new venture formation and the quantity and quality aspects of bank lending is due to data availability in emerging countries. In this study, we use aggregate data at provincial level in China instead of using cross-country samples. The sub-national data we use in this paper has some major advantages over cross-country studies in addressing the data comparability and controlling for heterogeneity in historical experience, cultural norms or institutional environment (Hasan et al., 2009). Essentially, we construct a panel of 30 provinces (including four municipalities) in mainland China from 1998 to 2008.<sup>4</sup>

### **Measures of New Venture Formation**

Aldrich (1990) argues that there is a significant shift from "traits" approach to "rates" approach in entrepreneurship research, the latter of which emphasizes the founding rates of new ventures over time. Given that environmental resources set a limit on population density, new venture formation rates vary substantially in local markets because the number of organizations competing for the same pool of resources is constrained. Firm birth rates are widely adopted in recent studies to investigate

entrepreneurial activities and the related determining factors (Francis, Hasan, & Wang, 2008; Kirchoff, 1994; Kirchoff, Newbert, Hasan, & ARmington, 2007). Nonetheless, another important aspect of entrepreneurship has largely been ignored in empirical works (Delacroix & Carroll, 1983), which highlights the importance of firm death rates in subsequent new venture formations. Founding rates can be constrained by death rates in the sense that resources are only available when firm death dissolves and releases them (Aldrich, 1990). The efficient operations of banking institutions require a careful screen of the credit worthiness and future growth prospect of small businesses. Moreover, lending to small businesses is highly regulated by certain quotas set by the government in China, as dominating mega banks are state-owned. This practice of the banking sector in China implies that banks have to shift their lending portfolios to allocate scarce financial resources to the most promising entrepreneurs, which is surely associated with significant switching costs for existing entrepreneurial firms or even negatively affects their survival. Therefore, in our paper, we consider not only the founding rates but also the death rates in order to capture the dynamism of entrepreneurship in local markets.

The National Bureau of Statistics of China (NBSC) provides various statistics on the number of firms in different sized categories at the provincial level in their yearbook. However, before 1997, the industrial statistics were based on types of ownership, and it is not until 1998 that the calibration of industrial statistics was changed from the types of ownership to the sizes of enterprises. Therefore, we are able to obtain aggregate information at the provincial level on a consistent definition of small businesses after 1998. And we define a measure capturing the net birth rate of new ventures in each province as follows:

$$\text{Net birth rate of new ventures}_{it} = \frac{N_{it} - N_{it-1}}{N_{it-1}} \times 100\% \quad (1)$$

To validate our measure of entrepreneurial activities, we construct an alternative measure emphasizing the output attributable to the net birth of new ventures, which is defined as follows:

$$\text{Growth in output of new ventures}_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \times 100\% \quad (2)$$

where  $N$  represents the number of small businesses and  $P$  represents the output of small businesses. We collect the information at the end of each year denoted as  $t$  for each province denoted as  $i$ . We recognize that these measures are not perfect and subject to sample errors, but are the best available proxies to our knowledge.

## Measures of Quantity and Quality of Bank Lending

### *Quantity of bank lending*

The reform of the banking sector in China began in the 1980s with an effort to separate commercial banking from state budget allocation (Berger et al., 2009). The ratio of total bank loans to GDP is commonly used in the banking literature as a proxy for banking sector depth, which measures the role and importance of financial intermediation in the economy (Berger et al., 2004; King & Levine, 1993a; Levine, 1997; Levine, Loayza, & Beck, 2000). We obtain the regional banking loans data from the annual issues of the Almanac of China's Finance and Banking (ACFB), and collect GDP data from the annual issues of China Statistical Yearbook. Following existing literature, we measure the quantity of bank lending as the ratio of total loans outstanding at the end of the year in the balance sheet of all banking institutions to total GDP in the region (termed as "total bank loans/GDP").

### Quality of bank lending

Prior studies have well established that bank efficiency better measures the quality of banking lending because it is a more comprehensive measure than some purely balance-sheet measures such as nonperforming loans ratio or loan loss provision ratio (Berger & DeYoung, 1997; Berger & Mester, 1997). Therefore, we measure the quality of bank financing using two metrics based on the stochastic frontier approach of bank efficiency estimations from both profit maximization and cost minimization perspective. Cost and profit efficiency measure how well a bank is predicted to perform relative to a “best-practice” bank producing the same outputs under the same environmental conditions. More specifically, we estimate efficiency levels first at firm-year level by specifying the commonly-used translog functional form based on the stochastic efficiency frontier approach (follow the approach in Berger et al., 2009). For convenience, we show only the cost function:

$$\begin{aligned} \ln(C/w_3z)_{it} = & \alpha_0 + \sum_{j=1}^4 \delta_j \ln(y_j/z)_{it} + \frac{1}{2} \sum_{j=1}^4 \sum_{k=1}^4 \delta_{jk} \ln(y_j/z)_{it} \ln(y_k/z)_{it} + \sum_{l=1}^2 \beta_l \ln(w_l/w_3)_{it} \\ & + \frac{1}{2} \sum_{l=1}^2 \sum_{m=1}^2 \beta_{lm} \ln(w_l/w_3)_{it} \ln(w_m/w_3)_{it} + \sum_{j=1}^4 \sum_{l=1}^2 \theta_{jl} \ln(y_j/z)_{it} \ln(w_l/w_3)_{it} \\ & + \text{year dummies} + \ln \mu_{it} + \ln v_{it} \end{aligned} \quad (3)$$

where  $i, t$  index the bank and year, respectively,  $k = 1, \dots, 4$  index the four output variables, and  $\delta_{jk} \equiv \delta_{kj}$ .  $C$  represents the bank's total costs. The inputs and outputs in the function are defined in the following: four outputs including:  $y_1$  (total loans),  $y_2$  (total deposits),  $y_3$  (liquid assets),  $y_4$  (other earning assets); three inputs including:  $w_1$  (price of funds, i.e., the ratio of interest expenses to total deposits),  $w_2$  (price of fixed capital, i.e., the ratio of other operating expenses to fixed assets),  $w_3$  (price of labor, i.e., the ratio of personnel expenses to total number of employees); and finally, one fixed netput ( $z$ ): total assets. We estimate the cost function using the  $\ln \mu_{it} + \ln v_{it}$  as a composite error term, where the  $\ln \mu_{it}$  term represents a bank's efficiency, and  $\ln v_{it}$  is a random error that incorporates both measurement error and luck. In other words, a bank's cost efficiency score is determined by comparing its actual costs to best-practice minimum costs to produce the same output under the same conditions using estimates of the efficiency factor  $\ln \mu_{it}$ , which is based on, in our case, the assumptions of half-normal distributions, and is disentangled from the estimated cost function residuals using maximum likelihood estimations. After the firm-level bank efficiency is estimated, we aggregate it to the provincial level by calculating the provincial level weighted average bank efficiency scores, where the weights are the proportion of total loans by each bank to total loans in the province (follow the approach in Hasan et al., 2009).<sup>5</sup> More explicitly, we have

$$\text{Banking profit (cost) efficiency } j, t = \sum_{i=1}^n g_{i,j,t} \mu_{i,t} \quad (4)$$

$$g_{i,j,t} = \frac{L_{i,j,t}}{\sum_{i=1}^n L_{i,j,t}} \quad (5)$$

In equations (4) and (5),  $j$  indexes the  $j^{\text{th}}$  province in our sample, and equals to 1, 2, ..., 30.  $i$  indexes the  $i^{\text{th}}$  bank in our sample, and equals to 1, 2, ..., maximum number of banks in  $j^{\text{th}}$  province.  $t$  indexes year, and equals to 1998, 1999, ..., 2008.  $g_{i,j,t}$  indexes the weight of  $i^{\text{th}}$  bank in  $j^{\text{th}}$  province in year  $t$ .  $L_{i,j,t}$  indexes the total loans provided by  $i^{\text{th}}$  bank to  $j^{\text{th}}$  province in year  $t$ .  $\mu_{it}$  is the efficiency score estimated based on equation (3) for  $i^{\text{th}}$  bank in year  $t$ .

### Other Control Variables

We collect province level information about GDP, education and FDI data from the annual issues of the Statistics Yearbook of China. We include the following control variables in the regressions: (a) lagged real GDP per capita growth, (b) the ratio of FDI to GDP, (c) measure of supply of human capital in the local markets using the lagged proportion of population with college degrees. The real GDP per capita growth is defined as the percentage change of real GDP per capita with price level adjusted to year 1990, and we use this variable to control for regional economic development momentum and local business environment. In terms of trained human capital, Armington and Acs (2002) document the positive relationship between college graduates and the number of newly formed firms. Following their method, we also calculate the proportion of population with college degrees, and use this to proxy for the availability of trained human capital in the local area. The inclusion of these control variables are based on the natural link between broader economic development and new business formation discussed earlier.

Table 1 presents the summary statistics and correlation matrix of the variables as detailed above. We note that the average net birth rate of new ventures is 7.4% with a standard deviation of 14.8%, while the average growth rate in output of new ventures is 21.7% with a standard deviation of 20.5% during the sample period from 1998 to 2008. It is noteworthy that the two measures capturing entrepreneurial activities in local markets are strongly correlated with a correlation coefficient of 0.542 ( $p < 0.01$ ). In addition, we document that the ratio of bank loans to GDP (i.e., our measure of the quantity of bank financing) is negatively correlated with both dependent measures, although the magnitude of correlation coefficients are small. In contrast, both profit efficiency and cost efficiency of banks (i.e., our measures of the quality of bank financing) are positively correlated with the growth measures of new small businesses.

**Table 1. Descriptive Statistics and Correlation Matrix of Variables Used in the Analysis**

Variables	N	Mean	S.D.	1	2	3	4	5	6	7	8
1 Net birth of new ventures	310	0.074	0.148	1.000							
2 Growth in output of new small businesses	310	0.217	0.205	0.542***	1.000						
3 Bank loans/GDP	339	1.098	0.538	-0.014	-0.069	1.000					
4 Profit efficiency of banks	308	0.852	0.039	0.145**	0.162*	0.047*	1.000				
5 Cost efficiency of banks	308	0.458	0.063	0.014**	0.111**	-0.031	-0.745*	1.000			
6 Real GDP growth per capita	310	0.106	0.049	0.263***	0.301**	0.007**	0.309	-0.091*	1.000		
7 FDI/GDP	298	0.026	0.028	0.101	-0.036	0.118	-0.037	0.034	-0.114*	1.000	
8 Proportion of population with college degrees	310	0.056	0.044	0.098***	0.078***	0.430	0.085	0.003	0.103	0.323**	1.000

\*, \*\*, \*\*\* indicate significance levels of 10%, 5%, and 1%, respectively.

### EMPIRICAL FINDINGS

While correlation analysis reveals certain patterns relating regional entrepreneurial activities to bank financing, these results do not take into account potentially significant differences in economic environment and other demographic characteristics. We employ regression analysis to investigate the

effect of both quantity and quality sides of bank financing on new venture formation while controlling for a set of variables capturing various economic conditions in the local markets. More specifically, we reports the estimations of the effects of bank lending based on (i) fixed effects estimators, and (ii) GMM estimators.

### Fixed-effects Panel Regressions

We do not provide the pooled OLS regression results because pooled OLS regressions not only ignore the structural nature of the panel data, but also that model is overly restrictive and thus can have a complicated error process. Moreover, if there are unobserved characteristics which are correlated to our variable of interest (e.g. the quantity and quality of bank lending) but omitted from the model, it would be inappropriate to draw any inference from the OLS results due to the biased estimation. Therefore, for each regression, we include province fixed effects to control for the micro-level unobservable time-invariant heterogeneity.

Table 2 presents regression results based on fixed effects estimators. The dependent variable is net birth rate of new ventures in columns 1-4 and growth in output of new ventures in columns 5-8. The result in column 1 reveals that the ratio of bank loans to GDP is not significantly associated with the net birth rate of new ventures, which is our measure of regional entrepreneurial activities. We then turn to our measures of the quality of bank financing and document that both profit efficiency and cost efficiency of the regional banking system are significantly and positively associated with new venture formation. In column 4, we enter both quantity and quality measures of bank financing and our results are robust to this specification. Using the alternative measure of regional entrepreneurial activities, we report similar results in columns 5-8, which further validate the results based on our primary measure. Moreover, the F test of the null hypothesis that the constant term is equal across units leads to a rejection of the null hypothesis ( $p < 0.01$ ), which suggests that there are significant individual (province-level) effects, and fixed effects models are thereby better specified. Taken together, the results indicate that after controlling for the quality of financing services provided, the quantity of supplied credit is insignificant in promoting new venture formation.

**Table 2 Fixed-effects Panel Regression**

Independent variable	Dependent variable							
	Net birth rate of new ventures				Growth in output of new ventures			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-0.140*** [2.90]	-0.530** [2.31]	-0.144** [2.25]	-1.358** [2.23]	-0.127 [1.66]	-0.369 [1.11]	-0.05 [0.42]	-0.092 [0.20]
Bank loans/GDP				-0.004 [0.29]	-0.016 [0.78]			-0.016 [0.77]
Profit efficiency of banks		0.489* [1.86]		1.215* [2.04]		0.286*** [2.69]		0.060** [2.12]
Cost efficiency of banks			0.504** [2.45]	0.523* [1.98]			0.188* [1.91]	0.166* [1.76]
Real GDP growth per capita (lagged)	0.605*** [3.28]	0.484*** [2.81]	0.598*** [3.30]	0.400** [2.31]	1.394*** [5.49]	1.328*** [5.22]	1.364*** [5.56]	1.348*** [5.04]
FDI/GDP (lagged)	0.64 [1.09]	0.634 [1.09]	0.603 [1.02]	0.531 [0.94]	0.893 [0.85]	0.858 [0.81]	0.896 [0.83]	0.938 [0.87]
Proportion of population with college degrees	2.500*** [3.49]	2.203*** [3.48]	2.482*** [3.45]	1.976*** [2.97]	3.324*** [2.99]	3.134*** [2.79]	3.232*** [3.01]	3.228*** [2.86]

Observations	298	297	297	297	298	297	297	297
Cross-sectional unit	30	30	30	30	30	30	30	30
F statistic	11.07	11.08	10.55	8.63	16.60	15.90	15.30	11.12
Adj. R-squared	0.20	0.21	0.20	0.23	0.26	0.26	0.26	0.26
rho	0.48	0.44	0.48	0.40	0.46	0.45	0.46	0.45
corr( $u_i$ , $Xb$ )	-0.79	-0.75	-0.79	-0.69	-0.76	-0.75	-0.76	-0.75

\*, \*\*, \*\*\* indicate significance levels of 10%, 5%, and 1%, respectively.

At first glance, the results on the quantities of bank loans seem contradictory to previous findings (e.g., Berger & Udell, 2006). Note that an important characteristic of Chinese banking is that the majority of the loans were directed by the government toward large and state-owned enterprises, which suffer from the soft-budget problem due to lack of efficient corporate governance. Our measure of the size of banking institutions is essentially a measure based on loan size for which supplied credits to both large enterprises and small businesses are included. Consistent with prior research on bank loans in China (Aziz & Duenwald, 2002; Boyreau-Bebray, 2003; Hasan et al., 2009), our results support the non-positive role of private debts on economic development. In addition, the findings reported in this section are consistent with results reported by Koetter and Wedow (2006) using data in Germany, who find similar results on the relation between the quantity and quality of financial intermediations and economic growth.

Using information in columns 2 and 3, we estimate that an increase in profit efficiency by one standard deviation results in an increase of 2 percent of the net birth rate of new ventures, holding other factors constant, which is economically significant as well. We derive our measures of the quality of intermediation at the bank-level to assess banks' abilities to convert inputs into financial products and services, and then aggregate the measures into regional levels. It appears that the regions associated with higher overall banking efficiency are arguably the areas where banks are relatively more successful in selecting the most promising corporate customers and monitoring their investments. Furthermore, the "sound financial system" concept developed by Schumpeter (1934, 1939) focuses on the quality rather than the quantity of financial intermediation that influences economic activities. Therefore, an improved quality of intermediation in a bank-based economy helps to reduce transactional and informational costs in lending to opaque corporate customers, and thus fosters new venture formation in local areas.

Regarding other control variables, we find that real GDP per capita growth and proportion of population with college degrees are significantly and positively associated with the new venture formation. The link between economic growth and new business formation is well established (Callejón & Segarra, 1999; Acs & Armington, 2004; Fritsch & Mueller, 2004; van Stel & Storey, 2004). Education, on the other hand, reflects the accumulated level of human capital and our results imply that entrepreneurial activities are more active and more successful in areas where the average citizen is relatively more educated.

### Two-step System GMM Panel Regressions

In the finance-growth literature, it is crucial to investigate whether the main explanatory variables can be treated as exogenous or endogenous in order to make causal inference (Boyd and Smith, 1996). For example, Robinson (1952) argues that financial services are provided as a reaction to the demand by the corporate sector (i.e., reverse causality), and therefore, finance follows entrepreneurial activity. In another instance, it is plausible for other unobservable variables to be correlated with the error term, especially when the unobservables are not time invariant and cannot be accounted for by adding province fixed effects. To address the endogeneity issue, we employ an alternative econometric procedure to instrument the independent variables that are subject to the

endogeneity problem. Specifically, we use the system Generalized Method of Moments (GMM) approach developed by Arellano and Bover (1995) and Blundell and Bond (1998) which is a widely used procedure to analyze dynamic panel data. By first-differencing both sides of the estimating equation, we are able to remove the individual province fixed effects and reduce the potential source of omitted variable problem. In addition, the system GMM enables us to instrument predetermined and endogenous variables by their own lagged levels in order to obtain consistent estimators (Arellano & Bond, 1991). The lagged dependent variable is entered into the right side to capture the dynamic nature of entrepreneurial activities. This method can mitigate potential problems of serial correlation and possible correlation between the lagged dependent variable and the error term.

In general, we find that the results based on system GMM estimators are consistent with our findings reported in previous section. The overall fit of the model suggested by Wald test statistic ( $p < 0.05$ ) indicates that our model is well specified. Moreover, the insignificant Sargan test further validates that the choice of instrument is appropriate and can be treated as exogenous. However, it is arguable that lagged levels can be poor instruments of endogenous variables. The lack of significance of first order autocorrelation indicates some variables are following random walks, and consequently, our approach will be inadequate for model identification. In addition, the presence of significant second order autocorrelation suggests some instruments are in fact endogenous. We thereby report the Arellano-Bond test for autocorrelation. As shown in Table 3, the significant first-order autocorrelation and insignificant second order autocorrelation indicate that our models are well specified, and we are able to justify the appropriateness of our approach.

With regard to other control variables, we generally find consistent results as detailed in previous section. In summary, after controlling for other available resources and regional environmental features impacting local entrepreneurial activities, we were able to identify a strong positive relationship between the quality of bank financing and new venture formation. Moreover, when the quality of bank financing is controlled, the quantity of financing services provided by banking institutions is insignificant.

**Table 3 GMM Panel Regressions of Growth In Number Of New Businesses**

Independent variable	Dependent variable							
	Net birth rate of new ventures				Growth in output of new ventures			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-0.005 [0.06]	-0.477** [2.17]	0.001 [0.01]	-1.279 [1.29]	-0.022 [0.16]	-0.211 [0.53]	0.112 [0.89]	1.293* [1.69]
Lagged dependent variable	0.382*** [3.75]	0.327*** [2.93]	0.369*** [3.30]	0.25 [1.51]	0.139 [1.41]	0.180** [2.09]	0.228** [2.08]	0.21 [1.06]
Total bank loans/GDP	-0.014 [0.79]			-0.021 [0.48]	-0.046 [0.95]			-0.045 [0.76]
Profit efficiency of banks		0.552* [1.96]		1.275** [2.33]		0.220** [2.48]		1.109** [2.37]
Cost efficiency of banks			0.034** [2.33]	0.514** [2.11]			0.372** [2.52]	0.686** [2.52]
Real GDP Growth per capita (lagged)	0.553*** [2.65]	0.353* [1.65]	0.556** [2.52]	0.286 [1.08]	1.397*** [4.34]	1.286*** [3.81]	1.314*** [3.98]	1.295*** [3.33]
FDI/GDP (lagged)	0.669 [0.43]	0.315 [0.34]	0.653 [0.49]	0.449 [0.12]	1.342 [0.56]	1.31 [0.66]	2.186 [0.86]	0.572 [0.21]

Proportion of population with college degrees	0.165** [2.24]	0.505 [1.59]	0.103** [2.12]	0.576 [1.57]	1.613** [2.13]	0.825* [1.69]	0.808* [1.67]	1.488 [1.03]
Observations	269	268	268	268	269	268	268	268
Cross-sectional unit	30	30	30	30	30	30	30	30
p value - Sargan	0.14	0.23	0.18	0.11	0.28	0.3	0.38	0.4
p value - AR(1)	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00
p value - AR(2)	0.21	0.20	0.20	0.30	0.18	0.16	0.20	0.21
p value - Wald	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

\*, \*\*, \*\*\* indicate significance levels of 10%, 5%, and 1%, respectively.

## DISCUSSION AND CONCLUSIONS

Weitzman (1998) notes that the ability to process an abundance of potentially new seed ideas into usable forms is crucial for entrepreneurship and economic growth. Entrepreneurs have innovative ideas but lack capital, and tend to be commercially inexperienced. Banking institutions play an important role in channeling resources to fund would-be entrepreneurs and building up lending relationships with entrepreneurial firms. This is particularly true in emerging countries when entrepreneurs are financially constrained and have limited access to various sources of financing, especially when they lack track records and/or assets-in-place as collaterals. In this paper, we focus on a single emerging country, China, to investigate the effects of banking system on regional entrepreneurial activities. Moreover, we make a distinction between the quantity and quality of bank financing and compare the effects of these distinct features on new business formation, intending to shed light on this line of research.

Using a panel of provincial-level data from 1998 to 2008, we perform an empirical analysis based on both a fixed effects estimator and a system GMM estimator. We are particularly cautious in addressing the potential endogeneity problems commonly found in this type of research. Our results reveal that it is the quality of bank financing that matters in entrepreneurial activities in local markets. After the quality of bank financing is controlled for, the quantity of bank lending is insignificant in the model specification. Our results indicate that in an underdeveloped economy, the efficiency of financial intermediations can be extremely important in identifying the most promising projects and help entrepreneurs to pursue their entrepreneurial visions.

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#### END NOTES

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<sup>1</sup> In recent years, the concept of frontier efficiency has been widely applied and documented in the banking literature. For example, Berger and Humphrey (1997) provide a comprehensive survey of 130 studies that apply frontier efficiency analysis to financial institutions in 21 countries, and conclude that the efficiency studies yield important implications for financial institutions in areas of government policy, research, and managerial performance.

<sup>2</sup> We also control other variables such local population density, geographical locations (coastal vs. inland), alternative financing resources such as bond financing and equity financing, etc. For the sake of brevity and to avoid the potential multicollinearity problem, we intend to keep our model as parsimonious as possible. However, our results are qualitatively unchanged with the omission of these variables.

<sup>3</sup> The “Big Four” are Bank of China (established in 1912), China Construction Bank (established in 19544), Agricultural Bank of China (established in 1979), and Industrial and Commercial Bank of China (established in 1984).

<sup>4</sup> There are 31 provinces (including four municipalities) in China. We have to omit one province (Tibet) because of missing data. In addition, our sample period starts from 1998 because it is since then that China began to report data on small businesses based on consistent definitions, which is discussed in more detail in Section 3.1

<sup>5</sup> For details of the profit and cost efficiency estimations, please see Berger et al. (2009). For details of aggregating the firm-level efficiency scores to the province level, please see Hasan et al. (2009).

## SMME OWNERS' FINANCIAL LITERACY AND BUSINESS GROWTH

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### ABSTRACT

The study sought to investigate a possible relationship between SMME owners' financial literacy and business growth. The growth of the business was viewed along the broad dimensions of financial, strategic and structural growth. Data was collected from a sample of small business owners who were members of a local chamber of commerce in South Africa. The study empirically demonstrated that most small businesses showed signs of growth. The growth signs were predominantly along the financial and strategic growth dimensions. Along the structural dimension, majority of SMMEs seemed to have stagnated. Curiously, the study was unable to demonstrate that a significant relationship existed between owners' financial literacy and business growth.

**Keywords:** SMMEs, financial literacy, business growth, Owner

### INTRODUCTION

In a business, rational decision-making is often premised on available information. This implies that it is imperative that individuals should have a reasonable degree of knowledge related to the available information so as to make good decisions. Unfortunately this decision-making that entails a level of information processing and understanding, according to Gouws and Shuttleworth (2009:142), is undertaken in many cases by individuals who cannot necessarily make an authentic connection between the financial numbers and the real business world context. This finding is disturbing and may be why concern about financial literacy seems to have increased in recent years, with programmes and other research initiatives being introduced to introduce and enhance financial literacy. According to Braunstein and Welch (2002: 445), financial literacy, or the lack thereof, has gained the attention of a wide range of banking corporations, government agencies, educational institutions, consumer and community interest groups, and other businesses.

While Gavigan (2010) views financial literacy as the ability to make informed judgments and effective decisions regarding the use and management of money, Remund (2010:279) defines financial literacy as the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning. The view of the construct of financial literacy adopted by this study relies upon the definitions proposed by Remund (2010) and Gavigan (2010). In this study, financial literacy is regarded as the ability of an SMME owner to make appropriate financial decisions and plan for future financial needs.

The other important construct of business growth examined in the study is based upon Wickham's (1998) model of the dynamics of business growth. Wickham (1998:223) argues that due to the multifaceted nature of business, it is important to constantly view the growth and development of a business from four major perspectives: the financial, the strategic, the structural and the organisational. It is along these dimensions that businesses, including SMMEs grow.

### **Problem Statement**

Financial resources are key resources for the acquisition and configuration of other resources (Brinckmann, Salomo & Gemuenden, 2011; Alsos, Isaksen, & Ljunggren, 2006). An important success factor of a business is therefore the effective use of its financial resources (Wickham, 2006:196). In the small business environment, Lindeloef and Loefsten (2005) argue that small business owners often have limited competence in managing the financial aspects of their businesses. This could be why Cooley and Pullen (1979) found that management of firm cash flows is generally not efficient in small businesses. The finding is not surprising given that a study by Berman and Knight (2006:28) showed that many people in management positions did not know the difference between an income statement and a balance sheet. The dearth of business owners who are financially illiterate can bode dire consequences for the continued existence and possible growth of the business. It is against this background that financial literacy is growing in importance, (Tatom, 2006:2) in businesses.

In the specific South African case, a study conducted by the Small Business Advisory Bureau, with over 500 respondents in business, found that two-thirds scored less than 60% on a basic financial literacy test (Branam, 2008). Poor financial knowledge could possibly be a constraining factor to proper financial management and consequently, business growth. In a survey of over 28,000 SMMEs in Africa and Latin America, less than 3% of them showed growth after start-up (Liedholm, 2002; Mead & Liedholm, 1998). These findings make the investigation of the issue of financial literacy among business owners necessary.

The study therefore sets out to find answers to the questions:

Do SMME owners consider themselves as financially literate?

Do SMMEs show signs of financial, strategic or structural growth?

Is there a relationship between owner's perceived financial literacy and business growth?

## **LITERATURE REVIEW**

### **Financial literacy**

A study by the OECD (2005) involving businesses in twelve countries including the USA, UK, Australia and Japan, concluded that financial literacy is very low for most respondents. Evidence of this in the specific South African context, may be seen in the mounting personal debt consequent upon insufficient savings among South Africans (Grawitzky, 2003:57). This may be attributable to financial illiteracy and presents a potentially problematic situation as it could affect the individual as well as economic growth in the country (Kotzè & Smit, 2008:156-157). Huston (2010:296) states that despite its importance, academic literature has given little attention to financial literacy and how it is measured. The terms financial literacy, financial knowledge and financial education appear to be used interchangeably in literature and this does not help the emergence of a common understanding of the construct. Nevertheless, McDaniel, Martin and Maines (2002:139) describe financial literacy as the ability to read and understand basic financial statements. On the other hand, Nadler (2009:48) defines business financial literacy as the ability to read and understand a balance sheet, income statement and cash flow statement, seek feedback when financial statements are inaccurate or confusing, use financial information to improve decision-making and understand the limits of financial information.

## **Business Growth**

Wickham's (1998:223) model of the dynamics of business growth shows that growth can occur in any of four interdependent dimensions: financial, strategic, structural and organisational. A business owner therefore has to consider all dimensions when planning for growth. Nieman and Nieuwenhuizen (2009:276) contend that the neglect of one element could cause business failure or lead to other problems.

**Financial growth:** Wickham (2006:516) defines financial growth as the development of the business as a commercial entity. It is concerned with increases in turnover, the costs and investment needed to achieve that turnover, and the resulting profits. It is also concerned with increases in the assets of the business. This study utilises measures of financial growth as proposed by Wickham (2006), particularly changes in total assets, changes in capital, changes in turnover and changes in profit.

**Strategic growth:** Strategic growth relates to changes that take place in the way in which the organisation interacts with its environment as a coherent strategic whole. According to Wickham (2006:516) it is associated with the profile of opportunities which the business exploits and the assets, both tangible and intangible, it acquires to create sustainable competitive advantages. The measures used in this study for strategic growth are taken from those proposed by Wickham (2006), specifically changes in sales and/or production volumes, changes in cost of sales/production, and changes in customer base.

**Structural growth:** Structural growth relates to the changes in the way the business organises its internal systems, in particular, managerial roles and responsibilities, reporting relationships, communication links and resources control systems (Wickham, 2006:516). This study utilises measures of structural growth as proposed by Wickham (2006), particularly changes in number of employees and changes in the size and/or location of business premises.

**Organisational growth:** Organisational growth relates to the changes in the business's processes, culture and attitudes as it grows and develops. It is also concerned with the changes that must take place in the owner's role and leadership style as the business moves from being a 'small' to 'large' firm (Wickham, 2006:516). For the purpose of this study the organisational growth dimension is excluded. This is because of the wide discrepancy in the interpretation and understanding of Wickham's (2006) proposed measures for organisational growth, by respondents in the pilot of this study.

## **Hypothesis**

Lindeloeff and Loefsten (2005) have argued that small business owners often have limited competence in managing the financial aspects of their businesses. Cooley and Pullen (1979) also found that management of firm cash flows is generally not efficient in small businesses. The absence of the necessary financial acumen could be why small businesses remain unable to realise their full potential. The dearth of business owners who are financially illiterate can bode dire consequences for the continued existence and possible growth of small businesses especially as Gouws and Shuttleworth (2009:141) posit that people's decisions and subsequent actions flow from their understanding of the surroundings in which they operate. In order to facilitate economic and financial sustainability, individuals need the cognitive ability to understand financial information. It against this background that the study hypothesises that:

*Hypothesis1. There is a relationship between the SMME owners' financial literacy and business growth.*

## RESEARCH DESIGN

The research is an ex-post-facto and cross-sectional empirical study. Establishing the universe for the small business sector for statistically valid sampling purposes presents a unique challenge in conducting small business studies (FinMark Trust, 2010:4). Therefore, for the purposes of this study, non-probability sampling methods were used. A combination of judgement and snowball sampling was used in the study. The local chamber of commerce was approached and they suggested SMME owners that met the requirements of the study, who in turn also recommended other SMME owners.

Questionnaires were distributed to 105 respondents who had have been trading for at least three years, had to have no more than 50 employees and a business turnover of less than R50 million per annum. 75 of the distributed questionnaires were returned indicating a response rate of 71%. Of the pool of returned questionnaires however, only 70 were complete and used for the study.

## PRESENTATION OF FINDINGS

### Financial literacy

SMME owners in the sample were asked whether they kept financial records. A total of 68 respondents indicated that they did. Fifty-two (52) respondents indicated that the records were up-to-date and 16 respondents indicated that their records were not. Table 1 shows the kinds of financial records that the various SMME owners kept.

**TABLE 1**  
**Financial Records Kept By SMME Owners**

<b>Financial record</b>	<b>Number of respondents</b>
Source documents	66
Journals	42
Ledgers	40
Financial statements	60
Payroll	38

The table shows that not all SMME owners kept the same kind of records. They seemed to have different combinations of financial documentation that they claimed to have kept. An overwhelming majority of respondents (94%) kept source documents that included purchase slips, invoices, credit notes, bank statements etc. This percentage is higher than that of the FinScope survey (FinMark Trust, 2010:26) which found that 46% of small business owners kept financial records.

The study also sought to determine whether the SMME owners perceived themselves as financial literate or otherwise. As shown in table 2, 50% of the respondents considered themselves to be fairly financially literate. Only 4 respondents (5.71%) considered themselves, illiterate when it comes to financial issues.

**TABLE 2**  
**SMME Owners' Perceived Financial Literacy Levels**

<b>Perception of levels of financial literacy</b>	<b>Frequency (n)</b>	<b>Percent (%)</b>
Illiterate	4	5.71
Fairly literate	35	50.00
Very literate	31	44.29
<b>Total</b>	<b>70</b>	<b>100.00</b>

### Business growth

Three elements in Wickham's dynamics of business growth model (1998) were used in the questionnaire to determine whether the SMME owners' businesses showed business growth. These are the elements of Financial, Structural, and Strategic growth. SMME owners responded to questions seeking to determine whether certain aspects (measurements of growth) in their business increased, stayed the same or decreased.

**TABLE 3**  
**Aspects of Financial Growth**

Aspects of financial growth	Increased (n)	Stayed the same (n)	Decreased (n)
Asset value	48	18	4
Capital	47	21	2
Turnover	54	13	3
Profit	52	14	4

The table shows that the majority of businesses' claimed increases related to all the financial growth variables of asset value, capital, turnover and profit, considered in the study. It is worrisome though that 30% of the respondents conceded that the capital deployed in their business had witnessed no increase. Collaterally, 25.7% of the SMMEs studied reported that their assets remained unchanged. This indicates some form of stagnation. If it is assumed that such businesses are making profit, then it can be argued that no portion of such profits are been ploughed back into the business. This does not bode well for the growth of the business.

Aspects of the strategic growth of a business and how the businesses in the respondent population of this study fared are shown in table 4. The strategic growth variables showed that the majority of businesses in the sample claimed to experience increases in all aspects measured.

**TABLE 4**  
**Aspects of Strategic Growth**

Aspects of strategic growth	Increased (n)	Stayed the same (n)	Decreased (n)
Sales and/or production volumes	56	11	3
Cost of sales and/or production	51	15	4
Customer/client base	54	10	6

While 80% of the respondents witnessed an increase in sales and/or production volumes, 73% experienced sales and/or production costs increases while 77% indicated that their customer/client base had increased. To measure the structural growth, two variables were utilised. These are the change in the number of fulltime employees and changes to business premises. 57% of the SMME owners indicated that the number of employees in their businesses stayed the same. 32.9% revealed that they had increased their number of full time employees while 10% had experienced a decrease in their fulltime employee numbers (see Table 5).

**TABLE 5**  
**Aspects of Structural Growth**

Aspects of structural growth	Increased (n)	Stayed the same (n)	Decreased (n)
Number of fulltime employees	23	40	7
Change in business premises	23	46	1

In terms of changes to the business premises, 65.7% had witnessed no size changes in their business premises. 32.9% had experienced an increase in the size of their business premises while only 1.4% of the respondents have had to move to smaller business premises. To summarise, Table 6 shows information with regard to the business growth of SMMEs.

**TABLE 6**  
**Summary of Different Forms of Growth**

Financial Growth	Strategic Growth	Structural Growth
48 respondents' asset value increased; 47 respondents' capital increased; 54 SMMEs' turnover increased; 52 SMMEs' profit increased.	56 businesses' sales and/or production volumes increased; 51 businesses' cost of sales and/or production increased; 54 SMMEs' customer and/or client base increased.	23 businesses' number of fulltime employees increased. 23 businesses' premises increased in size.

### Hypothesis testing

The hypothesis suggested an association (or lack of it) between the SMME owners' financial literacy and business growth. The p-value for the test of the hypothesised relationship between the SMME owner's perceived financial literacy and business growth was 0.0582. This implies the non-existence of a statistically significant relationship between the two variables at a 0.05 level of significance. This provides the basis for rejecting the study's hypothesis that *there is a relationship between the SMME owners' financial literacy and business growth*.

### DISCUSSION OF FINDINGS

The purpose of the research was to determine whether SMME owners in South Africa considered themselves as financially literate, whether the SMMEs showed signs of growth and if a relationship existed between the SMME owner's perception of their financial literacy and business growth. To realise the purpose of the research, three questions were posed and the findings revealed by the study concerning these questions are presented in this section.

#### *Do SMME owners consider themselves as financially literate?*

Four (4) owners considered themselves illiterate, 35 owners considered themselves fairly literate, 31 owners considered themselves very literate. Based on these findings, majority of the SMME owners in the sample consider themselves as financially literate. This may be due to their membership of the chamber of commerce. While membership may not be an indicator of financial literacy, it could be a reflection of the education, exposure or enlightenment of the SMME owners. This could mean that the SMME owner who is a member of a chamber of commerce is more aware of the issues, like financial literacy, that are critical to the business and has therefore made an effort to develop this competency.

*Do SMMEs show signs of financial, strategic or structural growth?*

The study revealed that a greater portion of the respondents suggested that their businesses were growing, particularly along the financial and strategic dimensions. An average 71.4% of the respondents claimed an increase along the financial dimension of growth and 77.1% suggested that their businesses had witnessed strategic growth. Curiously, these percentages were not so high in relation to the more tangible and visible dimension of structural growth. Only an average 32.9% of the respondents claimed there was a structural growth in their businesses while there was no structural growth for 61.4% of the businesses in the sample. The implication of this could be either that the owners are not re-investing sufficiently in their businesses or that they lack the entrepreneurial inclination for growth. Whatever the case may be, the finding does not exactly augur well for small business growth.

*Is there a relationship between owner's perceived financial literacy and business growth?*

Statistical analysis suggest that the answer to this question is no. According to the data from this sample and the consequent hypothesis test, there is no relationship between owners' perceived financial literacy and business growth. The null hypothesis expressing the absence of a relationship between the variables was accepted at a 0.05 level of significance given that the p-value was 0.0582.

**Conclusion**

The study revealed that the small businesses in the sample showed signs of growth; particularly along financial and strategic dimensions even if the extent of the suggested growth was not measured. The study however, failed to statistically link the business owner's financial literacy to business growth. It therefore, on face value, seems to contradict the logic that it would be implausible for a financially illiterate business owner to grow a business. Furthermore, the finding of the study could be seen as countering those of Kotzè and Smit (2008) who found that personal financial education is essential to obtaining knowledge that could assist individuals in managing financial affairs effectively.

In essence though, the conclusion that the study seems to contradict the position of Kotzè and Smit (2008) is not necessarily the case. This is because the study did not make any differentiation between small businesses whose owners, even if not financially literate, had employed financially literate persons to assist in managing the affairs of the organisation. Indeed the results of the study, as it pertains to the issue of financial management, given its importance in a business context, seems to be that small businesses whose owners are not financially literate could possibly be leveraging on the competence of others in this very important area.

The lesson therefore is that a small business owner is not necessarily at a disadvantageous position even though he/she is financially illiterate in so far as another individual who is financially literate aids the business' decision-making in the specific area of finance because as Kotze and Smit (2008) argue, individuals with a knowledge of financial management can reduce the effects and consequences of the mismanagement of finances.

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## SOCIAL AND ECONOMIC INSTITUTIONAL FACTORS AND BUSINESS START-UP DIFFICULTY IN AFRICA

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### ABSTRACT

Despite socio-political and economic pro-market institutional reforms that have been instituted in most African countries, it is still very difficult for entrepreneurs to start businesses. This study uses Institutional Theory to assess the relationship of economic and sociological institutional factors on the difficulty of starting businesses in Africa. We test our model using a World Bank longitudinal database of 23 sub-Saharan countries from 2003 to 2006. We find that both economic and sociological institutional factors are important in predicting the difficulty of starting a business. We explore the implications of our findings for both Institutional Theory and practice.

**Keywords:** Sub-Saharan Africa, Institutional Theory, difficulty of starting businesses

### INTRODUCTION

From the mid-1980s, pro-market reforms undertaken in many emerging economies (Hoskisson, Eden, Lau & Wright, 2000; Peng 2003; Prahalad, 2004, Tan, 2009) have slowly but steadily been instituted in several African countries, as well (Austin, Kresge & Cohn, 1996; Debrah, 2002; Quartey, 2003; World Bank, 2000; 2005). These institutional reforms were both of a socio-political nature (such as democratization processes associated with elections and legal reforms) and an economic nature (such as the privatization of their economies and improving the efficiency of their capital markets) (World Bank, 2000; 2005). These reforms were expected to lead to economic development, particularly set off by the creation of small and medium sized entrepreneurial firms (Bernstein, 2010; Bowen & De Clercq, 2008; Goedhuys & Sleuwaegen, 2000; Naude, 2010; Obben & Magagula, 2003). Despite some three decades of these reforms, several authors have noted the continued difficulties that Africans face when they try to set up businesses in Africa (Chu, Benzing & McGee, 2007; Kiss, Danis & Cavusgil, 2012). Further, while knowledge of the market institutional-void context in which that African firms operate has been well documented (Ofori-Dankwa & Julian, 2011; Visser, 2008), studies identifying specific institutional factors relating to business start-up difficulties in Africa have been limited (Bowen & De Clercq, 2008; Bruton, Ahlstrom & Li, 2010; Kiss, Danis & Cavusgil, 2012; Visser, 2008). This study, therefore, seeks to examine key institutional factors that are associated with difficulties faced by new businesses in Africa. In carrying out this inquiry, we use Institutional Theory (IT) as our theoretical lens (e.g. DiMaggio & Powell, 1983; Granovetter, 1992; North, 1990), because it is the dominant theory for

studies done in the context of emerging economies (Hoskisson, et al., 2000; Peng, 2003; Suchman, 1995; Tan, 2009).

It has also been found to be a particularly useful theoretical approach when examining business start-ups in such economies (Bruton & Ahlstrom, 2003; Bruton, Ahlstrom & Puky, 2009; Bruton, Ahlstrom & Li, 2010; Kiss & Danis, 2008; Kiss et al., 2012). A seminal study in this stream is Bowen and De Clercq (2008: 747) that was “the first to provide empirical evidence that institutional characteristics significantly influence the allocation of entrepreneurial effort.” These scholars used a 40 nation sample to test and confirm propositions that “relate different dimensions of a country’s institutional context to the extent to which entrepreneurial activity is allocated towards high (job) growth activities” (p. 748). However, only two African countries (South Africa and Uganda) were in the 40 nation sample. Recently, Misra, Memili, Welsh & Sarkar (2012) reassessed and validated the findings of Bowen and De Clercq (2008); however their study only examined data from European countries. Given the substantive institutional differences between most African countries and almost all of the countries studied to date, our study will first seek to examine the extent to which Bowen and De Clercq (2008) and Misra, et al. (2012) findings are generalizable to the sub-Saharan context, an under-researched region (Kiss & Danis, 2008; Kiss, et al., 2012, Visser, 2008). Further, the substantial review by Bruton, et al. (2010) of the extant literature points to research on entrepreneurship and business startups having two theory and research design limitations that have applicability to the context of sub-Saharan context: the tendency for researchers to primarily emphasize sociological institutional factors at the expense of economic institutional factors (e.g. Shane, 1992; 1993) and the failure to fully integrate these different theoretical perspectives. The distinction between the economic and sociological institutional factors is pertinent and has important theory and policy implications. From a theory perspective, the economics pillar relates more to ideas of rational actors responding to changing rules and regulations (North, 1990) while the socio-cultural are based on sociology and emphasizes norms, values that are seen as relatively stable and less susceptible to change (Scott, 1995). From a policy perspective, the economic institutional factors are relatively easier to change while those associated with the sociological institutional factors are related to national cultures and therefore are relatively more change resistant (Shane, 1992, 1993).

This study therefore develops a multi-national level model to examine the relationship between the economic and sociological institutional factors and the difficulties of business start-ups in Africa (Bowen & De Clercq, 2008; Misra, et al., 2012). Further, we assess to what extent the Bruton, et al. (2010) call for integrating the economic with the sociological institutional factors is justified. We test our model and associated hypotheses using 2003 to 2006 data from a World Bank longitudinal database of 23 sub-Saharan countries. In so doing, we closely approximate the 2002 and 2007 time frame of the Bowen and De Clercq (2008) data base, the 2002 to 2004 time frame that they specifically used to assess their propositions and also the 2003 to 2006 time frame that Misra, et al. (2012) used. We find that both economic and sociological institutional factors are important predictors of two indicators of business start-up difficulty in Africa: start up time and number of start-up procedures. With respect to economic institutional factors, we find that interest rates are positively associated with difficulty of business startup. The availability of foreign aid and rigidity of labor markets are negatively associated with the difficulty of starting businesses. With respect to sociological institutional factors, we find that the level of country corruption is positively associated with difficulty of business startup while the extent of democracy and urbanization are negatively associated with it.

This article makes several contributions to the literature. First, given the substantial contrast in levels of institutional munificence between developed countries and those in sub-Sahara and that the findings of this study are consistent with Bowen and De Clercq (2010) and Misra, et al. (2012), our study points to the relative robustness of institutional factors in explaining entrepreneurial activities. Second, our analysis confirms the importance of the call made by Bruton, et al. (2010) for researchers to integrate economic and sociological institutional factors when explaining entrepreneurship behavior.

Third, while some studies on entrepreneurship in the African context have emphasized firm level factors that either enable or inhibit the development of businesses (Austin, Kresge & Cohn, 1996; Bernstein, 2010; Debrah, 2002), these studies are limited by leaving aside inquiry directed at broader factors, such as the institutions on which our national level-examination can more readily focus. Further, Bruton et al. (2010) also note that a major limitation in the entrepreneurship literature is the primary use of single country studies and that multiple country databases are the exception, not the rule, when using institutional theory as a foundation for entrepreneurship studies. This study addresses this limitation by using a 23 country database from Africa. Finally, while research in pro-market reform economies has been burgeoning for some time, that on such African nations has been sparse by comparison (Margolis & Walsh, 2003; Peng 2003; Prahalad, 2004; Tan, 2009; Visser, 2008). The unique institutional conditions of sub-Sahara provide a unique laboratory to extend theory and we answer a call by scholars looking at entrepreneurship in emerging economies to also focus attention on Africa, an under-researched region (e.g. Bruton, et al, 2008; Bruton et al., 2010; Misra, et al., 2012; Naude, 2011).

## **BACKGROUND AND THEORY**

### **Institutional Theory and Business Start-ups**

To begin building a more robust theory on precursors to firm formation in pro-market African economies, we turn to Institutional Theory (IT). Institutional theory describes how pressures for congruence with preferred sets of conditions, norms and mores affect firm strategies, policies and actions (Dimaggio & Powell, 1983; Meyer & Rowan, 1977), as well as how the legal and economic frameworks of a society play a significant role (Granovetter, 1992; North, 1990). Furthermore, Institutional Theory has been identified as a useful lens to more fully understand business activities in general (Hoskisson, et al., 2000; Misra, et. al., 2012; Tan, 2009; Visser, 2008) and entrepreneurial ones, in particular (Bruton, et al., 2010; Kiss, et al., 2012). In developing an IT-based approach, we note that this theory has both economic and sociological perspectives that are likely to have different but important implications for business startups (Dimaggio & Powell, 1983; Granovetter, 1992; Meyer & Rowan, 1977; North, 1990). Bruton et al. (2010: 422) note that the economic perspective represents a “rational actor model of behavior, based on sanctions and conformity.” The economic institutional perspective (e.g. North, 1990) emphasize shorter term and relatively easier to implement governmental policy rules and regulations (e.g. interest rates) that are likely to either inhibit or facilitate the entrepreneurial behavior. On the other hand, the sociological perspective (e.g. Scott, 1995) emphasizes “normative systems typically composed of values (what is preferred or considered proper) and norms (how things are to be done, consistent with those values)” (Bruton, et al., 2010: 423). The sociological institutional approach therefore focuses more on existing societal norms (e.g. corruption) that are relatively more difficult to change but that can also encourage or discourage entrepreneurial behavior. However, Bruton, et al. (2010) note that one of the major problems associated with research using Institutional Theory to understand entrepreneurial activities is that the emphasis has been on cultural institutional influences more associated with the sociology side. For example, several studies have used Hofstede’s cultural dimensions to examine its impact on entrepreneurial activities at the national level (e.g. Shane, 1992, 1993). In this light, this study emphasizes both economic and socio/cultural institutional factors and focuses specifically on assessing the extent to which each of these two institutional factors influence how difficult it is to start a business in the African context. Based on the literature, we develop a model that we capture in Figure 1 that identifies major economic and socio/cultural institutional factors that are a consequence of the pro-market reforms that countries in Africa undertook in the mid-1980s. Our model suggests that these are likely to influence the extent to which it will be easy or difficult to start a business in Africa. Please see Figure 1.

### **Institutional Factors and Difficulties of Starting Businesses in Africa**

Pro-market changes implemented throughout many African nations in the 1980s resulted in two significant institutional changes in the African context (World Bank, 2000). These have been the *economic* institutional changes characterized by financial market liberalization and privatization of major national enterprises and *socio-political* institutional change that was characterized by national movements towards democratization, free elections, a drive for open governance, reduction of corruption and an emphasis on modernizing these economies (Van der Sluis, Van Praag & Vijverberg, 2003; Koveos, et al., 2011). While scholars have long recognized the central role that entrepreneurship in Africa could play in the economic growth and development of the continent, these studies also acknowledge the substantial difficulties that entrepreneurs face (Elkan, 1988; Goedhuys & Sleuwaegen, 2000; Koveos, et al., 2011). From the economic front, they face difficulties associated with getting capital and the high cost of capital (Panin, Mahabile, Mphoh & Batlang, 2010; Goedhuys & Sleuwaegen, 2000; Koveos, et al., 2011). From the socio-political front, they face difficulties in starting their businesses because of corruption and bureaucratic red tape (Elkan, 1988; Koveos, et al., 2011).

### **Economic Institutional Factors and African Business Start-ups**

An important aspect of pro-market reform was change in economic institutional factors that were to have taken place. Specifically, these institutional factors broadly relate to two key inputs: ease of financial capital markets (e.g. interest rates and foreign aid) and the flexibility of labor markets (e.g. employment rigidity) (Lim, Morse, Mitchell & Seawright, 2010; Misra, et al., 2012; Mmieh & Owusu-Frimpong, 2004; Quartey, 2003; Quartey & Gaddah, 2007; World Bank, 2000). We develop hypothesis on the effect of these three factors on difficulties in starting a business in Africa below.

**National Lending Rates.** In Africa, investments needed to build commercial activity for the future, such as equipment and/or the development of new product/service concepts, require substantial financial resources (Appiah-Adu, 1998; Austin, et al., 1996). Liberalization of capital funding is often one of the primary goals of pro-market reform (Gray, Cooley & Lutabangwa, 1997; Mmieh & Owusu-Frimpong, 2004; Quartey & Gaddah, 2007). However, firms in Africa face substantial financial constraints (Quartey, 2003; World Bank, 2000). Further, business conditions for the accumulation of financial capital are not at all favorable (Chu, Benzing & McGee, 2007). This is in part because relatively few firms are publicly traded in sub-Saharan markets (Quartey & Gaddah, 2007) and thus domestic equity funding is often inaccessible or unavailable. What cash does accumulate in these societies is often spirited away into Swiss bank accounts or sunk into luxury real estate on the Riviera (Economist, 2004). Years of financial mismanagement in sub-Saharan Africa has further resulted in governments that are heavily indebted and thus not in a position to provide substantial equity funding, either. The nature of the financial institutions are likely to influence the venture willingness script and thus time required to assemble resources and get business started (Lim, et al., 2010). In particular, where limited alternative funding sources exist, few angel investors are active and little venture capital is available (Quartey, 2003; Quartey & Gaddah, 2007; Robson, Haugh & Obeng, 2009). Given such capital scarcity, generally interest rates are much higher than in developed economies (Quartey & Gaddah, 2007). Decision making is likely to be more daunting (given the risk associated with high interest rates) and the needed additional, thoughtful business planning requires that more time be expended in business start-up. Consequently, we hypothesize:

*Hypothesis 1: National lending rates are positively associated with the difficulty of starting businesses in Africa.*

**Foreign Aid.** The extent of financial market liberalization is likely to be tied to the extent of foreign aid that countries in Africa receive (Mmieh & Owusu-Frimpong, 2004; Koveos, et al., 2011).

Given the problems that entrepreneurs in Africa have in identifying sources of, and acquiring access to, needed financial capital (Elkan, 1988; Quartey, 2003), the extent of foreign aid is likely to substantially relax the extent of difficulty in starting businesses in Africa (Mmieh & Owusu-Frimpong, 2004). Higher levels of foreign aid reduce the difficulty of setting up a business in Africa in several ways. The more foreign aid a country receives, the more capital is generally available in that economy (World Bank, 2000, 2005). Further, foreign aid places an important role in the development of African nations by freeing up constrained financial resources in these countries (Mmieh & Owusu-Frimpong, 2004). In addition, foreign aid that is tied to progress of both economic and socio-political reforms opens up nations more to foreign scrutiny, and if progress is made, to greater levels of aid (World Bank, 2005). Further, foreign aid often comes with other kinds of assistance, such as training and targeted economic assistance, that can facilitate business start-up. Finally, consistent with the principles typically associated with the move towards financial liberalization, such aid can come with conditions imposed by donor countries and international financial institutions (e.g. World Bank and IMF) as a requirement for its disbursement and these may relate to reforms specifically designed to ease business startup difficulty. Consequently, we hypothesize:

*Hypothesis 2: Extent of national foreign aid is negatively associated with the difficulty of starting businesses in Africa.*

**Extent of Employment Rigidity.** The greater labor market liberalization should also affect the extent of employment rigidity, another important reflection of the powerful implications of labor market conditions (Cuervo-Cazurra & Dau, 2009; Misra, et al., 2012). For example, Misra et. al. (2012) found that the extent of labor market rigidity was significantly associated with business creation in emerging European countries. Pro-market reforms may be associated with changes in labor laws that reduce the costs of hiring and firing workers. As the reforms get institutionalized, more sophisticated and flexible labor markets, whereby employers and employees can more easily come into contact, will begin to form (Cuervo-Cazurra & Dau, 2009). The move away from socialism to a more market economy approach will move commercial decisions about staffing away from government bureaucrats responding to political pressure and to business managers responding to more dynamic market ones (Debrah, 2002). In sub-Saharan economies, pro-market reforms result in employee positions that are less secure than in pre-reform days, where previously the government was the major employer and complacent employees were typically cosseted from competition (e.g. Peng, 2003; Mahajan, 2008). Potential workers are more likely to stick with current employees because rigid labor markets make reemployment problematic. Consequently, we hypothesize:

*Hypothesis 3: Extent of employment rigidity is negatively associated with the difficulty of starting businesses in Africa.*

### **Socio/Cultural Institutional factors and African Business Start-ups**

The pro-market reforms also triggered several socio-political and cultural institutional changes in most African countries (Debrah, 2002). These socio-cultural changes have been associated with conditions such as increasing democratization, increases in attempts to reduce the incidence of corruption and a greater emphasis on the modernization of the African nations (Ahunwan, 2002; Lim, et al., 2010; Mahajan, 2008). We identified three such major socio/cultural institutional factors that are likely to influence the difficulties of starting a business in Africa. These are the extents of national levels of corruption, democratization and urbanization.

**Extent of Corruption.** The issue of corruption is important for understanding entrepreneurship behavior globally (Lim, et al., 2010) and is also particularly relevant in African economies (Ahunwan,

2002; Economist, 2004; Werlin, 1973). It is important to recognize that despite government efforts to change this corruption culture in African countries, it is still particularly pernicious (Rose-Ackerman 1999). Essentially problems are exacerbated by the context of a political culture of corruption and bribery. In keeping with this context, “many managers and directors have been able to use corporate opportunities and resources for their own personal benefit at the expense of the corporation and its shareholders” (Ahunwan, 2002: 274). The extent of national corruption levels has a direct effect on entrepreneurs because it makes starting business increasingly difficult. Corruption leads to increasing costs of starting a business. In a society where capital funding of business is already difficult to access, corruption adds an additional cost to starting a business in Africa (Elkan, 1988). In addition, the time consuming and extensive bureaucratic procedures that potential entrepreneurs have to navigate in Africa is made even more difficult by additional hoops and loops that the costly corruption practices add (Ahunwan, 2002; Rose-Ackerman, 1999). Consequently, we hypothesize that:

*Hypothesis 4: Extent of national level corruption is positively associated with the difficulty of starting businesses in Africa.*

**Extent of Democratization.** After independence, in the mid-1950s and early 1960s, after independence, African countries flirted with different variants of socialism and military dictatorships. However, pro-market changes in the mid 1980 have resulted in significant moves from African nations towards increasing levels of democratization (Mmieh & Owusu-Frimpong, 2004; World Bank, 2000). Indeed, today only one African state (Eritrea) does not hold elections. Democracy and democratic institutions have been on the rise in Africa (World Bank, 2000; World Bank, 2005). Thus, one would anticipate that increasing levels of democratization will be associated with a correspondent increase in the ease of starting businesses (Debrah, 2002). In addition, increasing democratization also means governments in sub-Saharan Africa sought to encourage the liberalizing of information markets. For example, the government-sponsored GIPC set up the Ghana Club 100 to “develop an open information culture within the corporate sector” (GIPC, 2000: 25). A generally free societal culture and its association with a freer press have liberty to report on firm activities and provide information associated with starting and improving businesses (Takyi-Asiedu, 1993).

*Hypothesis 5: Extent of democratization is negatively associated with the difficulty of starting businesses in Africa.*

**Extent of urbanization.** At the societal level, pro-market reform results in a strong push for greater urbanization (Hoskisson, et al., 2000; World Bank, 2005). The urbanization process in Africa leads to important changes: increase in schooling, development of new norms and standards; loosening of traditional vocational constraints; and the concentration of individuals/dispersion of ideas (World Bank, 2000; World Bank, 2005). Ease of travel in such developing economies, facilitated by loosening of political restrictions and greater infrastructure investment, primarily in the urban settings, meant an increase in rural to urban migration (Mahajan, 2008). Urbanization that has been accelerated by the pro-market reforms therefore results in changing socio-cultural institutions. For example, the increasing level of urbanization is also likely to be associated with an increase in schooling. Nations with an increasing number of students are likely to see a larger number of business set ups, as these relatively educated individuals are more likely to be aware of and seek opportunities (Kamoche, Debrah, Horwitz & Muuka, 2003). Often accompanying such education in an urban setting is the inculcation of norms and knowledge standards more closely associated with the market place orientation (Van der Sluis et al., 2005; Koveos et al., 2011). Urbanization also results in the loosening of traditional constraints associated with careers. Urbanization is also associated with an increased dispersion of new ideas and

opportunities (Takyi-Asiedu, 1993), what Harvard Economist Edward Glaeser calls “the urban ability to create collaborative brilliance” (Lane, 2012:16). Consequently, we hypothesize that:

*Hypothesis 6: Extent of urbanization is negatively associated with the difficulty of starting businesses in Africa.*

## METHODS

We obtained our data from two sources. First, we used the database from the World Bank Indicators CD 2008. Every year the World Bank collects data from more than 153 countries which include low, middle and high income economies worldwide. The World Bank uses officially recognized international sources to collect these indicators and therefore represent the best source of global development data (World Bank, 2008). We analyzed data from 23 countries from Africa from 2003 to 2006. In so doing, we closely approximate the 2002 and 2007 time frame of Bowen and De Clercq (2008), the 2002 to 2004 time frame that they specifically used to assess their propositions, and also the 2003 to 2006 time frame that Misra, et al. (2012) use. Second, we obtained data on extent of national level corruption and extent of democracy from <http://www.gapminder.org>. While there are over 50 countries in African, we had complete data for the 23 African countries listed below and subsequently utilized these. The countries are: Angola, Botswana, Burundi, Cameroon, Central African Republic, Chad, Congo Republic, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mozambique, Namibia, Nigeria, Rwanda, Sierra Leone, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. This sample is representative of the population of African economies, ranging as it does from economies with a higher level of industrial development (e.g. South Africa) to those with relatively impoverished economies (e.g. Zimbabwe). Of the 23 countries in the dataset, 15 countries are low income countries and 8 countries are middle income countries.

### Variables

Table 1 presents the summary statistics and correlation data associated with the variables used in this study.

**Dependent variables.** To reflect the difficulty in starting a business, we used two variables. First, we used *the time required to start a business* in African countries from the World Bank database. This generally applies to resource acquisition time, obtaining permits and required approvals, and lining up the required financing, among other necessary activities, and is an important overall indicator of ease of starting a business. This is similar to Misra, et al. (2012) who used the same variable to understand the difficulties of starting business but for the European countries. We also used *start-up procedures* as an independent variable. This refers more to government involvement and the variable is measured as the total number of procedure necessary to start-up a business, thus reflecting the extent of government bureaucracy and red tape that make business start-ups in Africa difficult.

**Independent variables.** Our independent variable reflects economic and socio/cultural institutional factors that affect the difficulties associated with starting a business in Africa. In terms of economic institutional factors, we identified three: national lending rates, availability of foreign aid and extent of employment rigidity. In general, private or commercial banks provide loans to prime customers and the interest rate they charge on loans is called *lending interest rates*. We also measure the extent of *foreign aid* (percentage of GDP). World Bank developed an index to measure *rigidity of employment*. This index measures the regulation of employment in terms of hiring and firing of workers and the rigidity of working hours. It ranges from 0 to 100, with 0 being less rigid regulations and 100 being more rigid regulations. In terms of sociological institutional factors, we identified three variables: extent of corruption, democracy, urbanization. The *corruption perception index* is used in this study to

reflect the level of corruption at the national level. This variable is collected from <http://www.gapminder.org> which is compiled by Transparency International Organization. The corruption perception index focuses to measure corruption in the public sector, such as bribery of public officials, kickbacks in public procurement, embezzlement of public funds, etc. The next socio-cultural variable is extent of *national level democracy*. This variable is compiled by <http://www.gapminder.org> and is collected from the Polity IV project. The democracy score is calculated by subtracting an autocracy score from a democracy score. It is a summary measure of a country's democratic and free nature. -10 is the lowest value, 10 the highest. This score is based on inflation adjusted GDP per capita. For the extent of *urbanization*, we started with the World Bank's Database "proportion of rural to urban population" ratio. This is computed as the percent of total population living in urban areas. We invert these figures as a measure of national urbanization.

**Control variables.** We controlled for *gross domestic product* (constant 2000 USD), which indicates a country's economic well-being. This variable is measured as gross domestic product which is sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products and dollar figures for GDP are converted from domestic currencies using 2000 official exchange rates. This variable provides the information about economic performance over an amount of time. Controlling for GDP helps to better clarify the PMR-related variance in our foreign aid (one of our independent variable measures) by removing the influence of poverty itself on the amount of aid. We also controlled for *net exports* (percentage of GDP). The World Bank defines this variable as the net value of imports and exports of goods and services of a country from the rest of the world as a percentage of GDP. We measured *population growth* to control for the effects of the population pressure on an economy. Our study's time frame is 2003 to 2006 and given that there may be substantial events occurring in particular years that may spuriously affect the results of the study, we control for years using dummy variables.

### Statistical Analysis

Our 4 year data set is from 23 African countries. We performed several tests to select the appropriate econometric model. First, we undertook the Breusch-Pagan test, to decide between ordinary least square (OLS) and panel method models. The Breusch-Pagan test confirmed that the panel model was the appropriate estimation technique to use. We subsequently performed the Hausman test to choose between random effects and fixed effects modeling technique. Taking the results of the Hausman test, we decided that a fixed effects estimation procedure was the most appropriate modeling approach to take in this study. We employed weighted least square fixed effects estimation technique to correct the heteroskedasticity problem in this sample. We next calculated Variance Inflation factors (VIF) and the results indicate no multicollinearity problem in the dataset since the VIFs did not exceed 10. Finally, the Durbin-Watson test was performed to check the serial autocorrelation and the results did not indicate the presence of serial autocorrelation in the dataset, since the value of Durbin-Watson test in all models stayed around 2.

## RESULTS

Table 2 presents the regression results. Based on our conceptual framework and following Bruton, et al., (2010) and Misra, et al. (2012), our independent variables were divided in two categories of institutional factors: economic and sociological. With respect to economic institutional factors we note the following. The first significant variable in this model (2) is the rigidity of employment index which is negatively related to the dependent variable. We find that national lending interest rates is positive and significantly related with business start-up time ( $p = 0.01$ ). This provides strong support for hypothesis 1. So, higher lending interest rates slow the process of firm formation. We fail to find support

for hypothesis 2, since the foreign aid variable becomes insignificant in this model. The adjusted r-squared is 67 percent. Turning our attention to the socio-cultural factors, we also note the following. In the column 3, we report the estimation results of socio-cultural institutional factors where each of these factors is significantly related to the business start-up time. The corruption index variable is significant at 5 percent level and positively influence the business start-up time; that is, a country with higher corruption will take more time to start a business. The next socio-cultural variables are democracy index and urbanization, and both are positive and significantly ( $p = 0.01$ ) associated with business start-up time. Finally, in the full model (column 4) in Table 3 reports the full model where we include economic and socio-cultural factors with the controlled variables. The two economic factors, foreign aid, and lending interest rate, are significant with the expected sign. The results provide full support to hypotheses 1 and 2. All socio-cultural variables are significant except democracy index variable, becomes insignificant in this model. The corruption index variable is significant at 5 percent level and positively related to required time to start a business which is similar to model 3 (column 3) and this holds the support for hypothesis 4. The last significant variable is urbanization, which is significant at 1 percent level and negatively related to business formation time. That is, a country with higher percentage of urbanized population is taking lesser time to form a business in sub-Saharan country. This provides the strong support to the hypothesis 6 in this paper. The adjusted r-squared is 79 percent. In summary, our results provide fairly consistent support for the hypotheses in this paper. For the economic institutional factors, we find strong support for hypothesis 1 and partial support for hypotheses 2 and 3. For the socio-cultural institutional factors, we find strong support for hypothesis 4 and hypothesis 6 and partial support for hypothesis 5.

We also examined Bruton, et al. (2010) suggestion that the predictive efficacy of our model will be improved if we combined economic institutional factors to the sociological and we find that indeed the results confirm this prediction. The full model (Column 4) gained 12 or 17 percent (Adj-R square 79 percent in model 4; Adj-R squares of 67 and 62 percent in Models 2 and 3 respectively) in predicting power after combining economic factors with socio-cultural factors. We repeat the same estimation procedures for another dependent variable, start-up procedures to start a business in sub-Saharan countries. Again the control variables are significant in most of the models (model 5 through model 8). The rigidity of employment index and foreign aid variables are significant with the expected sign, but the lending interest rate variable becomes insignificant in the model 6. All socio-cultural factors are significant at 1 percent level in model 7 with their expected sign. The model 8 reports the full model for this dependent variable. In this model, two economic institutional factors, rigidity of employment index and lending interest rate, become significant at 1 percent level. The lending interest rate variable is positively related to the start-up procedures which provide strong support to the hypothesis 1. The rigidity of employment index variable is negatively influencing the start-up procedures to start a business in Sub-Saharan African countries, which brings the strong support to hypothesis 3. All socio-cultural institutional variables are significant in this model. The corruption index variable is significant at 1 percent level and related positively with the dependent variable. Again, hypothesis 4 is highly supported in this model. The democracy index and urbanization variables are related negatively with the dependent variable and significant at 5 and 1 percent respectively. Both of these variables, urbanization and the democracy index provide the strong support to the hypotheses 5 and 6. The predicting power (adjusted r-square) again increased from 67 percent (model 6) or 65 percent (model 7) to 83 percent in the full model (8). Thus, the full model gained about 6 to 8 percent when we include socio-cultural factors with economic factors. Again, for the start-up procedures dependent variable, our results provide fairly consistent support for the hypotheses in this paper. For the economic institutional factors, we find strong support for hypothesis 1 and partial support for hypotheses 2 and 3. For the socio-cultural institutional factors, we find the strong support for all hypotheses (4, 5 and 6) of this paper. Therefore, after comparing the first set of results with the second set of results for the two dependent

variables, time required to start a business and start-up procedures, it is fair to conclude that results provide very strong support to the hypothesis 1, 4 and 6, and partially support hypothesis 2, 3 and 5. Hence, economic and socio-cultural institutional factors are equally important for firm formation in any Sub-Saharan country.

## DISCUSSION

In the last several decades many nations in the sub-Saharan African region have adopted pro-market reforms (Hoskisson, et al., 2000; Tan, 2009). Despite such reforms, the general lack of factors of production, particularly financial, capital, and the resultant institutional upheaval (Austin, et al., 1996; Quartey, 2003; World Bank, 2000), make the Sub-Saharan African region particularly difficult for business start-ups (Bruton & Ahlstrom, 2003; Bruton, et al., 2010; Kiss & Danis, 2008; Kiss et al., 2012). Our study uses Institutional Theory (IT) to examine both economic and institutional factors associated with the difficulty of business formation (Obben & Magagula, 2003).

### Implications

Our research has several important implications. First, our study followed the suggestion of Bruton, et al. (2010) to move beyond concentration on culturally-generated factors alone. We found that both economic and cultural institutional factors significantly explain the difficulties of entrepreneurs in Africa starting up businesses, and therefore confirm the potential problem that those scholars identified and also suggests that researchers in this area should take such an integrative approach. Specifically, a primary focus on socio-cultural institutional factors may result in substantial model misspecification. Our study therefore makes a contribution by focusing on both economic and cultural institutional factors, thus providing a better representation of the two broad perspectives that underlie Institutional Theory as a theoretical basis for explaining entrepreneurship behavior. And this provides IT with a better potential to more fully describe entrepreneurship factors associated with doing business in Africa.

Second, our study's use on a large (23 nations) multi-national sample moves entrepreneurship research beyond the focus on single nation studies that Bruton, et al. (2010) identified as one of the three major limitations in the extant literature. Building on Bowen and De Clercq (2008), and the recent work by Misra, et al. (2012), we develop a national-level model that addresses institutional determinants of business start-up difficulties in 23 countries in Africa. We further improve on methodology of Bowen and De Clercq (2008) in our use of panel data. Hence, the results from panel data analysis should provide us a clearer picture than previous literature. Our study therefore enables us to better assess the impact of institutions by moving beyond results enmeshed in the possible idiosyncratic circumstances of a single country (e.g. Bruton, et al., 2010) and also are congruent with Misra, et al. (2012) who focused on European nations. Third, research studies comprehensively identifying important institutional factors that are associated with business formation in Africa have been relatively few. By analyzing how institutional factors affect the relative difficulties in business startup in a cross-national sub Saharan sample, this study makes an important contribution by identifying institutional theory related factors likely to help in the formation of businesses in Africa. Fourth, these findings have important policy implications. A common increasing perception is that foreign aid to Africa is wasted. This study however suggests that there may be a more nuanced effect and that is perhaps not so open and shut. Our study suggests that the availability of foreign aid can be a helpful influence in encouraging the generation of new economic enterprise. Our study also suggests that government policies that result in the loosening of rigid labor markets are associated with an easing of conditions for entrepreneurs. We have looked generally at the 23 nations in Africa and drew conclusions about the effects of both socio-cultural and economic factors. Scholars have cautioned that

these countries are not all similar in all institutional respects, because they have different historic and developmental trajectories, and different governmental policies and different levels of development (Harvey, 2002). While this study mitigates these factors by controlling for GDP, subsequent research should go further to investigate other differences in institutional background. Finally, more research is needed in this important area of inquiry. Our preliminary findings suggest that there are systematic institutional influences on the difficulty of starting new businesses in sub-Saharan Africa. Additional research can more fully establish such linkages, as well as explore other institutional areas, such as mimetic and normative influences, as to their effects on commercial initiation (e.g. Visser, 2008; Sawyerr, 1993). Also, with an increasing scholarly focus on international entrepreneurship (Kiss, et al., 2012), further research is also needed in exploring both managerial and firm factors that distinguish between the propensity for firms in Africa to export (Obben & Magagula, 2003). Given the potential importance for business start-ups on economic dynamism and the improvement of material well-being in high misery contexts, investigation of such topics holds the potential for generating useful and actionable knowledge.

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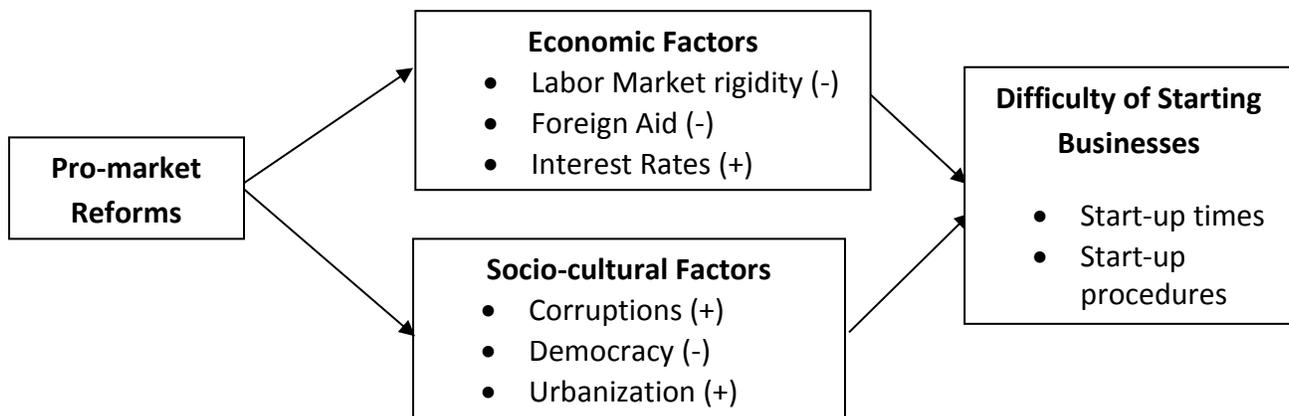
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**FIGURE 1**

**The Effect of Economic and Socio-cultural Institutional Factors on the Difficulty of Starting Business in African Countries**



**TABLE 1**  
**Summary Statistics and Correlation: Firm Formation in Sub-Saharan African Countries**

	Time	Startup	GDP	NX	Population Growth	Employment Rigidity	AID	LR	Corruption Scores	Democracy Index	Rural
<b>Summary Statistics</b>											
Mean	58	10.95	3239	-7.72	2.34	51	13.1	22.04	2.78	3.90	66.15
Std. Dev.	35.15	3	8989	19.93	0.92	16	11.63	15.83	0.92	3.02	15.43
<b>Correlation</b>											
Time											
Startup	0.28										
GDP	0.41	0.27									
Net exports	0.12	0.06	0.01								
Population											
Growth	-0.19	0.36	0.10	0.05							
Employment	-0.36	0.12	0.09	-0.10	0.53						
Aid	-0.29	-0.05	0.17	-0.35	0.44	0.60					
Lending Interest rate	0.30	0.05	-0.04	0.12	0.04	0.25	-0.05				
Corruption											
Scores	0.24	-0.18	-0.06	-0.12	-0.39	-0.58	-0.23	-0.21			
Democracy											
Index	0.12	-0.21	-0.06	-0.15	-0.14	-0.40	-0.00	-0.15	0.40		
Urban	0.25	-0.20	0.02	0.63	-0.19	-0.45	-0.49	0.13	0.23	-0.06	

**TABLE 2**  
**Business Start-Up Difficulty in Sub-Saharan African Countries**

<b>Dependent variable</b>	<b>Time Required</b>				<b>Start-Up Procedures</b>			
	Controls (1)	Economic (2)	Socio-cultural (3)	Full Model (4)	Controls (5)	Economic (6)	Socio-cultural (7)	Full Model (8)
Constant	8.17***	102.47***	76.37***	1.04	85.69***	7.30***	4.87***	46.70***
<b>Controls</b>								
GDP	0.000***	0.00***	0.00***	0.00***	0.00***	0.00***	0.00***	0.00***
Net exports	0.01***	-0.11	-0.03	0.03**	0.03	-0.00	0.02***	0.09
Pop. Growth	1.06***	-3.01	-11.50***	1.46***	-13.25***	1.52***	0.78***	0.71
<b>Economic</b>								
Emp. Rigidity		-1.02***		0.00		0.02***		-1.19***
Aid		-0.21		-0.12***		-0.09***		-0.24
Interest rate		0.55***		0.02*		-0.00		0.71***
<b>Socio-Cultural</b>								
Corruption			6.56**	0.54**			0.43***	6.95***
Democracy			2.88***	-0.09			-0.15***	-1.39**
Urbanization			0.38**	-0.09***			-0.05***	-0.57***
2004	-5.55	-3.15	-4.91	0.29	0.02	0.14	0.03	-1.67
2005	-6.39	-2.49	-5.98	0.20	-0.01	-0.08	-0.03	-2.24
2006	-8.36	-5.11	-9.15**	0.12	-0.16	-0.12	-0.36	-3.78
Adjusted R <sup>2</sup>	0.81	0.67	0.62	0.79	0.80	0.67	0.65	0.83
N	92	92	92	92	92	92	92	92

**TABLE 3**  
**Robustness check: OLS and Fixed effects estimates**

Dependent variable	Time required to start a business: Full model [Ordinary least square model (1)]	Start-up procedures to start a business: Full model [Ordinary least square model (2)]	Time required to start a business: Full model [Fixed effects model (3)] <sup>†</sup>	Start-up procedures to start a business: Full model [Fixed effects model (4)] <sup>†</sup>
Constant	20.89 (22.44)	1.82 (1.60)	432.83*** (154.07)	23.90* (12.68)
<b>Control variables</b>				
Gross domestic product	0.00***	0.00***	0.00***	-0.00
Net exports	0.14	0.03***	0.02	0.00
Population growth	5.44	2.02***	1.22	0.01
<b>Economic factors</b>				
Rigidity of employment index	-1.09***	-0.06***	0.68	-0.02
Aid	-0.60*	-0.12***	-0.57***	-0.00
Lending interest rate	0.96***	0.02***	-0.02	-0.01
<b>Socio-cultural factors</b>				
Corruption index	8.69***	0.16	0.19	-0.08
Democracy index	-1.63**	-0.22***	-0.07	0.17
Urbanization	-0.65***	0.13***	5.78**	0.17
	Adjusted R-Squared: 0.67	Adjusted R-Squared: 0.77	Log-likelihood Ratio: - 281.45	Log-likelihood Ratio: - 51.68
N	92	92	92	92

\*\*\*, \*\* and \* indicate statistical significance at 1 percent, 5 percent, and 10 percent respectively. Models 1 to 2 are heteroskedasticity tested and corrected models. <sup>†</sup>Times dummies are controlled but not reported in the table 3.

## **MANY OPPORTUNITIES, ONE BIG CHALLENGE: TWO ENTREPRENEURIAL TALES OF GROWING MICRO AND GROWING BIG IN A TANZANIAN CONTEXT**

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### **ABSTRACT**

To explore how microentrepreneurs evolve, this paper uses a case study approach to provide rich, in-depth insights into entrepreneurial growth processes. It narrates two entrepreneurial tales, one of growing micro, i.e. establishing microenterprises, and one of growing big, i.e. establishing a conglomerate in Tanzania, an emerging African economy. The findings result from comparing and contrasting the two cases, and are summarized under resources and implementation uncertainties, entrepreneurial as opposed to enterprise growth strategies, and new roles and identities. The findings indicate several future research options, and underline a need for focusing on the entrepreneur at large. Especially in young emerging economies, this focus is necessary to address many growth opportunities but one big challenge of productively harnessing that potential.

**Keywords:** entrepreneurial growth, narratives, Africa, entrepreneurial processes

### **INTRODUCTION**

Enterprise growth has become a key issue for research and policy making in developed and developing countries alike, yet “[t]he truth is, we know very little about micro and small enterprise growth” (Nichter and Goldmark, p.1453). African entrepreneurship for example is traditionally associated with constraints, but especially in the continent’s emerging economies there is a shift towards innovative growth strategies that focus on opportunities, learning, and creativity to overcome constraints (Bradley, McMullen, Artz, & Simiyu, 2012; Sarasvathy, 2004). Correspondingly, entrepreneurship research recently emphasized that studying individual enterprise growth needs to be complemented by an understanding of entrepreneurial growth processes (cf. Leitch, Hill, & Neergaard, 2010; McKelvie & Wiklund, 2010), i.e. what entrepreneurs actually do to grow their businesses.

Existing research started to explore entrepreneurial growth processes (Baker & Nelson, 2005; Wright & Stigliani, 2013), and has recently emphasized that studying how these processes unfold is particularly relevant in emerging economy contexts (Bruton, Ahlstrom, & Obloj, 2008; Bruton, Filatotchev, Si, & Wright, 2013). However, while studies from Asia’s emerging economies have increased, studies from Africa’s young emerging economies are rare (Economist, 2011; Mahajan, 2009). To remedy this gap, this paper explores how microentrepreneurs evolve by providing rich, in-depth insights from two cases of entrepreneurial growth in Tanzania, an emerging economy in East Africa. The study findings result from comparing and contrasting the two cases, and shed light on resources and implementation uncertainties, entrepreneurial as opposed to enterprise growth strategies, and new roles and identities. Specifically, the findings point to severe implementation uncertainties with regard to the challenge of productively harnessing changes in the institutional regime, the evolution of microenterprise groups and regionally expanding family business groups, and finally, new roles and identities as African entrepreneurs beyond family and community ties.

The findings contribute to the general and the African management literature by providing insights into alternative growth strategies, and by opening up a number of options for future research that speaks to the African and the ‘Western’ discourse (Zoogah & Nkomo, 2013). For practitioners, the findings show that support programs can facilitate entrepreneurial learning through experience, but need to consider the formalization of business procedures on top of legal registration. Furthermore, practitioners are well-advised to focus on the entrepreneurs at large, i.e. what and what else they are actually doing in order to understand their growth strategies. Such an understanding is relevant because the strategies have distinct implications for individual firm growth.

In this paper, I first present the case study approach and the two narratives, one tale of growing micro, i.e. establishing microenterprises, and one tale of growing big, i.e. establishing a conglomerate in Tanzania. Then I present and discuss the main findings. I conclude with implications for practitioners.

### CASE STUDY APPROACH

This paper relies on an in-depth multiple-case study approach to investigate a complex process in its real-life context (Yin, 2009). Entrepreneurial growth processes are complex as they involve a temporal and spatial dimension that can hardly be isolated in an unambiguous way (Langley, 1999). Specifically, I use a narrative strategy to provide realistic tales (Van Maanen, 1988) through thick descriptions the reader can transfer to other situations (Langley, 1999; Lincoln & Guba, 1985). Furthermore, I compare and contrast the narratives and discuss common themes of resources, strategies, and identities (Pettigrew, 1990). Selecting this approach is based on the lack of process insights on entrepreneurial growth, especially in Africa’s emerging economies (Bruton et al., 2008; Bruton et al., 2013).

Case selection departed from an interest in agribusiness entrepreneurship, in particular food processing. Tanzanian was selected because the country recently reached emerging economy status, and offers growth opportunities for entrepreneurship in food and agriculture due to a peaceful economic transition process, significant government and donor efforts to improve institutional support for entrepreneurship, and abundant agricultural resources (Economist, 2011; Lituchy, Punnett, & Puplampu, 2013). The two specific cases (C1 and C2) were purposively selected to represent one typical/critical, and one extreme opposing end of entrepreneurial growth (Miles & Huberman, 1994, p. 28). The first case is a female entrepreneur in her 40s. She represents a typical/critical case of a primary school leaver who managed to grow micro and provide for her family in the context of a semi-rural university town. Her case provides insights into female microentrepreneurship associated with a lack of education and growth constraints (Amine & Staub, 2009; Spring, 2009). Second, Bakhresa group, in particular the AZAM food operations in Dar es Salaam, was selected because its founding director, Mr. Bakhresa, is an extreme case of a primary school leaver who now ranges among Africa’s richest entrepreneurs (Forbes, 2011).

Data was collected over a 2.5-year period from August 2010 to January 2013, facilitated through an existing collaboration with local researchers who e.g. arranged the initial factory visit at AZAM. To support the collection of primary data, two research assistants with a degree in business studies and economics facilitated my visits, and for C1 the translation of interview questions and answers. Interviews for C1 were recorded, fully translated, and transcribed, resulting in approx. 120 pages of transcripts and field notes. For C2, the interviews with AZAM managers (M1 and M2) were not recorded as recording permissions were not granted. However, I took detailed notes during the interviews and the factory visits, resulting in approx. 50 pages of field notes. This data was supplemented by secondary data, in particular an interview with AZAM’s executive director and son of Mr. Bakhresa (EX) published on the web, and data from the group’s website. Text *in italics* is subsequently directly taken from transcripts and field notes. **TABLE 1** provides an overview of the data sources for the two cases.

**CASE INSIGHTS: TWO TALES OF GROWING MICRO AND GROWING BIG****Growing Micro: Establishing Microenterprises**

The first narrative is about Mary, an entrepreneur in her 40s. Her case is critical because she grew her business against the odds, i.e. she operates a microenterprise with 5 casual workers, and a self-reported monthly income comparable to that of a local first-level manager. She progressed through taking part in a university-based cluster initiative for small-scale food processing, where she learned to pack and improve her products. Even though the business did not grow into a small firm, it financed an education for her children, the acquisition of a small farm, and the start-up of a second business in an informal service sector.

**TABLE 1**  
**Case Data Sources and Overview**

Case	Data source	Code	Date	Interview/data collection topics
<b>C1: Mary*/food and decoration microenterprise</b>	Semi-structured interview	Mary, 2011	Feb 21, 2011	Personal characteristics Business characteristics Start-up history Future plans
	Follow-up interview	Mary, 2012	June 15, 2012	Business progress Organization of activities Future plans Visit at home
	Participant observation	-	June 23, 2012	Product demonstration Informal discussion
	Participant observation	-	June 26, 2012	Visit of cluster processing premises Informal discussion with cluster advisor Business progress
	Follow-up interview	Mary, 2013	Jan 17, 2013	Diversification Roles and identities Future plans
<b>C2: Mr. Bakhresa/Bakhresa group</b>	Group interview	M1, 2011 M2, 2011	Aug 9, 2010	AZAM operations Raw material supply and farmers Human resources Future plans
	Observation	-	Aug 9, 2010	Factory visit: juice packing Factory visit: pulp plant New product development
	Follow-up interview	M1, 2012	Jun 12, 2012	Human resources Future plans
	Observation	-	Jun 12, 2012	Factory visit: carbonated drinks plant
	Secondary data*	EX, 2012	Oct 04, 2012	Group operations Challenges and opportunities Group structure
	Company website**	Bakhresa, 2013	Launched early 2013	Product portfolios Revenues and number of employees

\* Name changed due to recording agreement and in line with religious belief

\*\*Secondary data, at <http://voicesoftanzania.com/articles/interviews/item/220-interview-with-mr-abubakar-bakhresa-executive-director-of-bakhresa-group.html> (accessed Feb 6, 2013)

\*\* <http://bakhresa.com> (first accessed June 1, 2013)

Mary completed primary school before she moved to town to work in a former state factory for 15 years. She was laid-off during the start of economic transition in the mid-1990s, and became a single mom looking for alternative income. She started an informal street restaurant. By 2000, she added a porridge mix and dried fruits and vegetables. She processed at home, and packed items in plain plastic bags. Being in town was advantageous because raw materials and customers were available, and transport was easy. Her personal advantage was being *mtundu* [curious] about what was going on in the community. She went to seminars from the municipality, and over time she *became known*. In 2007, this reputation helped her to become a candidate for a cluster initiative set-up in collaboration with donors and local university partners. However, she needed confidence and persistence *to see the end of this* and stay in the program in spite of her lack of education and English skills (Mary, 2013).

By 2011, she used the cluster processing facility to produce and receive technical knowledge and training on business management. The cluster won prizes and took her to exhibitions, where her new reputation as a member helped her to get customers, even from other parts of the country. She hired casual workers from a pool of 5 people she had started to train. For marketing, she printed her own flyers, and asked acquaintances to introduce her products in their networks. Income generated had been largely used for educating her children, but after they completed college/secondary education, business and life improved. However, other problems started. The cluster exposed her to growth and export opportunities, provided that products are processed and packaged well. She was thus looking for support from *sponsors or donors* for investing into packaging materials and processing equipment. She also realized the need for differentiating her products. Other entrepreneurs were exhibiting the same products, using the same packaging material from the Small Industry Development Organisation (SIDO). Worrying about how customer can distinguish products and damages to her reputation if somebody else produced bad quality, she kept her own production secrets and was searching for alternative packaging and labels (Mary, 2011).

By 2012, she found out that packaging manufacturers require large orders. Hence she sat in the living room of the 4-room house she rented, and was gluing home-made labels on plain plastic jars and bags she continued to buy from SIDO. The labels were designed, digitalized, and printed at a local stationary. She continued to produce those products requiring machines at the cluster facility. Others, including her best-selling porridge, were produced at home. She estimated to make a profit of up to 380.000 TZS (about 180 EUR) per month, based on a book in which she noted raw material purchases, a list of clients, and sales. She focused on communicating with her customers, i.e. listening to any complaints, replacing bad products, and giving free samples. To help with production and distribution, she continued with the pool of 5 casual workers, but by now paid 2 people on a monthly basis. Furthermore, she could receive phone calls from customers in other areas, and dispatched the order through one of the many buses that frequent the country. The customer picked up the parcel from the bus stop, and paid her via mobile money services such as M-Pesa. Thus her phone had become her most important asset, but she noticed a lack of others. Local products were increasingly considered as more natural and healthier than international brands, and demand was on the rise. Yet she did not have enough financial capital to invest in production and distribution. To obtain funds, she was counting on participation in a donor business competition. She was optimistic because she had started to keep records, managed to register her business, and got a tax identification number (TIN) as part of the participation requirements. Registering a business name cost her 6.000 TZS (about 3 EUR). She registered a partnership, but decided to run it as a family business to increase control and decision-power, emphasizing that although the different sub-groups in the cluster are working together, there is *no business that we do together*. To get the TIN, municipal tax officers told her she would pay 95.000 TZS (about 45 EUR) every year. This allowed her to avoid *any disturbances* from the authorities, since her days were already busy enough with production and the search for information about competitors, technologies, and products that could *move fast* in the local market (Mary, 2012).

By 2013, she won 3.3 million TZS (about 1.500 EUR) in the competition. This was used to get product barcodes, new label designs, and promotion material. She paid for a promotion clip broadcasted on local TV, in which she encouraged other women to start businesses, and appealed to their husbands to let them. In the business, she started to focus on producing fast-moving products, while maintaining others only for exhibitions. Packaging material continued to trouble her. Ordering it on demand led to delays in sales, and made her think about optimizing all business processes to save time and effort it takes to bring raw materials to the processing facility and distribute products, and concluded that she would like to have money to invest in her own premises with a sales outlet. She could save rent and speed up production, and would hire department managers and store keepers to properly organize business according to the *business law*, instead of *kiholela* [arbitrarily]. This would also give her confidence that she is a *full entrepreneur*. Yet for now she has to be realistic. At her level, she is doing things in *whatever way that makes money*. Because of that, she also does not want to take a loan. She lacks collateral and interest rates are high. Moreover, in the 1990s, she received one of the first loans the government issued to small street vendors, but it did not help her grow. Hence she considered loans as inappropriate for building a business:

*I cannot agree to take a loan... a loan is good, but you should remember, we work for others... a loan does not want you to build. A loan needs you to produce. I am building. Where will I get the money to return the money? What little I get, I use it to solve my little problems. [Or] I take the profit, instead of saving it, I repay the loan. So I will not have any savings. It is like I will give my profit to a person who borrowed me the money, and yet there is an interest. Would I have benefitted out of that, or made a loss? (Mary, 2013)*

Alternatively, she thought about increasing profits to at least 500.000 TZS/month (about 240 EUR) by acquiring about 5 million of interest-free capital to buy her own car, and save on bus and taxi fares. At the same time, she had already used some of the profits made to purchase a 15-acre maize farm. Farmland was affordable, and she started to become her own supplier. Furthermore, she diversified horizontally and started a lucrative wedding decoration business. Initially only a minor activity, it *became stable* in the 2012 wedding season. Upon success, she decided to maintain both businesses to stabilize her income through leveraging advantages of both businesses. Decoration materials (e.g. cloths, candle holders) were a one-time investment. Only designs, fresh flowers, and snacks had to be renewed, for which clients set a budget and paid for upfront, as she had already developed *a reputation* for good design by showing pictures of successful weddings to potential customers in her network. Overall, she remained with higher profits from decoration than from food processing. Food processing was less profitable due to asset requirements as well as high inflation and fluctuating raw material prices. Yet she could not specialize as unlike food consumption, weddings were seasonal. Consequently, she moved between the businesses. She thought of this as a common strategy under tough conditions and family responsibilities. Her own children were grown up, but she sent money to relatives and took care of nephews and nieces. Hence she needed to think ahead. The number of entrepreneurs was increasing, and with it chances of competing with someone more resourceful:

*...entrepreneurs are so many nowadays, so competition also grows. So because of the way you do business, you could fail to get into the competition. Another one has big capital, and maybe people to support, to add capital. And you do not have enough capital. You will fall down. But you see, you can have another business, like this for decoration, where the raw materials are already in the store, and they don't go bad, you can use them for even five years. This is different. So you find yourself handling all the businesses. (Mary, 2013)*

Hence, it made sense to her to add a less capital-intensive business. However, handling both businesses required organization. First, in order to be prepared for upcoming registration and taxation issues, she was part of the emerging local wedding decorator association. Second, she needed to coordinate her workers. To benefit from trust and experience with daily routines, she started to train the same 5 workers for both businesses. Furthermore, they split up profits made but she made sure that everyone invested a part into new decoration material. Third, she coordinated business activities through timing and dividing tasks. Finally, the only rule she used to set is to come early and finished on time. However, to build commitment and reputation she introduced a new rule of faithfulness and *doing a good job*. Furthermore, she lectured her workers on long-term thinking and personal responsibilities.

For her own future, Mary defined herself as a general entrepreneur for *all things which will help to earn some money*. Her goals were to improve and grow her existing businesses, and become a *national and international businesswoman*. With multiple start-up experience, she may add further businesses after research and an assessment of her capabilities. If she *just keeps adding businesses*, she would confuse herself. Her children provided help and advice, but were at present following their own entrepreneurial careers. She thus counted on the cluster and the planned expansion of its processing facility to get a trade mark. In line, her next challenge was to understand how her products could reach other markets, for example in Kenya, knowing now how products can be packed and labeled.

### **Growing Big: Establishing a Conglomerate**

The second narrative is an extreme success case of an evolving family business group. It offers a glimpse into the operations of AZAM, Tanzania's *leading consumer brand* (EX, 2012). AZAM has affordable product lines for ice-cream, water, juices, soft drinks, flour, and bakery goods. AZAM is part of family-managed Bakhresa Group Ltd., one of Tanzania's few big and regionally expanding conglomerates, and the culminating point of the entrepreneurial activity of highly successful yet reclusive Said Salim Bakhresa (Forbes, 2011).

Mr. Bakhresa's entrepreneurial history started in the 1960s. He left primary education at the age of 14 and started to sell potato mix to contribute to family income after the family lost their home due to indebtedness. Over time, he started to buy and sell seashells to then already market-oriented Kenya, used the profits made to bring back leather, and became a shoe maker in Tanzania (at that time still a socialistic country). From shoe-making he went to owning a small bakery, and then bought a restaurant in order to sell the bread, followed by further integration through the start of wheat milling. The name AZAM was first given to the restaurant, and reflects his family's Indian roots. It stands for greatness or determination. In the 1980s, Mr. Bakhresa moved on to becoming the first small-scale producer of ice-cream in Dar es Salaam. To sell the ice-cream, he introduced a distribution system of street hawkers on bikes equipped with cooling tanks. In the 1990s, Tanzania departed from socialism, and Mr. Bakhresa got industrial, especially focusing on the milling operations. By then, one of his sons, now the executive director of the group, went to study finance in the US. Around 2000, market reforms started to take effect, and Mr. Bakhresa asked his sons to join the family business. They started *putting up more structures and more growth into it* (EX, 2012). By now his son attributes success to a democratic environment created by team-based family management in which every player has a mandate and key tasks or divisions to work on. Other success factors are heavy investments into infrastructure and the latest technology. On the market side, he attributes success to his father's entrepreneurial mentality and his understanding of doing business in base of the pyramid markets (EX, 2012).

By 2010, AZAM had become the producer of wheat flour in East Africa (Forbes, 2011). Furthermore, AZAM juice was packaged in a modern factory in Dar es Salaam, the commercial capital of Tanzania. Two interviewed expat managers in the beverage operations were concerned about hiring inexperienced local graduates, the capacity of local farmers, and piles of oranges rotting on the streets. One of the managers was particularly excited about *a future of AZAM Cola* (M1, 2011) as the group

made plans for Carbonated Soft Drinks (CSDs). The second manager focused on the oranges. He was proudly introducing his *baby* (M2, 2011), a brand new fruit pulp factory that was just about to go into operation, and supply the fruit juice packing plant. With a capacity of 14 tons of fruit per day, its fully-automatic operation required a consistent stock of raw materials to avoid interruptions. To further reduce costs and produce sustainable energy, engineers also experimented with making biogas.

By 2012, AZAM Cola was sold in local mom-and-pop stores in polyethylene terephthalate (PET) bottles with a flashy label, and the AZAM logo embossed in the bottle. It came in two sizes (330 ml and 500 ml), and bottles were deposit-free, re-closable, and cheaper than soft drinks of international brands, which were up to then only sold in glass bottles. AZAM had started to compete with *the big boys* (EX, 2012). The manager whose plan *has come to fruition* (M1, 2012) introduced another large new factory with three fully-automatic bottling lines for producing about 18 million bottles of CSDs per month, to be increased by 50% in a year. Situated right next to the pulp plant, the new plant was responsible for the launch of AZAM Cola in May 2011. By July 2012, it had taken approximately 20% of Coca-Cola's market share in Tanzania. The PET bottles reduced collection problems, cleaning costs, and contamination risk, and made the product deposit-free and more convenient for the customer (re-closable). Bottles were made in-house, using plastic granulate to make caps and pre-forms that are then blown into bottles. Although 80% of granulate is imported, they increasingly substituted it with recycled material. People sold empty bottles directly to the factory, and supply was growing fast. They introduced other soft drink flavors, and the new factory also took over part of the existing drinking water business.

The financial capital *came from Mr. Bakhresa's pocket* (M1, 2012), i.e. from returns on existing businesses. Other success factors reportedly included *the team* (M1), i.e. the people running the business, and the right choice of equipment, methods, and materials, e.g. state-of-the-art machines, a plant that is ISO 22000 certified, and linkages to international partners. These *right choices* were based on support from the chairman, and *the way he is doing things* (M1, 2012). When internationally experienced M1 joined Bakhresa, he had the idea for the CSD plant, and used his network to get other international managers and experienced engineers on board. Furthermore, he contacted local universities to send him their best students for industrial attachments and potential future employment, thus creating motivation and learning opportunities through proper exposure to what is happening *on the ground*. He was African, but had in-depth international experience and *good exposure* (M1, 2012) in the industry which he thought benefitted the company and was necessary to initiate the innovation. He hoped that local managers will eventually take over as he and other expats mentor and train them, but also emphasized his own learning experience and sense of achievement. He felt he made a big impact in the Tanzanian industry, and appreciated the open-mindedness of founder who allowed him to work on his dream. M1's own daughter had just started a small but successful business. He attributed her success to starting with the customer in mind, which he thought many of her fellow Tanzanian entrepreneurs are lacking in order to counteract capital and efficiency constraints.

AZAM itself had to deal with a number of implementation challenges. An emerging middle class had started to change its consumption patterns, and e.g. wanted soft drinks. However, customers did not get them when they wanted them due to weak distribution channels. To *push the product into the markets* (M1, 2012), AZAM thus relied on its existing distribution channels for water and ice-cream, i.e. small kiosks and independent agents, including mom-and-pop stores, and streets hawkers on AZAM ice-cream bikes. Unlike alternative channels, those channels had to a certain degree already been established. They hired a marketing manager, but he was more involved in sales and distribution than in promotion. With demand on the rise, they needed to *go quietly* (M1, 2012) on their marketing efforts until production and distribution capacity caught up. Likewise, exports of CSDs were to be increased from a mere 5 % only after the local market was served. The adjacent pulp plant faced an analog problem on the supply side. Farmer capacity and procurement channels had not yet caught up, and additional imports were necessary to meet the plant's capacity. Biogas production was not yet

successful, but not off the table. Plans for *new dream projects* (M1, 2012) to locally meet the demand were in the making. However, even though opportunities are abundant, there was a risk of having too many things going on at the same time. This is in line with the executive director's view on a conservative and synergetic growth strategy building on affordable high quality products for the emerging middle class, modern technologies, and efforts to hire, empower, and nurture the right employees. Specifically, the group communicates that they have the financial foundations to grow exponentially and *make a massive impact* across Africa, but manpower remains their biggest restriction. Hence they prefer to *act in a conservative way to grow naturally and with synergies* (EX, 2012).

By 2013, international brands had reacted and introduced plastic bottles. Yet Bakhresa group continued to *spread its wings* (Bakhresa, 2013) over East Africa. Annual turnovers had reached 600 million USD, and the conglomerate listed 5000 directly associated employees. The group strongly focused on inter-group trading among sister companies in food and beverages, transport, packaging, logistics, energy, and recycling, followed by outsourcing remaining production capacities. They had operations in 9 East African countries (Bakhresa, 2013), hence the consumer vision was to innovate and achieve brand recognition of AZAM as *an African success story* (EX, 2013). Furthermore, the executives wanted to create role models for young Africans, showing them that there is a way out of poverty. Their corporate social responsibility (CSR) efforts include a food fortification program, and training and education facilities for a football club initiated by their employees. This lifted the club to the country's premier league.

### **FINDINGS: MANY OPPORTUNITIES, ONE BIG CHALLENGE**

The two growth narratives provide insights into opposing ends of the entrepreneurial activity spectrum in Tanzania. Mary is a microentrepreneur trying to make ends meet. Yet she is also an emerging business woman that took her children to school, expanded her operations, and positioned herself in her micro business environment. Mr. Bakhresa can rely on his well-educated sons and expat managers, and is an internationally successful businessman. Yet he also started out micro, is conservative in his growth strategies, needs to overcome procurement and distribution challenges, and struggles with manpower. There are thus differences and similarities between them, in particular with regard to resources and implementation uncertainties (what they have), new entrepreneurial growth strategies (what they do), and new roles and identities (who they become).

#### **Resources and Implementation Uncertainties**

Both cases are influenced by resources and implementation uncertainties, i.e. uncertainties about how resources can be organized to exploit opportunities (cf. Shane, 2003). In terms of human resources, African micro-entrepreneurs tend to have low levels of education that constrain growth (Mead & Liedholm, 1998; Nichter & Goldmark, 2009). Both our entrepreneurs have dropped out of school at the age of 14, and relied heavily on learning by doing (Arrow, 1962; Cope & Watts, 2000), and learning from others (Lévesque, Minniti, & Shepherd, 2009; Wang & Chugh, 2013). They needed to justify their activities and gain support from customers and resource providers (Aldrich & Fiol, 1994; Alvarez & Barney, 2007), which emphasizes social network resources (Khaire, 2010). Similarly, they started with zero technological, and very limited financial resources. They relied on survival strategies (Downing, 1991; Nichter & Goldmark, 2009), bootstrapping (Bhide, 1992; Ebben & Johnson, 2006), and making do with what is at hand (Baker & Nelson, 2005) to generate cash and knowledge with what little they had. This need to gain support and experience in light of persistent resource constraints is a well-known problem related to entrepreneurial growth, and the liability of newness and smallness (e.g. Aldrich, 1999; Ketchen, Ireland, & Snow, 2007; Stinchcombe, 1965). Thus, Mary and Mr. Bakhresa's start-up problems are conceptually very similar to those faced by entrepreneurs in general, yet their

growth problems are exacerbated by contextual conditions that increase implementation uncertainties, or what Mr. Bakhresa's son named *the big challenge of catching up with the developments taking place around them*.

First, the Tanzanian business environment is gradually becoming more conducive to growth (Chironga, Leke, Lund, & van Wamelen, 2011; MIT, 2002), but how to harness that potential? Rising local production and consumer demand seems to create more favorable value chains, and business support programs are increasing. Mary could leverage on cluster participation to acquire skills, resources, and technologies to build basic exploitation capabilities (Nichter & Goldmark, 2009; Schmitz, 1999). Yet she now faces growth constraints that largely arise out of a lack of appropriate complementarities. She is lacking affordable and continuously available packaging material, as well as knowledge about regional distribution channels, issues little discussed in the extant global value chain literature (Gereffi, Humphrey, & Sturgeon, 2005). Furthermore, internally she is only starting to learn how to keep records. On top of a lack of accounting skills, she does not have access to information technology to help her keep track of her accounts in a way that facilitates improved decision-making, and not only compliance with external requirements (e.g. in Mary's case from funding organizations). This seems to be a common problem among Tanzanian SME owners (Mwakujonga & Bwana, 2013). Furthermore, she would like to have her own facilities to save time and costs, and escape uncertain rents that have to be paid for a year in advance, and may suddenly increase if the landlord sees business success. This aspect of uncertainty in complementary contractual arrangements deserves more attention (Cadstedt, 2010). Finally, the investments she wants to make require larger funds. Commercial loans are increasingly available, but make little sense to her. There is thus a need to discuss how loans, even if increasingly available, are not conducive, as well as not perceived as conducive, to growth (Bradley et al., 2012; Powell, 2008; Rosenberg, Gonzales, & Narain, 2009). Mary believes that a loan is not good for building, and entrepreneurs like Mr. Bakhresa may refrain from conventional loans (even though not even available when he started) for religious reasons (Egbert, 1998). More conducive funds come from informal loans (Spring, 2009; Webb, Tihanyi, Ireland, & Sirmon, 2009), microfinance (Webb, Kistruck, Ireland, & Ketchen, 2010) or government and donors (Biggs, 2002), but on a scale unlikely to be large enough for building complementary channels and efficient processing facilities that meet regulatory and trade standards. After all, food processing is an industry in which small firms face particular growth disadvantages in meeting economies of scale and complementary asset ownership, e.g. efficient processing factories, quality management systems, and distribution capabilities (Acs & Audretsch, 1990; Teece, 2007).

Furthermore, Mary currently thinks she will worry less once she has a car, facilities, equipment, and managers, but might be in for an unpleasant surprise. At present she seems to be able to handle management and organization of her micro businesses, but her large competitor faces challenges. Bakhresa group is by now a conglomerate that can afford to hire experienced expat managers, invest in accounting systems, research and development, and acquire latest technologies and standards with the help of international expertise. Yet AZAM has to be conservative in its marketing efforts because efficient procurement and distribution channels for new fast moving consumer goods are not yet established. For example, even if Tanzanian customers want and can afford the product, actually getting it, and getting it at the set retail price, can require quite an effort, which developed country entrepreneurs in contexts of 24-hour stores and online orders may be less aware of. Furthermore, intangibles are difficult to build, even if financial capital is available (Iacobucci, 2012). Human resource management challenges Bakhresa group, and is in general little understood in African contexts (Kamoche, 2011; Zoogah & Beugré, 2013).

### Entrepreneurial Growth Strategies

Let us thus briefly discuss their growth strategies under resource constraints exacerbated by implementation uncertainties, i.e. uncertainties about how resources can be organized. Although both entrepreneurs describe viable business opportunities and underserved markets, the vehicles for exploitation are difficult, albeit not impossible, to build.

Growth disadvantages in industries such as food processing do in general not keep entrepreneurs from entering, and can be partly offset by innovative growth strategies (Acs & Audretsch, 1990). Albeit on different scales, both entrepreneurs have found ways to grow innovatively through what Mary labels curiosity, and Mr. Bakhresa's son an entrepreneurial mindset (Haynie, Shepherd, Mosakowski, & Earley, 2010). Both entrepreneurs emphasize customer orientation, and benefitted from starting their businesses in (semi-)urban environments that exposed them to customers with purchasing power, more knowledgeable community members, donors, and business networks (Jack & Anderson, 2002). Their skills for identifying and rationalizing opportunities to acquire resources are thus also similar to those deployed by entrepreneurs in developed countries (Cornelissen & Clarke, 2010). However, in Tanzanian food processing, the growth challenge is to find an innovative way to build complementarities and organize growth.

So far markets seem to tolerate inefficiencies and absorb many micro entrants. However, the environment is changing. Mary has never heard of complementary assets, yet she is well aware that she does not have the resources that would allow her to fully exploit market opportunities in food processing and stand against upcoming competitors that can invest in complementary assets (Teece, 2007). It is striking to see how she, without looking at any management textbook, actually responds to her situation. First, she tries to make her products unique (Porter, 1996). Next, she builds a workable business model through vertically integrating her maize production to reduce transaction costs (Williamson, 1979), and diversifying horizontally to counter steep cyclicity and cash flow problems through the wedding decoration business. This business is more conducive to entrepreneurial creativity and smallness, i.e. seasonality, low capital requirements, relative labor-intensiveness, non-repetitive production processes, and small production volumes (Staley and Morse, 1965). She also draws from the same pool of casual workers for both businesses, thus reducing uncertainties and improving performance through established routines (Nelson & Winter, 1982). This helps her to stay away from loans but still generate slack resources to develop her own opportunities (Bradley, Shepherd, & Wiklund, 2011). She experiments but is careful in assessing her current capabilities against market opportunities, i.e. she works with what she has and invests no more than she can afford to lose, before she takes the plunge (Venkataraman, Sarasvathy, Dew, & Forster, 2012). If we look at Bakhresa group and its entrepreneurial history, we see a similar portfolio strategy (Iacobucci & Rosa, 2010; Rosa, 1998). Early on Mr. Bakhresa was adding businesses in order to build internal resources and complementarities step-by-step, and thus reduce implementation uncertainties. He was slowly expanding his portfolio of businesses, e.g. buying the restaurant to sell the bread from the bakery, and starting milling operations to make it. By now the sister companies continue to co-finance each other, and the group grows conservatively and organically through synergies.

From an entrepreneurial growth perspective, both tales thus emphasize a need to focus on growth paths and modes (Leitch et al., 2010; McKelvie & Wiklund, 2010). In particular, it shows that the "big break" and rapid expansion are indeed a myth (Nichter and Goldmark, 2009). We are actually looking at decades of gradual resource accumulation through diversification. Diversification implies trade-offs and reduces operational efficiency gains (Rahmandad, 2011), but in particular in developing countries diversification is recognized as a survival strategy to reduce risk and smoothen income, especially among women, or a trial-and-error strategy of rapid entry and exit, especially among men (Downing, 1991; Khavul, Bruton, & Wood, 2009). Diversification is thus potentially bad for enterprise growth and competitiveness, as well as *per se* not an effective means of achieving income for the

entrepreneur. In this regard, Mary's story reveals a surprising level of intuitive strategic thinking and organization behind these mini-conglomerates of businesses that complement and co-finance each other, and are parented by the entrepreneur, comparable to periods of vertical and horizontal diversification in Bakhresa's early history. Further studies could investigate processes and success factors of diversification as a growth strategy from the perspective of entrepreneurs or entrepreneurial families, instead of the individual enterprise, and thus incorporate a more instrumental view of the firm to see entrepreneurial success and firm success as two overlapping but different spaces (Sarasvathy, 2004; Sarasvathy, Menon, & Kuechle, 2013). In other words, if we measure Mr. Bakhresa's success by how much his seashell business grew, we might be putting the cart in front of the horse (Davidson, 2009). Combining both spaces can address growth barriers and investigate what makes some entrepreneurial portfolios more successful than others, on which dimensions, and through which internal development processes (Leitch et al., 2010; Penrose, 1959).

Such a joint approach to entrepreneurial growth also needs to consider intrafamily entrepreneurship (Discua Cruz, Howorth, & Hamilton, 2013). Bakhresa group success is largely driven by "the team" of well-educated sons who started to put structure and growth into the family business. This aspect seems to be particularly interesting in African contexts of family management, problems with trust, and strong extended family and social network ties with potential positive and negative effects on the business (De Massis, Frattini, & Lichtenthaler, 2012; Khavul et al., 2009; Murphy, 2002; Smith, 2009). In the absence of a state welfare system, strong extended family relationships provide a safety net but also require successful entrepreneurs to provide for other family members (Smith, 2009). For Mary, financing her children's education was a major aim and simultaneously a burden on the business. Now she continues to send money to her relatives and takes care of nephews and nieces that stay with her. Assumably business profits also paid for the education of Mr. Bakhresa's sons, yet Bakhresa group is a striking example for what can happen when educated children join the management team. Future studies could explore this phenomenon in relation to uncertainties and knowledge transfer processes in family management teams (Dahlander & McFarland, 2013; Reagans & McEvily, 2003).

### **New Roles and Identities**

Finally, let us briefly discuss new roles and identities with regard to their legitimacy as entrepreneurs, in order to get an idea of who they become (cf. Webb et al., 2009). With regard to gender, female entrepreneurs can be expected to face additional growth constraints due to asymmetrical rights and family responsibilities (Amine & Staub, 2009; Downing, 1991; Nichter & Goldmark, 2009; Spring, 2009). Their enterprises tend to be located within the household and grow more slowly than enterprises run by men (Mead & Liedholm, 1998), however, women tend to operate more effectively and consistently (Downing, 1991, Nichter & Goldmark, 2009), and increasingly see themselves as part of Africa's new generation of opportunity-oriented entrepreneurs (McDade & Spring, 2005; Spring, 2009). Mary's story supports these arguments. Interestingly, she cannot rely on a husband for support, however, she also does not have to share rewards and find ways to limit the husband's influence (Khavul et al., 2009). Actually she is becoming a local role model for female microentrepreneurship. On local TV, she emphasized their contribution to family income, and particularly addressed their husbands, who often do not want their wives to become entrepreneurs. These efforts can contribute to legitimizing female entrepreneurial activity in her community. Moreover, she sees herself as a general ambassador of change to make people eat healthy, understand how products are produced, and teach her young workers financial responsibility. This adds an important institutional change dimension to her activities (Garud, Hardy, & Maguire, 2007), even if her individual enterprises do not significantly contribute to economic growth (Liedholm, 2002).

With regard to legal and community legitimization, Mr. Bakhresa's very early entrepreneurial activities were assumingly informal. Now we are looking at a complex group structure, family

shareholders, brands and trademarks, and potential lobbying power. Mary on the other hand finds herself pushed and pulled into legal formality, but increasingly understands that on top of legal compliance there is also a business law, i.e. a need to consider formality in operations on top of business registration. Furthermore, when looking at ethnicity, Mary does not belong to the tribe traditionally associated with doing business, the “Chagga” from the North of Tanzania (Arens, 1973; Molony, 2009). Yet through her cluster and community engagement she is increasingly seen, by herself and by others, as an entrepreneur. Furthermore, Mr. Bakhresa has Indian roots. Belonging to Asian subcultures is associated with a better position for entrepreneurship due to network ties, group cohesion, mobility, and education. However, it is also associated also with inter-ethnic and religious conflicts (e.g. competition with the “Chagga”), and negative and restrictive effects of social networks (Egbert, 1998, 2009; Kristiansen, 2004). If the strategy is to develop AZAM as a Tanzanian and African consumer brand, and Bakhresa as a role model for every young African, we may thus be looking at a similar change in identities and legitimization efforts on the side of Bakhresa group, e.g. through their CSR efforts (especially their football team, considering the role of football in Africa), to position themselves as an African business beyond ethnic belonging.

## CONCLUSIONS

For practitioners, case insights show that support programs need to facilitate learning through experience (Cope & Watts, 2000), notably through exposure to gain a first-hand understanding of e.g. how products are produced and packed. Building processing facilities is thus an important element of facilitation under resource-constraints, provided that product differentiation, business models, and ownership forms are considered. In this regard, registration of a business name and getting a tax card has become easier, but does not automatically translate into *business law*, i.e. business processes and procedures. Programs should go further beyond product differentiation and legal formalization, in order to nurture skills for implementation. For example, similar to Bakhresa’s expat managers who train local staff on the ground, entrepreneurs like Mary could benefit from e.g. volunteers with business experience who work with her on-site to improve her business model and processes. Such practices could be supported by the development of affordable information and income management tools. However, they should not overlook that entrepreneurs have intuitive business knowledge, and do more than they explicitly know (Polanyi, 1967). Moreover, there is a need to develop a joint understanding of entrepreneurial and enterprise growth paths, especially in capital intensive industries. Integrating long-term perspectives for program participants, including their options to diversify into other businesses, employment, or social entrepreneurship, may help to focus on the entrepreneur at large, and contribute to overcoming allocation problems associated with picking winners and making assumptions about growth objectives (cf. Nichter & Goldmark, 2009).

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## EFFECT OF MANAGEMENT BEHAVIOURS AND ENVIRONMENTAL DYNAMICS ON MARKET ORIENTATION BEHAVIOURS AMONG BOTSWANA'S SMALL SERVICE FIRMS

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### ABSTRACT

Market orientation has emerged as a significant antecedent of organizational performance and is presumed to contribute to the long term success of a firm. Growing number of academic studies on market orientation and mixed findings they have reported complicate the efforts among managers and academics to identify the real antecedents of this construct. The results show that there is a positive relationship between top management emphasis, interpersonal connectedness, market turbulence, competition and market orientation behaviours of small service firms. Centralization component of management behaviours among small service firms was however found to have positive relationship with market orientation attitudes of small service firms. This contrast with extant findings in developed economies. This study thus explicates some new insights and questions on this important strategic direction.

**Keywords:** Management behaviours; Environmental dynamics; Market Orientation.

### INTRODUCTION

Market orientation is a popular term used by marketing practitioners as an indicator of the extent to which an organization implements the marketing concept Kholi and Jaworski (1990). Rojas-Mendez, Kara, & Spillan (2006) thus concluded that the concept of market orientation has appealed to generations of managers and has been one of the marketing's most influential ideas.

Many small service organizations experience difficulties in becoming market oriented. Most studies on small service organizations have been conducted in developed economies. Extant market orientation research has mostly addressed the antecedents of market orientation in organizations in developed countries (Avlonitis & Gounaris, 1999; Jaworski & Kholi, 1993; Kirca, Jayachandran, & Bearden, 2005). It is imperative that we study structures, systems, and behaviours of small service firms, most especially in developing economies, because they have the potential to redefine the interaction between firms and society Zahra, Ireland, & Hitt, 2000). However, antecedents that affect market orientation, especially in developing economies, most especially in Botswana, have seldom been addressed. Thus, this research is consistent with calls by (Kholi, Jaworski, & Kumar, 1993; Narver & Slater, 1990) that the robustness of any model of market orientation should be studied using other organization types in order to gain valuable insights, most especially in small service organizations in developing economies. This study is guided by these and other calls and critiques. The result of this study

will thus contribute to our overall knowledge of factors facilitating and impeding market orientation in the small service firms, most especially in Botswana.

While the body of research on consequences of Market orientation is large, relatively little research has investigated its antecedents. Thus, the research is not only focusing on the consequences of market orientation among Botswana's small service firms, but more specifically tried to identify the principal types of management behaviours which affect the extent to which a company can successfully achieve market orientation. It does not also intend to develop an exhaustive list or typology of management behaviours and environmental dynamics, but rather to review principal management behaviours that inhibit or encourage market orientation in Botswana. The study therefore makes an important contribution to achieving a better understanding of the real problems that managers of small service firms face in achieving market orientation and customer focus behaviour in Botswana.

This research attempts to significantly contribute to the theory and practice of market orientation by investigating the effect of management behaviours (Senior management characteristics, organisational characteristics, and Interdepartmental Dynamics) on the level of market orientation of SMMEs service firms in Botswana and also establish if environmental dynamics (Competition, Market turbulence, Technology, and General Economy) have significant effect on the level of market orientation of Botswana's SMMEs service firms.

The study contributes to the service literature in three ways. Firstly, it enhances our knowledge of the management behaviours and environmental dynamics of market orientation in service organizations whereas extant research has mainly investigated the consequences of market orientation. Secondly, it also increases our understanding of structures, systems, and behaviours of service organizations in the small service sector in Botswana. Thirdly, this study points at the importance of change capacity factors for market orientation in a service industry, most especially in the small firms delivery services in Botswana. Essentially, it shows that the level of control over quality and improvements in key processes-a factor largely overlooked in earlier empirical research in market orientation is crucial for becoming market oriented.

## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

Several propositions pertaining to antecedents have not only being proposed by Kholi and Jaworski (1990), but they have being empirically validated by them. Top management reinforcement of the importance of market orientation is likely to encourage employees to track changing markets, share market intelligence, and be responsive to market needs. The top management factors include the top managers' emphasis on customer needs. MO is developed when a firm emphasizes the importance for managers to track market changes, share market information with others, and be responsive to market needs. In addition, top managements' willingness to take risks drives the firm towards MO. Such willingness is necessary because responding to changing markets often requires the introduction of new products. Risk taking is intrinsic to innovation and is related to a firm's knowledge creation capability (Pulendran, Speed, & Widing II, 2000). Jaworski and Kholi (1993) proposed that risk aversion depresses market orientation by discouraging the development and the implementation of strategies and acceptance of reasonable risks. Kuada & Buatsi (2005) thus postulate that risk is a multidimensional construct that comprises perceptions of outcome uncertainty, outcome likelihood, and potential outcome range.

Kholi and Jaworski (1990) also argued that if top management demonstrates willingness to take risks and accept occasional failures; junior managers are more likely to propose and introduce new offerings in response to changing customer needs. Likewise, Kholi and Jaworski (1990) concluded that, if top management is risk averse and intolerant of failures, subordinates are less likely to focus on

generating or disseminating market intelligence or responding to customer needs. So we hypothesize thus:

*Hypothesis1. For small service firms in Botswana, the management behaviours are significantly and positively related to the level of market orientation.*

*Hypothesis1a. The senior management characteristics are significantly and positively related to the level of market orientation of small service firms in Botswana.*

Another antecedent is the organisational systems: centralisation, formalization, and firm reward systems. Jaworski and Kholi (1993) theorized that centralization aids implementation but hinders market orientation by reducing intelligence generation, dissemination, and response design. Burgess and Nyajeka (2007) analogously postulated that embeddedness within organisational structures, preferences for hierarchy, and reward systems which are common characteristics in LICs, potentially have positive effects on market orientation. Jaworski and Kholi (1993) theorized that formalization would have two effects on market orientation. First, it would inhibit market orientation by enmeshing people in rules and procedures that discourage acquiring and sharing information and participating in developing market –oriented policies and procedures. Second, it would encourage implementing market-oriented strategies. Burgess and Nyajeka (2007) concluded that previous research, though scant, supports this contention. Centralization and formalization could thus, limit flexibility and the communication and utilization of information across departments, thereby inhibiting the development of MO. However, Jaworski and Kholi, (1993) were unable to confirm the hypothesized links and neither could Kirca, Jayachandran, and Bearden (2005) in their meta-analysis. Kuada and Buatsi (2005) did not find significant links between formalization and market orientation in Cote D’Ivoire or Ghana. And Burgess and Nyajeka (2007) concluded that formalization is not incompatible with LICs cultural priorities. Thus, they concluded that the presumed rationale underlying the hypothesized negative effects of formalization on market orientation does not obtain in LICs. Accordingly, people in LICs prefer to rely on written rules in working relations (Licht, Goldschmidt, & Schwartz, 2005; Smith, Dugan, Peterson, & Leung, 1998). We thus hypothesize that:

*Hypothesis1b. The organizational characteristics are significantly and positively related to the level of market orientation of small service firms in Botswana.*

The interdepartmental dynamics such as interdepartmental conflict and connectedness have been found to be related to MO. Burgess and Nyajeka (2007) concluded that interdepartmental conflict refers to disagreements and struggles for control between functional areas of the firm. Jaworski and Kholi (1993) hypothesized that it reduces market orientation by hindering information flow and cross-functional cooperation. Smith et al (1998) notably concluded that where hierarchy and embeddedness are high, interdepartmental conflicts are discouraged and disputes typically are mediated by senior managers. This is consistent with Cano, Carrillat, and Jaramillo (2004) who argued that cultural embeddedness and hierarchy should have a beneficial effect on organisational structures, processes, and information sharing, so that interdepartmental conflict would be minimized and not have a negative effect on market orientation. The meta-analysis of Kirca et al (2005) confirmed the bivariate relations of interdepartmental conflict and market orientations, but no effect was observed when multivariate antecedent relations were assessed. However, constructive interdepartmental connectedness can facilitate the dissemination of information. It is hypothesized that:

*Hypothesis1c. Interdepartmental dynamics (such as interdepartmental connectedness and conflict) are significantly and positively related to the level of market orientation.*

External antecedents are environmental factors beyond the organisation. Examples of external antecedents previously found to be significantly related to market orientation are market turbulence (Jaworski & Kholi 1993) and competitive intensity (Avlonitis & Gounaris, 1999) as well as technology. When market turbulence is low, organisations have reduced pressure to adopt a market orientation stance, given the stability in the market and or the lack of effective competition for customers (Zebal & Goodwin, 2011). Technology turbulence means changing degree of technology in products and service. The studies of Kholi and Jaworski (1993) as well as Slater and Narver (1994) concluded that the industry using stable technology depends on market orientation more because this industry has low probability that it can gain competitive advantage through technological advancements. Kholi and Jaworski (1993) found that the lesser the extent of technological turbulence, the greater the extent of market orientation-performance relationship. Also, company under greater competitive environment could become more market oriented than a lesser competitive one (Kholi & Jaworski, 1990; Slater & Narver, 1994). They thus concluded that the greater the extent of competitive intensity, the greater the extent of market orientation-performance relationship. So we hypothesize that:

*Hypothesis 2. For small service firms in Botswana environmental dynamics are significantly and positively related to the level of market orientation.*

*Hypothesis 2a. The level of market turbulence of small service firms in Botswana is significantly and positively related to the level of market orientation.*

*Hypothesis 2b. The level of technological turbulence of small service firms in Botswana is significantly and positively related to the level of market orientation.*

*Hypothesis 2c. The level of competition is significantly and positively related to the overall market orientation behaviour of small service firms in Botswana.*

*Hypothesis 2d. The strength of the economy is significantly and positively related to the level of market orientation.*

## METHODS

The study employed a snowball sample of managers and business owners in the small service firm domain within Gaborone and its environs. The reason for opting for non-probability rather than probability sampling was that the sampling frame of the key informants was not available. In addition, the study was confirmatory in nature in order to improve the understanding of organizational market orientation behaviour in Botswana context. The final pool of small service firms to whom questionnaires were sent totaled 400 and only 249 (constituting over 60% response rate) usable questionnaires were returned by the respondents. The questionnaire was pretested prior to collecting data and respondents were asked to identify items they found unclear, ambiguous or confusing. As a result of the pretest, minor adjustments were made to the questionnaire. Data was collected between mid July 2012 and mid-October 2012. The majority of the respondent personnel were managers; accounting for about 50% of the total. This suggests that most respondents were sufficiently experienced to be able to provide meaningful response to broader policy issues relating to market orientation. After comparing the responses of the early and late respondents, on a number of characteristics, no significant difference was found suggesting that the sample is free from response bias. The sample size and the response rate are consistent with related studies.

The questionnaire and scale measures (MARKOR Scale) were adopted from Kholi and Jaworski (1993) constructs. The items in the questionnaire were measured with the aid of a five point Likert type scale. The management behaviours were measured by items adopted from Jaworski and Kholi (1993). Environmental dynamics were adopted from Jaworski and Kholi (1993), and Gray, Matear, and Matheson (1998). Reliability analysis was conducted on all the multi-items scales to check the internal

consistency of the scales. This study adopted a cut off of 0.5 for Cronbach's Coefficient following Nunnally (1988). Using 0.5 as the cut off is not without precedent. It has been adopted in related studies (Blankson & Stoke, 2002; Blankson & Cheng, 2005). Reliability results have been presented in Table 1. The coefficient alpha values for intelligence generation, intelligence dissemination or interfunctional coordination, and intelligence responsiveness or taking action are 0.63, 0.60, and 0.55 respectively, indicating that the MARKOR scale developed by Kholi and Jaworski (1993) was also a reliable instrument for measuring market orientation in Botswana. The coefficient alpha values of 0.73 for top management emphasis and 0.88 for centralization also confirmed the reliability of Kholi and Jaworski's (1993) scale items for data collection in Botswana. Similarly, other scales including market based reward system, interpersonal conflict, interpersonal connectedness, market turbulence, technological turbulence adapted from Kholi and Jaworski (1993) produced coefficient alpha values of 0.78, 0.62, 0.81, 0.53 and 0.63 respectively, thus indicating that these scales were also reliable for data collection in Botswana.

**TABLE 1**  
**Antecedents (internal and external) of Market Orientation**

Dependent variable: Overall Market Orientation					
Independent variables	B	S.E.	EXP(B)	Sig.	( $\beta$ )
Top Management	1.904	0.658	6.714*	.004	5.71
Centralization	0.618	0.310	1.855***	.046	0.86
Interpersonal Connectedness	0.610	0.364	1.840***	.094	0.84
Market turbulence	1.093	0.350	2.983*	.002	1.98
Competition	0.874	0.306	2.398*	.004	1.40
Constant	-8.859	1.541	0.000*	.000	
Cox & Snell R Square(Adjusted)	0.234				
Nagelkerke R Square	0.312				

Significant at the 0.01, 0.05 level, and 0.1 level as \*, \*\*, and \*\*\* respectively.

## RESULTS AND DISCUSSION

Top management emphasis, centralization, interpersonal connectedness, market turbulence, and competition have been found to be significantly and positively related to the overall market orientation and explain **23%(Table 1)** in the level of market orientation behaviours of service small firms in Botswana. However, formalization, political behaviours, interpersonal conflict, risk aversion of top managers, as well as technological turbulence, level of general economy were found not to be significantly and positively related to the market orientation principles of small service firms in Botswana. Top management emphasis was found to be positively and significantly ( $\beta=5.71, p<0.01$ ) related to market orientation behaviour of small service firms in Botswana. This finding is consistent with Kholi and Jaworski (1990), Jaworski and Kholi (1993), and Pulendran et al (2000). Top managers shape the values and orientation of an organization (Webster 1988). Therefore, without the emphasis of

owners/managers; it would be unlikely to commit necessary resources for small businesses to pursue market oriented activities. Thus, owner–managers of Botswana’s service small firms must provide the resources and strategic direction for small businesses to operate on market oriented principles. The development of market orientation should start with leadership from the owner-managers of small service business in Botswana. This study finding lend substantial support to Narver and Slater’s (1990) results, confirming that top management emphasis have a significant relationship with market orientation behaviour of small service firms in Botswana. This finding also lend credence to Dadzie and Winston (2002) finding in Nigeria and Kenya, in which they found out that top management emphasis on market orientation provides insight into how marginal conditions impact on the applicability of market orientation philosophy in Sub Saharan African Countries. Thus, **hypotheses 1 and 1a** are partially supported in this study.

The regression analysis results, contrary to dominant findings in extant market orientation literature, indicate that centralization among sampled small service firms in Botswana is positively and significantly related ( $\beta=0.86$ ,  $p<0.05$ ), to market orientation of small firms. Thus, this finding partially supports **Hypotheses 1 and 1b** in this study. In other words, centralized organizational structure is cherished among Botswana’s small service businesses studied. While scholars (Kholi & Jaworski, 1990; Ruekert, 1992; Narver & Slater, 1990; Webster, 1988), advocate that organizations must be less centralized to enhance market orientation cultures of firms. Small businesses viewed centralization as crucial for the development and implementation of greater market orientation in their organizations. These results may not be surprising in that, small business deliberation of the market place involves informal, unplanned activity that relies on intuition and energy of the owner-manager to make things happen (Stokes & Blackburn, 1999). This research finding thus contrast with Kholi & Jaworski (1993) findings which suggested that organizational dimension such as centralization tends to hinder the generation and dissemination of information and the design of organizational response. The Botswana study’s findings amongst small service firms is consistent however with Burgess and Nyajeka’s (2007) study in Zimbabwe, in which they found out that centralization has positive and significant association with market oriented behaviours. Cano et al (2004) thus concluded that people in cultures that emphasize embeddedness and hierarchy are more willing to subordinate their own goals to those of others to engage in market oriented behaviours. Burgess and Nyajeka (2007), concluded that embeddedness within organizational structures, preferences for hierarchy, and reward systems, common characteristics in developing economies, potentially counter its negative effects on market orientation.

Interpersonal connectedness was found to be significantly and positively related ( $\beta=0.84$ ,  $p<0.1$ ) to the market orientation effort of small service firms in Botswana. Interdepartmental connectedness is the extent of formal and informal contact amongst employees across the departments of an organization (Zebal et al., 2011). This research finding is consistent with streams of findings in contemporary market orientation literature. Jaworski and Kholi (1993) concluded that interpersonal connectedness fosters interdependency within the organization and encourages employees to act in a concerted manner in the processes of knowledge generation and knowledge utilization. **Hypotheses 1 and 1c** are therefore partly supported in this study of service small firms in Botswana. Interpersonal conflict was however found not to have significant and positive relationship with market orientation of small service firms. These research findings corroborates Pulendran et al (2000) findings in which he concluded that interdepartmental connectedness contributes significantly to higher levels of market orientation and helps a firm to act in a more consistent manner across the organization towards their customers.

Market turbulence was also found to be significantly and positively related ( $\beta=1.98$ ,  $p<0.01$ ) with market orientation behaviours of small service firms in Botswana. This provides support for the propositions of Jaworski and Kholi (1990), and Narver and Slater (1990) and is in agreement with their

findings. Wood & Bhuian (1993), concluded that external environmental factors are perhaps more influential in determining the level of market orientation. Jaworski and Kholi (1993) asserted that organizations that operate in the more turbulent markets are likely to have to modify their products and services continually in order to satisfactorily cater to customers' changing preferences. They then suggested that the businesses operating in more turbulent markets are likely to have a greater need to be market oriented. Pulendran et al (2000) argued that it is imperative that organizations are highly market oriented in conditions of market turbulence. They thus suggested that a focus must be placed on listening and responding to customer's needs and a failure to adapt will render an organization competitively unstable. Appiah-Adu (1997) augmented this by arguing that the influence of market orientation on performance depends on the level of market turbulence. **Hypotheses 2 and 2a** are therefore partly supported in this study of service small firms in Botswana. Pulendran et al (2000) analogously postulated that once customers begin to have the opportunity to switch preferences, market turbulence increases and organizations are forced to adopt a strategy of market orientation if customers are to be retained.

The benefits afforded by a market orientation are greater for organizations in a competitive industry compared with organizations operating in less competitive industries. The level of competitive intensity of small service firms in Botswana was found to be positively and significantly related ( $\beta=1.40, p<0.01$ ) to the level of market orientation behaviour of small service firms. Kholi & Jaworski, (1990), concluded that in the absence of competition, an organization may perform well even if it is not very market oriented. This is because customers are stuck with the organization's products and services. In contrast, under conditions of intense competition, customers have many options, and organizations that are not market oriented will probably lose out. This study is consistent with Avlonitis and Gounaris (1999) findings in which they observed that organizations that considered competitive intensity as market factor found a strong positive relationship between competition and market orientation. Wood and Bhuian, (1993) concluded that the greater the perceived competition, the greater the tendency to adopt a market orientation. These findings concurred with Han et al (1998), in which they observed that organizations in highly competitive environments focus more on learning about competitors, which is a key aspect of market orientation. **Hypotheses 2 and 2c** are partly supported in this study. Thus, Botswana's small service businesses need to elicit competitive actions in keeping customers with the company.

## CONCLUSION AND RECOMMENDATION

Extant market orientation literature point to the importance of management behaviour and environmental dynamics in improving levels of market orientation. The limitation of current theory is the acute paucity into relationship of management behaviours and environmental dynamics among small service firms in developing economy, most especially in Botswana. This gap in the body of knowledge is surprising given that broader body of literature attest to the important role internal and external antecedents' play in market orientation behaviour and organizational performance improvement. The findings of this study lead to a number of interesting implications for theorists and practitioners. As such, this study contributes to empirical verification by explicating management behaviours and environmental dynamics as critical antecedents of market orientation. The research findings thus suggest that the scale items captures the construct of market orientation among Botswanas' service oriented small business environment effectively.

The study findings generally resonate with the results of Jaworski and Kholi (1993), as well as Narver and Slater (1990). It also offers one more support for the robustness of Jaworski and Kholi's (1993) model. However, a closer look into the results reveals some interesting insights. First, the influence of top management traits on market orientation is fairly stable across diverse context. All

replications have been consistent about these relationships (Bhuiyan, 1998; Kuada & Buatsi, 2005). That is, top management is a crucial factor for an organization to be market oriented. Second, organizational factors, both structural and interpersonal, as determinants of market orientation are not completely decisive. This study found interpersonal conflict and formalization not having any roles in the market orientation model. Third, environmental factors play a critical role in the market orientation behaviours of small service firms in Botswana. The findings of this study indicate that higher levels of market dynamism and competitive intensity tend to result in an increased emphasis on market oriented behaviours or strategies among small service firms in Botswana.

The findings of this study support the call for more targeted training interventions where operations are core to the survival of many small businesses. Skills transference by means of training and outcome-based education, using interactive workshops, which are based on action learning and role playing, are recommended. As part of government's initiative to empower and enhance the skills of small business owners, policies should encourage the development of specific functional skills of which market orientation behaviour is central to sustainability.

Based on the findings of the study, leadership of Botswana small service firms should stress on providing the required resources, encouraging the sharing of market based ideas through suggestion schemes and uplifting employees' motivation by formal and informal support in order to make their organizations more market driven. Since interpersonal connectedness reduces employees' conflicts and facilitates the development and sharing of market intelligence. It is therefore advisable for senior management to promote the culture of open communication and boundarilessness which could foster organizational effectiveness and sustained competitive edge.

#### LIMITATION AND FURTHER RESEARCH DIRECTION

From the methodological point of view, the non-probabilistic sample data collection procedure may impose some limitations to the external validity of the findings. Moreover, since it is a cross-sectional data, the results might not be interpreted as proof of a causal relationship but rather lending support for the previous causal scheme. As this study was limited to Botswana, it would be interesting to conduct cross-cultural studies in the future in different developing countries for comparison purposes. For future market orientation studies in Botswana, it is suggested that alternative data from documentary sources such as trade and other publications should be used in addition to subjective or perceived data. Another research direction is to probe into the difference of research model in large companies and small and medium sized firms.

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**END NOTE**

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**BUSINESS MODEL INNOVATIONS FOR INFRASTRUCTURE SERVICES:  
HOW EAST AFRICAN BUSINESS VENTURE CAN DO WELL THROUGH DOING GOOD**

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**ABSTRACT**

Every business model innovation has consequences for business ventures. Business model replication informs service strategies for scaling-up infrastructure services. Our first-order and second-order themes are a useful guideline for managers attempting to implement business strategies in low-income countries. By implementing these themes, business ventures can solve some of the most pressing problems in low-income countries. In our context, business model innovations create not only new markets or compete with market conditions leading to poverty penalties and to deficiencies in affordability, accessibility, acceptance and awareness for services but should be considered from a more fine-grained and dynamic view. Our emphasis on business model innovation avoids a pure assistance approach. Our findings are based on qualitative data.

**Keywords:** Business model; Innovation; East Africa; Services; Inclusive; low-income countries

**INTRODUCTION**

The discourse on Africa's low-income segment has changed from talking in terms of "victims and supplicants for aid" towards being "value conscious consumers and resilient entrepreneurs" (Karnani 2007; Hart & Christensen 2002). This shift has increased the consumption such as mobile phones, televisions, washing powder, shampoos and so on in the low-income segment (Hammond, Kramer, Katz, Tran & Walker 2007; London & Hart 2010). However, increasing consumption raises the question of whether it can improve wellbeing if this segment does not have basic amenities of life such as energy, sanitation, and water. Too often, such infrastructure services fail for the low-income segment in quantity and quality (JMP 2012; Massa 2012). The low-income segment either lacks access to energy, sanitation, and water services or suffers from a poverty penalty, where the low-income consumers pay multiple times more than their richer counterparts (Acosta, Namsuk, Melzer, Mendoza & Thelen 2011; Mendoza & Thelen 2011; Prahalad & Hammond 2002).

Recent literature on 'inclusive' business models has newly inspired the understanding of organizations serving the low-income segment (Cooney & Shanks 2010). It is important to understand how business ventures can succeed and create wellbeing in terms of making energy, sanitation, and

water markets more inclusive and of helping the low-income segment to lift itself out of poverty. This article continues with a conceptual foundation of inclusive business model innovations. The article proceeds with an explanation of our research methodology followed by a presentation of the results. Finally, we discuss the theoretical, managerial, and social implications, as well as the limitations of the study.

### **CONCEPTUAL FOUNDATION OF 'INCLUSIVE' BUSINESS MODEL INNOVATION**

'Inclusive' business models originate from the economic development literature. Business models address the core logic of an organization and its strategic choices for creating and capturing value (Demil & Lecocq 2010; Shafer, Smith & Linder 2005). A business model is a set of capabilities that are configured and continuously developed to enable value creation consistent with 'inclusive' growth criteria. Firms need to identify, locate, and create access to the low-income segment, reframe constraints, develop necessary capabilities, and enact new business models, which would finally lead to inclusive growth (George, McGahan & Prabhu 2012).

Business model innovations play a vital role for multinational enterprises (MNEs) which are interested in tapping business opportunities and serving the previously marginalized low-income segment (Hart & Christensen 2002; Prahalad 2004). Indigenous firms, or in other words, local service entities such as micro, small, and medium-sized enterprises (MSMEs) must also be innovative in their business models, in order to achieve sustainable business growth (Beck, Demircuc-Kunt & Levine 2005; London & Hart 2004; Yunus, Moingeon & Lehmann-Ortega 2010).

The term 'inclusive' is a boundary condition for business model innovations (George et al. 2012). There are three criteria for 'inclusiveness': (i) access to the service, (ii) human development impact, and (iii) financial viability (Mendoza & Thelen 2008). Improved access means that markets become more inclusive, if even the lowest-income levels can afford and access services. Income levels range from less than \$5 up to \$10 per day income (Hammond et al. 2007; Halme, Lindeman and Linna 2012). Human development impact means that businesses contribute to such development in terms of economic, environmental, and social benefits (Norman & MacDonald 2004). For profit-oriented firms, financial viability means breaking even and, for some firms, even attaining profitability with a competitive rate of return (Mendoza & Thelen 2008; George, McGahan & Prabhu 2012). For non-profit organizations, financial viability would mean passing on all savings and profits to expand services.

Business model thinking offers four advantages. Firstly, a business model is a holistic concept, which integrates social- and profit-oriented motives into consistent, overarching strategic goals (Seelos & Mair 2007; Thompson & MacMillan 2010; Yunus, Moingeon & Lehmann-Ortega 2010). Firms cannot succeed in doing business with the low-income segment, if they only attempt to achieve profit-oriented goals. Social-oriented goals such as creating jobs, improving living conditions or economic empowerment are equally important. However, there are sometimes inconsistencies among social- and profit-oriented goals. Non-profit organizations, social businesses, or profit-oriented firms actually compete with each other in the low-income segment. Business model thinking can integrate social and profit-oriented goals effectively (Seelos & Mair 2007).

Secondly, business model innovations can create revenue structures that match the volatile cash-flows (Anderson & Markides 2007). Because customers receive their income on a daily rather than a weekly or monthly basis, a business model based on a pay-per-use approach is a promising option. Thirdly, business models can make markets more inclusive for the poor by depicting different value creation options (Hart & Christensen 2002; London & Hart 2010). Such value creation options can shift the role of the low-income segment from a passive consumer to being actively involved in value creation. Typical illustrations would be consumers becoming service delivery partners, distribution channels, or service promoters (Karnani 2009; London, Anupindi & Sheth 2010).

Fourthly, business model innovations can overcome resource constraints (Chesbrough, Ahern, Finn & Guerraz 2006; Yunus et al. 2010), because it considers organizations as integrated into business ecosystems (Sachnez & Ricart 2010). Typical illustrations of business ecosystem actors refer to NGOs (non-governmental organizations), local, regional and central governments, and academic partners, as well as private actors in terms of business associations, donors or other firms (Gradl & Jenkins 2011; Hammond 2011). Partnerships in the business ecosystem can create shared distribution channels and novel marketing practices together with NGOs. Governments can be encouraged to invest in common goods such as education, basic technologies, transportation and so on (Arnould & Mohr 2005; Dahan, Doh, Oetzel & Yaziji 2010; Gradl & Jenkins 2011). Combining resources through partnerships contributes to customer awareness and acceptance as well as making services more affordable and more widely accessible (Vachani & Smith 2008).

Despite the vital role of business model innovations (Sanchez & Ricart 2010; Yunus et al. 2010), the literature remains relatively silent about how to implement them (Seelos & Mair 2007). The main focus is on resource scarcity and severe challenges (Halme et al. 2012). Firms face constraints such as an inability to access raw material or the marketplace, market power imbalances, and problems conducting secure and consistent transactions (London et al. 2010). Additional external challenges refer to regulatory failures including with respect to taxes, corrupt practices or institutional failures in creating sufficient demand or in offering business support services (Sleuwaegen & Goedhuys 2002).

Internal resource scarcity suggests that African MSMEs face deficits when it comes to management and technical competences (Nichter & Goldmark 2009; Rivera-Santos & Rufin 2010; Sonobe, Akoten & Otsuka 2012). Some of these firms remain deliberately small, because they belong to the category of informal firms, which attempt to avoid official registration, tax payments and attempts at legitimization.

The concept of “bricolage” is a response to resource scarcity and a promising way to innovate business models (Halme et al. 2012). Bricolage is a bottom-up approach that respects the capabilities already existing in the low-income segment. Firms improvise in business model innovations by using capabilities with which they are intimately familiar and recombine them with resources they already possess (Halme et al. 2012; Baker & Nelson 2005).

Business model innovation (Anderson & Markides 2007; Seelos & Mair 2007) can be synthesized by three common assumptions. First, business model innovations aim at the creation of markets. It is not only about new ways of pricing, promoting, partnering, delivering or distributing services. It is mainly about creation of markets where needs already exist, rather than creating needs in existing markets (Anderson & Markides 2007; London & Hart 2010). Such a market creation would entail considerable risks. Thus, it is argued that it is best to start with small investments and, then, once the business model innovations yield promising results, they should be replicated and scaled-up (Simanis & Hart 2006; Thompson & MacMillan 2010). As a result, the second assumption is that, to make it less likely that consumers will not accept the services, firms will attempt to achieve incremental improvement in customer value. Incremental improvements may be more easily be accepted by consumers, conform to existing consumer practices and would also need less investment in awareness building (Karnani 2009). Third, business models are intended to scale-up. As a replication strategy, scaling-up starts with refinements to business models, followed by stabilizing the model and leveraging through large-scale replications. Throughout this process, business models and the underlying capabilities become more and more specialized (Teece 2010). It is assumed that businesses in low-income countries should scale-up single, highly specialized business models, rather than multiple models. Multiple business models would divert rare capabilities to too many different strategic directions (Dunford, Plamer, & Benveniste 2010; Winter & Szulanski 2001).

## RESEARCH METHODOLOGY

Given the relatively unexplored nature of business model innovation, we adopt a qualitative research strategy (Eisenhardt 1989). Our qualitative research attempts to apply constructs of business model innovation to the context of infrastructure services. We use strategy canvases such as key partners, key activities, key resources, value propositions, customer relationship management, marketing and distribution, customer segments, cost and revenue structures for describing business model elements (Osterwalder & Pigneur 2010).

The strategy canvases are based on capabilities for initiating and implementing innovations in the business model. Capabilities include employee skills to deliver infrastructure services or entrepreneurial capabilities for modifying business models (Teece 2010). Such capabilities refer to the creativity, entrepreneurial alertness and problem-solving skills necessary to modify business models in response to changes in the business environment. Capabilities are also linked to the various business model elements. They can, for example, include competencies for service delivery as part of the key activities, or can refer to the ability to manage distribution activities as part of distribution and marketing (Teece 2010; Yunus et al. 2010). The barriers and facilitators portray the strategy canvas for key partners in the business ecosystem. They determine whether or not business models will generate scale impacts (Georg et al. 2012).

We applied a purposeful sampling approach (Yin 1989), beginning with a search for organizations such as universities, developing agencies, and donors having access to providers of infrastructure services. We identified a variety of MSMEs. These MSMEs range from non-profit organizations (e.g. cooperatives, NGOs and so on), social businesses (e.g., social entrepreneurs or joint ventures between non-profit and for profit), and profit-oriented firms. We subsume all these organizations under the term business venture, because they intend to accomplish financial viability.

Altogether, our search yielded 12 business ventures, which we investigated in detail. Case descriptions are listed in Table 1. The primary data for these 12 case studies were collected through ethnographic method. Such method mixes data collection procedures such as interviews, observations, and participations in workshops and meetings (Arnould & Mohr 2005, Lindeman, Halme, Kallio, Kourula, Lima-Toivanen, Korsunova & Peltonen 2010). We collaborated with local researchers, who are socially embedded in the case study context and were able to accumulate local knowledge. In addition, the authors also participated in interviews, workshops, and meetings and observed day-to-day business practices. We also observed and interviewed customers.

All data are then compiled into case study narratives, which describe the business model innovations (Creswell 2007). Four elements guide the case study development. First, we used a templating process for compiling the case narratives (London et al. 2010). The template positions the business model innovations into a chronological sequence. Second, we used transcription and coding procedures, as outlined in the literature, in the templating process (Strauss & Corbin 1998). Third, two researchers independently compiled the data into the template. Any discrepancies in the template are solved through internal discussions. Fourth, to strengthen construct validity, our local partners reviewed the narratives, and any inaccuracies were discussed with them and changes made accordingly (Eisenhardt 1989; Yin 1994).

The data analysis commenced with the within-case analysis, so that the researchers could familiarize themselves with each case (Eisenhardt 1989). We identified the first-order themes in the narrative descriptions and induced them into second-order themes (Gioia, Price, Hamilton & Thomas 2010). After analyzing the first- and second-order themes for each case, a cross-case analysis synthesized the findings through the pattern-matching logic (Yin 1994).

## **RESULTS: BUSINESS MODEL INNOVATIONS**

To avoid two common mistakes in writing-up qualitative data (e.g., “telling about data, but not showing them” or “showing too much data, and not interpreting it” (Pratt 2009 p. 857), we provide data descriptions underlying the first-order themes in Table 2. For each first-order theme, we have an illustration from one or more case studies, but space consideration permits us to show them in detail. Table 2 shows the structure of the data from detailed first-order themes to provide more general, researcher-induced second-order themes (Gioia et al. 2010). Various interrelated first-order themes form a single second-order theme. The second-order themes served as the basis for the subsequent grounded theory of business model innovations. Various elements of the literature are integrated into the argumentation line, but we discuss the main theoretical implications in Section 5.

### **Scale and Scope of Infrastructure Services**

Our case analysis reveals that scale (A) and scope (B) are two secondary-order themes, which describe the outcomes of services. Scope comprises first-order themes such as the heterogeneity (A1) and complexity of customer benefits (A2). Heterogeneity suggests that improvements in human development come from simultaneous advancements in the various components of economic, environmental, and social needs. Low heterogeneity means that services solve single economic, environmental, and social needs, whereas high heterogeneity is about solving interrelated and multifaceted economic, environmental, and social needs.

The second first-order theme describes the complexity of components necessary to satisfy the economic, environmental, and social needs. Low complexity would refer, for example, to in-house pollution caused by kerosene lamps. Few services are necessary to reduce such in-house pollution. Reducing pollution caused by insufficient waste disposal would constitute a considerably higher-level complexity and require intertwined service bundles. Scale of wellbeing describes the number of beneficiaries reached by the services.

**TABLE 1**  
**Overview of the Business Ventures**

No	Business venture	Organization type	Country <sup>1</sup>	Size	Main services	Main achievements
1	Association of Private Water Operators	Umbrella organization of private water operators	Uganda	Small	Water system improvements Improvements in operating efficiency and sustenance of the water service delivery	Active water connections 34'631 in 2010/11 (+730% compared to 2002/03) Total water supplied 3'805'269 m <sup>3</sup> (+768% compared to 2002/03) Water bill collection efficiency of 86% in 2010/11 (+6% compared to 2002/03)
2	Barefoot Power (Smart Solar)	For-profit social enterprise	Kenya / Uganda	Medium	Solar systems designed to meet the needs of households and business Portable lighting and phone charging solutions	300'000 lanterns and lighting kits to the rural poor in across Africa Leading distributors of solar power in Kenya
3	Eco-Fuel Africa (EFA)	Profit-oriented	Uganda	Small	Recycling of agricultural residue and municipal waste for the production of clean cooking fuel briquettes and bio-char	200 tons of briquettes per year sold for 0.17 \$US/kg
4	Ecotact	Social business	Kenya	Large	Ikotoilet - toilet mall concept to optimize the value of sanitation and provide a sound revenue stream	48,000 people per day using Ikotoilets. 45 ikotoilet malls in 10 towns in Kenya
5	Fuel-efficient stove production	Profit-oriented	Ethiopia	Micro	Production of improved cooking stove (less firewood and charcoal consumption)	Over 2 million disseminated stoves in all Ethiopia through different programs (e.g., AMAREW program in Sekota, Ethiopia, 10 women were trained as a team by the
6	Jellistone Supplier	Profit-oriented business	Uganda	Small	Agricultural farm residues Value-added products 1: Briquette	Current production is just 140 tons per month, but there considerable scope to expand production to 1,060 tons per month from a new briquetting factory and more intensive supply to the existing client base
7	Osho	Social business	Ethiopia	Small	Providing bone char filters to reduce fluoride contamination in	Installation of three community and about 200 household filters

<sup>1</sup> Country refers to the country, in which the services are offered not the country where the business venture originates.

8	PSI (Point-of-Use Water Disinfection Project)	Social business	Kenya	Large	the water filters Chlorine-based water disinfection products and services	Treated 16 billion liters of water.
9	Sanergy	Social business	Kenya	Medium	Installation of toilets, pick-up service and transporting the content to a local composting plant Composting and producing nutrient-rich soil	Installed base of 175 toilets Adding three to five toilets per day
10	Solar Energy Foundation	Social business	Ethiopia	Medium	Promote solar energy lighting in Africa with non-subsidized Solar Home Systems (SHS).	1 million people benefit from the installed solar systems 21,580 solar systems 154 village schools received solar light for classes, which improves the learning conditions for about 150,000 children. 35 health centers were equipped with reliable solar refrigerators for the cooling of medicines as well as with light for better physical examination possibilities.
11	Solar Connect Association (SCA)	Social business	Uganda	Medium	Manufacturing, distribution, and sales of solar cooking devices	100'000 solar cooking devices
12	Top Third Ventures Ltd	Social enterprise	Kenya	Small	Baker Stove replaces the traditional three-stone fire.	Raising funding for first stove production of 1'000 stoves
13	Trunz Water Systems	Profit-oriented	Kenya	Small	Planning, financing, installing, and maintaining water kiosks in Kenya	Installation of four water systems in Kenya

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Corresponding first-order themes comprise the number of services provided (B1), number of installations (B2), number of customers (B3), and income level reached (B4). While these themes quantify the number of the low-income beneficiaries reached, we could not identify common themes on how continuously services are used. It remains unclear whether, for example, stoves are used continuously. Stoves could be abandoned if the income segment can no longer afford the solar power or pellets. Business ventures were very keen on reporting such information, but they lacked the ability to obtain it. Such missing information represents a considerable drawback, which we discuss in Section 5.

### **Business Model Innovations**

As depicted in Table 2, the data analysis reveals five second-order themes on business model innovations: (C) incremental business model innovation, (D) radical business model innovation, (E) business model customization, (F) business model diversification, and (G) business model replication. These second-order themes reflect innovation activities in the business model, which were consistent across a certain number of case studies.

**Incremental business model innovation.** Incremental business model innovation (C) is the first second-order theme on business model innovations. It comprises the following first-order themes: (C1) small and step-wise investments in business model pilots, (C2) co-designing services with the low-income segment, and (C3) development of network partnerships. Incremental business model innovations start by defining promising ideas and exploring them in pilot studies. Pilot studies are conducted in close collaboration with selected communities. Within the co-design activities, the business ventures use observation and interview techniques to better understand consumer needs.

These techniques facilitate assimilative learning (Todorova & Durisin 2007), in which business ventures acquire knowledge on consumer needs and then integrate this knowledge into the service innovation process. Assimilation means that managers learn about the needs, but cognitive structures of how the management perceives the low-income segment are not affected. Managers do not change their general perception on needs among the low-income consumers. This leads mostly to ideas, which improve customer value incrementally and fit into the managerial cognitive perception of low-income consumers. Illustrations refer to substituting kerosene with biomass stoves or improving firewood efficiency in cooking stoves. Incremental improvements are achieved by new services, which consist of new or modified service attributes.

Such incremental improvements correspond to the argument that financial commitments to innovation in low-income countries should start with small investments and be scaled-up once they show promising results (Simanis & Hart 2006). Incrementally improved services require only small changes in consumer behavior, which would avoid some of the barriers to consumer awareness and acceptance.

Developing networks with educational partners and social networks within the pilot communities address the remaining barriers. Educational partners support business ventures to develop 'hard-fact-based' networks, through which they leverage the educational efforts for creating awareness at moderate cost. In addition, business ventures use 'soft-fact-based' partnerships leveraging social and community networks by tapping into the promotional power which opinion leaders or community members might have.

'Soft-fact-based' networks have a positive impact on co-design effort and support the acceptance of the new services. They lay the foundation for a more participatory approach in which the communities share insights into their social structures, needs, and preferences (London & Hart 2004). This participatory approach goes beyond adapting pre-existing solutions to local requirements. The participatory approach is more about adding local content to the service design, and proceeds through the above-mentioned assimilative learning. Participants are open to letting new service ideas emerge. Adding such content is very valuable for increasing the affordability and acceptance of the newly

developed service and its attributes. However, as pointed out above, it normally leads to services which create incremental improvements in the customer value.

The first-order theme on developing network partnerships (C3) is shared between incremental and radical business model innovation. Thus, we do not discuss it in the next section.

**TABLE 2**  
**Business Ventures and Business Model Innovations: X – Observed, (X) Partly Observed**

Secondary-order themes	First-order themes	Number of the business venture												
		1	2	3	4	5	6	7	8	9	10	11	12	13
(C) Incremental business model innovation	(C1) small and step-wise investments in business model pilots													
	(C2) co-designing services with the low-income segment	X	X	X	X	X	X		X		X	X	X	X
	(C3) development of network partnerships													
(D) Radical business model innovation	(D1) resource commitments to achieve radical leaps in customer value, radical business model innovations are formed by following additional first-order themes													
	(D2) decomposing market structures								X		X			X
	(D3) decomposing consumer needs, and													
	(D4) the creative configuration of these decomposed structures and preferences													
(E) Business model customization	(E1) appropriate position of transformative services in the various income levels,													
	(E2) adapting the ‘core’ business model to customer segments, and	X	X		X	(X)		X	X	X	X			X
	(E3) local embeddedness													
(F) Business model diversification	(F1) increasing the share of wallet with existing customers													
	(F2) leveraging existing competencies into new customer segments													
	(F3) leveraging existing competencies into new markets				X			X		(X)				X
	(F4) building new competencies for creating new markets													
	(F5) business models designed as modular subsystems													
(G) Business model replication	(G1) access to additional financial resources, (G2) cost reduction until operational costs are covered by daily revenues	X	X		(X)	X	(X)		X	(X)	X	X	X	
	(G3) securing financial transactions													
	(G4) continuing the business model innovations													

**Radical business model innovation.** Radical business model innovation (D) is the next second-order theme. It is an alternative to the incremental business model innovation and departs from the assumption to start with small investments and then potentially scale-up promising investments (Simanis and Hart 2006). It also reconsiders the common assumption to avoid excessive and fundamental changes in consumer behaviors. Radical business model innovations require higher initial resource commitments. They aim at achieving a radical leap in customer value, which involves major changes in consumer practices.

Besides the resource commitments to achieve radical leaps in customer value (D1), radical business model innovations are formed by following additional first-order themes: (D2) decomposing market structures, (D3) decomposing consumer needs, and (D4) the creative configuration of these decomposed structures and preferences. Business ventures achieving more radical business innovations tend to commit more resources to the exploration of different strategic directions for business model innovation (D1). The investments do not necessarily entail only more financial resources, but are also about more human resources, a greater commitment to work with local partners, or the establishment of longer payback periods. Decomposing market structures depends on management motivation to consider this market structure as endogenous, which can be shaped actively through more radical innovation activities (Jaworski, Kohli & Sahay 2000).

Given the difficult conditions in the low-income segment, sustaining such motivation is far from easy. Because informality, a lack of institutional support, or corruption are all part of the market realities, managers often assume these conditions as exogenous constraints.

Decomposing consumer needs depends on managers' cognitive ability to explore hidden, less obvious and latent consumer needs and preferences. It is less about formalizing needs and service attributes. It is more about learning from consumer narratives on their experiences in the evaluation, purchase, and use of services. Narratives on consumer experiences are not restricted to individuals, but are rather integrated into family, group, and community experiences. Gaining a deep understanding of latent customer needs and preferences is largely about exploring social networks and discovering interactions between experiences of individuals, families, social groups, and communities. Transformational learning decomposes not only customer needs, but also changes the existing cognitive structures of managers (Todorova & Durisin 2007).

Transformational learning enhances the configuration of market structures and consumer preferences into radically new services. The configuration may be achieved by adding or eliminating knowledge on market structures and customer needs, or by interpreting and combining this knowledge in innovative ways (Camison & Fores 2010). The cognitive abilities of teams decomposing the market structures and consumer preferences benefit from different gender, types of experience, knowledge backgrounds, job roles, and so on. The actual role of consumers is somehow limited in such a new configuration of market structures and consumer needs. It is, of course, very important to let them participate in the innovation process. Business ventures have to observe and interview these consumers, and discuss their new ideas with them. However, these consumers will not be the ones expressing the radically new ideas, which create a leap in customer value. Radical innovations come from experienced teams in the business venture, which transform their insights into market structures and needs into innovative solutions.

Both the incremental and radical business model innovations create a 'core' business model, which is preceded by business model customization (4.2.3) and/or business model diversification (4.2.4). **Business model customization.** The third second-order theme is about business model customization (E). The basic idea is that the 'core' business model is customized according to the specific customer segments. Business model customization covers three first-order themes: (E1) appropriate position of infrastructure services in the various income levels, (E2) adapting the 'core' business model to customer segments, and (E3) local embeddedness.

Local embeddedness is a result of the ‘soft-fact-based’ networks (London & Hart 2004: 164) described local embeddedness as “social embeddedness” or “native capability” and define it as “... the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom up development, and understand, leverage, and build on the existing social infrastructure.” It is about creating trust and reputation at the individual and community levels. Local embeddedness is a pre-condition for (E1), the appropriate position of services in the various income levels and (E2) adapting business models to customer segments.

Repositioning services according to income levels means that business model innovations need to reconsider the actual target customers. Income and education levels are often assumed to be low and very similar. However, there is in fact a broad variety within the low-income segment (Karnani 2009; Rangan, Chu & Petkoski 2011). There are sub-segments with higher, less volatile income and advanced competence levels, as well as sub-segments with very low, highly volatile income and limited skills (Dawar & Chattopadhyay 2002; Mendoza & Thelen 2008).

Energy, sanitation, or water services should be promoted initially to a skilled income sub-segment with a moderate and, most importantly, relatively stable income. This avoids the services becoming a symbol for poverty. Because people derive preferences not just from their own consumption, but also from comparison with others in the community. If transformative services are accepted by more sophisticated consumers, more vulnerable ones also adapt their preference structures (Karnani 2009).

Business ventures adapt their business models to different customer segments (E2). Again, intimate knowledge on individual consumer habits, needs, and preferences are an important pre-condition for adaptation. A completely successful customization requires not change to one single strategy canvases such as payment mechanisms, but rather to all of them (e.g., key partners, key activities, key resources, value proposition, customer relationship management, marketing & distribution, customers, cost and revenue structures). Business ventures must ensure that these strategy canvases are not only customized to each segment, but remain manageable across different segments. Business ventures have, for example, to think about whether a dedicated sales and delivery process for each segment or a more general sales and delivery process, is most suitable.

**Business model diversification.** Business model diversification (F) represents the fourth second-order theme. Business model diversification comprises five first-order themes: (F1) increasing the share of wallet with existing customers, (F2) leveraging existing competencies into new customer segments, (F3) leveraging existing competencies into new markets, (F4) building new competencies for creating new markets, and (F5) business models designed as modular subsystems. The first four themes are close to traditional market development and diversification strategies (e.g., Ansoff 1965). They describe the creation of and/or diversification into new ‘core’ business models. Increasing the share of wallet (F1), leveraging existing competencies into new types of customers (F2), and leveraging existing competencies into new markets (F3), exploits the resources the business ventures have ‘on hand’. Building new competencies for the creation of new markets (F4) is about a purposeful development of resources and capabilities for entering a new market. The fifth theme on modular business model design (F5) describes the principle for integrating these ‘core’ business models into an overarching and more complex business model.

Increasing the share of wallet deals with extending the service offering for existing customers. Trust, reputation, and image are not restricted to the individual consumer, but can be also exploited at a community level. Additional revenue streams are the main reasons for these four themes, but the business models differ in the way they can be integrated into the initial ‘core’ business model and with regard to current risks. Business models for increasing the share of wallet with existing customers (F1) and leveraging existing competencies into new types of customers (F2) supplement the ‘core’ business logic and entail relatively low risks. Leveraging existing competencies into new markets (F3) or even

building new competencies for new markets (F4) represent very different ‘core’ business logics and are very risky investments.

For example, operating sanitation services entails a continuous demand, a large number of customers, and should create stable revenues. Selling fertilizers or organic compost means that demand is very seasonal, prices fluctuate, high upfront investments are necessary, and there are direct competitors and complex distribution channels. Such markets present various barriers, making market entry particularly risky. Tapping into these markets (F3 and F4) would require new business models and new business logics.

Business ventures face the challenge of integrating such diverse business models into each other (F5). Our results suggest that the designing business models should lead to modular subsystems. If business ventures succeed in designing modular business models and business model elements, they can create complex business models, which cover a high scope of wellbeing considerations. A complex and overarching business model is less likely to be achieved if individual business models are interrelated and have to be combined simultaneously. Business ventures should, for example, clearly separate the costs of executing their ‘core’ business model and investments with respect to exploration of new business opportunities. It is much more favorable if the business models are considered as modular subsystems. In this case, the success of the diversified and complex business models does not hinge upon the chance event that all necessary modules emerge simultaneously in the right combination. There is an opportunity for business ventures to assemble emerging business model modules into a new overarching model that comprehensively serves the low-income segment and achieves a high scope in terms of wellbeing.

**Business model replication.** Business model customization and/or business model diversification are preceded by business model replication, which drives business growth in services. The second-order theme on business model replication is about sustaining initial successes and scaling-up services. Business model replication (G) consists of four first-order themes: (G1) access to additional financial resources, (G2) cost reduction until operational costs are covered by daily revenues, (G3) securing financial transactions, and (G4) continuing the business model innovations.

To finance business growth, business ventures have to gain access to additional financial resources (G1). These resources entail support from donors and developing agencies as in the case of OSHO, support through government subsidies, or investors providing patient capital or capital investments. Securing access to such financial resources helps to push an early initiation of the business ventures, but cannot necessarily create economically viable business growth. Self-financed growth is argued to be a critical aspect of business model replication and of economic and societal performance.

To achieve self-financed business growth, business ventures have to significantly reduce their operational costs (G2). If the reduction reaches daily revenue levels, business ventures can create an important tipping point in business growth. As suggested by TRUNZ WATER, increasing the installed base of water kiosks reduced the operational costs. Revenues can be secured (G3) by establishing small, but very frequent transactions. Pay-per-use systems, as in the case of pre-payments for water or energy service. Mobile phone and payment systems play a key role in managing small transactions and monitoring payments.

Mobile payment offers an important additional advantage, because it significantly reduces indirect costs. In our business ventures, cost ratios between direct and indirect costs are initially about 1 to 1. Direct costs for developing, selling, and delivering services can only be reduced through substantial productivity gains. Achieving this is reportedly very difficult, and most productivity enhancements are absorbed by increases in labor costs. Significant cost reductions could only be achieved for indirect costs. Mobile payments can easily be used for electronic accounting systems, which substitute paper-based and work-intensive accounting activities, thus reducing indirect costs significantly.

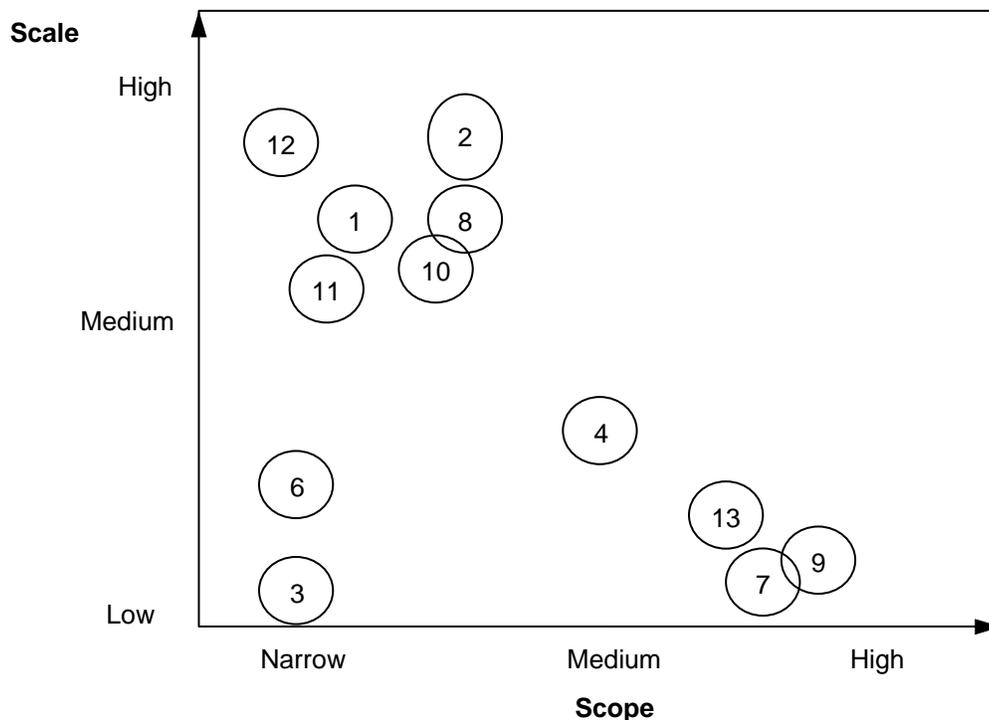
Business model replication does not suggest that the model is completely ‘frozen’ and then leveraged through large-scale replication (Winter and Szulanski 2001). The business ventures replicate only the business model elements that are truly replicable and add value. These replicable and value-added business model elements are continuously modified in the replication process. Unfortunately, business model elements such as local embeddedness add value, but are very difficult to replicate. For example, ECOTACT’s business model element on Built-Operate of public toilet facilities was modified into a Built-Operate-Transfer (BOT) model. Transfer was a new additional element, which creates not only additional value, but also made it easier to achieve the local embeddedness. The BOT model was later designed as a micro-franchising model, in which communities were asked to contribute to setting-up the public toilet facility and encouraged to benefit from transferring it into the community ownership.

Such continuous business model modifications aim to improve replicable elements, but also to find solutions for less replicable elements such as local embeddedness. ECOTACT’s micro-franchising approach led to self-selection among the targeted local communities. Because local communities have to invest in terms of land and labor resources for building the facilities, only interested communities wish to partner with ECOTACT. The need to achieve local embeddedness becomes easier in such a setting and replication process can be accelerated.

**Relationship Between Outcomes and Business Model Innovations**

Figure 1 depicts the scale and scope of wellbeing for each business venture. Table 2 shows the business model innovations observed by each business venture. The combination of scale and scope and business model innovations suggests the existence of different groups. Some business ventures achieve a high scale and narrow scope by applying a sequence of incremental business model innovation, business model customization, and replication.

**FIGURE 1**  
**Business Ventures and Scale and Scope as Performance Outcome**



Other business ventures achieve the opposite, with a low scale and high scope. Business ventures followed the sequence of radical business model innovations, business model customization and diversification. Business model replication is still in its early stages. Few business ventures are positioned somewhere in moderate scale and scope and a mix of all five business model innovations. Eco-Fuel and Jellistones differ and yield a narrow scope and low scale, as well as incremental business model innovation and very early stages of business model customization.

## DISCUSSION

### Theoretical Contribution

Business model innovations are currently being discussed either as business-model-innovation under competition, or as business model innovations for creating new markets (Kim & Mauborgne 2004; Teece 2010). In our context, business model innovations create not only new markets or compete with market conditions leading to poverty penalties and to deficiencies in affordability, accessibility, acceptance and awareness for services (Anderson & Markides 2007; Mendoza & Thelen 2008), but should be considered from a more fine-grained and dynamic view.

More fine-grained view means, on the one hand, that our first-order themes reproduce key business strategy success factors for the low-income segment (e.g., overcoming financial and production constraints, collaborating with non-traditional partners, co-inventing customer solutions, and building local capacity) (e.g., London & Hart 2004; London et al. 2010; Mendoza & Thelen 2011; Schuster & Holtbrügge 2012). On the other hand, we confirm some of the assumptions of business model innovations. All five business model innovations are intertwined with a fundamental re-conceptualization of business model elements and with the creation of markets. Market creation is specifically important for radical business model innovation and business model diversification. While these two innovations are in line with the first assumption, they depart from the others. Radical business model innovations aim at quantum leaps in customer value rather than incremental value improvements. Business model diversification aims at building up complex business models addressing a comprehensive scope of wellbeing. This is not about scaling-up a single more and more specialized business model in order to avoid the diversion of rare capabilities. On the contrary, business model diversification involved going in different strategic directions and developing multiple and modular business models, which can be integrated into each other (Dunford et al. 2010; Winter & Szulanski 2001). These business model diversifications and replications take place successfully even in the context of scarce resources and capabilities. The benefits from securing additional revenues outweigh the potential risk of diverting rare capabilities into too many strategic directions.

The groups and the dynamic of business model innovations can be interpreted in a way that incremental business model innovations are mostly preceded by business model customization and replications. Such a sequence is most suitable for achieving substantial wellbeing. Radical business model innovations are highly intertwined with business model diversification. Radical innovations not only become customized, but business ventures seem to diversify simultaneously from a single 'core' into multiple business models. Customization and diversification are followed by business model replication. Such a sequence of business model innovation allows business ventures to depart from focusing purely on the scale of wellbeing. This sequence is a promising direction for increasing the scope of wellbeing. Succeeding in the replication process of these radical, diversified, and customized business model of course also offer the potential to enhance scale. Because replication processes might be more multifaceted, growth trajectories from a comprehensive scope towards high scale might be less steep than from a narrow scope to high scale.

Every business model innovation has consequences for business ventures. For example, business model diversification leads to a bundle of services. It is a promising way of building more

complex business models, service bundles, and comprehensive solutions, which address higher scope of wellbeing. Business model replication informs service strategies for scaling-up infrastructure services. It is important to understand how a 'core' business model can then be transferred into a template, which can be replicated into different regions (Winter & Szulanski 2001). Comparing incremental and radical business model innovations suggests that the latter are more likely to be used continuously. Incremental business model innovations can reach many consumers, but entail the risk that few use the service continuously. Most customers might abandon the service rather quickly. Radical business model innovations creating a leap in customer value are more likely to be sustainable.

Scale and scope, as two separate outcomes, might indicate alternative ways to classify performance measures for business ventures serving the low-income segment. Empirically, we expand 'inclusive' business model innovation in the direction of infrastructure services provided to the huge and often disenfranchised low-income segment.

### **Managerial and Social Implications**

Our first-order and second-order themes are a useful guideline for managers attempting to implement business strategies in low-income countries. By implementing these themes, business ventures can solve some of the most pressing problems in low-income countries. These problems are associated with the millennium development goals (e.g., poverty alleviation, access to improved sanitation and so on) (UNDP 2010). For example, there are still about two and a half billion people who do not have access to improved sanitation. More radical sanitation business models, which create leaps in customer value, a better understanding of how such business models have to be customized and diversified, and, finally, can be replicated, could inspire new and promising ways of sanitizing the low-income segment. Similar positive social implications can be derived for the energy and water sectors.

Our emphasis on business model innovation avoids a pure assistance approach. Instead, the low-income segment plays an active role in the businesses as consumers, producers, distributors, promoters, entrepreneurs, or innovators. We hope that our findings will stimulate more formalized management education on business model innovations in MSMEs serving the low-income segment. Such education is not only necessary for managers, but also in academia, in which disciplines such as business innovation and economic development should collaborate more closely with each other.

### **Limitations and Future Research Opportunities**

Our findings are based on qualitative data with limited transferability and verifiability. The first-order order themes are not intended to be exhaustive. There may also be additional business model innovations such as strategic renewals, which might occur once business ventures have reached a certain level of maturity (Barr, Stimpert & Huff 1992).

Future research could deepen the perspective on the first-order themes and explore additional business model innovations. Another promising research direction is the concentration on one business model innovation. For example, understanding the detailed cognitive abilities for radical business model innovation or the criteria for integrating modular business models into complex business models would constitute interesting research areas. Overall, the direction, in which business ventures and business model innovations are reshaping the landscape in the low-income segment, is a fertile area for future research.

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#### END NOTE

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**STRATEGIC CAPABILITIES AS DETERMINANTS OF FIRM PERFORMANCE IN WOMEN-OWNED  
ENTREPRENEURIAL VENTURES IN NAIROBI, KENYA**

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**ABSTRACT**

This paper examines the relationship between strategic capabilities and firm performance in women owned enterprises. The study was motivated by the need to gain an understanding on the determinants of performance in women owned enterprises. The study revealed that strategic capabilities have a significant effect on the overall performance. Further IT capabilities and Technological capabilities had a positive and the most significant effect on performance. The study recommends that the capacity of women entrepreneurs be enhanced to ensure that they are able to build on their capabilities particularly technological capabilities. Policy makers should initiate programmes for entrepreneurship developments that are more focused on building strategic capabilities of women entrepreneurs.

**Keywords:** strategic, capabilities, entrepreneurship, firm, performance.

**INTRODUCTION**

A lot of research on women entrepreneurship has mainly focused on individual characteristics and gender-specific barriers to entrepreneurship as predictors of firm performance (Catley & Hamilton, 1997). These studies have focused on the characteristics, motivations for starting business, and challenges for women entrepreneurs. Relatively few studies have focused on the strategy and structure of women owned enterprises (Brush, 1992). Mukhtar (2002) notes that gender related research on the whole has not been able to keep pace with changes in the small firms sector especially in terms of studying management characteristics, structures and strategies employed by women business owners. Additionally, Carter and Allen (1997), in their study, on size determinants of women-owned businesses, note that women should not be considered as a homogenous group. Stevenson (1990) supports this view and notes that as women entrepreneurs are not a homogenous group; efforts should be made to develop typologies that take into consideration their diversity. Women entrepreneurs may have different access to resources and capabilities that influences their firm performance.

This paper therefore attempts to fill this gap by extending the research on women entrepreneurs beyond the examination of the link between gender and entrepreneurial characteristics.

Gundry and Welsh (2007) note that there is need to focus not only on gender based differences relating to the entrepreneurial experience but also focus on understanding the women entrepreneurs whose businesses may be differentiated by size, industry, strategic intent and firm performance. Furthermore, most of the research has focused on women entrepreneurs in developed countries (Lerner, Brush, & Hisrich, 1997). Limited knowledge exists on women entrepreneurs in developing countries (Komunte, Rwashana & Nabukenya, 2012; Idris, 2009). There are a few studies done outside Europe, North America and Asia with most being in Europe and North America. The emergence of South America and Africa means there is need for strategic actions of women entrepreneurs in these emerging economies.

### **Firm Performance**

The performance of women owned businesses has become an important area of concern for policy makers and a subject for much academic debate. The concern has been the underperformance of women owned businesses. Studies have revealed that women owned firms are more likely to close and have lower levels of sales, profits and employment (Kallenburg & Leicht, 1991; Rosa, Carter & Hamilton, 1996). Relatively very little is known about why the women owned firms underperform (Fairlie & Robb, 2009). Previous studies on differences in firm performance by gender found that financial capital, education and work experience may be important factors. Another view from research is that women access different business and investment social networks from men, which could affect their outcomes (Brush *et al.*, 2004).

To identify the underlying causes of this phenomenon, this study explored the determinants of firm performance in women owned entrepreneurial ventures from a strategic management perspective. In the recent years the Resource Based View has emerged as a popular perspective for explaining performance (Newbert, 2007). Relying on the traditional strategic management construct of distinctive competence the RBV suggests that the relative performance of a firm is rooted in the firms' strategic resources (Barney, 1991). Dynamic capabilities framework has been proposed as an extension of the resource based view (RBV) of the firm (Barney, 1991; Barreto, 2010). This was proposed by Teece and Pisano (1994) to address the shortcoming of the RBV. Teece *et al.*, (1997:516) defined dynamic capabilities as "...the firms' ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments." This means they considered resources as capabilities that are built in firms from internal and external competencies. In essence they refer capabilities to a firm's skill at effectively coordinating its resources for the purpose of achieving a particular end result (Helfat & Peteraf, 2003). In other words, resources are the source of firms' capabilities and capabilities refer to a firm's ability to bring these resources together and deploy them advantageously (Collins & Montgomery, 1995). Capabilities also differ from resources as they cannot be given a monetary value as can tangible resources as equipment. The firms are operating within a dynamic context and these capabilities are embedded in organization (Dierickx & Cool, 1989).

Every organization possesses its own capabilities that enable it to perform the activities necessary to produce its products and services. More successful firms conceivably have capabilities that help them perform their activities better. These capabilities have been termed distinctive competencies or strategic capabilities and generally refer to the unique skills and activities that a firm can do better than rival firms (Selznick, 1957; Lado, Boyd & Wright, 1992). In this study therefore, Strategic capabilities are defined as "complex bundles of skills and accumulated knowledge that enables firms to coordinate activities and make use of their resources" (Day, 1990: 38) to create economic value and achieve and maintain better performance. (Desarbo, *et al.*, 2005:49). Research has shown that strategic capabilities are critical to the success of a business. It is posited in this study that the strategic capabilities of women owned entrepreneurial ventures could explain firm performance.

### **Strategic Capabilities and Firm Performance**

Desarbo *et al.* (2005) have identified the dimensions of strategic capabilities in firms as; marketing capabilities, market-sensing capabilities, technology capabilities, information technology capabilities and management capabilities. Based on earlier works by Selznick (1957), Miles and Snow (1978), Snow and Hrebriank (1980) and recently Desarbo *et al.* (2005) and Song *et al.* (2008), it is noted that strategic capabilities are formed within functional areas such as marketing, technology, management among others. Their results showed significant relationships among business level strategies, functional activities and performance (Hitt & Ireland, 1985, p.273). Desarbo *et al.* (2005, p.49) suggest that technological capabilities; are capabilities concerned with the production of goods, logistics that allow the firm to either differentiate its product or keep costs down. Market sensing capabilities are concerned with customers and channels, and connecting to the changing customer needs that is; sensing market trends. Marketing capabilities include skills in segmentation, target-pricing advertising, that enable the firm to implement effective marketing programmes. Information technology capabilities are those that help the firm diffuse market information effectively across all relevant functional areas. Management capabilities are those that support all the other capabilities including human resource management, financial management and others. These are the categories of capabilities that are common to many organizations and that have been identified and used in prior research (Day, 1994; Desarbo *et al.*, 2005; Song *et al.*, 2008). All organizations may not have these capabilities (Day & Nedungandi, 1994; Day & Wensley, 1988; Song *et al.*, 2008) but how organizations develop these capabilities within their businesses would explain the differentials in performance.

### **Strategic Capabilities in Women Owned Entrepreneurial Ventures and Firm Performance**

Loscocco and Robbinson (1991), found in their analyses that women owned businesses are concentrated in traditional female-typed fields; retail trade and service sector with men concentrating in the manufacturing, construction and high technology fields. Cjeka and Eagly (1999), attribute these to gender stereotyping. In their study, they examined the role of gender stereotypes and found that to the extent that occupations were female dominated, feminine personality or physical attributes were thought more essential for success and women would be expected to do well; to the extent that occupations were male dominated, masculine personality or physical attributes were thought more essential and it was expected that men would do well in these fields.

In the context of this study therefore, where a particular sector of industry required feminine personality, feminine physical and cognitive attributes such as affectionate, nurturing, cooperative, imaginative artistic among others then it was expected that a woman entrepreneur would perform better because of the gender industry fit. This is because it is posited that the gender–industry fit would enable the inherent capabilities in the owner of the venture to be used effectively to accomplish the tasks at hand. For example a male mechanic is perceived to have the physical strength needed to haul machines and technical ability to operate the engines. A woman in the same capacity is perceived as not physically strong to haul machines and so may struggle to accomplish the same task. However with the changes in the society it has been seen that the clear dichotomy is blurred (Eagly & Wood, 2002). Women for example are venturing into the manufacturing sector (Bates, 2002; Cliff, 1998). However to an extent, the dichotomy still exists with more men being in the manufacturing sector and women in the service sector. In Kenya for example, the 1999 central bureau of statistics survey of entrepreneurs, found that women outnumbered men in service (55.7%) while men outnumbered women in manufacturing, (65.7%) and construction (91.2%) (Central Bureau of Statistics, 1999). This choice also, as expected, influenced profitability of the enterprises. Women-owned enterprises generated less revenue than those owned by men, which earned 74% more (Munyua & Mureithi, 2008). From this Social theory perspective, the dimensions of strategic capabilities of women owned entrepreneurial ventures are outlined and discussed hereunder;

### **Market- Linking Capabilities and Firm Performance**

Market linking capabilities refer to focused market sensing and linking outside the organization (Desarbo et al., 2005). Many scholars have noted that, the ability of a firm to sense and seize market opportunities and to readjust their resources accordingly have significant effects on performance (Day, 2000; Eisenhardt & Martin 2000; Teece, Pisano & Shuen, 1997; Zahra, Sapienza & Davidsson, 2006; Zott, 2003). The main idea of this capability is to develop market intelligence pertaining to what the needs of customers currently are, what they may need in the future, dissemination of this information within the organization and being responsive to it (Kohli, Jaworski & Kumar, 1993). All organizations need well-developed market-linking capabilities. This will help them to quickly anticipate changes in the market and their customers' needs, track changes in customer needs and competitive behaviour. Enterprises that are able to do this will perform better (Jaworski & Kohli, 1993; Slater & Narve, 2000). Reijonen and Kompula (2010) in their study of SMEs in Finland found that customer orientation and market intelligence were important success factors in the performance of SMEs. The capability to link with customers has been associated with the female gender. Women are nurturers and good communicators and therefore are expected to have strong market linking capabilities.

### **Technological Capabilities and Firm Performance**

Technology refers to physical resources including plant, machinery, equipment and tools that are possessed by the firm (Grant, 1995). Porter (1985) notes that technology can impact firm performance. It has an important role in determining a firm's relative cost position or success in differentiation. Technology can affect several value-creating activities in the firm. Technological capability is the ability to use the technological resources to create value. A technological capability has been defined as "the ability to perform any relevant technical function or volume activity within the firm including the ability to develop new products and processes and to operate facilities effectively" (Teece *et al.*, 1997:521). A firm's technological capability is considered a strategic resource enabling the firms to achieve competitive advantage. Technological capabilities involve manufacturing processes, technology, new product development, production facilities, and forecasting of technological change in the industry. The aim is to improve production process efficiency, reduce costs of production, have greater consistency in delivery and in essence have greater competitiveness (Day, 1994; Desarbo *et al.*, 2005). This capability is important for firms that are in unstable and dynamic environments, especially those marked by rapid technological changes such as biotechnology, medical care and others (Song *et al.*, 2008). Teece *et al.* (1997) notes that firms with superior technological capability can secure greater efficiency gains by pioneering process innovations achieve differentiation by innovating products in response to the changing market and hence improve competitiveness. Ortega (2009) found that technological capabilities had a positive influence on performance in that it enhances the relationships between quality orientation and performance and cost orientation and performance. Technological capability in as much as it is important in all types of businesses, has greater relevance in the manufacturing sector, as this sector is more involved in the production of goods. Women traditionally are not found in the manufacturing sector nor are they perceived to be good in technology. It is perceived that the manufacturing sector and the related needed capability to manage such a venture is more suited to the male gender role than female. Most of women are associated with the service industry.

### **Marketing Capabilities and Firm Performance**

Marketing capabilities include skills in segmenting and targeting markets, in advertising and pricing and in integrating marketing activities (Desarbo et al., 2005; Song et al., 2008). Marketing activities would include market planning, revenue forecasting, and allocation of resources and control of

marketing activities. The idea is to enable the organization to communicate its products' unique advantages so as to attain customer satisfaction and loyalty, which will ultimately improve competitiveness. Studies on the marketing practices of small businesses especially women owned enterprises have been few. One study by Blankson and Omar (2002) found that in most firms exists a patchy market orientation framework characterized by informal marketing deliberations (Mankelow & Merrilees, 2001). They note that in small businesses, marketing activities are informal and unplanned and rely on intuition and energy of the entrepreneur. Another study by Van Auken *et al.*, (1994) did an empirical analysis of advertising by 121 women owned enterprises and found that women entrepreneurs tended to greatly use referrals, community events, telephone directory and fliers than a general sample of small business owners. They attributed this to differences in women's communication style and the value women place on personal forms of communication. Van Auken *et al.* (1994) also note that women entrepreneurs tend to use the same advertising methods they used as they started their businesses through the continuing years. This is attributed to probably limited advertising budgets that constraints them from trying other advertising methods. Another reason could be that personality traits of many women entrepreneurs such as low propensity for risk taking would make them not try out new ways hence hampering their ability to reach out far to their customers. The researchers also note that the preoccupations with day-to-day operations may prevent others from using formalized marketing planning procedures to guide their business operations. It is thus expected that since marketing capability is more associated with the male gender role it would not have a significant effect on firm performance in women owned enterprises.

### **Information Technology Capabilities and Firm Performance**

Information technology (IT) is a term that encompasses all forms of technology used to create, store, exchange and utilize information in its various forms including business data. IT capabilities facilitate internal communication and cross-functional integration in firms (Song *et al.*, 2008). A firm with better IT capabilities will perform better and have greater organizational success (Nevo & Wade, 2010). This is so especially if IT is used creatively to deliver superior value to the customer (Peltier, Schibrowsky & Zhao, 2009). Studies have shown that using IT creatively enhances performance and also ensures better cross functional transmission leading to more successful new products and generally improved competitiveness (Song *et al.*, 2008; Bharadwaj, 2000; Bharadwaj & Konsynski, 1999; Dehning & Stratopoulos, 2003). This is much more important for small businesses that must be efficient with their limited resources. Celuch and Murphy (2010) in their study found that small businesses could improve their strategic flexibility through the use of Internet that facilitates communication and also through aligning IT to the firms' market orientation. The Internet has the market-sensing capability that can help a firm manage customer and competitor's information and also manage internal activities thus enabling better performance. Since this capability has both the communication aspect that is perceived to fit the female gender role and the technical bit that fits with the male gender role, it is expected that the effect of IT capabilities on firm performance in women owned business would not be great.

### **Management Capabilities and Firm Performance**

Management in all business areas and human organization activity is the act of getting people together to accomplish desired goals and objectives. Management involves planning, organizing, staffing, leading or directing, and controlling an organization for the purpose of accomplishing a goal. It requires the ability to develop programs, prepare budgets, evaluate performance and perform the tasks necessary to implement the firms' strategy (Chandler & Jensen 1992). Management capability involves competence in three areas; ability to coordinate all the firms' activities, ability to work, understand and motivate people, and the ability to build a power base and establish the right connections (Chandler & Jensen, 1992). Managerial capabilities as outlined by Desarbo *et al.*, (2005) include the ability to

integrate logistic systems, control costs, manage financial and human resources, forecast revenues and manage market planning. Women use relational management styles whereas men use transactional management styles (Buttner, 2001; Idris, 2009). The relational dimension of their style of management is associated with the transformational leadership style that includes collaboration, mutual empowerment, sharing of information, nurturing and empowerment in the management of the business (Eagly, 2007; Podsakoff *et al.*, 1990). These characteristics are different from men and has been demonstrated that they significantly are more beneficial to long-term business success (Hefferman, 2003). The women's social ability and empathy imply a better performance of business created by and run by women because of their ability to communicate better with employees, suppliers and customers (Teoh & Chong, 2007). Transformational leadership style has been associated with effectiveness. Women entrepreneurs generally have been found to make decisions not based on planning. Mukhtar (2002) notes that, women entrepreneurs rely on intuition not only when making key decisions within their businesses but also in the manner in which they structure and run their businesses. This can be a hindrance to their management success. Powell and Ansic (1997) also found that women adopt different strategies in financial decision environment and that they have a lower preference for risk. This low risk propensity affects their decision-making process for example accessing financial resources through taking loans. It has been found that women who have access to financial resources and have good relationship with their banks tend to perform better. Most women would be afraid, because of their low risk propensity, to take up loans. It can be said therefore, that women entrepreneurs who are able to develop strong managerial capabilities that takes advantage of their characteristics associated with their gender while minimizing the negative effects will tend to perform better than those without.

From the above discussions it was postulated in this study that there would be significant differences in the extent to which the specific strategic capabilities influence firm performance in women-owned entrepreneurial ventures. And these differences, as explained by the social role theory, are perceived to be influenced by gender stereotyping such that the capabilities that are associated with the female gender role would have greater effect on performance than those associated with the male gender role.

## **METHODS**

### **Study area**

The study targeted Kenyan women entrepreneurs in Nairobi, Kenya. The study focused on the formal segment of women entrepreneurs, that is, women who owned formally registered businesses within Nairobi. This is not to say that women in rural areas or in the informal economy do not have substantive businesses, but the lack of basic data in such areas would have made it difficult to identify and/or locate women entrepreneurs. Women-owned enterprises were defined as businesses owned solely by women or where the woman held at least over 50% of the ownership (Carter & Shaw, 2006). Data was collected from women owned enterprises within Nairobi. Nairobi is the capital city of Kenya, with a representative sample of Kenyan citizens. This city is chosen as it has the most representations of urban entrepreneurs who are the target population.

### **Data Collection**

This study used probability sampling techniques to select a representative sample from the target population. To get a representative sample, multi-stage cluster sampling was used. The target sample was the women owned entrepreneurial ventures in Nairobi. In the first stage, the existing administrative divisions of Nairobi city formed the sampling frame. After numbering the divisions, five divisions were selected using simple random sampling. Since each woman owned entrepreneurial venture is located in a division, each had an equal chance of being selected for the final sample. The divisions selected from this exercise included Embakasi, Central, Dagoretti, Kibera, and Makadara. In

the second stage, the locations within these divisions were considered as the next sampling frame. All the locations within these divisions were considered. From these locations another sampling frame was generated based on the formally registered businesses operating in these locations. The actual women owned entrepreneurial ventures were then selected using systematic sampling method. Being an explanatory study by design and exploratory study by nature in so far as finding out strategic capabilities of women entrepreneurs in Kenya, the aim was to get a representation of women entrepreneurs in Nairobi. Hence, 100 women from each of the divisions selected were targeted, to achieve a sample size of 500 respondents. The study utilized both primary and secondary data. Primary data was collected from the women entrepreneurs through the structured questionnaire. Secondary data was obtained through review of published and unpublished materials such as journals, theses and government documents in libraries and Internet. Data sought from the secondary materials included existing information on strategic capabilities and performance of women owned entrepreneurial ventures.

### **Data Analysis**

Data was analyzed using descriptive and inferential statistics. Descriptive statistics for all study variables through univariate and frequency procedures was conducted. Simple bivariate correlation was computed to ensure that all study relationships were in the expected direction. Scatter plots were examined to determine if there were any linear relationships between the independent variable and the dependent variable. Ideally, there should be no pattern in the plotted data in order to assume homogeneity of variance. Also, the Pearson product-moment correlations was examined to determine the extent of correlation between the independent and dependent variables, and to assess the potential of multicollinearity. Correlation analysis is also a pre requisite for multiple regression analysis. Multiple regression analysis was used to test hypotheses. Specifically, the market-linking capabilities, technological capabilities, marketing capabilities, information technological capabilities and managerial capabilities were tested independently to determine if they were unique predictors of strategic capabilities.

This study also sought to establish which of the dimensions had the greatest influence on performance in women owned entrepreneurial ventures. To test the relative importance of the strategic capabilities in predicting performance epsilon, analysis, which is a more recent method, was suggested (Johnson & LeBretton, 2004; LeBretton & Tonidandel, 2008). This method uses the relative weights of the specific predictors to measure relative importance. Johnson and LeBretton (2004) define relative importance as ‘the proportionate contribution each predictor makes to the  $R^2$  considering both the direct effects (that is its correlation with the criterion) and its effect when combined with other variables in the regression equation’. They note that researchers in drawing conclusion about the relative importance of predictors examine the regression coefficients or the zero-order correlations within the criterion. They add that when predictors are uncorrelated, the zero order correlations and standardized regressions coefficients are equivalent and the squares of the indices add up to total  $R^2$ . However when the predictors are correlated the indices are considered inadequate for determining the relative importance of the specific predictor variables because they are no longer equivalent, do not sum to the  $R^2$  and take on different meanings and so the epsilon analysis presents a sufficient way of determining the relative importance of predictors (Derue *et al.*, 2011).

## **RESULTS**

### **Performance of Women Owned Entrepreneurial Ventures**

The study sought information on firm performance over the last 12 months using return on investments, sales growth, market share, and profit to sales ratio and over all firm performance. Descriptive measure of central tendency and dispersion were used to summarize the responses as

tabulated in Table 1. The findings indicate that on average (mean= 6), the respondents said that their enterprises had 41-50% growth on sales, market share, profit to sales ratio and overall performance in the last 12 months. In addition, a significant number of respondents said that their firms had 51-60% growth on return on investments in the last 12 months.

**TABLE 1**  
**Performance of Women Owned Entrepreneurial Ventures**

<b>Firm Performance</b>	<b>Mean</b>	<b>Std. Deviation</b>
Return on investments	6.35	1.775
Sales growth	5.84	1.895
Market share	5.65	1.943
Profit to sales ratio	5.86	2.047
Overall financial performance	6.33	1.873

*Source: Survey Data, 2010*

### **Multiple Regression Analysis**

To ascertain whether or not capabilities have a significant effect on firm performance in women owned entrepreneurial ventures, multiple regression analysis was carried out and the results are as summarized in Table 2. From the results shown in Table 2, Model 1 shows that control variables firm size and firm age have an  $R^2$  of .037 and an adjusted  $R^2$  of .03 which implies that the control variables explain 3.3 % variations in overall performance. Model 2, the full model, shows a goodness of fit as indicated by the coefficient of determination ( $R^2$ ) with a value of .39 and adjusted  $R^2$  of .38. This implies that the independent variables marketing capabilities, market linking capabilities, management capabilities, technological capabilities and IT capabilities explains 38% of the variations of overall performance. The F-value of 40.35 indicates that the overall regression model is significant and has some explanatory value.

This indicates that there is a significant relationship between the predictor variables marketing capabilities, market linking capabilities, management capabilities, technological capabilities and IT capabilities and overall performance. At 95% confidence interval that p value ( $p < .05$ ), it implies that all the independent variables combined do influence the overall performance in women enterprises although, management capabilities and market linking capabilities do not significantly affect firms overall performance. As for the control variables firm age and firm size, firm size was found to have an effect on overall performance while firm age though positively correlated had no effect on firms overall performance. From the two models 1 and 2 multicollinearity was not a problem because the findings indicate VIF of less than 10. This therefore implies that all the predictor variables combined do positively influence the overall performance in women enterprises.

**TABLE 2**  
**Regression Models**

<b>Variables</b>	<b>Model 1</b>		<b>Model 2</b>
Constant	55.584	(2.011)	27.69 (3.862)
<b>Control Variables</b>			
Firm Age	.024	(.118)	.025(.425)
Firm Size	.186	(.523)**	.065 (.098)**
<b>Independent Variables</b>			
IT Capabilities			.308 (.396)*
Technological Capabilities			.25(.349)*
Management Capabilities			.056 (.596)
Marketing Capabilities			.145 (.435)*
Market-linking Capabilities			.017 (.371)
F statistics	8.664		40.35
R <sup>2</sup>	.037		.39
Adjusted R <sup>2</sup>	.033		.38

\*P<. 05 \*\*P<. 1 (2 tailed test)

Values of beta regression coefficients, with standard errors in parentheses

Source: Survey Data, 2010

### Epsilon Analysis

To test the relative importance of the strategic capabilities the study carried out an epsilon analysis. As mentioned earlier, this is a preferred statistic for computing relative importance (Johnson & LeBretton, 2004). In this analysis, the estimates derived from the epsilon, often labelled relative weights, sum to the model R<sup>2</sup>. Thus the relative weights represent the proportionate contribution each predictor makes to the R<sup>2</sup>, considering the predictor's direct effects and its effect when combined with other predictors. Researchers can also calculate the percentage of R<sup>2</sup> explained each predictor by dividing the relative weight of each predictor by dividing the relative weight by the total R<sup>2</sup>. The results from this analysis as indicated in Table 3 show that the most important strategic capabilities are the information technology capabilities and technological capabilities that account for approximately 36% and 31% of the total explained R<sup>2</sup> respectively. This is followed by Marketing Capabilities explaining 17% and Management Capabilities explaining 14% of the total explained R<sup>2</sup>. It is noted that market-linking capabilities explains only 2% of the total explained R<sup>2</sup>.

This is an interesting finding because the first three capabilities that have the greatest influence are the ones according to the social role theory more associated with the male gender. In the sense that information technology capabilities, technological capabilities and marketing capabilities are more associated with the male gender stereotype. The market linking capabilities that are associated with the female gender role as implied by the social role theory is the least important in explaining the total R. This could possibly explain why women owned enterprises do not perform well. The capabilities associated with the female sex as postulated by the social role theory do not have a great influence on firm performance.

**TABLE 3**  
**Relative Importance of Strategic Capabilities in Predicting Performance**

Strategic capabilities	Raw Relative weights	Relative Weight as % of R <sup>2</sup>
Marketing Capabilities	.066	17.2%
Market Linking Capabilities	.006	1.6%
Management Capabilities	.055	14.4%
Technological Capabilities	.120	31.1%
Information Technology Capabilities	.137	35.7%
Total R <sup>2</sup>	.358	100.0%

**Source:** Survey Data (2010)

## DISCUSSION

### Strategic Capabilities as Determinants of Firm Performance

The study sought to establish the relationship between strategic capabilities and firm performance in women owned enterprises. In support of the expectations of the study, findings indicated that strategic capabilities of women owned entrepreneurial ventures had a significant influence on firm performance. The findings of this study provide support for the RBV and the dynamic capability theory, which, postulates that capabilities do have an effect on performance. Newbert (2007) mentions the significance of the RBV of the firm in understanding firm performance. In the context of the study, therefore, the differentials in performance of women owned entrepreneurial ventures could be explained by the strategic capabilities that they have. It would also mean that women entrepreneurs who want to improve performance in their business would need to build on their strategic capabilities. Johnson, Scholes & Whittington (2006), note that organizations that want to achieve competitive advantage over others will do so because they have capabilities that others don't have. These capabilities could be resources the organization has or the way they are used or deployed.

### Specific Strategic Capabilities and Firm Performance

The study also sought to determine the specific capabilities that have the greatest influence on firm performance in women owned entrepreneurial ventures. The study found that there were significant differences in the extent to which the specific strategic capabilities influence performance. From the results of the epsilon analysis, it was found that information technology capabilities and technological capabilities had the greatest influence on performance followed by marketing and management capabilities. It was found that market-linking capabilities though having positive effect on firm performance, was not significant. The possible reason that market-linking capability had no effect on firm performance capability in women owned entrepreneurial ventures point to the kind of networks that women have. It has been noted that women have very weak networks and the networks they have do not translate to business. In fact one of the most common recommendations given to improve performance of women owned businesses is to ask them to join business associations where they can network and be exposed to what is happening in the market and also interact with other entrepreneurs and thus build and enhance their businesses.

Technological capabilities were found to have a significant effect on firm performance. This finding is similar to a study on internal capabilities and performance by Lee, Lee & Pennings (2001) that

found that technological capabilities are important predictors of firm performance. It can be proposed then that women entrepreneurs need to build their technological capabilities, as they are strong predictors of performance. One of the main challenges for women has been the access to credit to purchase the relevant technologies (Odero-Wanga, Mulu-mutuku & Olubandwa 2009). Those who can access credit facilities lack the necessary training to translate the resources into core competence that can give them added advantage. For example, using computers not only to manage documents and keep records but also as a tool to enhance their business. Through the computer they could set up websites to not only advertise their businesses but also source for customers.

It was further found that marketing capabilities do have a significant effect on firm performance. Women have been known to have poor marketing skills. A study by Odero-Wanga *et al.* (2009) found that one of the main constraints facing women in the dairy sector in Kenya was lack of marketing skills, which greatly hampered their performance. Other studies have found that in most firms exists a patchy market orientation framework characterized by informal marketing deliberations (Blankson & Omar, 2002; Van Auken *et al.*, 1994). Van Auken *et al.* (1994) also note that women entrepreneurs tended to use the same advertising methods they used as they started their businesses through the continuing years. This is attributed to limited advertising budgets that constrain them from trying other advertising methods. Another reason could be that personality traits of many women entrepreneurs, such as low propensity for risk taking, would make them not try out new ways hence hampering their ability to reach out to their customers. Moreover, the preoccupations with day-to-day operations may prevent others from using formalized marketing planning procedures to guide their business operations. This could therefore explain why women owned entrepreneurial ventures may not perform well. They have limited marketing capabilities yet such capabilities are a significant predictor of firm performance.

In addition, it was found that information technological capabilities have significant effect on firm performance. In support of this finding are studies that have shown that using IT creatively enhances performance and also ensures better cross functional transmission leading to more successful new products and generally improved competitiveness (Song *et al.*, 2008; Bharadwaj, 2000; Bharadwaj & Konsynski, 1999; Dehning & Stratopoulos, 2003). This is much more important for small businesses that must be efficient with their limited resources. In developing economies, Kenya especially, the increase use of mobile telephony in small business has been noted. Mbogo (2010), in a study of the impact of mobile phone payment on the success and growth of micro business, has found that micro businesses enterprises in Kenya are increasingly using the mobile technology to facilitate communication and support transactions in their businesses. The entrepreneurs are able to transact payments directly with their customers and suppliers through a mobile phone in the palm of their hands without necessarily leaving their business premises or going through a bank. This saves them a lot of time and money in terms of transportation costs. For women entrepreneurs this provides convenience and flexibility as they manage multiple roles in the family set up and as they run their businesses. This finding is also in line with Komunte *et al.* (2012) on the use of mobile technology for business transactions by women entrepreneurs in Kenya. It was observed that women enterprises that invested in and used mobile services generated high revenues. This increase in revenues was as a result of reduced transaction costs, reduced transportation cost, and increased communication with customers that assisted women entrepreneurs to bring in customers or suppliers into the transaction chain among others. The study further established that management capabilities had no significant effect on firm performance.

In the study, it had been expected, as postulated by the social role theory, that market linking capabilities, management capabilities and partly informational technology capabilities would be the most important in predicting performance in women owned entrepreneurial ventures, as these capabilities are associated with the female gender role and hence would be expected to contribute

more to performance in women owned entrepreneurial ventures. This expectation of the order of relative importance of the specific capabilities was not supported. Information Technology capabilities, Technological capabilities and Marketing capabilities were found to be strong predictors of performance. This finding is supported by other studies such as by Gundry and Welch (2001). Gundry and Welch (2001) identify the strategic paths chosen by women entrepreneurs and the relation of these paths to the growth orientation of the firm and found that high growth oriented ventures and low growth oriented ventures owned by women differed along several dimensions. They found that high growth oriented ventures were more likely to select strategies that emphasized market growth and technological change than the low growth oriented ones. In essence, they suggest that women owned enterprises that were performing better had built on their marketing and technological capabilities. The challenge for women is how to build on these capabilities. Studies have shown that women entrepreneurs face challenges and constraints in building capabilities in technology, IT and in Marketing (Gundry & Welsch, 2001). From the study, therefore, it is recommended that specific interventions should be geared to help women entrepreneurs, build on these capabilities especially the three important ones. These three would be key to improving the performance of their businesses.

### CONCLUSION AND RECOMMENDATIONS

The relationship between strategic capabilities and firm performance in women owned entrepreneurial ventures in Kenya have been empirically examined in this study. The study sheds light on the explanatory power of the RBV and dynamic capability framework in explaining performance in women owned businesses particularly in a developing economy such as Kenya. Results indicate that strategic capabilities do influence performance. It is therefore recommended that the capacity of women entrepreneurs be enhanced to ensure that they are able to build on their capabilities particularly information technology and technological capabilities. This calls for targeted training and development. Often organizations that carry out capacity building intervention programs for women entrepreneurs design training and development programs that are too general in scope. It may be important to target much more specifically on the development of competencies that can build on capabilities that could provide competitive advantage (Schoels & Whittington, 2006). In addition, efforts should be made to increase the level of awareness among women entrepreneurs of existing training opportunities and efforts made to ensure that they are able to attend. Cost of training for example may be prohibitive for many women entrepreneurs. The government or other willing donors could step in to subsidize the training.

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#### END NOTE

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## Part 2: Organizational Behavior and Human Resource Management

### THE RELATIONSHIP OF EMOTIONAL INTELLIGENCE AND BURNOUT WITH OCB: AN EXAMINATION AMONG ARAB TEACHERS

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#### ABSTRACT

This study examined the relationship between emotional intelligence (EI), self-efficacy, and two outcome variables: in-role performance and organizational citizenship behavior (OCB). The study also examined whether burnout mediates this relationship. The target population was Arab teachers in Israel. Usable questionnaires were returned by 221 teachers. HLM and mediation analyses showed that EI and self-efficacy are related to OCB and in-role performance and burnout has a strong and negative relationship with the outcome variables. Mediation analysis showed that burnout mediates the relationship of EI and self-efficacy with the three outcome variables. The findings emphasize the role of the two personal variables examined here as important determinants of job performance and OCB, and demonstrate the importance of burnout in understanding OCB.

**Keywords:** Emotional intelligence; OCB; In-role performance; Burnout; Self-efficacy.

#### INTRODUCTION

Organizational citizenship behavior (OCB) has become one of the more researched outcomes in the field of organizational behavior and industrial psychology, as shown in several comprehensive literature reviews (LePine, Erez, & Johnson, 2002; Organ & Ryan, 1995; Podsakoff, Mackenzie, Paine, & Bacharach, 2000; Sesen, Cetin & Basim, 2011). The concept had its roots in the work of Katz and Kahn (1978), who identified three types of behavior required of employees for the effective functioning of an organization: the decision to join and remain in the organization; the performance of prescribed roles in a dependable manner; and the undertaking of innovative and spontaneous activities beyond prescribed role requirements. The last of these was termed extra-role behavior by Katz (1964) and organizational citizenship behavior by Bateman and Organ (1983). The term OCB was meant to denote organizationally beneficial actions and behaviors that can neither be enforced on the basis of formal role obligations nor elicited by a contractual guarantee of compensation; it includes both *organizational OCB* (impersonal OCB directed towards the organization in general) and *altruistic OCB* (helping a specific person within the organization). According to Organ's definition, "...OCB represents individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the efficient and effective functioning of the organization" (Organ, 1988, p. 4). Thus, OCB consists of informal contributions that participants can choose to make or withhold, without regard to considerations of sanctions or formal incentives. OCB derives its practical importance from the premise that it represents

contributions that do not inhere in formal role obligations, and that these contributions, aggregated over time and persons, enhance organizational effectiveness (Organ & Konovsky, 1989).

Over the past decade, researchers interested in OCB have increasingly turned their attention to the role of personality traits in work-related behaviors and attitudes (Furnham, Petrides, Tsaosis, Pappas, & Garrod, 2005). As part of this new focus, recent years have seen a growing body of research regarding the importance of emotional intelligence (EI) in the workplace (Carmeli, 2003; Carmeli & Josman, 2006). The assumption behind this interest is that people with high EI are more likely to succeed in the workplace than those with low EI. Yet very few studies have considered EI as a correlate of OCB. As a result, despite growing evidence that EI has the potential to improve performance in the workplace, we are still in the initial stages of understanding the extent to which EI makes organization members more valued assets than less emotionally intelligent people (Carmeli, 2003).

Another personal variable not frequently examined in its relationship to OCB is self-efficacy. Self-efficacy is a personal judgment of "how well one can execute courses of action to deal with prospective situations" (Bandura, 1982, p. 122). Self-efficacy reflects both an ability component (i.e., an estimate of one's ability to deal with a situation) and a motivational component, or willingness to expend effort consistent with ability (Jawahar, Meurs, Ferris & Hochwarter, 2008). The rationale for expecting self-efficacy to be related to performance is that individuals who perceive themselves as efficacious activate sufficient effort on a task to produce successful outcomes, assuming that this effort is well-executed. Conversely, those who perceive low self-efficacy are likely to cease their efforts prematurely, leading to failure (Bandura, 1986).

This study will contribute to the literature on OCB and work performance by examining the rarely researched relationships between EI and self-efficacy, on the one hand, and OCB and in-role performance, on the other. Further, this study will argue that burnout mediates the relationship between these personal and outcome variables. Burnout is a prolonged response to chronic emotional and interpersonal stressors on the job, and is defined by the three dimensions of emotional exhaustion, depersonalization, and reduced personal accomplishment (van Emmerik, Jawahar, & Stone, 2005). One of the most commonly cited negative consequences of burnout is a reduction in job performance (Halbesleben & Bowler, 2005). Indeed, there is quite strong evidence for a negative relationship between the various dimensions of burnout and performance outcomes, including OCB (Chiu & Tsai, 2006; Gilbert, Laschinger, & Leiter, 2010; Halbesleben & Bowler, 2005; Taris, 2006; van Emmerik et al., 2005). These relationships have been explained in terms of the conservation of resources model of stress (Halbesleben & Bowler, 2005) and social exchange theory (Cropanzano, Rupp, & Byrne, 2003), which will be described further below.

Several studies have suggested that not only is burnout related to work outcomes directly; it also mediates the relationship between other work-related antecedents and outcomes. Parker and Kulik (1995) found that burnout mediates the relationship between job stress and social support, on the one hand, and performance indicators on the other. Moliner, Martínez-Tur, Ramos, Peiró, and Cropanzano (2007) argued that burnout is one of two mediators between dimensions of organizational justice and extra-role behavior. Gilbert et al. (2010) found that burnout, defined as emotional exhaustion, was a significant mediator of the relationship between empowerment and organizational OCB. Few studies, however, have examined whether and how burnout mediates the relationship between the personal antecedents studied here and performance.

This study argues that EI and self-efficacy enhance in-role performance and OCB. It also contends that burnout mediates this relationship. This is because burned out (i.e., emotionally and physically exhausted) employees lack the capacity to invest time and effort in their work, or to engage in work activities beyond the minimum required by their job description (van Emmerik et al., 2005). Therefore, burnout will precede withdrawal of OCB.

## CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESES

The following sections will present the concepts of this study and the hypotheses that result from the model.

### **Emotional Intelligence and In-role Performance**

One of the most provocative ideas in the management literature over recent years concerns the possibility that a form of intelligence pertaining to the emotions is related to the performance of organization members (Cote & Miners, 2006). Indeed, the concept of EI has had an unusually important impact on managerial practice (Ashkanasy & Daus, 2002), based on the assumption that EI has the potential to contribute to more positive attitudes, behaviors, and outcomes among organizational members (Carmeli, 2003). In this paper, we define EI with Salovey and Mayer (1990, p. 5) as "the ability to perceive emotions, to access and generate emotions so as to assist thoughts, to understand emotions and emotional knowledge, and to reflectively regulate emotions so as to promote intellectual growth." Salovey and Mayer (1990) argued that EI has three dimensions: an ability to appraise and express emotions in oneself and others; an ability to regulate emotions in oneself and others; and an ability to use emotions in adaptive ways (a full description of these three dimensions can be found in Carmeli [2003] and Carmeli and Josman [2006]).

EI is expected to be related to in-role performance because organizations are social systems wherein members interact with other members of the organization, clients, suppliers, and customers. These interactions involve emotions. To facilitate effective interactions, which are essential to job performance, particularly among teachers, it is essential that individuals have high ability to understand and manage both their own emotions and those of others (Carmeli & Josman, 2006). Indeed, two meta-analyses (Joseph & Newman, 2010; O'Boyle, Humphrey, Pollack, Hawver, & Story, 2011) supported that relationship between EI and job performance.

*Hypothesis 1: EI will be positively related to in-role performance.*

### **Emotional Intelligence and OCB**

Why should EI be related to OCB? As described above, individuals who are high in EI are adept at identifying, and responding appropriately to, the emotions of coworkers, customers, and superiors (Day & Carroll, 2004). Because they are emotionally perceptive, these individuals are likely to handle emotionally laden situations in ways that go beyond the letter of their job description or organizational rules. For example, employees who are high in EI may refrain from complaining about undesirable conditions at work if they perceive that a superior is feeling tense, or they may offer help or encouragement if they sense that a coworker is frustrated. Being alert to others' feelings, they may step forward to help smooth and manage interactions within their work groups. High-EI employees are also likely to be empathetic toward the organization as a whole, enabling them to adopt the organization's perspective and act in a manner that will benefit the organization.

Carmeli (2003) and Carmeli and Josman (2006) argued that EI may enhance altruistic behavior, following the reasoning that high EI enables employees to shift easily from negative to positive moods, and employees with positive emotions are more likely to engage in helpful behaviors. In addition, these authors argue, because high-EI employees are more socially interactive, involvement in altruistic behavior is rewarding for them because it maintains their positive state of mind. The findings presented in Carmeli (2003) and Carmeli and Josman (2006) provide general support for these contentions.

*Hypothesis 2: Emotional intelligence will be positively related to OCB.*

### **Emotional Intelligence and Burnout**

Another area of study where the effect of EI might be influential is burnout. Because EI is a dispositional variable which implies a range of abilities in how people understand and manage positive and negative emotions, we can expect a link between EI and emotional and behavioral responses to work-context stressors, such that EI will be negatively associated with burnout and positively associated with engagement (Durán, Extremera, & Rey, 2004). Much of the early burnout research focused nearly exclusively on the role of environmental factors in the prediction of burnout (Halbesleben & Buckley, 2004), but over the years researchers have come to recognize the importance of individual variables. Many studies that used personality variables to predict burnout applied the person-organization fit model, arguing that the greater the mismatch between an employee and his or her job, the greater the likelihood of burnout. Maslach and Leiter (1997) argued that people react differently to burnout because of personal attributes (such as personality and attribution style) that facilitate or impair their fit with the environment. Lack of resources to manage job requirements and highly demanding situations were found to be early predictors of job-person incongruence (Petitta & Vecchione, 2011).

Chan (2006), in a study of Chinese teachers in Hong Kong, argued that individuals with enhanced EI might be less vulnerable to burnout, on the grounds that people high in emotional intelligence have better access to the information transmitted by emotions, and, therefore, to the appropriate action tendency for a given emotion. That is, according to Chan (2006), people high in EI use the information conveyed by emotions to make sense of their reactions to stressors, as well as to guide adaptive actions. Chan (2006) found that different components of EI had direct effects on the three components of burnout (emotional exhaustion, depersonalization, and reduced personal accomplishment). Mikolajczak, Menil, and Luminet (2007) also documented an empirical link between EI and burnout, finding that when confronted with emotional labor, participants who perceived themselves to be high in emotional intelligence experienced lower levels of burnout and somatic complaints.

*Hypothesis 3: Emotional intelligence will be related to burnout.*

### **Self-efficacy and Burnout**

The interactionist approach to the study of individual and contextual factors that conjointly explain employees' organizational behavior suggests that self-efficacy beliefs are an important personal resource in circumstances of stress and burnout (Petitta & Vecchione, 2011). Bandura (1986) argued that individuals' sense of mastery over their environment is crucial in shaping the person-environment relationship, and thus the likelihood of burnout resulting from a mismatch between employees and their job. Evers, Brouwers and Tomic (2002) argued that teachers holding weak self-efficacy beliefs vis-à-vis certain tasks appear to experience tension, stress, and aversion sooner than those holding strong self-efficacy beliefs. As burnout can be viewed as a response to prolonged tension and stress, they suggested that the degree to which teachers judge themselves capable would be related to how burned out they felt. Indeed, the authors found that weaker self-efficacy beliefs were related to higher scores on emotional exhaustion and depersonalization, and to lower scores on personal accomplishment. Chwalisz, Altmaier and Russell (1992) similarly found that teachers who scored low in self-efficacy reported a higher degree of burnout than their counterparts who scored high in self-efficacy.

*Hypothesis 4: Self-efficacy will be related to burnout.*

### **Self-efficacy and In-role Performance and OCB**

Self-efficacy beliefs, grounded in an individual's actual abilities (Bandura, 1986), provide employees with a working model which enables them to engage in situations that lead to desired outcomes, such as intense work for professional success and high achievement. This working model, or

belief system, drives the agentic activity that allows employees to explore and select experiences that will enable them to meet work demands or challenges. This process, in turn, enables employees to actively regulate their energy expenditure, thereby avoiding feelings of depletion and exhaustion. In short, a sense of mastery helps keep employees from feeling drained and exhausted in the face of intense and prolonged work hours and high workload. In keeping with this reasoning, Petitta and Vecchione (2011) found that self-efficacy was negatively related to exhaustion and positively related to professional efficacy – that is, a feeling of competence and ability to make a valuable contribution to the organization.

Empirical evidence bears out the expectation that self-efficacy will be positively related to both in-role performance and OCB. Jawahar et al. (2008) found such relationships in two samples. D'Amato and Zijlstra (2008) found a modestly significant relationship between self-efficacy and OCB in a sample of hospital employees, and Bolger and Somech (2004) found the same in an educational setting. Indeed, Bolger and Somech (2004) found that teachers who have high expectations of themselves and believe they will perform effectively and successfully in school carry out extra functions beyond those formally assigned to them. Likewise, a meta-analysis of 33 studies found a strong path between self-efficacy and job performance (Chen, Casper, & Cortina, 2001).

*Hypothesis 5: Self-efficacy will be positively related to in-role performance and OCB.*

### **Burnout and In-role Performance**

One of the most widely accepted (and intuitively appealing) negative consequences of burnout is impaired job performance (Halbesleben & Buckley, 2004). The relationship between burnout and job performance may be best explained in terms of the conservation of resources model of stress (COR) (Hobfoll & Freedy, 1993). The COR model suggests that burnout occurs in response to the loss or threatened loss of resources. As a result of that loss or threat of loss, employees tend to take steps to protect their resources. One way in which employees might seek to protect resources is to put less effort into their work, resulting in lower job performance (Halbesleben & Bowler, 2005). Taris (2006), also following the COR model, argues that high levels of burnout signify that workers possess insufficient resources to deal effectively with the demands of their jobs. Burnout reduces employees' capacity to exert control over the work environment, leading to impaired job performance.

As an alternative to the COR framework, Cropanzano et al. (2003) advance social exchange theory as explaining the relationship between burnout and job performance. Under this model, burnout should impede the development of high-quality social exchange relationships, for two reasons. First, burnout can be seen as a cost that qualifies the value of any benefits received through employment. Second, employees are apt to resent an organization that overworks them to the point of emotional exhaustion, causing them to perceive the organization's actions as unfair.

Besides the mechanisms described above, burnout is often accompanied by feelings of depression and loss of self-esteem, and it may also have physical components, such as hypertension, and behavioral aspects, like alcoholism and drug use (D'Amato & Zijlstra, 2008). All these factors have a detrimental effect on work outcomes. Empirical studies have, in general, found a negative relationship between burnout and in-role performance (Cropanzano et al., 2003; Halbesleben & Bowler, 2005; Parker and Kulik, 1995).

*Hypothesis 6: Burnout will be negatively related to in-role performance.*

### **Burnout and OCB**

Emotional exhaustion refers to feelings of being drained by other people (Sesen et al., 2011). To the extent that burnout, as reflective of chronic long-term stress, can negatively affect variables associated

with intrinsic motivation (e.g., engagement with work and sense of achievement; Maslach, 1986), it is appropriate to assume that such feelings of exhaustion – along with depersonalization (i.e., a callous and detached response to job duties) and a diminished sense of professional achievement – exert a negative effect on employees' willingness to put extra effort into their work or to volunteer beyond the call of duty (Cropanzano et al., 2003; van Emmerick et al., 2005). It can be assumed that emotionally exhausted employees will feel more tired, expend less effort at work, and be less willing to help others. Therefore, we can expect less OCB from emotionally exhausted employees.

The COR model discussed above in terms of the relationship between burnout and in-role performance can also explain the relationship between burnout and OCB. That is, employees who feel exhausted by job demands and role overload will presumably seek to protect their remaining psychological and physical resources. As such, these employees are unlikely to engage in resource-depleting extra-role behaviors (Halbesleben & Bowler, 2005). The social exchange theory suggested by Cropanzano et al. (2003) and described above can also explain the relationship between burnout and OCB, again using the same reasoning as for in-role performance.

Fewer studies have examined the relationship of burnout with OCB than with in-role performance (Chiu & Tsai, 2006). However, those findings that do exist support the arguments suggested here. Tarsi (2006), in a meta-analysis of 16 studies, found negative and modest relationships between burnout and OCB (-.19) as well as in-role performance (-.22). Sesen et al. (2011) found significant negative relationships between the three dimensions of burnout and altruistic or individual OCB (helping a specific person), and a significant negative relationship between one dimension of burnout (reduced personal accomplishment) and organizational OCB (impersonal OCB directed towards the organization in general). Cropanzano et al. (2003) found a negative relationship between burnout and two dimensions of OCB.

*Hypothesis 7: Burnout will be negatively related to OCB.*

### **Burnout as a Mediator**

Few studies have advanced burnout as a mediator. Cote and Miners (2006) suggested that compensatory effects may explain why EI was found to predict performance in some studies but not in others. They advanced cognitive intelligence as a moderator in the relationship between EI and job performance. Their findings supported their suggestion. Gilbert et al. (2010) found that burnout partially mediated the relationship between structural empowerment and OCB among healthcare professionals in Canadian hospitals.

Siegall and McDonald (2004) offer an explanation that can be used here as explaining the mediating role of burnout. According to their reasoning, people have limited resources (e.g. time and energy) with which to run their lives. Burnout results when a person lacks a sufficient and appropriate set of resources to meet his or her job demands. In response to stress, people attempt to cope by rebalancing their resources and demands. In short, when resources are not up to demands, a form of stress-based withdrawal known as burnout occurs. Since people have limited psychological and physical resources, a reasonable response to experiencing burnout is to shift resources from where they are not productive into areas that promise a better payoff. The withdrawal effect of burnout can be conceptualized in part as moving resources from the stressful element(s) of work into other job areas, or from work into non-work. Alternatively, one might simply choose to invest less in the stressful course of action, thereby using fewer total resources, rather than shifting resources from one area to another.

We argue here that EI and self-efficacy are associated with greater individual resources, making it easier for those endowed with high self-efficacy and high EI to cope with stressful situations. Therefore, high levels of EI and self-efficacy will reduce levels of burnout, and enable the individual to

invest more time not only in their formal obligations (i.e., in-role performance), but also in extra-role behaviors such as OCB.

*Hypothesis 8: Burnout will mediate the relationship between EI and self-efficacy and in-role performance and OCB.*

## METHODS

### Subjects and Procedure

The target population of this study was Arab teachers working in elementary schools in Arab communities in the North of Israel. It should be noted that 44% of the Arab population of Israel live in the North. We focused on this particular group in order to minimize variations that might be caused by including members of other, less homogeneous groups, such as Jewish teachers. The teachers filled out questionnaires on EI, self-efficacy, burnout, and demographics. Their principals filled out questionnaires on the teachers' in-role performance and OCB behaviors.

Two-hundred and fifty questionnaires were distributed in nine Arab elementary schools to teachers who were willing to participate in the study. As with all surveys in the Israeli educational system, formal permission for the survey was requested and obtained from the Israeli Ministry of Education. Usable questionnaires were returned by 221 teachers, a response rate of 88%. The number of questionnaires collected in each school ranged from 16 to 31 (response rates in the schools ranged from 80%-99%).

The principals of the nine schools (5 females, 4 males) provided data on OCB and in-role performance for those 221 teachers who returned usable questionnaires, in most cases a month or two after the questionnaires were collected. The teachers indicated their national identity numbers on the questionnaires to allow us to match their responses with the principals' evaluations. The questionnaires, which were in Arabic, were administered on-site and took about 20 minutes to complete. No compensation was provided. The questionnaires were translated from English using the common process of translation and back-translation by speakers of Arabic and English. Women made up 83.7% of the respondents, and 80% were younger than 40 years old. As for education, 65.2% had a BA degree and 14.9% had an MA degree.

### Predictor Measures

**Control Variables.** We controlled for three demographic variables: age (1=up to 20; 2=21-25; 3=26-30; 4=31-35; 5=36-40-; 6=41-45; 7=46-50; 8=51-55; 9=56-60; 10=older than 60), gender (1=male, 2=female), and education (1=university education, 0=non-academic education).

**Emotional intelligence.** Emotional intelligence was measured using the 33-item self-report measure developed by Schutte and her colleagues (1998). While Schutte et al. (1998) suggested a one-dimensional measure of EI, studies that examined this scale found strong evidence that the scale is multi-dimensional (Austin, Saklofske, Huang, & McKenney, 2004; Petrides & Furnham, 2000; Saklofske, Austin, & Minski, 2003). Therefore we divided the EI measure into three submeasures: appraisal and expression of emotion, regulation of emotion, and utilization of emotion. Responses ranged from 1 (strongly disagree) to 5 (strongly agree). Cronbach's alphas for these scales were 0.86, 0.80, and 0.77 for appraisal and expression, regulation, and utilization respectively.

**Self-efficacy.** The scale used here is based on Schwarzer, Schmitz and Daytner (1999) (see also Schwarzer, Mueller, & Greenglass, 1999). The 10-item scale measures self-efficacy expectations with regard to different job skills within the teaching profession, including job accomplishments; skill development on the job; social interaction with students, parents, and colleagues; and coping with job

stress. Responses ranged from 1 (strongly disagree) to 5 (strongly agree). Cronbach's alpha for the scale was 0.89.

**Burnout.** The 9-item scale used in this study was derived from Chan (2006), who developed it based on the Education Form of the 22-item Maslach Burnout Inventory (MBI) (Maslach & Jackson, 1986). Three items reflect each of the three components of burnout: emotional exhaustion, depersonalization, and personal accomplishment. Participants were requested to evaluate each item in terms of the frequency of their feelings, ranging from 0 (never) to 6 (every day). High scores on the first two scales and low scores on the last scale are indicative of burnout. Previous studies (Chan, 2006; 2007) supported the three-dimensional nature of the scale. Cronbach's alphas for these scales were 0.82, 0.71, and 0.76 for emotional exhaustion, depersonalization, and reduced personal accomplishment respectively.

#### **Outcome Variables: OCB and in-role performance**

The Williams and Anderson (1991) scale, a 21-item list, was applied in this study. The principals of the schools were asked to evaluate each of the teachers in the final sample on these items. The 21 items represent three dimensions, where seven items measure in-role performance, seven measure organizational OCB (impersonal OCB directed towards the organization in general), and seven measure altruistic OCB (helping a specific person). Each item is measured on a scale ranging from 1 (never) to 7 (always).

#### **Data Analysis**

To establish the discriminant validity of the study scales, confirmatory factor analysis (CFA) was performed using the SAS structural equation-modeling program. As the sample included teachers from nine different schools, we then analyzed the data using hierarchical linear modelling (Bryk & Raudenbush, 1992, pp. 84-86). As for mediation analysis, we used the multiple mediator approach proposed by Preacher and Hayes (2004, 2008) and Hayes (2009, 2012), including a bootstrapping procedure for testing the indirect effects.

## **RESULTS**

Means, standard deviations and correlations among the variables are displayed in Table 1. The findings showed acceptable reliabilities of the research variables, with high correlations among the dimensions of EI and between self-efficacy and EI (above .70 but below .80).

To preclude the possibility of multicollinearity and to test the scales' discriminant validity, particularly for the EI scales, we performed several confirmatory factor analyses. First, we compared the fit of a three-factor model for the three EI dimensions (appraisal and expression, regulation, and utilization of emotion) to the alternative fit of a single, one-factor model. We then performed the same analysis for the three dimensions of burnout (emotional exhaustion, depersonalization, and reduced personal accomplishment), and then again for the three dimensions of performance (in-role performance, organizational OCB, and altruistic OCB). As can be seen in Table 2, in all three cases the results for the three-factor model revealed a much better fit than the one-factor model, and thus support the superiority of the three-factor model in each case. To further examine the possibility of multicollinearity, we performed three hierarchical regressions, entering the variables in the same order as in the HLM. In no case did the variance inflation factor (VIF) exceed .5. Considering the common rule of thumb that if VIF is higher than 5 then multicollinearity is high (Kutner, Nachtsheim, Neter, and Li, 2005), we can conclude that in our data, multicollinearity is low.

Table 1  
Descriptive statistics, reliabilities (in parentheses), and inter-correlations among research variables

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
<i>Demographic variables</i>															
1. Age	4.85	1.58													
2. Gender (1=male; 2=female)	1.84	0.37	-.25**												
3. Education (1=academic; 0=none)	0.80	0.40	-.13	.12											
<i>Emotional intelligence</i>															
4. Perception and appraisal of emotions	3.74	0.55	-.11	.28***	.43***	(.86)									
5. Regulation of emotions	3.88	0.50	-.15*	.19**	.38***	.79***	(.80)								
6. Utilization of emotions	4.12	0.38	-.21**	.21**	.37***	.74***	.79***	(.77)							
7. Self-efficacy	3.16	0.49	-.23***	.22**	.42***	.78***	.77***	.74***	(.89)						
<i>Burnout</i>															
8. Emotional exhaustion	3.88	1.51	.12	.23***	-.30***	-.49***	-.37***	-.38***	-.44***	(.82)					
9. Depersonalization	1.71	0.98	-.01	-.19**	-.32***	-.62***	-.51***	-.50***	-.55***	.56***	(.71)				
10. Reduced personal accomplishment	2.95	1.11	.11	-.26***	-.29***	-.56***	-.54***	-.48***	-.54***	.14*	.36***	(.76)			
<i>Performance</i>															
11. In-role performance	4.03	0.40	-.13	.17*	.31***	.46***	.49***	.37***	.53***	-.40***	-.44***	-.44***	(.87)		
12. OCB altruism	3.40	0.52	-.32***	.24***	.31***	.61***	.60***	.55***	.66***	-.55***	-.57***	-.46***	.62***	(.87)	
13. OCB organization	3.60	0.42	-.28***	.14*	.34***	.45***	.51***	.44***	.58***	-.36***	-.38***	-.38***	.78***	.67**	(.73)

Table 2:  
Fit indices for the study scales and models

Model	Df	$\chi^2$	$\chi^2/df$	GFI	CFI	NFI	NNFI	IFI	MC	RMSEA
<i>Emotional intelligence</i>										
One-factor solution	27	1363.25	2.75	.68	.70	.61	.68	.71	.13	.09
Three-factor solution	24	73.51	3.06	.92	.96	.95	.94	.96	.89	.10
<i>Burnout</i>										
One-factor solution	27	296.49	10.98	.73	.64	.62	.52	.64	.54	.22
Three-factor solution	24	93.76	3.91	.91	.91	.88	.86	.91	.85	.12
<i>Performance</i>										
One-factor solution	27	213.37	7.90	.78	.84	.82	.79	.84	.66	.18
Three-factor solution	24	93.38	3.89	.91	.94	.92	.91	.94	.85	.11

Table 3 presents the results of the HLM analysis. Hypothesis 1, which postulated that EI would be positively related to in-role performance, was partly supported. As can be seen in Table 3 step 2, two dimensions of EI were related to in-role performance. However, the effect of EI disappeared when self-efficacy and, later, burnout were entered into the equation. Hypothesis 2, which postulated that EI would be positively related to OCB, was supported in general by the data. Two dimensions of emotional intelligence were related to altruistic OCB (Table 3, step 2), and one dimension was related to organizational OCB. It should be noted that this dimension (regulation of emotion) was related to the two forms of OCB, and its effects held when self-efficacy and burnout were included in the equations.

Hypothesis 3, which argued that EI would be related to burnout, was strongly supported by the data. The findings of the mediation analysis (which will be discussed below), showed strong mediation meaning that the independent variable, EI, was related to the mediator, burnout. Also, the bootstrapping analysis regression coefficients were all in the expected direction. Hypothesis 4, postulating that self-efficacy would be related to burnout, was also supported by the data. Here also the findings of the mediation analyses (which will also be discussed below), showed strong mediation, meaning that the independent variable, self-efficacy in this case, was related to the mediator, namely burnout. Here also, the bootstrapping regression coefficients were all in the expected direction.

Hypothesis 5, which postulated that self-efficacy would be positively related to in-role performance and OCB, was also supported by the data. The HLM analyses showed positive and significant relationships between self-efficacy and in-role performance and the two forms of OCB (see Table 3, step 3). These relationships held when burnout was entered into the equations (Table 3, step 4). Hypotheses 6 and 7, which postulated that burnout would be negatively related to in-role performance (H6) and OCB (H7), were supported by the data. The HLM analyses (see Table 3) showed that the three dimensions of burnout were related to altruistic OCB and in-role performance. One dimension of burnout was related to organizational OCB.

Hypothesis 8 argued that burnout would mediate the relationship between EI and self-efficacy, on the one hand, and in-role performance and OCB, on the other. The findings of the mediation analyses based on Preacher and Hayes (2004, 2008) approach showed a strong mediation effect of burnout for in-role performance and for altruistic OCB (tables can be achieved from the authors). This is strongly demonstrated in the confidence intervals that do not include zero in any of the cases. That is Burnout mediates the relationship between each of the three dimensions of EI as well as self-efficacy with in-role performance and OCB altruism. This is true for each of the dimensions of burnout separately and for burnout as an aggregated concept that includes the three dimensions.

As for OCB organization, in some of the relationships between EI and this dimension of OCB the confidence intervals include zero (except for utilization of emotions). The same was found for the relationship of self-efficacy and OCB organization. However, it should be noted that the confidence interval for the total scale of burnout does not include zero. This shows that burnout does mediate the relationship between EI and OCB organization, but not as strongly as it does for in-role performance and OCB altruism.

## DISCUSSION

Researchers have only recently begun to examine personal attributes such as emotional intelligence and self-efficacy in their relationship to OCB and in-role performance – a fact that is perhaps not surprising, as early research suggested that the relationship of these variables to performance and, particularly, OCB may be modest (Organ & Ryan, 1995). Yet there is strong theoretical justification for a link between EI and self-efficacy, on the one hand, and performance outcomes on the other. This study thus offers an important reexamination of these potential relationships. Moreover, unlike most work on the subject, the current study examines these concepts in a traditional culture, as opposed to a more usual Western setting.

Table 3

HLM analyses (estimates) of demographic variables, emotional intelligence, self-efficacy, and burnout, on OCB and in-role performance<sup>1</sup>.

Performance	<u>Altruistic OCB</u>				<u>Organizational OCB</u>				<u>In-role performance</u>			
	Step 1	Step 2	Step 3	Step 4	Step 1	Step 2	Step 3	Step 4	Step 1	Step 2	Step 3	Step 4
N	221	221	221	221	221	221	221	221	221	221	221	221
Intercept	3.12***	1.06**	1.08**	3.08***	3.55***	2.20***	2.24***	3.15***	3.64***	2.53***	2.55***	3.93***
<i>Demographic variables</i>												
1. Age	-.08***	-.07***	-.06***	-.06***	-.06***	-.05***	-.04***	-.04***	-.02	-.02	-.01	-.01
2. Gender (1=male; 2=female)	.21*	.05	.05	.02	.06	-.04	-.03	-.04	.13	.03	.03	.01
3. Education (1=academic; 0=none)	.34***	.03	.01	-.05	.26***	.07	.05	.02	.29***	.07	.05	.02
<i>Emotional intelligence</i>												
4. Perception and appraisal of emotions		.27***	.16	-.02		.10	-.02	-.10		.15*	.06	-.06
5. Regulation of emotions		.32***	.22**	.21*		.27***	.17*	.17*		.22***	.15	.13
6. Utilization of emotions		.07	-.00	-.02		.05	-.03	-.05		.00	-.06	-.07
7. Self-efficacy			.32***	.23**			.34***	.30***			.27***	.20**
<i>Burnout</i>												
8. Emotional exhaustion				-.09***				-.03				-.05**
9. Depersonalization				-.09**				-.07**				-.06*
10. Reduced personal accomplishment				-.07**				-.02				-.06**
Random variance of school	.01	.02	.01	.01	.03*	.04*	.04*	.04*	.04*	.04*	.04*	.04*
-2loglikelihood	302.9	214.3	205.4	179.2	181.7	125.8	107.1	108.8	216.7	125.9	116.4	105.8
$\Delta$ -2loglikelihood		88.6***	8.9**	26.2***		55.9***	18.7***	-1.7		90.8***	9.5**	10.6**

Of the two personal variables, EI is a relatively new concept in scientific management and industrial psychology research. EI is the common element that influences the different ways, in which people handle frustration, control their emotions, and interact with others – in short, develop in their lives, jobs, and social skills. High EI is considered to be a crucial attribute for business leaders, whose goal is to get the best out of their staff or team (Modassir & Singh, 2008). Indeed, Modassir and Singh (2008) suggest that EI may make the difference between being simply a brilliant person and being a brilliant manager.

The findings presented here show the usefulness of EI and self-efficacy for a better understanding of both OCB and in-role performance. First, it documents EI as a concept that warrants further examination in its relationship to performance outcomes. Looking more specifically at the findings, the results of the HLM showed that one dimension of EI was significantly related to organizational OCB, while two dimensions of EI were significantly related to altruistic OCB and in-role performance (Table 2, step 2). These findings provide support for Winkel, Wyland, Shaffer and Clason (2011), who argued that high-EI individuals possess the ability to “read” social situations in the workplace and identify opportunities to lend a helping hand. Thus, EI is a key resource individuals can use to identify situations in which they can engage in behaviors to benefit their organization or coworkers.

The findings of this study showed a strong and consistent positive relationship between self-efficacy and OCB and in-role performance. This was demonstrated in the HLM findings. Self-efficacy has been described as a person’s appraisal of his or her capacity to master specific domains of action – for example, the capacity to deal successfully with opportunities and challenges associated with the work role. Self-efficacy influences an employee’s appraisal of a given situation and any applicable rules or procedures, and, therefore, will affect his or her decisions and behavior at work (D’Amato & Zijlstra, 2008). The findings here strongly support the notion that individuals who perceive themselves as efficacious activate sufficient effort that, if well-executed, produces successful outcomes (Bandura, 1986). Future research should further examine self-efficacy in its relationship to OCB and in-role performance. An interesting research question is whether self-efficacy is a more important determinant in a traditional culture, such as the one examined here. That question is beyond the scope of the current work and must await future studies.

One of the most important results of this study is the relationship of burnout to OCB and in-role performance. All three dimensions of burnout were negatively related to altruistic OCB and in-role performance in the HLM findings. The finding of the mediating analyses using Preacher and Hayes (2004, 2008) approach supported the relationship between burnout and OCB and in-role performance. The strong relationship between burnout and in-role performance provides strong support for the conservation of resources (COR) model of stress (Hobfoll & Freedy, 1993). According to this model, burnout occurs in response to either the loss or threatened loss of resources. One way in which employees might seek to protect resources is to put less effort into their work, resulting in lower job performance (Halbesleben & Bowler, 2005) and OCB. Social exchange theory (Cropanzano et al., 2003) can also be considered as supported by the findings here. According to that theory, burnout, because it is personally costly and often resented by the individual, should impede the development of high-quality social exchange relationships.

The findings here suggest that organizations should pay more attention to the role of burnout in its relationship to in-role performance and, particularly, OCB. Commonly, the approach taken by organizations to increase OCB is to invest in human resource management tools and strategies. Managers should be aware of the possibility that some such strategies may increase employees’ workload, and thereby increase the likelihood of burnout, which in turn may reduce OCB and perhaps even job performance. Organizations that want their employees to engage more in OCB should ensure that employees’ work demands do not overload them and deplete their resources. The findings showing

a strong mediating effect of burnout support our argument that EI and self-efficacy increase individual resources and make it easier for employees to cope with stressful situations. Therefore, high levels of EI and self-efficacy will reduce burnout and enable the individual to invest more time and effort not only in their formal obligations, such as in-role performance, but also in extra-role behaviors such as OCB (Siegall & McDonald, 2004).

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**END NOTE**

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## SENSE OF COHERENCE AND MINDFULNESS OF WOMEN IN LEADERSHIP IN HIGHER EDUCATION INSTITUTIONS

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### ABSTRACT

This paper explores the relationship between a Sense of Coherence (SOC) and Mindfulness amongst women in leadership positions in higher education (HE). Data was collected and analysed from an exploratory sample of 53 women, with the majority of them being based in South Africa. Antonovsky's Life Orientation Questionnaire and the Freiburger Mindfulness Inventory was administered. Findings indicate that manageability was the most important SOC dimension. Significant correlations were found between comprehensibility and position and South African cultural background. No significant correlations were found between mindfulness and the biographical variables. The correlations between the SOC scales indicate linear relationships between comprehensibility, meaningfulness and manageability. A significant correlation was found between manageability and mindfulness. The paper offers recommendations for gender-specific leadership development in HE.

**Keywords:** Women, leadership, sense of coherence, mindfulness, higher education, female leadership, gender, South Africa

### INTRODUCTION

At the beginning of the 21st century, challenges in African HE institutions are based on complex interaction patterns of cultural, sociological, economical, psychological, historical and political factors which foster these inequalities (Teferra & Altback, 2004). However, women in leadership positions in South Africa are increasing (Eagly & Carli, 2003) as HE institutions aim at rectifying gender imbalances and increasing the number of females. (e.g. Chimombo, 2003; Wondimu, 2003). Women in HE still experience exclusion and marginalization in both administrative and academic tracks in senior academic and research positions (Mama, 2003). SOC (Mayer, 2011) and mindfulness can help women to deal with these challenges and stay healthy (Nelson & Burke, 2000).

Health is a key research topic in gender research in Africa (Boadu, 2000; Lewis, 2002; Pereira, 2002), however, research on women in work contexts within African organisations has been expanded only recently (Darkwah, 2002, 2007; Rutenge Bagile, 2002-2003), focusing on the health of women in leadership positions. (Mayer & Van Zyl, 2013 in process (Amanatullah & Morris, 2010; Baxter, 2012).

In this paper, SOC and mindfulness is introduced, the research purpose, methodology and research findings is also analysed and discussed, followed by a conclusion and set of recommendations .

### **SENSE OF COHERENCE (SOC)**

“Well-being at work can bring several benefits to organisations and employees” (Donaldson & Ko, 2010:183). Thereby, health is defined as “a state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity” (WHO, 2002), including physical, social, and psychological (mental) dimensions (Mayer & Boness, 2011a).

Previous studies have compared gender-specific behaviour (e.g. Eagly, Johannesen-Schmit, & Van Engen, 2003), differences in the (mental) health of men and women (Sachs-Ericson & Ciarlo, 2010) and focused on gender differences and health (Carless, 1998). Research on SOC in female academics in HE in South Africa has shown that SOC scores are below average (Bezuidenhout & Cilliers, 2010).

Salutogenesis deals with the question "What keeps people healthy?" (Antonovsky, 1979) and is based on the concept of SOC which is defined as a major life orientation (Mayer & Boness, 2011b; Rothmann, Steyn, & Mostert, 2005). SOC includes three major components (Antonovsky, 1979):

- A sense of comprehensibility describes the ability to process familiar and unfamiliar stimuli as ordered, consistent, structured information, and not as chaotic, random, accidental and inexplicable.
- A sense of manageability indicates confidence in the perception that resources are at one's disposal, are “adequate to meet the demands posed by the stimuli” (Antonovsky, 1987:17).
- A sense of meaningfulness is responsible for how life is experienced namely, either as meaningful or as a burden (Bengel, Strittmatter & Willmann, 2001: 26).

### **MINDFULNESS**

Mindfulness (Baer, 2003) having derived from a Buddhist tradition and being associated with almost all spiritual traditions (Cashwell, Paige Bentley & Bigbee, 2007) has recently gained interdisciplinary interest (Hunter & McCormick, 2008; Kabat-Zinn, 2006; Segal, Williams & Teasdale, 2002).

Mindfulness has been defined in various ways, with foci including cognition, awareness (metacognition), and emotion (Kohls, Sauer & Walach, 2009, Irving, Dobkin & Part, 2009, Sauer, Walach & Kohls, 2011). In cases of mindfulness one is aware of one's own actions and can focus on the present moment (Brown & Ryan, 2003). Mindfulness qualities include, „nonjudging, acceptance, non-attachment, beginner's mind, non-striving, gentleness and kindness“ (Schmidt, 2004:9). Mindfulness is hence a pathway for cultivating a non-reactive self that is able to intelligently register multiple perspectives in oneself and in others (Atkins, 2008).

### **THE RELATIONSHIP BETWEEN A SENSE OF COHERENCE AND MINDFULNESS**

Health is influenced by mindfulness (Grossman, Niemann, Schmidt & Walach, 2004; Kohls, Walach & Lewith, 2009) and viewed as „the hallmark of a spiritual path“ (Cashwell, Paige Bentley & Bigbee, 2007: 71). It is connected to SOC, self and identity (Christopher, Chrisman, Trotter-Mathison, Schure, Dahlen and Christopher, 2011). Mindfulness in women has mainly been studied in clinical settings (Dobkin, 2008; Dobkin & Zhaong, 2011; Henderson, Clemow, Massion, Hurley, Druker and Hébert, 2012) and has been reported to increase through training interventions (Ando, Natsume, Kukihiro, Shibata and Ito, 2011).

## PURPOSE AND OBJECTIVES

The literature review reveals that there appears to be a void in research on SOC, mindfulness and gender in HE institutions in South Africa. Therefore, this paper aims at contributing to a better understanding of the relationship between SOC and mindfulness of women in middle and senior leadership positions in HE institutions.

The primary objective is to understand the profile and nature of the relationship between SOC, mindfulness and biographical variables. The secondary objectives are to: a) determine the profiles of SOC and mindfulness amongst women who participated in this study; b) ascertain the effect of the selected biographical variables; c) establish the nature of the relationship between the SOC scales; and d) establish the nature of the relationship between the SOC scales and mindfulness. To achieve the secondary objectives of this study, the following hypotheses have been stated:

*Hypothesis 1: There are no statistically significant differences in the mean scores of the SOC scales and selected biographical variables, such as (a) position, (b) education, (c) marital status, (d) cultural background, (e) South African background, and (f) religion.*

*Hypothesis 2: There are no statistically significant differences in the mean scores of the mindfulness scale and selected biographical variables, such as (a) position, (b) education, (c) marital status, (d) cultural background, (e) South African background, and (f) religion.*

*Hypothesis 3: There are no statistically significant correlation between the scales in the sense of coherence instrument.*

*Hypothesis 4: There are no statistically significant correlation between the scales in the sense of coherence instrument and the mindfulness instrument.*

The findings can be used to develop appropriate context specific intervention strategies for increasing SOC and mindfulness in women in HE.

## RESEARCH METHODOLOGY

A positivistic research paradigm is most appropriate for this research, given the quantitative nature of this exploratory study and the stated hypotheses. In this paradigm, explanation “consists of establishing casual relationships between the variables by establishing causal laws and linking them to deductive or integrated theory” (Collis & Hussey, 2003: 53).

To give effect to the research objectives and to test the stated hypotheses, an empirical survey, was distributed to women working in HE in South Africa and internationally. The research population included all women on the HERS-SA database and its wider network. HERS-SA is an organisation that supports the leadership development of women in higher education in South Africa and abroad. Questionnaires were also distributed using snowball sampling. The questionnaires were voluntarily and anonymously completed. A total of 53 respondents completed the self-administered questionnaire and as such this study will be regarded as exploratory in nature and the findings as preliminary. Not all the respondents responded to all the questions in the questionnaire. The number of respondents for each question will be reflected in the findings section.

### **The data collection, research instruments and data analysis**

The data was collected by administering the the Antonovsky (1979; 1997) Life Orientation Questionnaire (SOC) and the Freiburger Mindfulness Inventory. The SOC questionnaire assessed the three components by a 29-item scale with seven-point semantic differential questions. The SOC scales yield internal reliability indices of between 0.78 and 0.93, and test-retest reliability indices of between

0.56 and 0.96 (Antonovsky, 1997). Antonovsky (1993) reported a consistently high correlation coefficient ranging between 0.83 and 0.93, indicating the internal consistency and reliability of the SOC scales. Others confirmed the internal consistency at 0.80 (Jackson & Rothmann, 2001), and 0.91 (Lustig & Strauser, 2002) and a high test-retest reliability of 0.90 (Cilliers & Kossuth, 2004) and 0.93 at a 30-day interval (Frenz, Carey & Jorgensen, 1990). Antonovsky (1993) reported construct validity varying between 0.38 and 0.72. Construct, content, face, consensual, predictive and criterion validity was confirmed (Antonovsky, 1993; Kivimaki, Feldt, Vahtera & Nurmi 2000). For the South African context validity of the instrument was confirmed (Randall, 2007). Previous South African studies have focused on SOC in other work contexts (Mayer & Boness, 2009; Mayer et al., 2010; Strümpfer & Wissing, 1998).

The Freiburger Mindfulness Inventory (Walach, Buchheld, Buttenmüller, Kleinknecht & Schmidt, 2006) assessed mindfulness by using the short version (FMI-14), including 14 items (FMI-14, 14 items, 1 factor,  $\alpha = .79, .86$ ). The FMI has been replicated previously in confirmatory analysis and has seen external validation in various types of populations. A one dimensional shortform (Walach et al., 2006) and a two factorial solution of the short form of the FMI-14 exist (Ströhle, 2006), being an alternative to the long form (FMI-30) (Buchheld & Walach, 2002). The FMI-14 shows acceptable internal consistency ( $\alpha = .86$ ), is widely used, has been validated in a number of studies and was employed in this study. It assesses mindfulness in clinical and non-clinical populations (Sauer, Walach, Offenbächer, Lynch & Kohls, 2011), is empirically validated English speaking populations and assesses awareness and non-judgment of present moment experiences (Walach, et. al, 2006; Heidenreich, Ströhle, & Michalak, 2006; Kohls, Sauer & Walach, 2009).

The data was analysed using the IBM SPSS statistics V21 software package (IBM SPSS Statistics, 2012). Each of the research instruments considered were used to calculate descriptive statistics, such as the mean and standard deviation, relating to sense of coherence and mindfulness scales. As a result of the small size of this data set, and the exploratory nature of this study, univariate statistical methodologies were used to test the various hypotheses. Care should be taken when interpreting the results reported in this study owing to the small sample size.

One-way ANOVAs were used to determine whether there were significant differences in the mean scores, for the SOC and mindfulness scales, and the effect of selected biographical variables on these mean scores. Where appropriate, the Cohen's *d* estimates provide an indication of whether the statistically significant differences ( $p \leq 0.05$ ) are also practically significant (Terre Blanche *et al.*, 1999: 341-342). In this study the Cohen's *d* estimate is a measure of the effect size for the mean group difference. The practical significance of the Cohen's *d* estimate has a small effect when  $0.2 \leq d \leq 0.5$ ; medium effect when  $0.5 \leq d \leq 0.8$ ; and large effect when  $d > 0.8$ . Pearson's correlation coefficient and the associated t-test were used to assess the correlation between the scales of the SOC research instrument, and between the scales of the SOC and mindfulness instruments.

The research participants agreed to participate voluntarily and completed the questionnaire electronically and anonymously. The names and positions of the women were not linked with the content of the data, to ensure confidentiality. Confidentiality was maintained throughout the research process and upon the publication of research findings.

The limitation of this research is that it is based on one selected gender sample with a limited number of respondents, working in middle and senior level leadership positions in HE. Considering the limited sample size, this research should be viewed as exploratory in nature. Despite this, other women leaders and leadership development specialists in HE can benefit by drawing on the findings of this research.

## RESEARCH FINDINGS

The biographical data is integrated into the findings section and will thus not be explicitly stated. In this section the findings pertaining to the reliability, of SOC and mindfulness, and the relationship between SOC and mindfulness will be discussed.

### Reliability of findings

According to Sekaran (1992), as a rule of thumb, Cronbach's alpha coefficients of less than 0.60 are considered as being poor, between 0.60 and 0.70 as acceptable, and over 0.8 as good. However, even though the generally accepted threshold for Cronbach's alpha is 0.70, this limit may be lowered to 0.60 in exploratory research (Nunnally, 1978; Robinson, Shaver & Wrightsman, 1991).

In this research overall Cronbach's alpha coefficient for SOC was good at 0.914. The Cronbach's alpha coefficients were good for Comprehensibility (0.830), acceptable for Manageability (0.791) and poor for Meaningfulness (0.582). Caution thus has to be exercised in interpreting the results with regard to Meaningfulness since the Cronbach's alpha coefficient score was slightly lower than the lowered threshold of 0.60. Given the exploratory nature of this study and the explanation provided, it was decided to include the SOC dimension of Meaningfulness in the findings. The overall Cronbach's alpha coefficient for Mindfulness is 0.809.

### Sense of Coherence

In response to the research objective on *“determining the profile of the SOC of women in leadership in HEI”* the following findings are pertinent based on 53 respondents. Manageability (mean score 5.18, standard deviation 0.70) was the most important SOC dimension to the women in leadership. Second it was meaningfulness (mean score 4.83, standard deviation 0.46) followed lastly by comprehensibility (mean score 4.57, standard deviation 0.87).

In response to the the following research objectives on *“ascertaining the extent to which the selected biographical variables effect the dimensions of SOC”* by determining whether there is a difference between the selected biographical variables and the mean scores of SOC in women in leadership in HEIs, the findings provided in this section are pertinent.

*The relevant first null hypothesis is stated as  $H_0^1$ : There are no statistically significant differences in the mean scores of the SOC scales and selected biographical variables, such as position  $H^{1.1a}$ , education  $H^{1.1b}$ , marital status  $H^{1.1c}$ , cultural background  $H^{1.1d}$ , South African background  $H^{1.1e}$ , and religion  $H^{1.1f}$ .*

In the next sections the descriptive statistics as well as the ANOVA's will be presented to give effect to the stated objectives and null hypothesis relevant to SOC and selected biographical variables. For the sake of brevity, only the significant ANOVA findings pertaining to the SOC dimensions will be presented (Table 1).

### Sense of coherence and position

The positions occupied by women in leadership in the HEIs are classified as follows:

- *Academic level* includes academic staff from lecturer to Professorship levels;
- *Executive level* includes associate deans, deans, vice rectors and executive management;
- *Administrative management level* includes client services, all managers; and
- *Consultant level.*

The data on the position occupied by women in leadership in HEIs provided evidence that manageability was the most important SOC dimension across all the position levels, namely academic (respondent = 33, mean score 5.16, standard deviation 0.73), executive (respondents = 6, mean score

5.57, standard deviation 0.67), managerial (respondents = 9, mean score 4.94, standard deviation 0.64) and consultant (respondents = 5, mean score 5.30, standard deviation 0.68). For all the position levels, except for the executive level, meaningfulness (overall mean score 4.83, standard deviation 0.46) was more important than comprehensibility (overall mean score 4.57, standard deviation 0.87).

A one-way ANOVA indicated that there was a significant difference between the mean scores of the comprehensibility orientation scale and position, at the 5% significance level: Comprehensibility ( $F = 4.464$ ,  $df = 52$ ,  $p\text{-value} = 0.008$ ), as shown in Table 1. There were no significant differences between the mean scores of the manageability and meaningfulness orientation scales and position, at the 5% significance level: meaningfulness ( $F = 2.625$ ,  $df = 52$ ,  $p\text{-value} = 0.61$ ), manageability ( $F = 0.993$ ,  $df = 52$ ,  $p\text{-value} = 0.404$ ).  $H^{1.1a}$  is thus not rejected except in terms of position and comprehensibility. Since the sample sizes vary according to the number of respondents in each position level, it is appropriate to ascertain the effect of the sample size on the statistically significant results by using the Cohen's  $d$  estimate, as previously described. In this case the Cohen's  $d$  estimate is 1.0467, representing a large sample size effect. Consequently this result cannot be inferred to the whole population and would be limited to the respondents who participated in this research.

### ***Sense of coherence and education***

Most of the respondents, namely 31, have a doctorate degree, four have a bachelor degree, two a honours degree, and 16 a master's degree. Irrespective of the level of education, overall manageability had the highest mean score of 5.18 (standard deviation 0.70), followed by meaningfulness (mean score 4.83, standard deviation 0.46) and comprehensibility (mean score 4.57, standard deviation 0.87). The respondents who have masters and doctorate degrees scored manageability higher on mean values 5.18 and greater, than those who have honours and Bachelor degrees. Meaningfulness was scored the lowest (mean score 4.19, standard deviation 0.79, respondents = 2) by respondents with honours degrees and regarded as being equally important by respondents from all the other levels of education. Comprehensibility was scored the highest by the respondents with masters (mean score 4.54, standard deviation 1.04, respondents = 16) and doctorate (mean score 4.71, standard deviation 0.70, respondents = 31) degrees.

A one-way ANOVA indicated that there were no significant difference between the mean scores of the SOC scale and the level of education, at the 5% significance level: Comprehensibility ( $F = 1.723$ ,  $df = 52$ ,  $p\text{-value} = 0.174$ ), meaningfulness ( $F = 1.469$ ,  $df = 52$ ,  $p\text{-value} = .234$ ), manageability ( $F = 0.618$ ,  $df = 52$ ,  $p\text{-value} = 0.607$ ).  $H^{1.1b}$  is thus not rejected.

### ***Sense of coherence and marital status***

Most of the respondents are married (33), twelve are single and six are either divorced or widowed. Irrespective of the marital status, overall manageability had the highest mean score of 5.19 (standard deviation 0.71, respondents = 51), followed by meaningfulness (mean score 4.84, standard deviation 0.46) and comprehensibility (mean score 4.55, standard deviation 0.88, respondents = 51). The respondents who are married or divorced scored higher on manageability (mean values greater than 5.22) than respondents who are single. Meaningfulness was scored slightly higher (mean score above 4.88) by respondents who are married or divorced while comprehensibility was scored slightly higher (mean score 4.69, standard deviation 1.11, respondents = 6) by respondents who are divorced.

A one-way ANOVA indicated that there were no significant difference between the mean scores of the SOC scale and the marital status, at the 5% significance level: Comprehensibility ( $F = 0.085$ ,  $df = 50$ ,  $p\text{-value} = 0.918$ ), meaningfulness ( $F = 0.820$ ,  $df = 50$ ,  $p\text{-value} = 0.446$ ), manageability ( $F = 0.765$ ,  $df = 50$ ,  $p\text{-value} = 0.471$ ).  $H^{1.1c}$  is thus not rejected.

***Sense of coherence and cultural background***

Twenty seven of the respondents who responded to this question, are South African and eleven non-South African. Irrespective of the cultural background, overall manageability had the highest mean score of 5.26 (standard deviation 0.69), followed by meaningfulness (mean score 4.85, standard deviation 0.45) and comprehensibility (mean score 4.64, standard deviation 0.90).

A one-way ANOVA indicated that there were no significant differences between the mean scores of the SOC scale and the social background of the respondents, at the 5% significance level: Comprehensibility ( $F = 0.010$ ,  $df = 37$ ,  $p\text{-value} = 0.922$ ), meaningfulness ( $F = 0.308$ ,  $df = 37$ ,  $p\text{-value} = 0.582$ ), manageability ( $F = 0.579$ ,  $df = 37$ ,  $p\text{-value} = 0.452$ ).  $H^{1.1d}$  is thus not rejected.

***Sense of coherence and South African cultural background***

Eighteen of the respondents are white women, three black/African, four Indian, one coloured and five represented an “other” category. Irrespective of the South African cultural background, overall manageability had the highest mean score of 5.29 (standard deviation 0.69) followed by meaningfulness (mean score 4.83, standard deviation 0.49) and comprehensibility (mean score 4.62, standard deviation 0.99). Only the white women respondents differed to all the other respondents by allocating the highest score to manageability (means score 5.39, standard deviation 0.67), followed by comprehensibility (mean score 5.04, standard deviation 0.82) and lastly meaningfulness (mean score 4.98, standard deviation 0.40). The category “other” has been excluded from this analysis.

A one-way ANOVA indicated that there were no significant differences between the mean scores of the following SOC scales and the South African cultural background, at the 5% significance level: Meaningfulness ( $F = 1.688$ ,  $df = 30$ ,  $p\text{-value} = 1.183$ ), manageability ( $F = 0.329$ ,  $df = 30$ ,  $p\text{-value} = 0.856$ ). There was, however a statistically significant difference between the means score of comprehensibility ( $F = 3.501$ ,  $df = 30$ ,  $p\text{-value} = 0.020$ ) and the South African cultural background, as shown in Table 1.  $H^{1.1e}$  is thus not rejected, except in the instance of comprehensibility. The associated Cohen’s  $d$  estimate is 1.4676, indicating that the small sample size has significant practical implications in interpreting this result.

***Sense of coherence and religion***

Most, namely 32, of the respondents indicated that they are Christians. Three respondents regarded themselves as being Atheist, two Buddhist, three Hindu and two as being “Spiritual”. Irrespective of the religious orientation, overall manageability had the highest mean score of 5.27 (standard deviation 0.63), followed by meaningfulness (mean score 4.84, standard deviation 0.45) and comprehensibility (mean score 4.61, standard deviation 0.84). The only exception to this rating order were the respondents who considered themselves as being “Spiritual” who regarded manageability (mean score 5.70, standard deviation 0.42) as being the most important, followed by comprehensibility (mean score 5.00, standard deviation 0.38) and lastly meaningfulness (mean score 4.69, standard deviation 1.15). Respondents who regarded themselves as being “Spiritual” scored the highest on manageability (mean score 5.70, standard deviation 0.42) and comprehensibility (mean score 5.00, standard deviation 0.38). Meaningfulness (mean score 5.21, standard deviation 0.19) was scored the highest by the “Atheist” group. Respondents who belong to the “Hindu” religion scored the lowest on all the SOC dimensions, with mean score for manageability of 4.90 (standard deviation 0.70), meaningfulness (mean score 4.80, standard deviation 0.59) and comprehensibility (mean score 3.75, standard deviation 1.04).

A one-way ANOVA indicated that there were no significant differences between the mean scores of the SOC scales and religion, at the 5% significance level: Comprehensibility ( $F = 0.919$ ,  $df = 41$ ,  $p\text{-value} = 0.463$ ), meaningfulness ( $F = 0.613$ ,  $df = 41$ ,  $p\text{-value} = 0.656$ ), manageability ( $F = 0.564$ ,  $df = 41$ ,  $p\text{-value} = 0.690$ ).  $H^{1.1f}$  is thus not rejected.

**Table 1 : ANOVAs for SOC dimensions (Comprehensibility) and biographical variables: Significant differences**

Comprehensibility and biographical variables			Sum of Squares	df	Mean Square	F	Sig.
Position	Between Groups	(Combined)	8.39	3	2.8	4.47	.00
	Within Groups		30.69	49	.62		
	Total		39.08	52			
South African Cultural Background	Between Groups	(Combined)	10.47	4	2.61	3.50	.02
	Within Groups		19.43	26	.74		
	Total		29.90	30			

The findings pertaining to mindfulness will be given in the next section.

### **Mindfulness**

In response to the research objective on “*determining the profile of the mindfulness of women in leadership in HEI*” the following findings are pertinent. It was evident that the mean score for mindfulness is slightly above average, 2.99 (standard deviation 0.42, minimum 2.07 and maximum 3.79, n = 53).

In response to the the following research objectives on “*ascertaining the extent to which the selected biographical variables effect mindfulness*” by determining whether there is a difference between the selected biographical variables (such as position, education, marital status, cultural background, South African background, and religion) and the mean score of mindfulness of women in leadership in HEIs, the findings given in this section are pertinent.

*The relevant second null hypothesis is stated as Ho<sup>2</sup>: There are no statistically significant differences in the mean score of the mindfulness scale and all the selected biographical variables, such as position H<sup>1.1a</sup>, education H<sup>1.1b</sup>, marital status H<sup>1.1c</sup>, cultural background H<sup>1.1d</sup>, South African background H<sup>1.1e</sup>, and religion H<sup>1.1f</sup>*

### **Mindfulness and position**

The respondents in executive (mean score 3.15, standard deviation 0.27) and consultant (mean score 3.16, standard deviation 0.44) positions scored the highest on mindfulness while those in academic positions scored the lowest (mean score 2.91, standard deviation 0.42).

A one-way ANOVA indicated that there were no significant differences between the mean score of mindfulness and the position of the respondents (F = 1.181, df = 52, p-value = 0.326) at the 5% significance level. H<sup>2.1a</sup> is thus not rejected.

### **Mindfulness and education**

The respondents with an honours degree (mean score 3.43, standard deviation 0.50) and masters degree (mean score 3.06, standard deviation 0.43), bachelor degree (mean score 2.98, standard deviation 0.58) scored the highest in mindfulness while those with a doctorate degree scored the lowest (mean score 2.93, standard deviation 0.38).

A one-way ANOVA indicated that there were no significant differences between the mean score of mindfulness and the level of education of the respondents ( $F = 1.073$ ,  $df = 52$ ,  $p\text{-value} = 0.369$ ) at the 5% significance level.  $H^{2.1b}$  is thus not rejected.

#### ***Mindfulness and marital status***

Mindfulness was scored the highest by the respondents who are married (mean score 3.05, standard deviation 0.38) and lowest by those who are divorced or widowed (mean score 2.70, standard deviation 0.55).

A one-way ANOVA indicated that there were no significant differences between the mean score of mindfulness and the marital status of the respondents ( $F = 1.712$ ,  $df = 50$ ,  $p\text{-value} = 0.191$ ) at the 5% significance level.  $H^{2.1c}$  is thus not rejected.

#### ***Mindfulness and cultural background***

Mindfulness was scored the highest by the respondents who are South African (mean score 3.08, standard deviation 0.31) and a mean score of 2.93 (standard deviation 0.39) by non-South African respondents. It should be noted that the difference in mean scores between the respondent groups is slight.

A one-way ANOVA indicated that there were no significant differences between the mean score of mindfulness and the cultural background of respondents ( $F = 1.454$ ,  $df = 38$ ,  $p\text{-value} = 0.236$ ) at the 5% significance level.  $H^{2.1d}$  is thus not rejected.

#### ***Mindfulness and South African cultural background***

Respondents who are Coloured (mean score 3.29, standard deviation 0.00) scored mindfulness the highest, second highest by the White respondents (mean score 3.15, standard deviation 0.24) and lowest by the African/Black respondents (mean score 3.09, standard deviation 0.55). It should, however, be noted that even though there are small differences in the scoring of the different groups of respondents, all the responses are above a mean score of 3.00 which is high overall, given the 4-point Likert type scale.

A one-way ANOVA indicated that there were no significant differences between the mean score of mindfulness and the cultural background of respondents ( $F = 1.616$ ,  $df = 37$ ,  $p\text{-value} = 0.200$ ) at the 5% significance level.  $H^{2.1e}$  is thus not rejected.

#### ***Mindfulness and religion***

Mindfulness was scored slightly higher by the respondents who are Spiritual (mean score 3.18, standard deviation 0.04) and Buddhist (mean score 3.10, standard deviation 0.45). It should, however, be noted that even though there are small differences in the scoring of the different religious orientations of respondents, all the responses are above a mean score of 3.00 which is high overall, given the 4-point Likert type scale.

A one-way ANOVA indicated that there were no significant differences between the mean score of mindfulness and the religious orientation of respondents ( $F = 0.090$ ,  $df = 41$ ,  $p\text{-value} = 0.985$ ) at the 5% significance level.  $H^{2.1f}$  is thus not rejected.

#### **Relationship between sense of coherence and mindfulness**

In response to the research objectives on “*establishing the nature of the relationship between the scales in the sense of coherence research instrument*” and “*the relationship between the scales of sense of coherence research instrument and the mindfulness research instrument*” the following findings are pertinent. The associated third and fourth null hypotheses are stated as:

*Ho<sup>3</sup>: There are no statistically significant correlations between the scales of the sense of coherence instrument*

*Ho<sup>4</sup>: There are no statistically significant correlations between the scales of the sense of coherence instrument and the mindfulness instrument*

The Pearson's correlation coefficient was used to assess correlations between the various scales of the SOC and between the scales of SOC and the mindfulness scale. Complete observations were used in calculating the Pearson's correlation coefficients and associated p-values shown in Table 2. With regard to SOC, significant correlations (as shown in Table 2) were found between the scales on the SOC instrument. Significant relationships were found between comprehensibility and manageability ( $r = 0.63$ ,  $p\text{-value} = 0.00$ ), comprehensibility and meaningfulness ( $r = 0.61$ ,  $p\text{-value} = 0.00$ ), manageability and meaningfulness ( $r = 0.56$ ,  $p\text{-value} = 0.00$ ), at the 1% level of significance.

Hypothesis  $Ho^3$ , that there are no statistically significant correlations between the scales of the SOC instrument, is thus rejected at the 1% level of significance. The correlations between the scales of the SOC research instrument indicate that there are linear relationships between comprehensibility, meaningfulness and manageability.

**Table 2: Correlation – scales of sense of coherence scales and meaningfulness scale**

	FFA	Comprehen	Manageability	Meaningfulness
Mindfulness (FFA)	Pearson Correlation	1	.17	.30*
	Sig. (2-tailed)		.21	.03
	N	53	53	53
Comprehensibility	Pearson Correlation	.17	1	.63**
	Sig. (2-tailed)	.21		.00
	N	53	53	53
Manageability	Pearson Correlation	.30*	.63**	1
	Sig. (2-tailed)	.03	.00	
	N	53	53	53
Meaningfulness	Pearson Correlation	.09	.61**	.56**
	Sig. (2-tailed)	.49	.00	.00
	N	53	53	53

\*Correlation is significant at the 0.05 level (2-tailed).

\*\*Correlation is significant at the 0.01 level (2-tailed).

With regard to mindfulness, a significant correlation, as shown in Table 2, was found between mindfulness and manageability ( $r = 0.30$ ,  $p\text{-value} = 0.03$ ), at the 5% level of significance. Hypothesis  $Ho^4$ , that there are statistically significant correlations between the scales of the SOC instrument and the mindfulness instrument and is thus not rejected, except between mindfulness and manageability, at the 5% level of significance. There is thus a linear relationship between mindfulness and manageability and not between mindfulness and comprehensibility and meaningfulness.

## DISCUSSION AND CONCLUSION

The purpose of this study was to address the dearth in research regarding SOC and mindfulness in women working in HE. In terms of the SOC of women in leadership in HE, the general finding is that the women did not score below average, as indicated previously by Bezuidenhout and Cilliers (2010).

Manageability was scored the highest in all instances, followed by Meaningfulness and lastly Comprehensibility. In determining whether selected biographical variables influenced SOC, the following findings are pertinent:

- Unlike the general finding stated above, women at executive level regard Manageability as being most important followed by Comprehensibility and lastly Meaningfulness. There are statistically significant differences in the mean scores of Comprehensibility and position, implying that there is a relationship between Comprehensibility and position. However, due to the sample size effect this finding cannot be inferred to the whole population and would be limited to the respondents who participated in this research.
- The women who have masters and doctorate degrees scored higher in Manageability than those who have honours and Bachelor degrees. Meaningfulness was scored the lowest by the women with honours degrees while Comprehensibility was scored the highest by women with masters and doctorate degrees.
- The women who are married or divorced scored higher on Manageability and Meaningfulness than those who are single. Comprehensibility was scored highest by women who are divorced.
- Irrespective of cultural background the women regarded each of the SOC dimensions as being of equal importance. A statistically significant difference between the means score of Comprehensibility and the South African cultural background was found. This implies that there is a relationship between Comprehensibility and the South African cultural background. However, due to the sample size effect this finding cannot be inferred to the whole population and would be limited to the respondents who participated in this research.
- Unlike the general finding, stated previously, white women regarded Manageability to be the most important SOC dimension, followed by Comprehensibility and lastly Meaningfulness.
- Women who regarded themselves as being “Spiritual” scored the highest on Manageability and Comprehensibility. Women who belong to the “Hindu” religion scored the lowest on all the SOC dimensions.

Based on the aforementioned, Hypotheses  $H_o^{1.1a}$  and  $H_o^{1.1e}$  are not rejected except in terms of comprehensibility and position ( $H^{1.1a}$ ) and comprehensibility and South African cultural background ( $H^{1.1e}$ ) while Hypotheses  $H_o^{1.1b,c,d,f}$  are not rejected. Consequently, there were no significant relationships between SOC and: education; marital status; cultural background; and religion. The only significant relationships were between comprehensibility and position and South African cultural background.

The women who participated in this study had a slightly above average score for Meaningfulness. In determining whether selected biographical variables influenced the level of Mindfulness, the following findings are pertinent:

- Women in executive and consultant positions scored the highest on Mindfulness while those in academic positions scored the lowest.
- Women with an honours and master’s degree scored the highest in Mindfulness while those with a doctorate degree scored the lowest.
- Mindfulness was scored the highest by women who are married and lowest by those who are divorced.
- Mindfulness was scored the highest by women who are South African. It should be noted that the difference in mean scores between the respondent groups is slight.

- Mindfulness was scored the slightly higher by the women who are coloured, second highest by white women and lowest by African women. It should, however, be noted that all the responses are above average.
- Mindfulness was scored the slightly higher by women who regard themselves as being Spiritual and by Buddhists.

Based on the aforementioned, Hypotheses Ho<sup>2.1a-f</sup> are not rejected. No significant relationships were found between mindfulness and: position; education; marital status; cultural background; South African background; and religion.

With regard to the SOC dimensions, significant correlations were found between all the dimensions, indicating that there is a linear relationship between manageability, meaningfulness and comprehensibility. Hypothesis Ho<sup>3</sup> is thus rejected.

With regard to the relationship between SOC and mindfulness, a significant correlation was found between manageability and mindfulness. Hypothesis Ho<sup>4</sup> is thus not rejected, except between manageability and mindfulness. There are thus no linear relationships between comprehensibility and mindfulness; and meaningfulness and mindfulness.

### RECOMMENDATIONS

Based on the literature review and on the findings, the following recommendations can be made for females working in leading positions in HE institutions:

- HE institutions should create leadership programmes for academics and specifically encourage women in leadership to develop their SOC as well as their mindfulness.
- With regard to the development of SOC through the implementation of leadership development initiatives, comprehensibility as well as meaningfulness should be strengthened in female leadership capacities, supporting them in experiencing their HEI as more structured, ordered and meaningful. Meaningfulness, as the motivational component of SOC should be increased in female leaders to increase their motivational levels.
- Whilst executives and consultants seem to score relatively high in mindfulness, HEI's should also increase mindfulness in women leaders in academic positions and academics with doctorate degrees through training and development programmes.
- Training should refer to the fact that manageability and mindfulness are related. Mindfulness development programmes are therefore likely to increase the manageability of female leaders and vice versa.
- Training to increase SOC and mindfulness should include respondents from all cultural backgrounds.
- This study should be replicated across a larger number of respondents.

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**LEADERSHIP EFFECTIVENESS AND MOTIVATION IN AFRICA AND THE DIASPORA (LEAD): A LOOK AT THE AFRICAN DIASPORA IN THE CARIBBEAN**

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**ABSTRACT**

This research focuses on culture, leadership and motivation in the Caribbean among people in the African diaspora. Across groups, responses to qualitative research were relatively consistent: ethnicity and culture are described as influenced by religion, particularly Christianity; African heritage and country of origin are important. Effective leaders are charismatic, visionary, and results oriented. They motivate others, lead by example, and develop visions and goals. Leaders believe motivation comes from making a difference for others, non-leaders believe leaders are influenced by financial rewards and self-fulfilment. Non-leaders are motivated primarily by financial rewards; great leaders are visionary, self-sacrificing, idealistic, and work for the good of others. The results are generally similar to Western beliefs, but some interesting differences are identified.

**Keywords:** African Diaspora, Caribbean Management, Leadership and Motivation

## INTRODUCTION

Many scholars have called for more management research in non-Western countries (Lituchy, Ford, & Punnett, 2013). Management issues such as leadership and motivation have been studied only to a very limited degree in developing countries generally, and, in particular, the Caribbean is noticeably absent from this research (Simon & Preziosi, 2009). This study is exploratory, because little is known about leadership, motivation and culture in the Caribbean. This paper reports the results of a Delphi process and focus groups, which included leaders and non-leaders.

Three exploratory questions are proposed:

- 1) How is culture described by people in the Caribbean?
- 2) What is considered effective leadership by people in the Caribbean?
- 3) How is motivation defined by people of African descent in the Caribbean?

## THE CARIBBEAN

### History

The Caribbean, where people of Sub-Saharan African descent represent around 73% of the total population (Central Intelligence Agency, 2010), presents an interesting case of examining leadership and motivation of the African diaspora. These descendants of African slaves, brought to the Caribbean during the slave trade, have lived in the Caribbean for generations, and their culture is seen as a blend of African influences with European colonial practices (Punnett, Singh, & Williams, 1994).

In most of these countries, African descendants are in the majority, however, some countries also have a large Indian descended population, notably Guyana and Trinidad and Tobago (Central Intelligence Agency 2013). The English-speaking Caribbean has been linked through a common African ancestry and a British colonial, plantation economy and heritage. A large percentage of the population in the Caribbean is of African origin, descendants of slaves brought to the West Indies to work on plantations (Punnett, Dick-Forde, & Robinson, 2006; Carney, 2003). After the abolition of slavery in 1834, the Caribbean was used as a base for the transportation of people from different parts of the globe to satisfy the labour demands of the plantation economy (Marrs, 1998). Labour was imported primarily from India and China to support the demands of the plantation system and this led to several Caribbean countries having mixed race populations.

### Culture

In terms of culture, the Caribbean people appear to be low on hierarchy/power distance, moderate on individualism, and high on uncertainty avoidance—preferring certainty and avoiding risk (Punnett et al., 2006; Punnett & Greenidge, 2009). Zala (2010: 3) contended that, “Caribbean states have a dualised class structure where 30-40% of the population are participating in ‘normal’ state-society relations whereas the rest exist as poor and disengaged citizens often concentrated in urban centres”.

People in the Caribbean have also been found to be high on cooperation, accommodation and social cohesion, and their leadership style has been classified as transformational (Cole & Berengut, 2009) although a study by Simon & Preziosi (2009) in Trinidad found no relationship with transformational leadership and organizational outcomes, and suggested that more transformational leadership should be used. Nurse and Punnett (2002) also noted the importance of religion and spirituality in the Caribbean context. Punnett, Singh & Williams (1994) argued that the Caribbean cultural profile reflected both the African roots and the European ones.

## CONCEPTS

### Leadership

Defining leadership, Paglis & Green (2002) said that leadership involves implementing change through developing a base of influence with followers, motivating them to commit to and work hard in pursuit of change goals, and working with them to overcome obstacles to change. This definition illustrates what is seen in the West as important in effective leadership—a strategic approach, valuing change, influencing, commitment and hard work towards goals. One can argue that cultural characteristics influence what is seen as effective leadership. Support for this is provided by Hall (2011). He conducted a study involving Jamaican managers and found a link between manager sense-making of the cultural context in which they manage and culture, leadership, and communication.

In the Caribbean, for example, high uncertainty avoidance might influence the type of leader that is preferred—i.e., a leader who makes decisions rather than one who is participative. The historical colonial legacy in the Caribbean has also resulted in organizations with top down structures (Punnett & Greenidge, 2009), which may be accepted because it is the norm, even if it is not the preferred style, given a low score on power distance. These patterns are expected to continue to erode as persons are impacted by undulating globalization fads; the returning of young and youthful migrants with their own mores and ideas for change and nation building that are challenging the status quo (Conway & Potter, 2007); and increased identity confusion, especially among the youth (Arnett, 2002).

### Motivation

Punnett (2009) argued that motivation is closely linked to leadership. Motivation refers to an internal drive that leads to behaviours to satisfy the drive. It is generally defined as an inner force that impels a person to act in a particular way based on individual needs, a sense of fairness, and expectancies about ability to perform and the outcomes/rewards associated with performance, that can be rationally evaluated (Punnett, 2009).

The West's approach to leadership and motivation tends to be individual focused, action and goal oriented, incorporates a sense of justice, and a rational ability to evaluate actions and their results. Cultural characteristics affect how people will be motivated and what actions and rewards will motivate them. In the Caribbean, for example, a focus on cooperation and accommodation might influence how one motivates people—i.e., a group approach might be more effective than an individual one.

## METHODOLOGY

This qualitative research consisted of both the Delphi technique and focus groups.

### Delphi Technique

**Research design and sample.** The Delphi technique asked 12 respondents (7 males and 5 females) experts about culture, effective leadership and motivation. Four were born in Barbados, three in Trinidad and Tobago, two in St. Vincent and the Grenadines and the remaining three were born in Britain and St. Lucia but had been living in Barbados for 32, 44 and 46 years respectively. Ages ranged from 28-56 years, with an average of 47.3 years. Of the 12 respondents, eight had post-graduate degrees, three had undergraduate degrees and one had a college diploma.

**Data Collection.** Respondents were emailed and asked to define culture, leadership and motivation, using open-ended questions. The open-ended questionnaire serves as the cornerstone for soliciting specific information about a content area from the Delphi subjects (Custer, Scarcella & Stewart, 1999). The seven questions that were included on the questionnaire were: (1) What three to five words best describe your ethnic or cultural background? (2) What words/terms would you use to

describe an effective leader? (3) What does an effective leader do? (4) What motivates leaders to succeed? (5) What motivates people (other than leaders) to work hard? (6) Name three to five people, men or women, whom you consider to be, or to have been, effective leaders (they can be local, national or international), and why each is effective? And, (7) How would you describe your culture?

The answers to these questions from the first round were collected, compiled, summarized and fed back to participants. Two rounds of the Delphi process were conducted. In the second round, participants were asked to rate the summary responses from round one, in terms of their importance. Responses were on a five point scale, with five as the most important response. A third round was not deemed necessary, because participants had reached a consensus, with substantial agreement apparent in round two.

### **Focus Groups**

**Research design and sample.** The focus groups were conducted in Barbados and Trinidad and Tobago. They were asked to discuss the same questions posed in the Delphi process, in a group setting. The purpose of the focus groups was to ascertain if responses to the same questions from non-leaders would support the Delphi findings. Recently focus groups have gained scientific respectability (Kahan, 2001) and have also been used both in qualitative and quantitative research (Morgan, 1988). According to Morgan (1988), they are useful for generating hypotheses based on informants' insights, developing interview schedules and questionnaires, and getting participants interpretations of results from earlier studies. The focus group in Barbados consisted of 15 participants (5 male and 10 female) between the ages of 23 and 53 years. Thirteen participants were from Barbados, one from Jamaica and one from St. Vincent and the Grenadines. The focus group in Trinidad and Tobago consisted of 15 participants (all female) between the ages of 24 and 52. All participants were from Trinidad and Tobago.

**Data Collection.** Four focus groups were conducted. Two focus groups were conducted in Barbados. One with a group of post-graduate students of African descent who were also working persons and the second group consisted of working persons of African descent whose employment history varied. Two focus groups were conducted in Trinidad and Tobago, one in Trinidad and one in Tobago. Both groups consisted of working persons of African descent whose employment history varied. Each focus group lasted for approximately two hours and participants received refreshments after the focus group exercise was completed

### **Data analysis**

The replies from the respondents were content analyzed using NVivo 8 software. Frequently repeated words and phrases were identified and coded for the Delphi technique as well as the focus groups. Common themes and triangulated items were identified.

## **RESULTS**

### **Delphi Technique**

**What three to five words best describe your ethnic or cultural background?** The most common response was Caribbean/West Indian, followed by Christian, Afro-Caribbean, African, Black Barbadian, and finally community minded. Respondents see themselves as from the region (Caribbean) but also as part of the African diaspora. The response of being Christian (or more generally religious) is also clearly an important component of the cultural background of people in the Caribbean.

**What words/terms would you use to describe an effective leader?** The most recurring themes were charismatic, an ability to inspire or motivate others, visionary, and committed. These were followed by themes such as being wise and knowledgeable, results/goal oriented, honest, and leads by example. It seems very clear to respondents that charisma, inspiration and vision are important in a

good leader, along with good management abilities such as goal orientation, ability to create a team, competence, and communication. The other words or phrases that stood out were wisdom, morality, serving others, mentorship, and compassion.

***What does an effective leader do?*** The most highly rated responses were a leader develops goals and objectives, motivates others to perform, and to accept goals and visions. These responses are in line with responses to the previous question, and reflect a definition of leadership that we might find in a traditional Western text.

***What motivates leaders to succeed?*** The most important responses were a desire to help others and make a difference in their lives, the ability to influence others, self-fulfilment, a desire for success, a sense of accomplishment, and confidence.

***What motivates people (other than leaders) to work hard?*** In contrast to what motivates leaders, the most common response here included self-fulfilment, personal growth, thrill of success, money/financial rewards, recognition, clear understanding of vision and goals, confidence in the leader and respect for authority. Overall, this suggests that the individual is seen as the key to motivation, through both extrinsic factors such as financial rewards as well as intrinsic factors such as self-fulfilment, personal growth and experiencing success.

***How would you describe “your culture”?*** The most common theme was traditionalist, followed by Christian and religious, then mixed, fun loving, hypocritical and selfish, and individualistic. The religious theme is consistent with responses to the first question. The “hypocritical and selfish” response is somewhat unusual as it is a negative description of the culture and does not seem to be in accord with traditional, religious, or fun loving.

### **Focus Groups**

***What three to five words best describe your ethnic or cultural background?*** For Barbados, the most important response was African Descent/Heritage, followed by Black and Country of Origin. For Trinidad and Tobago, the most important was country of origin.

***What words/terms would you use to describe an effective leader?*** The most important response for both countries was visionary. Being a good communicator, charismatic and knowledgeable were also common themes for both groups.

***What three to five words/phrases describes what an effective leader does?*** For Barbados, the most important response was leads by example; motivates was the most important for Trinidad and Tobago.

***What three to five words/ phrases describes what motivates leaders to succeed?*** For Barbados, the most important response was self-actualisation or self-fulfilment, while for Trinidad and Tobago financial gain or monetary rewards was the most important.

***What three to five words/ phrases describes what motivates people (other than leaders) to work hard?*** The most important response for both countries was financial gain or money, in Barbados and in Trinidad and Tobago. Having a good leader was next in importance for both countries.

***What three to five words/phrases best describe why these leaders are effective?*** For Barbados, the most important response was charismatic; while for Trinidad and Tobago inspirational was the most important. Both countries also mentioned visionary.

***What three to five words/phrases would you use to describe “your culture”?*** For Barbados, the most important response was religious or spiritual, followed by Christian society (the participants considered the two items to be separate). For Trinidad and Tobago religious or religion, and Christian or spiritual were grouped into one category.

## DISCUSSION

Across the groups, including both the Delphi technique and the focus groups, the responses are relatively consistent, providing a profile of people in the Caribbean that can be summarized as follows:

- Ethnicity and culture are both described as influenced by religion, particularly Christianity. African roots are seen as generally important, but so is country of origin, particularly where the population is mixed rather than predominantly Black.
- Effective leaders are seen as charismatic, visionary, and results oriented. They motivate others, lead by example, and develop vision and goals.
- Leaders believe they are motivated by making a difference for others, while non-leaders believe leaders are influenced by financial rewards and self-fulfilment.
- Non-leaders are perceived as being motivated primarily by financial and other external rewards.
- Great leaders identified are both international and national figures; they are seen as visionary, self-sacrificing for the sake of their ideals, and working for the good of others.

This research provides a basis for developing a larger scale, quantitative survey that allows for comparisons across cultures. The nature of the current research ensures that uniquely Caribbean ideas will be included in the research on leadership and motivation. The Caribbean responses, for the most part, are not dramatically different from those that might be found elsewhere, but they do add a Caribbean flavor to the overall outcomes.

### Limitations and Future Research

The qualitative nature of this research means that there are limitations that must be kept in mind when interpreting the results. In particular, the results have restricted generalizability. We can only say that these particular respondents said these particular things, we do not know that a wider, more representative sample would say the same or similar things. The sample sizes are small and they were not randomly selected, rather they were selected because of known characteristics, and often because the respondents were known to the researchers. This means that there are likely biases in the responses reported. Nevertheless, the samples did include an array of respondents, from varied backgrounds, of differing ages and educational levels, and both men and women were included. Given this variety, the Delphi process participants reached consensus in just two rounds, suggesting substantial similarity in their views. Similarly, in the focus groups, agreement on responses was relatively easy to attain. In addition, there is notable agreement across the methods and groups on responses to most questions. This gives us encouragement to go forward with the research. This paper reports on results from a limited number of Caribbean countries, and we would like to expand this sample to get a more truly Caribbean picture. We also want to use the current results in the construction of a quantitative survey measure, which will allow an etic research project, which incorporates the emic results. A quantitative survey will enable research across organizations and countries, with large sample sizes. Comparisons will then be possible within and across organizations and countries. We believe that the current project and results provide the basis for substantial future research, in the Caribbean as well as throughout the African diaspora.

The limitations of this type of research were well understood, prior to undertaking the project. The researchers, however, believe that the benefits of starting with a “blank page” approach are also substantial. Once the limitations are understood, this type of research can provide information that cannot be obtained through standardized surveys. This type of research is, in effect, essential if researchers are to move away from viewing the entire world through Western-developed lenses. The

developing world is playing an ever more important role in international business and it is becoming increasingly important that academics and practitioners understand management in these varying contexts. Emic, qualitative research seems the best way to begin to move meaningfully in this direction.

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## TRIBAL DIVERSITY AND FIRM PERFORMANCE: A DUAL PROCESS MODEL

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### ABSTRACT

What is the relationship between tribal diversity and firm performance? Using the dominant perspectives of diversity I propose and test a dual process model of tribal diversity based on multilevel analysis of data from 493 firms in 27 African countries. The results support the dual process model: on the one hand, tribal diversity relates positively to human capital which in turn relates positively to firm performance. On the other hand, tribal diversity relates negatively to institutional climate which in turn relates positively to firm performance. Theoretical and practical implications are discussed to enhance tribal diversity management in Africa.

**Keywords:** Tribal diversity, firm performance, dual process

### INTRODUCTION

A recent World Bank publication posed the question: Can Africa claim the 21<sup>st</sup> Century (World Bank, 2000)? After decades of viewing Africa in the words of the Economist magazine as ‘hopeless’ the continent is showing prospects for a renaissance (Moss, 2007). Factors that account for this optimism and potential growth include political stability, increased trade and aid, technological boom, and positive market outcomes in the form of commodity prices (Chironga, Leke, Lund, and van Wamelen, 2010). Excluded from the list of factors, however, are the human resources of African economies which can be leveraged to enhance development and sustained growth. African countries collectively have about one fifth of the world population which suggests that they represent a large market. In addition, African economies have diverse ethnic groups or tribes. In fact, it is the most diverse continent in the world. The Organizational Behavior and Human Resources Management literatures show that diversity has positive outcomes for individuals, groups, organizations, and societies (Pelled, 1996; Pelz 1956, Bantel & Jackson 1989). Diversity contributes to innovation and increased productivity of organizations (Van der Vegt & Janssen, 2003). It therefore seems that African organizations can achieve positive outcomes from tribal diversity. Unfortunately, studies of tribal diversity in Africa are limited. In particular, the level of tribal diversity in a country which can affect national economic performance (Alesina & La Ferrara, 2005) and industrial productivity has not been examined. One may therefore ask, how does tribal diversity affect firm performance?

In this study, I attempt to shed light on the question, and to provide insight for managers of African organizations. As discussed below, the dual process model of tribal diversity – firm performance provides insight for managers to establish mechanisms that heighten the human capital effects and mitigate institutional climate constraints. The model suggests that tribal diversity relates to firm performance through two paths: human capital and institutional climate. Tribal diversity relates positively to human capital, the stock of competencies, knowledge, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value, which in turn relates positively to firm performance. On the other hand, tribal diversity relates negatively to institutional climate which in turn relates positively to firm performance. Tribal diversity induces conflict

which negatively affects institutional climate even though the latter facilitates interactions and productivity of firms (James and James, 1989; James et al, 2008).

The study is significant in shedding light on a possible reason for mixed findings in the diversity literature. As multinationals surge into Africa (The Economist, 2011) in search of higher returns, the human resources and heterogeneity of tribal groups is critical to those objectives. In addition, author examines the nature of the effects – main, mediating, and moderating.

### THEORY AND HYPOTHESES

The author integrates three major theories – diversity, human capital, and institutions – to examine the effect of tribal diversity on firm performance. Diversity, the degree of heterogeneity in a group, has been examined extensively in the social sciences. As a result, research has identified *content* and *perspectives* of diversity. With regard to *content*, heterogeneous characteristics such as race, gender, function, attitudes, etc. range from individual through group, organizational, and societal attributes. The most consistently used typology categorizes diversity into (1) observable, visible, readily detectable attributes such as age, gender, and race, and (2) nonobservable, less visible, underlying attributes such as personality and values (Milliken and Martins 1996; Pelled 1996; Jackson et al. 2003).

Studies of both observable and non-observable diversity characteristics are sparse (Cunningham and Sagas 2004; Phillips and Loyd 2006). However, there are a few exceptions. Harrison, Price and Bell (1998), find that over time, non-observable diversity in terms of satisfaction and commitment had more impact on cohesion than observable diversity attributes of age, sex, and race. Furthermore, Harrison, Price, Gavin and Florey (2002) find support for their model in which perceived observable and non-observable diversity characteristics negatively relate to social integration, which positively relates to task performance. They also report that collaboration moderates the negative relationship between perceived diversity and team social integration such that observable diversity reduces the strength of this relationship, while non-observable diversity increases the strength of this negative relationship. Jehn, Northcraft and Neale (1999) report that observable diversity positively relates to perceived performance, satisfaction, intention to remain in the group, and commitment, while non-observable diversity negatively relates to perceived and actual group performance, group efficiency, satisfaction, intent to remain in the group, and commitment. Cunningham and Sagas (2004) also find that non-observable diversity (i.e. values) is associated with lower job satisfaction and higher turnover intentions, but that the relationship is not significant for observable diversity. In contrast, Mohammed and Angell (2004) find that neither observable nor non-observable diversity impact relationship conflict. Phillips and Loyd (2006) examine the interaction effect of observable and non-observable diversity on dissenting group members. They suggest that observable diversity (vs. homogeneity) may be beneficial to incongruent groups. Phillips, Northcraft and Neale (2006) also demonstrate that observable diverse groups outperform observable homogeneous groups regardless of non-observable similarities.

All of the above studies suggest that different types of diversity influence individual and group outcomes differently, lending support to the notion that observable and non-observable diversity are two separate elements. The observable characteristic of interest in this study is *tribe*: African countries are dominated by tribal groups. Even though there are multiple racial categories (e. g., whites in Southern Africa, Arabs in Northern Africa, and traditionalist in Subsaharan Africa, the majority identify with tribes rather than races (Deng, 1973). Tribal diversity manifests through language, corporal insignia, and behavior. The heterogeneity of languages in each African country, the distribution of corporal insignia, commonly termed tribal marks, and the heterogeneous patterns of behavior, enables us to observe tribal differences and to gauge the performance or members of a particular tribe. In Nigeria, the Ibos, distinguished by their linguistic attribute, Ibo, have to been observed to be very industrious and entrepreneurial (Green, 1947; Olutayo, 1999).

I propose that tribal diversity relates to firm performance through two routes. One route is capability. Studies show that diversity yields positive outcomes because of the potential to harness multiple ideas, experiences, and capabilities of members. Diversity thus relates to human capital, the stock of competencies, knowledge, social and personality attributes, including creativity (Becker, 1964) which is a source of ideas, experience, and capabilities, which in turn relates positively to group, firm, and national performance (Becker, 1962). The greater the tribal diversity, the greater the human capital, and the more likely firm performance will be higher. Because tribal diversity involves mutual understanding it is likely to foster social integration which contributes to social and economic stability (Harrison et al., 2002). The certainty embedded in that stability contributes to increased business activity and performance (Collier, 2008). In addition, tribal diversity is likely to increase social control, the extent to which group members control the behaviors of each other. For example, Greif (1993) argues that traders in Medieval times formed coalitions along tribal lines in order to monitor agents by exchanging information on their opportunistic behavior. Tribal affiliation helped sustain a reputation mechanism in the presence of asymmetric information. Further, in the absence of legally enforceable contracts, membership in tribal groups controls what individuals can do. Punishment and reciprocity are directed not only toward the individual but toward other members of the group, a form of self-enforcing mechanism (La Ferrara, 2003a). A similar reasoning is proposed by Fearon and Laitin (1996) to explain inter-tribal cooperation.

Finally, empirical studies suggest that tribal diversity may enter the production function as “intermediate inputs,” (i.e., more variety of individual skills) which increases total output (Alesina, Spolaore, & Wacziarg, 2000). Lazear (1999a, b) also discusses how different skills in a production unit may increase overall productivity. O’Reilly, Williams and Barsade (1997) analyze 32 project teams and find that more diversity leads to more conflict and less communication, but controlling for the latter it also leads to higher productivity. Ottaviano and Peri (2003) also investigated the pros and cons of diversity in production. Diversity and related amenities affect the value of land (rents) which enters the production function.

At the national level, tribal diversity influences not only economic performance but also firm performance through the human capital function: leveraging of capabilities and behaviors of tribal members (Alesina, et al., 2000). It therefore seems that the more diverse a country, the greater the repository of skills and competencies. Among the Ibos of Nigeria, members are socialized with trading skills. Business savvy therefore tends to be high among Ibos. The Yorubas also socialize individuals to be intellectually curious. Other tribes have different socialization outcomes. Collectively therefore, the capabilities of these tribal groups can be harnessed to maximize productivity. Lazear’s (1999a, b) study shows the effect of human capital at the national level. From a resource perspective (Wernerfelt, 1984) diversity influences group and organizational outcomes by harnessing the capabilities of members to create value (Richards, 2000).

Another route is interactions or climate. The *interaction* perspective argues that the more heterogeneous a country, the greater the likelihood of conflict and lower outcomes. Conflicting views, opinions, and interests are likely to impede effective interactions that contribute to group and firm performance. This view is consistent with group development models that show conflict (Tuckman, 1965) and mistrust (Wheelan, 1994) which hinder productivity. At the national level, tribal groups may not develop shared understanding which is critical to productive interactions. As a result, the national environment is going to be rife with conflict because of the multiplicity of ideas, personality, interests, mental program, and behaviors. In other words, diversity involves conflicting interactions that constrain performance of individuals and groups. The lack of regulative norms undermines behaviors that contribute to positive firm outcomes. High tribal diversity is therefore likely to be associated with high conflict which limits firm performance. Institutions, “the humanly devised constraints that structure human interaction” (North, 1990: 3), can lead to positive outcomes as suggested by social control theory

(Hirschi, 1969; Agnew, 1985) in diversity contexts. Group members' observation of the rules of the game within a single institution is defined as climate. The more heterogeneous a country, the greater the likelihood of conflict and the lower the economic and firm performance; negative institutional climate is therefore likely to constrain interactions and productivity resulting in lower firm performance. Tribal diversity can lead to negative outcomes because of the emergence of conflict. I examine the latter in this study by arguing that tribal diversity induces conflict (institutional climate) which can limit firm performance.

Tribal groups may not develop shared understanding which is critical to productive interactions. Along these lines, Easterly and Levine (1997) argued that, *ceteris paribus*, more racially fragmented countries grow less and that this factor is a major determinant of Africa's poor economic performance. In their excellent overview of Africa's problem Collier and Gunning (1999) also place much emphasis on ethno linguistic fractionalization (coupled with low political rights) as a major explanation for the lack of social capital, productive public goods and other growth enhancing policies. Easterly and Levine conclude that a large portion of "Africa's growth tragedy" can indeed be attributed to the effect of racial fragmentation. This conclusion has spurred a vivid debate and has generated a significant amount of research on the relationship between ethnic diversity and economic growth.

Alesina & Ferara (2003) test whether the negative correlation between ethnic fragmentation and growth holds irrespective of the level of economic development or, is mitigated when the benefits of heterogeneity for productivity are taken into account. They find that "fractionalization may have positive (or less negative) effects on output at higher level of development" and "GDP per capita and fractionalization has the expected (positive) sign, suggesting that indeed fractionalization has more negative effects at lower levels of income" (p. 9 -10). O'Reilly et al., (1997) also found that diversity leads to more conflict and less communication. Indeed, Collier (2000) argued that fractionalization has negative effects on growth and productivity only in non-democratic regimes, while democracies manage to cope better with ethnic diversity. Based on the above reasoning, I test the dual process model by examining the following hypotheses

*Hypothesis 1: Tribal diversity relates positively to firm performance through institutional climate.*

*Hypothesis 2: Tribal diversity relates positively firm performance through human capital.*

## METHOD

### Data and Procedures

Data for this study is from three major sources: the World Bank's Enterprises Survey ([www.worldbank.org](http://www.worldbank.org)), the CIA Fact Book ([www.cia.gov](http://www.cia.gov)), and the Africa Report ([www.theafricareport.com](http://www.theafricareport.com)). The World Bank has been surveying employees and firms from several African countries since 2005. The CIA has also been gathering data on demographics of countries all over the world. Finally, the Africa Report publishes data on firm performance for the period 2009 to the present.

### Measures

*Tribal diversity* is computed from the CIA Fact book using Blau's (1977) diversity index which is an adaptation of Shannon's diversity index. It is frequently used to compute diversity  $(1 - \sum P_i^2)$  where  $P$  is the proportion of members in a tribal group and  $i$  is the number of different categories represented in a tribe. For example, Country A composed of 15% Ewe, 56% Akan, 10% Ga, 9% Dagomba, 5% Fante, would have a diversity index of .68 which differs from Country B with 32% Yoruba, 38% Ibo, 10% Ogoni, and 20% Fulani tribes and a diversity index of .74.<sup>1</sup>

*Human capital*, the level of skills, knowledge, and abilities in a country, is often indexed by the level of education. While some use tertiary education because it represents higher knowledge others

combine tertiary and secondary education in context where tertiary is lacking. In this study, I used the three typical indexes of human capital – education, literacy, and human development - in the literature (Sweetland, 1996) to compare which index fits in the context of Africa. The indexes are taken from the Africa Development indicators published by the World Bank.

*Institutional climate*, the perception of the facilitative or inhibitive effects of institutional mechanisms in the nation, was adopted from the Enterprises surveys of the World Bank ([www.worldbank.org](http://www.worldbank.org)). Firm managers are asked to rate the extent to which the institutions within a country in which the enterprise is located facilitates or hinders the operations of the firm. An aggregate index is thus constructed to measure institutional climate. In this study, I used standardized (country level) measure.

Finally, *firm performance* was taken from the Africa Report. It focused on sales and net profit measured in US dollars. According to the Africa Report, a large number of African companies (n = 5,913) are surveyed. After crosschecks and verification, they establish a ranking of Africa's top 1,550 companies. I used data for the 500 companies that are published. All financial data has a clearly-defined source, generally communicated to the magazine by the companies themselves, and must refer to the financial year (e.g., 2009 or 2010). If the financial data is presented in local currency, it was converted into US dollar amounts according to the rate prevailing on the last day of the particular year (e.g., 31 December 2009). All companies that fall under the legal jurisdiction of at least one of the 53 countries in Africa (except Zimbabwe) are included. As a result, there are holding and subsidiary companies in the list. In the case of both holding and subsidiary companies, a pooled estimate was used.

In addition, the following control variables – *population, gross domestic product (GDP), GDP per capita, region (dummy coded as south, west, east, central, and northern<sup>‡</sup>), income group (low, middle, and high<sup>‡</sup>), and economy (agriculture, industry, and service<sup>‡ 2</sup>), and industry* – were included because they have potential to influence the effects of tribal diversity on firm performance. They were adopted from the World Bank Enterprises survey.

## Data Analysis

Multilevel techniques were used to test the relationships because the hypotheses involve country and firm levels. Multilevel techniques distinguish the proportion of variances at the country and firm levels. They also show the cross-level effects suggested by hypothesis 3. Specifically I tested the hypotheses with hierarchical linear modeling using the generalized linear latent and mixed models (gllamm) program of STATA ([www.gllamm.org](http://www.gllamm.org)) to examine the effect of tribal diversity on firm performance. Two-level models were specified to test the hypotheses where level 1 reflects 478 firms and level 2 reflects 27 countries. A two-level hierarchical linear model involves the simultaneous estimation of two separate models. These two models include a level-1 submodel specifying the effects of the firm-level variables, and a level-2 submodel specifying the effects of country-level variables as shown in the following equations.

$$\text{Level 1: Firm performance}_{ij} = b_{0j} + b_{1j}\text{Control Variables}_{ij} + e_{ij} \dots (1)$$

where *i* stands for firms; *j* indicates countries; control variables population, gross domestic product (GDP), GDP per capita, region (dummy coded as south, west, east, central, and northern<sup>‡</sup>), income group (low, middle, and high<sup>‡</sup>), and economy (agriculture, industry, and service<sup>‡ 3</sup>), and *e* = error term.

Level 2:

$$\beta_{0j} = \gamma_{00} + \gamma_{01}(\text{diversityMEANS}_j) + \gamma_{02}(\text{diversity}_j) + \gamma_{11}(\text{diversityMEANS}_j \times \text{diversity}_{ij}) + \mu_{0j} + \mu_{1j}(\text{diversity}_{ij}) + r_{0j}$$

where *i* stands for firms; *j* indicates countries; diversity refers to tribal diversity; diversitymeans refers to the average diversity. Cross-level interactions are shown by the product terms. Firm

performance was the criterion at this level. Similar equations were specified for human capital and institutional climate.

In addition, I used multilevel mediation analysis to examine if mediation of (1) institutional climate and human capital in the tribal diversity - firm performance relationship. The mediations represent a 2-2-1 model (level-2 variable influencing a level-1 criterion through a level-2 mediator) (see Krull & Mackinnon, 2001; Bauer, Preacher, & Gil, 2006; Preacher, Zhang, & Zyphur, 2011; Preacher, Zyphur, Zhang, 2010; and Zhang, Zyphur & Preacher, 2009).

## RESULTS

### Descriptive Statistics and Correlations

Descriptive results (mean and standard deviation) were normal. The correlations also show that the control variables related to each other, net profit, sales, and diversity at a low to moderate level (Cohen, Cohen, Aiken & West, 2003). Diversity, human capital, and institutional climate variables also correlated at a moderate level.

### Hypothesis Testing

The null models (Model 1) suggest that most of the variance in firm performance is at the firm level. The control variable models (Model 2) also suggest that a high proportion of variance in sales and net profit is at the firm level. Some control variables were significant suggesting that they also influence sales and net profit. For example, gross domestic product related to sales ( $z = 2.79$ ,  $p < .01$ ) and net profit ( $z = 2.52$ ,  $p < .05$ ). It was therefore important to control for them. Consequently, they were included in the model along with the variable of focal interest – tribal diversity.

In tests of the tribal diversity-firm performance relationships, the null models for sales ( $z = 132.98$ ,  $p < .001$ ) and net profit ( $23.35$ ,  $p < .001$ ) were significant. The intra-class correlation (ICC) which measures the proportion of variance shows a high proportion of variance at the firm level. Model 2 suggests that tribal diversity did not relate to sales ( $z = .30$ , n.s). Diversity means (country level) was significant ( $z = 3.70$ ,  $p < .01$ ). The cross level interactions were not significant, however. In Model 3, however, institutional climate ( $z = 2.22$ ,  $p < .05$ ) and human capital, ( $z = 2.59$ ,  $p < .05$ ) relate positively to sales. For the three models, most of the variance (87% to 89%) was at the firm level. The ICC was 13%, 11%, and 12% for institutional climate, human capital, and tribal diversity respectively. Models 6 to 8 show the effects of institutional climate, human capital, and diversity on net profit. Tribal diversity did not relate significantly to net profit ( $z = .65$ , n.s) in Model 6. Diversity means related to net profit ( $z = 3.36$ ,  $p < .01$ ). Cross level interactions were also not significant. However, institutional climate ( $z = 2.47$ ,  $p < .05$ ) and human capital ( $z = 2.56$ ,  $p < .05$ ) related positively to net profit.

Results of multilevel mediation show that tribal diversity did not relate to net profit ( $z = .65$ , n.s.) even though it related positively to human capital ( $2.57$ ,  $p < .01$ ) as represented by the  $c\_path$  and  $a\_path$  respectively. Human capital related to net profit ( $z = 2.56$ ,  $p < .05$ ) but tribal diversity did not (see  $b\_path$  and  $c\_prime$ ). The mediation was therefore not significant. This is reflected by the proportion of the indirect effect which is very low (14%) and the random effects parameters ( $R^2_{Between} = 7\%$ ). A similar pattern is observed with regard to sales: tribal diversity did not relate to sales ( $z = .299$ , n.s) even though human capital related to significantly to sales ( $z = 2.589$ ,  $p < .05$ ) ( $b\_path$  and  $c\_prime$ ). The random effects parameters ( $R^2_{Between} = 6\%$ ) was also low.

In the mediation test of institutional climate, tribal diversity did not relate to sales ( $z = .298$ , n.s) but related negatively to institutional climate ( $-2.32$ ,  $p < .05$ ) as represented by the  $c\_path$  and  $a\_path$ . Institutional climate also related positively to sales ( $z = 2.15$ ,  $p < .05$ ) (see  $b\_path$  and  $c\_prime$ ). The mediation, however, was not significant. This is reflected by the proportion of the indirect effect which is very low (11%) and the random effects parameters ( $R^2_{Between} = 16\%$ ). A similar pattern is observed with regard to net profit: institutional climate related to net profit ( $z = 2.15$ ,  $p < .05$ ) when it was combined

with tribal diversity (b\_path and c\_prime). The random effects parameters ( $R^2_{\text{Between}} = 18\%$ ) is also low.

To explore further the paths by which tribal diversity relates to firm performance I conducted supplementary analyses. First, I tested the effect of tribal diversity on firm performance in conflict trap versus non-conflict trap economies. Entrapment generally depicts uncontrollable, unremitting, and inescapable circumstances and refers to prolonged exposure to conditions that are known to result in unfavorable outcomes. Conflict traps refer to conflict situations that are experienced frequently by a country. Consistent with previous studies (see Collier, 2007, Collier, 1999), two forms of conflict – civil war and coup d'états – index conflict traps. Generally war impedes growth of countries (Collier, 2007). The impediment is exacerbated when war is protracted or repeated. For organizations war represents an increased or heightened risks associated with property destruction, physical harm to employees, loss of confidence, inability to distribute goods and services resulting in limited markets; insecurity, and psychological distress. In short wars represent economic, political, social, and psychological costs to nations which indirectly affect industrial activity and firm performance (Collier, 2007). It is estimated that industrial productivity in warring economies reduces by about one third for the first three years and about one-tenth during a ten year period. Collier (2007), for example, observed that “civil war tends to reduce growth by around 2.3 percent per year, so the typical seven-year war leaves a country around 15 percent poorer than it would have been” (p. 27). Because industrial productivity is an aggregate of the productivity of industries and organizations in an economy, it can be inferred that the same pattern may apply to organizations in conflict economies. They also represent negative institutional climate. Coding economies with conflict traps as 1 and those without conflict traps as 0, I found that the effect of tribal diversity on firm performance was negative in entrapped countries and positive in unentrapped countries (results not shown). Interactional analysis did not also yield significant effects: tribal diversity did not interact with conflict trap in relating to firm performance ( $B = -1.21$ ,  $se = 1.67$ ;  $z = -.72$ ;  $95\% \text{ CI} = -4.49 - 2.07$ ).

In sum, there was no support for the mediational hypotheses since the indirect effects were not significant. However, diversity related directly to institutional climate and human capital at a significant level. Further, institutional climate and human capital in turn related to firm performance at a significant level. The results are summarized in Figure 1b.

### Post hoc Analysis

To explore the effect of tribal diversity across industries, I tested the effect of diversity on performance for only firms in the specific industry ( $n = 37$ ). There were thirty-seven industries of which ten industries showed significant effects. Tribal diversity related significantly to net profit in construction ( $z = -2.5$ ,  $p < .05$ ), metal/steel ( $z = -3.6$ ,  $p < .001$ ), and tobacco ( $z = -54.0$ ,  $p < .001$ ) industrial sectors. The effects were negative suggesting that the greater the level of diversity, the lower net profit for firms in those industries. Tribal diversity related significantly to sales in automobile ( $z = 3.38$ ,  $p < .01$ ), civil engineering ( $z = 1.97$ ,  $p < .05$ ), dairy ( $z = 4.25$ ,  $p < .001$ ), insurance ( $z = 2.20$ ,  $p < .05$ ), mining ( $z = -2.17$ ,  $p < .05$ ), postal services ( $z = 4.39$ ,  $p < .001$ ), and telecommunication ( $z = -2.45$ ,  $p < .05$ ) industrial sectors. Except for postal services and telecommunication industries, all other effects were positive. Even though the negative effects seem counterintuitive, the results seem to support hypothesis 1 that tribal diversity relates positively to firm performance. This effect was positive in five industrial sectors and negative in another five. For the other twenty seven industries, tribal diversity did not relate to firm performance.

## DISCUSSION

The increasing munificence of emerging economies in Africa (McKinsey Global Institute, 2010) suggests that most foreign companies including multinationals view Africa as an avenue for increased profitability and growth. The diversity of African tribal groups is a resource that can be leveraged to maximize economic and industrial performance. Even though economic studies have examined the effect of tribal diversity on economic performance (Alberto & La Ferrara, 2005), I did not find studies on the effect of tribal diversity on firm performance. I attempted to fill the gap in this study.

Using the positive and negative perspectives of diversity, I examined a dual process model of the underlying mechanisms – capability and conflict - by which tribal diversity relates to firm performance. I did not find direct effect of tribal diversity on firm performance. However, I found that first, tribal diversity relates positively to human capital which in turn relates to firm performance. Second, I found that tribal diversity relates negatively to institutional capital which in turn relates positively to firm performance. Supplementary analysis showed that the negative effects arise from conflicting countries. Together they show that tribal diversity has two paths – capability and conflict – which support the two perspectives of tribal diversity.

These findings are significant for a number of reasons. First, this seems to be the first multilevel study to show that tribal diversity relates to firm performance. It provides preliminary evidence for diversity scholars to build upon in future studies as they examine other factors influencing the tribal diversity-firm performance relationship. Second, the finding on human capital shows that tribal diversity influences firm performance through underlying capabilities consistent with the positive perspective of diversity effects. This finding replicates similar studies in other contexts (Richards, 2000). Third, the finding on institutional climate shows how institutional mechanisms within African economies constrain not only economic but also firm performance.

I did not find evidence of mediation. However, the industry analyses suggest that tribal diversity has a significant effect on firm performance in some industries. Further, I found that tribal diversity influences profitability negatively in construction, metal/steel, tobacco, mining, and telecommunication industries. Even though these industries are labor intensive they require singularity or homogeneity of thought. To the extent that diversity thought processes are prevalent is often the case in heterogeneous contexts, they undermine interactions that are essential for performance. In the majority of industries, the effects were not significant though positive.

Overall the study contributes to the diversity, human resources management, and African management literatures. By examining multilevel effects of tribal diversity on firm performance I have provided preliminary evidence that future research can expand upon. Unlike other geographic contexts, Africa has multiple tribal groups. The benefits of those heterogeneous groups can be exploited for growth and development (Hobday, 1995). I suggest that the benefits extend to firms. Another contribution relates to human capital. I show the effect of human capital. It provides evidence to foreigners that wonder what resources are available to influence industrial activity in Africa. Even though other studies recognize the population of Africa as a resource (Collier, 2007), the capabilities of the populations are assets that can be leveraged. The third contribution centers on the effect of institutional climate. Previous research has shown that institutions are critical to national development (Rodrik, Subramanian, and Trebbi, 2004). In this study, I found that tribal diversity negatively relates to institutional climate which in turn relates positively to firm performance. A similar model was examined in the case of team diversity where Harrison et al., (2002)) found that perceived observable and non-observable diversity characteristics negatively relate to social integration, which positively relates to task performance.

## Implications

In sum the contributions have theoretical and practical implications. Theoretically, they provide a foundation for future research. I have integrated diversity with institutional and human capital theories. In one sense it is a partial validation of the RAIT (resource, agency, institutional, and transaction cost) model that was proposed as applicable to Africa (Zoogah, 2008). In addition, the study has practical implications. First, foreign organizations particularly multinational corporations can use the findings as a basis to establish mechanisms that enhance the effects of diversity, human capital, and institutional climate. With regard to institutional climate, firms can also establish mechanisms that facilitate positive climates and enhance firm performance. There is evidence that empowerment climate for example, has positive effects on organizational and employee outcomes (Liden, Wayne, & Sparrowe, 2000).

## Limitations and Future Research

Despite the above contributions, the study has limitations. First, tribal diversity is computed at the societal level. I believe it is important as a preliminary endeavor given the paucity of multilevel studies and the challenge of organizational data (Ugwegbu, 1999; Zoogah, 2008). Nevertheless, tribal diversity at the firm level will also be important in showing how societal level diversity relates to firm level diversity in influencing firm performance. It is likely tribal diversity at the firm level will have more positive effects on firm performance instead of the negative effects observed in this study. Another limitation is that I included very few firm level variables. I was limited by the data source; The Africa Report provides only country, industry, net profit, and sales data. I encourage future studies to include more firm level variables.

Future research may examine how other theories combine with diversity in explaining organizational outcomes. For example, relative deprivation theory can be combined with diversity to explain firm performance to answer the question: is the effect of tribal diversity on firm performance greater in more relatively deprived economies than less relatively deprived ones? Future research may also examine the relationship between tribal diversity and innovation. Diversity has been found to relate to firm innovation in other contexts (Sampson, 2007). The extent to which tribal diversity in Africa influences innovation of African organizations will also be a significant question to answer. I encourage additional studies with more firm level variables. As I mentioned above, the source of the data limited my ability to test more firm level effects.

## CONCLUSION

In this study, I tested the dual process model of tribal diversity and firm performance using multilevel techniques. I found support for the model. I also found that in some industries, tribal diversity relates positively to firm performance and in other industries, it relates negatively. Overall the findings suggest that tribal diversity relates to firm performance (net profit and sales) in two ways. In one sense they confirm previous findings, particularly economic studies, on positive and negative effects of ethnic diversity at the national level. Thus, the study contributes to the HRM and diversity literatures particularly in Africa where there is a paucity of such studies.

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**END NOTES**

<sup>1</sup> For country A Blau's index would suggest:  $1 - [(.15^2) + (.56^2) + (.10^2) + (.09^2) + (.05^2)] = .65$ . The figures are hypothetical but actual figures will be used in the actual study. For country B,  $1 - [(.32^2) + (.38^2) + (.10^2) + (.20^2)] = .74$ .

<sup>2</sup>  $\neq$  *thresholds* to compare. G-1 dummies are reported and compared with the threshold.

<sup>3</sup>  $\neq$  *thresholds* to compare. G-1 dummies are reported and compared with the threshold.

## THE IMPACT OF SUPERVISORY SUPPORT ON FEMALE EMPLOYEES' ATTITUDES AND BEHAVIOURS

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### ABSTRACT

This study examines the importance of supervisory support in light of the current glass ceiling experienced by many South African women. Latest South African statistics on workforce profiles show that a glass ceiling exists for countless South African women in reaching top management positions. Due to perceptions of unfairness and discriminatory tendencies associated with the glass ceiling, female employees' identification with their organisation may be negatively affected, and they may withdraw from the organisation either physically and/or psychologically. Data were obtained from 75 females employed in various organisations in South Africa's Eastern Cape Province. Inferential statistics confirmed the crucial role of supervisory support in ensuring that female employees remain committed to their organisation, are satisfied with their careers, and do not withdraw from their organisation.

**Keywords:** Supervisory support, organisational commitment, career satisfaction, glass ceiling, withdrawal behaviour

### INTRODUCTION

The United Kingdom Equal Opportunity Commission calculated that it would take 65 years for women to achieve equality with men as directors of Britain's top 100 companies (Smith, Crittenden and Caputi, 2012). The propensity of competent, highly trained women to drop out of the workforce has become an issue of concern to many organisations. With the abolishment of apartheid and the execution of employment equity measures, there has, since 1994, been formal legislated equality between individuals of different races and genders in South Africa. While companies are under pressure to meet Employment Equity quotas (Booyesen, 2007), recent findings outlined in the *Employment Equity Commission's (EEC) Twelve (12<sup>th</sup>) Annual Report* (2012) revealed that white males still dominate top management positions.

Many women reach a point in their career where no further advancement will be achieved. This plateau is called the glass ceiling, and has been linked negatively to employee satisfaction at work, organisational commitment, work performance and psychological well-being (Lapalme, Tremblay and Simard, 2009). Organisations seek to foster satisfied and productive employees. The most common

form of work disengagement is shown in withdrawal behaviours, which manifest in the workplace in the form of absenteeism, lateness, burnout, and unhealthy employee turnover (Redmond and Newman, 2012).

According to Miller and Wheeler (1992), the turnover of female employees is of immediate concern as women have higher turnover rates. Kiaye and Singh (2013) recently investigated whether elements of the glass ceiling exist in organisations located in Durban, South Africa. Their study focused on the barriers to the upward mobility of female employees, based on constructs such as social roles, personal characteristics and situational barriers. It was evident that certain elements of the glass ceiling existed.

These included lack of respect from male colleagues, insensitive handling of the various roles played by women, and gender discrimination. Furthermore family commitment and relocation also inhibited respondents' career growth (Kiaye and Singh, 2013). With the current glass ceiling that many South African women are experiencing in the workplace, this article aims to investigate the crucial role of supervisory support in ensuring that female employees are satisfied with their careers, and remain committed to their organisations.

### THEORY DEVELOPMENT AND HYPOTHESES

#### The Current Status of Economically Active Women in South Africa

The involvement of women in South African workplaces has been on the increase (Kiaye and Singh, 2013). The workforce population distribution outlined in the South African Quarterly Labour Force Survey is based on the Economically Active Population (EAP). The EAP includes people from 15 to 64 years of age who are either employed or unemployed, and who are in search of employment. Table 1 shows the national demographics of the EAP by race and gender. It is evident from Table 1 that the majority of males (54.6%) are economically active, compared to females (45.4%).

**TABLE 1**  
**Profile of the National Economically Active Population by Race and Gender (Adapted from the Employment Equity Commission, 2012)**

ECONOMICALLY ACTIVE POPULATION				
African male	40.3%		African female	33.8%
Coloured male	5.9%		Coloured female	5.2%
Indian male	1.8%		Indian female	1.1%
White male	6.6%		White female	5.3%
Foreign male	0%		Foreign female	0%
<b>TOTAL</b>	<b>54.6%</b>		<b>TOTAL</b>	<b>45.4%</b>

With the influx of females into the labour market, together with the social, political and economic efforts to promote gender equity in the workplace, increasing numbers of women are starting to occupy leadership positions in South Africa (Booyesen, 2007).

However, according to workforce profiles and movements at top management level, Table 2 shows that whites and males still dominate representation at top management level in terms of opportunities pertaining to recruitment, promotion and skills development. It is evident that a glass ceiling exists for many South African women in reaching top management positions. Furthermore, while gender equity and affirmative action legislation have been implemented in South Africa, it is evident from the above that inequality in career advancement still remains. Manning (1997) supports this by stating that women of all races are disadvantaged and a wasted resource.

### **The Nature of the Glass Ceiling**

The vast majority of top management positions throughout the world are held by men (April, Dreyer and Blass, 2007). The glass ceiling effect refers to the struggles that women face in attempting to move up to senior, executive and top management positions in organisations. Failure of women and other minority groups in climbing the corporate ladder, despite seeing better job opportunities, is what many think of as a glass ceiling (Mathur-Helm, 2006).

The glass ceiling effect is an unseen, yet unreachable barrier that keeps minorities and women from rising to the upper ranks of the corporate ladder, regardless of their qualifications and achievements (Singh, Gumber and Singh, 2010). Oakley (2000) lists three categories to explain the various barriers that result in a glass ceiling:

- Corporate practices such as recruitment and selection, retention and promotion;
  - Structural and cultural explanations embedded in feminist theory; and
  - Behavioural and cultural causes such as stereotyping and preferred leadership style.
- According to Mathur-Helm (2006), the criteria for the glass ceiling occurrence suggest the following:
- Women face barriers in their career advancements despite holding similar qualifications;
  - Women are discouraged from the initial placement on the job ladder due to limited promotional opportunities, thus raising men's numbers to survive to the top levels; and
  - When organisations hesitate to place women in positions where they can make an impact on the organisation's profitability.

While more women are entering the workplace, long working hours and demanding job requirements are preventing them to hold seats at the boardroom table. Jamali, Safieddine and Daouk (2006) support this by stating that family responsibilities contribute to negative perceptions about women's priorities, and therefore limiting their chances of advancement. Many South African women decline several career opportunities as they are still held responsible for most part of the family and household work (Mathur-Helm, 2006). Mathur-Helm's (2006) study on four major South African retail banks found that the glass ceiling is a reality and is nurtured by organisational culture, strategies and policies.

Organisations need to refrain from installing contradicting systems, as Meyerson and Fletcher (2000) found a number of organisations that provided employees with flexible working hours and childcare facilities to accommodate women, while still practicing culture characterised by demanding and long working hours. Sherman (2002) investigated the challenges and obstacles African American women encounter as they attempt to navigate their way through the world of work toward positions equal to their abilities, interests and sense of purpose. Instead of the traditional glass ceiling, he defined the institutionalised barriers to the advancement of African American women as a rock ceiling (Sherman, 2002).

### **The Glass Ceiling and Career Satisfaction**

For the present study, career satisfaction has been adapted to serve as a measure for glass ceiling beliefs. Glass ceiling beliefs may affect a range of well-being and performance variables (Smith, Crittenden and Caputi, 2012). The glass ceiling has been found to be associated with reduced career satisfaction.

As plateau workers hit glass ceilings (Puleo, 2010), the glass ceiling phenomenon suggests that women become dissatisfied with their careers and opportunities for career advancement (Stroh, Brett and Reilly, 1996).

Perceptions of unfairness and discriminatory tendencies associated with the glass ceiling phenomenon may contribute to lowered job and career satisfaction (Wickramasinghe and Jayaweera,

2010). As a result, female employees adopt a pessimistic attitude, as the glass ceiling reduces the likelihood of women to be promoted to leadership and upper management positions (Smith, Crittenden and Caputi, 2012).

### **Consequences of the Glass Ceiling**

Schwartz (1992) states that organisations are paying various costs for failing to utilise and develop the talents of women to the fullest. These include loss of investment in training when female employees quit their jobs, dissatisfaction and lowered performance because of their frustrations, opportunity costs resulting from unrealised potential, and failure to have the best talent represented at senior management levels (Schwartz, 1992).

There is a strong need to investigate the consequences of glass ceilings, as Catalyst, an American organisation that focuses on women's issues, predicted that it will take 73 years to reach equality with men in the boardrooms of the top 500 companies in the United States of America (Smith, Crittenden and Caputi, 2012). The following sections investigate the impact of the glass ceiling on employee withdrawal behaviour and organisational commitment.

**Withdrawal behaviour.** Employee turnover is a serious concern in organisations. Nagadevara, Srinivasan and Valk (2008) explored the relationship between withdrawal behaviour and employee turnover for both male and female employees. The findings of the study clearly showed a relationship between withdrawal behaviours and employee turnover (Nagadevara, Srinivasan and Valk, 2008).

It is not surprising that many female employees, frustrated in their efforts to advance in their careers, withdraw from their organisation. As many women become dissatisfied with their opportunities for advancement, the glass ceiling phenomenon suggests another explanation for the high turnover rate amongst females (Stroh, Brett and Reilly, 1996). Salami (2010) investigated the relationship between career plateauing and job satisfaction, organisational commitment, and turnover intentions amongst female employees. A multiple regression analysis indicated that career plateauing positively correlated with turnover intentions (Salami, 2010).

Stroh, Brett and Reilly (1996) examined differential turnover rates between male and female employees employed by 20 Fortune 500 organisations. The results indicated that female managers' intentions to leave were predicted by perceptions of lack of career opportunity in their current organisation, job dissatisfaction and disloyalty to the current company (Stroh, Brett and Reilly, 1996). In a study by Miller and Wheeler (1992), gender differences in intentions to leave were examined. The results revealed that female employees were nearly twice as likely as male employees to report that they "definitely would" or "probably would" leave their organisations within two years. Opportunities for promotion were significant predictors of the intent to leave for female employees (Miller and Wheeler, 1992). With regards to the glass ceiling and withdrawal behaviour, the following is hypothesised:

*Hypothesis 1: The glass ceiling increases withdrawal behaviour amongst female employees.*

**Organisational commitment.** Organisational commitment is a psychological situation that binds the employee to his/her organisation (Meyer and Allen, 1991). Committed employees internalise the organisation's goals, and are willing to continue to work in the organisation (Giritli, Sertyesilisik and Horman, 2013). Women are perceived as having lower levels of organisational commitment than men, as they often experience and display a different range of emotions to the majority of men in the workplace (Singh and Vinnicombe, 2000). As the glass ceiling diminishes female employees' chances of advancement and promotion to higher levels, it also slows down their interest and identification in the job (Singh, Gumber and Singh, 2010). As a result, their organisational commitment is negatively affected.

Singh, Gumber and Singh (2010) conducted a comparative study between glass ceiling perceivers and non-perceivers in relation to their organisational commitment and well-being. The results revealed significant differences in female employees' perception of the glass ceiling in the work environment. High glass ceiling perceivers showed poor well-being and reduced levels of normative, affective and continuance commitment (Singh, Gumber and Singh, 2010). Given the above, the following is hypothesised:

*Hypothesis 2: The glass ceiling negatively impacts female employees' level of organisational commitment.*

**Supervisory support.** Employees who have reached a glass ceiling may feel less supported by their supervisors. Supervisory career support is a key factor affecting an employee's career development. Employees' careers are likely to be enriched by supportive relationships with their supervisors (Wickramasinghe and Jayaweera, 2010).

Supervisory support entails career enhancing functions such as providing challenging assignments, sponsorship, visibility, as well as psychosocial functions such as counselling, friendship and acceptance (Wickramasinghe and Jayaweera, 2010). Good supervisory feedback and constructive communication between an employee and his or her supervisor enhance the opportunity for advancement in the employee's capabilities (Van der Heijden, Kümmerling, Van Dam, Van Der Schoot, Estry-Béhar and Hasselhorn, 2010).

**TABLE 2**  
**Workforce Profiles and Movements at the Top Management Level in terms of Race and Gender (Adapted from the Employment Equity Commission, 2012)**

WORKFORCE MOVEMENTS	MALE				FEMALE				FOREIGN NATIONAL		TOTAL
	AFRICAN	COLOURED	INDIAN	WHITE	AFRICAN	COLOURED	INDIAN	WHITE	MALE	FEMALE	
Workforce profile for all employers	2515	642	1146	10679	<b>1060</b>	285	303	<b>1970</b>	673	79	19352
	13.0%	3.3%	5.9%	55.2%	<b>5.5%</b>	1.5%	1.6%	<b>10.2%</b>	3.5%	0.4%	100.0%
Promotion for all employers	159	68	87	537	<b>58</b>	34	31	<b>157</b>	23	1	1155
	13.8%	5.9%	7.5%	46.5%	<b>5.0%</b>	2.9%	2.7%	<b>13.6%</b>	2.0%	0.1%	100.0%
Skills development for all employers	904	282	348	2729	<b>422</b>	126	128	<b>700</b>	0	0	5639
	16.0%	5.0%	6.2%	48.4%	<b>7.5%</b>	2.2%	2.3%	<b>12.4%</b>	0%	0%	100.0%
Recruitment for all employers	346	67	94	673	<b>183</b>	28	31	<b>155</b>	109	11	1697
	20.4%	3.9%	5.5%	39.7%	<b>10.8%</b>	1.6%	1.8%	<b>9.1%</b>	6.4%	0.6%	100.0%

With regards to career satisfaction, Wickramasinghe and Jayaweera (2010) examined the effect of supervisory support on career satisfaction. The results revealed that supervisory career support significantly predicted career satisfaction (Wickramasinghe and Jayaweera, 2010). Van der Heijden *et al.* (2010) investigated the impact of social support upon intention to leave among female nurses. Their findings indicated that social support from one's direct supervisor appeared to contribute negatively to the intention to leave the nursing profession. Based on the above reviewed literature, the following hypotheses are proposed:

*Hypothesis 3. A lack of supervisory support reduces female employees' level of career satisfaction.*

*Hypothesis 4. A lack of supervisory support increases withdrawal behaviour amongst female employees.*

*Hypothesis 5. A lack of supervisory support reduces organisational commitment amongst female employees.*

## RESEARCH DESIGN AND METHOD

### Data Collection

Before the research study was conducted, an ethical protocol was followed by obtaining ethics clearance from the Nelson Mandela Metropolitan University (ethics number: H 13 BED HR 015). A total of 75 women working in a variety of organisations in the Eastern Cape Province voluntarily completed an anonymous, self-report questionnaire. Several women's networks and three human resource managers were approached and asked to forward questionnaires to female colleagues, staff and friends.

To be part of this study, respondents had to be female, be employed in a multi-level organisation, and be involved in some form of decision-making. A cover letter explaining the procedure and instructions to complete the questionnaires was attached. Furthermore, the cover letter stressed the voluntary and confidential nature of the research.

### Measuring Battery

Validated measures from Greenhaus, Parasuraman and Wormley (1990); Lehman and Simpson (1992); and Mowday, Steers and Porter (1979) were combined into a single questionnaire. These measures will now be discussed.

**Career satisfaction.** In order to measure the negative impact of the glass ceiling, the questionnaire for the current study incorporated items that measured employees' satisfaction with their career success, which is an internally generated and defined career outcome (Fields, 2002). Responses were obtained on a five-point Likert scale ranging from "strongly disagree" (1) to "strongly agree" (5). This measure was developed by Greenhaus, Parasuraman and Wormley (1990), and also included items that focus on the extent to which an employee has made satisfactory progress towards goals for advancement, development of skills, and income level. Coefficient alphas ranged from 0.83 to 0.89 (Fields, 2002).

**Supervisory support.** Supervisory support was measured by drawing on the work of Greenhaus, Parasuraman and Wormley (1990). This measure assesses employee perceptions of the extent to which they receive supervisory support in their job. Supervisory support may include career guidance, performance feedback, work opportunities that promote employee development and visibility, and challenging work assignments (Fields, 2002). Coefficient alpha for the entire measure was 0.93 (Fields, 2002). In terms of validity, supervisory support correlated positively with perceptions of acceptance, job discretion, employee promotability, and job performance in terms of both tasks and relationships (Greenhaus, Parasuraman and Wormley, 1990). Items were rated on a five-point Likert scale ranging from "strongly disagree" (1) to "strongly agree" (5).

**Withdrawal behaviour.** The measure for the current study included items that describe psychological and physical withdrawal behaviours. The measure was developed by Lehman and Simpson (1992).

Coefficient alpha values ranged from 0.70 to 0.84 for psychological withdrawal behaviours, and 0.58 for the physical withdrawal subscale. Psychological withdrawal behaviour correlated positively with turnover intentions (Fields, 2002). For both subscales, items were rated on a five-point Likert scale ranging from “strongly disagree” (1), to “strongly agree” (2).

**Organisational commitment.** The Organisational Commitment Questionnaire (OCQ) was used to measure employees’ level of organisational commitment. This widely used measure was originally developed by Mowday, Steers and Porter (1979) and uses 15 items to describe global organisational commitment (Fields, 2002). Coefficient alphas ranged from .81 to .93 (Fields, 2002).

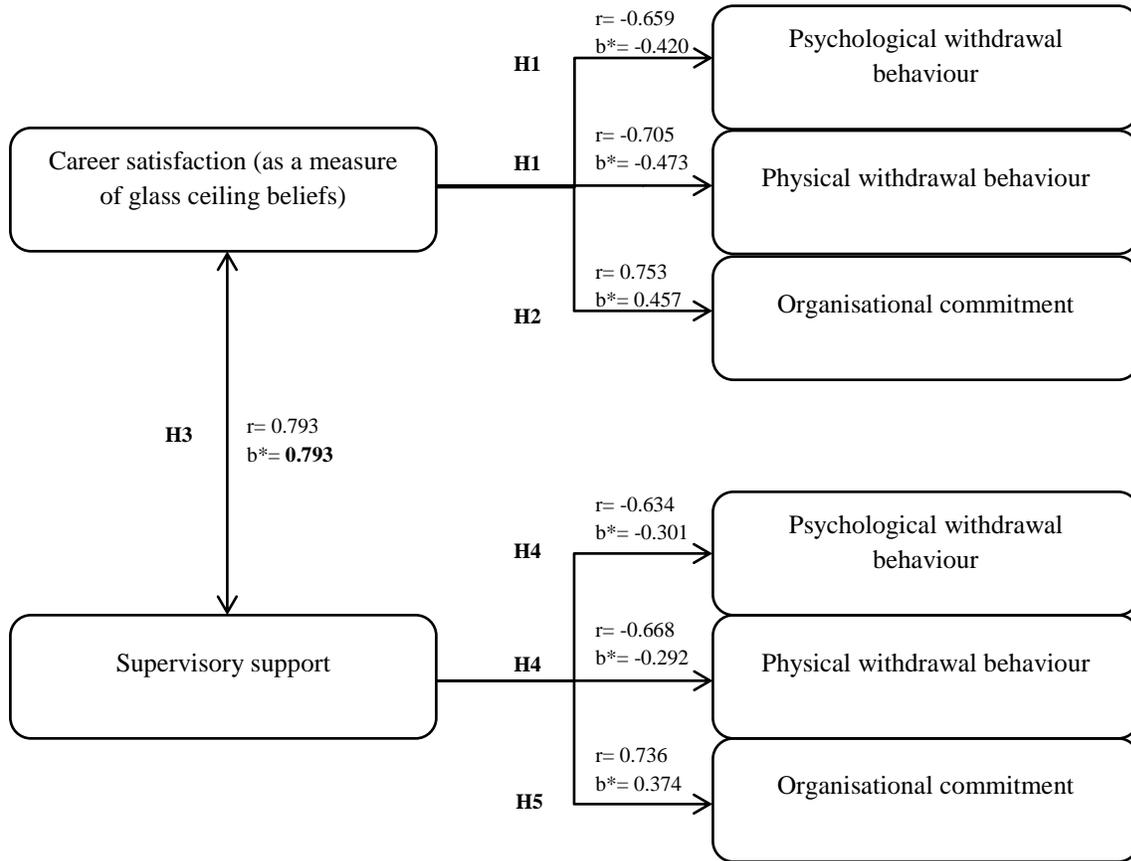
## DATA ANALYSIS, RESULTS AND DISCUSSION

The Statistical Package for Social Sciences (SPSS Version 20) was used for statistical analyses (IBM, 2011). With regards to descriptive statistics, the major contributors to the mean scores are discussed. For inferential statistics, Pearson product-moment correlations were calculated in order to test the hypotheses. Furthermore, a multiple regression analysis was used to further investigate the relationships depicted in the hypotheses. The results are discussed in light of the research model (Figure 1).

### Reliability of Measurement Items

For all measurement scales, standardised Cronbach’s coefficient alpha was calculated. The internal consistency reliabilities of multiple item measures used in this study typically exceeded 0.70, a level of reliability considered satisfactory for research purposes. Table 3 presents this information.

**FIGURE 1**  
**Research Model and Hypothesised Relationships**



**TABLE 3**  
Cronbach's Coefficient Alpha (n=75)

CODE	MEASURING INSTRUMENT	NUMBER OF ITEMS	CRONBACH'S $\alpha$
SB	Career satisfaction	5	0.89
SC	Supervisory support	9	0.97
SD (A)	Psychological withdrawal behaviours	8	0.92
SD (B)	Physical withdrawal behaviours	4	0.94
SE	Organisational commitment	15	0.92

**TABLE 4**  
Frequency Distribution of the Demographic Variables of the Sample (n=65).

DEMOGRAPHIC VARIABLE	FREQUENCY	PERCENTAGE
<b>RACE (n=75)</b>		
African	40	53.3%
Coloured	10	13.3%
Indian	6	8%
White	16	21.3%
Asian	3	4%
<b>Total</b>	<b>75</b>	<b>100%</b>
<b>HOME LANGUAGE (n=75)</b>		
Afrikaans	19	25.3%
English	34	45.3%
Xhosa	22	29.3%
<b>Total</b>	<b>75</b>	<b>100%</b>
<b>AGE (n=75)</b>		
20 - 29 years	18	24%
30 - 39 years	33	44%
40 - 49 years	21	28%
50 + years	3	4%
<b>Total</b>	<b>75</b>	<b>100%</b>
<b>MARITAL STATUS (n=75)</b>		
Married	47	62.7%
Divorced	7	9.3%
Single	21	28%
<b>Total</b>	<b>75</b>	<b>100%</b>
<b>CHILDREN (n=75)</b>		
Yes	61	81.3%
No	14	18.7%
<b>Total</b>	<b>75</b>	<b>100%</b>

### Descriptive Statistics

The descriptive statistics were analysed with SPSS Version 20 (IBM, 2011). It was calculated that responses between 1 and 2.6 on the Likert scale would fall into the “Low” category; between 2.6 and 3.4 in the “Average” category; and between 3.4 and 5 in the “High” category. Table 4 lists the demographic variables of the sample. Five demographic variables were included in the questionnaire. The majority of the sample was African (53.3%); English speakers (45.3%); ranged between the ages of 30 – 39 years (44%); married (62.7%); and have children (81.3%).

**Career satisfaction.** Descriptive statistics for the variables of career satisfaction and supervisory support are shown in Table 5. It is evident from Table 5 that respondents are not satisfied with their careers, and that they have been negatively impacted by the glass ceiling. The majority of the sample (72%) indicated that they are not satisfied with the progress they have made toward meeting their goals for income, where 43% of respondents feel dissatisfied with the success they have achieved in their career. Furthermore, the majority of respondents (53%) indicated that they are not satisfied with the progress they have made toward meeting their goals for the development of new skills

**TABLE 5**  
**Descriptive Analysis for Career Satisfaction**

VARIABLE	CODE	MEAN	SD
<b>CAREER SATISFACTION</b>			
I am satisfied with the success I have achieved in my career.	SB1	2.49	1.28
I am satisfied with the progress I have made toward meeting my overall career goals.	SB2	2.59	1.15
I am satisfied with the progress I have made toward meeting my goals for income.	SB3	2.00	1.23
I am satisfied with the progress I have made toward meeting my goals for advancement.	SB4	2.43	1.20
I am satisfied with the progress I have made toward meeting my goals for the development of new skills.	SB5	2.36	1.10

**TABLE 6**  
**Descriptive Analysis for Supervisory Support**

VARIABLE	CODE	MEAN	SD
<b>SUPERVISORY SUPPORT</b>			
My supervisor takes the time to learn about my career goals and aspirations.	SC1	1.96	1.20
My supervisor cares about whether or not I achieve my goals.	SC2	2.00	1.26
My supervisor keeps me informed about different career opportunities for me in the organisation.	SC3	1.99	1.08
My supervisor makes sure I get the credit when I accomplish something substantial on the job.	SC4	2.45	0.98
My supervisor gives me helpful feedback about my performance.	SC5	1.96	1.20

My supervisor gives me helpful advice about improving my performance when I need it.	SC6	2.00	1.24
My supervisor supports my attempts to acquire additional training or education to further my career.	SC7	2.48	0.99
My supervisor provides assignments that give me the opportunity to develop and strengthen new skills.	SC8	2.09	1.04
My supervisor assigns me special projects that increase my visibility in the organisation.	SC9	2.40	1.01

**Supervisory support.** There seems to be a lack of supervisory support. Based on table 6, the majority of respondents indicated that their supervisor does not take the time to learn about their career goals and aspirations (61%). With regards to career opportunities, another 61% indicated that their supervisor does not keep them informed about different career opportunities in their organisation. For training and development opportunities, the majority of the sample (62%) indicated that their supervisor does not support their attempts to acquire additional training or education to further their career.

**Withdrawal behaviour.** Respondents indicated that they withdraw psychologically and physically from their organisations. Table 7 shows a summary of the items and responses related to psychological withdrawal behaviours. It is evident from Table 7 that in the past 12 months, the majority of respondents have left a work situation for unnecessary reasons (46%), daydreamed (49%), spent work time on personal matters (61.4%), and let colleagues do their work for them (62.6%). For physical withdrawal behaviours, the majority of the sample indicated that in the past year, they have:

- Left work early without permission (48%);
- Taken longer lunch or rest breaks than allowed (66.7%);
- Taken supplies or equipment without permission (65.4%); and
- Fallen asleep at work (64%).

From the above findings it is clear that there seems to be strong withdrawal behaviour directed towards respondents' organisations.

**TABLE 7**  
**Summary of Items and Responses Related to Section D: Psychological Withdrawal Behaviours**

In the past twelve months, how often have you...	RESPONSE	FREQUENCY	PERCENTAGE
Left work for unnecessary reasons?	Never	21	28
	Once or twice	4	5.3
	Sometimes	4	5.3
	Regularly	44	58.7
	Very often	2	2.7
	<b>Total</b>	<b>75</b>	<b>100%</b>
Daydreamed?	Never	9	12
	Once or twice	9	12
	Sometimes	8	10.7
	Regularly	48	64
	Very often	1	1.3
	<b>Total</b>	<b>75</b>	<b>100%</b>
Spent work time on personal matters?	Never	5	6.7
	Once or twice	14	18.7
	Sometimes	10	13.3
	Regularly	29	38.7
	Very often	17	22.7
	<b>Total</b>	<b>75</b>	<b>100%</b>
Let others do your work?	Never	21	28
	Once or twice	6	8
	Sometimes	1	1.3
	Regularly	46	61.3
	Very often	1	1.3
	<b>Total</b>	<b>75</b>	<b>100%</b>

**Organisational commitment.** Overall, respondents indicated a low level of organisational commitment. The majority of the sample indicated that they:

- Are not willing to put in a great deal of effort beyond that which is normally expected of them (68%);
- Do not perceive their organisation as a great place to work for (88%);
- Would not accept any types of job assignments in order to remain employed at their organisation (80%);
- Their values are not congruent with their organisation's values (74.7%); and
- Do not care about the fate of their organisation (64%).

### Inferential Statistics

**Hypotheses testing.** Hypotheses were tested with correlations and a multiple regression analysis. All data were analysed using SPSS Version 20 (IBM, 2011). Table 8 shows the Pearson product-moment correlation coefficient for all the variables.

**TABLE 8**  
**Pearson Product-Moment Correlation Matrix for All Variables**

VARIABLE	1	2	3	4	5
<b>1. Career Satisfaction</b>		0.793**	-0.659**	-0.705**	0.753**
<b>2. Supervisory Support</b>	0.793**		-0.634**	-0.668**	0.736**
<b>3. Psychological withdrawal</b>	-0.659**	-0.634**		0.929**	-0.611**
<b>4. Physical withdrawal</b>	-0.705**	-0.668**	0.929**		-0.681**
<b>5. Organisational commitment</b>	0.753**	0.736**	-0.611**	-0.681**	

\*\* Correlation is significant at the 0.05 level.

**Hypothesis 1: The glass ceiling increases withdrawal behaviour amongst female employees.** Hypothesis one (H1) is supported. An inverse relationship was found between career satisfaction and psychological withdrawal (-0.659), and physical withdrawal behaviour (-0.705).

A multiple regression analysis (Table 9) confirmed an inverse relationship between career satisfaction and psychological withdrawal behaviour (-0.420). The results propose that the more satisfied respondents are with their careers, the less likely they will withdraw psychologically from their organisation.

**TABLE 9**  
**Regression Summary for Dependent Variable: Psychological Withdrawal Behaviour**

INDEPENDENT VARIABLES	<b>b*</b>	<b>t-value</b>	<b>p-value</b>
Career satisfaction	-0.420	-2.973	0.004
Supervisory support	-0.301	-2.129	0.037
R <sup>2</sup> = 0.467			
Significant effects are in bold.			

For physical withdrawal behaviour, a multiple regression analysis (Table 10) also indicated an inverse relationship between career satisfaction and physical withdrawal behaviour (-0.473).

**Hypothesis 2: The glass ceiling negatively impacts female employees' level of organisational commitment.** The results provide support for hypothesis two (H2). A positive relationship was found between career satisfaction and organisational commitment (0.753). Furthermore, the regression analysis in Table 11 revealed a positive relationship between these two variables (0.457). In other words, the findings suggest that the more satisfied female employees are with their careers, the more committed they will be to their organisations.

**TABLE 10**  
**Regression Summary for Dependent Variable: Physical Withdrawal Behaviour**

INDEPENDENT VARIABLES	b*	t-value	p-value
Career satisfaction	-0.473	-3.562	0.001
Supervisory support	-0.292	-2.201	0.031
R <sup>2</sup> = 0.529 Significant effects are in bold.			

**TABLE 11**  
**Regression Summary for Dependent Variable: Organisational Commitment**

INDEPENDENT VARIABLES	b*	t-value	p-value
Supervisory support	0.374	3.128	0.003
Career satisfaction	0.457	3.825	0.000
R <sup>2</sup> = 0.619 Significant effects are in bold.			

**Hypothesis 3: A lack of supervisory support reduces female employees' level of career satisfaction.** Hypothesis three (H3) is supported. A positive relationship was found between supervisory support and career satisfaction (0.793). Furthermore, the regression analysis in Table 12 also confirms a significant positive relationship between these two variables (0.793).

**TABLE 12**  
**Regression Analysis for Dependent Variable: Career Satisfaction**

INDEPENDENT VARIABLES	b*	t-value	p-value
Supervisory support	<b>0.793</b>	11.127	0.000
R <sup>2</sup> = 0.629 Significant effects are in bold.			

**Hypothesis 4: A lack of supervisory support increases withdrawal behaviour amongst female employees.** The findings provide support for hypothesis four (H4), as an inverse relationship was found between supervisory support and psychological withdrawal behaviour (-0.634), and physical withdrawal behaviour (-0.668). The regression analysis summarised in Table 9 also indicates an inverse relationship between supervisory support and psychological withdrawal behaviour (-0.301), and physical withdrawal behaviour (-0.292).

**Hypothesis 5: A lack of supervisory support reduces organisational commitment amongst female employees.** The findings provide support for hypothesis five (H5). A positive relationship was found between supervisory support and organisational commitment (0.736). Furthermore, the regression analysis summarised in Table 11 indicates a positive relationship between these two variables (0.374).

## CONCLUSION, RESEARCH LIMITATIONS AND RECOMMENDATIONS FOR MANAGERS

The purpose of the current study was to examine the importance of supervisory support in ensuring that female employees remain committed to their organisations, and prevent them from withdrawing either psychologically or physically from the organisation. The low mean scores obtained for career satisfaction suggest that respondents are experiencing the negative impact of the glass ceiling, and that elements of the glass ceiling exist.

Inferential statistical analysis suggests that the glass ceiling may increase withdrawal behaviour amongst employees, and negatively impact respondents' level of organisational commitment. Furthermore, the results also suggest the crucial role of supervisory support in ensuring that female employees are satisfied with their careers, do not withdraw from the organisation, and remain committed and loyal to their employing organisations. Based on the results obtained from the descriptive statistics, respondents indicated that they are not satisfied with the success they have achieved in their career. Organisations can employ a variety of practices that support women's career advancement.

Supervisors need to provide recognition, mentoring, coaching, and extensive training and development to support women's career advancement to ensure that they remain satisfied and committed. The results of the present study confirm the need for supervisors to learn about female employees' career goals and aspirations, keep them informed about different career opportunities within the organisation, and support respondents' attempts to further their careers by acquiring additional training and education.

The present study is not without limitations. Data were collected using self-report questionnaires raising the possibility that responses reflect a common method bias. Future research could include a larger sample from various sectors in order to confirm the generalizability of the findings. Despite these limitations, this study has provided evidence that relationships exist between the glass ceiling, the work attitudes of female employees, and the provision of supervisory support.

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## **A COMPARATIVE ANALYSIS OF TALENT MANAGEMENT STRATEGIES IN THE BANKING SECTOR IN THE SOUTHERN AFRICAN REGION**

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### **ABSTRACT**

The highly dynamic environment in which businesses today operate, combined with skills shortages, results in pressure to attract and retain staff in order to gain a competitive advantage. Retention of key employees is important to the success of a business and talent management is a critical strategic imperative for achieving this. A study was conducted among banks in South Africa, Zambia and Botswana to analyse the strategies for attracting and retaining talented managerial level employees. A quantitative analysis, using a structured questionnaire, was conducted among 205 middle management employees. This paper reports on talent management practices identified in the literature and from the study's empirical findings. It concludes with recommendations on practical strategies for effectively attracting and retaining talent.

**Keywords:** Talent Management; Talent Retention; South Africa; Zambia; Botswana; Banking Sector

### **INTRODUCTION**

Businesses today, including the banking sector, operate in a highly dynamic and competitive environment, with constant rapid change. Business leaders find themselves in the dilemma of having to drive business profitability, while at the same time developing people and contributing to socio-economic issues (Selby & Sutherland, 2006). The current high skills shortage and war for talent in the market, results in a growing pressure to attract, engage and retain staff in order to gain a competitive advantage. According to Duchon (2007), companies need to ensure that they have the right and motivated talent in place in order to increase productivity and profitability.

The banking sector has come under the spotlight in recent years with the financial crisis in the United States of America being blamed in part for the unethical practices of Wall Street (Mayer, 2011). While the banking sector in Africa has weathered the storm of the 2008 global recession comparatively better than their American and European counterparts, indications that the financial crisis may not be completely over has meant a renewed emphasis by banks to remain competitive and to nurture their talent to do so. Retention of key employees is important to the long-term success of the business as it ensures customer satisfaction, product sales, satisfied co-workers, and effective succession planning. To achieve the benefits of a competitive advantage and long-term success, talent management is a critical strategic imperative and a clear and compelling strategy to attract, engage and retain staff is necessary.

Uren (2007) describes talent management as a process that involves attracting, identifying, developing, deploying, and engaging talent. The rationale behind talent management is to develop the right people and equip them with the appropriate skills for current and future demands of the organisation. It is concerned with identifying talent gaps, succession planning, recruitment and selection, motivating and retaining talented employees through a variety of initiatives (Ringo, Schweyer, DeMarco, and Jones & Lesser, 2010).

Against this background, a study was conducted among banks in South Africa, Zambia and Botswana. The purpose of the research was to analyse, compare and identify the strategies and drivers for attracting and retaining talented managerial level employees within the banks involved in the study. According to the literature, recruitment, compensation, recognition and rewards, performance management, learning/training and development and leadership are the main factors impacting talent management. As such, this study aimed to assess the extent to which these factors are pursued in the banking sector to attract, engage and retain critical employees and secondly to determine if the talent management strategies were the same in the three different countries. The findings of the empirical study indicated, however, that recruitment and compensation, recognition and rewards were the two key factors for attracting and retaining managerial level talent at the banks surveyed. This paper concludes with practical strategies for effectively attracting, engaging and retaining talent.

## THEORY AND HYPOTHESES

### What is Talent Management?

Researchers differ significantly in their understanding of what constitutes talent management (McDonnell, Lamare, Gunnigle & Lavelle, 2010). Lewis and Heckman (2006) state that despite the lack of a clear definition, talent management is indeed of strategic importance. From a theoretical point of view, the area of talent management is in its start, with only 5 percent of organisations saying they have a talent management strategy in place (Kumar and Shani, 2012). According to Kumar and Shani, (2012) talent management is a term that emerged in the 1990s to integrate an increasing focus in Human Resources Management on planned and strategic management of employees. Cappelli (2009) suggests that talent management is a process of anticipating the need for human capital and setting out plans to meet that need. This requires a mind-set where organisations view talent as crucial for organisational success and where developing strong leaders within an organisation is essential to the success of talent management initiatives. This means looking beyond attracting and retaining the best people to also unleashing and harnessing their potential (Van Rooyen & Whittle, 2011). Kumar and Shani (2012), further advocate that a talent management system must be worked into the business strategy and implemented in daily processes throughout the organisation as a whole.

Effective talent management, resulting in talent attraction and retention requires the integration of human resources functions such as recruitment and selection, career development and succession management (Cappelli, 2009; Van Rooyen & Whittle, 2011). In addition, Garrow and Hirsh (2008) recommend that the organisation create talent pools to ensure an adequate supply of human capital throughout the organisation. Blass (2007) further suggests that a sound talent management strategy must identify high performing and high potential employees and differentiate and reward them for exceptional performance.

In the current economic conditions, with many companies having to cut down on expenses, a talent management system which optimises performance of each employee and the organisation becomes a high priority. For an organisation to yield the benefits of increased productivity and profitability and avoid the high costs of employee replacement and turnover, a clear talent management strategy, based on regular talent reviews, is necessary. In so doing, an organisation needs to identify its key talent drivers and then strategically focus on executing them. The literature reviewed identified a

number of important strategies for attracting and retaining talent, as outlined below.

### **Strategies for Attracting and Retaining Talented Employees**

**Recruitment.** Effective recruitment and selection are of strategic importance to any organisation and is essential to ensuring that the organisation is able to achieve its objectives through people. A recruitment strategy, preceded by a skills audit, is paramount in ensuring that the right people, with the right skills, attitude and behaviour are attracted to the right jobs. Ensuring the right fit between the job requirements and applicants improves the chances of increased job satisfaction and job performance. In today's global economy organisations are faced with the added challenge of retaining their top talent. Organisations intent on retaining talent must have a sound recruitment strategy, one that is also cognisant, of the advantages and disadvantages of attracting talent from within or outside the organisation (Gomez-Mejia, Balkin & Cardy, 2004). Accordingly, we hypothesise:

*Hypothesis 1. There is a positive relationship between recruitment and talent management.*

**Compensation, Rewards and Recognition.** The rewards and recognition system serves as an important component to building and retaining talent. Organisations that wish to achieve improved performance and employee motivation, must combine monetary rewards such as a competitive salary and benefits with non-monetary rewards such as recognition. Moreover, they need to also take into account the prevalence of internal and external equity perceptions (Danish, 2010). To ensure that the rewards are appreciated, business leaders and human resources practitioners need to ensure that reward and recognition programmes are based on the organisational culture and value systems of employees. Accordingly we hypothesise:

*Hypothesis 2. There is a positive relationship between compensation, recognition and rewards and talent management.*

**Performance Management.** Performance management is essential in identifying talented individuals as it ensures the organisation appoints the right calibre of people in identified key positions, which are in line with the organisation's goals. According to Mathis and Jackson (2006:328), performance management involves a process of identifying, measuring, communicating, developing, and rewarding employee performance. Accordingly we hypothesise:

*Hypothesis 3. There is a positive relationship between performance management and talent management.*

**Learning/Training and Development.** Once talent has been successfully recruited into the organisation, the next step is to ensure that this talent is harnessed and fully utilised (Browning, Edgar, Gray & Garrett, 2009). This should take the form of on-going employee training and development in order to ensure that employees remain relevant in their careers. Learning and development is an effective retention tool as it has a direct impact on employees' motivation, commitment and job satisfaction and is most effective when part of an overall performance management programme or succession plan (Hamilton, 2008; Edralin, 2011; Karthik, 2012). In addition, organisations should focus on the empowerment of talented employees through participative management, shared decision-making and delegation of decision-making authority and responsibility from managers (DuBrin, 2010). Accordingly we hypothesise:

*Hypothesis 4. There is a positive relationship between learning/training and development and talent management.*

**Leadership.** Wellins and Concelman (2005) propose that although there are multiple factors that influence employee engagement, and consequently retention, the quality of leadership is the most significant. Effective leaders require both technical and interpersonal skills to motivate employees as well as having an understanding of diversity and organisational culture. If people are managed well, challenged and given the necessary support, they can overcome obstacles, remain in the organisation and achieve great results (Thomas, Harburg & Dutra, 2007). Thus leadership, at all levels, need to work together towards attracting, engaging and retaining employees. Accordingly we hypothesise:

*Hypothesis 5. There is a positive relationship between leadership and talent management.*

### **Barriers to Effective Talent Management.**

According to Mellahi and Collings (2010), a lack of a healthy pipeline to occupy strategic positions within the organisation, changing organisational culture, aggressive external recruitment practices, and generic talent management initiatives are obstacles to the attraction and retention of talent. An overemphasis on individual performance undermines teamwork, which has the potential of creating destructive internal competition without yielding positive results (Lawler, 2008; Coulson-Thomas, 2012). In order for talented individuals to flourish, they need to be led and managed appropriately. Lastly, it is imperative for line managers to have good people management skills, as line managers may block or delay the development of high potential individuals (Mellahi & Collings, 2010). The research design follows.

## **RESEARCH SETTING AND METHODOLOGY**

To test the hypotheses, the following research design and methodology was adopted:

### **Research Method**

A quantitative approach was selected as it allowed for the collection of objective, precise and specific data, therefore creating high levels of data integrity.

### **Measuring Instrument**

A structured questionnaire was used as the primary data collection instrument. The items on the questionnaire were developed from the literature reviewed and the Society for Human Resource Management (SHRM) 2006 Talent Management Survey (Fegley, 2006). In addition validated scales for talent management, from studies done by Oosthuizen & Nienaber, 2010; Chikumbi, 2011; Mahlanza, 2012 and Pepeta, 2012, were incorporated. Minor adaptations were made to the instrument to contextualise the questions for the banking sector. The questionnaire was randomly distributed to employees at middle management level at identified South African, Zambian and Botswana banks. A five-point Likert scale, ranging from “strongly agree” to “strongly disagree” was used to determine the degree of agreement or objection to the statements in the questionnaire.

### **Data Collection**

Primary data was collected by means of a structured closed-ended questionnaire that was developed. Closed-ended questions were used as they are quick and easy to answer, and easy to analyse and compare responses from the respondents. Secondary data sources comprised of books, journals and electronic databases.

The questionnaire comprised of two sections, namely biographical (Section A) and factors influencing talent management: recruitment; compensation recognition and rewards; performance management; learning/training and development; and leadership (Section B). The wording of the questionnaire was kept simple, logical and unbiased, making it easy for the respondents to provide accurate responses.

Participants were requested to respond to statements pertaining to the aforementioned factors in Section B of the questionnaire, such as: *“My bank conducts skills audits to assess talent gaps”*; *“My bank focuses on the internal talent pool before appointing from outside”*; *“My bank offers competitive remuneration that is attractive”*; *“The reward system contributes to me staying with the bank”*; *“Employees receive constructive performance feedback from managers”*; *“Performance gaps identified during reviews lead to staff training and development”*; *“I receive training to help me learn and grow in my career”*; and *“There are opportunities to apply new skills to the job”*. In order to test whether the respondents fully understood the questions, a pilot study was conducted with eight respondents at targeted levels within the South African bank, which resulted in no changes to the questionnaire content and structure. Ethical clearance was obtained to conduct the study and moreover, the researchers, assured respondents of anonymity and confidentiality of the information collected.

### **Sampling Method**

Simple random sampling was utilised to select respondents from the population of middle managers (regional managers, sales managers, branch managers and human resource managers) at the three banks. The study focused at this level, because this is where the majority of key value roles are found. Employees in these positions are crucial to driving business performance and providing leadership to the rest of the employees. The sample sizes were as follows: 100 respondents from a South African bank out of a total population of 267, 40 from a Zambian bank, out of a possible 300 middle managers and 200 from various Botswana banks, 20 respondents from each bank selected by the Human Resource Managers. The final response rate for the study was of 94, 40 and 71 respectively or a total of 205 respondents.

### **Research Reliability and Validity**

In order to determine reliability of the measuring instrument, internal consistency reliability was utilised, which assesses the consistency of results within a test (Trochim, 2006). This was done by calculating Cronbach alpha coefficients, as displayed in Table 1, below. According to Nunally (1978), a threshold alpha of 0.70 represents proof of a reliable score, whilst a score of 0.50 is acceptable for basic research. All the Cronbach alpha coefficients for the current study exceed 0.83 which is to be expected as the instrument was used before and was shown to be reliable (Fegley, 2006; Oosthuizen & Nienaber, 2010; Chikumbi, 2011; Mahlanza, 2012 and Pepeta, 2012).

To ascertain the validity of the research, content and construct validity was utilised. Content validity refers to the degree to which a measure has appropriate content to measure the construct. Construct validity in turn refers to how well the measure relates to other variables within theoretical expectations (Babbie, 2005). The questionnaire was deemed valid with respect to both content and construct validity as it contained the main talent management elements revealed in the literature (Fegley, 2006; Cappelli, 2009; Ringo, Schweyer, DeMarco and Jones & Lesser, 2010; Oosthuizen & Nienaber, 2010; Van Rooyen & Whittle, 2011; Chikumbi, 2011; Mahlanza, 2012 and Pepeta, 2012). Moreover, it was clear and concise, as indicated by the participants in the pilot study.

**TABLE 1**  
**Cronbach Alpha Coefficient**

<b>Talent Management Strategy</b>	<b>Cronbach Alpha Coefficient</b>
Recruitment	0.85
Compensation, recognition and rewards	0.83
Performance Management	0.90
Learning/Training and development	0.85
Leadership	0.87

The results of the study will be presented, analysed and interpreted next.

### RESULTS

Table 2, below, represents the condensed aggregate mean scores of each talent management strategy impacting the management and retention of talent. The discussion of the results will highlight each strategy's extremities and will provide an example of contributing factors. Furthermore, the results are discussed in light of the theoretical model.

#### Descriptive Statistics for Talent Management Strategies

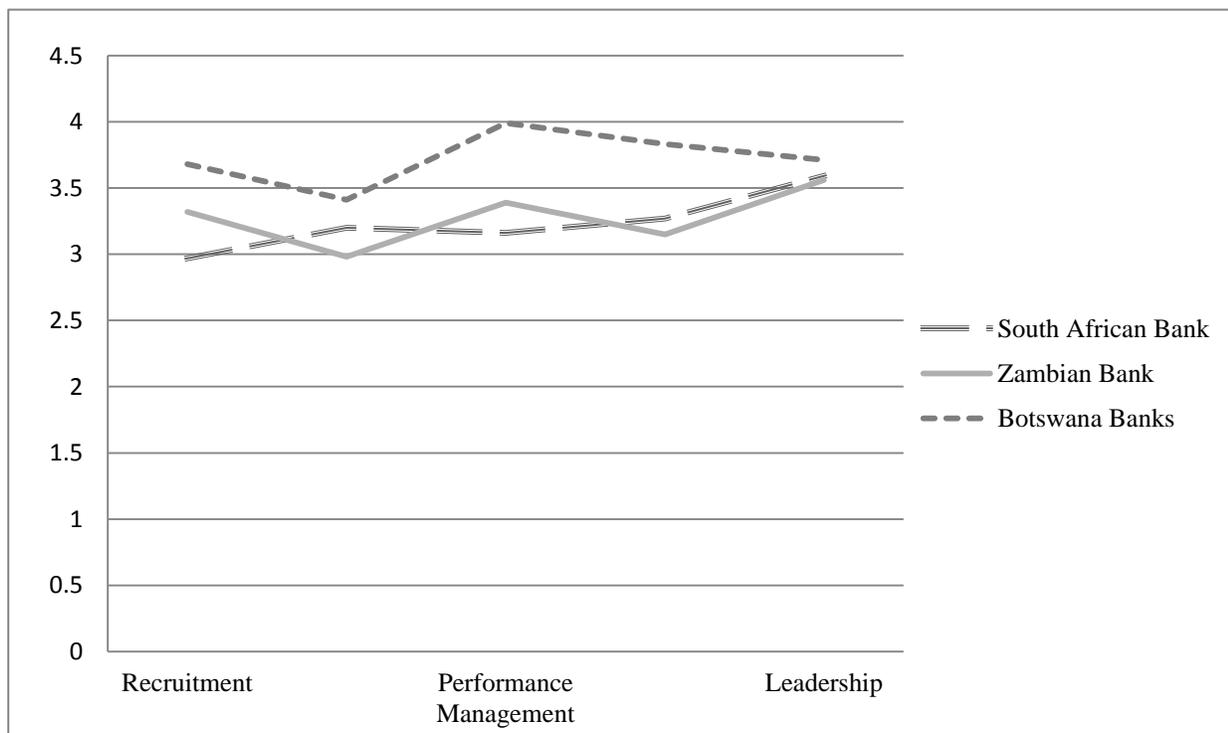
**TABLE 2**  
**Aggregate Mean Scores for Talent Management Strategies**

<b>Talent Management Strategy</b>	<b>South Africa Bank</b>		<b>Zambian Bank</b>		<b>Botswana Banks</b>	
	<b>Mean</b>	<b>Standard Deviation</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Mean</b>	<b>Standard Deviation</b>
Recruitment	2.97	0.78	3.32	0.97	3.68	0.87
Compensation Recognition and Rewards	3.2	0.73	2.98	0.97	3.41	0.97
Performance Management	3.70	0.80	3.39	0.85	3.99	0.89
Learning Training and Development	3.47	0.72	3.15	0.88	3.83	0.94
Leadership	3.77	0.75	3.56	0.84	3.71	0.98

Table 2 indicates that the Botswana banks, appears to have implemented the most effective talent management strategies with the exception of leadership as experienced by the respondents. The highest and second highest aggregate of all the talent management factors, namely performance

management (3.99) and learning, training and development (3.83), was also recorded for Botswana banks. Recruitment (2.97), at the South African bank, was the lowest rated talent management factor of all. Respondents at the Zambian bank were most dissatisfied with compensation, recognition and rewards (2.98) as compared to the South African and Botswana banks. The lowest rated talent management factor across all the banks is compensation, recognition and rewards, whereas performance management has the highest aggregate means of all the factors. An analysis of the aggregate mean scores indicated that the banks in all three countries utilised the talent management strategies identified in the literature. However, although the strategies for talent management were the same for all the banks in the study, they were being implemented with varying degrees of success. This is confirmed, also, in the graphical comparison below.

**FIGURE A**  
**Graphical Comparison of Talent Management Strategies**



A comparison among the banks, with respect to talent management strategies indicates the following:

The Zambian bank and the Botswana banks have a more effective recruitment strategy for talent management than the South African bank. It can be seen that the respondents agreed that the Botswana banks had an effective recruitment strategy for talent management.

The results range from uncertain (South African bank and the Botswana banks) to “disagreeing” (The Zambian bank) that the compensation, recognition and rewards system at their organisations is an effective strategy for talent management.

Performance management and learning/training and development have been well managed as strategies for talent management at the South African bank, the Zambian bank and the Botswana banks. Performance management, on average, was rated higher for all the banks, as compared to the other

talent management factors. Based on the analysis of this element, it is evident that all the banks surveyed use performance management to drive their talent management strategies.

There is also evidence that the Botswana banks have a strong focus on assisting and supporting employees develop their own performance. Table 2 shows that respondents at the Botswana banks tend to agree with statements regarding learning, training and development (mean=3.83). Most of the respondents believed that they can achieve their career goals in their respective jobs. They acknowledge that their respective employers afford them the opportunities for growth and development. They also tend to agree that they are given meaningful tasks that enable them to improve their skills.

Leadership strategies at the South African bank, the Zambian bank and the Botswana banks are effective for retaining talent. It can be interpreted that most of the respondents have trust in the leadership of their respective banks as well as expressing confidence in the senior leadership of their respective banks. This can be attributed largely to the high correlation between leadership and performance management, as reflected in the Pearson coefficient score of 0.88 which is highest correlation of all factors. This is further supported by the fact that an overwhelming majority of respondents (98%) had a clear understanding of their performance objectives and 68% further agreed that they received constructive feedback from their managers. The results show that the relationship between leadership and performance management is closely managed at the banks surveyed

### Inferential Statistics

Hypotheses were tested with correlations and a multiple regression analysis. Table 3 shows the Pearson product-moment correlation coefficients for all the variables. Pearson product-moment correlations were calculated to measure the degree and direction of the relationship between the various talent management strategies.

**TABLE 3**  
**Pearson's correlation coefficient**

<b>Nr.</b>	<b>Talent Management Strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1</b>	Recruitment	1.00				
<b>2</b>	Compensation, recognition and rewards	<b>0.69</b>	1.00			
<b>3</b>	Performance management	<b>0.69</b>	<b>0.73</b>	1.00		
<b>4</b>	Learning/training and development	<b>0.70</b>	<b>0.63</b>	<b>0.70</b>	1.00	
<b>5</b>	Leadership	<b>0.58</b>	<b>0.70</b>	<b>0.88</b>	<b>0.68</b>	1.00
<b>Statistical significant correlations are in bold (p&gt;0.05)</b>						

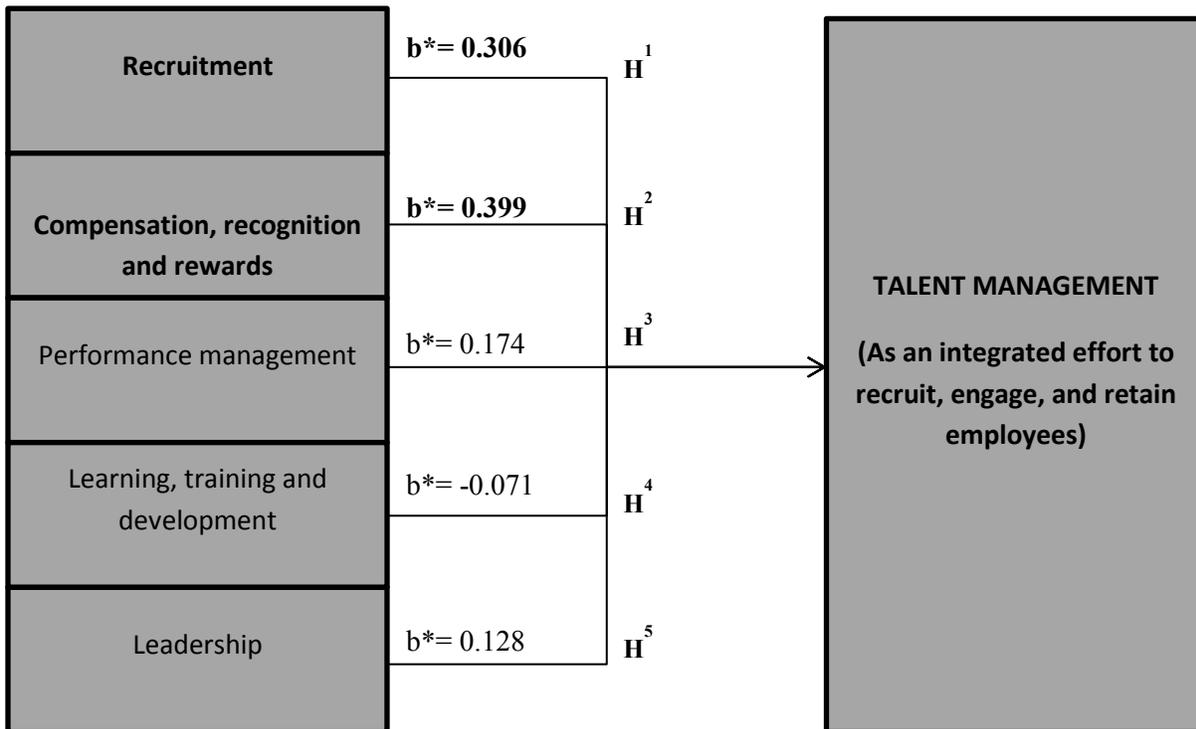
The study hypothesised that there was a positive relationship between talent management and recruitment (Hypothesis 1), compensation, recognition and rewards (Hypothesis 2), performance management (Hypothesis 3), learning/training and development (Hypothesis 4) and leadership (Hypothesis 5). An analysis of Pearson's correlation coefficient for the talent management strategies (Table 3) reveals that all variables have a positive correlation; this means all variables have a significant influence on each other. It is important to note that all the correlations are statistically significantly greater than zero ( $p > 0.05$  in all cases). The practical significance of these correlations can also be seen as large, following the guidelines set by Cohen (1988). These guidelines state that, for practical significance, coefficients in the region of 0.1 can be seen as small, in the region of 0.3 as medium and in the region of 0.5 (or higher) as large. Furthermore, a multiple regression analysis was conducted to investigate the relationships between the various talent management strategies (independent variables) and talent management (dependent variable) depicted in the theoretical model. The standardised regression coefficient ( $b^*$ ) indicates the effect of the independent variable on the dependent variable, while keeping the other independent variables fixed. Table 4 shows a regression summary for the dependent variable, talent management.

**TABLE 4**  
**Regression summary for dependent variable: Talent management**

Independent Variable	$b^*$	Standard error of $b^*$	$b$	p-value
Recruitment	<b>0.306</b>	<b>0.121</b>	<b>0.241</b>	<b>0.014</b>
Learning, training and development	-0.071	0.116	-0.060	0.543
Performance management	0.174	0.142	0.135	0.224
Compensation, recognition and rewards	<b>0.399</b>	<b>0.119</b>	<b>0.317</b>	<b>0.001</b>
Leadership	0.128	0.171	0.095	0.456
<b>R= 0.74; R<sup>2</sup>= 0.55</b> Correlations are significant at the 0.05 level. Significant correlations are in bold.				

The independent variables investigated in this study explain 55% of the variance in talent management. As reported in Table 4, significant positive relationships are evident between talent management factors *recruitment* ( $p < 0.05$ ) and *compensation, recognition and rewards* ( $p < 0.05$ ) and the dependent variable talent management. No significant statistical relationship was reported between *learning/training and development*, *performance management* and *leadership* and talent management respectively. Based on these results, support is found for Hypothesis 1 and Hypothesis 2 but not for Hypotheses 3, 4 and 5.

**FIGURE B**  
**Research model**



As for the regression analysis (Table 4), the research model shows that only Hypothesis 1 and Hypothesis 2 are supported.

### DISCUSSION AND CONCLUSION

In this article, we explain the need for effective talent management in the context of a highly dynamic and competitive environment coupled with high skills shortages. According to the literature, recruitment, compensation, recognition and rewards, performance management, learning/training and development and leadership are the main factors impacting talent management. With regards to the main research questions posed and the study's hypotheses, the results of the study indicated that while the banks in the three countries made use of the aforementioned factors to attract and retain talent, the extent to which they had a positive impact on talent management varied. This resulted in the acceptance of Hypothesis 1 and Hypothesis 2, due to significant positive relationships between talent management factors *recruitment* ( $p < 0.05$ ) and *compensation, recognition and rewards* ( $p < 0.05$ ) and the dependent variable talent management. No significant statistical relationship was reported between *learning/training and development*, *performance management* and *leadership* and talent management respectively, therefore Hypotheses 3, 4 and 5 were unsupported. This was also true for the analysis of the results with respect to the theoretical model. The findings may be attributed to a lack of understanding of the talent management strategy at the banks surveyed, as indicated by 49.4% of respondents, and rapid organisational change which hindered the successful execution of talent management initiatives, as reflected by 66.7% of respondents.

## **Practical Implications**

To attract, develop and retain talented managerial level employees the following practices and strategies are strongly recommended based on the literature reviewed and the findings of the study:

**Recruitment.** A sound strategy for attracting talented employees should be preceded by a talent audit to identify the current and future talent needs of the organisation. Having an attractive employee value proposition is, also, important for attracting and retaining talented employees as it increases the organisation's appeal. Additionally, a recruitment strategy that contributes to talent management must ensure the right fit between the job requirements and the incumbent's skills, attitudes and behaviour. Furthermore, an organisation must take care to ensure a healthy talent pool and pipeline to fill strategic positions while being cognisant of the advantages and disadvantages of appointing talent from internally as opposed to externally. This is supported by the results of this study, as recruitment strategies were identified as a major contributor to talent management.

**Compensation, recognition and rewards.** If an organisation is to achieve improved performance and employee motivation, it is imperative that they offer attractive and market-related remuneration packages to avoid losing valuable employees to organisations that do. If rewards are to be truly appreciated, they need to include a combination of monetary and non-monetary rewards as well being closely aligned to what is important to and valued by the employees concerned. A well-structured compensation, recognition and rewards strategy for talent management must also take into account internal and external equity perceptions and address them as they arise. With regards to the empirical study, compensation, recognition and rewards were identified as a major contributor to talent management and retention.

**Performance management.** A performance management system that sets out to retain and nurture talent must include performance reviews, regular feedback and coaching of employees. The results of the study indicate that all the banks surveyed use performance management to drive their talent management strategies

**Learning/training and development.** Learning, training and development initiatives that are directed towards talent management should be on an on-going basis so as to ensure that the skills of employees remain relevant to the organisations requirements. An effective training and development strategy must be integrated with the organisation's performance management system and succession plan if it is to have the benefits of motivating staff and building commitment. (Karthik, 2002; Hamilton, 2008 & Edralin, 2011) In addition, such a strategy should include opportunities for participative management and shared decision-making so as to empower and develop employees (DuBrin, 2010). The findings, however, suggest that learning/training and development may not be pursued by the banks surveyed as a key driver for retaining managerial level employees.

**Leadership.** The involvement of leadership with regards to setting objectives and in supporting employees to understand set objectives enables them to overcome obstacles, remain in the organisation and achieve great results (Thomas, Harburg and Dutra, 2007). The working together of all levels of leadership is required for attracting and retaining talented employees. Leaders play a crucial role in instilling confidence in and appeal of an organisation. For leaders to be able to inspire and drive employee performance and commitment, they need to possess both technical and strong interpersonal skills as well as having an understanding of diversity and organisational culture. The more effective the leadership of an organisation is, the more likely it is to retain, particularly, managerial level employees. The positive correlation between leadership and talent management in the study supports the literature which states that quality of leadership is the most significant factor influencing retention (Wellins & Concelman, 2005).

### Limitations and Future Research

A possible limitation of the study is that the sample size of 205 participants, while being adequate for statistical analysis, may restrict the ability to generalise the findings beyond the related hypotheses. Additionally, all 205 respondents were drawn from the banking sector in South Africa, Zambia and Botswana. Further research with a larger sample size, across different sectors and including more geographical areas and organisational levels would add value and improve the generalisability of this research.

Furthermore, the definition of talent management that was used in the study was perhaps too broad and not being specific enough for each factor may have resulted in certain hypotheses such one relating to leadership not being supported. Also, it was assumed that the talent management factors are the same for all levels of employees, however, as the results indicated learning/training and development is not a key strategy for retaining managerial level employees, while compensation, recognition and rewards is.

The highly dynamic and competitive nature of the environment in which businesses operate today has emphasised the critical importance of attracting, engaging and retaining talented employees to increase productivity and profitability. The African banking sector, while being comparatively more stable and resilient than their counterparts in America and Europe, is still under considerable pressure to achieve customer satisfaction, high product sales, motivated staff, and effective succession planning. To do this, a clear and compelling talent management strategy is essential. The study's survey was targeted specifically at middle-level managers as the banks experienced problems retaining staff at this level of management.

The literature reviewed indicated that quality leadership, effective performance management and on-going learning/training and development are important talent management strategies, however, the empirical study showed that for managerial level employees in the banks surveyed, the two most significant talent management strategies are recruitment and compensation, recognition and rewards. From the results, it can therefore be deduced that a comprehensive talent management strategy, incorporating the factors identified in the literature is not being instituted at managerial level in the banks surveyed. The study confirms that for organisations wishing to achieve the competitive advantage necessary for growth and long-term success, an integrated talent management strategy must be developed and executed according to the organisation's individual talent needs and priorities.

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## THE DOUBLE BIND EXPERIENCE FOR WOMEN IN THE FREE/OPEN SOURCE SOFTWARE DEVELOPMENT COMMUNITY

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### ABSTRACT

Double bind situations are those in which the gender prototype and the profession prototype reflect conflicting role expectations and demands (Valian, 1999). Through an ethnographic analysis of interviews and online forums discussions of women in F/OSS, we show that women experience the double bind in a variety of ways, as threats to their professional identity, as threats to their gender identity, as threats to both identities, and as no threats. We also find that women respond to these threats by resorting to a range of strategies, from more pro-active such as fighting the stereotypes to more passive such as ignoring threats. Finally, we find that meritocratic, online contexts foster paradoxical tendencies in terms of the double bind.

**Keywords:** Double-bind, gender, free/open source software

### INTRODUCTION

The double-bind women face when they enter male-dominated occupations has been identified as an important challenge for women's careers and well-being, as well as for professions and organizations trying to attract women (Malcolm, Hall, and Brown, 1976; Etzkowicz, Kemelgor, and Uzzi 2000). The double-bind has been documented in a wide range of professions such as science and engineering, law, high finance, academia. In these situations, the gender prototype and the profession prototype reflect conflicting role expectations and demands, such that women have something to lose: either the belief in their professional abilities, or their ability to see themselves as feminine (Valian, 1999). As its definition suggests, the double bind is largely the outcome and medium of interacting identity processes: one's professional identity and one's gender identity.

The two identity processes producing the double bind – developing one's professional identity and one's gender identity – have been studied extensively. As members of professions, women (and men) strive to develop a professional identity, i.e. the constellation of attributes, beliefs, values, motives, and experiences in terms of which people define themselves in a professional role (Schein, 1978). As the literature on the double bind found, in male-dominated professions women's professional identity development is stunted both by a lack of legitimacy and by their own doubts about their ability to succeed (Kanter, 1977; Faulkner, 2007).

At the same time, women (and men) are constantly performing their gender in interactions, including professional interactions, by confirming as well as by disconfirming socially accepted conceptions of gender (West and Zimmerman, 1987; West and Fenstermaker, 1995). The literature on doing gender has brought to light the ways in which women twist their gender identity in order to conform to expectations about their professional role – often by adopting a masculine interaction and dress style, sometimes by enhancing traditional femininity – as well as these efforts' negative consequences for women's well-being and for their advancement as a group (Gherardi, 1994; Pierce, 1995; Pini, 2005).

While we currently know a lot about the processes underlying the double bind – professional identity formation and gender identity –, both theoretical and empirical work has tended to focus on one process or the other instead of considering the full challenge of building gender and professional identity concomitantly. Or, the essence of double bind situations is that constructing one identity infringes on the other (i.e., establishing oneself as a professional undermines one's gender identity and vice-versa). The complexity inherent in the double bind means that women might experience this situation in very different ways: some might feel like their professional identity is threatened, some might feel that their gender identity is threatened, some might see them as linked, and some might not see a problem at all. Moreover, the range of responses people have to this situation might also be varied. After all, while many women leave the male-dominated professions, some do manage to build strong professional identities. Therefore, we used a qualitative methodology to address a question of both theoretical and practical import: How do women experience and respond to the double bind *as a whole*? Thus, our inquiry is not about gender separately or professional identity separately, but about their intersection in women's experiences.

We employed this exploratory design in the free and open source software development community (henceforth called F/OSS). This is a context that should allow for the greatest variety of experiences and responses to be present and visible, precisely because it is less formally structured, meritocratic, and online, so people should be freer to interpret the situation in different ways and also freer to respond to it in different ways.

## LITERATURE REVIEW

### The Double Bind Literature

The double bind takes its name from the well-documented hurdles facing women who enter professions that are seen as masculine: the conflicting role expectations and demands placed on them by their gender and their professional identity. As this definition suggests, the double bind is predicated upon two types of stereotypes. The first associates women with particular roles and behaviors (kind, soft, care-taker), while the other associates various professions with roles and behaviors, (strong, taking charge, decisive) that are seen as opposed to feminine characteristics. Thus, prejudice toward women who enter professions seen as requiring male characteristics stems from the incongruity that people perceive between the requirements of the professional role and gender roles (Eagly and Karau, 2002). Gender roles are “consensual beliefs about the attributes of women and men” (Eagly and Karau, 2002: 574) that include both descriptive norms (consensual expectations about what members of group actually do), and injunctive norms (consensual expectations about what a group of people should do or ideally would do).

The double bind has been documented in numerous male-dominated domains, i.e. those in which women represent a small minority. Thus, studies have shown the double bind in professions traditionally dominated (some exclusively) by men, such as science and engineering (Malcolm, Hall, and Brown, 1976; Hill, Corbett, and Rose, 2010; Wajcman, 1991, 2004), academia (Etzkowitz, Kemelgor, and Uzzi 2000; Koenig, 2009), agriculture (Pini, 2005, Pilgeram, 2007), law (Pierce, 1995; Garcia-Lopez ad

Segura, 2008), high finance (Fisher, 2012) management (Marshall, 1984; Cockburn, 1991; Kanter, 1977), business leadership (Sinclair, 1998). For example, the preponderance of men in science and engineering, and the reduction of the number of women in computer science and IT during the 1990's (Margolis and Fisher, 2002) have preoccupied teachers, school administrators, and policy makers. In spite of the slow progress (Valian, 1999; Hill, Corbett, and Rose 2010), women continue to make inroads in male-dominated professions, and they do so by resorting to specific strategies to build their professional identity and image, such as strong relationships with strong mentors and experimenting with new behaviors (Ibarra, 1997, 1999; Pratt, Rockmann, and Kaufmann, 2006).

The double bind has important consequences for women's professional identity for three main reasons. First, women often experience threats, challenges to their presence and work contributions. While often people are not perceived in their desired manner, in spite of their considerable effort (Goffman, 1959), in male-dominated fields women experience a particular type of social identity devaluation, understood as threats to the perceived value of the group (Ellemers, Spears, and Doosje 2002). Thus, when a woman is told "You probably cannot be the tech person because you are a girl"; or when she gets unwanted and inappropriate sexual attention in a professional situation, she will find it difficult to reconcile the contradictory self-concepts and achieve the desired professional identity.

The second main reason for the difficulty women have in developing their professional identity in male-dominated domains is that often women themselves internalize the gender-role incongruity pervasive in these domains. Ever since Kanter's (1977) work on tokenism we know that in male-dominated professions, both men and women tend to exaggerate sex differences. The consequence of such differentiation based on sex category means that women are devaluated by both sexes (Reskin, 1988). As a recent study found, women in science and engineering have lower confidence in their professional role than their male counterparts (Cech, Rubineau, Silbey, and Seron 2011). Because the incongruity between gender and professional identity is perceived by all, including women themselves, they experience a double bind. Valian has expressed most cogently how the double bind feels to a woman: "[i]f she is professionally successful, she must either see herself as having masculine traits – and thereby run the risk of seeming unfeminine to herself and others – or as having compensated in some way – through luck or extraordinary effort – for a lack of masculine characteristics. Unlike a successful man, a woman has therefore something to lose from success: either her gender identity or belief in her ability" (Valian, 1999, p. 20). In these settings, therefore, the development of a professional identity is a challenge for women as they struggle not only with a lack of legitimacy, but also with their own doubts about their ability to succeed.

The third main reason why it is difficult to build one's professional identity in male-dominated fields has to do with the variety of gender work women do in these settings, i.e., their constant monitoring of their actions, and self-presentation (appearance and interaction style). Regardless of whether this gender work is upholding or subverting traditional notions of femininity, this incessant identity work is necessary in view of the male prototype dominating these fields, can be exhausting and even depressing, and can have a negative impact on the development of one's professional identity.

In sum, the literature on the double bind has uncovered many of the causes and consequences of this phenomenon, as well as how it plays out in various domains, and it has identified some solutions for addressing it. At the same time, the specific strategies, practices and perspectives used by women who stay in male-dominated professions and the ways women tend concomitantly to their professional *and* to their gender identities have been less examined. One strand of research that has focused more directly on these issues is the doing gender literature.

### **The Doing Gender Literature**

The doing gender literature has provided the most complete statement about the close relationship between gender and professional identity. This literature shows how all organizations are

gendered because women (and men) constantly do gender, i.e. continually construct differences, including gender in routine social interactions by conforming as well as by disconfirming gender norms (West and Zimmerman, 1987; West and Fenstermaker, 1995). This radically new perspective that challenged the notion that gender is an individual attribute or role, has generated a host of insightful studies that brought to light the many ways in which both women and men produce gender differences, including in the work place. The notion that gender is something that is accomplished in practice has been developed in sociology (Gherardi, 1995), communication (Ashcraft and Mumby, 2004) as well as management (Calas and Smircich, 1996; Ely, 1995).

The doing gender literature is particularly useful in illuminating the double bind for two reasons. First, it has examined in detail the production and consequences of the male stereotype infusing professions such as engineering, science, academia, finance. For example, the field of engineering is constructed as male (Faulkner, 2000, 2007; Bucciarelli, 1994), and the model for computing is the socially incompetent hacker (Faulkner, 2001; Turkle, 1988; Wajcman, 1991, 2004), which has important consequences for the way women and men are treated and rewarded in this profession.

Second, by defining gender as something people do, this literature has led to a host of in-depth qualitative studies that have uncovered the multiplicity of strategies women use to adapt themselves to male-dominated domains. Starting with the landmark study by Gherardi (1995), these studies have shown how women in work organizations use a variety of approaches to address the twin challenge of fitting the expectations of their professional roles and of maintaining their gender identity. Women's responses to the double bind can be placed on a rich continuum of daily gender and professional negotiations (Gherardi, 1995; others, Ely, 1995). The empirical studies on gender doing have identified three broad types of gender strategies women adopt in male-dominated fields. Thus, many studies found that the majority of women in male-dominated domains tend to hide their femininity and become one of the boys in order to be taken seriously. For example, as women enter the engineering profession, they feel they have to demonstrate solidarity with the engineering culture by adopting the gender-neutral ideology of engineering (Rhoton, 2011), to modify or renounce their 'gender status' by adopting a masculine attire and ways of interacting (Kvande, 1999).

Another frequent strategy is to emphasize traditional forms of femininity, such as women cadets' uniform adherence to traditional aspects of femininity such as privileging family life over career, or maintaining accoutrements of traditional femininity such as hair style (Silva, 2008). It seems that often women, while adopting male ways of interacting and behaving professionally, are also expected to use their supposed feminine skills and attributes and look feminine and provide emotional support (Eagly, Makhijani and Klonski, 1992).

While most studies found that women at all levels of professional identity tend to adopt a 'becoming one of the boys' strategy and thus leave untouched, and even reinforce the male stereotype of their professions, some research has noticed that both men and women don't always behave in ways consistent with role expectations and that, in fact, both men and women behave in ways that reject gender norms. This phenomenon has been called 'undoing gender' (Butler, 2004; Deutsch, 2007) or 'doing difference' (Fenstermaker and West, 2002). This third type of gender strategy entails behaving in ways non-consistent to either the male prototype or the feminine prototype, for example by presenting oneself as a lesbian, or by speaking up against discrimination. As a nuanced study of Harley Davidson women shows, these women don't 'undo' gender completely, or thoroughly; some may still act in gender-stereotypical ways in some areas of their lives even as they expand their experience of femininity through their bike-riding (Martin, Schouten, and McAlexander, 2006). Thus, women do gender, but they also do 'do difference' by pushing for the acceptance of their gender, of their femininity or lack thereof.

In a situation in which they cannot 'win', i.e. in which they have difficulty to express their feminine gender identity while in male-dominated professions such as science or engineering, women

experience ‘gender inauthenticity’ (Fox Keller, 1985; Cockburn, 1999; Faulkner, 2007). The term ‘double bind’ in engineering means that women experience a “constant struggle to prove that they are not only ‘real engineers’ but also ‘real women’” (Faulkner, 2007: 37). Scholars have talked about women feeling like ‘travelers’ (Marshall, 1984) or ‘intruders’ (Gherardi, 1996) to express the feeling of being on unfamiliar territory.

In contrast to work that has portrayed the lonely woman at higher levels as acting as a token (Kanter, 1977; Ely, 1995), the doing gender literature suggests that there is a multiplicity of strategies that women at all levels may adopt. However, the doing gender studies tend to focus exclusively on doing (and undoing) gender, thus implying that these women’s professional identity is unaffected and it’s just their gender identity that has to be “done”. Furthermore, in spite of the attention to the various instantiations of the doing gender strategies, this literature tends to focus on two types of strategies – either camouflaging femininity and engaging in discourse of masculinity, or playing up one’s traditional femininity. Fewer studies have documented the possibility of women challenging the norms and stereotypes in various professions, and when they do so they talk about the rarity of such ‘doing difference’ strategies that have the potential to enlarge the range of femininities in these professions (Rhoton, 2011; Kvande, 1999; Kemelgor and Etzkowicz, 2001).

In this study, we sought to extend these findings by uncovering the vast array of ways in which women experience and respond to both aspects of the double bind – the gender and the professional identity. Our focus is on ‘how’ more than on ‘how much’. So our questions are (a) how do women experience and respond to the double bind, what tactics do they employ?; and (b) how is the double bind experienced in newer forms of organizations?

## METHODS

The free/open source software development (F/OSS) communities are a context particularly well suited because it combines a population facing particularly challenging double-bind situations with an online environment that allows a lot of freedom and flexibility to experience and respond to the situation in a variety of ways. Such an extreme case can reveal the phenomenon under focus with greater clarity (Eisenhardt, 1989; Pratt, Rockmann, & Kaufmann, 2006). We adopted a grounded theory approach to analyzing qualitative data, because this research design is well-suited for gaining a rich understanding of a phenomenon and generate new theory on it (Dey, 1999; Edmondson & McManus, 2007; Locke, 2001; Strauss & Corbin, 1990).

### Research Setting

The free software movement was formed in the 1980s, after software companies started applying intellectual property laws by restricting access to the source code. As a response, the Free Software Foundation was created, based on the idea that everyone should have free access to the source code, so as to be able to modify the software according to their needs, improve it and redistribute it to others. The success story of the F/OSS community comprises well-known products such as Linux, Apache, Perl or Gnome. The vast majority of F/OSS participants are not paid for their work or services to the community. In principle, anyone with an internet connection and with knowledge of programming can participate – contributing code, signaling bugs, writing documentation, organizing events, proselytizing, teaching and helping others. Most interactions and coordination take place online, which makes these communities geographically dispersed organizations (Kogut & Metiu, 2001), with greatly diminished status effects (e.g., Dubrovski et al., 1991). Consequently, F/OSS communities differ in essential ways from traditional organizations: They are (or at least claim to be) non-bureaucratic, egalitarian, and meritocratic, with little to no formal structures and with an ideology of help and

openness to newcomers, an organizational model that has been described as a bazaar, in contrast with the cathedral model of formal organizations (Raymond, 1998).

These characteristics make the F/OSS communities seem like a counterintuitive setting for studying double bind situations. In this open and meritocratic context one might expect women to participate in larger numbers than they do in more traditional IT companies. Yet to anyone who attends an open-source conference, the scarcity of women is striking. As a study financed by the European Commission revealed, only around 1% of all programmers are female (Navfus, Leach & Krieger, 2006). In one of the biggest F/OSS communities (Linux), 99.6 % of the developers mentioned in the credits files are male (Tuomi, 2004). These figures are even more surprising when compared to the 25 percent of women holding computing jobs overall, according to the National Center for Women and Information Technology (<http://www.ncwit.org/resources/women-it-facts>). Furthermore, in the rare cases when women do get involved in F/OSS activities, they tend to work on documentation, translation, and other tasks that are considered of lower-status, especially when compared to code writing. Surprisingly, F/OSS is a context that strongly displays “hegemonic masculinity” (Connell, 1987) – a culture that is highly heterosexual, hyper-rational, and based on ideals of domination, aggressiveness, and competition (Levin, 2001). Like the entire field of information technology, F/OSS is imbued with a “geek” or “hacker” mythology (Lin, 2005; Navfus, Leach, & Krieger 2006; Margolis & Fisher, 2002). In many ways, therefore, women in F/OSS communities represent an extreme case of the double-bind phenomenon.

### **Data Sources**

To familiarize ourselves with the F/OSS community, we attended two F/OSS conferences (each author attended a different conference), where we listened to presentations, participated in informal events, and talked with men and women about general issues related to F/OSS as well as about specific issues related to the scarcity of women in this setting. At both conferences, we attended some of the women’s groups meetings that took place. At one of the conferences, we also organized a focus group with seven women involved in F/OSS. The focus group discussion, even though informal, identified a whole range of issues women have to deal with in their professional lives.

During this first phase of the project we also read relevant personal webpages of women developers, as well as the blogs of women involved in F/OSS. We also read white papers published by F/OSS women themselves. We also subscribed to two women’s online groups, a source of data we will discuss in more detail shortly. For several months we read the messages on these women’s groups dedicated mailing lists.

This initial, preliminary stage helped us gain insight into the population we wanted to study and the double-bind situations it faced. This stage confirmed our beliefs that women in F/OSS communities represent a highly appropriate population on which to study the double-bind phenomenon. After this initial stage, we proceeded to collect data in a systematic manner, from two sources: (1) interviews with members of F/OSS communities, and (2) messages posted on two of the main women’s online groups.

**Interviews.** We interviewed 16 women involved in different F/OSS communities. The interviews were performed either face-to-face or by phone, and lasted on average one hour. They were taped recorded and transcribed verbatim; the transcripts combine into a 172 pages, single-spaced document. We collected this interview data using a semi-structured protocol focused on how women experience participating in F/OSS communities, and especially how they experience and deal with double-bind situations. We used mostly open-ended questions in order to capture the richness of each woman’s experience (Spradley, 1979). Most of these questions emerged from the insights we gained during the preliminary stage of the study, combined with our understanding of the gaps in the research on the double-bind phenomenon.

The knowledge of the population we gained in the preliminary stage of the project helped us identify two dimensions potentially important in determining how F/OSS women experience and deal

with double-bind situations: level of experience and type of involvement. Following principles of theoretical sampling (Corbin & Strauss, 2008; Eisenhardt, 1989), we therefore sought to interview women who varied on these two dimensions. Based on the information we gathered in the preliminary stage, we created two classifications for experience: Juniors (women who have been active in F/OSS between 1 and 7 years) and Seniors (women who have been active in F/OSS between 8 and 15 years). We created three classifications for type of involvement: User (women who use F/OSS products), Code Contributor (women who write code for F/OSS projects), and Usability Contributor (women who contribute by improving the usability of F/OSS projects). We interviewed eight junior and 8 senior women; six were users, four were code contributors, and six were usability contributors.

**Archival Data.** We downloaded all the messages posted on two women's online groups for a period of one year. Several F/OSS projects have groups specifically dedicated to women. We selected two of the most prominent such groups: *Women Geeks 1* and *Women Geeks 2* (two pseudonyms), simply because they had the largest number of messages. Women associated with these projects have constituted their own groups in order to give each other support and guidance. *Women Geeks 1* is the oldest women's group in F/OSS. According to its charter, *Women Geeks 1* "is a community for women who like *Open-Source software 1* (a pseudonym for the project), and for anyone who wants to support women in computing." *Women Geeks 1* was created over twenty years ago and it counts several hundred members from many countries. *Women Geeks 2* was created around fifteen years ago. As stated on the group's website, "We seek to balance and diversify the *Open-Source software 2* (a pseudonym for the project) by actively engaging with interested women and encouraging them to become more involved with *Open-Source software 2*. We will promote women's involvement in *Open-Source software 2* by increasing the visibility of active women, providing mentoring and role models, and creating opportunities for collaboration with new and current members of the *Open-Source software 2*."

From *Women Geeks 1* we collected 196 messages posted by 72 individuals (94% of them are women). From *Women Geeks 2* we collected 167 messages posted by 57 individuals (63% women). There was little overlap between the two online groups: 7 women posted messages on both. The data we collected from both forums consisted of a total of 363 posted messages, which combine into a 302 single-spaced document.

### Data Analysis

We analyzed the data using a grounded theory approach (Glaser and Strauss, 1967). We considered each paragraph in the interviews and the posted messages as units of text that can be coded, i.e. assigned to a category with distinct meaning. We used a two-step coding process. We first each independently read all the data and derived codes inductively from it, placing portions of text into broad codes. We started with a close line-by-line read of the data (Miles and Huberman, 1994) and followed the compare-and-contrast method (Glaser and Strauss, 1967). In the second step, we met and discussed the emergent codes. Through these discussions we generated and refined a code dictionary. Through an iterative process of comparing our analyses, as well as with extant theory on the double bind phenomenon, the code dictionary evolved: we changed existing codes or added new codes whenever necessary, both to capture new meaning, but also to capture more specific, fine-grained dimensions of the initial, broader codes. Our results, presented below, need to be interpreted by keeping in mind that the experiences and interpretations analyzed in this paper are those of women 'survivors', i.e., those who managed to stay in the community at least until the date of the post and/or of the interview.

## RESULTS

### How Do Women Experience the Double-Bind?

We found that women experience and interpret double bind situations in three ways: 1) as threatening to their professional identity, 2) as threatening to their gender identity, and 3) as threatening to both their professional and their gender identities.

**Threats to professional identity.** Some women interpreted double bind situations primarily as threats to their professional identity. These narratives can be grouped into two categories: 1) Women being perceived as professionally incompetent because they are women, and 2) Women receiving sexual advances; in these situations, women perceive that their professional identity is overshadowed by their gender identity.

*Perceived incompetence.* These narratives describe others' beliefs that a woman is very unlikely to be a good IT professional. The women in our sample reported being mistaken for the "receptionist" (WG1 24<sup>1</sup>) or "someone's non-technical girlfriend" (WG1 17). One woman posting on Women Geeks 1 recounted going to a trade show and asking a vendor a few technical questions: "The answer? 'Here's a pamphlet, give this to your IT guy.'" (WG1 24).

*Perceived invisibility.* These narratives describe women receiving unwanted sexual advances in professional encounters. Beyond experiencing such situations as awkward and uncomfortable, what seems to bother women the most is that being sexually objectified annuls their professional identity, writing it off as non-existent or at least non-important. Most of these narratives describe situations that happened to the narrators directly; they are fraught with sad and/or angry overtones. For instance, one of the women we interviewed recalls interviewing for a job; part of the interview took place online, and during that phase "the first 50 or so comments focused on the fact that I am a woman, and whether or not I was sexually interesting"(Dora).

**Threats to gender identity.** Some women interpreted double bind situations primarily as threats to their gender identity. These narratives are centered on the extremely low numbers of women in this community, which generates in these women the feeling that they are weird, freakish creatures. For example, one woman wrote that she almost left IT because too many people treated her "as some sort of freak for being technically inclined" (WG 1 14). Similarly, an interviewee said: "My friends remind me of the fact that, by their standards, I'm incredibly geeky because I've gone to all these programming competitions, plus I use Imax, which apparently is the weirdest thing anyone can ever do..." (Sonia).

Part of the threat to gender identity arises from women having themselves internalized gender stereotypes. For instance, one of our interviewees, a very accomplished woman, talked about the difficulty she finds fitting into a field where there are so few women like herself, both because she is perceived as an anomaly by others ("some people think this odd"), and because that perception, over time, becomes internalized ("I start wondering if I am anomaly"). Consequently, this threat, though originating in others, does not pose solely a perception problem, but also an internal one, stemming from women actually questioning their own gender identity.

**Threats to both professional and gender identities.** Some women interpreted double bind situations primarily as threats to both their gender and their professional identity. These narratives are centered around the stereotype that "women do not like computers". When confronted with this stereotype, women experience significant frustration, as it implies that they are both lesser professionals and lesser women.

While the prototypical "hacker" proudly situates himself outside of "mainstream" sociality (Raymond, 1998) women, by virtue of being sociable, are equated with the mainstream. They are seen as able communicators, representatives of the "social" domain that is separate from and contrasted to the technical domain. The women in our sample are aware of being stereotyped in this way; as one woman wrote: "I am tired of being the archetype. I am a human being, not a representative of All

Women Everywhere” (L14). The absence of women reinforces the stereotype (Nafus, Leach, & Krieger, 2006); as one interviewee explained:

The open source community is about meritocracy. So you're worth as much as you contribute to the community, and also as much as you know, technically. So the fact that there are few women in the community gave the impression to open source developers that women have some problem with it...They thought 'Women don't like computers, there is nothing we can do'" (Sarita).

**No threat.** Some women interpreted double bind situations as non-threatening. They “don't see any difficulties” (Sherry), or “can't remember a single incident where my qualifications have been questioned because of gender...Neither can I think of any situations where I have received negative remarks due to my gender...I know these things happen, they have just never happened to me” (WG1 28).

These women are often aware that they are the exception: “My case may or may not be unique. Perhaps I am an extraordinary skilled unix sysadmin that nobody dares question the skills, or perhaps my friends, colleagues and mates are extraordinary polite and nice, perhaps my social antennas are too weak to observe anything but very direct comments” (WG1 28).

### **How Do Women Respond to Double-Bind Situations?**

Our second research question explored the ways in which women respond to double bind situations. Out of the 98 narratives of double bind situations in our data, 72 also describe the strategies the women used in response to these situations. Based on these data, we identified four types of responses: 1) suppressing either the professional or the gender identity, 2) trying to fight stereotypes that lead to double bind situations, 3) using such stereotypes to one's advantage, and 4) ignoring the threats posed by the double bind situations.

**Suppressing one identity.** When the double bind situation was interpreted as primarily a threat to professional identity, most women responded by suppressing either their professional or their gender identity.

**Suppressing gender identity.** This category includes responses aimed at making gender identity less visible. While some women try to reduce gender salience and “blend in”, for instance by adopting a masculine dressing or communication style (“undoing” gender), other women try to make gender completely invisible, for instance by using a gender neutral email (a category which we call “not doing” gender). Many women talked about changing their appearance to blend into a male-dominated setting. For instance, one woman wrote: “Despite being someone who actually enjoys wearing dresses, wearing makeup on occasion, and having long hair & nails...I got to the point where I very deliberately chose to make my appearance more gender-neutral” (WG1 19). Often this was in response to negative experiences.

More rarely, women feel they need to go further in hiding their gender identity, by also changing their behavior to make it more masculine – more assertive, even aggressive. One woman who has adopted such a style was wondering if other women also feel that “you have to be intentionally more aggressive or more dominating than you would naturally be in order to get ahead in your work” (WG27). An interviewee also mentioned: “I think I am more assertive now than I used to be” (Karen).

Because the virtual context of F/OSS makes anonymity possible, numerous women adopt masculine or gender-neutral email addresses in order to hide their gender identity. In our context, 40% of *Women Geeks 1* participants and 25% of *Women Geeks 2* used a gender neutral or a male email address. We call this response “not doing” gender, because in contrast with the “undoing gender” response described above, here women hide their gender by taking it out of the social equation rather than hiding it by behaving contrary to gender stereotypes.

**Suppressing the professional identity.** Several women adopted the rather drastic response of suppressing their professional identity. These narratives provide us with a brief glimpse into a

population we did not access: the women who left the F/OSS community. As one woman wrote: “A lot of us preface our stories with “I've been really lucky...” -- the thing to remember here is that you're getting the opinions and stories of women who have, by and large, made it through and are still kicking. Most women don't make it as far as we have, and part of that can be just luck.” (WG1 33).

***Fighting stereotypes.*** Some women responded by trying to fight against the stereotypes that they perceive to be at the core of the double bind phenomenon. This response was adopted by women who perceived double bind situations as threatening their professional identity, their gender identity, or both. There are four ways in which this response is enacted: speaking against stereotypes, making women visible in the F/OSS community, forming and/or joining women's groups, and enlisting the support of male allies.

***Speaking against stereotypes.*** Speaking against stereotypes is a response aimed at myths permeating the F/OSS community, such as “women do not like computers” or “women are not good at computers”. To that end, some of our participants posted online results of scientific studies exploring these stereotypes and exposing their detrimental effects. They also drew attention to stereotype-laden articles and discussed them. Women who adopt this response believe it is important to stand up against those who reinforce stereotypes through what they say, write, or do; in the words of one of our interviewees, “I find that in the open source community, as in life, standing up to bullies is the only way to move forward” (Dora). The data contains many examples of situations when this strategy was successful. For instance, an interviewee described her outrage at receiving an application form from a national organization that was searching and promoting role models for women in IT; the application form asked for “such vital things as your height, bust, waist and hip measurements.” In response, she blogged about the incident and, together with other women who were similarly outraged, organized an online campaign that ultimately “drummed up so much negative publicity that the sponsors backed out” (Sonia).

While they recognized the importance of fighting stereotypes, women were also aware that this is a very difficult and risky undertaking. In the words of one of our interviewees, “It's hard to deal with it. The way I deal with it is I try to fix it. But that's, it takes a lot of effort and understanding” (Vera).

***Visibility.*** Some participants believed that one way to fight the stereotype that “women don't like computers” is to simply show that they do, by making women in the F/OSS community more visible. The data contains many examples of women giving talks and being role-models for other women. For example, one woman posted about giving a talk “on free software and computer science in general at a girl's school. They have the problem, that their Computer Science classes are very unpopular and apparently on the verge of being cancelled” (WG219). Another interviewee told us she never refuses to give a talk, precisely because she knows it is important for her to be visible as a woman in this community.

***Women's groups.*** Some participants adopted a response that could be described as “strength in numbers”: Instead of (or in addition to) fighting stereotypes individually, they created or joined women's groups, so that they can carry the fight together. Such groups, like the two online forums that were the virtual sites of our data collection, promote women's visibility in the F/OSS community. Moreover, they provide help for female newcomers, who are warmly greeted into the community and offered access to important resources, both technical and emotional. The groups attenuate the feeling of being a “freak” and the loneliness that is so pervasive among the women in F/OSS, as described in the previous section; as one woman posted: “It's been a wonderful social outlet for me, a good technical resource, and a lot of inspiration and support. I think the most important work *Women Geeks 1* has done is to encourage and support women in tech. Our most important message is ‘You are not alone’” (WG1 8).

***Male allies.*** Interestingly, the few men who participated in the forum discussions (3 in *Women Geeks 1* and 2 in *Women Geeks 2*) expressed their willingness to play the role of a male ally: “I very often

wonder, ‘What the heck can I possibly do? I’m just one person!’ And now I’m hearing that just being one example can be a crucial difference.”

**Taking advantage of stereotypes.** Some of the women who perceived double bind situations as primarily a threat to their professional identity responded by using stereotypes to their advantage. For example, an interviewee told us that that her appearance helps her “shock the heck out of the people” (Sonia), because they assume that she knows nothing about computer components, especially when she dresses very femininely. Similarly, another interviewee described a situation when she added her photo on her profile on a technical forum, because she thought that “I would get feedback to questions faster”. She expressed ambivalent feelings about using this strategy: “I always felt bad about playing the damsel in distress, but it’s what I kind of felt I was doing with my picture displayed. But I did get my answers and maybe it did work to get my answers faster” (Flora).

**Doing nothing.** Despite our initial resistance to consider the lack of action as a response, this category clearly and forcefully emerged from the data as a separate way in which women deal with double bind situations, when they perceive them as threats to either their professional identity or their gender identity. Some women knowingly chose to do nothing and simply ignore the threat. In some cases, this response is rooted in past experiences of trying other strategies and failing. For example, one woman described how complaining to her boss about situations when she has been hit on by male colleagues gets a “oh, well I’ll talk to him” response with no follow-up (WG1 24). Another woman described protesting about sexist remarks online as “ALWAYS a losing battle” (WG1 2).

## DISCUSSION

Our study shows that women in F/OSS experience the double bind as a variety of identity threats, primarily stemming from the incongruence between two conflicting images: the prototypical view of women and the prototypical programmer member of the F/OSS community as the proverbial male “IT geek” who is more comfortable with computers than people, and who possesses an uncanny ability to write code for days on end. The challenge of integrating these two concepts is as great as to make women feel like ‘freaks.’ In the F/OSS context demography, power differences, societal beliefs, and anonymity combine to make identity accomplishment an almost impossible task. As one woman said, “It is just too hard.” Our study also identifies a rich array of strategies through which women attend concomitantly to their gender and professional identity, from more passive such as adopting a masculine style to more active to fighting the male stereotype of their profession. Our findings have implications for the literature on doing gender and professional identity and for the understanding of the double bind in online contexts.

### Doing Difference, Doing Professional Identity

For us, the most striking finding is the prevalence of the ‘fight the stereotype’ strategy that involves increasing women’s visibility – both their competence and their femininity. These women reject the “IT geek” imagery and the attendant feeling of being a freak (a lone woman with technical inclinations), and assert their individuality – either in line with traditional notions of femininity (e.g. wearing pink dresses at IT conferences, having an e-mail address which reveals their gender), or non-traditional sexual preferences (outing themselves as lesbians for instance). What we labeled ‘fighting the stereotype’ includes several different strategies. Some of these, such as speaking up (thus taking power) and visibility (owning up to and even showing off one’s accomplishments) are behaviors that are clearly meant to increase women’s visibility and to enlarge the repertoire of gender identities that are on display in this profession. Other strategies though are more subtle in their contestation of the hacker prototype. Some of these strategies involve women’s use of clothing to subvert and resist the power relations embedded in the male stereotype of their profession; after all, as Butler has argued, the body

is also a site for resistance. Thus, our women put on girly dresses, high heels, pink dresses, they reveal their sexual preferences, they, in one word, become visible as opposed to ‘blending in’. While a strategy such as wearing dresses may seem a text-book case of ‘doing gender’ by conforming to gender stereotypes, each strategy must be interpreted in context. In the F/OSS context, wearing pink at a professional conference is a sign of courage; when matched with technical competence, it has the potential to enrich the repertoire of femininities in the profession and even chip away at the hacker prototype.

Our finding about the prevalence of the active strategy of fighting the stereotype is surprising in light of a host of studies that found a prevalence of ‘becoming one of the boys’ strategies that found that women in various male-dominated professions do not challenge the association between their profession and male attributes (Pilgeram, 2007; Pini, 2005; Silva, 2008). In contrast with studies of engineers that women tend to hide their femininity and blend in such as to divert (unwanted) attention (Faulkner, 2000b, 2007; Rhoton, 2011), we found that few of our women adopted the ‘becoming one of the boys’ strategy by trying to “blend in” (e.g. wearing jeans and T-shirts, having a neutral e-mail address). The finding is all the more striking given that studies of engineering and academia found that challengers of the status quo who question the male stereotype face important negative consequences such as ostracization, layoffs, and denial of tenure (Rhoton, 2011; Kvanne, 1999; Kemelgor and Etzkowicz, 2000).

We can think of three main reasons for our finding. First, the women we studied are keenly aware of what the need to undermine the male prototype of their profession, of the need for “heterogeneous understandings of engineering and heterogeneous engineering identities” (Faulkner 2007: 351). Second, the meritocratic culture of F/OSS may also allow our technically competent women some leeway in terms of their contesting strategies. The alterity embodied in the hacker prototype allows men to perform their uniqueness (Hapnes and Sorensen, 1995), and may also both incite women to attempt similar performances, and allow them to succeed in spite of such performances. Third, it seems that the women most likely to adopt a strategy of doing difference are the more established, senior women in our study. While some of our novices employ a ‘fight the stereotype’ strategy, our data suggest that this strategy is used primarily by women who have spent at least eight years in the profession. This finding suggests the possibility that professional identity and gender identity are systematically related such that at higher levels of status and seniority, women tend to employ more active strategies. Further longitudinal studies are called for to uncover the dynamic nature of professional identity development and the changes in women’s strategies over time.

### **The Double-Bind in Online Contexts**

Our study suggests that online contexts enable a new kind of doing strategy, that of avoiding doing gender altogether, or ‘not doing gender’. The anonymity of the context allows women to use a neutral email address and thus avoid both ‘doing gender’ (and thus undoing professional identity) as well as ‘undoing gender’ (and thus ‘doing hacker’ or ‘becoming one of the boys’ and thus strengthening the profession’s prototype). While the doing gender literature has so far looked at physical world contexts where the hiding of gender was not an option – at the most, one could wear a ‘boy’s costume’ – in the virtual world one can wear a mask, which can provide a safer holding place for women as they work on their professional skills. We view the further examination of identity threats and strategies in online contexts as an important avenue for research.

Our study also suggests that in F/OSS, the hacker prototype and the lack of formal organizational structures or policies to regulate behavior trump the advantages conferred newcomers and lower status individuals by the virtual context (Dubrovski et al., 1991). Further studies are called for to uncover the dynamic nature of professional identity development in high-tech, largely online fields such as F/OSS. What kind of syntheses of women’s various identities are likely to emerge? Would new

identities find a place in these settings, as some of our respondents seem to suggest? When they allow themselves to express their aspirations of a better future, women evoke images of the 23<sup>rd</sup> century Star Trek dream of universal equality. Not surprising coming from women who build technology, this imagery is suggestive of Haraway's urge that women embrace technology as well as a body – the cyborg – that mixes organic and technological components: "I'd rather be a cyborg, than a goddess" (Haraway, 1991).

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#### END NOTE

<sup>1</sup> We designate the excerpts from Women Geeks 1 as WG1 followed by the message number. The excerpts from Women Geeks 2 are designated as WG2.

## WHAT HE WANTS IS NOT WHAT SHE WANTS: USING VIE THEORY TO TEST MANAGER AND WORKER MOTIVATION IN GHANAIAN SMEs

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### ABSTRACT

The objective of this study was to explore differences in motivation of employees in Ghanaian SMEs using Vroom's VIE theory. Responses were received from 150 managers and workers in 14 SMEs. To test the hypotheses of differences between managers and workers on the various scales, the independent samples t-test was used. The study found statistically significant differences between the valence scores for the managers and workers. No differences were found between managers and workers in terms of expectancy, instrumentality and motivation in general. The results suggest that managers and workers have differences in value of anticipated outcomes. Identifying these differences and motivating managers and workers accordingly could lead to higher productivity and increasing profitability of SMEs.

**Keywords:** Motivation, VIE Theory, SMEs

### INTRODUCTION AND BACKGROUND

Research has shown that motivated individuals are job involved, derive considerable satisfaction and perform at higher levels than less motivated employees (Sekaram, 2004). The result tends to be reduced absenteeism, less tardiness and reduced turnover. Employee motivation in Africa remains a thorny issue in management and government policy making. Keeping employees motivated may be achieved through strategies such as increasing salaries, benefits or offering educational opportunities – but it is important to recognize that individuals are motivated differently and it is often a complex issue to know what motivates who. Factors that motivate managers might not be the same as workers, factors that motivate women may not be the same for men, and factors that motivate younger women may not be the same for older women. Expectancy theory of motivation (also known as VIE Theory), originally developed by Vroom (1964), is a theory that explains the processes individuals use to make decisions on various behavioural alternatives relating to their work. According to the theory, motivational force for a behaviour, action, or task is a function of three distinct perceptions: expectancy, instrumentality and valence. Expectancy theory generally is supported by empirical evidence and is one of most commonly used theories of motivation in the workplace (Heneman & Schwab, 1972; Mitchell & Biglan, 1971). A principal attraction of VIE theory is that it offers opportunity to examine factors such as what people truly value (or claim they value) in the context of outcomes from the work or employment situation.

Despite the body of knowledge available, motivation in Africa is not sufficiently researched and there are hardly any studies on VIE in Africa. Further to this there is no known study or work done on motivation in the SME sector in Ghana using a theory such as VIE. This scholarly gap is a major motivation for this study. This research is also motivated by the need to examine differences in motivation between managers and workers. The central research question therefore is: are there differences in motivation between managers and workers in SMEs based on the VIE theory?

### **Research objective**

This study has the following objective: to examine whether there are differences in motivation between managers and workers using VIE theory. This objective is driven by the desire to contribute to theory testing in Africa by using an established motivation theory; address the issue of sparse literatures on SMEs in Africa by using an SME sample and offer pointers to address a major issue in economic development – the proper and informed management of SMEs. The results and recommendations of this study may assist SMEs to implement employee motivation more effectively and offer researchers much needed empirical basis for further work.

### **Over view of the SME sector in Ghana**

In the last few decades, small and medium-sized enterprises (SMEs) have been a major driving force for worldwide economic growth, employment and prosperity. The SME sector can be classified into micro enterprises, small enterprises and medium enterprises. The dynamic role that SMEs play in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. The link between the SME sector and economic development is perhaps one of the most topical issues in the contemporary development arena. According to Essilfie (2009), SMEs are considered to be of high importance in ensuring a friction-free adaption to economical, technological and social changes. Most leading economies in the world today depend on this class of companies as important contributors to the increase of living standards, productivity and competitiveness. SMEs play a significant role in the socio-economic development in both development and underdeveloped countries. Global experience demonstrates that a dynamic local SMEs sector is the basis for fast-growing economies. SMEs and informal enterprises, account for over 60 percent of GDP and over 70 per cent of total employment in low income countries, while they contribute about 70 per cent of GDP and 95 per cent of total employment in middle income countries.

The sector employs a substantial amount of the labour force in Ghana and has experienced higher employment growth than macro and large scale enterprises. In Ghana, available data from the Registrar General's Department (2007) indicates that 90 per cent of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Similarly, the role of SMEs is well documented in other countries such as Japan, Korea and other developed economies in terms of creating employment, reducing poverty and increasing the welfare of the society.

### **Definition of SMEs**

There is no universal definition of small enterprise (Back, 1995). In theory and practice, there are many terms used to refer to SME including "small business", "small enterprise", "small firm", "small company", "small and medium enterprise", and "small and medium-sized enterprise". They are all somewhat different in meaning but distinguishing differences among these terms is not the purpose of this study. In this study all these terms used as if they have the same meaning. Although there are several definitions of small and medium enterprises, these definitions are basically classified into two types: those based on qualitative characteristics and those based on quantitative characteristics of small and medium enterprises (Back, 1995). Adopting a qualitative approach American authorities based on

four key factors identified by the 1947 Committee of Economic Development (CED) define a small firm to be one which: has independent management, has capital supplied and ownership held by an individual or small group, has an area of operation which is localised in one community, and is small in relation to other firms in the industry. In the UK, the qualitative definitions adopted by the Bolton Committee (1971) identified three major characteristics of small business: a small firm is one that has a relatively small share of the market, and is unable to influence the price or quantity of goods or servicing; a small firm is managed by its owner or part owner in a personalized way, and not through the medium of a formal management structure; a small firm is independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in making their principal decisions. Quantitative approaches (McMahon et al, 1993) define small and medium enterprises using measures such as: number of employees, sales revenue or turnover, total assets and net worth.

Despite these quantitative and qualitative measures, variations still exist across economic sectors and from country to country. For example, an enterprise, which is small in one industry such as garment manufacture, may be regarded as large in another industry such as trading or tourism. Similarly, an enterprise, which is considered small by the American standards, may be relatively large in an African country. As contained in its Industrial Statistics, the Ghana Statistical Service (GSS, 1992) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. An alternative measure used for defining small and medium enterprises is the value of fixed assets in the organisation. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the fixed asset and number of employees' criteria. Steel & Webster (1990) and Osei et al (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises.

SMEs in Ghana can be categorized into urban and rural enterprises (Kayanula & Quartey, 2000). The former can be sub-divided into 'organised' and 'unorganised' enterprises. The organised ones tend to have paid employees with a registered office whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans or women engaged in food production from locally grown crops. The major activities within this sector include soap making, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiths, ceramics/pottery, timber and small scale artisanal mining, local beverages production, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (Kayanula & Quartey, 2000).

Based on all the above, this study adopted both quantitative and qualitative criteria for choice of SMEs: 2-200 employees; owner-manager or founder entrepreneur still very much in management; localized operations and/or single city base – even if products have a national reach.

## WORK MOTIVATION

According to Sekaran (2004), motivation is reflected in actual work behaviour and it signifies the level, direction and persistence of effort expended in work. Level signifies the quantum of effort put forth, direction refers to the choice made among available alternatives to expand the effort and persistence denotes the tenacity with which the individual perseveres in the job, even against odds. This is consistent with Passer & Smith (2004) and Robbins & Judge (2009) who explain that the concept *motivation* refers to a process that influences the direction, persistence and vigour of goal-directed behaviour. The key elements in all these views of motivation are intensity, direction and persistence. Applied in the work situation, motivation implies the willingness of individuals and teams to exert high levels of effort to attain organisational goals and to satisfy individual and team needs (Coetsee, 2003). Extrinsic motivations are externally induced impetus to action. Extrinsically motivated behaviours are actions that result in the attainment of externally administered rewards, including pay, material possessions, prestige and positive evaluations from others. Extrinsic motivators can have an immediate and powerful effect, but it may not be enduring. Intrinsic motivations are self-generated impetus toward particular course of action. These factors include sense of responsibility, desire for autonomy and scope, work that is perceived to be interesting, challenging and which offers developmental opportunities.

### Worker Motivation in SMEs

Keeping workers satisfied on the job is an important human resource activity in the small company. For the small company, the heart of the motivation process lies in ensuring and maintaining smooth and harmonious working and personal relationships among its workers. This may be in part due to the simplicity of structure and processes in small firms. This implies the effective management of the human relations and social processes. Hence, a supportive type of management style would be most appropriate in the small firm. Incentives are used to reward outstanding performance and to sustain efficiency in work processes. However, small firms suffer from a range of motivational challenges including high cost of the payroll, turnover and competition from larger firms which offer job seekers both structure and opportunity (Hoy & Miskel, 1991; Edlund & Nielsson, 2007).

### Expectancy/VIE Theory

Expectancy theory, as first developed by Vroom (1964), is a process theory of motivation. It has held a place in the study of work motivation (van Eerde & Thierry 1996). The theory is a decision making model of motivation that explains how subjective preferences for valued outcomes, probability of obtaining said outcomes through appropriate behaviour and beliefs that outcomes would be forthcoming impact work motivation. Expectancy theory is based on the assumption that people are motivated to behave in ways that produce desired and valued outcomes (Kreitner & Kinicki, 2007). Expectancy theory identifies three factors, which play an interactive role in motivation. The first effort-performance (E-P) concerns the individual's perception that effort is positively correlated with performance. The second factor is performance-outcome (P-O) expectancy, also referred to as instrumentality. It concerns a person's expectation that his or her outcomes are closely tied to performance. The third factor is called valence, relates to the value an individual places a particular reward. These three constructs of VIE theory: Expectancy (belief that within a particular setting, effort and performance will be rewarded); Instrumentality (a near operant link between performance and reward) and Valence (the value the individual personally places on outcomes or rewards – people place different levels of preference on outcomes such as pay, recognition, promotion, task autonomy, responsibility, status symbols and so on) are the psychological factors which undergird motivation. Although much research has been carried out to test the theory (Bergmann & Scarpello, 2001; van Eerde & Thierry, 1996), none of these studies appear to have taken place in Africa, suggesting that research in

Africa may assist to show the viability or otherwise of the theory in non-western settings. Based on the literature and the particular objective of this study, the following hypotheses were formulated:

*Hypothesis 1. There will be a significant difference in expectancy between manager and worker motivation.*

*Hypothesis 2. There will be a significant difference in instrumentality between manager and worker motivation.*

*Hypothesis 3. There will be a significant difference in valence between manager and worker motivation.*

*Hypothesis 4. There will be a significant difference between manager and worker motivation*

## METHOD

This study adopted a survey approach. Babbie (2004) advocates the survey as a useful strategy in descriptive and exploratory purposes. It allows the collection of quantitative data which facilitate use of descriptive and inferential statistics.

### Sample

The sample were drawn from SMEs in the Greater Accra Region of Ghana. In order to test the differences as hypothesized, a purposive sampling (Silverman, 2000) of managers and workers in 14 SMEs was undertaken. 20 SMEs were approached to participate, 14 agreed. Two hundred (200) questionnaires were sent to the fourteen (14) SMEs. The researcher received 150 questionnaires. This represents a response rate of 75%. Babbie (2004) argues that a response rate of 50% is adequate for analysis and reporting. The SMEs that took part in this research study are shown in Table 1 below:

**TABLE 1**  
**Participating SMEs**

<b>SME</b>	<b>Sector</b>
<b>Kinapharma</b>	Manufacturing/sales
<b>Kama Industries</b>	Manufacturing
<b>Busy Internet</b>	ICT
<b>Teledata ICT Ltd</b>	ICT
<b>Citi Investment Ltd</b>	Financial
<b>Beige Capital</b>	Financial
<b>Adanko Construction</b>	Construction
<b>Pacesetters Educational Complex</b>	Education
<b>Ideal College</b>	Education
<b>Agrimart Products</b>	Agricultural Sales
<b>Airport West Hotel</b>	Hospitality
<b>Kasapreko Company Ltd</b>	Manufacturing
<b>All Needs Super Mart</b>	Retailing/Distribution/Sales
<b>Tasty Treats Catering Services</b>	Hospitality

### Data Instrument

A self-administered likert scale questionnaire was used. The questionnaire consisted of 23 questions, and 7 background questions. The questions were based on VIE theory and the hypotheses as follows:

Valence (H3)	– Items 1-8
Instrumentality (H2)	– Items 9-12
Expectancy (H1)	– Items 13-19
Overall Motivation (H4)	– Items 20-23.

### ANALYSES AND FINDINGS

The aim of the study was to test the differences in motivation between managers and workers in SMEs and to gain better understanding of manager and worker motivation generally. Descriptive as well as inferential statistics (t-test) were used.

#### Respondent Demographics: Age & Gender

The age distribution of the participants is shown in Table 2 below where the participants are classified into six age groups. Fifteen (15) of the respondents (representing 10%) were aged up to 20 years with 64 of them (42.77%) aged between 21 and 30 years. 31 of the respondents (20.7%) were aged between 31-40 years and those aged 41-50 years made up 15.3 percent. 4 of the respondents (2.7%) did not indicate their age. The gender distribution of the respondents is shown in Table 2. The majority of the participants are males (n=93) representing 62% of the sample. Females (n=57) represent 38% of the sample.

**TABLE 2**  
**Gender Distribution of Respondents by Age**

Age of Respondent	Sex of Respondent		Total
	Male	Female	
10-20	8	7	15
21-30	33	31	64
31-40	22	9	31
41-50	17	6	23
51-60	9	3	12
61-70	1	0	1
Missing	3	1	4
Total	93	57	150

**TABLE 3**  
**Economic Sector from which SMEs were drawn**

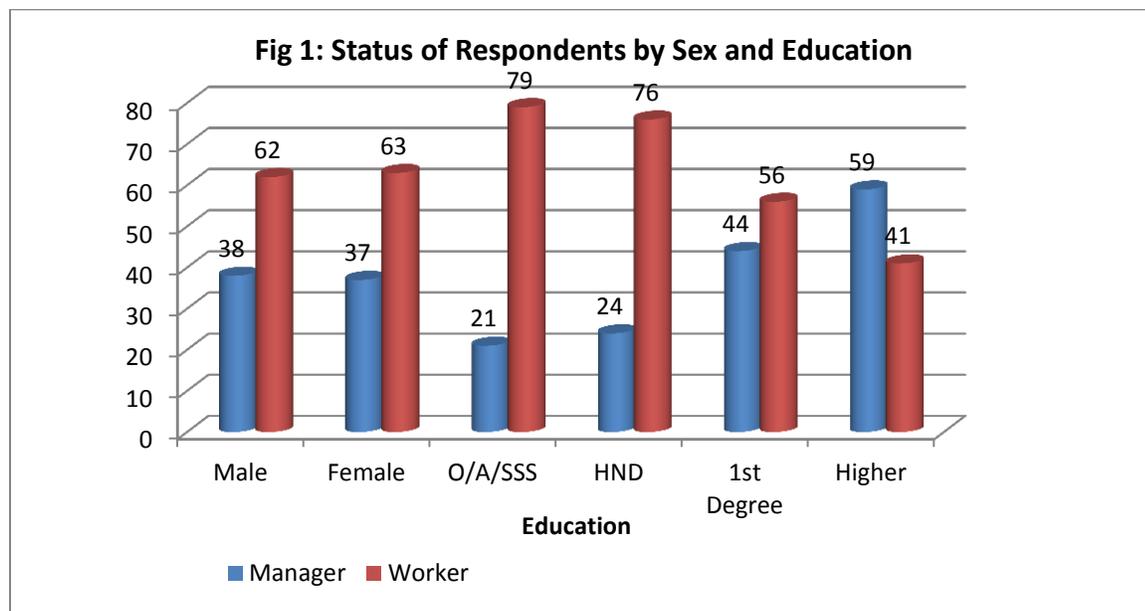
Economic sector	Gender		Total
	Male	Female	
Manufacturing	15	7	22
ICT	17	5	22
Education	10	8	18
Construction	10	3	13
Wholesale and Retail Trade	7	10	17
Financial services	18	11	29
Agriculture	9	7	16
Catering/Restaurant/Hotel	7	6	13
Total	93	57	150

### Education and economic sector

The data show that 23.8% of respondents have secondary level education while 3.5% have PhD qualification. Those with HND qualification made up 24.7% of the respondents while those with first degree made up the largest group: 42.7% of the sample. 15.4% of the respondents also had a second degree. The respondents were drawn from various economic sectors as can be seen in Table 3. These concluded manufacturing 22, (14.7%), ICT, 22 (14.7%), education (12%), construction (8.7%), financial services (19.3%) of the respondents. The manufacturing, ICT and construction industries have a dominant male representation while wholesale and retail trade had a higher female representation although the overall number of females is about half that of the males.

### Organizational status

The sample comprise 56 (37.3%) managers and 94 (62.7%) of workers. The distribution of the status of respondents by sex is shown in Fig. 1. In terms of education, Fig 1 reveals that the proportion of managers increase with high education.



### Tenure of Work

While 9% of the respondents have worked with their present organisation for less than 1 year, only 1% of them have worked with their current organisation for 20 or more years. 48% have worked with their current organisation for between 1 and 5 years and 25% have worked with their present organisation for between 6 and 10 years. This suggests that people tend to work in SMEs for fewer years. This phenomenon confirms Edlund & Nielson's (2007) position that large companies tend to attract and better retain employees in comparison with SMEs perhaps due to the fact that the larger firms have more money, brand recognition, and benefits. Edlund & Nielson's (2007) position is that the employees in SMEs leave for better salaries and benefits; perhaps also because more people are committed to their professions rather than their organisation (Corcoran, 2003).

### Results

Table 4 below shows the distribution of the scores on Valence, Instrumentality, Expectancy and Motivation for the managers and workers. In terms of Valence, the mean for the managers was 29.82 with a standard deviation of 5.683 while the mean for the workers was 27.03 with a standard deviation of 6.67. For instrumentality, the managers had a mean score of 15.41 with a standard deviation of 3.53 while the workers had a mean score of 14.62 with a standard deviation of 3.18. For expectancy, the managers had a mean score of 25.80, with standard deviation of 5.63; and of the workers had a mean score of 24.30 (standard deviation = 6.22). Motivation, on the other hand, Managers had a mean score of 16.14 (standard deviation = 3.549) and the workers had a mean score of 15.68 (standard deviation = 4.373). These results show that the managers had generally higher scores on all the subscales as compared to their counterparts classified as workers.

**TABLE 4**  
**Summary Results of Respondents on the VIE and Motivation Scales**

Attribute	Position	n	Mean	Std. Deviation	Std. Error Mean
Valence	Manager	56	29.82	5.683	.759
	Worker	94	27.03	6.666	.688
Instrumentality	Manager	56	15.41	3.531	.472
	Worker	94	14.62	3.176	.328
Expectancy	Manager	56	25.80	5.626	.752
	Worker	94	24.30	6.223	.642
Motivation	Manager	56	16.14	3.549	.474
	Worker	94	15.68	4.373	.451

**Hypotheses testing.** The following hypotheses were tested, using a significance level of .0125:

H1: There will be a significant difference in expectancy between manager and worker motivation;

H2: There will be a significant difference in instrumentality between manager and worker motivation;

H3: There will be a significant difference in valence between manager and worker motivation;

H4: There are differences between factors influencing manager and worker motivation

The main objective of the study was to test the difference between managers and workers on the VIE and motivation scales. The results of the multiple t-tests are shown in Table 5 below. For valence, the calculated t-value was 2.615 with an associated p-value of 0.010 (d.f = 148). Hence H3 is supported. There is a statistically significant difference between the valence scores for the managers and workers. From table 4.8, it is clear that managers had significantly higher scores on the valence scale as compared to the workers. All other three hypotheses were rejected since the p-value in each case is greater than the significance level of 0.125.

**TABLE 5**  
**Test of Hypotheses – Inferential Statistics; \*significant at 0.0125 level**

<b>Attribute</b>	<b>T</b>	<b>d.f.</b>	<b>P</b>
<b>Valence</b>	2.615	148	.010*
<b>Instrumentality</b>	1.419	148	.158
<b>Expectancy</b>	1.485	148	.140
<b>Motivation</b>	.670	148	.504

## DISCUSSION

The first hypothesis of the study suggests that there will be significant difference in expectancy between managers and workers. According to Vroom (1964), expectancy is the perceived probability that effort will lead to good performance. Variables affecting the individual's expectancy perception include self-efficacy, goal difficulty and perceived control. Usually the individual only focus on one expectancy value and generates it upon the effort and performance relationship. The best way to establish expectancy is throughout feedback (Bergmann & Scarpello, 2001; Muchinsky, 1993). The first hypothesis tests whether managers and workers perceive that effort will lead to good performance. The mean and standard deviation obtained indicate a mean score of 25.80 for managers (standard deviation = 5.63) and a mean score of 24.30 for workers (standard deviation = 6.22). The P-value of the t-statistic from the VIE and motivation Scales (Table 4.7) on expectancy indicates a value of 0.140. This indicates that there are no significant difference between managers and workers on perception that effort will lead good performance. The hypothesis is rejected since the p-value in this case is greater than the significance level of 0.125. This suggests that there are no significant differences in expectancy between managers and workers in SMEs. The implication – based on the mean values – is that both managers and workers perceive that putting in much effort on the job will lead to good performance of their employees.

The second hypothesis considers whether there will be a significant difference in instrumentality between managers and workers. Vroom (1964) explains that instrumentality exists in the employee's mind and is defined as the relationship between the perceived degree of performance and the outcome attainment. It also tests whether work performance is directly linked to the rewards they get, whether both managers and workers are aware that the effort and good performance they put in may lead to certain rewards or not. The P-value of the t-statistic from Table 4 on instrumentality indicates a value of 0.158. This is an indication that there are no significant difference between managers and workers on instrumentality beliefs. The hypothesis is thus rejected. An important underlying assumption of VIE theory is that it is important for the employee to perceive that they have impact on the outcome of his

work (Bergmann & Scarpello, 2001). The mean lends support to the notion that both managers and workers perceive that it is important to be able to affect the outcome of their work. According to Bergmann & Scarpello (2001), it is important to see the relationship between effort and outcome.

The only hypothesis that was supported was H3 which posited a difference between manager and worker valence – thus exploring the possibility of differences between the factors influencing manager and worker motivation. This was supported with a t statistic of 2.615 and *p* value of 0.010, showing significance. Clearly there is something to be said for differences in what motivates people. Atkinson (1964) defines motivation as the contemporary influence on direction, vigor and persistence of acting; while Vroom (1964) defines motivation as a process governing the choice made by an individual among alternative forms of voluntary activity. The importance of this finding is that it confirms the need for organisations and in this case SMEs to explore the varied contemporary influences on people's motivations from the perspective of what holds salience and valence for them.

The fourth hypothesis explores the possibility of differences between manager and worker motivation. The P-value of the t-statistic from the VIE and motivation Scales indicates a value of 0.504. This suggests that there are no significant differences between managers and workers in terms of overall motivation.

### **What are the possible implications of this study?**

There are important implications for human resource management practice, especially in the SME sector, when empirical findings as obtained by this research become available. Only Hypotheses 3 was confirmed, suggesting that perhaps on this limited evidence, the tendency to anecdotally assume that there are or there will always be differences between workers and managers in their motivations may on occasion be quite inappropriate.

**Actions to improve SME productivity.** This study indicates that the managers and workers have differences in valued outcomes. Identifying these outcomes and motivating managers and workers accordingly could lead to higher productivity of SMEs. This also has implications for longevity of tenure. We noted earlier that only 1% of the sample had worked in their current organisations for up to 20 years. We also noted that over 60% tend to stay in the SME sector for less than 5 years. This has been attributed to better conditions offered by larger firms. However as noted by the findings of this research, perhaps what is necessary is a differentiated regime of preferred outcomes.

#### **Implications for training operators of SMEs.**

It may be necessary for owners, managers and entrepreneurs to be helped to better appreciate how managers and workers in SMEs differ thus avoiding stereotypical assumptions of difference or similarity.

**Expectancy and Instrumentality are psychological.** The SME sector needs to recognize that the psychological power of expectancy and instrumentality, do not appear to differ between managers and workers. This means that organizational practices which compromise these or which are directed to benefit say managers more than workers may inadvertently lead to similar levels of disengagement from both managers and workers. In other words a differentiated regime to deal with expectancy and instrumentality may not be necessary.

### **Further Research**

This study was designed to examine the differences in motivation between managers and workers in SMEs. Further research would be needed to draw in a larger pool of SMEs; also, the theory could be tested outside the SME sector. For example an expatriate sample could be compared with a Ghanaian sample, and employees of larger and/or state institutions may also be studied. From an African perspective, given the theoretical clarity of the VIE model, it lends itself to comparative studies with samples drawn from several African countries.

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## ZIMBABWEAN TRAILING SPOUSES: A SOUTH AFRICAN EXPERIENCE

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### ABSTRACT

The study explores the personal experiences of ten married Zimbabwean female trailing spouses in South Africa, who wish to work, but have found it difficult to find employment in South Africa. Before emigration they were dual career/dual earning couples. Most of the participants were self-expatriated and received little to no financial or other support when settling in. The findings suggest that the immigration laws in South Africa, lack of support from employers and the lack of social support from fellow Zimbabweans, make it difficult to adjust. The trailing spouses lose hope of finding meaningful employment.

**Keywords:** Trailing spouses; self-expatriation; nomadic protean careers

### INTRODUCTION

Historically South Africa is the main recipient of Zimbabwean emigrants and many Zimbabweans who enter South Africa are often well educated with tertiary education qualifications (Moorhouse & Cunningham, 2010). Zimbabwe has seen a number of waves of emigration in recent times. Three waves stand out. After Zimbabwe's independence in 1980, the first wave of emigration was of former Rhodesians leaving Zimbabwe to live in South Africa and Australia. In the 1990s, after the Economic Structural Adjustment Programme (ESAP), Zimbabwe saw another wave of emigration, this time young black and white Zimbabweans sought career options abroad. Most recently, the repercussions of the 2002 land reform programme undertaken by the Zimbabwean government brought about mass unemployment, hyperinflation and political instability which lead to the biggest wave of Zimbabweans leaving to find work in South Africa and other parts of the world. Polzer, (2008b), estimated that about 1.5 million Zimbabweans had crossed the border into South Africa since 2005.

A number of migration studies have been done regarding the Zimbabwean diaspora. McGregor and Primorac (2010) wrote on the experiences of Zimbabwean diaspora communities in South Africa and in Britain and Polzer (2008b) presented the South African government's response to Zimbabwean

migration. None of these studies have shed light on the experiences of Zimbabwean trailing spouses. Out of the diaspora, many women have become trailing spouses. In South Africa for example, trailing spouses are not allowed to work under the country's immigration laws, resulting in the trailing spouse phenomenon. The trailing spouse phenomenon is often a result of expatriate and international assignments for breadwinners. The breadwinner takes up a work assignment abroad and his or her partner follows him or her to the new location of employment as a trailing spouse.

To date, within the African context no research has been conducted on how these trailing spouses experience the trailing spouse phenomenon and their inability to work. This article aims to examine the perceptions, views and experiences of Zimbabwean trailing spouses living in South Africa who wish to work but find it difficult to get employment. After a review of the literature, we present the qualitative findings derived from the interviews of ten Zimbabwean trailing spouses. Thereafter an analysis and discussion of these trailing spouses' experiences are given.

### **TRAILING SPOUSES**

International assignments are very common in today's dynamic world of work and the growing global village. According to the United Nations (2002), the number of migrating people between 1990 and 2000 was estimated to be in the region of 154 million to 175 million. These figures were estimated by The United Nations Population Division (UNPD, 2011) to be around the 214 million mark in 2010. The UNPD (2011) also states that a growing number of women migrants have joined the labour force; however it is inevitable that among the migrant populations there are significant numbers of trailing spouses. In most cases these trailing spouses are women.

The current literature on trailing spouses has been predominantly written from an organisational perspective with the focus being on assisting trailing spouses to settle in host countries as a way of ensuring successful expatriate assignments and ensuring responsive organisational development, (Harvey, 1998; Harvey, Napier, Moeller, & Williams 2010; McNulty, 2012). There has also been research on the problems that the trailing spouses are likely to experience and how these can be mitigated by support from the expatriates' employers (Harvey, 1998: Harvey, Napier, Moeller & Williams, 2010; McNulty 2012). These studies have looked at the trailing spouse in a supporting role, supporting her husband during expatriation. The dual career disruption, the possible reduced earnings for the couple and the implications of the trailing spouse phenomenon have also been researched (McKinnish, 2008).

From all this research, the assumption is that the trailing spouses' status is acknowledged by expatriates' employing organisations and the organisations try by all means possible to help with settling in and making the expatriate assignment viable for the family and the organisation. The trailing spouses investigated in this study self expatriated and therefore their expatriation needs were not met by their husbands' employers. Self-initiated expatriation occurs when an employee decides to emigrate for work and initiates his or her own expatriation by finding a position of employment in another country by him or herself.

The employers are therefore not involved in supporting the trailing spouse and in some cases it seems the employers are not officially aware that their expatriate employee has a family which he needs to expatriate. Whether the expatriation is self-initiated or initiated by an organisation, the costs can be enormous for both the family and the organisation. Vogel, Van Vuuren, and Millard (2008) state that the estimated costs of a failed expatriate assignment can range from US\$ 250 000 to US\$1 million. It is therefore imperative to find ways of ensuring that expatriate assignments are successful. Trailing spouses can be positively or negatively impacted by the expatriate assignment. It is therefore important to understand the issues that affect trailing spouses and develop mechanisms and processes that can help them in order to ensure successful expatriate assignments.

### **The Trailing Spouse Phenomenon**

The earliest known use of the term 'trailing spouse' is attributed to Mary Bralove in an article titled "Problems of Two-career Families Start Forcing Businesses to Adapt" (Bralove, 1981). The term was used to describe partners of expatriates who relocated as a result of career prospects abroad. The trailing spouse is a person who gives up his or her job in order to follow a partner to a new location of employment. The phenomenon is most evident in dual career and dual earning couples (Harvey, Novicevic & Breland, 2009; Mäkelä, Käsälä & Suutari, 2011; Wallston & Berger, 1978). In the past, trailing spouses were most common in diplomatic and military communities (Suutari & Makela, 2007). In more recent times, global markets, global competitiveness, the ease of travel, the growth of multinational businesses, good communication systems and the increased borderless existence of transnational corporations have made it easier for private sector companies to send and receive employees on expatriate assignments. This has resulted in increased expatriate assignments globally (Wan, Hui & Tiang, 2002). Unfortunately, even in this diverse but integrated global village, employers sometimes seem oblivious to the needs of expatriate employees who along with their families have assumed a borderless often semi-nomadic existence in response to their career needs or in response to the organisations' workforce demands.

Research on trailing spouses has been done mainly in Europe and North America (Boyle, Cooke, Halfacree, & Smith, 2001; Copeland, 2002). In Singapore, Wan, Hui, and Tiang (2002) wrote on factors affecting Singaporeans accepting international assignments. They found that Singaporeans preferred to take international assignments in culturally similar host countries. Wan et al., (2002) suggest that the smaller the cultural divide between the host countries' culture and the expatriates' culture, the easier the adjustment for expatriates and the higher the probability of a successful expatriate assignment.

South African organisations have provided pre- and post-assignment social support for trailing spouses (Vogel et al., 2008). The social support provided includes cross-cultural training, helping with the trailing spouses' work permits, helping the trailing spouse find employment, and helping children settle into schools (Vogel et al., 2008). Further abroad in Europe and the Americas, there has also been research on the unemployment and the challenges of maintaining parallel careers faced by trailing spouses (Bryson & Hoge, 2005; Jacobs, 2008). Pierce and Delahaye (1996) found that help with job-seeking for the trailing spouse has not gained acceptance as a legitimate part of relocation packages. Pierce and Delahaye (1996) suggest that HR practitioners should show more concern for the trailing spouses' career prospects in order for expatriate assignments to be successful.

### **Female Trailing Spouses' Experiences**

Labour mobility has also led to the globalisation of careers (Carr, Inkson & Thorn, 2005; Dickmann & Harris, 2005). On the whole, women tend to trail their husbands (Bender & Heywood, 2006). This is possibly due to the assumption that it is an easier choice for female spouses to take the role of a trailing spouse than for the male spouses, particularly among dual career couples (Mäkelä et al, 2011). Therefore, it is usually assumed that the female partner is the trailing spouse (Lineham, 2002). In line with this stereotyping, Lineham's (2002) research on women managers found that women expatriate managers were, in social settings, often assumed to be the trailing spouses when, in fact, their husbands were the trailing spouses.

The experiences and coping mechanisms of female trailing spouses have also been studied (Bryson & Hoge, 2000). Bryson and Hoge (2000) did not go into the details of how these coping mechanisms were developed, however they found that eight out of ten trailing spouses felt lost and spent most of their time shopping or performing charity work. In another study, several trailing spouses admitted to working illegally and risking their career prospects just to find some purpose to their daily lives (Jacobs, 2008). In the same study, many of the trailing spouses expressed that they felt like they

had become second class citizens in their own homes and they were no longer living their lives but, rather living the lives of their husbands (Jacobs, 2008).

### **Trailing Spouses, Work and South African Immigration Laws**

The main author is a trailing spouse, she has been a trailing spouse in a number of countries, and her observations are that South Africa has not been an easy place to settle in and get employment. This paper is part of a broader study on trailing spouse identities. In the broader study she used Critical Moments Reflective Methodology (CMRM) to illustrate her reflective journey as a trailing spouse. In this paper researcher reflexivity is limited and she only makes limited commentary in the discussion paragraph.

In South Africa, the immigration laws play an important role in delimiting whether or not a trailing spouse can seek employment and perform work. Although there are regulatory provisions under which trailing spouses can obtain permission to work, Section 11(2) of The Immigration Act No. 13 of 2002 clearly prohibits accompanying or trailing spouses from seeking employment and working. Therefore, a combination of restrictive, often-misunderstood immigration laws, and possible unrealistic expectations of easy integration on the part of expatriates, results in trailing spouses finding it difficult to settle in, find employment, and make sense of their new experiences and status.

The rights and status of accompanying spouses or life partners in South Africa differ depending on the main applicant's permit. Three categories stand out. In the first category, the accompanying family is given temporary residence on relatives' permits for the purpose of accompanying the work permit holder. In the second category, family members are deemed to be independent and need to qualify for entry and work permits in their own right. The third category is directed at children attending school, who must obtain study permits over and above the temporary visitor's permit until they acquire permanent resident status.

There are exceptional circumstances under which trailing spouses can seek employment and work, however from this research it was established that the work permits are difficult to obtain and are often not understood by prospective employers. Trailing spouses are therefore forced to take career breaks or even sacrifice their careers and career aspirations in order to make the expatriate assignment viable for the families. Based on the above discussion, we therefore aim to give some insight into the perceptions, views and experiences of Zimbabwean female trailing spouses in South Africa.

### **SAMPLE**

Ten trailing spouses of Zimbabwean origin were interviewed. All had come to South Africa on accompanying spouse visas. The trailing spouses who participated in this study fell within the first category of accompanying family members, covered under Section 11 of the South African Immigration Act of 2002. They have leave to remain in South Africa as temporary residents until they qualify to apply for permanent residence. Some have applied for work permits under the Immigration regulations of 27 June 2005 and therefore have relative's permits or independent work permits. Two of the participants have been granted permanent residency. The rest are still on accompanying spouse visas.

Not all of the participants were first time emigrants, nor were they all emigrating from Zimbabwe as their last country of residence. However, those who were emigrating from Zimbabwe emigrated at the peak of the most recent economic instability in Zimbabwe. Table 1 shows demographic and personal details of the participants.

## **METHODS**

This study is part of a broader study which used a Glaserian classical grounded theory research design. However, for this paper, we brought in aspects of economics of migration which makes the theoretical behavioural assumption that individuals migrate because it is to their benefit to do so in terms of income and psychological satisfaction (Borjas 1998). But can this be said for trailing spouses? The aim was to obtain detailed descriptions and an understanding of the trailing spouses' experiences; therefore we conducted exploratory in-depth interviews. We conducted one to one interviews with the trailing spouses. We asked the participants to tell me about their trailing spouse experiences in South Africa, the ups and downs and the challenges that they have faced. We recorded the interviews, transcribed them into text form and analysed them using Atlas.ti.

Atlas.ti was useful in making sense, uncovering, systematising and analysing the trailing spouses' experiences hidden in the unstructured data gathered during the interviews. Using Atlas.ti, we categorised the data into codes and themes that described and explained the experiences of the trailing spouses. We developed code families and for this paper the experiences code family provided the avenues for the findings below.

**TABLE 1**  
**Biographic details of participants**

Participant	Age	Last permanent job	First permanent exit from Zimbabwe	Trailing experiences	Entry in SA	Qualifications held	Current employment
A	36	Administrative Assistant	2008	No SA only	2008	B. Com Business Administration and B. Com Honours Logistics (UNISA)	Not employed
B	35	Provincial Nutritionist	2010	No SA only	2010	BSc Nutrition (UZ)	Not employed
C	34	Customer Assistant (UK)	2001 UK	UK 2001 SA 2006 Ethiopia 2008 SA 2010	2006	BSc Politics and Administration (UZ) and MSc African Studies (University of Edinburgh)	Not employed
D	39	Customs Officer (Zimbabwe)	2001 Sweden	Sweden 2001 SA 2005	2005	Masters in Real Estate Management(KTH Stockholm)	Part-time lecturer
E	36	Personal Assistant	2008	No SA only	2008	Diploma in Secretarial Studies (Harare Polytechnic)	Part-time Nursery Teacher
F	49	Programme Officer (Zimbabwe)	1995 Botswana Sweden	Botswana 1995 Sweden 2003 SA 2005	2005	BA (UZ) and Postgraduate Certificate in Education (UZ)	Unemployed
G	42	High School Teacher	2000	SA only	2000	BA (UZ); Postgraduate certificate in Education (UZ) and Postgraduate Diploma in Management PDM(HR) (Wits)	Unemployed
H	36	High School Teacher	2008	SA only	2008	BA (UZ)	Kumon tutor
I	38	High School Teacher	2008	SA only	2008	BA (UZ); Postgraduate Diploma in Education (UZ); Masters in Sociology of Education (UZ); Honours in Inclusive Education (UNISA)	Temporary teacher
J	59	Consulting Dietician	1993 Kenya	Kenya 1995 USA 1993 and SA 2012		Diploma in Nursing (UK); BSc Nutrition and Food Sciences and MSc Public Health (Dietetics and Nutrition) (University of New York)	Not employed.

## FINDINGS

Three broad categories of findings came out of the data. A number of outcomes were extrapolated from the findings. The broad findings are:

- there was lack of support of any kind from their husbands' employers,
- the trailing spouses failed to realise their personal and career expectations,
- there was lack of support from fellow Zimbabwean expatriates,
- the trailing spouses were over optimistic about their employment expectations,
- language and cultural integration were more difficult than expected.

### **Lack of support from husbands' employers**

Nine of the ten participants indicated that their husbands had self-initiated their expatriation. As a result of the self expatriation, the nine participants said that they received no support from the organisations that employed their husbands. They further indicated that this situation was probably because their husbands did not negotiate employment packages that would see to the needs of their wives and families. The participants further expressed that their husbands do not fully understand the need for support and that settling of an unemployed person. The participants said that their husbands could not see that there are settling in challenges which require mitigation and support.

Eight of the ten husbands of the participants managed to secure top executive positions. The other two participants' husbands hold middle management positions. Participants C, D, I and J mentioned that they were aware that European expatriates had negotiated employment and settling in packages for their wives. The participants also expressed concern that their husbands' pension packages would not make provision for them when the time came for them to retire.

### **Trailing Spouse's Career Pursuits**

Expatriation seemed to signal the beginning of the end of trailing spouses' career pursuits. The realisation and acceptance that the participants had to give up their jobs and possible educational and career pursuits was also a main feature in the trailing spouse experience. The participants also expressed that not being able to secure formal employment often made them feel a sense of exclusion from a significant part of a work based social life.

Not all the trailing spouses were willing to join their husbands in South Africa. Participant B stated that she was the bread winner and that she was not willing to leave her job because she knew she would struggle to get similar employment in South Africa. Participant A said she was very happy in her job and enjoyed her work but 5 years living apart from her husband caused family problems and she therefore made a decision to leave her work and join her husband in order to save her marriage. During the research it became apparent that 'family reasons or problems' was a euphemism for marital issues associated with husband and wives living apart.

### **Lack of support from Fellow Zimbabwean Expatriates**

All the participants felt that the Zimbabwean community in South Africa is disjointed there are no organisations or formal groups that the trailing spouses can approach for practical support such as looking for schools for children and social activities for the children and the trailing spouses. One participant suggested that "it is important for our children to learn Shona and Ndebele." She further stated that Zimbabweans do not draw on their own resources like the Indians and the Chinese do to preserve their languages and their cultures.

In terms of assimilating into South African social settings, the trailing spouses want to learn the local languages but because there are few points of interaction with South Africans they are unable to learn the languages. One participant said “I speak my Zulu I am a bit reluctant because sometimes for you to learn a language, you have to interact with the people but you are in an environment where you are alienated it’s a quiet closed environment you and your kids. So you never learn you never get exposed to the languages.”

### **Employment Expectations of trailing spouses**

Most of the participants held the expectation that securing employment in South Africa would not be too difficult, due to the skills shortage in the country. After posing the question on whether or not they thought that they would get employment, some of the responses were “I was thinking things would be easy”, another said “I was looking forward to launching my career in South Africa after studies in abroad” and a third said “although I had a Masters degree I thought doing an honours degree in South Africa would help me to get a job, so I did an honours degree in finance at UCT.” Only two of the participants expressed that they felt that they could experience possible problems with getting jobs. As a result of the participants experiencing difficulty in securing employment, some of them took on menial jobs, others worked part-time illegally and the majority gave up looking for work and have had a third and a fourth child. Most of them have resigned themselves to being stay at home mothers. One participant said that she had three children, a thirteen year old, a nine year old and a two year old. She stated that “the two year old was, I just didn’t know what else to do with myself. I like having a baby. In a way it’s kind of shooting yourself in the foot because now you don’t have the pension, you don’t have the money and you don’t have a job you don’t have anything, but yeah in a way you have someone to care for. Just something to do as a human being.”

Many of the participants felt that when they obtain permanent residency status they will be able to obtain work. However the two participants who have permanent residency have said the change in immigration status did not translate into any positive change or outlook on their employability and employment prospects. Participant G indicated that she had opportunities to work in a large South Africa corporation. She has been told that despite having permanent residency, she could not be offered a permanent post because she was not a previously disadvantaged individual (PDI). Participant D indicated that she went to many interviews and has been told on three occasions that she could not proceed through the selection process because she was not an AA candidate. An AA candidate is an affirmative action candidate. Affirmative action in South Africa is actually legislated under Chapter 3 of the Employment Equity Act 55 of 1998. The affirmative action measures stipulated under section 15 of the said Act that employers are required to first consider South Africans from previously disadvantaged designated groups for employment in order to fulfil employment equity in all occupational categories and levels in the work place.

Participant A obtained a scholarship from the Department of Transport when she was studying for her honours degree. The department had promised her employment upon completion of her degree. However when it became apparent that she was not a South African, they withdrew the employment offer and provided no explanation for their decision.

Where explanations for unsuccessful job applications were provided, the participants said they were rejected for jobs because they are not South Africans. As a result, these trailing spouses have experienced long lapses of unemployment, which ultimately influence the way prospective employers may view their employability.

### **Cultural Issues**

Participant A and G are of Ndebele origin. They felt that the cultural gap or cultural distance between Zimbabweans of Ndebele origin and South Africans of Zulu and Ndebele origin would be

relatively small because the Zimbabwean Ndebele tribal group was once part of the Zulu kingdom under Shaka Zulu in KwaZulu Natal.

South Africa is also close to Zimbabwe geographically and the expectation among the participants was that the cultural gap would be small and assimilation would be easy. However, all the participants have found it very difficult to assimilate into the South African way of life. Tung (1998, p.141) in her discussion on the performance of expatriates argued that the greater “the cultural gap between the home and host country culture (large cultural distance), the greater the problem of adjustment.” The trailing spouses who have lived in more than one foreign country however, expressed that they found that the greater the cultural distance the less likely they were expected to integrate into the host communities, and as a result they built their own networks to help them cope and settle in. These participants also said in environments where there was a large cultural gap, expatriates and their families were often seen as novelties.

Where the cultural gap is perceived to be small, like between South Africans and Zimbabwean, the participants expressed that they expected settling in to be easy. They expected that the perceived familiarity of the cultures would make South Africa easier to live in. However, they found this to be untrue, and therefore they expressed that for them, the perceived small cultural gap harboured subtle cultural nuances which made it difficult to integrate and settle in.

### Language issues

Because of these subtle differences in language and culture, the trailing spouses feel that they are viewed as imitators, cultural frauds and even corrupters of South African languages and culture. They also have said that South Africans tend “to see us as threats, we are viewed with contempt and suspicion, when we try to integrate.” Another said “I am Ndebele speaking, but then you find some words in Zulu, if you use them in Ndebele they become vulgar. So now you are in a catch twenty-two you do not want to offend people you are not sure that the Ndebele that you are speaking is going to be understood.” Another said South Africans say that these foreigners, “they come here taking our jobs our husbands, they try to imitate us.” A third said I have often openly been told “Go back and remove Mugabe because I do not speak the local languages.”

Most of the trailing spouses in this study live in in the North of Johannesburg’s suburbs behind high walls and in gated communities. Their interactions with South Africans are confined to shopping malls and petrol stations. Shop attendants and assistants almost always expect that black people speak the main local languages and almost always address black customers in the local languages. When one responds in English the participants stated that they noticed negative changes in behaviour by the assistants and sometimes altercations and confrontations ensued. Sometimes the shop assistants may insist on speaking in their local languages and often this results in a breakdown in communication.

Almost all of the trailing spouses want to learn the local languages, some have expressed that they always want to be identified as foreigners, and by not speaking any of the local languages they retain their foreigner identities. They do not want to be seen as imitators. Participant A lives in the inner city and is a Ndebele first language speaker. She says she pretends to be South African. She has learnt to speak Zulu, Swati, Sotho and Xhosa fluently. Sometimes she even talks about Zimbabweans as if she were not a Zimbabwean. Participant A said “so they will be talking as my friends not knowing that I am also a *grigamba* I will just be responding oh what what. If maybe I am speaking to a Zulu person then I play along.” This game of pretence she says helps her to gauge the attitude of South Africans towards Zimbabweans. Often it is hostile and Participant A also said “they will be talking in my presence not knowing that I am also a *grigamba* they will be says hey these *grigambas* they come here taking our jobs our husbands.” *Grigamba* is a derogatory name similar to *makwerekwere* used to refer to foreigners.

The participants also stated that amongst most of the younger people in Zimbabwe who have travelled and who are less driven by ethnicity, derogatory terms like *makwerekweres* do not offend

them. Sometimes the trailing spouses even refer to themselves as *makwerekweres*. They further reiterated that it does not bother them that they are foreigners and that they want to be identified as foreigners.

The outcomes from the research centred on the hardships associated with failure to settle in, lack of social support, the limited employability of the trailing spouses and the failures of the trailing spouses to realise their personal and career expectations. Some of the apparent outcomes that were extrapolated from the findings are discussed below.

### **Social Support**

Immigration from one country to another often results in expatriates losing the social support that they had from their networks of friends and family, which manifested in the hardships associated with distance relationships, namely the inability to interact with family members at will, the loss of family support, in the forms of “help with child care”; “people to share life experiences with”; “a shoulder to cry on” and in one case a participant said she has lost “financial help from her siblings”. One participant stated that “we have learnt to cope on our own and this has made the nucleus family closer but it has also made some marital problems look bigger than they actually are because we are too confined to our own devices and subjective views when it comes to solving our problems.”

### **Altered Financial Situation**

While in Zimbabwe, all the trailing spouses were employed and therefore were dual career couples. Upon emigrating the couples’ financial situations became altered. These trailing spouses now rely on the income of their husbands. Many of the trailing spouses indicated that their husbands do all the budgeting and that they have an idea of what their husbands earn but they do not know the exact salaries. Although the single income is more than the dual incomes, the trailing spouses have limited access to the financial pot. As dual earning couples the husbands may have brought in 70% of the earnings and the wife 30% for example, but now the skew is 100% to nothing and access to this income is very limited.

Further, the altered financial situation is exacerbated by the fact that the trailing spouses are not allowed to open transactional bank accounts in South Africa because they do not have independent sources of income. The husband is not recognised as a source of income. The trailing spouses are only allowed to open non-resident accounts which do not have bank cards and therefore cannot be used for day to day financial transactions. The irony though is that the children of the trailing spouse can open transactional accounts. The only way a trailing spouse can have access to transactional banking service is to be added on as a signatory to the husband’s account. Unfortunately Zimbabwean couples do not have a culture of joint accounts banking. In fact none of the trailing spouses in this study had joint accounts with their husbands and only one was added as a signatory on her husband’s account.

All of the participants had bank accounts prior to coming to South Africa. Not being able to manage their own finances through their own personal bank accounts has resulted in many of them expressing a lack of self-worth. Furthermore, when the trailing spouses were employed, they could provide financial assistance to their siblings, parents and grandparents. There is a cultural expectation amongst Zimbabweans that older siblings care for younger siblings and parents. Without stable incomes these financial responsibilities and expectations cannot be met. It was further mentioned that most of the trailing spouses’ parents were now retired and do not have viable pensions as a result of the economic problems in Zimbabwe. The trailing spouses do not have access to their family finances and also do not have access to banking facilities. All the participants lamented their inability to send remittances to their families and most expressed the fear that their parents were aging and that they were not providing their parents with the necessary support that they needed on a day to day basis.

The participants also expressed that when one moves abroad there is a perception that one gains affluence so extended family members expect remittances. Participant D said “when your family receives nothing from you, then the perception becomes that you have forgotten or are deliberately neglecting your family back home”.

The altered financial situation also brings about another problem, a perception of gender inequality within the marriage. The participants felt that they are no longer equal partners in the marriages but rather subordinate wives. In their own words they said “you become like a servant,” “you become a dependent,” “you become an object, like a handbag to be moved and removed at another’s fancy” “I am just a house wife,” and “I am just like a child, no a baby.”

### **Psychological Experiences of Trailing Spouses**

All the participants stated that they have lost their self-esteem and that they had very little confidence in themselves. Many of them were concerned that even if they found work, they were afraid that they would be lost in the work place and that they would make uncharacteristic mistakes which may indicate a lack of confidence and even transitory incompetence.

Some of the participants expressed that they have no sense of achievement. One participant said it is like “you have reached the end of the road but your journey is not yet over and you know that the bridge required to continue with the journey is this thing, the work permit.” Another said that there was no point in her getting an education, she said, “I even wanted to burn them (her educational certificate) to kind of burn them I didn’t want to hear anyone who said I am studying.” A third said “I cannot even drive my children to school so what am I good for.” This participant did not have a driver’s licence when she came to South Africa, and it is close to impossible to get a South African driver’s licence if one is an accompanying spouse on a temporary residence visa.

Most also felt because they were not working, their husbands were embarrassed to introduce them to their work colleagues. The participants said we often do not dress up and we cannot always afford to groom ourselves. We feel we do not look the part of top executives’ wives; therefore our husbands are uncomfortable to present us to their colleagues.

Many expressed that they have been depressed and have been on antidepressants, one admitted that she has even been suicidal. Another said that she has resigned her problems to God and everything happens for a reason. She said “if this life is God’s wish then who am I to fight it.”

Could these feeling be expressions of the so called trailing spouse syndrome? Johna (2006), summarises the trailing spouse syndrome as the lack of educational and cultural opportunities highly educated or skilled spouse may suffer as a result of a lack of employment opportunities. The lack of employment may result in the trailing spouses developing stress, experiencing discontentment and boredom, withdrawal from social life, a sense of personal disorientation in the direction of their lives, a lack of personal aspirations, and a general loss of personal goals (Johana 2006).

## **DISCUSSION**

The issues that the participants expressed were very personal and touched on the essence of the self and how work is indeed central to an adult’s identity. Through their small networks some of the participants have taken on menial jobs which paid low wages. They took on these jobs not for the financial rewards but just to have reason to wake up in the morning with some kind of work related purpose. Some of the trailing spouses who hold masters degrees are now pursuing honours degrees with the hope that a local qualification would help them secure employment.

The trailing spouses have found themselves in a space where they have had to deal with integration and personal issues that they were not prepared for with little to no support from the

Zimbabwean communities in South Africa and their husbands' employers. Coming to South Africa has had economic benefits despite the trailing spouses' altered financial situations. Although there is substantially a lot more money for the household there is often a lot less money at the trailing spouse's disposal.

The assumption that people migrate because it is in their benefit to do so in terms of psychological or income satisfaction does not directly hold true for the trailing spouses in this research. Rather it seems they emigrate for family reasons, their marriages and the need to keep the family together.

There also seems to be an interesting phenomenon emerging from serial emigration, 'nomadic protean careers'. Four out of the ten participants have lived in more than one foreign country and the participants were certain that South Africa is not going to be their last place of emigration. In fact participant D's husband was considering a job offer in another country and participant C's husband was looking for employment options further abroad. It therefore seems that the trailing spouses were suggesting that as families, they are accepting and adopting borderless career options for the breadwinner based on his professional development in support of the families' economic requirements.

The experience of Zimbabwean trailing spouses in South Africa is a relatively new area of research and little to no literature is available for comparison purposes. It is hoped that this study and future studies on African expatriates and trailing spouses will help to develop literature in this area and thus make a contribution to understanding the dynamics of expatriate assignments for individuals, organisations and the trailing spouses. There is need to understand the unique nature of self expatriated families and their needs which are no different to the needs of organisation expatriated families.

Finally, South Africa has a unique combination of problems that make it difficult for foreign nationals to obtain employment. There is a need to redress apartheid era employment inequalities within the context of globalisation and the current economic slowdown. The Immigration Act restricts what foreign nationals can and cannot do in terms of employment. Indeed allowing everyone who comes into South Africa to work is not a reasonable solution. South Africa has to protect its own local labour. However it may be necessary to verify trailing spouses' qualifications before entry into South Africa and possibly extend job seeker's permits to them if they meet set scarce skills requirements.

As mentioned earlier, this paper is part of a broader study which looks at the, identities, identity work, and identity maintenance processes that trailing spouses of Zimbabwean origins living in South Africa take on. This paper has looked at the personal experiences of the trailing spouses, how they settled into South Africa, the difficulties that came with living in South Africa, and their employment expectations upon arrival to South Africa. It has also looked at the practical and social support that these trailing spouses have received. The altered financial positions of the trailing spouses and how this has affected their roles in the family have also been discussed. Future research perhaps can look at how countries on the African continent can harness the skills and expertise that trailing spouses have to offer, and find solutions to the difficult experiences associated with being a trailing spouse.

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## EMPLOYEE PERCEPTIONS OF JOB CONDITIONS IN EXPLAINING EMPLOYEE JOB SATISFACTION: A STAKEHOLDER'S PERSPECTIVE

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### ABSTRACT

This study examines employee perceptions of job conditions in their workplaces in explaining an organisation's employee-outcomes. We suggest that when employees have positive perceptions of various workplace conditions, their attitudes influence their perceived job satisfaction. We examine the extent to which employees consider important various employment conditions in the workplace and relate these attitudes towards their job satisfaction. We similarly hypothesize that employees' fairness perceptions in the workplace mediate the relationship between perceptions of job conditions and employee job satisfaction. Data for employee attitudinal measures were collected by soliciting employee surveys from five different centres of financial and higher education institutions in Tanzania. Overall, the findings suggest that there is a positive relationship between positive employee perceptions towards employment conditions and perceived job satisfaction.

**Keywords:** Employee Perceptions, Job Conditions, Employee Job Satisfaction

### INTRODUCTION

Literature on the relationship between employee attitudes towards their workplace conditions suggest that employees who have positive attitudes towards their employers and their workplace conditions do experience great satisfaction in their job (Saari and Judge, 2004). The purpose of this study is to describe a conceptual framework that can be used by an organisation to create value in its processes through integrating employee perceptions of workplace conditions and their perceptions that they are resourceful stakeholders in the organisation. The basis for this suggestion is that an organisation can create a competitive advantage situation, through acquiring and developing resources and capabilities that other competitors cannot easily access and by facilitating internal development of employees in such areas as training (Barney, 1991; Delery and Doty, 1996). Underneath this assumption is the presumption that employees as internal assets to the organisation are manoeuvrable and developmental (Paauwe & Boselie, 2005). In this regard, when employees are considered resourceful

and do actually consider themselves resourceful to the organisation, the organisation will realise various performance outcomes as value added to the organisation and to the employees.

We likewise suggest in this study that employees are stakeholders to the organisation when one takes into consideration the view that organisations can realize value creation through interweaving stakeholder variables, such as employees, interest groups, investors, suppliers, customers and local communities (Freeman, 1984). Literature on Strategic Human Resource Management (SHRM) suggests that the management of human resources has been influenced by stakeholder theory (Parmar, Freeman, Harrison, Wicks, Purnell & De Cole, 2010). While in its narrow definition a stakeholder is a group that is vital to the survival and success of the organisation, in its wide definition, it is any group or individual that can affect or is affected by the corporation in the achievement of its purposes (Freeman, 1984). The influence of stakeholder perspective to human resource management is in one way a result of the perspective that organisations which practise effective and trustworthy stakeholder management are better able to attract a high-quality workforce (Greening & Turban, 2002; Benson, Bradeley, Davidson & Wallace, 2010). Stakeholder has also proven useful in creating strategic HR development systems (Stewart, 1984; Garavan, 1995), in managing change (Hussain & Hafeez, 2008) in handling crises, managing downsizing and in assessing the effectiveness of the HRM systems (Parmar et al., 2010). While there are still other stakeholder perspectives such as multi-fiduciary stakeholder synthesis, where stakeholders are treated by management as having equally important interests and deserve maximization, researchers such as Kenneth Goodpaster view such perspectives to have ethical problems (1991). Goodpaster's objection is based on the view that there will be differences in obligations among agents and principals in the execution of strategic decisions in a corporation that also involves a third party. This study, however, limits itself to the narrow definition of stakeholders as defined by Freeman (1984). In this regard, the study contributes to the employee performance literature on its attempt to link employee attitudes towards workplace conditions and their overall job satisfaction by being guided by the theoretical perspectives that employees are resourceful and stakeholders in any organisational setting. As suggested by Parmar et al. (2010), stakeholder theory suggests that if we adopt as a unit of analysis the relationships between a business and the groups and individuals who can affect or are affected by it then we have a better chance to deal effectively with value creation, business and ethical problems. Similarly, we are of the view that there is an economic justification of the impact of stakeholder relationships to organisation performance as illustrated by Choi and Wang (2009) who discovered not only that good stakeholder relations enable the organisation to enjoy superior financial performance over a longer period of time, but that they also help poorly performing organisations to improve their performance more quickly.

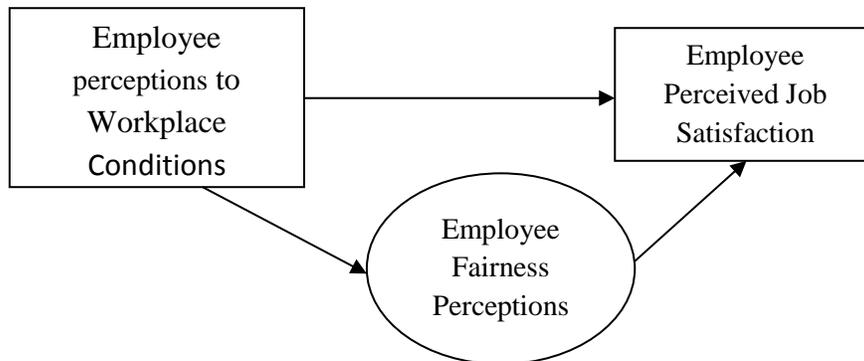
### **THEORETICAL FRAMEWORK**

This study is based on two theories, namely, resource-based view (theory) and stakeholder theory. It is based on the proposition that a proper integration of resource-based view and stakeholder theory will create a long life value for a firm. We propose that when employees regard themselves as stakeholders in the organisation, and when they think the organisation treats them well (as resourceful) they will contribute greatly to the organisational performance by exhibiting employee attitudinal outcomes such as employee intrinsic job satisfaction (Lambert, 2000). Being viewed as resourceful and as stakeholders, employees tend to be enablers of organisational performance. This supposition is largely rooted in the social exchange theory (Blau, 1964; Lambert, 2000) and the norm of reciprocity (Gouldner, 1960) whereby employees are expected to pay back positive favours they get from their employer. This argument is also supported by the AMO theory (Appelbaum et al., 2000), which states that performance is a function of employee ability, motivation and opportunity.

## STUDIES LINKING EMPLOYEE ATTITUDES AND JOB SATISFACTION

Literature shows that various studies support the view that there is an association between employee attitudes towards human resources management practices and various performance outcomes, i.e., employee attitudinal outcomes (Lee & Bruvold, 2003; Frobel & Marchington, 2005; Khilji & Wang, 2006). Human resource management practices, however, cover a wide variety of areas in relationship to workplace conditions. In this regard, this study will highlight a few studies that have empirically shown a relationship between employee attitudes to work conditions and employee job satisfaction as a performance or attitudinal outcome. A study by Berg et al., (1996) consisted of telephone interviews and company records among corporate officials and 100 employees from two apparel industry plants. The response rate was 69%. The focus in the study was to compare employees' perceptions of alternative work methods, such as team-working versus bundle production and firm performance. The study showed that team-working as a workplace condition produced superior performance, namely, an enhanced motivation and job satisfaction among employees. A study by Appelbaum et al. (2000) in the States, measured among other things, employees' perceived work pressure with the introduction of work teams and off-line problem solving teams. Overall, the study showed that employee attitudes were positive in workplaces where team-working and other employee involvement practices were introduced and these practices were associated with employee enjoyment of the job. Similarly, a study by Khilji and Wang (2006) in Pakistan assessed employee perceptions of human resource management practices and employee outcomes. The study showed that there was an association between satisfaction with human resource management practices and various performance outcomes. Macky and Boxall (2007, 2008) conducted a study to examine the relationship between various human resource management practices and employee attitudinal outcomes. They found a positive association between HRM practices called high performance work systems and employee outcomes such as job satisfaction. Overall, empirical research findings suggest that there is evidence to link employee attitudes and various attitudinal and performance outcomes. In this regard, Purcell and Kinnie (2008) illustrate various distinct though related outcomes among employees to include attitudinal outcomes which consist of attitudes employees hold toward their job and their employer, for example, job satisfaction. They also mention performance outcomes which include various measures of effectiveness and behavioural outcomes which include attitudes like citizenship behaviour. We, therefore, propose the following hypothesis in this study:

*Hypothesis1: There is a positive association between positive employee perceptions towards employment conditions and their job satisfaction.*

**FIGURE 1****Theoretical Framework Depicting the Impact of Employee Perceptions to the Importance of Workplace Conditions on Employee Job Satisfaction via Fairness Perceptions****LINKING EMPLOYEE FAIRNESS PERCEPTIONS AND JOB SATISFACTION**

While employee attitudes to various work conditions can be linked theoretically to job satisfaction (Saari and Judge, 2004) it is reasonable in the workplace to examine the extent to which employee job satisfaction is related to other variables such as procedural fairness perceptions. The reason behind this suggestion is that research shows that people care more about procedural fairness, that is, the kind of treatment they receive, than they do about distributive justice or fair outcomes (Burke and Leben, 2007). Burke and Leben (2007) hold the view that, much public dissatisfaction especially in the judicial system is due to lack of clarity in procedural justice. Likewise, employee perceptions of procedural fairness determines work attitudes and behaviour (Colquitt and Rodell, 2011) because it is from the act of sensing fairness in the methods used in planning and implementing resource allocation that employees show their satisfaction or dissatisfaction to organisational justice (Wiesenfeld, Swann Jr., Brockner and Bartel, 2007). In this regard, we assume that employee perceptions towards workplace conditions do not solely focus on the work conditions, but rather on the authority (Saari and Judge, 2004). In this regard, employee perceptions of workplace conditions can reflect the extent to which they feel about procedural fairness in the workplace and consequently, their feelings on job satisfaction. It is in this perspective that we are set in this study to examine the link between employee perceptions of job conditions, procedural justice perceptions and perceived job satisfaction. Thus, we suggest the following hypothesis:

*Hypothesis 2: Employee procedural fairness perceptions mediate the relationship between employee perceptions of workplace conditions and employee perceived job satisfaction.*

**OPERATIONAL DEFINITIONS**

In order to operationalise our conceptual idea, we brought the two distinct areas (resource based view of the firm and stakeholder theory) as a foundation of a new conceptual model. As could be observed, most enablers found in excellence models are related to some forms of resources or capability consistent with resource-based view of a firm (Barney, 1991; Hall, 1991; Prahalad and Hamel,

1990; Amit and Shoemaker, 1993; Edmondson and Moingeon, 1998). Under the resource-based approach, individuals are motivated to optimise available economic choices, and make their rational choices on the basis of the economic contexts of the firm rather than on social contexts or pressures outside the firm (Oliver, 1997). In this regard, we measure employee attitudes or viewpoints (Saari and Judge, 2004) to assess the extent to which employees think that various employment conditions are important to them. This is important because the way employees think of themselves or think of the policies and practices that touch their lives in the workplace influence various performance outcomes in an organisation (Cooper and Thatcher, 2010). We likewise assess the extent to which employees think the organisation is fair in its operations. Fairness perceptions as a concept is important to employees since studies show that employees will exert more effort and get involved in the workplace based on the extent to which they think the company is fair to them. Tsui and Wu (2005:118), for example, suggest that ‘when employees experience long-term investment from employers, they reciprocate with loyalty to these organisations and contribute much more than simple job performance.’ While there are various aspects of organisational justice, this study uses procedural fairness perceptions as the measure of the extent to which employees feel that the company treats them fairly in their problems and in its decision making procedures (Thibaut and Walker, 1975).

As for the second part of our analysis on the employee performance indicator, we attempt to assess and discuss it from the perspective of the stakeholder theory (Freeman, 1984; Schmitt, 2000; Hill and Jones, 1992; Anderson, 1989; and Rowley, 1987). We assess employee performance outcomes from the index of job satisfaction, which is a non-financial performance measure. Job satisfaction is an intangible variable, which like employee relations, ideas, or brand contributes to organisation performance evaluation (Saari and Judge, 2004). The study, therefore, adapts a twenty two - item measure of employee job satisfaction employed by McConnell (2003), which contains questions such as “I am satisfied with the training provided for my current job.” The answers range from 1 – Strongly Agree to 5 – Strongly Disagree. The items are reverse coded such that high scores suggest that an employee has less job satisfaction.

## **RESEARCH METHODOLOGY**

This study seeks to search for regularities and causal relationships between independent variable (attitudes towards employment conditions) and dependent variable (perceived job satisfaction). Despite the fact that we do not want to claim to establish causal inferences between these variables, we attempt to use Ordinary Least Squares (OLS) regression analysis as the primary test for the research hypotheses. The possibility of explaining variances accounted for by a set of independent variables on a dependent variable(s) is an evidence of a particular association especially when the relationships are statistically significant. Our study attempts to predict if changes in employee attitudes are associated with changes in employee job satisfaction. We carried out this study by using a survey research design. In this regard, questionnaires were used to solicit information on employee work conditions. The target population for the study was at least 800 employees in ten financial and high education institutions in Mwanza, Tanzania. Most of these organisations had at least 80 employees. In this regard 80 questionnaires were sent to every organisation that was targeted. However, only five organisations completed and returned the questionnaires. The questionnaires were administered to employees who consisted of administrative, executive, professional and clerical workers. HR managers/directors administered the questionnaires after the researchers mailed them to the organisations. Letters to remind the HR managers/directors were sent out after a month and after two to three weeks the managers/directors returned them to the researchers. In total, 219 usable questionnaires were returned. These five organisations/ institutions were pooled together as one sample. Overall, the response rate (weighted was 54.75%). The weighted response rate was captured by computing an

average of each response rate of every organisation. Table 1 below summarises the number of questionnaires that were sent and returned. The organisations which did not respond to the questionnaires at all are not presented.

**TABLE 1**  
**Organisations and Questionnaires Returned**

SN	Organisation /Institution	Surveys Sent	Surveys Returned	Response Rate %
1.	Educ_Org1	80	27	33.75
2.	Educ_Org2	80	42	52.5
3.	Fin_Org1	80	59	73.75
4.	Fin_Org2	80	39	48.75
5.	Fin_Org3	80	52	65
6.	Total	400	219	54.75

#### **ANALYTICAL PROCEDURES USED IN DATA ANALYSIS FOR THE STUDY**

Before conducting Factor Analysis (FA), we examined if the data was suitable for Factor Analysis. We used the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The test assesses the extent of multicollinearity and the extent of common variance among the variables, i.e., the underlying latent or common factors (Kaiser, 1974). The KMO statistics in this study showed that all the variables had the value of between 0.8 and 0.9 (values between 0.8 and 0.9 are excellent in the test of sampling adequacy, Hutchinson and Solfroniou, 1999). In this regard, our variables were suitable for Factor Analysis. The statistic for employee attitudes to the importance of workplace conditions was .844,  $p < 0.001$ , and for employee job satisfaction was .878,  $p < 0.001$ ).

#### **Measures**

**Workplace conditions.** The importance of workplace conditions to employees was measured by adapting McConnell's (2003) employee survey instrument. The procedure included assessing the extent to which employees considered various conditions of employment in the organisation as important. The measure used a 1 to 5 Likert scale format. The scale ranged from 1 'very important' to 5 'very unimportant.' The main question was 'how important are the following employment conditions at your company?' It included 20 items which comprised of items such as: (a) 'how important to you are employee policies at the company for which you work?' (b) 'How important to you are the benefits you receive?' (c) 'How important to you are the opportunities to advance at your company?' (d) 'How important to you is the overall communication at your company?' (e) 'How important to you is the recognition you receive from your company?' After conducting factor analysis on this measure the solution generated showed that there were five major factor loadings with initial eigenvalues greater than 1. This generated five factors and the cumulative percentage of total variance (extracted and rotated) explained was 57.09%. Since some of the items were below .45, the recommended cut-off point for factor loadings as suggested by Tabachnick and Fidell (2007), only 17 items which had acceptable factor loadings were used in forming various measures of the extent to which employee perceived various employment conditions in the organisation important.

Since four factor loadings were ascertained, they were labeled differently with the following common elements; the first factor was made up of six items and was related to attitudes to the importance of executive management. This was labeled executive management (alpha .79); the second was made up of five items related to attitudes towards the importance of compensation. It was labeled compensation (alpha .69); the third factor was made up of four items related to attitudes towards the importance of administration policies. It was labeled administration policies (alpha .70); and the fourth factor was made up of two items related to the importance of quality services. It was labeled quality services (alpha .79). These four factors were used as independent variables in this study. Overall, the factors were considered to constitute employee attitudes to various aspects of working conditions which also suggest the extent to which employees consider themselves part of the workplace system. For mediation test purposes, we had to use independent variables that were correlated to the mediator variable and the dependent variable as suggested by Baron and Kenny (1986). In this regard, two variables that were labeled executive management and administrative policies were used as predictors in the mediation test.

**Job satisfaction.** Similarly, we assessed the extent to which employees were satisfied with their job or employment conditions in the organisation. This measure likewise was adapted from McConnell's (2003) employee survey measure. It included 22 items measuring the extent to which employees were satisfied with various job conditions in the organisation/company. The measure used a 1 to 5 Likert scale format. The scale ranged from 1 'strongly agree' to 5 'strongly disagree.' The main question was 'indicate the extent to which you agree or disagree with each of the following items.' Sample items included, (a) I am satisfied with the training provided for my current job. (b) I am satisfied with the amount of training offered for advancement. (c) I like my job - the work I do. (d) I feel I can voice my opinion without fear of reprisal. (e) I feel secure that I will be able to work for our company as long as I do a good job. (f) Our company recognizes the accomplishments of employees. After conducting factor analysis on this measure, five factor loadings were generated with initial eigenvalues greater than 1. The cumulative percentage of total variance (extracted and rotated) explained was 61.7%. Despite the fact that studies show that employee satisfaction measures are not uni-dimensional, for clarity purposes, we decided that the twenty one items which were above .45 cut-off point as suggested by Tabachnick and Fidell (2007) be pulled together as one factor and test them for reliability. The result was Cronbach's alpha .92. These items were labeled a measure of 'overall employee satisfaction with job conditions.' This measure was used in the study as a dependent variable.

**Procedural fairness perceptions.** We measured employee fairness perceptions with three items adopted from McDonnell's (2003) employee survey measure. The measure included items such as 'all things considered how do you rate the fairness with which your organisation treats all employees?' 'How do you rate your organisation on treating employees' problems fairly? The measure was in the Likert Scale format and ranged from 1 Excellent to 5 Poor. The Cronbach's alpha for this measure was .82. The items were reverse coded, thus high scores meant low fairness perceptions.

### Control Variables

A number of variables were controlled for in the model. These included company type, gender, tenure, occupation and race. We used dummy variables to distinguish between financial institutions and education institutions. Gender was coded 1 for male and 0 for female.

## STUDY FINDINGS

Normally, a researcher would check if there is a threat of non-response bias in the sample of the study before analysing the findings. The threat of non-response bias exists whenever significant numbers of the targeted population fail to respond (Smith et al., 1994). In this study there was a relatively high response rate (weighted average was 55%), thus the investigators did not have to check for possible non-response bias. This response rate is acceptable in many employee survey studies such as those conducted by Guest and Conway (1999) - response rate was 39%, Bacon and Blyton (2000) - response rate was 52%, and Khilji and Wang (2006) - response rate was 51%. A total of 219 employee respondents were included in the sample. They were drawn from five financial and higher education institutions in Mwanza, Tanzania (refer to Table 1 for details). In terms of race, while 95% were African, four per cent were either European or American. In terms of gender, 65% were males. While the professional group was 67%, executive and supervisors made about 19% of the sample. In terms of tenure, while about 24% has stayed with their employer for more than five years, 20% were in the employment for less than one year. Table 2 presents the descriptive statistics, i.e., mean, standard deviations and the study's Pearson correlation coefficients. Overall, the study shows that there is a positive correlation between variables that show employee attitudes towards job conditions (the extent they think work conditions are important to them) and overall job satisfaction. In particular, attitudes towards compensation was positively related to job satisfaction ( $r = .57, p < 0.01$ ); and likewise quality service ( $r = .21, p < 0.01$ ). Similarly, race as a control variable is positively correlated with employee job satisfaction ( $r = .13, p < 0.05$ ).

The multiple regression analysis was used as the primary test of the main research question. The question was: how important are the employee attitudes towards various job conditions in the organisation and to what extent do they relate to employee job satisfaction? Regression results are presented in Table 3. Model 1 and 2 present results related to the extent to which control variables (model 1) and independent variables (model 2) explain employee overall job satisfaction. In running the regressions, a number of control variables were controlled for. Model 1 contains the control variables (organisation type, gender, race, occupation and tenure). Overall, Model 1 accounted for 22% variance in explaining employee job satisfaction and model 2 accounted for 50% variance (Model  $R^2$ ) on overall employee job satisfaction ( $F = 16.39, p < 0.001$ ). Models 3 presents regression results when the procedural fairness variable (i.e., the mediator) was added. The addition of the mediator variable accounted for a further 17 per cent of the variance in the model ( $\Delta F = 103.1$ ). Overall, the model accounted for about 67 per cent of the variance (Model  $R^2$ ) in employee job satisfaction [ $F(13, 205) = 31.06, p < 0.001$ ].

Using causal steps in the mediation test (Baron and Kenny, 1986), we found out that the first step in the mediation test was significant, that is, employee perceptions towards job conditions related to executive management and administrative policies were positively related to employee job satisfaction. The second and third steps were also significant. Employee perceptions of job conditions significantly predicted procedural justice perceptions and procedural justice perceptions significantly predicted job satisfaction when controlling for employee perceptions of job conditions. The last condition as recommended by Baron and Kenny (1986) states that in order to claim for a partial or full mediation, the effect of the predictor (in this case perceptions of job conditions) on the dependent variable (in this case job satisfaction) should be reduced to zero (full mediation) or merely reduced (partial mediation) when controlling for mediator (i.e., procedural fairness perceptions) was not met. Thus, we had to carry out a Sobel test. This test uses the products of coefficients approach to establish indirect effect of the mediator on the dependent variable (Sobel, 1982). Table 4 provides the Sobel test results for the mediating effects of procedural fairness perceptions on the relationship between job conditions perceptions and employee job satisfaction.

**TABLE 2**  
**Means, Standard Deviations and Pearson Correlations <sup>a, b</sup>**

	M	SD	N	1	2	3	4	5	6	7	8	9
1. Job Satisfaction	2.3	.65	219	<b>(.92)</b>								
2. Procedural Fairness	2.7	1.1	216	.72**	<b>(.82)</b>							
3. Executive Management	1.7	.55	219	.53**	.39**	<b>(.79)</b>						
4. Compensation	1.7	.62	219	.57**	.39**	.65**	<b>(.69)</b>					
5. Administrative Policy	1.9	.61	219	.55**	.43**	.56**	.61**	<b>(.70)</b>				
6. Quality Service	1.9	1.2	217	.21**	.13*	.31**	.30**	.21**	<b>(.79)</b>			
7. Gender	1.4	.48	209	-.07	-.03	.10	-.03	-.05	.06			
8. Race	1.1	.51	210	.13*	-.04	.06	.16*	.13*	.08	.10		
9. Occupation	3.0	.86	212	-.03	-.03	.01	-.005	-.01	-.01	.06	-.05	
10. Tenure	4.0	1.7	211	-.02	-.02	-.06	-.02	-.07	-.02	.08	-.09	-.07

\* Correlation is significant at the 0.05 level (1-tailed); \*\* Correlation is significant at the 0.01 level (1-tailed); <sup>a</sup>Pairwise deletion of missing values reduced the sample size from 219 to numbers ranging from 209 to 218 across various measures; <sup>b</sup>Cronbach's alpha for the multiple item measures are provided in the diagonal.

**TABLE 3****Multiple Regression Analysis to Test for Variance Accounted for by Attitudes Towards Various Employment Conditions and Employee Job Satisfaction<sup>a, b</sup>**

	Variables	Model 1	Model 2	Model 3
		Employee Overall Job Satisfaction		
		Beta	Beta	Beta
Step 1:  Control Variables	Educ_Org1	-.24**	-.08	-.07
	Educ_Org2	-.50**	-.31***	-.14*
	Fin_Org2	-.18*	.001	.02
	Fin_Org3	-.40***	-.22**	-.12*
	Gender	-.06	-.07	-.07
	Race	.04	.01	.09*
	Occupation	.02	-.01	.01
	Tenure	.07	.09	.06
	Step 2:  Predictors 1	Executive Management	-	.27***
Compensation		-	.18*	.14*
Administrative Policies		-	.21**	.10†
Quality Service		-	.02	.02
Predictors 2	Procedural Fairness	-	-	.51***
	Change in F	7.104***	27.35***	103.1***
	$\Delta R^2$	.224***	.281***	.173***
	Model $R^2$	.224	.505	.678
	Model F	7.10***	16.39***	31.06***
	Adjusted $R^2$	.192	.474	.656
	N	203	203	203

Notes: <sup>a</sup> Fin\_Org1 was omitted in this regression since it is a reference group variable; <sup>b</sup>Missing data and listwise deletion reduced sample size from 219 to 203; \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.10$ ; all tests are one-tailed.

**TABLE 4****Regression Results Predicting the Mediation Effects of Procedural Fairness Perceptions on the Relationship Between Perceptions of Job Conditions and Employee Job Satisfaction<sup>a</sup>**

Predictors	Employee Job Satisfaction						
	b (s.e)	T	F	df	R <sup>2</sup> Change	Total R <sup>2</sup>	Sobel Z
Model 1							
Executive Management	.32*** (.083)	3.79	16.4***	(12,193)	.28***	.51***	
Administrative Policies	.22** (.074)	2.99	16.4***	(12,193)	.28***	.51***	
Model 2							
Procedural Fairness	.32***	11.55			.23***		
Executive Management	.218*** (.061)	3.55	113.5***	(3,212)	.09***	.62***	1.99*
Administrative Policies	.216*** (.057)	3.8	113.5***	(3,212)	.09***	.62***	3.12*

Note: <sup>a</sup>Sobel test results are two tailed. N = 219, \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.10$

These findings suggest that employee attitudes towards the importance of employment conditions have an impact on their overall job satisfaction. Specifically, the findings show that employee attitudes towards job conditions were significant in explaining overall job satisfaction to the extent that a one standard deviation change in the measure of the importance of employment conditions related to compensation is associated with a standardised beta change of .18, ( $p < 0.05$ ) in the measure of overall job satisfaction. Similarly, a one standard deviation change in the measure of employee perceptions of the importance of job conditions related to executive management is associated with a standardized  $\beta$  change of .27, ( $p < 0.001$ ) in the measure of job satisfaction. However, employee perceptions towards job conditions related to quality services were not significant in explaining job satisfaction. Race as a control variable was, however, significant in explaining employee satisfaction when procedural fairness perceptions were used as predictor of employee job satisfaction ( $\beta = .09$ ,  $p < 0.05$ ). Other significant control variables in explaining

changes in employee job satisfaction included organisation type. In this regard, both financial and high education institutions were significant in explaining the independent variables. The mediation tests results suggest that though the study could not establish partial or full mediation role of procedural fairness perceptions on the relationship between perceptions of job conditions and employee job satisfaction, it was however established through the Sobel test that the mediator carries the influence of the independent variable to a dependent variable. In other words, employee perceptions of job conditions had an indirect effect on employee job satisfaction through perceptions of procedural fairness. The Sobel test was used as a supplementary statistical method to establish the indirect effect in these simple mediation models.

## **DISCUSSION AND RECOMMENDATION**

The hypothesis in this study was 'There is a positive association between positive employee attitudes towards employment conditions and their job satisfaction.' The Pearson correlation findings showed a positive association between various employee attitudes towards job conditions and overall job satisfaction. These findings support hypothesis 1. However, by running multiple regression analysis the study exposed stronger evidence of the relationship between independent variables and the dependent variable. In this regard, the study showed that a change in the measure of employee attitudes towards job conditions was associated with a change in the measure of employee job satisfaction. These findings were, therefore, supportive of our hypothesis that 'There is a positive association between positive employee attitudes towards employment conditions and their job satisfaction.' Practically, the findings in our study suggest that employee viewpoints or attitudes towards employment conditions are significant in explaining employee satisfaction in the workplace. This trend of attitude can be very important to practitioners in particular employers if they want to effect changes in employee performance outcomes such as job satisfaction. By explaining the extent to which employees perceive as important various employment conditions the study helps practitioners and even researchers identify and improve practices that may foster employment conditions in the workplace and discourage practices that may hamper employee satisfaction. This study is, therefore, a step in showing that employee attitudes are related to performance outcomes.

Theoretically, the results in this study are important in explaining the role of stakeholder theory and the RBV of the firm as lenses in explaining the relationship between employee attitudes and employee job satisfaction. Though this study does not explicitly or empirically test for the moderating role of these theories, the results, however, highlight the importance of studying the theories as possible explanations to when and why employees may exhibit satisfaction attitudes such as job satisfaction. This study, has theoretically suggested that when the two theories are considered together, that is, employees are not only resourceful to the organisation but are also stakeholders, this perception improves their attitudinal outcomes. Once their attitudes are improved, they will exhibit a positive perception towards the organisation and they will definitely identify which work conditions work for them. This supposition is based on research models which suggest that how employees think of themselves influence key employee outcomes such as cooperation in the workplace (Dukerich et al., 2002; Cooper and Thatcher, 2010).

Our study is somehow limited in that it falls short of explaining the reasons or causes behind employee attitudes. However, the use of these theories in explaining the bases or assumptions of employee attitudes (i.e., as stakeholders and/or as resources to the organisation) is a step in research and thus sets to analyse the trend of employee attitudes towards work conditions and their possible impact in employee performance outcomes. In this regard, we

suggest that future studies test empirically the role of RBV and stakeholder theory in examining the causes of employee attitudes and thus be able to link them appropriately with employee job satisfaction. Similarly, despite the fact that our study has shown the relationship between employee attitudinal trends and job satisfaction among employees, we recommend that future studies be conducted on identifying which attitudes and on what work conditions should employers focus in explaining employee job satisfaction as a performance outcome. In this way, both employees and employers' attitudes towards job conditions can be used to assess the association between attitudes and employee performance outcomes.

### LIMITATIONS

We would like to note that our study faced a few challenges including getting responses only from employees a factor that can raise issues on common method variance. However, since the focus on the study was to get lived experience of employees who are subject to the work conditions; common method variance error could be mitigated. Furthermore, the sample included employees from various professions, age, gender and race, and thus the validity and reliability of their perceptions can be counted upon. Likewise, since we had five companies studied, a more appropriate method would have been structural equation modelling (SEM). However, due to limited sample size, SEM<sup>1</sup> as a statistical method could not be appropriate. In this regard, Ordinary Least Squares regression analysis was used as the most appropriate method in this study.

### CONCLUSION

This study has to a large extent showed the importance of examining employee attitudes and their impact on performance outcomes through the lenses of two distinct theoretical approaches put together as one theoretical perspective. These theories have some commonality in that they consider employees as resourceful and partners in the value creation process in the organisation. We are of the view that, it is important for organisations to examine employee attitudes on various employment conditions in order to determine whether the trends in attitudes and performance outcomes are in line with the organisation's strategic plan. Knowing that employees are satisfied can greatly contribute to the organisation's ability to organise its production process well, however, knowing that employees consider themselves as resources and stakeholders in the organisation can help the organisation improve its strategies and thus realise both organisational and employee performance outcomes.

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## END NOTES

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<sup>1</sup> SEM requires at least more than ten variables in sample size for maximum likelihood estimator and tests. Simulation studies points to about 400 observations for stability of parameter estimates corresponding to expectation (Hoyle, 2008).

**EFFECTIVE LEADERSHIP AND MOTIVATION IN THE AFRICAN DIASPORA (LEAD):  
THE CASE OF THE UNITED STATES AND CANADA<sup>1</sup>**

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**ABSTRACT**

Despite the large number of people in Western countries with roots going back to Africa, the role of the African diaspora has generally been overlooked in the management literature. The objective of this study is to examine the differences and similarities in effective leadership and motivation among the African diaspora in the United States and Canada. Results of focus groups suggest that while differences in leadership and motivation emerged, some consensus was also found. There was agreement that “wise/knowledgeable,” “honest/trustworthy” and “visionary” describe an effective leader. “Charismatic” was the most important dimension mentioned by the participants in the United States focus groups, “inspirational” was the most important dimension for the Canadian participants. Future directions and practical implications are discussed.

**Keywords:** Leadership, Motivation, African Diaspora

**INTRODUCTION**

The African continent is becoming more important in the global business context and the role of the African diaspora cannot be overemphasized. The utility of the African diaspora to the continent’s development is reflected in the amount of remittances sent to Africa. It has been estimated that the flow of diaspora remittances to sub-Saharan Africa in 2011 was about US \$27 billion, an annual growth rate of 8.5 percent, the second only to foreign direct invest in terms of net foreign inflows (Ratha & Silwal, 2012). The literature has also highlighted the role of the African diaspora in improving leadership and

motivation in Africa (e.g., Gramby-Sobukwe, 2005; Mohan & Zach-Williams, 2002). Despite the central role the African diaspora may play in improving leadership in Africa, the literature has overlooked leadership and motivation in the African diaspora. Gramby-Sobukwe (2005) suggested that the African diaspora in the United States plays an important and positive role for the betterment of African countries through the help offered to democratic leaders in Africa. Similarly, the African diaspora in Canada can also play a central role in the improvement of leadership and motivation in Africa.

While the larger research project examines other countries in the African diaspora (e.g., the Caribbean), this paper examines the differences and similarities in effective leadership and motivation in the United States and Canada. Specifically, we explore the following research questions: (1) What are the similarities and differences in the perceptions of people from the African diaspora about leadership in the United States and Canada? and, (2) What are the similarities and differences in the perceptions of people from the African diaspora about motivation in the United States and Canada?

### **LEADERSHIP AND MOTIVATION IN THE DIASPORA: THE UNITED STATES AND CANADA**

Diaspora is broadly defined as anyone with roots going back to Africa. The African diaspora is approximated to be around 140 million (World Bank, 2010). Researchers have suggested the important role the African diaspora can play in helping African countries in democratic leadership as well as social processes (Gramby-Sobukwe, 2005; Mohan & Zack-Williams, 2002). In particular, the African diaspora in the United States and Canada can play a critical role in helping African countries regarding issues relating to leadership and motivation. Before discussing perceptions of leadership and motivation of the African diaspora in the United States and Canada, the historical contexts of the two countries will be discussed in greater detail.

Historically, the African diaspora came to the United States largely through the slave trade. These individuals, popularly called African Americans, constitute the majority of the African population in the United States; however, there is a large group of new immigrants from Africa who came to the United States for economic and social reasons. In Canada, the African diaspora are more likely to be new immigrants who moved to Canada for economic and social reasons. The African diaspora in Canada, who are associated with the slave trade, are largely descendants of the slaves who escaped from the United States and found their way through the underground railway to Canada (McGee, 2010).

Currently, the United States has the largest number of African diaspora living in any single country of the world. They are around 38 million, accounting for about 12 percent of the total American population (World Factbook, 2012). Canada, on the other hand, has a relatively small population of African diaspora with around 800,000 people accounting for around 2.7 percent of the population (Statistics Canada, 2010). Thus, Canada provides a contrast to the United States, where the population of African diaspora is high.

Leadership and motivation has been studied intensively in the West for the past century (Steers, Mowday, & Shapiro, 2004). Despite the various leadership and motivation theories, the comparative research in the area is limited (Morrison, 2000; Suutari, 2002). Typically, studies on leadership and motivation in Canada have only focused on a single culture. For example, using a sample of leaders from five provinces in Canada, Arnold and Loughlin (2010) found that leaders were more likely to engage in supportive, compared to developmental individually considerate, transformational leadership behavior. Similarly, cross-cultural motivation studies comparing U.S. and Canadian samples with those from other parts of the world also uncover differences that are due to cultural orientation (e.g. Lanik, Thornton, & Hoskovcova, 2009).

While the above studies examine leadership and motivation in the United States and Canada, and compare them with those from other countries, there is little research focused on people from the Africa diaspora in the United States and Canada. Given the lack of research in the area, we use qualitative

research to fill the gap by examining the perception of leadership effectiveness and motivation by the African diaspora in the United States and Canada.

## METHOD

### Participants

A total of ten focus groups were conducted in the United States (five) and Canada (five). Participants were either working or retired adults who possessed a minimum of a high school diploma and were members of various African diaspora community organizations or working adults who were pursuing undergraduate or post-graduate degrees. The ages of participants ranged between 17-69 years old. More details on the participants for each country are discussed below.

**United States.** The focus group participants were from Tampa, Florida; Chicago, Illinois; and Greensboro, North Carolina. Participants from Tampa, Florida were individuals with work experience who were enrolled in bachelor and master programs. There were a total of 17 participants (5 males and 12 females) in the three focus groups: focus group one (n=6); focus group two (n=5); and focus group three (n=6). Their ages ranged between 17 to 26 years old. The participants came from the following countries: the United States, Jamaica, Bahamas, Virgin Islands, and Cayman Islands. Participants from Chicago, Illinois were individuals with work experience who had school leaving certificates, as well as bachelor and master degrees. Participants from Chicago, IL were mostly African Americans, except one who was from Haiti. There were five participants (3 males and 2 females) in the focus group with ages ranging from 27 to 59 years old. Participants from Greensboro, North Carolina were members of a community group who were all gainfully employed. There were a total of seven participants (6 males and 1 female) in the focus group. Their ages ranged from 20 to 68 years old. All the participants were originally from Ghana who migrated to the United States.

**Canada.** The focus group participants were from Montreal, Quebec, and Toronto, Ontario. Participants from Montreal, Quebec were either individuals with work experience who were enrolled in bachelor and master programs or members of community organizations. There were a total of 13 participants (5 males and 8 females) in the three focus groups: focus group one (n=4); focus group two (n=4); and focus group three (n=5). Their ages ranged from 20 to 69 years old. The participants came from the following countries: Canada, Barbados, Grenada, Ivory Coast, Nigeria, and Trinidad. Participants from Toronto, Ontario were members of community and church groups. There were a total of 14 participants (6 males and 8 females) in the two focus groups: focus group one (n=9) and focus group two (n=5). Their ages ranged from 31 to 75 years old. Country of origin included: Canada, Barbados, Jamaica and Dominica.

### Procedure

Focus groups were used to collect data due to the effectiveness of collecting qualitative data through group interaction (Morgan, 1996). Participants of the focus groups were recruited in different ways in order to diversify the sample. Participants in the Tampa focus groups were recruited from various undergraduate and graduate classes during one semester. The focus groups were conducted in a classroom on campus. After the agreement was reached in the focus groups, the participants were debriefed and thanked for their participation.

To recruit the participants in the Chicago focus group, the researchers contacted an African American psychologist with connections to various university faculty members. Compiling a list of psychologists proved unsuccessful within the time frame given, but one of the psychologists was able to aid with a test run, as well as giving advice on trying a church for participant recruitment. The church was able to provide help as five members stated interest. The focus group was conducted at the dining room of the church. The focus group discussions took about one hour. There was only one round for the focus

group and the researcher asked questions while recording the responses using the protocol provided. Discussions took place on each response with a final consensus derived.

To recruit the participants in the Greensboro focus group, the researchers contacted the executives of a local African diaspora community organization. The executives of the community organization then informed the members of the organization about the research and asked those interested in participating to contact the researchers. Ten members of the community organization contacted the researchers about their interest in participating and all ten were invited to participate. The focus group was conducted at a conference room on a university campus. The focus group discussions took about one hour.

The researchers from the different countries followed a detailed protocol to ensure consistency in data collection procedures. In each focus group, the lead facilitator began the focus group with introductions and an overview of the project and the role of the focus group. Participants were assured that the results and their information would be held in strictest confidence and permission was obtained from the participants for the session to be recorded. Discussion among the participants on each of the questions was encouraged by the lead facilitator. After this was done, the second facilitator read responses from the Delphi technique which was conducted prior to the focus groups. Results for the Delphi technique are discussed in Ford, Lituchy, Punnett, Pupilampu and Seijaaka (2013) and Lituchy, Punnett, Thomas, Cruickshank, Oppenheimer, Ford, Pupilampu and Seijaaka (2011). Once the groups provided input on each item and some agreement was reached, rankings were collected and results were collated using the reverse scoring method to determine the mean or the average score.

In order to examine the differences and similarities of the perceptions about leadership effectiveness and motivation of the African diaspora in Canada and the United States, participants were asked to respond to the follow questions: (1) What three to five words/phrases best describes your ethnic or cultural background? (2) What three to five words/phrases would you use to describe an effective leader's personal characteristics? (3) What three to five words/phrases describes what an effective leader does? (4) What three to five words/phrases describes what motivates leaders to succeed? (5) What three to five words/phrases describes what motivates people (other than leaders) to work hard? (6a) What three to five people, men or women, do you consider to be, or to have been, effective leaders (they can be local, national or international)? (6b) What three to five words/phrases best describes why each leader is effective? and, (7) What three to five words/phrases best describes "your culture"?

## RESULTS

The results of the seven questions asked to focus group participants are presented below. The overall means (out of 5) for the most important dimensions for the United States and Canada focus groups are summarized below.

The first and final questions asked about ethnic background and culture. Similarities between the United States and Canada emerged. Participants in both countries described their ethnic and cultural background as: (1) Black [U.S.:  $M=4.08$ ; Canada:  $M=4.11$ ]; (2) Region of origin (e.g. from Africa or the Caribbean) [U.S.:  $M=3.61$ ; Canada:  $M=3.79$ ]; (3) Country of origin (e.g. African American, Ghanaian American) [U.S.:  $M=3.41$ ; Canada:  $M=3.75$ ]; and (4) African [U.S.:  $M=3.00$ ; Canada:  $M=3.78$ ]. Differences between the United States and Canada also emerged. The American focus groups described their ethnic background using the following terms: tribe ( $M=4.17$ ) and multicultural/multiethnic ( $M=3.39$ ). On the other hand, the Canadian focus groups described their ethnic background using the following terms: (1) hard working ( $M=4.00$ ); (2) homogeneity ( $M=3.50$ ); and (3) community life ( $M=3.00$ ).

The final question asked participants, "What three to five words/phrases best describes "your culture"?" No agreement was found between the American and Canadian focus groups. American focus groups stated that the following terms best described their culture: (1) rich in history, stories, and

experiences ( $M=4.00$ ); (2) respectful ( $M=4.00$ ); (3) family-oriented ( $M=3.67$ ); (4) proud/pride ( $M=3.33$ ); (5) loud ( $M=3.60$ ); and, (6) togetherness ( $M=3.50$ ). One Canadian focus group stated that the term “strong” best described their culture.

The second question was, “What three to five words/phrases would you use to describe an effective leader’s personal characteristics?” Similarities between the United States and Canada emerged. Participants in both countries used the following words to describe an effective leader’s personal characteristics: (1) wise/knowledgeable [U.S.:  $M=4.00$ ; Canada:  $M=3.67$ ]; (2) honest/trustworthy [U.S.:  $M=3.33$ ; Canada:  $M=3.00$ ]; (3) visionary [U.S.  $M=3.13$ ; Canada:  $M=3.25$ ]; and (4) effective communicator/good communication skills/good listener [U.S.:  $M=2.90$ ; Canada:  $M=3.00$ ]. Differences between the United States and Canada also emerged. The American focus groups used the following terms to describe an effective leader’s personal characteristics: (1) charismatic ( $M=4.42$ ); (2) influential ( $M=3.67$ ); (3) empowering ( $M=3.00$ ); and, (4) make informed decisions ( $M=2.75$ ). On the other hand, the Canadian focus groups used the following terms: (1) inspirational ( $M=4.5$ ); (2) motivator ( $M=3.5$ ); (3) decisive ( $M=3.33$ ); (4) organized ( $M=3.09$ ); (5) responsive ( $M= 3.00$ ), and (6) team player ( $M=2.5$ ). Interestingly, while charismatic was the most important dimension mentioned by the participants in the U.S. focus groups, inspirational was the most important dimension for the Canadian participants.

The third question asked to focus group participants, “What three to five words/phrases describes what an effective leader does?” Only one similarity between United States and Canada focus groups emerged. Participants from both countries described what an effective leader does as: motivator/influences/motivates others [U.S.  $M=3.17$ ; Canada:  $M=3.73$ ]. There were several differences between the countries. Americans were most likely to describe what an effective leaders does using the following words/phrases: (1) executes a plan ( $M=3.75$ ); (2) inspires others to take action ( $M=3.67$ ); (3) leads by example/mentors/grooms others to lead ( $M=3.64$ ); (4) listens ( $M=2.75$ ). On the other hand, Canadians described what an effective leader does using the following words/phrases: (1) encourages ( $M=4.67$ ); (2) setting a vision/develops vision, goals, objectives, plans ( $M=4.5$ ); (3) lives up to demands ( $M=4.50$ ); (4) takes control ( $M=4.50$ ); (5) adaptively executes ( $M=4.50$ ); (6) leads ( $M=3.75$ ); (7) communicates ( $M=3.67$ ); and (8) delegates responsibilities/tasks ( $M=3.00$ ).

The fourth question was, “What three to five words/phrases describes what motivates leaders to succeed?” Participants in both countries agreed on the following words/phrases: ambition/innate drive [U.S.:  $M=3.25$ ; Canada:  $M=3.50$ ] and money/financial compensation/monetary gains [U.S.  $M=3.21$ ; Canada:  $M=4.50$ ]. Many differences emerged between the American and Canadian focus groups. Americans described what motivates leaders to succeed using the following words/phrases: (1) desire for the very best ( $M=4.00$ ); (2) good support/team support/support ( $M=3.75$ ); (3) passion for people and country/passion ( $M=3.65$ ); (4) well-being of others ( $M=3.00$ ); (5) hope for the future ( $M=2.75$ ); and, (6) better their situation ( $M=2.75$ ). On the other hand, Canadians described what motivates leaders to succeed using the following words/phrases: (1) desire/passion to complete a task ( $M=4.50$ ); (2) heart of the people/empathy ( $M=4.50$ ); (3) incentives ( $M=3.75$ ); (4) recognition ( $M=3.33$ ); (5) state of the community ( $M=3.33$ ); (6) passion for justice/change ( $M=3.25$ ); (7) personal challenges ( $M=3.25$ ); (8) love for the country ( $M=3.00$ ); (9) perceived results ( $M=2.67$ ); and, (10) make a difference/sense of helping ( $M=2.60$ ).

The fifth question was, “What three to five words/phrases describes what motivates people (other than leaders) to work hard?” Similarities between the United States and Canada emerged. Participants in both countries described what motivates people (other than leaders) to work hard using the following words/phrases: (1) desire for a better life/want a better life for yourself and loved ones [U.S.:  $M=4.50$ ; Canada:  $M=3.00$ ]; (2) rewards/promotion/incentives [U.S.:  $M=3.43$ ; Canada:  $M=4.20$ ]; (3) recognition/fame/personal recognition [U.S.:  $M=2.84$ ; Canada:  $M=4.67$ ]. Differences emerged between the American and Canadian focus groups. Americans described what motivates people (other than leaders) to work hard using the following words/phrases: (1) desire for the very best ( $M=4.67$ ); (2)

potential reward ( $M=4.60$ ); (3) personal satisfaction/self-satisfaction ( $M=3.88$ ); and (4) monetary rewards/money ( $M=3.75$ ). On the other hand, Canadians described what motivates people (other than leaders) to succeed using the following words/phrases: (1) upward mobility ( $M=4.67$ ); (2) fear/need for security ( $M=4.67$ ); (3) recognition/fame/personal recognition ( $M=4.67$ ); (4) strong leaders ( $M=4.00$ ); (5) passion/desire to complete a task ( $M=3.58$ ); (6) self-fulfillment/achievement/accomplishment for results/job satisfaction/drive/ personal ambition ( $M=3.00$ ); and, (7) dreams ( $M=3.00$ ).

Question Six had two parts: “What three to five people, men or women, do you consider to be, or to have been, effective leaders (they can be local, national or international)?” and “What three to five words/phrases best describes why each leader is effective?” With respect to Question six (part one), there was agreement among Americans and Canadians that the following leaders (local, national, and international) were effective: Martin Luther King Jr., Jesus Christ, Nelson Mandela, Mahatma Ghandi, and Kwame Nkrumah. Differences also emerged. Americans agreed that Kofi Annan, Adolf Hitler, Bill Clinton, Rosa Parks, Steve Jobs, and Fidel Castro were effective. On the other hand, Canadians agreed that Pierre Elliot Trudeau, Barack Obama, and Wangari Maathai were effective.

With respect to the second part of the question which asked participants to best describe why each leader was effective, there was agreement among Americans and Canadians only on one description: unwavering morals and ethics [U.S.:  $M=3.33$ ; Canada:  $M=4.67$ ]. American focus groups described leaders as effective because: (1) visionary/clear vision an mission/shared vision ( $M=3.94$ ); (2) inspirational/ability to influence others/ influential ( $M=3.88$ ); (3) cares about people/caring ( $M=3.67$ ); (4) accountable/responsible ( $M=3.20$ ), (5) selfless ( $M=3.00$ ); (6) hard working ( $M=3.00$ ); and, (7) peace as utopian goal ( $M=2.67$ ). On the other hand, Canadians only agreed that belief in a cause ( $M=3.67$ ) best described why leaders are effective.

## DISCUSSION

The objective of this study was to examine the differences and similarities in the perceptions of the African diaspora in the United States and Canada about the characteristics of effective leadership and motivation. An emic approach was utilized where the respondents were allowed to: (1) describe their culture and cultural background; (2) define and describe the characteristics of effective leadership; (3) describe what effective leaders do; and, (4) describe what motivates both leaders and followers to do what they do and make sure they succeed. We followed the emic approach to move away from the literature in leadership and motivation that have been largely based on Western cultures, beliefs, and values (Steers, Sanchez-Runde, & Nardon, 2012). Overall, the findings suggest that there are both similarities and differences regarding the way people from the African diaspora in the United States and Canada describe their ethnicity and cultural background, and how they perceive effective leadership and what motivates leaders to succeed.

We find that most of the personal characteristics of an effective leader proposed by the participants in both United States and Canada are similar to those suggested by Implicit Leadership Theory such as, charismatic, wise/knowledgeable, honest, trustworthy, organized, inspirational, and decisive (e.g., Epitropaki & Martin, 2004). However, other characteristics that were stressed by the participants included, being an effective communicator, good listener, team player and a visionary. Thus, this finding suggests that a leader who develops strong interpersonal relationship is important to the African diaspora (Newenham-Kahindi, 2009). The three most important characteristics that were used to describe an effective leader by the African diaspora in the United States were charismatic, wise/knowledgeable, and humble; while inspirational, wise knowledgeable and motivator/motivated were the most important in Canada. While charisma and inspirational are different, both are related to the construct of transformational leadership.

The findings also highlight the diversity among the African diaspora in the two countries in terms of what motivates leaders to succeed. Although participants in both countries described the need to support, monetary rewards and non-monetary rewards were factors that motivated leaders to succeed, the United States participants placed more emphasis on support and non-monetary rewards with the top three being: desire for the best, supporting others, and passion for people and country. The Canadian participants, however, emphasized task completion and monetary rewards with the most important being: desire to complete a task, empathy, and monetary or financial compensation. The participants from both the United States and Canada further see security, potential rewards, and recognition as important motivators for other people, with the diaspora in the United States still focusing on the desire for the very best as critical, while upward mobility was central for Canada.

As with all studies, this study also has its limitations. First, while focus groups were conducted in various locations across the United States and Canada in order to achieve a representative sample of the African diaspora in the two countries, future studies should conduct focus groups in other geographical locations. Second, participants in the United States and Canada samples possessed a minimum of a high school diploma, pursuing undergraduate or post-graduate degrees. Future research should include participants from a broader demographic spectrum. Finally, it was challenging to conduct multiple focus groups with a minimum of five people in each city. In some cases, people confirmed their attendance a day before but did not show up to the specified time. As a result, focus groups had to be rescheduled.

Despite its limitations, we believe this research provides a contribution to the literature, and a basis to further build research. The results of the focus groups are being used to develop a questionnaire for a large-scale study. This research is significant because it limits the Western bias found in much research by using an emic approach and adds to the theory of international management, specifically leadership and motivation. The findings also further support the importance for practitioners to better understand the diversity within their organizations. Managers must understand the role of national culture on what determines effective leadership and what motivates employees. While similarities were found between the perceptions about leadership and motivation among the African diaspora, differences also emerged between the two countries suggesting the importance of cross-cultural differences between the United States and Canada, two countries that share the longest unfortified border in the world.

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#### END NOTE

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## EMPOWERING, COACHING, AND INTERACTING: DEVELOPING INTERPERSONAL LEADERSHIP MEASURES

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### ABSTRACT

In contrast to earlier leadership research the employees' perspective is in focus in this paper. In a unique research design three robust and reliable interpersonal leadership measures, 'empowering', 'coaching' and 'interacting' were developed. A theoretically derived questionnaire was filled out by more than 17,000 respondents, men and women of varying ages, in diverse work positions, at different levels, in various departments, in different companies across several industries, in Europe, North-America, Australia, Brazil, Japan and the Philippines. The measures were later tested, and found reliable, on two sets of international samples totaling 578 respondents from 55 countries (including from Africa, Asia and Latin-America) who collaborated in global virtual teams. To lead and motivate we need to understand employees' interpersonal leadership preferences.

**Keywords:** Cross-cultural leadership, interpersonal leadership, culture, GLOBE, empowering, coaching, interacting

### INTRODUCTION

How can there possibly be a need for a new set of leadership measures? Despite the breadth and depth of the extent literature most studies have a leader-centric research approach where managers, and not those who are being led, respond about leadership. Today it is vital for firms to leverage employees' skills and competencies in pursuit of superior organizational outcomes, and to retain sought-after talent. One way to achieve these goals is to be knowledgeable about employees' interpersonal leadership preferences. More than 7,000 studies of leadership using numerous leadership measures have been carried out since the beginning of the 20th Century (Bass, 1981/1990), from the multi-country comparative studies since the mid-20th Century (see e.g., Haire, Ghiselli & Porter, 1966; Bass, Burger, Doktor & Barrett, 1979), to the large-scale cross-cultural leadership studies emerging in the mid-nineties (see e.g., Peterson, Smith & 21 co-authors, 1995; Brodbeck, Frese & 43 co-authors, 2000; Smith, Peterson, Schwartz & 32 co-authors, 2002; House, Hanges, Javidan, Dorman & Gupta, 2004; Zander, Mockaitis, Harzing & 21 co-authors, 2011).

Our knowledge about leadership has increased immensely due to what Dickson, Den Hartog and Mitchelson (2003:729) refer to as "an explosion in the amount of research on leadership in a cross-cultural context" and to that cross-cultural leadership has emerged as legitimate and independent field of research. However, we can observe that this new wave of leadership literature still remains largely leader-centric, a stance that is criticized (Popper & Druyan, 2001). Even in the most recent multi-country studies of leadership (House et al, 2004; Zander et al, 2011) the respondents who are asked about leadership are mostly middle-level managers. This research approach becomes increasingly inadequate in our contemporary competitive world where firms wish to leverage employees' competence and skills on a daily basis, and in the long term to retain talents. Leadership becomes an important factor and in line with Mockaitis' (2005) argument leaders need to understand the expectations of subordinates to be able to lead in ways which will achieve organizational goals, and additionally lead to successful organizational

outcomes. The notion that managers are reliant on achieving through others and cannot alone harness all of the necessary expertise to excel at work (Stewart 1991; Yun, Cox & Sims Jr., 2006) leads to that understanding employees' leadership preferences takes on an extra layer of urgency. Not just preferences among those who work in countries usually included in research projects, but also venturing to other parts of the world becomes increasingly important, such as to Africa where a recent review by Zoogah and Nkomo (forthcoming) uncovered that not only are there few micro-level studies carried out in an African context, but they also lack depth. And as pointed out by Kamoche (2011) there is an urgent need to understand leadership issues as these will help mobilize talent on the African continent.

The purpose in this paper is to develop employee-based measures of interpersonal leadership. Interpersonal leadership measures how employees want to be led by their immediate managers and supervisors. Interpersonal leadership is not the visionary or strategic leadership carried out at the firm top level, but the leadership of those who carry out the work at all levels throughout the organization. The results from a study of employees' interpersonal leadership preferences will be presented. Three employee-based measures of interpersonal leadership, 'empowering', 'coaching', and 'interacting' are developed based on data collected from more than 17,000 employees in 18 countries. Here it must be mentioned that the data used to develop the measures come from countries in which the multinational companies used as research sites were located, which were countries in Europe, with Brazil, Canada and the United States in the Americas; Japan and the Philippines in Asia; and Australia in Australia-Pacific. To counteract the lack of African countries, and in the vein of adding to our understanding with respect to micro-level leadership in Africa, a sample including respondents from Africa and other non-studied countries was collected in 2008 and 2009.

The reliability of the identified interpersonal leadership measures were tested in these two samples totaling 578 respondents from 55 countries. These respondents collaborated in global virtual teams, whereof 84 came from 9 African countries (Burundi, Ghana, Kenya, Nigeria, Rwanda, Sierra Leone, South Africa, Uganda and Zimbabwe). Respondents from other less-studied countries of the world such as Kazakhstan, Kyrgyzstan, Moldova, and Bosnia and Herzegovina but also Cambodia, Nepal, Iran and Oman, as well as Fiji, French Polynesia, Tonga and Guam are also included, but not in large enough numbers for within-country analyses, but they contribute to the diversity and comprehensiveness of the sample putting the derived interpersonal leadership dimensions to a tough test.

The paper is organized as follows: first a chronological review of leadership studies carried out across countries. The purpose of the review is to identify interpersonal leadership themes which had been found to vary across countries. This is followed by a presentation of the method and statistical analyses employed to develop and test interpersonal leadership measures. Discussion and limitations of the resulting three measures, empowering, coaching, and interacting are addressed before finalizing the paper with concluding reflections.

## **LITERATURE REVIEW**

The literature review resulted in the realization that there is not one single research instrument that focuses exclusively on interpersonal leadership. Many of the reviewed studies had one or two questions within the realm of interpersonal leadership. In order to concentrate my study on interpersonal leadership, while building on existing knowledge, I decided to identify interpersonal leadership themes from the extant literature by focusing on the following two questions: 1) which items could be identified as measuring interpersonal leadership, and 2) did items used to measure those themes vary significantly across countries. The purpose of the review was to identify interpersonal leadership themes that could provide the basis for developing measures which are robust and reliable for examining interpersonal leadership across countries.

Examining the interpersonal leadership related literature in chronological order led to that three time-specific periods of cross-cultural research was identified: 1) studies with a bi-polar view of leadership followed by studies with a focus on leadership continua from the 1960s to early 1980s, 2) studies with a context dependent view of leadership from mid-1980s to mid-1990s, and 3) the large-scale cross-cultural leadership studies from the mid-1990s and onwards. Each time-period will briefly be discussed below:

### **From the 1960s to Early 1980s: The Studies with a Bi-Polar View of Leadership Followed by Studies with a Focus on Leadership Continua**

The studies carried out in the 1960s and 1970s assumed a bi-polar view of managerial practices with autocratic-directive management as one end-pole, and democratic-participative management at the opposite end. Issues such as the exercise of leadership through supervision and influence, participation in decision-making, concern for employees and rewards, and the use of rewards and sanctions as means of control were examined in five to fourteen countries in the Americas, Asia, Europe and the Middle East. (Haire et al, 1966; Tannenbaum, Kavcic, Rosner, Vianello & Wieser, 1974; Redding & Casey, 1976. Bass et al. 1979; Badawy, 1980). Differences across countries, or groups of countries were reported in all studies. A weakness in assuming bi-polar leadership styles, or management models, is that respondents scored participatory preferences on some questions and autocratic tendencies on other questions, but not fully adhering to one type or the other leading to interpretation ambiguities.

Towards the end of the 1970s and the early 1980s, employee democracy and participation issues received an increased attention. Employee participation in decision-making, the decision-making methods managers' use, and the degrees of industrial democracy in terms of employee influence systems were topics in focus in a several multi-country comparative studies (Schaupp, 1978; IDE, 1976 and 1979; Heller & Wilpert, 1981; Bottger, Hallein & Yetton, 1985; Tannenbaum & Rozgonyi, 1986). All studies reported differences across the four to twelve countries included in the surveys. Respondents came from Argentina, the Australia-Pacific region, Europe, India, Israel, Japan and North America. The degree of participation in decision-making also varied with the type of issue to be resolved. Decisions of a more long-term strategic nature would involve less participation of the subordinates than decisions directly related to their work. Unexpectedly, participation in the form of inviting employees' ideas and suggestions was found to be present in organizations not characterized by participatory managerial practices, and vice versa, leading to a differentiation between what was referred to as 'interpersonal participation', a managerial spontaneous practice, and 'participation in decision-making', a managerial system in place.

These studies moved from the earlier bi-polar view to a more detailed description of employee involvement in decision-making along a continuum of degrees of participation. By using sharper measures it was possible to obtain a clearer picture of how perceptions and preferences differed across countries compared to the earlier confounding bi-polar studies. In the leadership continua studies participation in decision-making (including interpersonal participation) dominated, although issues around supervision, concern for employees, and the use of rewards and negative repercussions in form of sanctions were also addressed.

### **From Mid-1980s to Mid-1990s: Studies with a Context Dependent View of Leadership**

The multi-country comparative leadership studies in the 1980s and the 1990s were characterized by scholars' growing concern that the national contexts had an influence on the choices of what leadership aspects to measure and how the items were formulated. Instruments for mapping leadership styles developed in one country were tested in other countries. Al-Jafary and Hollingsworth (1983), and Redding and Richardson (1986) tested an instrument developed in the United States by Likert (1961, 1967) in other countries. The view underlying the Likert studies was that a country level 'system' constituted the

context influencing leadership practices. Adding together scores on a set of statements collected on country-basis enabled identifying one of four systems as characterizing each specific country<sup>1</sup>. The statements covered issues about communication, decision-making and employee involvement, teamwork, review, reward, sanction and control covered, and the responses varied across countries from the Arabian Gulf region, Asia, Europe, and North America. One problem with using Likert's four systems is that countries with significantly different scores across the items still ended up as having the same 'system'. In this way these studies suffer from similar methodological difficulties as the early bi-polar studies, and when adding the items together to compute the score for the Likert-system many relevant comparisons are lost.

A group of international researchers (see e.g., Smith et al, 1989; Smith, Peterson, Misumi & Bond, 1992) tested an instrument developed in Japan by Misumi (1985). Misumi and Peterson (1985) had reasons to believe that conclusions from the Performance-Maintenance (PM) research in Japan may be applicable in the West. A systematic and comprehensive interdisciplinary research program carried out during thirty years in Japan had led to the development of the PM leadership theory (Misumi & Peterson, 1985). The measures differentiated between general leadership functions and specific practices that vary across national contexts. This is one of the few international leadership studies with both employees and managers as respondents. Questions like giving instructions and orders to make employees' work, as well as giving information and reviewing performance, was used to measure P (performance), while M (maintenance) covers support and concern for individuals in combination with soliciting employees' opinions and giving them recognition for their work. The researchers involved in the Western 'arm' of the Misumi-based research project identified a divided P-measure, which they labeled 'Planning-P' and 'Pressure-P'. The latter captured aspects such as manager's use of supervision, rules, regulations, and follow-up of work, which according to Smith et al (1992) were not included in any contemporary Western research at that time. The Pressure-P distinction displayed larger significant differences across countries than the other measures.

In these context dependent studies interpersonal leadership type of issues received more attention than in earlier years. Decision-making and employee involvement followed on the stream of research from the 1960s, which received particular attention in the 1970s. Reviews, rewards, sanctions and control also draw on earlier work but were here studied in more detail and in larger studies, while communication and teamwork seem fresh from the time-period.

### **From the Mid-1990s and Onwards: The Large-Scale Cross-Cultural Leadership Studies**

From the mid-90s and to date, interest in cross-cultural leadership was not just in the air but apparently on researchers' minds, on their desks, in their journals, and literally exploded as expressed by Dickson et al (2003) in their review of the field. Ambitious studies drawing on earlier leadership theories and comparing them across countries were now explicitly attempting to tease out cross-cultural difference through the choice of research design (see e.g. Pavett & Morris, 1995 on comparing degree of participation across plants in five countries), or by formulating culture specific leadership hypotheses and testing these across a selection of countries (see e.g., Bochner & Hesketh, 1994; Suutari, 1996; Offerman & Hellmann, 1997; Mockaitis, 2005). Both task-oriented and relationship-oriented leadership practices including participation in decision-making were measured, and found to vary across countries in these studies.

Smith et al (1992) had emphasized a need to identify general leadership practices that are comparable across countries in order to advance our knowledge. Cross-cultural leadership scholars have worked hard to heed this call; new internationally comparable reliable leadership measures saw the light and large-scale multi-country studies spanned larger parts of the globe than what had earlier been the case. Research zoomed in on what managers do in their work as managers, e.g., managers' reliance on experience, rules, or competence to handle various managerial events (Smith et al, 1994), how they experience their work as managers e.g., role stress and ambiguity (Peterson, Smith & 21 co-authors,

1995), as well as what middle-managers perceive as ideal leadership in the GLOBE project (Brodbeck et al, 2000; House et al, 2004; Dorfman, Javidan, Hanges, Dastmalchian & House, 2012). Another study queries how managers intend to handle specific leadership situations, by using a scenario-based method outlining various situations facing leaders with respect to face saving, rewarding, decision-making, goal setting, conflict resolving and empathizing (Zander et al, 2011).

In all of these large-scale studies significant differences in perceptions, choices and ideals are identified across countries but the respondents are by and large still the leaders, i.e. the managers, and not the led, i.e. the employees. Within the realm of interpersonal leadership task and relationship-oriented leadership, participation in decision making, a concern for individuals and teams, rewards and positive feedback were addressed. Issues such as supervising work, control, follow-up, sanctions and negative feedback have received less attention over time, although these have been shown to vary highly significantly across countries. Despite this impressive bulk of cross-cultural leadership research there is a dire need to examine interpersonal leadership issues in more depth, from the employees' perspective. There is also a general concern that we know too little about employees' leadership perceptions and preferences in many parts of the world, where African countries are among the least represented (if at all) in the extant literature.

## METHOD

### Research Design and Sample used to Develop the Interpersonal Leadership Measures

The data used to develop the interpersonal leadership measures was collected in 18 countries in Europe, North-America, Australia, Brazil, Japan, and the Philippines. The research design involved a main analysis of the data collected from one large multinational company (MNC) in the pharmaceutical industry active in 16 countries (4,573 respondents). The analysis is repeated in a hold-out sample consisting of data collected from 24 companies in the food, candy, brewery, and tobacco industries (11,234 respondents). The hold-out sample covers 13 of countries in the main sample as well as two additional countries. The strength, and uniqueness, of the research design is that the reliable interpersonal leadership measures identified in the main sample are validated in a large holdout sample leading to that the results will hold across several companies and industries in each country, as well as across differing departments, work position, age groups and gender. Data from the following countries are analyzed when developing the interpersonal leadership measures: Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Japan, the Netherlands, Norway, the Philippines, Spain, Sweden, Switzerland, the United Kingdom, and the United States<sup>2</sup>. The total sample consisted of more than 17,000 employees in different age groups, of different gender, working at different departments, holding different work positions at varying hierarchal levels. To avoid that the analysis was influenced by non-local employees a self-categorization question was included in the questionnaire so that the respondents who were not from the country where they were working could be omitted from the sample reducing it to 15,807. The average response rate was around 70% of the respondents.

The two international samples of students collaborating in global virtual teams used to test the developed interpersonal leadership measures among respondents from a wider distribution of countries are described in more detail further below.

### The Instrument

Based on my review of earlier multi-country cross-cultural leadership studies, where no single instrument for studying interpersonal leadership had emerged; I formulated 24 items based on the interpersonal leadership themes (employee participation in decision-making, concern for individuals and teams, communication, directing work including supervision, follow-up, and feedback) which had been found in earlier research to vary significantly across countries. The interpersonal leadership questions

included 19 items measured on a five-point Likert-type of scale varying from 1='not at all' to 5= 'a very large extent', and five items measured on an absolute time-scale with the following five response categories: 'daily', 'weekly', 'monthly', 'yearly' and 'never'<sup>3</sup>. The 24 items together with a set of tenure and demographic-based questions such as at which department the respondents work for, in what work position, their age and gender fit onto the one page of the survey, which the participating multinational companies very generously had placed at my disposal.

The questionnaire used in the survey was developed in British English and translated into eleven languages: American English, Danish, Dutch, Finnish, French, German, Japanese, Norwegian, Portuguese, Swedish, and Spanish<sup>4</sup>. Translation of the questionnaires minimizes the effect of cultural accommodation, i.e. that respondents subconsciously adjust their responses to reflect cultural values related to the language used in the questionnaire, as empirically shown by Harzing, Maznevksi et al (2003), and Harzing et al (2005). Authorized translators translated the questionnaire after which each language version of the questionnaire was back-translated by a mother tongue speaker. Back-translating is a procedure to avoid a language bias of the data recommended by researchers in the field of cross-cultural management (see e.g. Brislin, 1986). The bias does not only occur due to incorrect translations, but also to misunderstandings of specific terms or concepts used in the questionnaire, affecting the 'meaning equivalence'. The back-translation procedure led to a small number of changes, before each final language version of the questionnaire was printed and distributed.

### Statistical Analyses

Another way to achieve 'meaning equivalence' of items studied across several countries is according to Smith and Schwartz (1996/1997), to ensure that the structure of relations among the studied variables is similar within each culture or country, as the meaning of a value is understood in its association with other values or concepts. When similar inter-item relationship patterns have been identified, the items can be added into constructs that can be used for further analysis with more confidence. I conducted Spearman rank correlations within each country separately first in the main sample, and then as a next step in developing the measures I tested the results on the holdout sample<sup>5</sup>. The reliability of the identified constructs within each individual country was examined by computing Cronbach alphas, with the ambition to apply Nunally's (1978) recommendation of Cronbach alpha at 0.7 as a reliability cut-off point, in the main sample and the holdout sample. Additionally reliability across companies, departments, work positions, age groups and gender were also computed.

The methods described above, although straightforward, together with the theoretical derivation of the item could be criticized for not detecting complex and diverse relationships that exist among observable variables in a way that is possible when using factor analysis. Following Leung and Bond (1989), I conducted an individual-level factor analysis with within-country standardized data. The country sample sizes in the study were matched by using weights. All twenty-four items were entered into the individual level factor analysis with all country data pooled into one data-base. A principal component analysis with varimax rotation, and Eigen values above 1 as cut-off point for the number of factors to be extracted, was carried out.

A Multiple Analysis of Variance (MANOVA) procedure was used to determine whether the resulting interpersonal leadership measures vary significantly across countries. As mentioned earlier, in both the main sample and the hold-out sample there is a larger number of respondents in some countries compared to other countries. Subsequently, the MANOVAs were run with both balanced and unbalanced sample designs<sup>6</sup>. Four tenure-based and demographic-based variables were entered simultaneously into the MANOVA to control for any potential effects on the across-country variation in interpersonal leadership measures (totaling 16 categories as follows): department (research & development, administration & finance, sales & marketing, and production & transport), work position

(manager, researcher, supervisor, office staff, factory worker), age (less than 25 years old, 25-35, 36-45, 46-55, and more than 55 years old), and gender (male and female).

### **Additional Samples and Testing Procedures**

The resulting interpersonal leadership measures were as earlier mentioned tested on two international samples. The first was collected in 2008 including 357 undergraduate students, graduate students and a few part-time students/working adults. The respondents were between 18-52 years old ( $M=22.67$ ,  $SD=4.01$ ). The gender divide was fairly equal in the sample with 57.4% male and 42.6% female. The participants came from 44 different countries whereof 60 respondents came seven African countries (Burundi, Kenya, Nigeria, Rwanda, Sierra Leone, Uganda and Zimbabwe). The largest number of respondents came from Colombia, Nigeria, and United States. The respondents participated in a global virtual team competition and worked together for three weeks to develop a business proposal. The respondents filled out a questionnaire which included a section of interpersonal leadership items. Not all items were included due to space reasons. Some of those included had been modified to a team setting, and for technical reasons the time-scale from the original study could no longer be used for five of the items and was replaced with a Likert-scale. Again for technical reasons all items now had 7-points scales compared to the 5-points scales used in the original study. It should also be mentioned that the questionnaire used in this and the 2009 study was formulated in English, the working language in the global virtual teams. To control for any language effects language skills self-evaluation measures were included in the questionnaire. Demographic questions included age, gender, nationality or birth place (and self-evaluated perceived similarity with nationality and/or birth place). The questionnaire was administered virtually via e-mail to all participants in the competition and was voluntary; participants were also informed that participation was anonymous and that only data at an aggregated level would be presented in research reports. The response rate was 76%.

The second sample was collected in 2009 with 216 respondents from 41 countries. The age span is between 18 and 54 years old and the gender divide fairly equal with 51.9% women and 48.1% men. The countries with more respondents were again Colombia, Nigeria, and United States. Given the smaller size of this sample only 25 respondents came from seven African countries (Ghana, Kenya, Nigeria, Rwanda, South Africa, Uganda and Zimbabwe). In this sample more items from the original leadership measures could be included and no change in wording to reflect a team context was carried out. The time-scale for five of the items could still not be included for technical reasons and was as in 2008 replaced with a 7-point Likert scale. Similarly to the 2008 questionnaire all scales were measured 7-point instead of 5-point as in the original study. The language was English, and the same control variables as described for the 2008 questionnaire above were also included in the 2009 questionnaire. Again participation was voluntary, the survey was administered via e-mail and respondents were ensured of anonymity. The response rate was 43% in 2009.

In both samples inter-item relationships were examined and Cronbach alphas were computed to test the reliability of the interpersonal measures for the samples as whole, and within-country for the larger countries.

## **RESULTS AND DISCUSSION**

The results of the statistical analyses of data carried out in the main sample of one MNC active in 16 countries, and thereafter testing the results on 24 companies active in 13 of the 16 countries (plus additional two countries) when developing the interpersonal leadership measures will first be presented. This process generated three robust and reliable measures, 'coaching', 'empowering', and 'interacting' which hold across countries, industries, and firms (as well as departments, work positions, age and gender). The reliability of these three interpersonal leadership measures were again found to hold when

later being tested on two additional samples with respondents from 44 and 41 countries respectively will be presented further down below.

### **Statistical Analytical Results**

The individual-level factor analysis using within-country standardized data pooled together generated four factors surpassing the one Eigen value cut-off point, accounting for 52.4 % of the total variance in the data. Within-country correlation patterns and Cronbach alphas were calculated and examined for each of generated factors. Of the nine items in the first factor six items displayed consistent inter-correlation patterns and reliable Cronbach alpha co-efficients in all countries (see 'Coaching' below). This was not the case for three items pertaining to follow-up and positive feedback, and subsequently they were omitted from further analysis. All five items in the second factor displayed consistent within-country correlation patterns and satisfactory Cronbach alpha measures (see 'Empowering' below). This was similarly the case for the five items in the third factor (see 'Interacting' in below). The items on supervision and negative feedback in the fourth factor however were not found to have consistent inter-correlation patterns or satisfactory reliability measures in the studied countries and were left out the further analyses.

**Coaching.** Six items regarding concern for individuals and teams displayed similar patterns of interrelationship in all countries in both the main and the holdout sample. Interestingly, the interrelationship patterns did not differentiate between the individual and team oriented items. The items were added together and the measure was labeled 'coaching'. The leader should make all the employees 'feel as a part of the team' and 'encourage them to co-operate' in order to 'make the department perform its utmost'. To make all 'employees perform their best', the immediate manager should 'keep them informed' as well as 'take an interest in their careers' (see Table 1 for exact phrasings of the items). The coaching construct is internally consistent in all countries in the main sample with Cronbach alphas of above 0.80 except in four countries where it was above 0.75. Outside my control, the number of questions was reduced in the instrument used in the hold-out sample and I had to calculate the Cronbach alphas with four of the six items ('make employees perform their best', 'informing', 'encourage them to co-operate' 'make the department perform its utmost'). The alphas were more than satisfactory with the reduced number of items with above 0.80 in all but two countries where the reliability measures were 0.73 and 0.76.

**Empowering.** The five items on participation in decision-making and interpersonal participation displayed a similar pattern of interrelationship in all countries in both the main and the holdout sample. This contradicts some of the earlier research findings that participatory practices in form of taking advice from the subordinates and appreciating their initiatives were present where management systems of employee participation in decision-making were lacking and vice versa. In my study, employees who preferred one form of participation also preferred other forms to a similar extent. Correspondingly, employees' who did not want their managers to engage in one form of participation in decision-making also displayed less preference for other forms of participatory managerial practices. Five items were added together and labeled 'empowering' as these represent the ideas of enabling and empowering employees (Stewart, 1991). Empowerment is carried out by 'delegating responsibility' to the employees and by giving them the possibility of 'discussing strategies' and 'sharing decision-making processes'. In order for this to work, employees also need to be enabled, which is done by supporting their development by 'appreciating their initiatives' and 'taking their advice' (for the exact phrasing of items see Table 1). The empowering construct was internally consistent in all studied countries in the main sample with Cronbach alphas above 0.74 for all countries except one of 0.69. The number of questions in the questionnaire used in the hold-out sample had to be cut down again for reasons outside my control. Consequently, I had to calculate Cronbach alphas for the empowering construct in the hold-out sample using only the following two items, 'delegating responsibility' and 'appreciating their initiatives'. As

expected when based on only two of the five original items the Cronbach alphas are slightly lower but above 0.60 in all, but five countries, and deemed as satisfactory.

**Interacting.** The items loading together in the third factor measure preferences for manager-employee interaction with respect to supervising, reviewing, general communicating, personal communicating and proud-making (for the exact phrasing of items see Table 1). Examining the Cronbach alphas revealed internal consistency measures of above 0.7 in seven countries and 0,6 in eight countries with 0.57 in only one country in the main sample. The results in the hold-out sample were even stronger with above 0.8 in two countries, above 0.7 in ten countries and above 0.6 in four countries. The two additional countries also displayed alphas of above 0.75. At a meta-level these items capture the preferred frequency of interaction between manager and employee and can be seen as a measure of interaction intensity. What is important is that the items used to measure the construct involve different types of interaction, but together they indicate a preferred frequency of interaction. Some employee would like to frequently interact with their immediate managers and wanting leadership and communication about all sorts of different issues such as supervision, review and perhaps positive feedback in form of being made proud of the work that they have done. A third reliable construct, 'interacting,' is thus added to the other two; empowering and coaching.

The results of the MANOVA analyses with data from both the main and the hold-out sample confirm that the three interpersonal leadership constructs vary across the studied countries at less than the 0.1% significance level.

**TABLE 1**  
**Interpersonal Leadership Measures<sup>1</sup>**

<b>Coaching</b>	<p><b>To what extent should your immediate manager...</b></p> <ul style="list-style-type: none"> <li>• take an interest in your career?</li> <li>• make you do your utmost?</li> <li>• inform you about department/section plans and aims?</li> <li>• try to make you feel part of a team?</li> <li>• make your department perform its utmost?</li> <li>• encourage co-operation between associates/co-workers?</li> </ul>
<b>Empowering</b>	<p><b>To what extent should your immediate manager...</b></p> <ul style="list-style-type: none"> <li>• delegate responsibility to you?</li> <li>• share decision-making with you?</li> <li>• discuss company strategies with you?</li> <li>• take advice from you?</li> <li>• appreciate you taking the initiative?</li> </ul>
<b>Interacting</b>	<p><b>How often should your immediate manager...</b></p> <ul style="list-style-type: none"> <li>• and you communicate with each other?</li> <li>• take an interest in and talk about your personal life with you?</li> <li>• make you feel proud of your work?</li> <li>• supervise your job in detail?</li> <li>• review your achievements in comparison with your job objectives and expectations?</li> </ul>

<sup>1</sup> Scales used to measure the items. 'Extent': 1="not at all"....5="to a very large extent", and 'how often' (time): 1=daily, 2=weekly, 3=monthly, 4=yearly, 5=never

### Testing the Interpersonal Leadership Measures

The three interpersonal leadership measures were put to a challenging reliability test. The collected data for the tests did not come from respondents who were employees in multinational companies, but from students collaborating in global virtual teams during a three-week competition. Given the team context the items measuring empowering had been changed in the 2008 study, the scale for the five items measuring interacting had been changed in both the 2008 and the 2009 studies, and as earlier mentioned not all items were included in the 2008 and 2009 questionnaires.

In the 2008 questionnaire the coaching construct was only measured by two of the six original items, while the empowering and interacting constructs were measured with four out of the original five items. Despite these limitations the Cronbach alphas computed using data from the whole sample were reliable with 0.70 for coaching and 0.74 for empowering, with interacting slightly lower at 0.64 but deemed satisfactory given that it was measured by one item less than in the original study. In year 2009, coaching was measured with five of the six original items, instead of only two, rendering as could be expected a higher Cronbach alpha of .85 when tested on the whole sample. Similarly, measuring interacting with all five original items on the whole sample also led to a higher Cronbach's alpha than that in 2008 with .76. Empowering was still measured with four of the original five items but the original phrasing of the items was used instead of adapting them to the team context, which had been done in 2008. This could perhaps explain the slightly lower but still reliable Cronbach's alpha of .70 on the whole sample.

In both years (although less so in 2009) there were larger groups of respondents from Colombia, Nigeria and the United States. The first two countries are of particular interest as they were not included in the original study. Computing the within-country Cronbach's alphas demonstrates the measures' reliability overall in the three countries in 2008 and 2009. In Colombia based on 70 respondents in 2008 and 48 respondents in 2009 coaching was .77 and .81 respectively. Empowering was .82 and .60, where we believe that the lack of adapting the items to the team context could provide an explanation for the lower alpha in 2009. The alpha for interacting increased in 2009 to .72 from .64 in 2008 as could be expected when all five items were used to calculate the construct. For Nigeria it must be noted that the sample in 2009 was exceptionally small with only ten respondents compared to 31 respondents in 2008 and the findings can only be seen as tentative. Coaching displayed alphas .80 and .81 for 2008 and 2009 respectively, and empowering was .60 and .89, all satisfactorily. Interacting, however, had an alpha of .77 in 2008 but only displayed a low .55 in 2009. Here it is difficult to know whether this is related to the small sample, the change of scale or whether it is a reliability problem. More tests are needed to sort this out, although the strong reliability measure from 2008 is encouraging and points toward other explanatory factors than reliability problems. Within-country Cronbach alphas were also calculated for the US sample. Coaching had .77 in 2008, and .92 in 2009, empowering was reliable but with a slightly less alpha coefficient in 2009 at .71 compared to .75 in 2008., and for interacting the Cronbach alpha was .64 in 2008 and .74 in 2009.

Examining reliability of the three interpersonal leadership measures revealed a surprisingly strong empirical support for coaching, empowering and interacting given the distinctly different context compared to that used to develop the three measures. The respondents in the 2008 and 2009 sample were students who collaborated to develop a business proposal in a competition that lasted three weeks in global virtual teams. They were not working in a multinational company, and they were not expressing their preferences for interpersonal leadership from an immediate manager. Instead the respondents indicated their preferences regarding interpersonal leadership when interacting within a global virtual team context. Furthermore, these samples were highly diverse including respondents from 44 and 41 countries respectively, whereof many come from countries not having received a lot of attention in earlier research. The broad range of national and cultural diversity in the samples spans from the islands of the Southern Pacific, to the more isolated and remote parts of Europe and Asia as well as including

many countries in Africa, such a diverse samples poses real challenges to any attempts to assess reliability. That coaching, empowering, and interacting were found to be reliable in both the 2008 and 2009 samples, in the diverse sample as a whole, and in the within-country analyses of those countries where this was possible to gauge, vouches for the robustness of these three interpersonal leadership measures across different countries and work contexts. These are welcome additions to the earlier reliability tests across countries, firms, industries, departments, age groups, and gender. The 2008 and 2009 assessments are a welcome support for the robustness and reliability of the three interpersonal leadership measures, coaching, empowering, and interacting.

### **Limitations**

I have taken care to develop measures that are reliable and robust across countries by validating findings from a main sample of a pharmaceutical MNC active in 16 countries on a hold-out sample of 24 companies in the food, candy, brewery, and tobacco industries in 15 countries. The developed measures were, however, limited to the countries, industries and companies included in that study. Although the sample includes both women and men in differing age groups working in different hierarchical work positions at different departments, or across different work contexts and the study covers more tenure- and demographic-based employee categories than many other studies, the measures were limited to these specific categories.

As the sample outside Europe and North America only included Australia, Brazil, Japan, and the Philippines the developed interpersonal leadership measures were also reliability assessed on two large international samples collected in 2008 and 2009. Putting the interpersonal leadership measures to test in samples predominantly consisting of respondents from earlier untested countries led to strong support for the measures on the samples as whole and some very encouraging results with respect to the within-country reliability assessments. The reliability of the interpersonal leadership measures in Brazil, Japan and Philippines, together with Colombia and the reliability of the overall student global virtual team samples are encouraging and points hopefully towards similar results in their neighboring countries. As I have only have limited data from countries in Africa it is harder to predict the results in these countries, but the findings hitherto in Nigeria and the overall sample with respondents from Africa points tentatively in the same direction.

### **CONCLUDING REFLECTIONS**

In our global multicultural world there is a need for new leadership measures not only because employees are becoming more important and recognized as critical and competitive advantages that firms are reluctant to lose, but also because the extant literature will largely inform us what the leaders across the world think about leadership, but not about how those who are 'led' prefer (or not prefer) to be led. We need employee-centered measures that build on employees' interpersonal leadership preferences to understand how those who carry out the work at every level in the organization view leadership, and even more importantly how they prefer to interact (or not) with their immediate managers. It seems a far stretch to assume that leaders' leadership ideals are the same as employees' leadership preferences. Further research projects could embark on studies comparing and contrasting leaders with those led, as well as new generations' needs, sources of motivations, and aspirations to more fully grasp what is important to those who carry out most of the work in any organization that we see around us.

Understanding employee preferences becomes critical to firms (and other types of organizations) wishing to realize employee potential, leverage their skills and competencies in pursuit of superior organizational outcomes, and to retain sought-after talent and in this paper we posit that one way to achieve these goals is to be knowledgeable about employees' interpersonal leadership preferences.

Three robust and reliable interpersonal leadership measures, empowering, coaching, and interacting have been developed and tested. These can be used in international management to bring further clarity as to how employee preferences regarding interpersonal leadership vary across national and cultural borders, and what is expected of leaders from employees across the globe.

Finally, what remains an important ambition in future research is to provide insights into an understanding of the antecedents to, and implications of, interpersonal leadership in different cultural regions. Would it be possible that empowering, coaching and interacting could connect to, and make sense in the context of leadership philosophies such as servant leadership with its understanding of the role of the leader as being of service to the follower (see Greenleaf, 1977/2002)? Servant leadership has been put forth as having its roots in ancient Chinese and Indian philosophies. Another leadership philosophy of interest is Ubuntu where the focus is on interconnectedness of self within society and the extension of humanness, the reach of Ubuntu extends throughout East, Southern, and Central Africa (Brubaker, 2013). Raising questions as how, if at all, empowering, coaching and interacting would be perceived and made sense within the Ubuntu philosophy? Understanding employees' interpersonal leadership preferences may perhaps even make it possible for us to understand what will inspire employees to work and create together in the increasingly multicultural organizations and societies in our near future.

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## END NOTES

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<sup>1</sup> Likert's four systems are: 1) exploitative authoritative, 2) benevolent authoritative, 3) consultative, and 4) participative. These four systems were later referred to only by the more neutral numbers as labels, i.e. system 1, system 2 and so-forth..

<sup>2</sup> Canada is only included in the main analysis as no data-collection was carried out in Canada for the holdout sample. Australia and Spain are only analyzed in the main sample as the sample size in the holdout sample was too small to be included in the statistical analysis. Brazil and the Philippines are only included in the hold-out sample as no data was collected in these countries for the main sample.

<sup>3</sup>The response categories on the absolute time scale were coded as follows: never=0, yearly=1, monthly=11, weekly=48 and daily=240. A proxy for the number of days for weekends, vacations, and public holidays was withdrawn from the calculation of the number of days to derive the coding above.

<sup>4</sup>In the Philippines, English and one of the local languages 'Pilipino' (Tagalog) are the two official languages. From the company it was decided to only supply questionnaires in one of the official languages, English and no local language translations were carried out.

<sup>5</sup>The results from the correlation analysis includes four tables of correlation coefficients, one for each area of items, for each country in the main sample respectively the hold-out sample, i.e. 116 tables with a total of 1,294 correlations that are not possible to include in this paper due to space limitations. Please refer to the author for copies of the tables.

<sup>6</sup>In the balanced design, 135 respondents were randomly selected from the countries with 135 or more respondents, while the other country samples were omitted. The following nine countries were included: France, Germany, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom, and the United States. In the hold-out analysis, Brazil and the Philippines were also included in the balanced sample design. In the unbalanced design, all countries were analyzed and those with fewer than 135 respondents, i.e., Australia, Austria, Belgium, Denmark, Canada, Finland, and Switzerland were also included in the analysis. As mentioned earlier Australia, Belgium and Canada were not included in the hold-out sample.

## HUMAN CAPITAL MANAGEMENT: TAKING HUMAN RESOURCES MANAGEMENT TO THE NEXT LEVEL IN ANGLOPHONE WEST AFRICA

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### ABSTRACT

Human capital is critical to an organization's survival. While organizations in advanced countries are focusing their attention on building their human capital for the sustenance of competitive advantage, those in Anglophone West African countries lag behind. This study suggests effective management of human capital as the way forward. Human capital, resource-based and open systems theories are used to highlight the importance of human capital management for organizational effectiveness. The paper adopts a conceptual approach, and proposes a human capital centered model comprising six core factors that are vital in facilitating effective human capital management for sustainable competitive advantage. It concludes by emphasizing effective research collaboration between academia and industry and suggests areas for future research.

**Keywords:** human capital, performance, competitive advantage, resource based theory, open systems theory, collaboration.

### INTRODUCTION

*It simply is not possible to have the fruits of a modern agriculture and the abundance of modern industry without making large investments in human beings*

*–Schultz 1961*

Globalization of trade has raised the level of competition in most industries in the world. Consequently, in an attempt to have a competitive edge and be able to compete both nationally and globally, organizations are becoming knowledge based and have turned their attention to effective utilization of human capital for superior performance (Kwon, 2009; Lawler & Worley, 2006; OECD, 1998) unlike what pertains in Anglophone West Africa (AWA) where it lags behind in terms of its human capital management (HCM). According to Blanke, et al. (2011) human capital with higher education in Africa including AWA is extremely below international standards. Consequently, the need for organizations in AWA countries to pay more attention to effective management of their human capital cannot be overemphasized since it is the prerequisite for high performance and success. Successful organizations in developed countries are focusing on the attraction, acquisition, nurturing, effective utilization and retention of the best human capital available for the sustenance of success (Bartlett & Ghoshal, 2002; Morris & Calamai, 2009; Schuler & MacMillan, 1984).

Regional organizations in developed countries for instance, Organization for Economic Co-operation and Development (OECD) made up of 30 countries including USA and the United Kingdom have come out with strategies for effective management of their human capital for the economic growth of member countries (Keeley, 2007; Kwon, 2009; OECD, 1996; OECD, 1998). Although there are regional organizations in Africa including the African Peer Review Mechanism (APRM) they lack research capacity in several key areas including funding and adequate human capital (Kanbur, 2008) to undertake research especially in human capital management (HCM) for the economic development of member countries. Literature on effective management of human capital in Sub-Saharan Africa including AWA countries is also sparse, and those that are available pay more attention to culture, corruption and the need to Africanize Western management practices –indigenization or hybridization (Abudu, 1986; Edoho, 2001; Jackson, 2002; 2004; Kamoche, 2011; Mufune, 2003; Nnadozie, 2001) to the neglect of how to particularly focus on HCM for improved productivity.

The purpose of this study therefore, is to suggest ways firms in AWA countries can tackle their HCM challenges in order to attain a competitive edge and also position themselves globally. Our objective is not to offer a standard recipe for HCM in organizations in AWA, but to lay a foundation upon which firm specific human capital can be managed for competitive advantage. This paper strives to find answers to two major questions –What must organizations in AWA do to attract, acquire, develop and retain human capital? How can organizations maximize the use of their human capital to make decisions that are congruent to their unique strategies, organizational context and competitive environment in order to become agile as well as gain competitive advantage?

This study employs a conceptual approach to investigate the elements of effective HCM using case illustrations. The utilization of case studies for illustration in research is recognized as a useful approach that meets the subtleties of rigor (Patton, 1990; Stake, 1998; Yin, 2003).

We believe this study aligns with organizational behavior and human resource management track of the Africa Academy of management in that it draws attention to the importance of human capital management in AWA countries, which is the key to the emancipation of their economies, improve their standards of living and promote development. It also lays the foundation for sustainable development in Africa through effective human capital management since there is sparse conceptual and empirical literature concerning human capital management in Africa –AWA countries.

Over decades to present, international agencies and world bodies, including the United Nations and the World Bank have embarked on technology transfer activities in areas such as technical and social knowledge and innovations in the form of disease control and eradication programs, agriculture, public sector reforms and poverty reduction in third world countries including AWA. These activities take the form of basic skill building, team building, system building, process analysis, diagnostic activities, coaching and counselling, inter-group activities, strategic planning and techno-structural activities (Golembiewski & Luo, 1994; Kudonoo, 2013; Tenkasi & Mohrman, 1999). These attempts over the years have helped organizations and communities in AWA countries to achieve some levels of successes (Blanke, et al., 2011; Chuhan-Pole & Angwafo, 2011; Kudonoo, 2013; McKinsey Global Institute Report, 2010) but, lacks effective management of human capital to sustain and improve on the successes achieved (Blanke, et al., 2011). Schultz's (1961: 16) statement "*The man without skills and knowledge leaning terrifically against nothing*", paints a vivid picture of the prevailing situation in AWA countries.

The stance we take here is that the basic skills acquired by individuals during interventions in AWA countries are inadequate for the sustenance of past successes and continuous development. A typical example is the case study of the Community-based Health Planning and Services (CHPS) initiative in Ghana (Nyonator, Awoonor-Williams, Phillips, Jones & Millar, 2005). Although the experiment was successful in Navrongo, and successfully replicated in Nkwanta district in Ghana, its implementation in most communities in the country was not as successful as anticipated because those expected to do so failed to thoroughly follow the procedure employed in the two districts the experiment was conducted.

The situation could have been different if attention was paid to effective development of the human capital of those expected to initiate and facilitate the change and measures taken to ensure that the institutionalized procedures were followed.

Another case illustration is the transfer of participatory farm management practices implemented by Dorward, Galpin, and Shepherd (2003), a project sponsored by the UK Department for International Development (DFID). They employed a local game called “oware” in the design of a research project that investigated the appropriateness of green manuring in wet season vegetable production in Bepoyease and Akrobi near Wenchi in Ghana. Although findings of the research showed the usefulness of the approach for better farm management, farmers and agricultural extension officers’ human capital are yet to be developed to the level that will enable them to build upon the knowledge and experience gained during the research for improved use of green manuring for better farm management. Other examples where interventions by international bodies fall short of effective human capital development include the revamping of the tourism sector in the Gambia and banking industry in Nigeria. The appreciative inquiry methodology was employed to revamp the tourism industry in the Gambia, but the intervention did not factor in the development of human capital to enable beneficiaries to continue to improve on what they have learnt. The case study concerning the banking industry in Nigeria also revealed that although there was some improvement in the sector, much attention was not paid to effective human capital management (Shehu & Izuchukwu, 2011). We therefore posit that efforts being made to transfer technical know-how to people in AWA countries seem to remain at the basic level, and thereby creating a human capital gap that needs to be addressed. As a result, we are advocating for an aggressive approach to HCM in AWA countries for high productivity and improved services.

Although literature reveals that there has been consistent growth in Africa for over a decade the whole region according to Arbache, Go and Page (2008: 68), “lags at least 20 percent behind the average infrastructure measures” with low quality of services. Blanke et al., (2011) also noted that, whereas students in tertiary institutions in rapidly growing economies such as Korea and China are pursuing courses in science, engineering, technology and business most students in Africa on the other hand are pursuing courses in humanities to the neglect of those that promote development. Literature also reveals shortfalls in educational systems in Africa –AWA countries. For instance tertiary institutions offer programs to students that lack entrepreneurial skills development, resulting in graduates lacking risk taking, creativity and innovative abilities. Collaboration between tertiary institutions, local research institutions and industry concerning the development of the right human capital is also deficient, leading to a gap between theory and practice and lack of knowledge concerning how to effectively manage human capital for organizational effectiveness (Kudonoo, Buame & Acheampong, 2012; Obiakor, 2004). Accordingly, we postulate that the infrastructure of AWA countries and quality of services as well as manufacturing of products can be improved if special attention is paid to the development and effective utilization of the human capital needed to resolve specific firm and industry issues.

The paper is organized in the following manner. We briefly discuss the background of AWA countries and review literature on human capital in relation to resource based, open systems theories and point out the importance of HCM in AWA. Next we discuss a proposed model with six core elements, throwing light on how organizations in AWA can effectively manage their human capital. We conclude by discussing implementation strategies for sustained success and suggest areas for future research.

### **Why Anglophone West African Countries**

Attention is paid to AWA countries due to the following reasons. AWA is made up of five English speaking countries in West Africa. They are Nigeria, Ghana, The Gambia, Sierra Leone and Liberia. Nigeria is the most populous and largest country on the African continent. Its consumer spending combined with that of South Africa amounts to 51% of the whole continent (Hatch, Becker & Zyl, 2011; Blanke, et al.,

2011). The Gambia is the least populous. Sierra Leone and Liberia are recovering from civil wars. Ghana is one of the first countries on the continent to obtain independence from colonial rule. It has been currently classified with three other African countries (Ghana, Kenya and Senegal) as one of the countries having transition economies (McKinsey Global Report, 2010) and asserted to be an island in a region of turmoil. All five countries are endowed with rich natural resources, but categorized as less developed (Kudonoo, 2013; Maher, 2011; Remmert-Fontes, & Ngeba, 2006). Table 1 provides an overview of the status of AWA nations as indicated by world bodies such as the World Bank.

A critical look at Table 1 shows that all five countries have their human development index below 0.5, which places them in the category of underdeveloped countries. Moreover, none of the AWA nations have adult literacy rate above 70%, which is a contributing factor to the existing human capital gap. If AWA countries must continue to compete in trade with countries such as China that has 90% adult literacy rate, a situation regarded as one of the factors contributing to its fast pace of growth (Keeley 2007), then their human capital gap must be bridged. In this perspective, what theories underlie the concept of human capital? What is human capital? What are its characteristics and how does it contribute to productivity? The next section discusses answers to these questions focusing on the aspects of the relevant theories.

*Education is not the filling of a pail, but the lighting of a fire –Yeats*

### **THEORIES THAT UNDERLIE HUMAN CAPITAL MANAGEMENT**

According to human capital theory, any stock of knowledge, skills and characteristics of workers in the form of innate or acquired contributes to their productivity as a result can be regarded as human capital. The theory further states that human capital can appreciate or depreciate depending on its development and usage. It appreciates when an individual's knowledge, skills and competencies are in constant use and upgraded to meet the changing requirements of one's job. On the other hand, it depreciates when one is out of work over a period of time or is unable to upgrade his/her skills, knowledge and competencies to meet the changing requirements of one's job –thus using old ways to resolve current issues leading to unsatisfactory results (Becker, 1964). This situation exist in organizations in AWA countries where some employees work for decades and go on retirement without building on the qualifications they used at their point of entry apart from the experience they gained on the job.

According to Westphalen (1999) human capital is “knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances” (p. 4). This definition encapsulates our perspective of human capital because we perceive human capital as the total make up of an individual, which encompasses knowledge, skills, competencies, attitudes, appearance, reputation and credentials that enable that individual to achieve excellence in all areas of an assigned task as well as contribute ideas for organizational success and national development.

Human capital positively impacts the individual, organization and society. Individuals whose human capitals are developed become highly productive and their productivity impacts on their organizations leading to increase in individual and organizational revenue. Society as a whole consequently benefits because the standard of living of its people improve due to higher income levels as a result of human capital. Human capital is categorized as general (transferable across jobs and industries. – can be referred to as general skills and competencies) and specific (firm or task specific). Firm specific human capital has to do with the core values and general skills of a firm that enable employees to perform in a specific firm, whereas task specific human capital enables one to perform a specific task that makes up one's job. Firm specific human capital enhance one's performance and increase productivity in a firm, however, it is not transferable to other firms or industries. Likewise, task

specific human capital increases an individual's productivity on a specific task in a firm but it is also not transferable to other tasks in the same firm, or other firms and industries (Crook, Todd, Combs & Woehr, 2011; Gathmann, 2010; Kwon, 2009).

According to Schultz (1961) human capital is the bedrock of all developmental activities. It contributes immensely to the socio-political development and freedom of every nation. He emphasized its importance by stating that assistance given to underdeveloped countries to help them achieve economic growth must necessarily include HCM. He argues that assistance to underdeveloped countries to expedite their economic growth by world bodies including the World Bank is one sided and does not

**TABLE 2**  
**Summary of Economic Background of AWA Countries**

<b>Country</b>	The Gambia	Ghana	Liberia	Nigeria	Sierra Leone
<b>National language</b>	English	English	English	English	English
<b>Population</b>	2011= 1,796,830	2011= 24,965,816 million	2011 = 4.129 million	2011= 162.5 million	2011= 5,977,770
<b>Income Level</b>	Low	Lower-Middle	Low	Lower-Middle	Low
<b>Adult literacy rate</b>	2008= 45.3%	2008= 65.8%	2008= 58.1%	2008= 60.1%	2008= 38%
<b>Primary School Enrolment</b>	2007/2008= 69%	2008-2009= 76%	2006= 39%	2006-2007= 61%	2003-2004= 85%
<b>Poverty Headcount ratio</b>	2010 = 48.4%	2006= 28.5%	2007= 63.8%	2004= 54.7%	2003= 66.4%
<b>Under - 5 mortality rate</b>	2008 = 106	2008= 76	2008= 144	2008= 186	2008= 194
<b>Life expectancy ratio</b>	2011= 58 years	2011= 64 years	2010= 56 years	2011= 52 years	2011= 48 years
<b>HDI</b>	2010= 151	2010= 130	2010= 162	2010= 142	2010= 158
<b>HD1 value</b>	2010= 0.39	0.467	2010= 0.300	2010= 0.423	2010= 0.317
<b>GDP</b>	2011= \$1.109 billion	2011=\$39.20 billion	2011= \$1.161 billion	2011= \$235.9 billion	2011= \$2.243 billion
<b>GDP increase</b>	2000-2009= 5.0%	2000-2009= 5.3%	2008= 7.1%	2000-2009= 5.8%	2000-2009= 10.1%
<b>GDP growth</b>	2009= 4.6%	2009=3.9%	2009= 4.1%	2009= 2.9%	2009= 4.0%
<b>GNI</b>	2011= \$610	2011= \$1,410	2011= \$240	2011= \$1,200	2011= \$340

Adapted from Kudonoo, 2013. Original source: Maher, 2011; <http://data.worldbank.org>

include human capital development, which is central to the sustainability of successes. He further explains that although some growth may occur, the lack of knowledge, skills and competencies will not promote further growth. Consequently, he states "it simply is not possible to have the fruits of a modern

agriculture and the abundance of modern industry without making large investments in human beings” (Schultz, 1961, p. 16). We concur with Schultz’s statement, which sums it all. Some levels of successes are being achieved in the numerous interventions taking place in AWA countries due to international non-governmental organizations (NGOs) and donor agencies’ activities.

Keeley buttressed Schultz’s (1961) assertions by explaining that “the human capital of individuals act as a giant invisible hand that pushes economic resources towards their most productive use” (2007, p. 28). This giant hand is needed in AWA countries to push their abundant natural resources towards more productive use for economic growth. The proposed human capital centered model gives guidelines concerning how organizations in AWA can build their human capital and turn them into giant hands pushing them into continuous successes.

The resource-based theory emphasizes the uniqueness of firms and suggests that, the key to profitability and competitive advantage is to develop and maximize the use of human capital in a different way than competitors do (Barney, 1991; Crook, et al., 2011; Grant, 2010). AWA countries need unique human capital tailored to suit their unique cultures and ways of doing business but at the same time capable of meeting the demands of their external environments. The theory states that, for a resource to be used to achieve competitive advantage, it must be rare, valuable, imperfectly imitable and not substitutable. It also emphasizes that human capital at management level must be rare so as to promote the formulation and implementation of strategies that cannot be emulated by competitors (Barney, 1991). This explanation corresponds with the one given to firm and task specific human capital earlier on. It therefore implies that in utilizing human capital for a competitive advantage, that human capital must not be readily available in the labor market, but firms must develop their own unique human capital through firm and job specific training to meet specific needs and thereby making their human capital scarce and relevant to address the key success factors of the targeted market. These key success factors are obtained from the results of analysis of demand leading to the identification of the firm’s specific clients, and their needs (Grant, 2010, p. 89). Consequently, human capital is relevant if the right people are acquired, properly trained, assigned the right tasks, appropriately rewarded and constantly upgraded to solve present and anticipated problems in the internal and external environments of organizations in AWA. This is the crux of the “Human Capital Centered Model” proposed in the later part of this paper.

Another theory that underlies the effective management of human capital is the open systems theory. The theory according to Katz and Kahn (1978) states that organizations are systems that have permeable boundaries which enable them to interact with their external environments where all the resources (inputs) needed for production including human capital are obtained. The interacting nature of systems provides information and resources that enable the systems to either thrive or to become extinct. Although firms in AWA countries are interacting with their external environments (developed and emerging economies) in various activities including education, conflict reduction, better farm management practices, environmental health and sanitation, disease eradication and gender issues, they are still lagging behind in terms of economic development. The feedback concerning human capital received from the external environment show they are performing below international standards. We propose a paradigm shift from the traditional way of managing human resources in Ghana and AWA as a whole to HCM, and suggest the use of the human capital centered model for obtaining results. 21<sup>st</sup> century consumers are becoming very enlightened due to knowledge explosion and technological advancement resulting in a high demand for improved goods and services (Lawler, Worley & Creelman, 2011). This demand can only be met if firms in AWA effectively manage their human capital for the production of goods and services that meet consumer expectation.

In AWA countries, there are certain cultural influences that inhibit performance, contrary to what human capital, resource-based and open systems theories stand for concerning productivity. Examples of such practices include subordinate compliance and loyalty to their superiors even if their actions inhibit

organizational progress, the negative effects of personal connections and relationships, time mismanagement and work ethics (Abudu, 1986; Edoho, 2001; Kuada, 1994; Nnadozie, 2001; Kudonoo et al., 2012). These practices on the contrary, can be employed positively to facilitate high productivity rather than allow them to inhibit development (Nnadozie, 2001). The proposed Human Capital Centered Model throws more light on how to overcome cultural bottlenecks to boost productivity through HCM.

*The human capital of individuals act as a giant invisible hand that pushes economic resources towards their most productive use – Keeley, 2007*

### **HUMAN CAPITAL CENTERED MODEL FOR AWA COUNTRIES**

Based on the human capital gap and the three theories discussed, we propose a model (figure 1), made up of six core elements indicating how human capital can be effectively managed in AWA countries for sustainable competitive advantage. The underlying factor of the model is that human resources managers should work closely with Chief Executive Officers (CEOs) to bring into realization organizations' strategic goals through compelling human resources strategies. The model therefore, takes into consideration local practices of AWA countries and builds on its positive aspects for transformation. It is made up of elements such as *attract, acquire, network, grow, manage, and reward*. These core elements are joined with feedback loops that make room for necessary adjustments when outcomes at a stage fall short of expectations. Figure 1 provides an illustration of the processes linking one step to another.

#### **Attracting the Right People (Attract)**

The first and most important step in the model is to attract the right people. Firms in AWA countries therefore must create cultures that naturally draw people to them to enable them generate a pool of prospective employees. The services of full time recruitment experts can be employed for this purpose. Their duties include continuous searching and linking with experts in the industry in order to attract the right people for employment. Advantage can also be taken of retrenched staff of other companies whose values and human capital correspond with that of the firm. Create environments that promote learning, belongingness, trust, and openness, which lead to satisfied employees. Generating a pool of applicants also requires firms to spread their net to every level and from every source available. Tertiary institutions, technical and vocational schools need to align with industry, and tailor their courses to suit the needs of industry so as to produce the right caliber of people for industry. A positive example exists in Unilever (which operates in AWA countries) and Volta Aluminum Company in Ghana where they have positioned themselves to attract the right pool of applicants (Puplampu, 2004). Another way of generating a pool of applicants is employee referral. This approach is reliable if managed effectively because it leads to conscious, emotionally stable, confident, longer tenure employees who are able to adjust and fit into the organization faster (Barrick & Zimmerman, 2009) because the referrer can serve as an emotional support for the referee.

#### **Acquiring the Best from the Pool of Applicants (Acquire)**

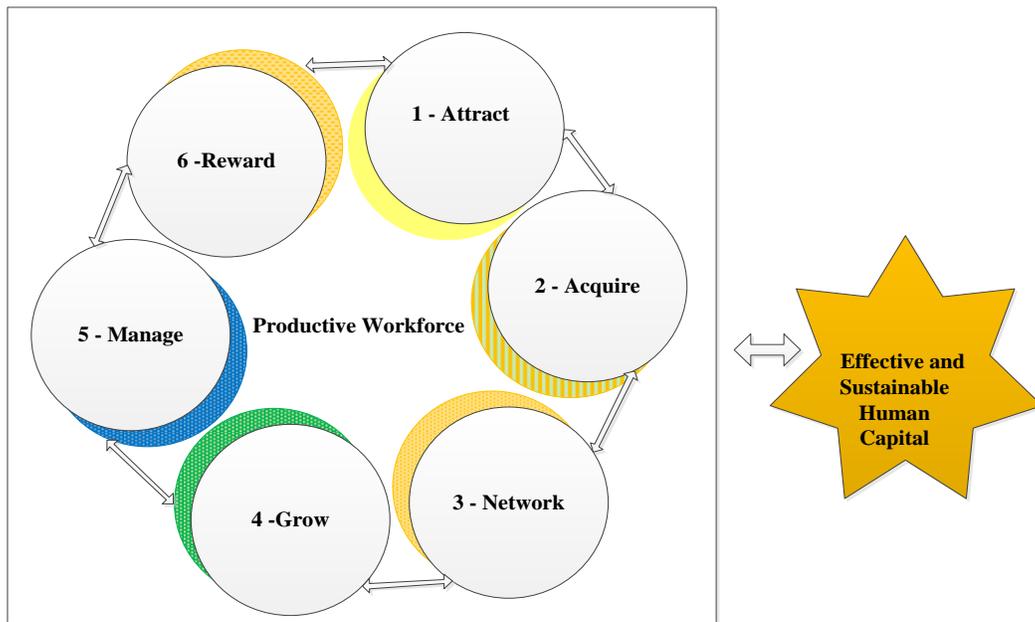
The second stage of the HCM process is to acquire the best from the pool of prospective applicants. Although the selection process is similar to attracting the right people, the distinct difference is that the process results in the selection of the best from the best. This requires setting standards that indicate the level of outcome showing specifics in terms of desired knowledge, skills, competencies, attitudes, credentials and values. Accordingly, methods that ensure objectivity must be employed. In looking out for the best of the best, smart, creative and innovative applicants who are adaptable and ready to learn should be the target of recruiters. The process must ensure that there is a fit between the values of the applicant and that of the firm. A comprehensive assessment is required in order to identify

other competencies which may not form part of the requirements of the vacant position. This will enable firms to make maximum use of employees’ potentials.

**Linking New Hires with Buddies (Network)**

For the purposes of ensuring that employees are transformed into engaged, productive and committed members of organizations, stage three of the model emphasizes networking. This enables new hires to transit faster from the state of anticipatory socialization to change and acquisition and thereby settle down and start performing.

**FIGURE 1  
Human Capital Centered Model**



This is done effectively if they are networked (bonded) or given buddies who are experienced employees of the organization to coach and support them. Networking promotes knowledge sharing, teaming up with people, operating in support of those who understand human motivation and social interaction in order to make new hires feel they belong, reduce turnover, eliminate the shock of entry and maximize their potential for high productivity. Senior management’s perception about the importance of human capital also contributes immensely towards the bonding (networking) process because they see beyond the economic objectives of the organization to the extent of realizing that it is also a social entity where people interact with one another as well as work together to achieve best results (Bartlett & Ghoshal, 2002; Crain, 2009).

**Nurturing Employees in Task and Firm Specific Skills (Grow)**

It is a strategic imperative for organizations to nurture (train and develop) their employees for high productivity. This fourth stage requires providing opportunities for employee participation in decision making and personal growth. Creating learning centers that facilitate collaborative research between academia and organizations to address firm specific issues and generate knowledge for future

use is paramount. Clear understanding of organization's strategies by all employees is also very important because it enables everyone to work towards their achievement. Employees can only be effective if they know how their performance is contributing towards the achievement of goals. The right training and development centers on the core values of the firm and task specific technical skills. Such skills and knowledge enlighten employees to appreciate the fact that, their work brings value to the organization. If they do not perform to expectation they will be shown the exit. Their pay checks depend on the survival of their organizations; their organizations thrive on their performance and are competing with others in the same industry (Crain, 2009). The training and development stage of the model aims at sensitizing employees to change their attitudes towards work. It should help them reorient their perceptions about work, encourage them to be committed with the view that their attitudes in workplaces can either mar or build a vibrant organization they can depend on for their living.

Approaches employed in training employees include demonstrations, coaching, mentoring, projects, job rotations, attachments/secondments, assistants, committees or quality circles. Others are open courses designed for all organizations or short courses designed to address specific needs of specific organizations. Development prepares employees to anticipate the future and be comfortable with change. Organizations are encouraged to employ these approaches to train and develop employees to become creative, innovative, and able to take calculated risks. Their entrepreneurial skills should be developed to enable them come out with novel ideas for high productivity and competitive advantage. Training should not be ad hoc but based on performance review and training needs analysis results (Noe, 2005).

We propose the development of succession plans to address the human capital challenge in AWA countries. Though critical, it is the most neglected aspect of managing human resources in AWA. There have been several instances where private businesses have collapsed because the original owners have retired or have passed away. It is therefore expedient to develop the right human capital at the right time through proactive leadership that continuously identifies positions to be filled when both planned and unplanned departures occur. Succession planning is an ongoing supply of well trained, broadly experienced, well-motivated people, who are ready and able to step into positions as needed by the organization. It caters for the future human capital needs of the organization, by identifying people who can move into crucial positions without unnecessary operational disruptions. It helps keep leadership personnel in the organization and assures the continuing supply of capable successors for each of the important positions included in the succession plan. Training and development that are linked to succession planning ensures having the right human capital at all times.

### **Maximize Human Capital for High Productivity (Manage)**

Maximizing human capital requires a strategic and coherent approach to the management of the organization's most valued asset. HCM employs performance management module tailored to meet the specificities of organizations and ensuring that the right targets are set with standards based on strategies developed out of organizations' visions.

Effective communication of an organization's vision leads to its internalization by managers who in turn translate it into targets for employees to achieve (Clawson, 2009). Respect for authority, one of the tenets of the culture of AWA countries must be exploited in organizations by demanding exemplary lives from leaders. Good leaders must be flexible, open to the views of their subordinates (colleagues), and trust those working under them enough to accomplish tasks. Fairness should be the hallmark of all their dealings with all employees. They should be trustworthy and seen to be leading exemplary lives worthy of emulation for high productivity. Employees must know exactly what to do, how to do it and the exact time to accomplish it. Milestones must be set with agreed timelines for evaluation (agreement between manager and employee). Excellence and successes must be acknowledged, celebrated and rewarded in order to motivate others to work harder (Bellman & Ryan, 2009; Kudonoo, 2013). It takes

effective communication to undertake effective evaluation. We propose that organizations in AWA should assess the performance of employees more than once a year in order to link the process to their training and development activities. Objective assessment based on set targets is the only way to obtain the right results for rewards.

The human capital centered model also advocates for employee engagement where employees are encouraged to actively participate in generating novel ideas for the improvement of organizations by widening the circle of involvement and thereby ensuring that everyone's voice counts and good judgment found (Axelrod, 2010). This perspective can be likened to staff and community durbars where people come together to find solutions to pressing organizational issues. We encourage organizations to exploit the use of such durbars to create a critical mass of energetic participants who design and support the needed changes. The few, should no longer decide for the many (Axelrod, 2010). Good human relations and effective team work are the hallmarks of a productive organization. Effective design of jobs to match the right human capital is also very essential.

The use of technology facilitates effective HCM. Human resource information systems ought to be acquired and utilized for managing changing organizational requirements in order to achieve long term organizational strategy. Technology must be employed to combine people, and processes, it must be used to keep employee records, making it easy to keep track of their training and development activities to find out how far they have progressed in order to assign the right tasks that make them work smarter to improve productivity.

#### **Commensurate Rewards with Performance (Reward)**

Employees get motivated and committed when they are rewarded for the value they create in organizations. The objective of rewards management in organizations is to reward people equitably, fairly, and consistently leading to the improvement of organizational, team and individual performance. Consequently, rewards processes ought to be created based on organizations strategies, what they value and are capable of paying. Rewards come in two forms –financial and non-financial. Examples of non-financial rewards include recognition, status, companionship, security, feeling of self-worth, sense of achievement and purpose, opportunity to use and develop one's human capital and career progression. Non-financial rewards greatly influence employee satisfaction, motivation, productivity as a result strategies and policies must be put in place to administer them appropriately (Lundy & Cowling, 1996). We suggest that both financial and non-financial rewards are maximized to meet organizational and individual needs and in so doing ensuring that non-financial rewards are given in the form employees value most. The administration of the right type of total rewards positions organizations, to attract prospective employees who have the ability to add value to it.

### **CONCLUSION, CONTRIBUTIONS AND LIMITATIONS**

This study identified human capital gaps in AWA countries and suggested ways to address the gaps using a proposed human capital centered model comprising elements such as attract, acquire, network, grow, manage and reward. Data gathered from published literature in the form of reports and articles revealed that African countries including AWA lags behind at least about 20 percent points under average in infrastructure measures, and low quality of service provision with regard to electricity and water supply, which are frequently unreliable and unpredictable (Arbache, Go & Page, 2008). We have attributed this lag to lack of effective management of human capital in AWA countries, which is confirmed by reports including McKinsey Global Institute's Report (2010), Blanke, et al., (2011), Brenton, & Gözde, (2012), and Rao, (2011). There is sparse literature in HCM on Africa, most especially AWA. Those that exist focus on differences between Western management theories and African cultures

(Abudu, 1986; Jackson, 2002; 2004; Kamoche, 1997; 2011; Mufune, 2003; Kudonoo et al., 2012) to the neglect of HCM.

We supported our arguments with theories such as the human capital theory, which explains the essence of managing human capital for economic development. The resource-based theory is used to elucidate how HCM brings about competitive advantage. AWA countries do not exist in isolation. They interact with other countries globally in trade and for resources for survival. The open systems theory was therefore used to shed light on the need for AWA countries to manage their human capital in order to be abreast with emerging economies and successfully compete globally in resource acquisition and trade. The proposed human capital centered model provides steps organizations can take to address their human capital needs.

Given high relevance of HCM in this 21<sup>st</sup> century, this study is important for organizations in AWA countries because it clearly demonstrates the essence of human capital and how it can be managed from attraction to rewards stage in order to increase productivity, sustain success, as well as gain competitive advantage.

From a theoretical point of view, this study is relatively one of the first that utilized human capital, resource-based, and open systems theories to shed light on the usefulness of human capital in AWA countries for organizational effectiveness and overall economic development. It has also laid the foundation for more discussion concerning how AWA countries can address their unique human capital needs. The use of case illustration to develop a conceptual paper is also a unique contribution to literature on Africa.

Although this study contributes to theory and practice, one major study limitation is that, the researchers depended solely on published data, and experiences gained from their consulting activities in organizations in AWA, which has limitations including total dependence on publishers' views, which may not be the absolute reality on the ground. Our wish is to complement published literature with unpublished data from organizations in AWA countries but unfortunately, attempts to collect data from some organizations in Ghana failed because most of them are not used to research activities of this nature. Those that allowed them access were "positive biased". They provided answers that were not verifiable.

## AREAS FOR FUTURE RESEARCH

Accordingly, we suggest that future research should include unpublished data from organizations in addition to published data and link them with their prevailing culture. Furthermore, we believe that not all organizations in AWA countries lack human capital. A case study on organizations with promising human capital practices that have incorporated local practices in AWA will set the tone for others to also come out with their unique "best practices" since every organization has its unique strategies. Finally, future research is needed to test the workability of the model in organizations in AWA.

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## LEADERSHIP EFFECTIVENESS IN AFRICA: LESSONS FROM EGYPT, GHANA, KENYA, NIGERIA, AND UGANDA

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### ABSTRACT

This study explored the understanding of leadership effectiveness in Ghana, Egypt, Kenya, Nigeria and Uganda, focussing on leadership traits, practices and motivators. The Delphi Technique, using an open-ended instrument, was used in the first round. Participants agreed on most of the leadership traits and motivators in the first and second round of the study with diverse sub-cultures within and across countries. Vision, fairness/impartiality, commitment/dedication, honesty/trustworthiness, knowledge, goal orientation and humour were descriptors of effective leadership. The quest for justice and extrinsic benefits like money/wealth; and service to community/society motivated leaders to succeed, while extrinsic rewards and need to achieve motivated followers. This study contributes to the growing attempts at understanding leadership effectiveness and motivation from an African context.

**Keywords:** Leadership effectiveness, leadership traits and motivators, leadership in Africa

### INTRODUCTION

This study explores different perceptions of culture, leader characteristics, motivation, and leadership effectiveness in Egypt, Ghana, Kenya, Nigeria, and Uganda. It analyzes the opinions of selected knowledgeable persons, including scholars and practitioners of management, their perception

of effective leadership and the motivating factors contributing to successful and effective leadership. This is an area of research that has so far received insufficient attention in the scholarly literatures. This study is part of the larger LEAD (Leadership effectiveness in Africa and the African Diaspora) research project, which covers Canada, the Caribbean, the United States and Africa.

The results of the LEAD study should provide useful knowledge that should inform management and leadership in Africa where the impact of leaders on socio-economic development is perhaps more greatly felt. In providing grounded conceptualizations and data on leadership and motivation this study partly addresses the question posed by Barker (1997): 'How can we train leaders if we do not know what leadership is?' This question is at the heart of our quest for localized and contextualized understanding of leadership as practiced and experienced in Africa.

### **Statement of the Problem**

For Africa, the challenges of poverty, under development, malfunctioning and underperforming institutions and organizations are real. These conditions exist, despite the vast possibilities of wealth as yet unrealized given the massive natural resource base of the continent. In this regard, Governments, organizations and institutions in Africa need to figure out how to best utilize the resources of the continent for most significant impact on socio-economic development. This places a requirement on leaders across the spectrum (political, organisational, etc.) to be strategic, prudent and conscious of how to ensure strategic fit between the "what is", or what is available and "what is possible." It seems however, that the challenges of organisational existence and organisational health in Africa variously identified and discussed by writers like Munene (1995) and Puplampu (2005) suggest that strategic efforts are challenged due to the dearth of leadership effectiveness on the continent. While leadership motivation and effectiveness can contribute to growth and social good in Africa, it is insufficiently contextualized and an African perspective of leadership effectiveness is still poorly articulated or understood. Bolden and Kirk (2009) has called for grounded conceptualizations of leadership drawn from research within Africa using a variety of methodological approaches. Leadership has been studied intensively in the West for the past century (Steers et al. 2004), but there are limited cross-country comparisons of leadership (House et al. 2004) and even less research which examines factors contributing to effective leadership in Africa.

James (2008) described the traditional concept of leadership in Africa as encompassing the "big man" who is all powerful, fearsome, all knowing, and a multifaceted problem solver, who is infallible. In contrast, Hale and Fields (2009) explored the concept of servant leadership, where the leader achieves success through humility. Mangaliso (2001) also considered Ubuntu as important in leadership in the South African context. Mbigi and Maree (1995) described Ubuntu as a sense of brotherhood and spiritualism among marginalized groups. However, Swartz and Davies (1997) argued that the work of Mbigi and Maree is not grounded in academic rigor and question the use of the concept by foreign consultants. Walumbwa, et al. (2005) compared the relationship of transformational leadership to organizational commitment and job satisfaction in the United States and Kenya. They identified African leadership as authoritarian due to high power distance and hypothesize that this may negate the positive impact of transformational leadership. They found transformational leadership and satisfaction to be rated higher in the United States than in Kenya.

In spite of these developments, factors that engender effective leadership in Africa remain relatively under-researched. A review of 17 papers dealing with management in Africa (Lituchy et al. 2009) found that only three dealt generally with Africa, one with Southern Africa and one with West Africa. Of those that looked at individual countries, Botswana, Kenya and Malawi were each included in one study, three focused on Ghana, and six on South Africa.

### **Purpose of the Paper**

The purpose of this study was to identify what people perceived leadership and motivation to be as experienced and practiced in an African cultural context by using an emic methodology. Specifically, the objectives of this study were to determine (from the respondents' perspective) (1) the descriptions of ethnic/cultural background; (2) indication of who have been effective leaders in their particular setting; (3) characteristics of effective leaders; (4) what motivates effective leaders; (5) what motivates people (other than leaders) to work hard; (6) who effective leaders were/ are and what effective leaders did/do; and (7) to determine the culture.

### **Research Questions**

Knowledge on leadership effectiveness and motivation that is grounded in the African context needs to be generated to inform scholarship and practice of leadership in Africa. So the aim of this research was to find answers to the following questions:

- (1) What are the similarities and differences in the perceptions of people in Africa about leadership?
- (2) What are the similarities and differences in the perceptions of people in Africa regarding motivation?
- (3) What are the similarities and differences in the perceptions of people in Africa regarding culture?

## **LITERATURE REVIEW**

In this section, we touch briefly on some relevant literatures on leadership as well as work motivation in Africa. Since the work of Steers et al. (1996) put leadership and motivation as concepts which jointly and in interaction inform work behaviour, it has become increasingly clear that it is useful to study the two concepts together. While leadership perhaps focuses in the galvanising actions of those described as leaders, motivation deals with the response mechanisms of people at work and in the community with particular reference to tasks, jobs, efforts and production norms and requirements of organisations.

The scholarly literatures in both areas in Africa are only now beginning to emerge with some consistency in the last few years. Elsewhere, however, several studies show an association between the existence of effective change leaders and organizational change and development (Kotter 1995). Managers with competencies in management of change such as interpersonal skills, team skills, communication and persuasion skills, creative and innovative thinking, and so forth, are perceived as effective in managing organizational change (Brynjolfsson, and Yang 1997; Brewster, et al. 2000). Change—when effectively managed—may facilitate positive transformations in the organization's culture, employee motivation and so on. Other studies (Kotter 2001; Zaleznik 1992) discussed the importance of both leadership actions and managers' skills and their impact on organizations' performance and effective management of change. A correlation was found, for example, between successfully aroused need for change, or motivation for change, and greater commitment to the agreed upon plan of action that influenced the success of radical changes and transformation in organizations (Anderson and Anderson 2003; French et al. 2000; Kotter, 1995; Tichy and Sherman 1993).

As Hitt et al. (2001, 489-490) noted: "A firm's ability to achieve strategic competitiveness and earn above-average returns is compromised when strategic leaders fail to respond appropriately and quickly to changes in the complex global competitive environment", and "strategies cannot be formulated and implemented to achieve above-average returns without effective strategic leaders." According to Hatem and Hearn (2003) an individual's degree of cultural competency can lead either to the success, enhanced effectiveness of persons, or can lead to limited career opportunities, and disappointment, particularly when people are unable or unwilling to recognize and appreciate other

cultures' values, beliefs, and differences. However, to be aware of other cultures' values and beliefs, one has to be first aware of his own culture's values and assumptions.

Past leadership related studies in Nigeria reveal very significant relationships among leadership, leadership style, and employee motivation on organizational performance (Ogundele, et al. 2012; Obiwuru et al., 2011; Ejionueme, et al., 2009; Hassan 2009). Ejionueme et al. (2009) suggest that a combination of motivation and the personality of superiors and subordinates impacted on the productivity of the organization, while the doctoral study conducted by Hassan (2009) opines that the leadership style adopted by a manager will affect his or her sense of judgement, which in turn, will influence the career advancement of subordinates they work with. Workers within the organization feel very much at home with superiors who combine a reasonable balance of work orientation and employee orientation, and are discouraged by leaders who insist on the job to be done without taking cognisance of their feelings or circumstances. Ogundele et al (2012) established some disparities on the leadership styles of males and females in Nigerian organisations, which further impact on the performance of the selected private and public organisations that they studied. Leadership, irrespective of what style, is significantly related to employee performance in the organization (Obiwuru et al., 2011). Mehra et al (2006) argue that when some organizations seek efficient ways to enable them to outperform others, they do so through a longstanding approach which focuses on the effects of leadership. Team leaders are believed to play a pivotal role in shaping collective norms, helping teams cope with their environments, and coordinating collective action. These studies noted here and many others together buttress the influence of leadership and motivation on performance, the impact of inappropriate leadership style on organisational and enterprise failures in African countries.

Crispen et al. (2011), in their South African study on leadership style, employee motivation and commitment, established a positive link between leadership style and employee motivation in some organizations. Respondents suggest that the leadership styles adopted by their various managers affected their performance on their jobs. Puplampu (2010) examined challenges of corporate leaders in Ghana and concluded that leadership practice in Ghana and perhaps in Africa may best be seen as a dualized process of engagement with issues, followers and stakeholders as well as a process of building structures and systems. It seems a dominant problem has to do with mechanisms for facilitating the diffusion of leadership responsibility across the organization instead of concentration at the top. Zame et al. (2008) studied leadership in the context of Ghanaian educational reforms and concluded that there is real need for systems of leadership development. Hale and Fields (2007) researched servant leadership by comparing the United States and Ghana and found greater instances of servant leadership in the United States than in Ghana. Analoui (1999) studied senior managers in Ghana and concluded that motivation, skills and personal awareness amongst other parameters affect their effectiveness. This is due to the possible negative or positive impact of these attributes on managerial choices, decisions and actions. For example, managers in the Analoui study suggested that their rather poor salaries were a significant de-motivator which interfered with effectiveness at work.

A study by Puplampu (2007) also concluded that perhaps the dichotomy between externally driven and internally generated motivation; financial/pecuniary and recognition/self-satisfaction as sources of motivation are perhaps rather over simplified. In Ghana, motivation seems to be derived from a complex of considerations, which are perhaps metaphysically inseparable. Literature on leadership behavior and its influence on organizational health includes Puplampu's (2005) proposed continuum of organizational health and sickness; and identified management and leadership misconduct as contributing to an unhealthy organization. He proposed a continuum of organizational health and sickness, where at one end a healthy organization was characterized by fit between structure, people, system, process and technology; whereas, at the other end the dying organization was characterized by failure of vital systems with prospects of termination. There are six symptoms that could affect the health of an organization, some of which were executive delusions, procedural weaknesses, employee

dissatisfaction, and an aimless corporation (Puplampu 2005). Combining Puplampu's (2005) work on organisational health and the findings on leader behaviours and preferences and his later (2007) work on motivation, one notes that in the African context, leadership and motivation studies require attention to organisational realities such as corporate politics which appear to be important contributors to the motivational experiences of employees.

### **Culture, Motivation and Leadership Intersect**

Messick and Kramer (2004) argued that the degree to which the individual exhibits leadership traits depends not only on his characteristics and personal abilities, but also on the characteristics of the situation and environment in which he finds himself. Intangible assets such as leadership styles, culture, skill and competence, and motivation are seen increasingly as key sources of strength in those firms that can combine people and processes and organizational performance (Purcell et al. 2004). Obiwuru et al. (2011) also confirm that understanding the effects of leadership on performance is very important because leadership is viewed as one of the key driving forces for improving a firm's performance.

Although preliminary, it seems reasonable to argue that the emerging literatures do suggest that in Africa, work motivation cannot be separated from leader action. As Puplampu (2007) found, organizational politics appeared to have an intervening effect on motivation in the Ghanaian organizations studied. This therefore points to the important role of leader behavior in the motivations of people at work. The purpose of this study was therefore to explore culture, leadership traits and attributes, leadership motivation and effectiveness in Egypt, Ghana, Kenya, Nigeria and Uganda. While the current study at this point may not offer conclusive evidences it aims to provide exploratory pointers upon which scholars may build.

## **METHODS**

### **Research Setting and Participants**

This study is part of the larger LEAD study, which has adopted the phenomenological and qualitative approach. This was done through a Delphi process, which asks participants to define then refine the details of the variables to be investigated (Lituchy, Ford and Punnet, 2012). For all the countries (Egypt, Ghana, Kenya Nigeria and Uganda), a personalised letter was sent to each participant explaining the purpose and importance of the study. The study began with "a blank page"—since we wanted to define the concepts from the perspective of the participants in the research. Through an emic method, we tried to set aside previous theories and models in order to let the participants and data communicate themes, patterns, and concepts, thereby contributing to unleashing unpredicted findings. At the core of this approach is the Grounded Theory, frequently used when investigating topics that have not yet been deeply theorized. The Delphi process solicits ideas from knowledgeable participants in an open-ended format. As Lett (1990) describes, "Emic constructs are accounts, descriptions, and analyses expressed in terms of the conceptual schemes and categories regarded as meaningful and appropriate by the native members of the culture whose beliefs and behaviors are being studied" (p. 130).

### **Participants**

This study used purposive sampling—data were collected from specific persons that could provide the required information (Wimmer & Dominick 2003); these included leaders in academia, managers in organisations, and religious and political leaders. While 61 responses (Egypt = 12, Ghana = 6; Kenya = 10; Nigeria = 10; Uganda = 23) were obtained for Delphi One there were 46 responses (Egypt = 9; Ghana = 6; Kenya = 5; Nigeria = 10; Uganda = 16) for Delphi Two. The demographic characteristics of the participants are summarized in Table 1.

### Data Collection Procedure

Similar to the procedure used by Lituchy, Ford and Punnet (2012, p. 211) "we began by identifying people who fit the definition of knowledgeable people"; and requesting them to participate in the study. Questionnaires were only sent to those who agreed to participate in Egypt, Ghana, Kenya, Nigeria and Uganda. In all cases, the purpose of research was explained and confidentiality of individual responses was assured. In the first round of the Delphi process, participants were requested to freely respond to seven questions based on the respondent's personal knowledge and viewpoint of culture, leadership and motivation. The Delphi technique using open-ended questions solicited ideas from knowledgeable participants in an open-ended format. The Delphi questionnaire included seven open-ended questions:

- 1) What three to five words best describe your ethnic or cultural background?
- 2) What words/terms would you use to describe an effective leader?
- 3) What does an effective leader do?
- 4) What motivates leaders to succeed?
- 5) What motivates people (other than leaders) to work hard?
- 6) Name three to five people, men or women, whom you consider to be, or to have been, effective leaders, and describe **why** each is effective (they can be local, national or international).
- 7) How would you describe 'your culture'?

**TABLE 1**  
**Demographic Characteristics of Study Participants**

Country	Sample size Delphi One (Two)	Gender			Age (Years)
		M	F	n/a	
Egypt	12(9)	8	4		25 - 59
Ghana	6 (6)				
Kenya	10 (5)	9	1		39 - 56
Nigeria	10 (10)	7	3		29 - 56
Uganda	23 (16)	17	5	1	25 - 60

Delphi One, n = 61, Delphi Two, n = 46

### Data Analysis

To answer the research questions, we evaluated the words of research participants, in order to report the results of emic research in Egypt, Ghana, Kenya, Nigeria, and Uganda for the two Delphi Rounds:

- (1) Similarities and differences in the perceptions of people in Africa about leadership were evaluated using data from questions 2 and 3 of the questionnaire.
- (2) Secondly, a combination of data from questions 4, 5 and 6 of the questionnaire were used to evaluate similarities and differences in the perceptions of people in Africa regarding motivation.
- (3) Thirdly, similarities and differences in the perceptions of people in Africa regarding culture were evaluated using data from question 1 and 7.

The data from the first Delphi round were analysed and presented as qualitative summaries.

Round Two of the Delphi process was based on the responses to the Delphi Round One results. We provided the participants with a summary of all responses of Round One, and asked them to complete a second round of the process by rating the importance of the responses derived from the first round on a five point Likert scale (1 = Relatively unimportant, 2 = Moderately unimportant, 3 = Neither important/Unimportant, 4 = Moderately important and 5= Very important). Our goal was to determine the most important concepts of leadership effectiveness and motivation from the participants' responses. The results of Delphi Round One were anchored on a five -point Likert scale and presented to the participants for rating their importance. Data from the second round were analysed using descriptive statistics obtain the perception of the participants regarding the importance of the responses summarized from Delphi Round One.

## RESULTS

We now present the results for each objective.

### **Ethnic/Cultural Background**

The descriptors of ethnic and/or cultural background included ethnic group or tribe of the participant, religion, and country of origin. While ethnic group most prominently explained cultural background in Kenya (mean 4.4; rank 1), Nigeria and Uganda, religion and country of origin were also used to describe cultural background of the Egyptian and Nigerian (and to a lesser extent, Ugandan) participants. Kenyan participants did not use the word "Kenyan" as their cultural background implying they saw themselves as members of specific ethnic groupings/tribes.

Our findings highlight the importance of religion in the Egyptian and Nigerian contexts which is in agreement with Mbendi (2002). The word "African" was also used to describe the ethnic or cultural background in Egypt and Nigeria; social behaviour/relationships and interactions was also ranked first with means of 4.56 and 4.70 respectively. Further, Language (mean of 4.75, Rank 1) and traditions (mean 4.63; rank 2) described the culture among participants in Uganda.

### **Description of an Effective Leader**

In Egypt, the effective leader is thought to be well educated (mean 4.4; rank 1) and financially stable (mean 5; rank 2); compared to Ghana where the effective leader is both knowledgeable/intelligent (mean 5; rank 1) and visionary (mean 5; rank 1). Being well-educated is the most important attribute of an effective leader in Nigeria. An effective leader in Kenya has a vision and is a team-leader (mean 4.8; rank 1); this contrasts with Uganda where the highest ranked attribute is honesty/integrity (mean 4.8; rank 1).

### **Characteristics of Effective Leadership**

Across all five countries (Egypt, Ghana, Kenya, Nigeria and Uganda), the attributes of an effective leader include humility, wisdom, demonstration of selflessness, magnanimity, sense of purpose/vision, inspiration across diverse peoples/groups, and not being vengeful. Education was also an important attribute in addition to being team leaders and having good strategies. In describing Mother Teresa's leadership qualities, Howell (2012, 54-55) states that: "Her optimism, resilience high moral character and 'walking the walk' reflect the authentic leadership model. Her integrity and determination are described in trait theories of leadership". An effective leader was also described as fair/impartial, committed/dedicated, honest/trustworthy, knowledgeable, and with a sense of humour. Abraham Lincoln "was popular and respected due to his honesty and sincerity ... and his ability to tell humorous stories that delighted his audiences" (Howell 2012, 57). These traits were also identified as being important for effective leaders in Africa. Being charismatic and modest, democratic, listening,

determined, proactive, team-builder, unassuming, upright, emotionally stable and objective; and a model for others to emulate were also to describe effective leaders.

### **Motivation to Succeed**

Motivation of leaders to succeed was stated as including quest for justice (Egypt: mean 4.33; rank 1, Nigeria: mean 4.9; rank 1,), self-fulfilment, support from followers, joy of success, extrinsic benefits like money/wealth, and service to community/society. These findings highlight the importance of both intrinsic and extrinsic rewards as motivators for leaders in the studied countries and are consistent with Hitt et al. (2001).

Furthermore, money/wealth, justice and the type of social environment that a leader finds himself in are considered to be major motivators for leaders to work hard. In other instances, leaders are deemed to be effective because of their historical and cultural position in their societies. Such leaders are uniting factors within a homogenous group and are the basis for self-identification. Station, thus accounts for the effectiveness of a leader in some African communities because members of that community defer to such culturally significant leaders. This finding agrees with the findings of earlier studies by Messick and Kramer (2004) and Mehra et al. (2006).

### **Motivation of People (Other Than Leaders) To Work Hard**

Besides leaders or managers, other people also have motivation to work hard. In round one it was found that the feeling of being important and of being appreciated motivated people to work hard. However, in the second round, extrinsic rewards, community acceptance and pride were also found to be important. Career growth prospects and the need to achieve were also identified as motivators.

### **Effective Leaders**

Nelson Mandela (endurance and democracy) was named as the most effective leader. Others were the late Mahatma Gandhi (leading by example), Martin Luther King (vision and perseverance), Abafemi Awolowo, Prof. Wangari Maathai, Mother Teresa (resilience and moral character) and President Barrack Obama (effective communication). From the results, effective leadership can be seen to hinge upon knowledge (reasonable standard of education), vision, understanding, inter-personal relationship with subordinates, honesty/trustworthiness, fairness and just behavior, commitment/dedication to duty, perseverance/resilience, moral character and sense of humour on the part of the leader being assessed. This finding aligns with an earlier study by Ejionueme et al. (2009) which laid emphasis on the personality and traits of a leader as they impact his effectiveness and the wellbeing of the subordinates under him (see also the studies by Crispin et al. 2011; Hassan 2009).

### **Culture**

The most important words used by respondents to describe their culture were truthful, hardworking, accommodative/accommodation, clan/clans/detribalized. There were similarities in the traits of effective leaders and in the names of effective leaders but there were differences in description of culture of the participants across the countries surveyed. Further there was some convergence on what the participants considered their background to be. Tribe/ethnic group was the most important descriptor of ethnic/cultural background.

The description of the culture of the participants varied across countries. For example Kenyans described their culture as being truthful and hardworking while Egyptians described it as being Moslem—which shows a strong influence of religion. The description of culture by the Ugandans was that of welcoming while that of Nigerians included merry-making. There was also little consensus on what culture was particularly from the Ugandan sample. Lastly, on the matter of employee motivation, the emerging literatures suggest that the African motive factors do not divide neatly along needs and

thought processes. As an example, the evidence from the Ghanaian study, which compares with that of other countries (Egypt, Kenya, Nigeria and Uganda), suggests that respondents find pecuniary rewards as well as personal satisfaction and recognition as important motivators. This has important implications for the design of reward systems—they should be a balance between both pecuniary and those specifically targeting personal satisfaction.

From these results, it emerges that ethnic group, country of origin and religion, are important descriptors of cultural background, hence the need to be sensitive to these subtleties within the same country and across countries in Africa. This finding has implications for management practices which should be sensitive to the differences that exist among people from the same African countries. Further, effective leaders were described as being visionary, goal oriented, inspiring, fair/impartial, committed/dedicated, honest/trustworthy, knowledgeable, and having a sense of humour. This implies that leaders need to be equipped with skills that give them the desirable disposition perceived by African societies. Such empirical findings as these should translate into better and perhaps more accurate leader development systems which nurture leaders capable of dealing with the institutional and organisational ills that imperil the continent and constrain the achievement of Africa's development potential. It is only in this way that Barker's question—about whether we can train leaders when we do not know what leadership is—can be properly tackled.

## DISCUSSION

These results perhaps sit quite well in the context of what is known about African culture. What is uniquely interesting, however, is that the notions around what motivates leaders in particular approximates the notions of engagement of the human spirit in the work place (May et al. 2004). In this regard, both the justifications given for the mention of the exemplary leaders as well as the ideas around what motivates leaders draw on factors such as vigor, passion, and dedication. It is these same parameters, which led to Puplampu's (2010) notion of leadership as engagement. The behaviors or actions related to what a leader does are also insightful; focusing as they do on behaviors such as maintaining discipline, giving hope/inspiration, setting goals and delegating. On the matter of employee motivation, the emerging literatures suggest that the African motive factors do not divide neatly along needs and thought processes. The evidence from the current study suggests that respondents find pecuniary rewards as well as personal satisfactions and recognition as important motivators to lead and to work hard.

Whereas most of the participants agreed on most of the leadership characteristics and motivators in the Delphi process first and second round of the study, there was no consensus among them with regard to what motivates people (other than leaders) to work hard; they also differed greatly in their answers when asked to nominate three to five people whom they considered to be, or to have been effective leaders. However, Nelson Mandela, Mahatma Gandhi and Martin Luther King Jr., were highly rated as effective leaders. There were other leaders in each country that also received favourable ratings. The most important words that were used to describe culture were truthful, hardworking, accommodative/accommodation, clan/clans/detribalized. While there were similarities in the characteristics of effective leaders and in the names of effective leaders, there were differences in the description of culture of the participants across the countries surveyed; this indicates the diversity within and across participant countries.

### Limitations and Future Research

The samples were largely male. A greater effort needs to be made to survey female respondents. In this regard, gender balance needs to be improved, for example, in the Kenyan case

where only men responded to the second round while there were more women in the Egyptian case. Similarly, there were three women and seven men in the Nigerian study.

The sample sizes for both first and second rounds of the Delphi in each country were rather small. While acknowledging that the Delphi technique supports small sample sizes, we also note that in an effort to capture African reality, the fact of the continent's population (over 1 billion) as well as the diverse character of in-country demographics need to be factored into sampling decisions.

Further, since it emerged that the respondents described themselves first as ethnic groups/tribes (Kenya study), then as coming from certain regions (Ghana study) and thirdly according to religion (Egypt study), it would be of interest to investigate why most participants did not describe their background using their respective country names. All the countries included were English speaking but they also have indigenous African languages depending on their Tribes (e.g., Luhya, Kikuyu and Luo for Kenya; Ijebu, Yoruba, Igbo etc., from Nigeria; Akan, Fante and Ewe of Ghana; and Ganda, Langi, Kigezi, Bahimba, Mukiga, Muganda of Uganda, etc.). Further, larger samples would be needed in order to generate more robust results.

## CONCLUSIONS

A number of tentative conclusions may be drawn from exploratory work such as this. We will consider these conclusions in terms of the substantive ones and the methodological ones.

First, from our data the cultural identity of the sample are firmly rooted in connection with tribe or ethnic group, religion and the practices of such groups; and country of origin. Various respondents add such characterisations as accommodation, costume-conscious, flamboyant and aggressive. These provide some context for understanding what is seen as effective leadership. Second, it is in keeping with the data when effective leaders are described as possessing amongst other characteristics as being aggressive, communicative, empathetic, etc. We thus suggest that much benefit may be derived from close examination of the leadership exemplars that are interwoven with the African sense of African culture.

Third, we conclude that the data tentatively confirm that with regards to both leader and non-leader motivation, great importance is placed on both extrinsic and intrinsic motivators. This is an important issue which goes to the heart of policy around the compensation and recognition of both public and private sector officials who function as leaders in Africa. At the risk of appearing to make much of data that are in essence preliminary, we may surmise that the problems around poor leadership behaviours, public sector corruption and so on may have something to do with the disconnect between expected leader (and worker) productivity and the motivating mechanisms that are often applied. This may have to be the subject of further investigation.

We turn our attention to the methodological conclusions. The findings from this study add to the call for contextualised research. Such research needs to have a phenomenological (inductive) start point. We conclude that management and organisational research in Africa—at this point in its development at least—requires significant use of methods that allow the researched to speak and voice their perceptions, beliefs, views and conceptualisations.

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## THE “TICKET TO THE DANCE”: A META-ANALYTIC INVESTIGATION OF FEMALE LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

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### ABSTRACT

In an effort to demonstrate the value that diversity brings to organizations, studies from both Western and non-Western cultures continue to attempt to quantify the relationship between female executive leadership and organizational performance. The results of such studies are, at best, mixed (Ragins & Gonzalez, 2003). Consequently, we provide theoretical support for a competing hypotheses framework and reveal the results of a meta-analytic investigation of the relationship between key forms of female representation in leadership and organizational performance. Our analysis uncovers a very modest relationship between these constructs and we outline an agenda for future research, suggesting that it is time to move beyond making the “business case” for female leaders in both Western and non-Western cultures.

**Keywords:** Diversity; Meta-analysis; Performance

### INTRODUCTION

*"I don't disagree with Jack Welch that performance is the ticket to the dance [for both male and female executives]...Unless you're delivering value, there is no right to move forward. I do disagree that all is fair in the workplace." (Maggie Wilderotter, CEO of Frontier Communications).*

Despite the fact that women's educational and professional experience is on par with or exceeds that of their male counterparts, many still question their ability to be effective executive-level leaders. “Think leader, think male” stereotypes persist, with many continuing to doubt women's capacity to balance their roles as leaders and social “caregivers” (i.e., mothers, wives, daughters) (Hoobler, Lemmon, & Wayne, 2011; Schein, 1975). In the United States, these beliefs are crystallized when considering that women comprise 46% of the workforce overall, yet hold only 4% of CEO positions and 16% of director seats among the Fortune 500 or maintain only one in four (24%) senior management roles globally (Bureau of Labor Statistics, September 2011; Catalyst, 2011). Research from South Africa (Hofmeyr & Mzobe, 2012) and the European Union (Eagly & Sczesny, 2009) suggests that female executives are underrepresented in senior management positions. When companies stray from the

norm and appoint women into leadership positions, their decisions are highly scrutinized—“Is *she* going to meet shareholder expectations?” “How will it help our bottom line by adding a new *female* director to the board?” “Why will promoting more *women* maximize our firm’s performance?” (Ryan & Haslam, 2007). Additionally, when women *are* able to attain positions of power, evidence points to heightened expectations for their impact on organizational performance (Ryan & Haslam, 2007).

In response to critics’ uncertainties of women’s effectiveness as executive-level leaders, scholars across the fields of diversity, strategy, and ethics have engaged in a quest to demonstrate the value of gender diversity and female leadership to organizations (e.g., Dezsó & Ross, 2012; Luckerath-Rovers, 2011; Mahadeo, Soobaroyen, & Hanuman, 2012; Ren & Wang, 2011). Underlying this research seems to be the belief that if empirical evidence of the positive relationship between gender diversity or female leadership and organizational financial success is found, key decision makers will have more confidence around women’s competence and, accordingly, more women will be hired into positions of power (Noon, 2007). The results of these investigations, however, are equivocal (Ragins & Gonzalez, 2003). A number of studies provide support for a positive, direct relationship between including women on top management teams (TMTs) or boards of directors (BoDs) and organizational financial performance metrics (e.g., Bilmoria, 2006; He & Huang, 2011; Krishnan & Park, 2005; Luckerath-Rovers, 2011; Mahadeo et al., 2011; Ren & Weng, 2011; Shukeri, Shin, & Shayari, 2012). In comparison, other investigations report a negative relationship between having a female CEO or having a greater number of women on TMTs or BoDs and organizational performance (e.g., Inmyxai & Takahashi, 2012; Pathan & Faff, 2013), or, no significant relationship at all (e.g., Barrick, Bradley, Brown, & Colbert, 2007; Dezsó & Ross, 2012; Jia & Zhang, 2012; Zhang, Zhu, & Ding, 2012).

Considering the variance in these findings, in this study we conducted a meta-analytic investigation to determine the direction and magnitude of the relationship between female leadership at the executive-level and organizational performance. This study is unique in a number of ways. First, we restrict the scope of our study to leadership at the highest levels of the organization and consider the distinct outcomes associated with having a female CEO as well as having greater gender diversity among TMTs and BoDs. From an upper echelons perspective, the demographic backgrounds and actions of those at the “top” can help generate insight into an organization’s successes or failures (Finkelstein, Hambrick, & Cannella, 2009). Second, we exclusively consider organizational-level outcomes, in particular, accounting and market-based financial metrics. We focus on financial performance, as economic success is often argued as a firm’s most important output (Barney, 2002). Overall, our research seeks to provide insight to the broad question “What is the nature (magnitude and direction) of the relationship between female leadership at the executive-level and organizational performance?” Additionally, we investigate specific relationships between different forms of female leadership and organizational performance metrics, as each relationship may lend itself to distinct theoretical underpinnings. Ultimately, we hope that the results of our analysis will help to establish an agenda for future research—one that helps to advance our understanding of complexities associated with women’s roles as executive leaders and organizational performance.

## THEORY AND HYPOTHESES

Considering the equivocal findings of the relationship between female leadership at the executive-level and organizational performance, we provide theoretical and empirical support for a competing hypotheses framework. Such an approach allows us to carefully consider the range of theoretical arguments that can explain such relationships.

### **Positive Relationship between Women in Executive Leadership and Organizational Performance**

Scholars often draw upon the value-in-diversity paradigm to substantiate the positive relationship between *gender diversity* and organizational performance. From this perspective, diversity is understood in terms of “variety” (rather than “separation”) and argued to be beneficial to organizations (Guillaume et al., 2013). By including both women and men on high-level leadership teams (i.e., CEO, TMTs, BoDs), organizations can benefit from a range of life experiences, worldviews, and access to different social networks (Dezso & Ross, 2012; Frink et al., 2003; Gonzalez & Denisi, 2009). The new perspectives and belief systems that women bring to the table can strengthen an organization’s human capital resources, and, importantly, improve a leadership team’s access to information (Barney, 1991; Dezso & Ross, 2012). These resources and information can be leveraged when making strategic decisions and utilized in such a way that makes it difficult for other organizations to replicate (Auh & Menguc, 2006; Frink et al., 2003; Litz & Folker, 2002; Shrader, Blackburn, & Iles, 1997). Overall, from this perspective, gender diversity at the top is a competitive advantage for organizations and will result in greater financial success.

Beyond arguments for gender diversity, there is also theoretical support for the value that women, as a function of their *gender*, may positively influence organizational performance via the cultivation and maintenance of relationships with internal and external stakeholders. Such relationships can serve as a critical resource and means to advancing an organization’s performance (Pfeffer, 1972). First, having a female CEO or women in a top leadership positions (i.e., TMT member, BoD) can signal to external stakeholders that the organizational is socially conscious and concerned about issues of gender equality (Bear, Rahman, & Post, 2010). Additionally, from an access and legitimacy perspective, female representation at the top may grant an organization permission to engage with new stakeholders who may not have been comfortable interacting with a previously male-dominated organization (Luckerath-Rovers, 2011). Furthermore, from a relational perspective, scholars propose that women are more likely than men to socially interact with external stakeholders including customers, suppliers, and community members (Galbreath, 2011; Mahadeo et al., 2011).

In considering the value that women can bring to organizations, from both a gender diversity and pure gender perspective, we propose that organizations with women in executive leadership roles will experience greater financial benefits.

*Hypothesis 1: There is a positive relationship between female representation in leadership and organizational performance (H1a). Specifically, there is a positive relationship between having a female CEO (H1b), greater female representation on the TMT (H1c), greater female representation on the BoD (H1d) and organizational performance.*

### **Negative Relationship between Women in Executive Leadership and Organizational Performance**

In stark contrast to the beliefs about the value that women bring to executive-level decision-making, there is theoretical and empirical research suggesting a negative relationship between gender diversity and organizational performance. When diversity is viewed in terms of “separation” (vs. “variety”), the incorporation of women on leadership teams can lead to conflict and poor decision-making (Guillaume et al., 2013). From a social categorization perspective, individuals often categorize others in the workplace based on physical attributes, including gender, to help process new information and make sense of uncertain situation. These categorizations can distort perceptions by leading one to believe they share more in common with their own gender than they actually do and, at the same time, exacerbate differences with those of the other gender (Turner, 1985). In considering gender relations within executive teams, such social categorization processes can lead to contentious relationships between men and women and stereotyping, with each gender preferring to interact with those of their in-group (Guillaume et al., 2013). On leadership teams where there is a strong identification with

gender, men and women may see colleagues of the opposite gender as a threat and be less willing to cooperate when critical decisions need to be made.

Furthermore, companies who not truly believe in women's value or effectiveness as leaders may appoint a female executive (e.g., CEO, CFO) or director in an effort to appear supportive of gender diversity. In this sense, the female executive or director may simply serve as a "token" (Kanter, 1977). When women are in put such positions, they may become victim to gender-based stereotypes and their attitudes and behaviors may be highly scrutinized by others (Kang et al., 2010). In TMTs or BoDs with male-dominated concentrated power, "less powerful members are prone not to voice their concerns or to be ignored if they do" (Greve & Mitsuhashi, 2007, p. 1203). In this manner, research suggests organizational performance may be negatively impacted if the unique human capital of female leaders is marginalized (Nahapiet & Ghoshal, 1998).

Lastly, Ryan and Haslam (2007) have brought attention to the "glass cliff" or "second wave of discrimination" that female leaders can come up against after they break through the "glass ceiling." There is growing evidence that women are more likely to be hired to manage risky situations and, as such, more likely to be associated with poor leadership when the company does not succeed (Ryan & Haslam, 2007; Ryan, Haslam, Hersby, & Bongiorno, 2011). Additionally, stereotypes of masculine and aggressive leaders (i.e., "think leader, think male") may lead stakeholders to evaluate a company's performance less favorably if it is led by a woman versus a man (Hoobler et al., 2011; Ryan & Haslam, 2007).

In light of the potential diversity fueled conflicts as well as the barriers that women may face in leveraging their power, we also propose that organizations with women in executive leadership roles may experience negative financial consequences.

*Hypothesis 2: There is a negative relationship between female representation in leadership and organizational performance (H2a). Specifically, there is a negative relationship between having a female CEO (H2b), greater female representation on the TMT (H2c), greater female representation on the BoD (H2d) and organizational performance.*

### **No Relationship between Women in Executive Leadership and Organizational Performance**

There is a growing body of literature arguing that gender, alone, may not prove to be a significant predictor of organizational performance (Ryan & Haslam, 2007; Ragins & Gonzalez, 2003). Diversity and demographic research is often criticized for failure to take organizational context into account, which likely plays an important role in shaping executive-level relationships and actions (Guillaume et al., 2013; Ragins & Gonzalez, 2003). To this point, an organization's diversity climate has been noted as crucial to getting gender "diversity at work to work" (Guillaume et al., 2013). Additionally, research on intersectionality points to the importance of examining the interactions of multiple group memberships which may be critical to understanding the relationship between gender and organizational performance (McCall, 2005; Ragins & Gonzalez, 2003). As an example, female CEOs, depending on their racial background and the racial make-up of their organizations, may have different experiences in making decisions and leveraging their power.

*Hypothesis 3: There is no association between female leadership and organizational performance (H3a). Specifically, there is a non-significant relationship between having a female CEO (H3b), greater female representation on the TMT (H3c), greater female representation on the BoD (H3d) and organizational performance.*

## METHOD

### Literature Search

We established the following inclusion criteria to investigate the relationship between female leadership at the executive-level and organizational performance. First, we required studies to include a measure of female representation in leadership and a measure of organizational financial performance reported as a simple bivariate correlation ( $r$ ). Measures included in our analysis were originally reported as independent, dependent, or control variables. Acceptable measures of female representation in leadership included the presence (yes, no), proportion, or number of women members on the top management team or board of directors, the inclusion of a standardized measure of gender heterogeneity, or the reported gender of the CEO. We focused on financial performance, as the realization of economic success is arguably a firm's most important output (Barney, 2002). We conceptualized financial performance as either accounting-based or market-based measures. Accounting-based measures reflect an organization's internal efficiencies and past or short-term performance (Gentry & Shin, 2010) while market-based measures are largely dependent on actors external to the firm and reflect future or long-term performance (Lubatkin & Shrieves, 1986; Richard, Deviney, Yip, & Johnson, 2009). Specifically, accounting-based measures considered for our analysis included: return on equity (ROE), return on assets (ROA), leverage, profitability, and return on investment (ROI). Market-based measures included: Tobin's Q, market capitalization, stock price (change), and earnings per share.

In order to accumulate the population of studies that investigate the relationship between female leadership at the executive-level and organizational performance, we conducted keyword searches of PsycInfo, ABI Inform, Business Source Premier, and Proquest Dissertations and Theses using the keywords "gender", "female", "diversity", "CEO", "leader", "board of directors", "top management team", "upper echelon" and "heterogeneity" with "performance". We reviewed each article to ensure it included a bivariate correlation between the aforementioned female representation in leadership and organizational performance measures and omitted studies that did not. Attention was dedicated to uncovering as many unpublished manuscripts as possible, as these studies may report smaller effect sizes and are more likely to report null findings (Hunter & Schmidt, 2004). We conducted an online review of the conference proceedings for the last five years of the relevant annual meetings and emailed the first authors of each paper. Additionally, we posted solicitations to relevant email listserves. Finally, we conducted a manual search of relevant review articles (Nielsen, 2010; Terjesen, Sealy, & Singh, 2009) to ensure we retrieved all additional studies. In sum, our final sample included 40 studies that met all of the inclusion criteria.

### Meta-Analytic Procedures

In order to test our hypotheses, we evaluated a series of four models linking female leadership and organizational performance. Model 1 considered organizational performance to be unidimensional. Models 2 and 3 considered organizational performance as a multidimensional phenomenon (Short, Ketchen, Bennett, & du Toit, 2006) and evaluated female leadership against both accounting-based and market-based performance measures. Specifically, Model 2 focused on predicting *accounting-based* measures of performance (ROE, ROA, profitability, and leverage) and Model 3 focused on the relationship between female leadership and *market-based* metrics of organizational performance (Tobin's Q, stock indicators, and market capitalization). Model 4 considered the effect of US and non-US samples on the female leadership-organizational performance relationship considered organizational performance to be unidimensional.

Following guidelines established by Hunter and Schmidt (2004) and Lipsey and Wilson (2001), we conducted a series of meta-analyses to estimate the mean effect size between female leadership at the executive-level and organizational performance. Adhering to Hunter and Schmidt's (2004)

recommendations for correction of study artifacts, we corrected for both measurement and sampling error. To correct for measurement error, we conservatively employed a reliability of 0.8 for both independent (gender representation in leadership) and dependent (organizational performance) variables, as previous research suggests assessing reliability of 0.8 since it is rare for a measure to be without error. First, we calculated a corrected mean effect size that accounted for measurement error and second, we corrected for sampling error by weighting the reported bivariate correlations between measures of female leadership and organizational performance by the sample size for each study. The summation of corrected study effect sizes, divided by the sample size, yielded the mean effect size ( $\bar{p}$ ) across the studies. Consistent with previous meta-analyses (Crook, Ketchen, Combs, & Todd, 2008; Hancock, Allen, Bosco, McDaniel, & Pierce, 2013), we averaged the correlations of the performance measures in any studies that reported multiple performance measures (Hunter & Schmidt, 2004).

We calculated both confidence and credibility intervals to determine the accuracy of the mean effect size estimates (Whitener, 1990). Specifically, it was important to note whether the confidence interval for the mean effect size included zero. A confidence interval including zero suggests that the mean corrected effect size is not significantly different from zero. Consistent with previous meta-analyses in both organizational behavior (e.g., Hoobler, Hu, & Wilson, 2010) and strategic management (e.g., Crook et al., 2008), we employed a 95% confidence interval.

Hunter and Schmidt (2004) recommend calculating credibility intervals to determine the “distribution of parameter values” across studies (p. 205). For random-effects models that acknowledge variance across study parameters, credibility intervals are an important diagnostic statistic in meta-analyses. As suggested by Dalton et al. (1998), “the credibility interval may be useful as it provides some diagnostics regarding the potential existence of moderating variables” (p. 277). Consistent with previous meta-analyses in strategic management, we employed an 80% credibility interval (Hunter & Schmidt, 2004).

Finally, we calculated the Q statistic and fail-safe  $k$  statistics to detect moderating variables and to address publication bias. A significant Q statistic suggests the presence of moderating variables impacting the relationship between female leadership at the executive-level and organizational financial performance. The fail-safe  $k$  statistic is designed to specify the number of omitted studies averaging null findings that would diminish a significant mean effect size to zero (Hunter & Schmidt, 2004).

## RESULTS

Table 1 provides a summary of the results of the series of meta-analyses conducted to investigate the relationship between female leadership at the executive-level and organizational performance. Model 1a ( $k = 40$ ,  $n = 63,328$ ,  $\bar{p} = .022$ , CI =  $-.001$ – $.048$ ) broadly aggregates all measures of female representation in executive leadership. Results from Model 1a support H3, as the 95% confidence interval includes zero. Model 1b ( $k = 6$ ,  $n = 10,996$ ,  $\bar{p} = -.034$ , CI =  $-.111$ – $.058$ ) reports a correlation between a measure of CEO gender and organizational performance. Results from Model 1b support H3, as the 95% confidence interval includes zero. Model 1c ( $k = 10$ ,  $n = 25,310$ ,  $\bar{p} = .010$ , CI =  $-.004$ – $.046$ ) reports a correlation between a measure of TMT female representation and organizational performance. Results from Model 1c support H3, as the 95% confidence interval includes zero. Model 1d ( $k = 27$ ,  $n = 28,579$ ,  $\bar{p} = .037$ , CI =  $.003$ – $.074$ ) reports a correlation between a measure of BoD female representation and organizational performance. Results from Model 1d support H1, as the 95% confidence interval excludes zero.

Model 2a ( $k = 36$ ,  $n = 57,423$ ,  $\bar{p} = .033$ , CI =  $-.001$ – $.047$ ) aggregates all measures of female representation in executive leadership with accounting-based performance measures and indicates a mean population effect size of .033. Results from Model 2a support H3, as the 95% confidence interval

includes zero. Model 2b ( $k = 5, n = 10,083, \bar{p} = -.034, CI = -.111-.061$ ) reports a correlation between CEO gender and accounting-based performance measures. Results from Model 2b support H3, as the 95% confidence interval includes zero. Model 2c ( $k = 10, n = 25,310, \bar{p} = -.004, CI = .024-.031$ ) reports a correlation between TMT female representation and accounting-based performance measures. Results from Model 2c support H3, as the 95% confidence interval includes zero. Model 2d ( $k = 24, n = 24,208, \bar{p} = .046, CI = -.003-.079$ ) that reported a correlation between BoD female representation and accounting-based performance measures. Results from Model 2d support H3, as the 95% confidence interval includes zero.

We explored *post hoc* models linking overall female representation in executive leadership to specific accounting-based performance measures in Models 2e-2i. Model 2e ( $k = 20, n = 45,183, \bar{p} = .045, CI = .001-.049$ ) aggregates all measures of female representation in executive leadership with ROA. Results from Model 2e support H1, as the 95% confidence interval excludes zero. Model 2f ( $k = 12, n = 35,157, \bar{p} = .064, CI = -.021-.014$ ) aggregates all measures of female representation in executive leadership with ROE. Results from Model 2f support H3, as the 95% confidence interval includes zero. Model 2g ( $k = 2, n = 850, \bar{p} = -.008, CI = .004-.029$ ) aggregates all measures of female representation in executive leadership with ROI. Results from Model 2g support H2, as the 95% confidence interval excludes zero. Model 2h ( $k = 4, n = 733, \bar{p} = -.010, CI = .084-.217$ ) aggregates all measures of female representation in executive leadership with profitability. Results from Model 2h support H2, as the 95% confidence interval excludes zero. Model 2i ( $k = 4, n = 733, \bar{p} = .040, CI = -.012-.034$ ) aggregates all measures of female representation in executive leadership with leverage. Results from Model 2i support H3, as the 95% confidence interval includes zero.

Model 3a ( $k = 15, n = 42,614, \bar{p} = .013, CI = .009-.057$ ) aggregates all measures of female representation in executive leadership with market-based performance measures. Results from Model 3a support H1, as the 95% confidence interval excludes zero. Regarding Model 3b, our population of samples included only one study investigating CEO gender and market-performance and therefore, we were unable to meta-analyze this relationship. Model 3c ( $k = 2, n = 22,357, \bar{p} = .124, CI = -.020-.151$ ) reports a correlation between TMT female representation and market-based performance measures. Results from Model 3c support H3, as the 95% confidence interval includes zero. Model 3d ( $k = 12, n = 18,723, \bar{p} = .019, CI = -.022-.062$ ) that reported a correlation between BoD female representation in executive leadership and market-based performance measures. Results from Model 3d support H3, as the 95% confidence interval includes zero.

Additional *post hoc* models linking overall female representation in executive leadership to specific market-based performance measures were conducted in Models 3e-3g. Model 3e ( $k = 9, n = 36,758, \bar{p} = .005, CI = .018-.138$ ) aggregates all measures of female representation in executive leadership with Tobin's Q. Results from Model 3e support H1, as the 95% confidence interval excludes zero. Model 3f ( $k = 5, n = 4,237, \bar{p} = -.015, CI = -.072- -.022$ ) aggregates all measures of female representation in executive leadership with stock indicators. Results from Model 3f support H2, as the 95% confidence interval excludes zero. Model 3g ( $k = 2, n = 3,259, \bar{p} = .196, CI = .016-.137$ ) aggregates all measures of female representation in executive leadership with market capitalization. Results from Model 3g support H1, as the 95% confidence interval excludes zero.

Kowlowsky and Sagie (1993) note credibility intervals equal to or greater than .11 suggest the presence of subgroups. Considering the 80% credibility interval for Model 1 exceeded .11, *post hoc* moderators were explored. Consistent with previous meta-analyses in strategic management (Crook et al., 2008), *post hoc* tests for moderators are appropriate when strong theoretical foundations are lacking to establish *a priori* hypotheses. Accordingly, Models 4a and 4b investigated a cross-cultural explanation for the female representation in the executive leadership-performance relationship. Model 4a ( $k = 22, n = 49,178, \bar{p} = .041, CI = .004-.064$ ) aggregates all measures of female representation in executive

leadership from samples comprised of United States-based firms. Results from Model 4a support H1, as the 95% confidence interval excludes zero. However, the 80% credibility interval exceeds .11, suggesting the presence of additional moderators beyond where the sample was drawn. Model 4b ( $k = 18$ ,  $n = 14,150$ ,  $\bar{p} = .001$ ,  $CI = -.019-.012$ ) aggregates all measures of female representation in executive leadership from samples comprised of non-United States-based firms. Results from Model 4b support H3, as the 95% confidence interval includes zero. The meta-analytic findings are presented in Table 1.

## DISCUSSION

Overall, our meta-analysis reveals support for all three hypothesized relationships between female representation in executive leadership and organizational performance. In support of H1a, our meta-analysis revealed positive, yet small, relationships between female leadership, broadly, and market-based performance (Model 3a), Tobin's Q (Model 3e), market capitalization (Model 3g), ROA (Model 2e), as well as with performance in United States-based samples (Model 4a). In support of H1d, our meta-analysis revealed a positive, yet small, relationship between board of director female representation and overall financial performance (Model 1d). Results from our meta-analysis failed to support H1b and H1c, with no significant positive relationships between having a female CEO or including women on TMTs and an organization's financial performance.

**TABLE 1**  
**Meta-Analysis Results of The Relationship between Female Representation in Executive Leadership and Organizational Performance**

The relationship between:	Model	<i>k</i>	<i>N</i>	Observed <i>r</i>	Corrected <i>r</i>	SD <i>p</i>	95% CI	80% CV	Q	Fail-safe <i>k</i>
Female Representation and overall performance	Model 1a	40	63,328	.018	.022	.081	-.001 to .048	.026 to .127	142.22***	14
CEO gender and overall performance	Model 1b	6	10,996	-.027	-.034	.106	-.111 to .058	-.162 to .109	-14.04	4
TMT female representation and overall performance	Model 1c	10	25,310	.009	.010	.040	-.004 to .046	.030 to .073	127.54***	4
BoD female representation and overall performance	Model 1d	27	28,579	.030	.037	.094	.003 to .074	-.081 to .159	119.46***	8
Female Representation and accounting-based measures	Model 2a	36	57,423	.027	.033	.078	-.001 to .047	.024 to .121	134.93***	10
CEO gender and accounting-based measures	Model 2b	5	10,083	-.027	-.034	.108	-.111 to .061	-.163 to .113	-10.75	3
TMT female representation and accounting-based measures	Model 2c	10	25,310	-.001	-.004	.044	-.024 to .031	-.052 to .060	19.78*	5
BoD female representation and accounting-based measures	Model 2d	24	24,208	.038	.046	.104	-.003 to .079	-.094 to .171	81.51***	6
Female representation and ROA	Model 2e	20	45,183	.036	.045	.077	.001 to .049	.023 to .124	86.44***	5
Female representation and ROE	Model 2f	12	35,157	.050	.064	.058	-.021 to .014	.024 to .071	-11.81	2
Female representation and ROI	Model 2g	2	850	-.006	-.008	.040	.004 to .029	.012 to .068	19.66	2
Female Representation and Profitability	Model 2h	4	733	-.008	-.010	.215	.084 to .217	.043 to .426	9.76**	2
Female representation and Leverage	Model 2i	10	35,772	.032	.040	.075	-.012 to .034	.027 to .108	19.69**	2
Female representation and market-based measures	Model 3a	15	42,614	.010	.013	.078	.009 to .057	.021 to .133	82.83***	6
CEO gender and market-based measures	Model 3b	1	<i>Insufficient k to conduct meta-analysis</i>							
TMT female representation and market-based measures	Model 3c	2	22,357	.100	.124	.061	-.020 to .151	-.013 to .145	34.29***	1
BoD female representation and market-based measures	Model 3d	12	18,723	.016	.019	.075	-.022 to .062	-.076 to .116	42.74***	5
Female Representation and Tobin's Q	Model 3e	9	36,758	.004	.005	.074	.019 to .066	.018 to .138	61.63***	4
Female Representation and Stock Indicators	Model 3f	5	4,237	-.012	-.015	.080	-.072 to -.022	.045 to .055	-29.39	3
Female Representation and Market Capitalization	Model 3g	2	3,259	.157	.196	.071	.023 to .068	.016 to .137	8.82	2
Female Representation and overall performance, US samples only	Model 4a	22	49,178	.033	.041	.071	.004 to .064	-.057 to .126	148.32***	6
Female Representation and overall performance, non-US samples only	Model 4b	18	14,150	.001	.001	.050	-.019 to .012	.021 to .061	-23.2	8

Note: *k* = number of studies; *N* = cumulative sample size; Observed *r* = average observed correlation; Corrected *r* = corrected meta-analytic correlation; SD*p* = standard deviation of corrected meta-analytic correlation; CI = confidence interval; CV = credibility interval; Q = Q statistic; \*\*\* *p* < .01; \*\* *p* < .05; \* *p* < .10

Positive findings supporting a relationship between female leadership at the executive-level and organizational performance appear to align with the theoretical foundations established previously. In line with resource dependency theory and the resourced-based view of the firm, female executives and board members may be viewed as inimitable human capital who bring unique capabilities, knowledge, and information to the organization. In this manner, female representation in executive leadership becomes a competitive advantage for the firm (Barney, 1991). Having female executives and board members may signal to both internal and external constituents that the organization will seek to cultivate vital relationships with employees, customers, and supplies, thus maximizing firm financial performance. Specifically, our results suggest that female representation at the board of director level may help to foster collaboration, better idea generation, and stronger decisions, thus positively impacting firm performance.

In support of H2a, our meta-analysis revealed negative, yet small, relationships between overall female leadership and ROI (Model 2g), profitability (Model 2h), and stock indicators (Model 3f). It is important to note that these negative mean effect sizes were not attributed to any specific level of analysis (CEO, TMT, board of directors) and, instead, were only present when assessing overall female representation in executive leadership. Accordingly, results from our meta-analysis failed to support H2b, H2c, and H2d.

With regard to the negative relationships with accounting-based performance measures (i.e., ROI and profitability), the data suggests that negative *internal* reactions to female CEOs and TMT members may perpetrate negative stereotypes, thus inhibiting the effectiveness of executive leaders (Schein, 1975). Furthermore, this finding is in line with token theory whereby a female CEO may be installed as a symbolic figurehead of an organization, yet lack the ability to exercise power over the top management team and authority across the organization (Kanter, 1977). With regard to the negative relationship with market-based performance measures (stock indicators), signaling theory argues that the installation of female executives and board members may be negatively perceived by external constituents (Kang et al., 2010).

In support of H3a, H3b, H3c, and H3d, our meta-analysis failed to establish a conclusive link between female leadership at the executive-level and organizational performance in twelve analyses. These findings illustrate the limitations explicated by Ragins and Gonzalez (2003) and Ryan and Haslam (2007) of demographic research. Results from prior studies have been equivocal and as this meta-analysis suggests, gender, alone, may be only a weak or inconclusive predictor of organizational performance.

Our results are generalizable to executive leaders within the upper echelon of an organization who have the most influence over firm outcomes and who engage in decisions on a daily basis regarding the strategic direction of the firm (Finkelstein, Hambrick, & Cannella, 2009). Furthermore, our analyses employed well-defined measures of financial organizational performance. We note several limitations of this meta-analysis. As with all meta-analyses, this study was limited in that we could analyze only the studies that currently exist. We also recognize the conceptual variance within both our measurement of gender diversity of executive leaders (e.g., proportion of women on TMT vs. number of women on TMT) and our measures of organizational performance (e.g., ROE vs. ROA). As additional studies are undertaken in subsequent years, it would be advantageous for future meta-analyses to seek parsimony in the methods used to evaluate gender diversity and firm performance. Finally, we recognize organizational performance is a multidimensional construct and this meta-analysis captured only financial performance. It is plausible that gender diversity in leadership may impact other “softer” firm outcomes that indirectly impact financial performance including productivity, innovation, or culture and climate.

## IMPLICATIONS FOR THEORY AND FUTURE RESEARCH

Considering the very modest relationships revealed in our analyses, we believe these results pose a real challenge to the value in diversity paradigm that scholars often draw upon (Hoobler & Nkomo, 2013; Zanoni et al., 2010). Instead of focusing on the direct relationship between gender diversity or female leadership at the top and financial performance, theoretical and empirical attention should be to (1) factors, in combination with or beyond gender, that lead to value creation; and (2) redefining the ways in which “value” is defined. Our results clearly demonstrate that the direct relationship between having women in executive leadership and an organization’s financial performance is minimal (or even non-significant depending on how each construct is defined), and, as such, there is a need to investigate moderating factors that impact the direction and magnitude of this relationship. Furthermore, the results of our study suggest that the “bottom line business case for diversity” may not be the most pertinent issue at hand: instead we should shift our attention to the other ways in which diversity can add value to organizations (Nkomo & Ngambi, 2009; Noon, 2007). Rather than focus on traditional accounting and market-based measures of financial performance, value can also be defined in terms such as innovation, corporate social responsibility, relationship quality with stakeholders, or, ultimately, social equality.

By continuing to “prove” the link between gender diversity and financial performance, scholars may be perpetuating barriers to social equality (Hoobler & Nkomo, 2013; Noon, 2007). Such studies, if taken out of context, may suggest that women are not “worth” including in leadership roles if they are not directly impacting an organization’s financial results. Instead, another fruitful path for future research is exploring the different *types* of value that gender diversity can bring to an organization. As an example, emerging research has begun to examine the impact of gender diversity on social performance, a less traditional form of value (Hafsi & Turgot, 2012; Marquis & Lee, 2013). Other conceptualizations of value might include psychological values such as esteem, belonging, or social justice (Brickson, 2007). By expanding the ways in which we define value, we may advance our understanding of the true impact of gender diversity on organizations and their stakeholders.

## CONCLUSION

As the first meta-analytic investigation of the relationship between female representation in executive leadership and organizational-level performance, this study helps to advance our theoretical and empirical understanding of the relationship between these two constructs. Rather than continue down the path of proving women’s leadership capabilities, a path never needed to be pursued for male leadership, we believe this study gives future researchers permission to move beyond the need to link female leadership and financial performance (Hoobler & Nkomo, 2013). This is not to say that women’s representation in senior leadership roles is not of critical importance—it *is*. Instead, we seek to challenge scholars to examine the situations or contexts under which organizations who include female leaders at the “top” can thrive.

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## **BACK@WORK: MANAGING CHANGE FOLLOWING UNPROTECTED INDUSTRIAL ACTION IN THE MINING INDUSTRY**

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### **ABSTRACT**

Following the unprotected strikes that took place during the beginning of 2013, the affected mining group approached a South African consulting group to assist them in supporting their workforce in an attempt to improve employee satisfaction, to prevent further strike action and to ensure that the mines return to normal production. The post-strike engagement is discussed in terms of facilitating debriefing conversations with the workforce as well as the communication strategy implemented following the debriefing sessions. A survey questionnaire was used to monitor the success of the debriefing sessions. Suggestions are made for several other activities to be included in post-strike engagements in order to support employees to make an emotional commitment to drive their effort.

**Keywords:** Unprotected strikes; post-strike engagement; debriefing; communication strategy

### **INTRODUCTION**

During the past 140 years, the strength of Africa's largest economy, South Africa has been based on a significant dependence on the mining industry (Binns, Dixon, & Nel, 2012). The unique geological resources have made the country the world's most significant supplier of a range of strategic minerals. Mining in South Africa is one of the toughest occupations with significant occupational hazards for those who work in the sector, where 63 people lost their lives in mining operations during 2008 in the gold and platinum industry alone (Masia & Pienaar 2011). The mining industry has been hampered by down-scaling and industrial disputes (Moodie, 2009). Labour disruptions in the form of industrial action have been an important contributing factor to the record low production figures in the South African mining industry. Mining operations have been challenged by an unprecedented wave of strike action during the last 2 years. In 2012, during a troubling incident at a Marikana mine, 34 people lost their lives in a clash between police and mineworkers (Sorensen, 2012). The strike action was driven by workers for workers and took place against union advice. In the period leading up to the 1994 elections, most forms of

industrial action were politically inspired (Twala, 2002). However since the political sea change, whilst explanations of workforce inequality and poverty provide a context for understanding the crisis, they do little to address the underlying causal factors of the meltdown. A range of institutional and socio economic drivers contributes to the mining crisis such as, union and management structures as central to employee engagement; the ever changing relationship between management and employees; and diversity issues in the workforce linked to continued poverty and inequality (Hartford, 2013).

The mining industry has a vested interest in the prevention of industrial disputes. Organisations utilise a range of approaches to support their workforce after industrial action in an attempt to improve employee satisfaction, to prevent further strike action and to ensure mines return to normal production. A South African consulting group, the Institute for Telling Development (ITD) was contracted by a mining group to assist with the Back@Work Project, specifically related to the debriefing of all affected employees following the period of industrial action. This project was initiated in the light of the unprotected strikes that took place in the first few months of 2013 at the affected Mines.

The aim of this project was to facilitate employees' purposeful engagement<sup>1</sup> back into their workplace. In light of the unprotected strikes the mining group made a commitment to take employees from *survival* to *stability* to *success* to *significance*. It is assumed that in a position of *significance*, employees will make an emotional commitment<sup>2</sup> to drive effort.

The consulting group's function was to facilitate debriefing conversations with employees. The debriefing facilitators were tasked with providing a context for employees to voice:

- Their experiences as employees at the mining group **before** the unprotected strikes took place
- Their experiences **during** the unprotected strikes
- Their hopes and expectations for the workplace, following the return to their respective worksites **after** the unprotected strike

Through these debriefing conversations, it was aimed to fertilise the context in which employees could start making the emotional commitment to purposefully re-engage back into their workplace.

In this paper we will discuss ITD's post-strike engagement in terms of facilitating debriefing conversations with the workforce as well as the communication strategy implemented following the debriefing sessions at one specific mining group. Note should be taken that this Back@Work project is still in progress at the time of writing this paper. The initial process of debriefing of employees, which ITD was scoped to assist with, has developed into a following phase which entails a request from Unions to hear what management's concerns are with employees. The Back@Work process will then be concluded with clearly communicating management's responses to the employees' experiences and concerns and the commitments made in light of these concerns and experiences.

## LITERATURE REVIEW

Organisations respond to industrial action in a range of different ways. A number of research studies have identified factors that make a difference in responding to industrial action at organisational and individual level (Hartford, 2013; Richardson & Wood, 1989; Twala, 2002). For the purpose of this report, debriefing and the role of leadership and direct communication in creating constructive relationships are discussed as factors which contribute to positive post-strike engagement.

### Debriefing

Debriefing has gained increasing momentum over the past ten years as a response to unrest or upheaval in organisations (Deville & Cotton, 2003). Much can be learnt about debriefing from research

conducted in related fields such as critical incident stress debriefing (Devilley & Cotton, 2003), critical incident stress management (Everley, Flannery, & Mitchell, 2000), psychological first aid (Forbes et al., 2011), and debriefing following disaster relief work (Griffin-Padgett & Allison, 2010).

This kind of intervention is seen as a way for employers who are concerned about the psychosocial wellbeing of their workers, to provide workers with constructive support during and after periods of upheaval that ensures a healthier workforce. Debriefing generally takes place in environments following upheaval or periods of significant stress with the aim to reduce psychological disturbance of workers after incidents.

Following exposure to stressful events workers reported a high occurrence of symptoms such as sleep disturbances, nightmares, and feelings of helplessness and anxiety that contribute to more lasting mental health problems such as post-traumatic stress disorder (Walsh, 2009). In situations where workers sought care and support from others, they were able to reduce the longer term impact of employment upheaval and related stress on their lives.

**Debriefing** reduced the incidence of psychological disturbance of workers, and was found to be highly effective in helping workers to integrate experiences at a cognitive level, in order to make meaning of events (Walsh, 2009). Intervention supported workers to remain engaged with the organisation which reduced absenteeism (Forbes et al., 2011). The likelihood of long term poor performance is lessened which in turn will increase productivity and workers' occupational functioning (Devilley & Cotton, 2003). Debriefing sessions were offered either individually or in group format where workers could share their experiences, vent their feelings and make sense of events.

However some controversy exists about the impact and longer term outcomes of debriefing in systematic reviews and systematic analyses of critical incident stress debriefing research. At present no randomised controlled trial exists of the longer term effects of group debriefing. As for individual debriefing as a standalone intervention, a consensus of randomised controlled trials suggest that individual debriefing had little lasting effect (Devilley & Cotton, 2003), and a meta-analysis concluded that single session debriefing on its own is of little benefit (van Emmerik et al., 2002).

Debriefing is much more effective in organisations when utilised as part of a larger integrated multi-component critical incident management programme where attention is paid to the structural inequalities and diversity issues that underlie an incident such as industrial action. Debriefing as part of a larger programme consists of the following components:

- Pre-crisis preparation at organisational and individual level
- Development of mobilization procedures for, during and after the incident
- Individual debriefing and counselling where needed
- Small groups discussion to defuse issues and reduce symptoms
- Longer small group discussion post-crisis to facilitate the process of making sense of events and bringing closure
- Follow-up procedures and referral to other professionals for assessment and treatment as needed

The effectiveness of a more integrated multi-component programme has been demonstrated through a number of qualitative analyses (Everley, Flannery, & Mitchell, 2000; Everley & Mitchell, 1999), empirical investigations and meta-analyses (Flannery 2000). However, due to the contested nature of debriefing as a standalone post-crisis intervention, further research is needed to determine the outcomes and longer term effects of both individual and group debriefing as an intervention (Devilley & Cotton, 2003). Practice and research in the area of debriefing is in its infancy and holds much scope for further development.

### **Leadership and Constructive Relationships**

In the aftermath of industrial upheaval, leaders who adopt a position of restorative dialogue where they avoid blame and start to create a vision for the future, were found to be most effective (Griffin-Padgett & Allison, 2010). These leaders addressed people directly and made sure workers were aware of concerns about their emotional and physical wellbeing. Following long and difficult strikes emotions most often become highly charged. Both management and workers can react emotionally to events. Constructive negotiation will require of those in leadership positions to handle the period following industrial action with skill to prevent workers from exploiting emotionally charged events and thereby increase the impact of the strike. Discussion, debate and planning can prevent organisations from being paralyzed after industrial action for extended periods of time. Forums where workers can vent their frustration and discuss their views are of benefit (Twala, 2002). In these meetings, workers sense of ownership increase. The aim is to create participatory processes where workers are included in discussions to inform decision-making about their working conditions and participate in decisions about how to restore full operation and functioning (Twala, 2002).

The benefits of positive relationships between workers and the organization following periods of strike action or what might be seen by some as organizational crises, are well rehearsed in research. People with positive relationships to the organization were less likely to blame the organisation for the shortcomings that underpin industrial action (Brown & White, 2011). Workers with positive relationships to the organisation did not perceive the organisation to be at fault in causing disputes. Research conducted in **a range of industries** supports the notion that **positive working relationships** are more important than following a specific approach to resolve organisational crises or industrial action (Brown & White, 2011; Coombs, 2007a; Lee, 2007). The implications of this research points to relationships as a key component to ensure the organisation regains full functionality following periods of upheaval.

Crisis communication theories suggest, just as there is no one strategy that will work in every given situation, there is no single approach to facilitation of constructive relationships following periods of organisational crises (Ulmer, Sellnow, and Seeger, 2007). Responses to industrial action will change shape and form due to the shifting nature of crises based on their humanistic nature.

### **Direct Communication with Workers**

Following industrial action in the mining industry in both the UK and RSA, the value and benefit of direct communication between management and workers became apparent. Management communicated directly with the workforce instead of relying on the unions to act as a channel for communication. Communication took a range of forms as in face-to-face meetings with groups, meetings at the pit tops, newsletters, text messages and videos. This form of communication captured and dealt with individual grievances and addressed matters with workers before they escalated into significant action (Richardson & Wood, 1989). Conversations acted as an opportunity whereby workers could voice their concerns and be heard by management, which in turn informed management decisions and strategic development (Twala, 2002).

### **Concluding Thoughts**

A range of different approaches, of which all has not been discussed in this report, appear to be effective in the period directly after industrial action. However, most evidence points in the direction of an integrated whole systems approach that involves visionary leadership where the leader takes a position of **restorative dialogue to facilitate open communication** between their managers and the workforce. Facilitation of constructive working relationships was seen as key to ensure an engaged and committed workforce. Care for workers in the form of group and individual debriefing as part of a larger organizational incident management programme was found to be effective.

## DEBRIEFING APPROACH FOLLOWED

The debriefing facilitators were instructed to be involved in three categories of debriefing sessions. These categories included the following:

- Debriefing of Senior Leaders
- Debriefing of Leaders
- Debriefing of Employees

At the onset of the project it was also agreed that within each of these three categories individuals will participate in:

- Individual debriefing conversations
- Team/Group debriefing conversations

However after having made initial contact at the respective mines, it became apparent that the debriefing facilitators also had to adapt their strategy with regard to reaching the target audience. Employees were hesitant to engage in formal conversations as it was a concern that these formal ‘appointments’ were seen more as counselling sessions for people who were not able to cope. Furthermore, as an outside consulting organisation, the HR departments at several of the Mines were also hesitant to schedule sessions for the employees with ITD’s facilitators.

The debriefing facilitators responded to this initial hesitant behaviour by being more **proactively visible** in the respective work environments. This proactive attempt to be more visible entailed having the debriefing facilitators being **physically present** amongst the employees. The debriefing facilitators were not only physically present but also displayed **genuine interest** in the employees and the work environment in which they find themselves. This can be described as the ‘walk-about’ sessions, during which the debriefing facilitators would walk around the premises and have random informal conversations with employees about their work contexts, the work that they do and their thoughts about the recent strike. These walk-about sessions seemed to be fruitful as it provided opportunity for the debriefing facilitators to cultivate more trust amongst employees towards them.

In a short duration of ten weeks, approximately 35 debriefing facilitators managed to:

- Speak to 1249 individuals in formal debriefing contexts
- Have informal walk-about conversations with 1933 individuals
- Facilitate 309 group debriefing sessions with a total of 3860 people in the different groups

Emotions of anger were often prevalent amongst the employees. The facilitators managed to contain these emotions and through this process of containment the emotions transformed into open and honest conversations about the employees experiences.

Not only did the debriefing facilitators create a context for the employees to share their experiences before and during the strike but also to share their expectations for the workplace following the unprotected strikes. In this ten week period the debriefing facilitators also provided frequent feedback to relevant people on the management teams in order for them to be kept informed about the outcomes of the debriefing conversations.

Throughout the debriefing process, ITD was committed to not only provide a context for employees to voice their experiences and concerns but to also facilitate a bigger process towards creating positive working relationships specifically between workers and management. ITD constantly

kept in mind that the manner in which the experiences of the workers are communicated (blaming/attacking language vs. non-blaming/non-confrontational language) back to the management teams can either:

- Through the use of non-judgement language, the feedback can invite further participation and engagement from the management's side with regard to the workers' experiences or
- Through the use of blaming/attacking language, the feedback can alienate the management's commitment to participate with the workers in considering and attending to their experiences

In this phase of the project, positive working relationships were created by placing attention on how the results of the debriefing conversations are communicated.

### **Communication of Results**

One of the biggest concerns amongst the employees was that the information that was shared during the debriefing conversations is not going to be used by management to help them understand the workers experiences and make significant changes in the workplace. In response to this concern, ITD made concerted efforts to ensure that management is informed on what was shared during the debriefing conversations. However this effort was guided by the principles of **participation and transparency** in communication. The implication of this was two-fold in the way ITD communicated the results.

Firstly, ITD made sure that all written feedback reports to relevant stakeholders are done in a manner that will invite further participation from them in discussing the experiences and concerns identified. This implied **using non-blaming and non-confrontational language** when representing the voices of the employees in the reports. In this way ITD hoped that management will be more willing to fully hear the concerns and experiences of the employees and in turn be able to appropriately respond to them.

Secondly, this implied ensuring that the employees are **informed** regarding the content of the feedback given to management. This was done through the development of short summaries of the issues and experiences identified during the debriefing sessions. In ensuring that the summaries are accessible to everyone, specifically related to their literacy level, the short summaries were translated into the relevant African languages as well as being illustrated in cartoon format.

The cartoons were printed on posters and positioned in visible areas in the respective mines. Employees were informed about the posters and encouraged to comment on the posters – specifically whether the cartoon posters display the relevant information and experiences of the employees. At some of the participating mines, the employees were encouraged to write further comments on the posters in order to ensure that management grasps the experiences and concerns of the employees.

### **Leadership**

The management teams at the respective mines have received the feedback of employees' experiences, concerns and expectations. As mentioned previously, this feedback was done in such a manner that it will create a context that will enable management to fully understand the employees and respond to employees in appropriate ways. At this stage of writing the paper, management indicated their commitment to attend to the workers experiences. One surprising opportunity that emerged from these feedback sessions was the request by Union leaders that the debriefing facilitators facilitate a session with the respective Mine's management team. The focus of this session should be on giving opportunity for the management team to share their concerns and expectations regarding the workers. This request can be seen as an indication that ITD's intervention is contributing towards restorative dialogue to facilitate open communication between workers, union leaders and management.

## RESEARCH METHODOLOGY

ITD will engage in several evaluation activities to ascertain the relevance and impact of the debriefing sessions and other interventions for the mining group and its employees following the unprotected strikes earlier in 2013. At the time of writing this paper, ITD surveyed the mining group's HR Business Partners and HR Managers to monitor the progress of the project thus far. This survey questionnaire and its results will form part of a bigger research project. The first of these evaluation activities was to invite HR Business Partners and HR Managers, specifically those individuals who were actively involved in the Back@Work Project, to complete a survey questionnaire. This report provides feedback on the results of the survey questionnaire that was completed by HR Business Partners and HR Managers representatives at the affected Mines.

### Data Gathering

The first step in ascertaining the relevance and impact of the debriefing sessions for the mining group and its employees following the unprotected strikes earlier in 2013, was the completion of a survey questionnaire by HR Business Partners and HR Managers who were actively involved in the Back@Work Project. The survey questionnaire used for this purpose, consisted of both predefined statements from which to choose a preferred answer, as well as less standardised, open-ended questions where the respondent is free to formulate his/her answers as he/she wishes. The predefined statements were placed on a 7-point Likert Scale, specifically a summated rating scale, which consists of statements that express either a favourable or an unfavourable attitude toward the object of interest (Cooper & Schindler, 2008). Three summated rating scale questions and three open-ended questions were included in the survey questionnaire.

Nonprobability sampling, specifically purposive sampling (Leedy & Ormrod, 2005), was used. Thus, ITD decided before-hand to identify specific people, who were actively involved in the Back@Work Project to be invited to complete the survey questionnaire. Twelve people were identified and each of them was contacted via e-mail inviting them to complete the on-line survey. A total of 10 of 12 invited people completed the survey. A very high response rate of 83% for this specific survey questionnaire is calculated. The survey was self-administrated (Cooper & Schindler, 2008) by respondents who received an electronic link which gave them access to the survey.

### Data Analysis

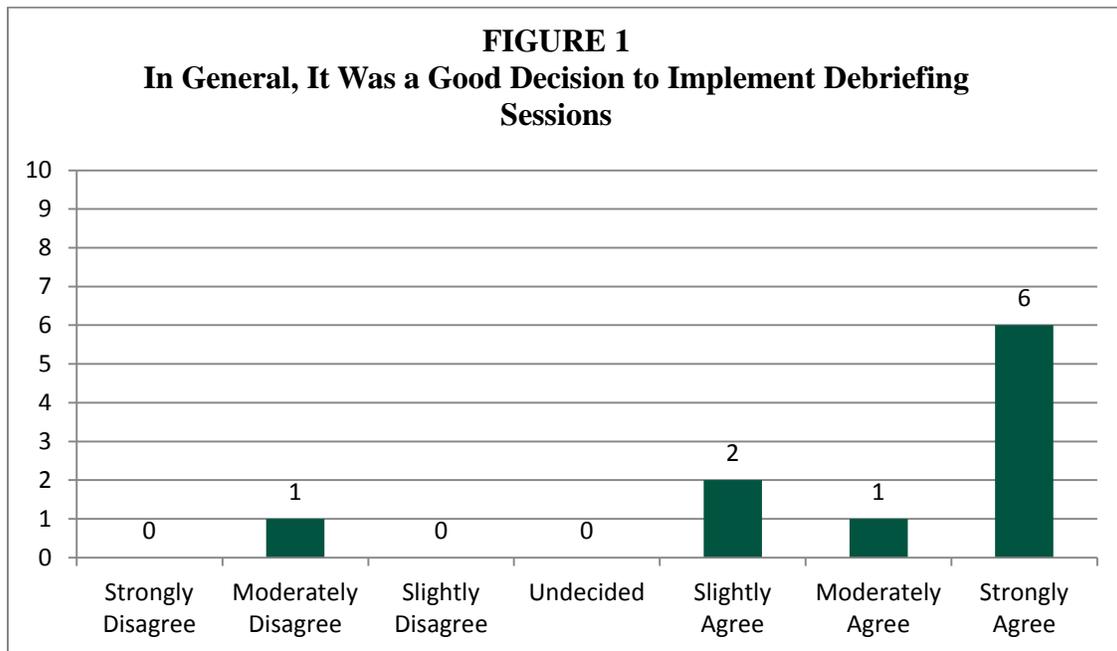
The level of measurement for the Likert scale items is ordinal and the most appropriate statistic measures for this level are frequency distributions to show the spread of answers. In terms of the open-ended questions, a content analysis will be conducted, specifically focusing on thematic data.

## RESEARCH RESULTS

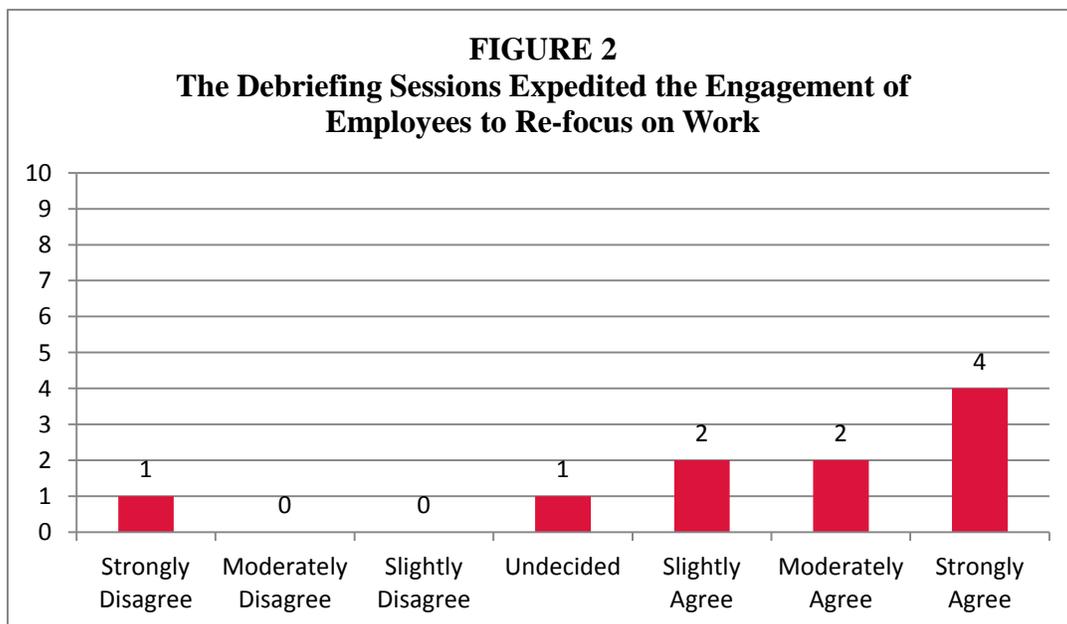
### Rating Scale Questions

The first three questions of the Back@Work Survey questionnaire were the summated rating scales. Respondents were asked to rate the statements on a 7-point scale ranging from "strongly disagree" to "strongly agree", with an "undecided" midpoint. The following results were captured:

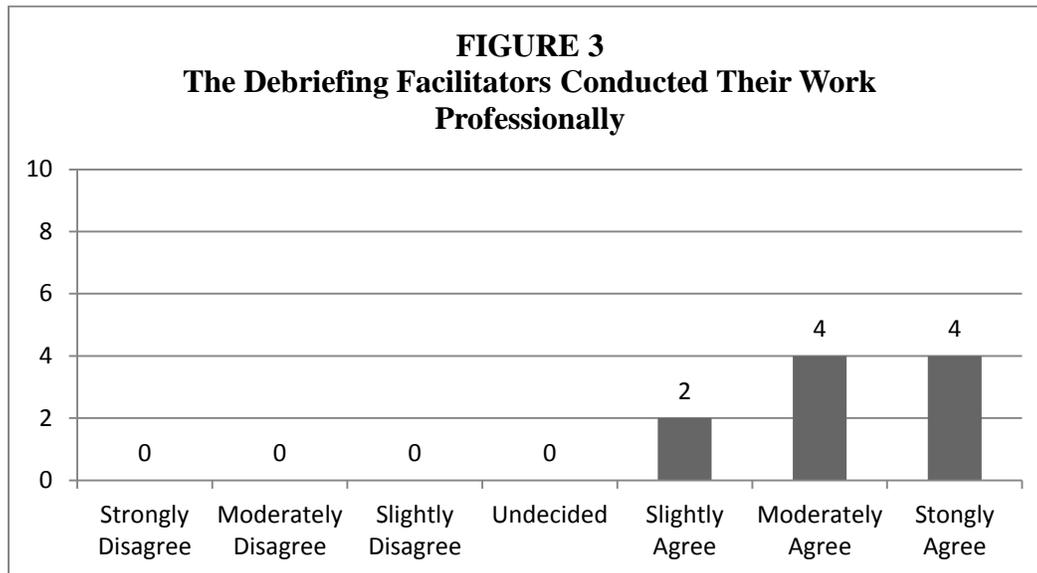
**Question 1: In general, it was a good decision to implement debriefing sessions.** The majority of the respondents (60%) indicated that they "strongly agree" that it was a good decision to implement the debriefing sessions. One respondent (10%) indicated that he/she "moderately agrees" with this statement with another two respondents (20%) indicated that they "slightly agree" with the statement. One respondent (10%) "moderately disagree" that it was a good decision to implement debriefing sessions. Figure 1 provides a summary of the results for question 1.



**Question 2: The debriefing sessions expedited the engagement of employees to re-focus on work.** As illustrated in Figure 2, the majority of the respondents (80%) either “slightly agree”, “moderately agree” or “strongly agree” that the debriefing sessions expedited the engagement of employees to re-focus on work. Four respondents (40%) “strongly agree” with this statement, whilst two respondents (20%) “moderately agree” and another two respondents (20%) “slightly agree” with this statement. One respondent (10%) “strongly disagree” that the debriefing sessions expedited the engagement of employees to re-focus on work. The remaining one respondent (10%) was “undecided” in this regard.



**Question 3: The debriefing facilitators conducted their work professionally.** All the respondents (100%) either “slightly agree”, “moderately agree” or “strongly agree” that the debriefing facilitators conducted their work professionally. Four respondents (40%) “strongly agree” with another four respondents (40%) indicating that they “moderately agree” with this statement. Two respondents (20%) “slightly agree”. Figure 3 provides a summary of the results for question 3.



### Open Ended Questions

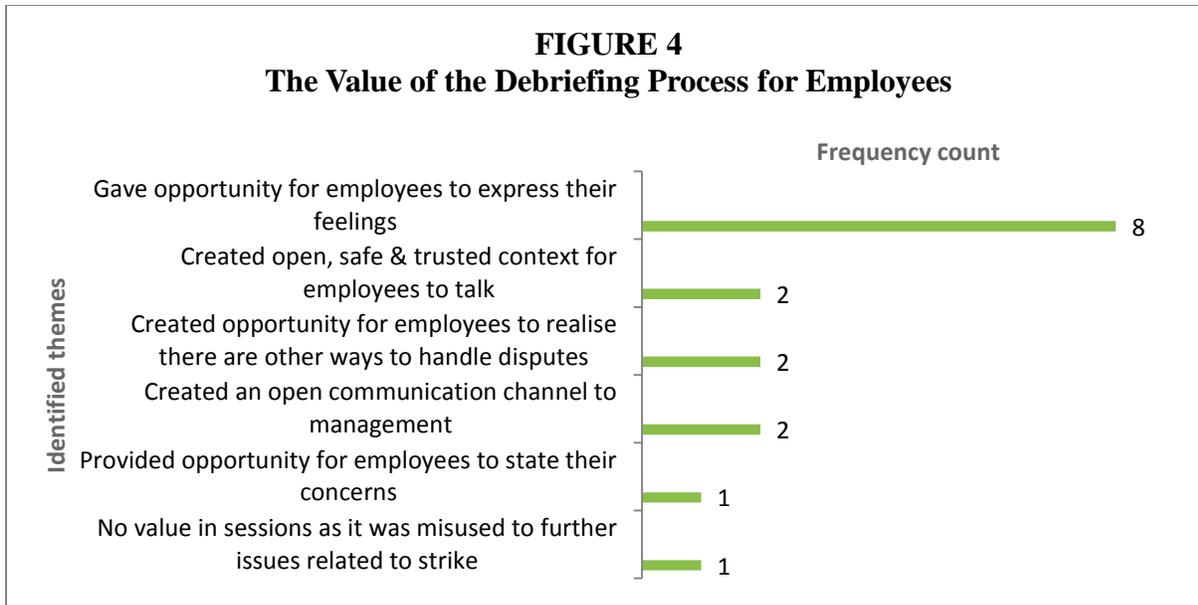
The remaining three questions were open ended questions. A thematic analysis of the responses to each of the questions will be provided.

**Question 4: What do you think was the value of the debriefing sessions for the employees?**

With regard to what the respondents thought was the value of the debriefing sessions for the employees, the following themes were identified:

- Gave opportunity for employees to express their feelings
- Created open, safe & trusted context for employees to talk
- Created opportunity for employees to realise there are other ways to handle disputes
- Created an open communication channel to management
- Provided opportunity for employees to state their concerns
- No value in sessions as it was misused to further issues related to strike

Figure 4 below indicates the number of times that each of the above themes was mentioned by respondents and as such indicates the strength of themes in terms of frequency count:

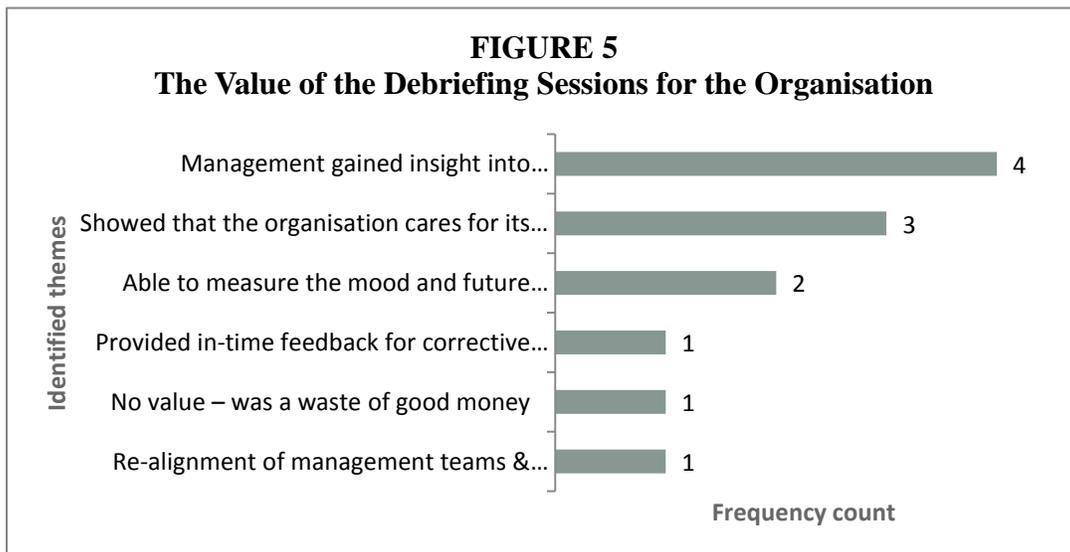


**Question 5: What do you think was the value of the debriefing process for the organisation?**

With regard to what respondents thought was the value of the debriefing process for the organisation, the following themes were identified:

- Showed that the organisation cares for its employees
- Management gained insight into employees' issues
- Provided in-time feedback for corrective action to be taken
- Able to measure the mood and future behaviour of employees
- Re-alignment of management teams & supervisors with the rest of employees
- No value – was a waste of good money

Figure 5 below indicates the number of times that each of the above themes was mentioned by respondents and as such indicates the strength of themes in terms of frequency count:



**Question 6: What next steps do you deem important?** Respondents were asked to comment on what they thought were the next important steps to be taken. The following is a thematic summary of the suggestions made:

- Provide feedback to employees regarding the issues they raised
- Improve communication
- Take visible action (starting with quick wins) based on issues raised
- Demonstrate a caring attitude
- Improve business relationship with unions
- Change the way leadership is executed
- Implement diversity process
- Focus on team effectiveness
- Offer conflict management training to both managers & workers
- Train full-time shop stewards in Soft Skills & Basic Industrial Relations courses

Figure 6 below indicates the number of times that each of the above themes was mentioned by respondents and as such indicates the strength of themes in terms of frequency count:

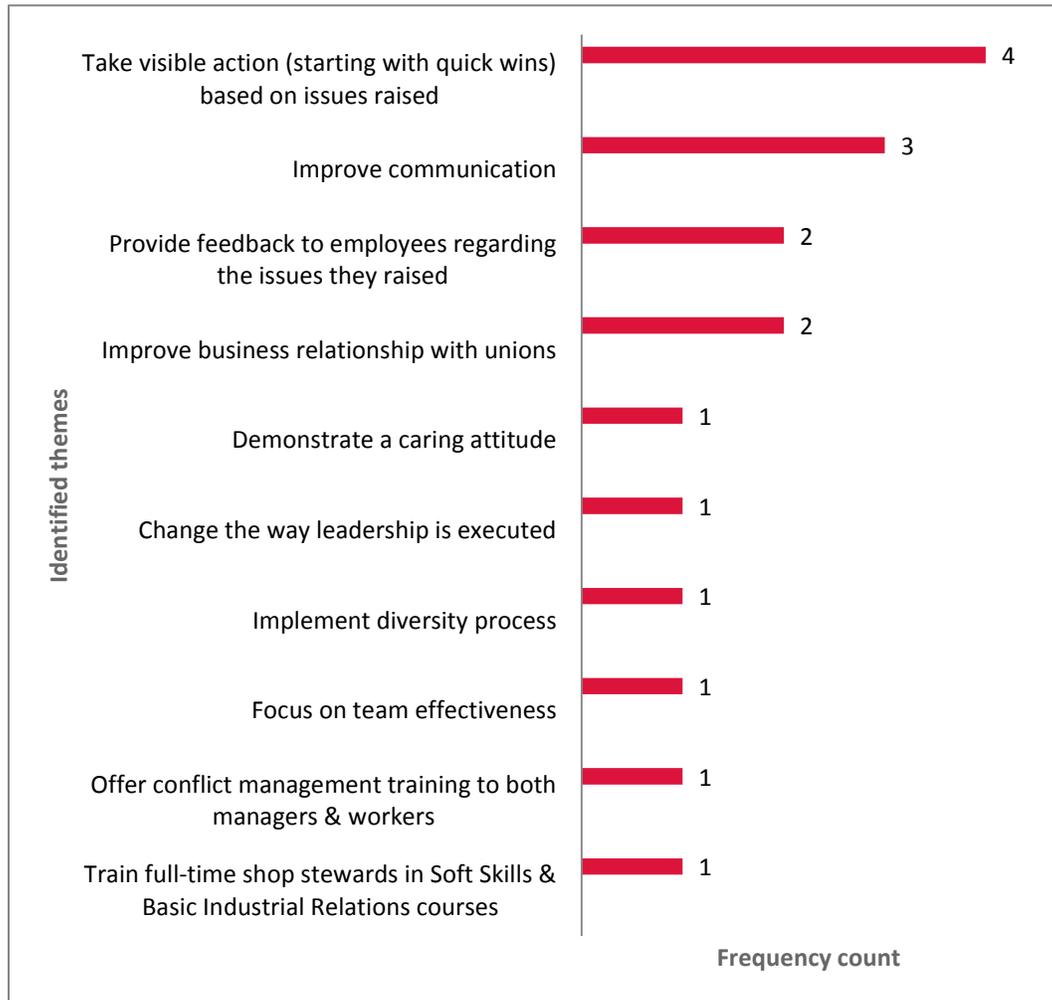
### **DISCUSSION OF RESULTS**

Overall, the results of the survey questionnaire indicate towards a positive evaluation of the debriefing sessions that took place during the Back@Work Project, amongst the HR Business Partners and HR Managers. This resonates with the findings of the literature pertaining to the effectiveness of providing debriefing opportunities to employees especially if it is part of a larger organizational incident management programme. Furthermore, respondents were also of the opinion that the debriefing facilitators conducted their work in a professional manner.

As indicated in Question 1, the majority of the respondents were of the opinion that it was a good decision to implement the debriefing sessions. Questions 2, 4 & 5 further corroborate the positive response regarding whether it was a good decision to implement the debriefing sessions. In Question 2 it becomes apparent that the majority of the respondents (80%), who are all representatives HR Business Partners and HR Managers at the various affected mines, were of the opinion that the debriefing session expedited the engagement of employees to refocus on work. These results, in addition to the comments made regarding the value of the debriefing sessions for the organisation, all support the conclusion that the respondents are of the opinion that the mining group has benefitted from implementing these debriefing sessions. The value of the debriefing session for the mining group can specifically be found in the following:

- It gave management insight into employees' issues
- Enables management to measure the mood and future behaviour of employees

**FIGURE 6**  
**Next Steps**



These, in turn, provide in-time feedback to management in order to take corrective action. The debriefing sessions also generally communicated to employees that the mining group cares for its employees (and is not only concerned with production and output).

Question 5 also sheds some light onto the positive response rate in Question 1 pertaining to whether it was a good decision to implement the debriefing sessions. The responses captured in Question 5 mostly indicate that respondents are of the opinion that the debriefing sessions were also of value to the employees, because:

- Employees were given the opportunity to express their feelings
- An open communication channel to management was created
- Created an open, safe and trusted context for employees to talk
- Created opportunity for employees to realise that there are other ways to handle disputes

Respondents were also given the opportunity to share their thoughts on what the next steps should be. The predominant themes regarding the next steps are:

- Take visible action (starting with quick wins) based on issues raised
- Improve communication
- Provide feedback to employees regarding the issues they raised
- Improve business relationship with unions

## CONCLUSION

The results of this survey shed some light on the perceptions of HR Business Partners and Managers regarding the benefits of the debriefing session. There is a shared opinion amongst them that workers are taking steps to purposefully engage in their workplace. However, the survey also indicates an awareness that in order to facilitate the purposeful engagement of employees it is imperative that management responds to the concerns and experiences of employees by providing feedback to employees, improve communication and taking visible action (starting with quick wins). The debriefing of employees as an intervention on its own, will not suffice in the purposeful reintegration of employees in their workplace.

Currently, the focus of the Back@Work project is to facilitate positive working relationships by focusing on:

- How information is communicated
- Include everyone in the communication process
- Support management in responding to and taking visible action related to employees' concerns and experiences

Following these activities, ITD will be able to continue their research to determine the factors that contribute to positive post-strike engagement of employees. Further research will reveal the effects of the actions the organisation took following strike action. The focus should be on determining whether post-strike action, such as the Back@Work project, contributes towards the process of transformation where employees' positions shift from *survival*; to *stability*; to *success*; to *significance*. In turn employees will be able to make an emotional commitment to drive their effort.

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#### END NOTES

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<sup>1</sup> Engagement is the extent to which employees commit – rationally or emotionally – to something or someone in the organisation, how hard they work as a result of this commitment and how long they intend to stay with the organisation.

<sup>2</sup> Emotional commitment is four times as valuable as rational commitment in driving discretionary effort. Indeed, the search for a high performing workforce is synonymous with the search for emotional commitment.

## INFLUENCE OF WORKING CONDITION ON EMPLOYEE CAREER CHANGE INTENTION: A CASE OF MOI UNIVERSITY, KENYA

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### ABSTRACT

We examine the influence of working condition on employee career change intention. We theorized and found out that working condition had a relationship with career change. Using regression analysis we further predict that working condition had a significant effect on career change. The study concludes that working condition had a higher impact on employee career change intention hence the study recommends that; the institution ensure that the employees work in a clean and conducive environment to better satisfy them, encourage team work through implementing recognition programs and outline clear roles to better satisfy employee and reduce career change decisions.

**Keywords:** Working condition; Career change intention; Employee organizational behavior; Human resources

### INTRODUCTION

Career change could be defined as a move to a new occupation which is functionally or substantively different from the previous occupation (McQuaid, 1986), paid or unpaid. He further indicates that, this definition allows for a myriad of career changes, including the change from wage employment in a large organization to self-employment from home. One of the indicators of job satisfaction is working condition (Luthans, 1992; Moorhead and Griffen, 1992). Luthans (1998), views that if people work in a clean, friendly environment they will find it easier to come to work. If opposite should happens, they will find it difficult to accomplish tasks. This could imply that when employees find it difficult to cope with their working environment then they may think of changing career. As a result,

failure to address the influence of working condition on career change, this could affect employee performance which could have resulted in increased productivity, motivation and reduced career change. Thus this study sought to answer: which working conditions measures adopted by Moi University Kenya and how do they influence career change intention?

## **LITERATURE REVIEW**

### **Reasons for Employees Changing Career**

Much research on career change focuses on upward occupational mobility, based on the assumption that people change their line of work to move into better-paying jobs. Rosen (1972), for example, points that employees change occupations to acquire more training and raise their earnings. His model predicts that employees stay in a particular occupation until they exhaust the training opportunities it offers and then move on to the next, accumulating more human capital. Shaw (1987) maintains that career change depends on how much workers have invested in occupation-specific skills and how easily these skills can be transferred to other occupations. Sicherman & Galor (1990) view occupations as a hierarchy of better-paying jobs. Workers become eligible for promotion into a better-paying occupation once they have accumulated sufficient experience in the current occupation. Workers denied promotions by their current employers may choose to change employers or occupations if such moves might increase the value of their lifetime earnings.

Other research emphasizes the trade-off between pecuniary and non-pecuniary job traits in worker decisions about career change. Instead of moving into better-paying occupations as they become more experienced, some workers may choose to downgrade, switching to lower-paying occupations that promise less stress and fewer responsibilities, more flexible work options, less physically demanding work, more interesting and personally fulfilling employment opportunities, or better working conditions. These types of transitions may appeal particularly to mothers and dual-career couples struggling to balance work and family responsibilities (Moen & Dempster 1987). For example, Connolly & Gregory (2007) found that about one quarter of women moving from full-time to part-time work in Great Britain between 1991 and 2001 shifted to an occupation that required fewer qualifications than their previous position. Occupational downshifting may also appeal to older workers, especially those with substantial savings or those already collecting retirement benefits who can afford to reduce their earnings. Not all occupational transitions are voluntary choices by workers, and involuntary transitions affect workers differently than voluntary transitions, whether driven by pecuniary or non-pecuniary motives. About 13 per cent of workers who changed occupations in US between January 1986 and January 1987 did so following the loss of their previous job (Markey & Parks 1989). They further allude that, half of workers displaced between 1983 and 1988 who were reemployed ended up in occupations different from those they previously held.

### **Working Condition and Career Change Intention**

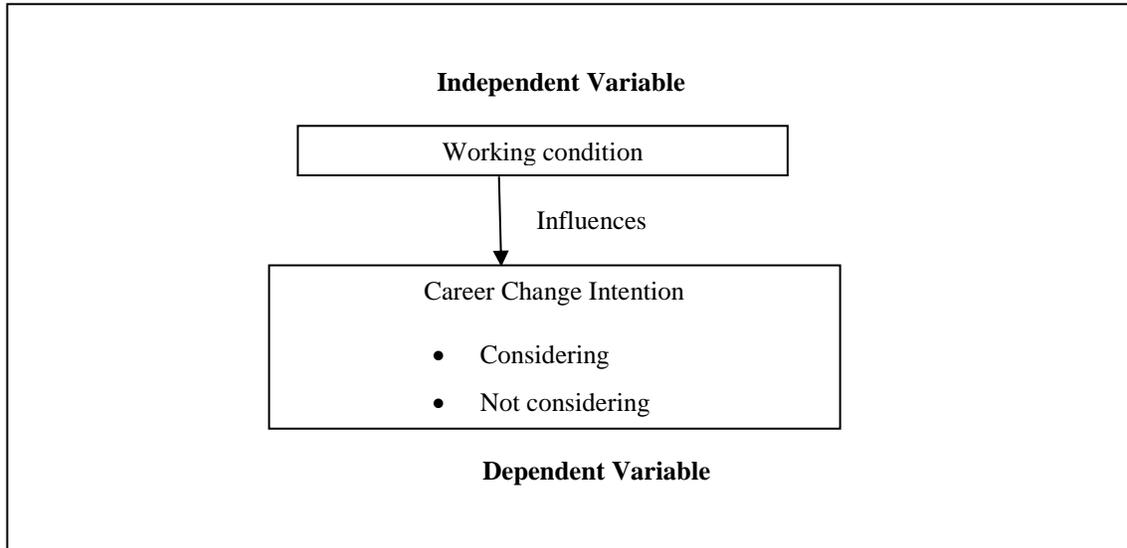
Working condition is another factor that has an effect on the employee's job satisfaction (Luthans, 1992; Moorhead & Griffen, 1992). According to Luthans (1998), if people work in a clean, friendly environment they will find it easier to come to work. If opposite should happen, they will find it difficult to accomplish tasks. For example teachers' workload, changes in the education system and a lack of discipline amongst some of the learners may be some of the reasons why teachers want to exit the profession. The working environment of teachers also determines the attitude and behaviour of teachers towards their work (Bishay, 1996). He further indicates that research has shown that improvement in teacher motivation has a positive effect on both teachers and learners. Moreover, within the teaching profession, for example, there are different working conditions based on the past allocation of resources to schools. In disadvantaged schools working conditions are often not conducive

to teaching and learning (Ngidi & Sibaya, 2002). There is empirical evidence that co-worker relations are an antecedent of job satisfaction (Morris 2004).

Research (Mowday & Sutton, 1993), suggests that job satisfaction is related to employees' opportunities for interaction with others on the job. An individual's level of job satisfaction might be a function of personal characteristics and the characteristics of the group to which he or she belongs. The social context of work is also likely to have a significant impact on a worker's attitude and behaviour (Marks, 1994). Relationships with both co-workers and supervisors are important. Some studies have shown that the better the relationship, the greater the level of job satisfaction (Wharton & Baron, 1991). Recent large-scale quantitative studies provide further evidence that teachers choose to leave schools with poor work environments, and that these conditions are most common in schools that minority and low-income students typically attend (Boyd et al., 2005; Ladd, 2009; Borman & Dowling, 2008).

Thus, mounting evidence suggests that the seeming relationship between student demographics and teacher career change intention is driven, not by teachers' responses to their students, but by the conditions in which they must teach and their students are obliged to learn. Using data on teachers' job satisfaction, career intentions, and the conditions of work in Massachusetts schools, these recent findings are confirmed. Teachers are more satisfied and plan to stay longer in schools that have a positive work context, independent of the school's student demographic characteristics. Furthermore, although a wide range of working conditions matter to teachers, the specific elements of the work environment that matter the most to teachers are not narrowly conceived "working conditions" such as clean and well-maintained facilities or access to modern instructional technology. Instead, the school culture, the principal's leadership, and relationships among colleagues predominate in predicting teachers' job satisfaction and career plans. According to Eby et al., (1999) indicated the work environment is characterized by participation in important work related decisions, supervisory feedback and support and rewards, that are perceived as fair and equitable (Bandura, 1986). This provides individuals with the chance to make a difference on the job, try out new skills, exercise discretion and receive feedback on their performance. These work conditions are expected to increase individuals' intrinsic motivation providing affirmation that their efforts are worthwhile and valued (Thomas, 2002). The proposed outcomes of this mastery-based motivation are affective career commitment and general job satisfaction. In turn, these affective work reactions are expected to impact outcomes such as career change and absenteeism. A number of studies have concluded that team work leads to a higher level of job satisfaction, increased patient safety, improved patient care and increased patient satisfaction. A study in the USA tested an intervention to promote teamwork and engagement among nursing staff in a medical unit of an acute care hospital. The results of this study indicated that the intervention increased staff relations, improved teamwork and decreased staff intentions to change career (Kalesh et al., 2007).

**FIGURE 1**  
**Conceptual Framework of Working Condition on Employee Career Change Intention**



### CONCEPTUAL FRAMEWORK

It is the assumptions of this study that, career change occurs through a process that combines working condition indicators that includes; positive relationship with workmates, opportunity to interact with workmates, working in a clean and friendly environment, satisfaction with duties assigned, good relationship with supervisors, encouraging team work and participatory methods in operations. Career change intention included not considering making a career change and considering making a career change. Working condition was considered as the independent variable in this study, while career change was considered as the dependent variable. Moi University integrates working condition in such a way that they influence career change as reflected in the dependent variable measures; considering making and not considering making a career change. The conceptual framework in this study is presented in Figure 1.

### METHODS

The study adopted a survey strategy in which the idea of a survey is that the researcher obtains the same kind of data from a large group of people or events in a standardised and systematic way and that a researcher then looks for patterns in the data that can be generalised to a large population than the group targeted (Martyn, 2010; Oates, 2010; Saunders et.al., 2009). In addition, data collected using a survey strategy can be used to suggest possible reasons for particular relationships between variables. Survey design is perceived to be authoritative by people in general and it is easily understood, and can therefore result in valuable findings if correct procedures are followed. Independent variable in the study was working conditions measured on ordinal scale. The dependent variable was career change which included not considering making and considering making a career change measured on ordinal scale. The sample size determination, for this study was based on Nassiuma, (2000), formula for calculating the minimum sample size required. The non-teaching staffs who participated in the study had to have been working in the school for more than six months. An investigation was first done to

identify the total number of non-teaching staffs in each school. Schools were geographically concentrated in different locations of Eldoret municipality. Sample selection for this study was achieved using stratified and systematic random sampling as mentioned above. The study area was divided into 13 Schools (Aerospace Science, Arts and Social Sciences, Business and Economics, Dentistry, Education, Engineering, Human Resource Development, Biological and Physical Sciences, Information Science, Law, Medicine, Nursing and Public Health).

The stratification was based on the Schools. The sample size for the respective school was based on the proportionate population of non-teaching staffs in each School. The individual non-teaching staff was selected from the population using a 1-in 3 systematic sample. The first non-teaching staff was selected with a random start. However, the non-teaching staffs were required to have worked in the university for more than six months; the next non-teaching staff was selected by walking into offices to select the next 3<sup>rd</sup> non-teaching staff. This was carried out by the researcher with the aid of a trained research assistant. This was done until all the non-teaching staffs determined for the study was selected. Systematic sampling method was used because it was found to be easier to perform, given that it is less subject to selection errors. It also provides greater information per unit cost as compared to simple random sampling. Stratified sampling is widely used because it simplifies the sample selection process. The sampling methods used in this study were based on the sampling frame. The sampling methods used in this study comprised stratified systematic random sampling. In survey based studies inferences are made from the sample about the population. The sampling methods used in this study comprised stratified systematic random sampling. In survey based studies inferences are made from the sample about the population. Data was collected through questionnaires measured using a five-point likert-type response scale, anchored at 1 Strongly Agree through 5 Strongly Disagree. The researcher with the aid of a research assistant administered 158 questionnaires, 6 were dropped due to non-teaching staff's inability to fill the questions. The size of the sample stands at 152 with a response rate of (96%) as indicated in Table 1.

**TABLE 1**  
**Questionnaires Administered and Returned**

Response	No. Of questionnaires	Percentage (%)
Effective questionnaires	152	96%
Returned but defective	6	4%
<b>Total</b>	<b>158</b>	<b>100%</b>

This study ensured validity through content validity; through a review by an expert in this field, and a review of literature and previous research. This study ensured reliability through Cronbach's alpha reliability tests as presented in Table 2. The Cronbach's Alpha coefficient for the items under scrutiny was 0.821 and 0.844 respectively, as shown in Table 2 indicating that the overall reliability was excellent. Alpha value of 0.70 or above is considered to demonstrate reliability (Muijs, 2008; Sekaran & Bougie, 2010). As indicated in Table 2 all the items were reliable since all the items included were reliable and measured Cronbach's alpha greater than 0.70, which indicated the good reliability of the instruments used for measurement.

**TABLE 2**  
**Cronbach's Alpha Reliability Tests Results**

Constructs	Cronbach's Alpha	Number of Items	Reliability Status
Working condition	0.790	6	Reliable
Career change	0.844	2	Reliable

The variables were labelled as working condition (Factor 1), and career change (Factor 2). Cronbach's Alpha reliability test was used on the indicators of working condition and career change to determine the reliability of the data as shown in Table 3.

**TABLE 3**  
**Factor Analysis of Variables**

Constructs	F1	F2
<b>Working condition</b>		
I have positive relationship with working mates	.754	
I work in a clean and friendly environment	.789	
I am able to interact with my supervisor freely	.721	
My institution encourages team work	.890	
My institution adopts participatory method in operations	.799	
<b>Career change</b>		
Not considering making a career change		.899
Considering making a career change		.789
<b>Reliability Coefficient (Cronbach Alpha)</b>	<b>0.790</b>	<b>0.844</b>

The measurement levels determined analysis methods for this study (Muijs, 2008; Sekaran & Bougie, 2010; Pallant, 2001). Data analysis aimed at searching and identifying patterns of relationships that existed among the independent and dependent variables in this study. Data collected in this study was analysed by descriptive and inferential statistics where appropriate. Descriptive analysis was by frequencies and percentages. While, inferential statistics was by Spearman's rho correlation to establish the relationship between the study variables; ordinal regression analysis to estimate the magnitude of the effect of the independent variable on the dependent variable; Chi-square to test the study hypothesis and Phi to measure the strength of the relationship between the study variables.

## RESULTS AND DISCUSSION

The findings of this study are presented on the basis of the study objective: To examine the influence of working condition on career change intention of employees.

### Demographic Profile of Respondents

Information in this section was based on selected demographic characteristics of non-teaching staff including; gender, age, educational level, marital status and years of working all measured on a nominal scale. The purpose of examining the demographic characteristics of non-teaching staff was to

lay ground for a more detailed analysis and especially interactive aspects between dependent and independent variables. The demographic profile of respondents is presented in Table 4.

The results indicate that majority of the non-teaching staffs of Moi University are females representing (94, 62%), while the males represent (58, 38%). This could imply that most females work in offices as compared to males who may otherwise look for other jobs different from that of sitting in the office from morning to evening. Secondly, the study findings indicate that most of the non-teaching staff of Moi University were between ages 26-35 (68, 45%), followed by those of 36-45 (46, 30%) years. This was followed by the non-teaching staff of ages 46 years and above (24, 16%) and finally those of 15-25 (14, 9%) had the least number of respondents respectively. The results imply that most of the non-teaching staff could be termed as the youths.

**TABLE 4**  
**Demographic Profile of Respondents**

<b>Demographic</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	94	62
Female	58	38
<b>Total</b>	<b>152</b>	<b>100</b>
<b>Age</b>		
15-25	14	9
26-35	68	45
36-45	46	30
>46	24	16
<b>Total</b>	<b>152</b>	<b>100</b>
<b>Educational level</b>		
Primary	4	3
Secondary	30	20
Tertiary	72	47
University degree	46	30
<b>Total</b>	<b>152</b>	<b>100</b>
<b>Marital status</b>		
Married	104	70
Single	48	30
<b>Total</b>	<b>152</b>	<b>100</b>
<b>Years of working</b>		
1-5 years	80	35
6-10years	30	20
11-15years	18	12
16-20	18	12
Over 20	6	3
<b>Total</b>	<b>152</b>	<b>100</b>

Thirdly, the findings indicate that most of the non-teaching staff of Moi University had tertiary level qualification representing (72, 47%), while those with university degree followed closely with (46, 30%). The non-teaching staff with secondary and primary qualification had (30, 20%), and (4, 2%)

respectively. The results could imply that most of the non-teaching staffs of Moi University have tertiary level of education. Fourthly, majority of the non-teaching staff of Moi University were married representing (104, 70%) while (48, 30%) were single. This could imply that majority of the non-teaching staff in Moi University were married and had parental responsibilities.

Lastly, majority of the non-teaching staff of Moi University had 1-5 years of working since time of employment representing (80, 53%); followed closely with 6-10 years representing (30, 20%). The non-teaching staff with 11-15 years of working (18, 12%), then 16-20 years of working (18, 12%), and over 21 years of working (6, 3%) had the least number of response. The study findings could imply that most non-teaching staffs were recently employed having worked between 1-5 years of work.

### **Influence of Working Condition on Career Change Intention of Non-Teaching Staff**

The influence of working condition on career change intention of non-teaching staff was based the study objective. This assisted in answering whether the working condition had a relationship with non-teaching staff career change intention. Information in this section was based on working condition indicators; relationships with working mates, opportunity to interact with working mates, clean environment, duties assigned, and team work measured on an ordinal scale. The dependent variable was non-teaching staff career change intention. Descriptive and inferential statistics was employed. Under descriptive statistics, analysis was by frequencies and Percentages. Inferential statistics including correlation, regression analysis, Chi-square and Phi were used. Bivariate analysis was conducted in respect of two variables. Under correlation analysis, bivariate analysis was carried out to ascertain the correlation between the variables. The Spearman's rho correlation coefficient was used to explain whether working condition had any relationship with non-teaching staff career change intention. Ordinal regression analysis was conducted to examine the effect of working condition on non-teaching staff career change intention. Chi-square to test the study hypothesis that working condition and non-teaching staff career change intention is not statistically significant, while Phi was to look at how strong the relationship was between working condition and non-teaching staff career change intention. For the purposes of analysis for descriptive statistics, strongly agree and agree were collapsed to indicate agreement while strongly disagree and disagree were collapsed to indicate disagreement.

### **Frequencies of Working Condition**

The frequencies of working condition as perceived by the non-teaching staff are presented in Table 5. The study findings indicate firstly, that majority of the respondents representing (138, 91%) perceived having good relationship with working mates as an indicator of job satisfaction positively, while (6, 4%) were negative on their perception. This is supported by the findings of Morris (2004) who found evidence that co-worker relations are an antecedent of job satisfaction. In addition, Mowday and Sutton, (1993), suggest that job satisfaction is related to employees' opportunities for interaction with others on the job. This finding could imply that the respondents' relationship with working mates was excellent and hence the non-teaching staffs perceived having a good relationship with work mates as an indicator of job satisfaction. This finding further implies that the relationship among the non-teaching staffs is cordial and that they relate well with each other in the institution.

Secondly, majority of the respondents representing (102, 67%) perceived working in a clean and friendly environment to indicate job satisfaction positively, while (22, 15%) of the respondents were negative on the working environment. This finding is supported by the study of Luthans (1998), who found that if people work in a clean, friendly environment they will find it easier to come to work hence are satisfied with their jobs. If the opposite should happen, they will find it difficult to accomplish tasks. This could imply that the working environment of the respondents was conducive thus they perceived this as an indicator of job satisfaction as indicated by the findings. This signifies that the non-teaching staffs of Moi

University find the environment in which they work to be conducive to their operations and hence are satisfied with it.

Thirdly, majority of the respondents representing (120, 79%) perceived positively interacting freely with supervisors to indicate job satisfaction while (22, 14%) were negative. This could imply that supervisors were free to interact with their juniors resulting to a positive response by the non-teaching staff. Hence this shows that the relationship between the non-teaching staffs and their superiors is friendly whereby they can interact with them without fear and they can openly and freely express their views and opinions.

Fourthly, majority of the respondents representing (110, 72%) perceived positively the university encouraging team work as an indicator of job satisfaction, surprisingly, (16, 11%) were negative on the university encouraging team work. This is supported by the study of Kalesh et al., (2007) who found that team work leads to a higher level of job satisfaction. This could suggest that the university encourages team work among its members of staff hence they perceived it as an indicator of job satisfaction. This means that the non-teaching staffs are provided with the opportunity to work not just independently but also as a group whereby they can come together as one and be able to accomplish given tasks effectively.

Lastly, majority of the respondents representing (90, 59%) perceived positively university adopting participatory methods in its operations to indicate job satisfaction, while (34, 25%) of the respondents were negative. The results could imply that the university adopts participatory methods in its operations whereby every non-teaching staff's input in carrying out operations is regarded as important. Accordingly, it can be concluded that majority of the non-teaching staffs were mostly positive on their perception that working condition is an indicator of job satisfaction.

**TABLE 5**  
**Frequencies of Working Condition**

<b>Indicators of working condition</b>	<b>Rank</b>	<b>F</b>	<b>%</b>
I have positive relationship with working mates	Agree	138	91
	Neutral	8	5
	Disagree	6	4
	<b>Total</b>	<b>152</b>	<b>100</b>
I work in a clean and friendly environment	Agree	102	67
	Neutral	28	18
	Disagree	22	15
	<b>Total</b>	<b>152</b>	<b>100</b>
I am able to interact with my supervisor freely	Agree	120	79
	Neutral	10	7
	Disagree	22	14
	<b>Total</b>	<b>152</b>	<b>100</b>
My institution encourages team work	Agree	110	72
	Neutral	26	17
	Disagree	16	11
	<b>Total</b>	<b>152</b>	<b>100</b>
My institution adopts participatory method in operations	Agree	90	59
	Neutral	28	18
	Disagree	34	23
	<b>Total</b>	<b>152</b>	<b>100</b>

### **Working Condition and Non-Teaching Staff Career Change Intention**

This study shows the relationship between working condition and non-teaching staff career change intention. The Spearman's rho correlation coefficient between working condition and non-teaching staff career change intention is presented in Table 6. The study findings firstly, show that working condition indicators; positive relationships with working mates had no statistical significant relationship ( $p > 0.05$ ) with career change intention. This study suggests that positive relationship with working mates had no statistical significant relationship with career change intention. Secondly, the findings indicate that working in a clean and friendly environment had a statistical significant negative relationship ( $r_s = -0.233^{**}$   $p < 0.05$ ) with non-teaching staff not considering making a career change. The findings are supported by those of Luthans (1998) who suggested that if people work in a dirty environment they will find it difficult to accomplish tasks hence might consider changing jobs. This study finding could imply, when the working environment is clean and friendly, the non-teaching staff would find it easy to accomplish duties and responsibilities assigned to them hence not consider changing career. Thus the university should make sure that non-teaching staff working environment is conducive to minimize career changes.

In addition working in a clean friendly environment had a statistical significant positive relationship ( $r_s = 0.197^*$   $p < 0.05$ ) with non-teaching staff considering making a career change. The findings are supported by those of Luthans (1998) who suggested that if people work in a clean

environment they will find it easy to come to work. This could imply that when the working environment is clean and friendly employees find it easy to accomplish tasks assigned to them. Thirdly, the results indicate that non-teaching staffs' opportunity of interacting with supervisors had no statistical significant relationship ( $p > 0.05$ ) with career change. This study suggests that opportunity of interacting with supervisors had no statistical significant relationship with career change. Fourthly, the university encouraging teamwork among the staff had no statistical relationship ( $p > 0.05$ ) with non-teaching staff not considering making a career change. This study suggests that university encouraging teamwork among staff had no relationship with non-teaching staff not considering making a career change. In addition the university encouraging team work among the staff had a statistical significant positive relationship ( $r_s = 0.165^*$   $p < 0.05$ ) with non-teaching staff considering making a career change. Lastly the university adopting participatory methods in its operations had no statistical significant relationship ( $p > 0.05$ ) with career change intention.

### **Ordinal Regression Analysis of Non-Teaching Staff Career Change Intention with Working Condition**

The ordinal regression analysis between non-teaching staff not considering making a career change with working condition is presented in Table 7. The findings indicate that non-teaching staff positive relationship with working mates had a positive effect ( $\beta = 19.207$   $p < 0.05$ ) on non-teaching staff not considering making a career change. This implies that the non-teaching staffs agree that they indeed have a good relationship with their colleagues at work and hence the positive effect. This is supported by the findings of Mowday and Sutton, (1993), who suggest that job satisfaction is related to employees' opportunities for interaction with others on the job, hence not considering changing careers. In addition, working in a clean environment had a positive effect ( $\beta = 2.407$   $p < 0.05$ ) on non-teaching staff not considering making a career change. Furthermore, interacting with supervisors freely had a positive effect ( $\beta = 2.904$   $p < 0.05$ ) on non-teaching staff not considering making a career change. This implies that the non-teaching staffs were happy with the environment in which they work and they were also satisfied with the way they are in a position to interact freely with their supervisors thus explaining the positive effect this had on not considering making a career change. Lastly, team work had a negative effect ( $\beta = -3.463$   $p < 0.05$ ) on non-teaching staff not considering making a career change. This could imply that the non-teaching staffs were not pleased with the aspect of team work may be because it is not practiced well hence the negative effect on not considering making a career change.

**TABLE 6**  
**Spearman's rho Correlation Coefficient of Working Condition and Non-Teaching Staff Career Change Intention**

Working condition indicators		Not considering making a career change	Considering making a career change
Positive relationship with workmates	Correlation	-0.029	0.069
	P-value	0.721	0.397
Working in a clean environment	Correlation	-0.233**	0.197*
	P-value	0.006	0.015
Able to interact with supervisor	Correlation	-0.040	0.048
	P-value	0.621	0.323
Institution encourages team work	Correlation	-0.021	0.165*
	P-value	0.793	0.045
Institution adopts participatory methods	Correlation	0.038	0.112
	P-value	0.640	0.169

\*\* Denotes Correlation is significant at the 0.01 level (2-tailed).  
\* Denotes Correlation is significant at the 0.05 level (2-tailed).

**TABLE 7**  
**Ordinal Regression of Non-Teaching Staff Not Considering Making a Career Change with Working Condition**

Variables	Estimate	Std. Error	Wald	95% Confidence Interval		Sig
				Lower Bound	Upper Bound	
<b>Threshold</b>						
Not considering making a career change	19.730	1.567	158.609	16.659	22.800	0.000
<b>Location</b>						
Positive relationship with workmates	19.207	1.470	170.627	16.320	22.082	0.000
Clean environment	2.407	1.126	4.571	0.201	4.614	0.033
Interaction with supervisor	2.904	1.289	5.072	0.377	5.428	0.024
Team work encouraged	-3.463	1.395	6.161	-6.198	-0.729	0.013
<b>Model</b>						
	<b>-2Log Likelihood</b>			<b>Chi-square</b>		
Intercept only	366.169					
Final	313.407			52.762		0.000

R<sup>2</sup> = 0.556  
Link function: Logit

**Hypothesis Testing – Hypothesis 1**

*Hypothesis 1. There is a positive relationship between working condition and non-teaching staff not considering making a career change*

In order to analyze this hypothesis, Table 7, indicates that, -2log likelihood of the model with only intercept is 366.169 while the -2log likelihood of the model with intercept with independent variables final is 313.407. That is the difference (Chi-square statistics) is  $366.169 - 313.407 = 52.762$  which is significant at  $p < 0.05$  shows there is an association between working condition and non-teaching staff not considering making a career change.

$$\begin{aligned} \text{phi} &= \frac{52.762}{152} \\ &= 0.347 \\ &= \sqrt{0.347} \\ &= 0.589 \end{aligned}$$

Equally, the Phi of (0.59), refer to Table 9 shows that the relationship between working condition and not considering making a career change is strong. In addition the  $R^2$  value of 0.556 indicates that (56%) of the variance is statistically significant in explaining career change intention using the predictor. The Chi-square value which is significant at ( $p < 0.05$ ) level shows that working condition plays a significant role in influencing non-teaching staff career change intention. The results also show that the lower and upper bound for both dependent and independent variables does not contain a zero value. Hence the results indicate confidence (95%) that there is a significant change between working condition and career change intention. Thus, the alternative hypothesis is accepted and concluded that there is an association between working condition and not considering making a career change.

**TABLE 8**  
**Ordinal Regression of Non-Teaching Staff Considering Making a Career Change with Working Condition**

Variables	Estimate	Std. Error	Wald	95% Confidence Interval		Sig
				Lower Bound	Upper Bound	
<b>Threshold</b>						
Considering making a career change	-8.772	2.339	14.065	-13.357	-4.188	0.000
<b>Location</b>						
Positive relationship with workmates	-4.840	2.179	4.935	-9.110	-0.999	0.019
Clean environment	-3.394	1.332	6.490	-6.005	-0.783	0.011
<b>Model</b>						
	<b>-2Log Likelihood</b>			<b>Chi-square</b>		
Intercept only	169.586					
Final	143.359			26.227		0.158
R <sup>2</sup> = 0.569						
Link function: Logit						

Ordinal regression of Non-Teaching Staff Considering Making a Career Change with Working Condition is presented in Table 8. The results indicate firstly that positive relationship with working mates had a negative effect ( $\beta = -4.840$   $p < 0.05$ ) on non-teaching staff considering making a career change. Secondly, the working environment had a negative effect ( $\beta = -3.394$   $p < 0.05$ ) on non-teaching staff considering making a career change. This implies that the negative effect on considering making a career change would have been as a result of poor relationship among workmates and also a working environment that was not conducive. From the literature, it is evident that some studies provide further evidence that teachers choose to leave schools with poor work environments, and that these conditions are most common in schools that minority and low-income students typically attend and hence leading to their career change (Ladd, 2009; Borman & Dowling, 2008).

### Hypothesis Testing – Hypothesis 2

*Hypothesis 2. There is a positive relationship between working condition and non-teaching staff considering making a career change*

In order to analyze this hypothesis, Table 8, indicates that, -2log likelihood of the model with only intercept is 169.586 while the -2log likelihood of the model with intercept with independent variables final is 143.359. That is the difference (Chi-square statistics) is  $169.586 - 143.359 = 26.227$  which is significant at  $p < 0.05$  shows there is an association between working condition and non-teaching staff considering making a career change.

$$\begin{aligned} \phi &= \frac{26.227}{152} \\ &= 0.173 \\ &= \sqrt{0.347} \\ &= 0.416 \end{aligned}$$

**TABLE 9**  
**Cut off Points to Measure the Strength of the Relationship**

Effect Size	Strength of Relationship
< 0.1	Weak
< 0.3	Modest
< 0.5	Moderate
< 0.8	Strong
> 0.8	Very Strong

*Source:* Muijs Daniel (2008).

Equally, the Phi of 0.416, (refer to Table 9) shows that the relationship between working condition and considering making a career change is moderate. In addition the  $R^2$  value of 0.569 indicates that (57%) of the variance is statistically significant in explaining career change intention using the predictor. The Chi-square value which is significant at ( $p < 0.05$ ) level shows that working condition plays a significant role in influencing non-teaching staff career change intention. The results also show that the lower and upper bound for both dependent and independent variables does not contain a zero value. Hence the results indicate confidence (95%) that there is a significant change between working

condition and career change intention. Thus, the alternative hypothesis is accepted and concluded that there is an association between working condition and considering making a career change.

## CONCLUSIONS

In conclusion, the purpose of this study was to identify the influence of working condition on non-teaching staff career change intention. The contribution of this study was that some indicators of job satisfaction had a positive effect on career change; Relationship with working mates had a positive effect on non-teaching staff not considering making a career change. Working in a clean environment had a positive effect on non-teaching staff not considering making a career change. Interacting with supervisors freely had a positive effect on non-teaching staff not considering making a career change. On the other hand, some indicators like team work had a negative effect on considering making a career change among the non-teaching staff. Further, from the literature reviewed, working condition was seen as an indicator of job satisfaction. This study found out that working condition indicators including having a good relationship with working mates, working in a clean and friendly environment, interacting freely with supervisors and the university adopting participatory methods in operations are all indicators of job satisfaction. Besides that, this study presents solutions to some of the issues regarding working conditions and how to reduce career change intentions among the non-teaching staff of Moi University. This was important since satisfaction with one's working condition can affect not only motivation at work but also career decisions, in that if people are dissatisfied, they tend to consider changing careers and look for other jobs. The study findings indicate that satisfaction exceeded expectations for working condition. This is because the study findings reveal that most non-teaching staffs were positive on their perception that working condition was an indicator of job satisfaction. The study met the objective and the results of the study hypothesis were summarized as follows.

### **Influence of Working Condition on Non-Teaching Staff Career Change Intention**

*H1 – There is a positive relationship between working condition and non-teaching staff not considering making a career change.*

In testing this hypothesis, the Chi-square statistics of 52.762 which is significant at  $p < 0.05$  shows there is an association between working condition and non-teaching staff not considering making a career change. In addition the  $R^2$  value of 0.566 indicates that (56%) of the variance is statistically significant in explaining career change intention using the predictor. Further, the phi effect size of (0.59), refer to Table 8 shows the relationship between working condition and non-teaching staff not considering making a career change is strong. As a result the alternative hypothesis was accepted and concluded that there is a relationship between working condition and non-teaching staff not considering making a career change is accepted.

*H2 – There is a positive relationship between working condition and non-teaching staff considering making a career change*

In testing this hypothesis, the Chi-square statistics of 26.227 which is significant at  $p < 0.05$  shows there is an association between working condition and non-teaching staff considering making a career change. In addition the  $R^2$  value of 0.569 indicates that (57%) of the variance is statistically significant in explaining career change intention using the predictor. Further, the phi effect size of (0.416), refer to Table 8 shows the relationship between working condition and non-teaching staff considering making a career change is moderate. As a result the alternative hypothesis was accepted and concluded that

there is a relationship between working condition and non-teaching staff considering making a career change is accepted. The results of this study are supported by those of Ladd, (2009), and Borman and Dowling (2008) who found working condition to be significantly related to career change.

### RECOMMENDATIONS

The institution should boost teamwork abilities by outlining clear roles for each of the members, work with the members to outline skills and delineate responsibilities according to ability. Consult with employee regarding the feasibility of the listed task as well, which will reduce possible stress arising from unrealistic expectations. The university should create an atmosphere of open communication by communicating positively and openly to its employee. It is through these means of open communication that each member of the work group understands how they fit into the unit and how they impact where it is going.

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## STRATEGIC HUMAN RESOURCE MANAGEMENT AND COMPETITIVENESS IN AFRICA: EXPLORING INSTITUTIONAL EFFECTS

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### ABSTRACT

African management literature has swelled over the last decade, indicating that interest in the continent is burgeoning. However, only 6% has focused on strategic HRM despite its theorized importance to the competitiveness of firms and the fact that Africa ranks amongst the least in global competitiveness as defined by the Global Competitiveness Report. For the most part, the HRM in Africa literature has been inundated with culture shaded discourses. In the light of the need to broaden the spectrum of African HRM research, we look to the institutional context of work and employment focusing on Kenya, Nigeria and South Africa, to explain the (non) adoption of SHRM practices. Implications for management practice and areas for HRM research in Africa are discussed.

**Keywords:** Strategic human resource management; Competitiveness; Labor market efficiency; Performance management; Compensation management

### INTRODUCTION

“The academic study of HRM has been criticized...for focusing too much on the firm and ignoring the wider context of the markets and societies in which the firm operates...This is a fair criticism. The different human resource strategies of firms are better understood if they are examined in the wider context that helps to shape them.”

Boxall and Purcell (2003: 5)

Over the last two decades or so, many organizations have come to realize that distinctive human resources are firms' core competencies. Much attention has been drawn to the strategic role of people in organizations, and it has become received wisdom that by managing people purposefully, organizations can create a sustainable competitive advantage (Festing, 2012; Guest *et al*, 2003). However, much of the literature on strategic human resource management has emanated from the Anglo-Saxon context, and there have been several debates on whether strategic human resource management (SHRM) practices as we know them can be successfully implemented in different cultural and institutional contexts with similar results. In the African context particularly, the debates have been whether or not there is a convergence, divergence or crossvergence of people management practices.

While this literature tends to anticipate Boxall and Purcell's criticism above by focusing attention on the cultural context within which African firms operate, it is beset with the tendency to adopt a narrow and unquestioning acceptance of cultural relativity of management practices based on

Hofstede's (1980) four dimensions. It thus assumes the homogeneity of cultures across the 54 countries that constitute the African continent. Yet, the dimensions of diversity in Africa transcend even national cultures to reflect the European legacy of colonization in Africa, the level of economic and political (under-) development, the ethnic and religious groupings and some literature have begun to acknowledge this (e.g. Kamoche, 2000; Horwitz et al., 2002; Jackson, 2002; Kamoche & Harvey, 2006). But as Adeleye (2011) observed, perhaps the most obvious dimension of diversity is the European legacy reflected in their overarching influence on the political economy of these former colonies and remains a source of continuous rivalry (particularly between Anglophone and francophone countries), forestalling regional integration in any meaningful way.

The essence of this paper is however not to criticize the cultural relativistic leaning of extant literature on HRM in Africa; this has been sufficiently done in other outlets (e.g. Adeleye, 2011; Bischoff & Wood, 2012). It is rather to contribute to opening up other vistas for understanding managerial phenomena in the African context, with particular respects to understanding the relationship between people management practices and firm competitiveness in Africa. The paper seeks to explicate how the institutional context of work and employment might account for the nature of adoption of SHRM practices in African organizations and its relationship with their competitiveness or lack thereof. The questions we ask are: are human resources truly relevant for the ability of firms to be competitive or is the relationship observed in the literature between SHRM and firms' competitiveness simply an Anglo-Saxon phenomenon? Are there contingencies that mediate this relationship beyond 'national' culture and should we be rethinking our approach to SHRM and SHRM research on Africa? In addressing these questions, we attend to calls in the SHRM literature to go beyond the internal dimensions of organizations and managements to understand how the external environment of work affects them (Boxall & Purcell, 2003; Marler, 2012).

In the face of the weaknesses that attend the cultural relativist perspective, we look to elements of the institutional environment in Africa for possible explanations for the relationship between the level of adoption of people management practices and competitiveness outside the Anglo-Saxon context. In the initial, it is instructive to note that sub-Saharan Africa ranks the lowest on the global competitiveness index<sup>1</sup>; at the same time, the adoption of SHRM practices on the continent by all available evidence is relatively low. If human resources are truly a driver of business performance, then there appears to be a clear explanation for the dismal rankings of African countries on the competitiveness index, in their low adoption of SHRM practices.

On the other hand, the labour market context inevitably shapes the approach a firm takes to HRM and is one of the key factors in determining an organization's 'degrees of freedom' in HR strategic formation (Boxall and Purcell, 2003). In other words, the extent to which the demand for labour, both in absolute numbers and in the availability of particular skills, knowledge and expertise can be met by the available supply, is a key constraint on the range of choices that an organisation has when determining an appropriate HR strategy. Thus clearly, we must go beyond cultural relativism to provide actionable insights into SHRM and firm competitiveness in the African context. While some of the fastest rates of economic growth have been recorded in the region, the sustainability of such growth patterns remains questionable given the significant gaps in overall competitiveness (The GCR, 2012-2013).

In the rest of this paper, we examine the elements that drive economic competitiveness from a labour market efficiency point of view and compare the status of selected African countries (Nigeria, Kenya and South Africa) on specific dimensions relating to work and employment. Drawing from this data, we discuss how the institutional context of work and employment in Sub-Saharan Africa provide challenges and opportunities for businesses / managers on the continent. Finally, we propose some fruitful avenues for future research on SHRM in Africa against the backdrop of the institutional perspective.

The following section however provides a brief overview of the SHRM concept and its link with firm competitiveness. Some caveats are however necessary at this point: as we noted earlier, Africa is home to 54 ethno-linguistically diverse countries. The sheer diversity of the ethnic, religious, political and economic context of Africa forecloses any meaningful generalizations about SHRM across the continent (Kamoche, 2011). Therefore, this paper's reference to Africa is limited to sub-Saharan Africa (SSA), since North Africa is often regarded among the Arab countries of the east and classified as such. Even within the context of SSA, this paper focuses on the largest economies in the east, west and southern Africa, that is, Kenya, Nigeria, and South Africa respectively, which incidentally are all Anglophone.

### SHRM AND FIRM COMPETITIVENESS

Amidst inexorable global competition, organizations intangible assets – innovation capabilities, intellectual property, organizational capital, and cultural capabilities - compete in the dynamic marketplace (Brockbank, 2013; Ulrich and Smallwood, 2004). Economist Baruch Lev (2001)'s work shows that only 20 – 25 % of the market value of companies today can be explained by hard assets. This suggests that over 75% of the market value of companies can be attributed to “soft” “intangible” assets. Such assets may include customer equity as represented in brand reputation and customer service excellence, intellectual, and human capital. These capabilities - the collective skills, abilities, and expertise of an organization - are the outcome of investments in staffing, training, compensation, communication, and other human resources strategies (Ulrich and Smallwood, 2004). Consequently, a lot of attention is now paid to how to leverage human resources for competitive advantage.

Strategic human resource management is a “pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals” (Wright and McMahan, 1992: 298). It ‘...emphasizes the link between HRM and the business context and corporate strategy, as well as the coordination and orchestration of a set of HRM practices within a strategically linked HRM system to create employee commitment and thus firm performance’ (Festing, 2012:37). It is distinguished from earlier conceptions of HRM to the extent that the latter is focused narrowly on ‘managing’ people, while SHRM is about making the organisation and its people successful (Rucci, 2008). Thus, SHRM in recent years has been defined in terms of high-performance work systems (HPWS), which describe ‘systems of human resource (HR) practices designed to enhance skills, commitment, and productivity’ (Datta, Guthrie and Wright, 2005: 135).

Since the early '90s and Huselid's (1995) landmark study which demonstrated that implementing a set of thirteen HR practices representing a HPWS, was significantly and positively related to low turnover, higher profits, sales and market value for the firms studied, research interest in HPWS has burgeoned with over 300 articles published on HR strategy in the academic press alone (Huselid & Becker, 2011). These studies, howbeit largely North-America based, but with consensus to varying degrees with studies from some other countries, have more or less concluded that firm investments in HPWS affect firm performance positively (Festing, 2012; Guest *et al*, 2003). Yet extant research has not always agreed on what practices or combination of practices constitute an optimal HPWS, or whether there are in fact a specific set of ‘universal’ best practices that must be combined in a synergistic form (Delery & Doty, 1996; Pfeffer, 1995), or perhaps they simply need to be complementary.

Nonetheless, the literature suggests that firm value is likely to be enhanced when practices that reflect the following are adopted: i. Recruitment and selection systems that are aligned with firm strategy, ii. Reward systems that reflect successful strategy implementation and are reflected in performance appraisals and employee compensation, and iii. Training and development strategies that evolve from the performance management systems, and the objectives of the organization (Becker &

Huselid, 1998; Huselid & Becker, 2011). Its benefits derive from the fact that its design and implementation are in concert with firms business and strategic initiatives and affect employees' levels of skill and motivation, the design of work, which then affects productivity, creativity and discretionary effort, and in turn drive profitability, growth and performance (Becker & Huselid, 1998; Kehoe & Wright, 2013). Thus, SHRM involve 'provides the cost-effectiveness, agility and flexibility required in managing modern organizations which are faced with an increasingly competitive and dynamic business environment' (Boxall and Purcell, 2008:11).

In the following section, we focus on the three broad areas mentioned above in relation to the larger institutional environment, with particular emphasis on labour market efficiency as defined by the global competitiveness report (GCR). The goal is to gain some insight into the impact of the broader institutional environment on the relationship between SHRM and firm performance in the African context.

## **LABOR MARKET CONTEXT AND INSTITUTIONAL ENVIRONMENT OF WORK AND EMPLOYMENT IN AFRICA**

### **The GCR**

The global competitiveness report (GCR) is a comprehensive report published annually by the World Economic Forum. It ranks countries on the global competitiveness index (GCI) which integrates the macroeconomic and business aspects of competitiveness into a single index. The GCR assesses the ability of countries to provide high levels of prosperity for their citizens, by measuring the sets of institutions policies and other factors that are believed to affect their prosperity in the long and medium term. As such, the GCR defines competitiveness as '*the set of institutions, policies, and factors that determine the level of productivity of a country*'.

In categorizing countries, the GCR recognizes that the economies of nations have different bases; therefore, using the economic theory of stages of development, economies are classified as factor-driven, efficiency-driven or innovation-driven. A factor-driven economy relies on its factor endowments, that is, low-skilled labour and natural resources. Thus, competition is on the basis of price, companies sell basic /commodity products and wages and productivity are generally low. At the efficiency stage, wages are higher with no commensurate rise in prices. Therefore, competitiveness is driven by more efficient production processes and better quality products requiring higher levels of education. In Innovation-driven economies, wages and the commensurate standard of living are even higher, thus such economies are sustained by increased levels of innovation and infusion of new and unique products.

The GCI emphasizes sustainability as a measure of a country's long term competitiveness, and identifies 12 'pillars' that are believed to determine and shore up sustainable growth in every economy. These pillars are: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, good market efficiency, labour market efficiency, financial markets development, technology readiness, market size, business sophistication and innovation. Each of these pillars is made up of several variables by which they are measured. It is important to note that while these pillars are treated independently, they are in fact interdependent so that a weakness in one area could impact the other significantly. In this paper however, the focus is on the Labour Market Efficiency pillar and its relationship to SHRM adoption in Kenya, Nigeria and South Africa.

According to the GCR, labor market efficiency connotes the potential of an economy to ensure efficiency and flexibility of employment, so that there is a match between skills and the requirements of the economy. An efficient labor market will ensure that its human resources are adequately incentivized and compensated to inspire the application of their best effort in the workplace, while rewarding meritocracy. This should also contribute to the attractiveness of the economy for talent. Efficient labor

markets will also reflect equal opportunities for men and women alike. The essential elements of efficient labor markets are listed on the left side of table I below, while the corresponding SHRM categories are on the right.

### Strategic Talent Management and LME

Strategic talent management has been defined as

‘... activities and processes that involve the systematic identification of key positions which differentially contribute to the organization’s sustainable competitive advantage, the development of a talent pool of high potential and high performing incumbents to fill this role, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organization.’ Collins & Mellahi (2009).

**TABLE 1**  
**Labor Market Efficiency (LME) and SHRM**

LME Variables	Related group of SHRM practices
1 Hiring and firing practices	Strategic Talent Management
2 Reliance on professional management	
3 Brain drain	
4 Cooperation in labor-employer relations	Strategic Compensation Management
5 Flexibility of wage determination	
6 Pay and productivity	Strategic Performance Management
7 Women in labor force, ratio to men	
8 Redundancy costs; weeks of salary	

While the theoretical concept of talent management remains somewhat unclear (Collins & Mellahi, 2009; Lewis & Heckman, 2006), scholars and practitioners alike agree that the ability of a firm to identify her human resources requirement and find the requisite skills to fill those requirements with relative ease is key source of sustainable competitive advantage (Economics Intelligence Unit, 2006). The definition above is an attempt to capture the multidimensional nature of the concept. Thus strategic talent management involves the identification, recruitment, selection and retention of the required skills and is central to the LME concept. However, as we noted earlier the external environment of the organization with regards to talent availability inevitable impacts the resources available to the organizations that operate within that environment. That is, how readily and how easily firms can access required skills is a function of the availability of those skills. Thus the strategic management of talent is directly related to at least three of the LME variables in the table above:

- *Hiring and firing practices* measures how easy it is to hire and fire employees from the point of view of the country’s regulatory structures.
- *Labor-employer cooperation* measures the extent to which relations between labor and their employer is cooperative or confrontational.
- *Reliance on professional management* measures the extent to which senior management positions are filled on the basis of merit and qualifications as opposed to family and other such relationships.

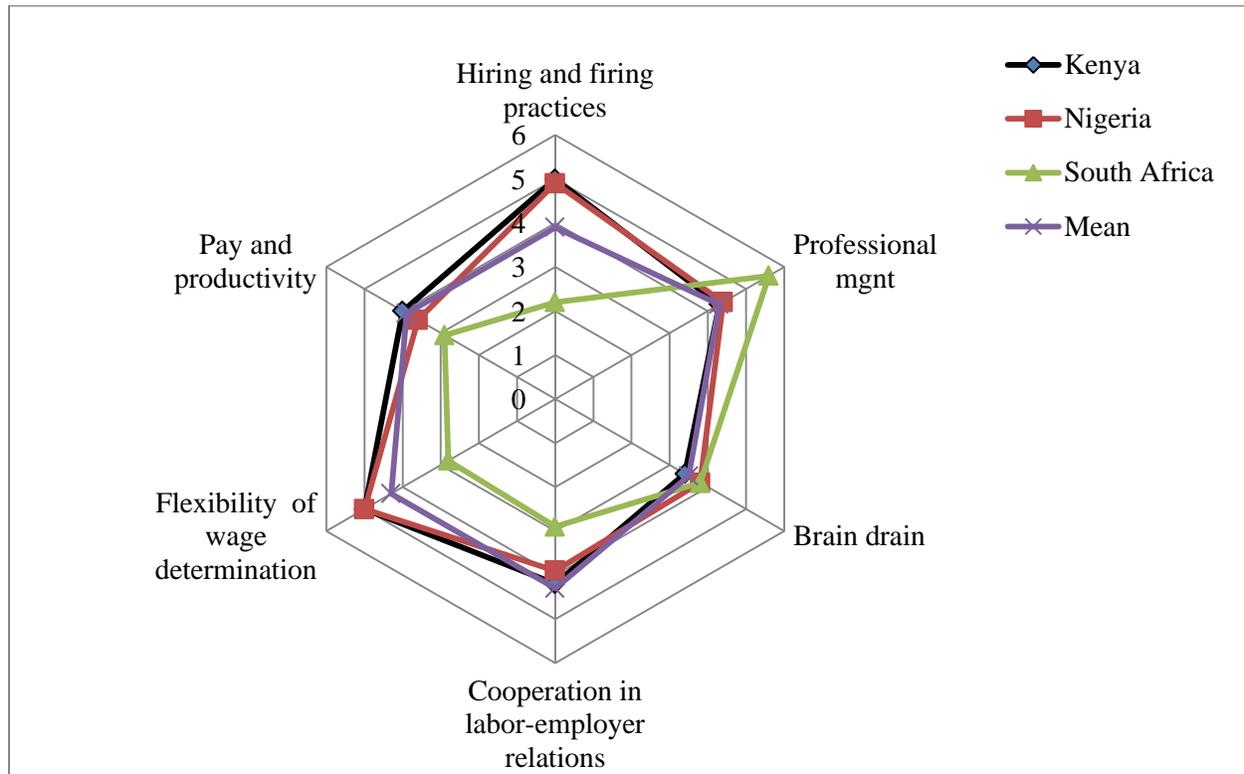
- *Brain drain* measures the extent to which the country in focus has opportunities for talented people in comparison to whether they leave for 'greener pastures' in other countries.

From a survey of business leaders, the following radar chart (figure 1) shows how the three countries fare (on a scale of 1-7) in comparison with one another, and the average value amongst the 144 countries included in the GCR for 2012-2013.

The preceding radar chart indicates that it is relatively easier to hire and fire in Nigeria and Kenya than it is in South Africa. The implication is twofold; on one hand, it suggests that companies are at liberty to replace non performing employees with suitably qualified ones. On the other, it is relatively easy to abuse employee rights. However, the GCR suggests that the ease with which companies may hire and fire is important for the firms' competitiveness. With a value of 2.2, South Africa ranks 143 of 144 countries in the rigidity of employment index. That is hiring and firing is hardly at the discretion of firms; rather, strict labour protection laws ensure employees job security. This precludes employers from abusing employee rights, but it also makes it difficult to manage non-performing employees.

Not surprisingly, South Africa also ranks the least amongst all 144 economies in labor-employer relations with a value of 2.9 and significantly below a world average of 4.3, while Nigeria and Kenya have values of 3.9 and 4.2 respectively. SA's dismal showing in the rigidity of employment and labor-employer indices are not unconnected to her history of apartheid and discrimination and the consequent need to defend worker rights. Various statutory institutions, such as bargaining councils, the labor court, and the Commission for Conciliation, Mediation and Arbitration (CCMA), are central to the conduct of industrial relations and thus the arbitrary introduction of strategic HR practices in the country (Horwitz & Jain, 2008).

**FIGURE I**  
**LME variables and African countries**



South Africa may however have been able to stem the tide of a relatively rigid labor environment and unskilled labor force by ensuring that strategic managerial positions are selectively filled. Amongst the three economies under consideration, SA ranks the highest (5.6) in terms of reliance on professional management, significantly above the average (4.3) of the 144 economies, at par with countries like Germany and ahead of the United states. With 4.3 and 4.4 respectively, Kenya and Nigeria revolve around the mean value.

With values of 3.4, 3.8 and 3.8 respectively, all three countries revolve around the mean (3.5) in terms of the exodus of highly skilled people to other countries for better opportunities. This might be explained by the fact that none of the three economies fall into the innovation-driven category, so that highly educated / skilled people could easily become redundant. However it is note-worthy that even the world average is quite low. One explanation for this is the increasing globalization of the labour market (Horwitz, 2008). The other is that respondents in more countries believe that there are not sufficient opportunities in their own country that match their particular skills. Taken together, the strategic management of talent in the three countries appears to be defined by the presence or absence of strong unions and formal regulatory environment for labour.

#### **Strategic Compensation Management and LME**

Central to the strategic management of human resources is the concept of contingent compensation which also figures prominently in most high-performance work systems. Such compensation can take a number of different forms, including gain sharing, profit sharing, stock ownership, pay for skill, or various forms of individual or team incentives (Pfeffer, 1998).

There are two key dimensions surrounding compensation management: *how much* to pay (total compensation level), and *how* to pay (e.g. cash or benefits, structure, degree of pay for performance) (Gerhart, 2008). Some evidence suggests that organizations may have more discretion regarding the how compared to the how much (Douglas, 2013) especially in highly competitive environments.

On the LME index, SCM is defined in terms of flexibility of wage determination. That is, the extent to which employee compensation is determined by individual companies as contrasted with unions or government regulations, or other collective bargaining mechanisms. Again, as with the employer-labor relations and the rigidity of employment indices, South Africa ranks the least amongst the three economies, and one of the least (rank:140) amongst the world's economies.

Nigeria and Kenya on the other hand rank significantly above average with a value of 5 each. On the face of it, this suggests that compensation systems are significantly at the discretion of firms in these countries. However, given the relative dearth of managerial talent that is said to characterise these economies, this is not the total picture. According to a HayGroup (2009) report on the pay and talent availability relationship, high growth economies such as Nigeria, Kenya and South Africa reflect strong bargaining power amongst managerial talent owing to the scarcity of such talent. In other words, the law of supply and demand become very relevant in these economies with regards to professional / managerial skills. With the largest differential between management and clerical level employees, Nigeria tops the pay gap index amongst the 56 countries included in the report, while Kenya is also in the top 20 with a wide pay gap between managers and clerical employees. Table II below indicates that managers in Nigeria and Kenya earn 17.4 and 7.2 times as much as clerical employees. The values for a few other countries are included to give a broader picture of the pay gap situation.

While the pay gap index for South Africa is still considered considerably high, it reflects union activities towards narrowing the pay gap. By negotiating higher salaries for skilled and unskilled employees who they represent much more than other categories of employees, the SA workers' unions have been able to narrow the pay gap somewhat. This is in stark contrast to Nigeria where workers' unions have been weakened through years of military rule. Even in the current democratic era, they remain vulnerable to political currents forestalling the chances for 'normal' industrial relations (Fajana, 2007: 161).

### **Strategic Performance Management and LME**

To what extent are employees rewarded equally irrespective of performance level, or is performance clearly related to accountability and rewards? Brockbank & Ulrich (2008) argue that rewards are more effective if they are performance contingent and can therefore be taken away if performance is not sustained. Similarly, Gerhart (2008) posits that well-designed pay for performance plans have the potential to make a substantial contribution to organization performance through its effects on intervening mechanisms such as incentive and sorting. Thus, a high score on the pay for productivity index would suggest that firms in a country measure performance as defined by the important of an employee's contribution to the attainment of the firm's strategic objectives and reward such performance.

According to the GCR, Kenya, Nigeria and South Africa have values of 4.0, 3.6 and 2.9 respectively against a global mean of 3.9. This implies that there is a better alignment between pay and productivity in Kenya and Nigeria than in South Africa, with Kenya even above world average. Once again, South Africa ranks 135<sup>th</sup> in the world on this index, that is, employee compensation has little relationship with their level of productivity.

**TABLE 2**  
**Pay Gap Index of Selected Countries**

Ranking	Country	Pay Gap
1	Nigeria	17.4
2	China	12.6
18	Kenya	7.2
32	South Africa	5.4
39	United States	3.8
46	United Kingdom	3.4
56	Norway	2.6

From the foregoing, it is apparent that South Africa scored the lowest in every index of labour market efficiency other than ‘reliance on professional management’, while Nigeria and Kenya are almost at par with one another and with the mean on all the other indices. Thus with an overall score of 4.62 and a ranking of 39 of 144 countries, Kenya seems to be doing better than Nigeria (4.5, 55) and much better than South Africa (3.94, 113) in overall efficiency of her labour markets. In other words, the adoption of high performance work practices by firms operating in Kenya should be relatively easier, and we should expect a commensurate effect on their productivity or competitiveness in comparison with Nigeria and South Africa. Unfortunately, this is not entirely the case – while Kenya ranks 106 with a value of 3.75 (Nigeria – 115, 3.67) for competitiveness amongst world economies, South Africa ranks 52 with a score of 4.37, making her the most competitive economy on the continent. The trend with the most competitive economies is that labor market efficiency is high. What then accounts for South Africa’s exceptionalism as Bischoff & Wood (2012) describe it?

According to Horwitz & Jain, 2008,

‘Two key developments exert an important influence on the nature of human resource management (HRM) in South Africa (SA). The first is the seemingly conflicting imperatives of developing a high growth, globally competitive economy with fuller employment, which is sometimes and arguably wrongly juxtaposed with the socio- political imperative of redressing past structural inequalities in access to skilled, professional and managerial positions as well as ownership’.

In essence while South Africa’s historical antecedents have laid the foundation for a more developed economy than any other in sub-Saharan Africa, through the history of apartheid, it has also left the country with the burden of ‘redressing structural inequalities’ especially as it concerns discrimination in access to education and good jobs, hence the strong unions and protective labour laws and the consequent lack of flexibility and efficiency in the labour market. However, South Africa makes up for this with strong institutions, well developed infrastructure, the efficiency of its financial markets and its leading role in innovation and sophistication factors on the continent – indices that Nigeria and Kenya score very low on.

Conversely, Nigeria’s historical antecedents with respects to military dictatorships as well as her oil windfall since the 70s has contributed to the development of what Fajana (2007) describes as a predatory elite and personalized politics so that labor unions are weak and ‘vulnerable to political currents’. The level of corruption also translates to dilapidated institutions and a culture of impunity with regards to laws and formal rules especially amongst the ruling elites. According to the GCR, key foundations for growth such as functioning institutions, infrastructure and quality education are lacking,

eroding any gains in overall competitiveness as a result of a functional labor market. Kenya's competitiveness also suffers from poor infrastructure and institutions, health concerns which reduce workforce productivity and the security situation in the country. However, Kenya is described as showing steady performance, with considerable spending on R&D activities and a quality educational system.

In summary, a common thread running through the data on the three countries is that African firms do not operate in isolation of their external institutional environment and the adoption of SHRM practices by those firms must take into consideration that environment and how it differs from the environments from which such practices may be imported. This summation is discussed in more detail in the following section.

### **Implementing Strategic HRM Practices in Africa: Prospects and Challenges**

It has been established that sub-Saharan African countries rank the least in terms of economic competitiveness globally; incidentally, we also know that the adoption of SHRM practices is very low on the continent despite the fact that several studies have shown that there is a definite link between a firm's competitiveness and its use of SHRM practices (Guest *et al*, 2003). In the light of the weakness inherent in studies that have concluded that cultural imperatives forecloses the application of SHRM practices to African firms, this paper sought to explore alternative explanations for the low adoption, in the institutional environment of the firms focusing on three of the largest economies on the continent. Thus in the following paragraphs, we will try to answer the questions raised at the beginning of the paper. Do people really matter for firm competitiveness to the extent that African firms need to invest in strategic people management practices to bring out the best in them? Are there contingencies that mediate this relationship beyond 'national' culture and should we be rethinking our approach to SHRM and SHRM research on Africa?

It is instructive to note that of the three economies studied, two of them, Nigeria and Kenya are factor-driven economies; that is, they rely on factor endowments such as Oil, and low skilled labor, hence they typically compete on price in the commodity market. South Africa is classified as an efficiency driven economy because of her reliance on highly skilled people in her businesses which require highly efficient processes. It is interesting to note also that on the GCI, factor-driven economies are generally ranked the least for competitiveness, while innovation-driven economies such as UK, US and Switzerland which rely on increased levels of innovation and infusion of new and unique products for competitiveness, are ranked highly on the GCI. This goes to affirm the current reality that knowledge is a key source of competitive advantage and how a firm / country manages its knowledge resources is a pointer to the level of competitiveness they will attain (Grant, 1996; Grant & Spender, 1996).

As Brockbank (2010) observed, countries that increasingly rely on intellectual capital as the engine of growth tend to focus on human resource and leadership issues more heavily than do countries whose growth engines are based in natural resources (e.g. Nigeria and Indonesia) or low cost labour (China and Bangladesh). Thus we may argue that the more SSA moves towards an innovation-driven economy, the more it is that she would adopt more strategic practices for managing her people resources. In an innovation-driven economy, productivity and competitiveness rests on the shoulders of individual custodians of knowledge resources, so that practices that enhance their well-being drive the extent of their contribution to the organization affecting her competitiveness.

Some research in the African context has also provided evidence documenting the influence of HPWS on organizational performance (e.g. Aryee *et al*, 2012; Ovadje & Muogboh 2009). As Seidu, *et al* (2013: 185) concludes, 'investment in HPWS pays and organizations in the African context will do well to adopt a strategic approach to the management of their core employees if they are to survive and grow in an increasingly dynamic and competitive global marketplace.

Unfortunately, several African countries are historically resource dependent, or will soon become (see McKinsey, 2010); with only a handful relying on intellectual capital, the likelihood of African economies moving in the direction of better competitiveness appears slim. However, from an HR best practice perspective (Delery & Doty, 1996), a wider adoption of SHRM practices will impact overall performance in any kind of firm (Guest et al, 2003; Porter, 1985). Unfortunately, for many organisations in corrupt, rent-seeking, chaotic markets and economies, their market position does not depend on their talent; rather they depend on their political connections. As a result, they do not consider the investments in human capital necessary or sufficient to compete. This remains a challenge. As Brockbank (2010) notes, economic development requires dramatic shifts in values. Such value transitions might include: from entitlement to performance; from status-quo to innovation and continuous improvement; from encumbering bureaucracy to institutional efficiency; and from exclusion based on gender or ethnicity to inclusion based on capability and results.

### CONCLUSIONS AND AVENUES FOR FUTURE RESEARCH

In conclusion, using the GCR this paper has contributed to broadening the scope of SHRM research in Africa by showing that there are other vistas to be explored beyond the cultural argument of the suitability of HPWS / SHRM to firms operating in the African context. Specifically, it has shown that a key constraint to the adoption of HPWP in the African context is the nature of the institutional environment, specifically, the . However, this paper is not without its limitations. On one hand, data has been drawn from a report based on an opinion survey of business leaders in each country. Hence, while the results might point the general direction, it does not provide enough substance for more detailed and more specific explanations for the observed outcomes. Thus scholars interested in SHRM in Africa should now carry out in depth country by country studies that can provide a basis for more prescriptive recommendations for managers and policy makers.

This paper also indicated that there might be a relationship between the adoption and effectiveness of SHRM and the stage of development of a country. Taking a wider collection of countries in the three stages of development, research could investigate if there is indeed a relationship between the stage of development and the adoption of SHRM practices. On the other hand, the implementation of SHRM practices, for example, strategic talent management, may in fact contribute to the development of African economies towards innovation-driven economies through its effect on the motivation of employees, stimulating innovative contributions. Thus another fruitful avenue for research could be a comparative study of selected firms that have implemented SHRM practices for mimetic reasons to see if they can attribute particular improvements in their competitiveness to the adoption of those practices.

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#### END NOTES

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<sup>1</sup> An index that measures the competitiveness of countries around the world on the basis of the stability of their micro and macroeconomic environments.

## **BURNOUT, STRESS, ABSENTEEISM AND EMPLOYEE COMMITMENT: THE MODERATING EFFECT OF MANAGERIAL SUPPORT**

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### **ABSTRACT**

The purpose of this study was to examine the effect of burnout, stress and absenteeism on employee commitment and how the managerial support moderates their relationship. A survey of 205 participants from 43 banking institutions in Kenya was conducted using questionnaires to collect data. It was found that managerial support moderates the relationship between work life conflict and employees commitment. Firms interested in increasing employees' commitment hence reducing turnover intentions should introduce work life balance practices and support these. The findings of this study provide useful information for both practitioners and academics for the purpose of improving current policy on work life balance.

**Keywords:** Burnout, stress, absenteeism, managerial support, employee commitment.

### **INTRODUCTION**

In recent years, several reforms in the banking sector in Kenya and around the world have considerably altered the work environment. To increase profitability and have competitive advantage organizations have streamlined their workforce considerably, which consequently eliminated a large proportion of their qualified personnel (Chenevert, Jourdain, Cole, & Banville, 2013). This situation, coupled with the growing complexity of working environment and massive re-engineering of work processes, has imposed a work overload on employees in the banking sector (Che<sup>^</sup>nevert et al., 2013). Employees currently are under constant pressure to meet their productivity goals while at the same time deliver quality services (Rod & Ashill, 2013). Not surprisingly, employees often suffer from burnout (Ashill & Rod, 2011; Choi et al., 2012) which is a form of psychological strain resulting from persistent work stress typically characterized by emotional exhaustion, a tendency to depersonalize others and diminished perceptions of ability on the job. The negative implications of burnout and stress are often profound for both the front line employee in the banks as well as for the organization, and can involve

substantial costs due to turnover, absenteeism, job dissatisfaction, lower organizational commitment and compromised job performance (Rod & Ashill, 2013; Beauregard & Henry, 2009).

This intensification of work, in a context of heightened control, has generated a rise in stress levels, burnout and absenteeism consequently, low organizational commitment (Che<sup>^</sup>nevert et al, 2013). In Kenya, the report by International Labor Organization's in 2010, found Kenya to have the highest prevalence of long working hours (more than 48 hours per week) affecting 50.9 per cent of workers compared to 18.1 per cent of employees working more than 48 hours per week in the US and 25.7 per cent in the UK (WWR, 2011). The Long working hours had contributed to increasingly high rates of work related conflict such as absenteeism, stress, burnout and sickness, which have a serious impact on employee's commitment and organizational performance (Spurgeon, 2003). In the pursuit of improving employee commitment to, increasing productivity, reduce stress and absenteeism and enhancing profitability in the workplace, banks in Kenya have been evolving new ways and means in building psychological relationships with employees Wang and Walumbwa, (2007). Many organizations in this sector adopted work styles and organizational practices from developed countries. Employees are expected to work 24/7 × 365 days of the year. To prevent such a work style from affecting employees health, productivity, turn over and commitment, organization have decided to offer services such as gymnasiums, day-care facilities, laundry facilities, canteen facilities to reduce on employee stress, burnout and absenteeism (Devi, 2002).

A number of studies have reported that employees in banks especially front office experience a high level of job stress, burnout and absenteeism (Babakus et al., 2009; Choi, Cheong, & Feinberg, 2012). In the banks job burnout can be caused by the consistent and typically overwhelming "negative" nature of interactions between employees and customers (Choi et al, 2012). Research on absenteeism has identified a set of factors that can explain absences from work, including professional burnout, the nature and requirements of the job, weak commitment to work, the unionization rate, and the feeling of inequity (Che<sup>^</sup>nevert et al, 2013). Despite banks efforts to prevent job burnout, stress and absenteeism, employees in this institution are likely to face serious job burnout.

Many researchers (Rod & Ashill, 2013; Choi et al., 2012; Ashill and Rod, 2011) suggest that WLB practices for employees can help to foster the employees 'quality of life by reducing stress and burnout, as a consequence, workers will be more satisfied, motivated and committed to their employers. This paper tries to fill this gap in the literature by focusing on the effect of burnout, stress and absenteeism on employee commitment and how managerial support moderates their relationship. The study is based on the previous literature, for example the importance of managerial support in moderating work stress, burnout and absenteeism and using such support in enhancement of organizational commitment (Duke et al., 2009; Rees & Freeman, 2009; Choi et al., 2012; Wickramasinghe, 2012). To achieve this objective, this paper provides a literature review and develops the research hypotheses using a survey of 205 employees in the banking institutions in Kenya.

## THEORY AND HYPOTHESES

The relationship between, burnout, and stress and employee commitment is complex (Langballe et al, 2011). The theoretical view on, stress, burnout and absenteeism in this paper is based on Hobfoll's Conservation of Resources (COR) theory. According to the theory people strive to retain, protect and build resources (Hobfoll & Freedy, 1993). If these resources are not utilized well it might lead to employee burnout, stress and eventually absenteeism, thus contributing to low employee commitment. The theory defines stress as a reaction to the environment in which there are perceived threats to one's resources. Burnout is described as a state of extreme resource depletion (Hobfoll & Shirom, 2001; Langballe et al, 2011). According to the theory by Hobfoll, managerial support can help to mitigate the

adverse effects of stress and burnout by expanding the pool of resources available for employees and reinforcing other limited resources such as emotional resources. Choi et al., (2012) concurred with Hobfoll's theory and suggested that this theory can help managers to influence burnout and stress by facilitating the prevention, management, and relief of stress and claimed that management support can serve as an immediate buffer against not only stress but also its destructive consequences such as decreased employee commitment.

Many scholars have used the Conservation of Resources theory in their work (Langballe et al, 2011; Choi et al., 2012) have linked COR theory with Burnout, stress and absenteeism. Different genders many experience burnout and stress differently (Beauregard & Henry, 2009). According to Stordeur, D'hoore, and Vandenberghe, (2001) stress and burnout have been shown to reduce work performance among married women, and increase absenteeism, turnover and job dissatisfaction among single male (Chandola, Martikainen, Bartley, Lahelma, Marmot & Michikazu, 2004).

### **Employee Commitment**

Employee commitment reflects a psychological state that characterizes the employees' relationship with the organization, which has implications for their decision to continue or discontinue membership in the organization. Several studies have demonstrated that organizational commitment is a very important factor that influences job satisfaction, organizational citizenship, absenteeism, performance, and turnover (Lambert, 2006). Allen and Meyer, (1996) categorized commitment in three dimensional concepts that include affective commitment, normative commitment and continuance commitment. Organizational commitment is a three-dimensional concept that includes affective commitment, normative commitment and continuance commitment (Allen & Meyer, 1996).

Affective commitment represents the employee's attachment to and identification with an organization. Individuals with a high level of affective commitment continue to work for an organization because they want to (Allen, 2001). Normative commitment refers to the moral obligation to continue working for the organization. Employees with a high level of normative commitment believe they have the duty and responsibility to continue working for their current employer. Finally, continuance commitment indicates the degree to which employees stay with an organization because the costs of leaving are too high (Konrad & Mangel, 2000). Employees who are essentially bound to their organization on the basis of continuance commitment stay in their jobs because they feel that what they have invested in the organization (time, energy) would be "lost" if they left their current employer or, they assess their job options outside the organization as being limited.

### **Burnout and Employee Commitment**

Burnout is a stress-related psychological syndrome in which exhaustion and disengagement may be considered, the core elements (Langballe, Innstrand, Aasland & Falkum, 2011; Peterson et al., 2008). The burnout process is assumed to start with feelings of exhaustion in response to prolonged exposure to stressful experiences at work (Langballe et al, 2011). People who are 'burned out' are not only exhausted but may also have lost their capacity for involvement in their work (Leiter, 2008). A high level of job burnout causes employees to feel depressed and experience a sense of failure, fatigue, and a loss of motivation, which in turn can lead to a number of problems for the organization, including employee turnover, absenteeism, and reduced organizational commitment, morale, job satisfaction, and productivity (Choi et al., 2012).

Schaufeli and Bakker (2004) asserted that job burnout (including emotional exhaustion and depersonalization) is an important predictor of turnover intentions for service organizations such as banks Research has linked burnout to lower levels of organizational effectiveness, job satisfaction and organizational commitment as well as to higher levels of absenteeism and turnover (Harrington & Ladge, 2009; Beutell, 2010; Choi et al., 2012). Therefore the following hypothesis was tested.

*Hypothesis 1. Burnout exerts a significant negative effect on employee commitment.*

### **Stress and Employee Commitment**

High job involvement may lead to increased stress, lack of job satisfaction, and reduced organizational commitment (McDonald & Bradley, 2005). Job stress has been shown to be positively associated with absenteeism and turnover among clinicians more generally (Stordeur et al., 2001). Job stress is estimated to cost industry in the US more than \$300 billion a year in related costs such as absenteeism and reduced productivity (Rosch, 2003; APA, 2010). In the US, more than half of adults report that family responsibilities are a source of stress to them and 55% indicated that they experienced low level of commitment in the past 3 months APA, (2010). Grunfeld, Zitzelsberger, Coristine, Whelan, Aspelund, Evans, (2004), in a rare study of job stress among cancer workers, they argued that a major source of work stress is work-family conflict coupled with heavy workload demands. These physical and psychological effects of stress can cause detrimental changes in the behavior of employees. According to Roberg et al. (2005), stress-related behavioral changes may manifest as a lack of job involvement, absenteeism, and low level of organizational commitment. Therefore the following hypothesis is tested

*Hypothesis 2. Stress exerts a significant negative effect on employee commitment.*

### **Absenteeism and Employee Commitment**

Absenteeism could be a response to either exhaustion or low affective organizational commitment in the case of short-term episodes of absence, or it could be a consequence of psychosomatic complaints in the case of long-term episodes of absence. Based on Hobfoll's Conservation of Resources (COR) theory which depicts absence as a coping mechanism to deal with job strain a person whose energetic resources are depleted would certainly be prompted, at some point, to take some time off to recuperate, in the form of a short-term leave of absence. There is evidence that certain programs such as work life balance increase employee commitment to the organization and reduce absenteeism and increase employee commitment (Hughes & Bozionelos, 2007). Some previous studies have found certain facets of job flexibility, such as flexible work hours, to be positively associated with employee commitment (Salzstein et al., 2001), to decrease absenteeism and turnover (Milkman & Appelbaum, 2004), and to increase job satisfaction (Hill, Hawkins, Ferris, & Weitzman, 2001; Salzstein et al., 2001). In Auerbach's (1990) study of an American hospital's childcare program, absenteeism rates dropped from 6% to 1% among eligible parents following the introduction of the childcare center, whereas absenteeism rates for other employees remained steady at 4%. Therefore the following hypothesis was tested.

*Hypothesis 3. Absenteeism negatively reduces employee's commitment.*

### **Moderating Effect of Managerial Support**

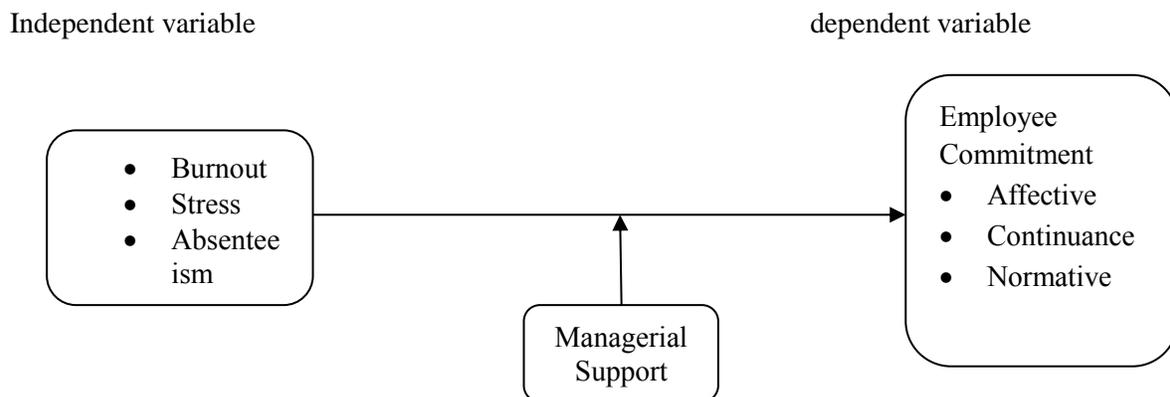
Managerial support describes the extent to which an employee's manager is sensitive to the employee's non-work responsibilities and is willing to accommodate those when conflicting work and non-work demands arise (Wickramasinghe, 2012). In terms of the main effect, there is a direct relationship between managerial support and job burnout, and in terms of the moderating effect, managerial can indirectly mitigate the effects of stress absenteeism and burnout (Hsu, 2011). Several researchers have investigated the moderating effect of managerial support on Burnout, stress and absenteeism on employee commitment (Duke et al., 2009; Rees & Freeman, 2009). Um and Harrison (1998) found that supervisor support, not individuals' coping skills, functions to moderate the relationship between job burnout and commitment. Therefore, managerial support can be considered

as a useful coping strategy for mitigating the adverse effects of job burnout on employees' work outcomes such as job satisfaction, organizational commitment, and turnover intentions. In Kenyan banks, the managers coach, monitor, and assess employees. Therefore, it is important for employees to perceive managerial support (Choi et al., 2012). Muhammad and Hamdy, (2005) found that managerial support moderates the relationship between experienced burnout, stress, absenteeism and organizational commitment. This indicates that management support may increase employee commitment by mitigating the adverse effects of stress and burnout. Therefore, employees perceiving sufficient support from their supervisors or managers may continue working in banks even when they experience stress and burnout. In this regard, following hypothesis was tested.

*Hypothesis 4. The relationship between burnout, stress and absenteeism on employee commitment is moderated by managerial support.*

Figure 1 shows research model representing the hypothesized relationships among the studied variables mentioned above.

**FIGURE 1**  
**Research Model**



## METHODS

### Measures

Descriptive survey was conducted among 205 employees working in the 43 banking institutions in Kenya. Both electronic and paper version questionnaires were sent to 250 employees, with 205 questionnaires returned successfully which represent 82 per cent of total questionnaires items. Attached to each questionnaire was a cover letter that explained the objective of the survey, assured respondents of the confidentiality of their responses, and informed them of the voluntary nature of participation in the survey. One week after the distribution of the questionnaires, a reminder was sent to respondents. Completed questionnaires were returned to a designated box in the human resource department and branch manager's offices. The survey instrument was pilot tested with a sample of employees in one of the banks. On the basis of feedback obtained from the pilot test, we revised a few of the scale items to ensure clarity.

From the study 34.2 per cent of the participants were female and 65.8 per cent were male with an average age of 29.5 years and an average organizational tenure of 4.4 years. The employees had average number of hours worked as 46.1 hours. While 8.6 per cent worked as top management, 30.5 per cent were in as middle management and 60.9 per cent worked as lower cadre employees. With respect to marital status, 52.7 per cent were married while 46.8 per cent were not married. In terms of educational level, 51.8 per cent of respondents had obtained a bachelor's degree, 38.2 percent a postgraduate degree, 8.5 per cent had college diploma, and 1.5 per cent had secondary education certificate.

The independent variables, namely burnout, stress and absenteeism were measured using four, five, and four items anchored on a five-point Likert scale, while the dependent and moderating variables were respectively measured with 12 and 9 item measures a five-point Likert scale. The composite independent variable (BSAB) comprising variable burnout, stress and absenteeism was measure using 13 items. Item measures for variables and reliability statistics are presented in Table 2. For all measurement scales, standardized Cronbach's alpha was examined. Cronbach's alpha values of each factor extracted and overall measure should be greater than 0.7. Burnout was measure using the five items from Maslach et al., (1996). Example items included "working all day is really straining me". Job stress was measured using the four items adopted from Lambert et al. (2006). Example of items included "I have constant time pressure due to heavy work load". Absenteeism was measure using the five items from Maslach et al., (1996); "sometimes I pretend to be unwell so that I can absent myself from work", is an example of the statements used in the questionnaire to elicit responses. Responses were reported on a five-point Likert scale from (1) strongly disagree to (5) strongly agree and the results are presented in Tables 1 and 2.

**TABLE 1**  
**Descriptive Statistics**

		Burnout	Stress	Absent	Managerial Support	Employee. Commitment
N	Valid	205	204	205	205	205
Mean		10.66	11.44	7.49	27.28	32.65
Std. Deviation		3.62	4.21	2.96	7.77	7.57
Minimum		4	0	0	13	8
Maximum		20	20	20	44	53

**TABLE 2**  
**Reliability Statistics**

Composite Variable	Variable	Cronbach's Alpha	Number of Items	N
Employee commitment (EC)	Affective commitment	.743	3	194
	Continuance commitment	.754	5	202
	Normative commitment	.754	4	203
	Composite EC	.753	12	197
Managerial Support (MS)	Managerial support	.880	9	203
BSAB <sup>^</sup>	Burnout	.782	4	204
	Stress	.893	5	203
	Absenteeism	.845	4	203
	Composite BSAB	.881	13	202

<sup>^</sup>BSAB = Composite variable for burnout, stress and absenteeism.

The distinctness of the independent variables was assessed by calculating the correlations between the summated scores of independent variables using Person product moment correlation. The results are presented in Table 3. The correlation results showed no multi-collinearity because the correlations coefficients are moderate to strong but below the threshold of 0.85 (see Mathieu & Taylor, 2006).

**TABLE 3**  
**Correlations Coefficients**

		Burnout	Stress	Absenteeism	Employee Commitment
Burnout	Pearson Correlation	1			
	Sig. (2-tailed)				
Stress	Pearson Correlation	.519**	1		
	Sig. (2-tailed)	.000			
Absenteeism	Pearson Correlation	.282**	.342**	1	
	Sig. (2-tailed)	.000	.000		
Employee Commitment	Pearson Correlation	.209**	.245**	.236**	1
	Sig. (2-tailed)	.003	.000	.001	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Effect of Stress, Burnout and Absenteeism on Employee Commitment**

Multiple linear and log-linear regression analysis models were used to test the relationship between burnout, stress and absenteeism on employee commitment; and the moderating effect of management support on the relationship. The results are presented in Table 4.

**TABLE 4**  
**Regression Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	24.854	1.901		13.076	.000
	Burnout	.168	.166	.080	1.010	.314
	Stress	.269	.146	.150	1.844	.067
	Absenteeism	.397	.185	.156	2.149	.033

<sup>a</sup> Dependent Variable: Employee commitment

The coefficient of determination (R-square value) of 0.084 was obtained; the variables burn, stress and absenteeism only explained about 10 per cent of the variation in employee commitment. In the full model burnout did not significantly affect employee commitment. However, stress and absenteeism had significant effect on employee commitment at 90 and 95 percent confidence level at p-values of 0.067 and 0.033 respectively.

**Reduced model without burnout**

Regression analysis was re-run without burnout and the coefficients associated with stress and absenteeism was 0.338 and 0.420 respectively at p-value less than 0.05 for both. The results are presented in Table 5.

**TABLE 5**  
**Regression Coefficients<sup>a</sup> for Reduced Model**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	25.685	1.714		14.988	.000
	Stress	.338	.129	.189	2.627	.009
	Absenteeism	.420	.183	.165	2.291	.023

<sup>a</sup> Dependent Variable: Employee commitment

The coefficient of determination (R-square value) is 0.089 indicating that *Stress* and *Absenteeism* explained 8.9 per cent of the variation in employee commitment. The hypotheses were also tested using a model involving the effect interaction of burnout (BURN0), stress (STRESS) and absenteeism (ABSENT) on employee commitment (EC) in Kenyan banks; the model was of the form:

$$EC = \alpha_0 * B^{\alpha_1} * S^{\alpha_2} * A^{\alpha_3} \quad (1)$$

where B, S, and A have the assigned meanings and  $\alpha_i$  is the coefficient associated with variable i. Equation 1 can be rewritten in log-linear form as:

$$\ln EC = \ln \alpha_0 + \alpha_1 \ln B + \alpha_2 \ln S + \alpha_3 \ln A + e \quad (2)$$

The results of the multiple log-linear regression is presented in Table 6.

**TABLE 6**  
**Regression Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.793	.131		21.305	.000
	lnBURNOUT	.084	.060	.115	1.392	.166
	lnSTRESS	.106	.050	.170	2.118	.035
	lnABSENT	.111	.052	.155	2.144	.033

<sup>a</sup> Dependent Variable: ln EC

The coefficient of determination (R-square value) is 0.117. In both regressions the combination of burnout, stress and absenteeism explained about 10 percent of the variation in employee commitment (EC). A composite score of stress, burnout and absenteeism (BSAB) was developed regressed against employee commitment; an R-square value of 0.092 was obtained indicating that *organizational malaise* (burnout, stress and absenteeism) significantly influenced employee commitment at a p-value less than 0.001 the coefficients of regression from the relationship between BSAB and employee commitment are shown in Table 7.

Burnout, stress and absenteeism (BSAB) accounted for a significant (p-value less than 0.001) 9.2 per cent variation in employee commitment. From the results obtained, hypothesis H1 was not supported; burnout has no effect on employee commitment coefficient of regression was not significant (p-value was 0.427). On the other hand, hypotheses H2 and H3 were supported with significant coefficients of regression with p-value less than 0.05.

**TABLE 7**  
**Regression Coefficient<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	24.602	1.843		13.349	.000
	BSAB <sup>^</sup>	.273	.060	.304	4.543	.000

<sup>a</sup> Dependent Variable: Employee commitment;

<sup>^</sup> Composite variable comprising burnout, stress and Absenteeism

**Moderating effect of managerial support**

To enable the testing of the moderating effect of managerial support on the relationship between the composite measure of burnout, stress and absenteeism (BSAB), an interaction variable was calculated from BSAB and managerial support (MSurp) scores and used together with BSAB as independent variables while employee commitment remained the dependent variable. The result of the moderated regression analysis are presented in Table 8.

**TABLE 8**  
**Regression Coefficients for Multiple Model**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	22.279	1.626		13.701	.000
	BSAB <sup>a</sup>	-.050	.065	-.055	-.758	.449
	BSAB*MSurp	.015	.002	.596	8.181	.000

<sup>a</sup> Dependent Variable: Employee commitment

On introduction of the interaction variable in the linear regression model, R-square value of increased to 0.304 (explanation of 30.4 per cent of the variation in employee commitment); but the effect of BSAB become negative and insignificant in influencing employee commitment. The same procedure was repeated with the log-linear model and the results are presented in Table 9.

By introducing the interaction variable (lnBSAB\*lnMSurp) R-square value of increased by 0.20 to 0.318 - an increase of over 20 per cent. From the regression results with the interaction, managerial support increased the coefficient of determination from about 0.10 to over 0.30. This indicates that managerial support reduces the effect of BSAB on employee commitment.

**TABLE 9**  
**Regression Coefficients for Log Linear Model**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-36.020	7.910		-4.554	.000
	lnBSAB	-.053	.067	-.060	-.795	.427
	lnBSAB*lnMSurp	10.645	1.359	.586	7.830	.000

a. Dependent Variable: Employee commitment

**Burnout, Stress, Absenteeism and dimensions of Employee Commitment**

The association between stress, absenteeism and the dimensions of employee commitment, namely affective, continuous normative commitment was assessed using correlation analysis. The results of the analysis comprising descriptive statistics (Table 10) and correlation coefficients (Table 11).

**TABLE 10**  
**Descriptive Statistics**

	Burnout	Stress	Absenteeism	Continuance	Normative	
Mean	2.672	3.004	3.067	3.067	2.756	2.756
S.D.	0.916	0.986	0.679	0.596	0.713	0.875

The results (Table 11) show that the levels of burnout, stress and absenteeism; and employee are low (mean values less than 3 on a scale of 1 to 5).

**TABLE 11**  
**Correlation Coefficients**

	Burnout	Stress	Absenteeism	Affective	Continuance	Normative
Burnout	1					
Stress	.519**	1				
Absenteeism	.282**	.342**	1			
Affective	.293**	.320**	.180**	1		
Continuance	.162*	.244**	.261**	.337**	1	
Normative	.055	.014	.067	.275**	.275**	1
	0.436	.843	0.343	.000	.000	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

From Table 12 normative commitment has no significant relationship with burnout, stress and absenteeism whereas affective and continuous commitment has significant relationship with burnout, stress and absenteeism

### Testing of hypotheses

Table 12 shows the results of the four hypotheses (H1, H2, H3 and H4) tests.

**TABLE 12**  
**Results of Hypotheses Test**

Null hypothesis	Test	Result	Accept/Reject
H1:	Regression analysis	t-test; coefficient not significant (p-value greater than 0.1)	Rejected
H2:	Correlation and regression analysis	t-test; coefficient not significant (p-value less than 0.05)	Accepted
H3:	Correlation and regression analysis	t-test; coefficient not significant (p-value less than 0.05)	Accepted
H4	Regression analysis	t-test; coefficient not significant (p-value less than 0.05)	Accepted

### DISCUSSION

Stress, burnout and absenteeism have negative effect on the organization (Babakus et al., 2009; Choi et al., 2012). Given that employees in the banking sector are likely to face a high level of burnout, stress and then absenteeism which has greater effect on their commitment, the findings are that two components (stress and absenteeism) were positively related to employee commitment. These results provide strong support for the argument that stress and absenteeism is an antecedent of employee commitment (Che<sup>^</sup>nevert et al, 2013). This implies that employees who experience stress and absenteeism's can be expected to have low organizational commitment and have a higher propensity to leave the job. This result is consistent with the findings of Duke et al. (2009); and of Rees and Freeman (2009) who investigated the moderating effect of managerial support on Burnout, stress and absenteeism on employee commitment they found out that in deed managerial support has moderating effect on employee commitment. In this regard, the results of the present study suggest that careful interventions are needed when employees are faced with burnout and stress. The results show that managerial support had a positive moderating effect on the relationships between burnout, stress, absenteeism and employee commitment, suggesting that managerial support is always useful for mitigating the adverse effects of burnout, stress, and absenteeism on employee commitment. Furthermore, the results indicate that managerial support tends to moderate the effect of burnout, stress and absenteeism on employees commitment, and propensity to leave the job. These findings make it necessary for managers in the banking sector to take specific actions to minimize the occurrence of burnout, stress and absenteeism. Managers should pay close attention to workplace factors commonly associated with experienced burnout (i.e., attempt to reduce the occurrence of work overload, work conflict, and role ambiguity and enhance worker autonomy and perceived equity of rewards). Managers should also apply a number of training programs (such as time management, conflict resolution, relaxation techniques) that provide employees with strategies to cope with stress.

This study has some limitations. First, we examined the effect of job burnout, stress and absenteeism in the context of banking sector by determining whether managerial support would moderate the effects of burnout, stress and absenteeism on employee's commitment. This approach is narrow, but it is difficult to compare this study's results with the findings of previous empirical studies that have used many variables. Therefore, this study represents a preliminary effort to explain how the

adverse effects of burnout, stress and absenteeism mitigated. A number of studies have emphasized the prevention and reduction of burnout, stress and absenteeism by mitigating the adverse effects of work stressors such as role conflicts, time, role ambiguities, and emotional labor (Harrington & Ladge, 2009; Beutell, 2010; Choi et al., 2012). Despite such efforts by banking institutions, employee commitment remains low. Second, this study used descriptive survey in its approach. In this regard, future research should employ a longitudinal method or comparative study to provide a better understanding of these effects over time. Third, only 34.2 per cent of the respondents were female. This is a common phenomenon in Kenyan organization, especially in banking institutions. In this regard, the results are expected to be useful for explaining the effects burnout, stress and absenteeism on employee commitment in the environment offer equal opportunity. Finally, there may be other variables that can moderate the effects of burnout, stress and absenteeism on employee commitment that were not used. For example, offering conducive working environments by providing employees with counseling services, child care facilities, gymnasium, which can help to mitigate the adverse effects of burnout, stress and absenteeism and increase employee commitment. Therefore, future research should continue to identify those moderating variables that can be effective in managing burnout, stress and absenteeism.

### CONCLUSION

In conclusion, this study empirically confirms that managerial support plays key moderating roles in increasing employee commitment and reducing on the effect of stress and burnout has on employees. This study therefore contributes to the existing literature. The results suggest management support is critical in mitigation of burnout, stress and absenteeism. Therefore, bank managers should make careful use of their managerial role because it can increase employee commitment.

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#### END NOTE

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## ORGANIZATIONAL BEHAVIOUR, CULTURE AND PENTECOSTALISM: ADAPTING BEHAVIOURAL MANAGEMENT TO SPIRITUALITY IN NIGERIA

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### ABSTRACT

As academic debate continues to explore cross-cultural differences in management practices, the reality that the 'art of managing' goes beyond the workplace is slowly being embraced. This study aims to explore the area of organizational behavior outside the workplace. It examines the adaptation of the behavioural approach to management in Nigerian Pentecostal churches and goes further to investigate the cultural relevance of these practices. Due to its exploratory nature, this paper applied a qualitative methodology through a narrative discourse. The study concludes that the organisational behaviour of modern organisations, and indeed Pentecostal churches, in Nigeria is heavily influenced by traditional culture and evidenced by the behavioural management approach to leadership and motivation.

**Keywords:** Organisational Behaviour, Pentecostalism, Behavioural Management, Traditional Values and Practices, Culture, Christianity

### INTRODUCTION

The impact of the spirituality and religious beliefs of employees in organisations have garnered so much interest by the academic community in recent times that it was recognized as a field of inquiry in 1999 by the Academy of Management, when it created the interest group of management, spirituality and religion (Dean, Fornaciari & McGee, 2003; Cunha, Rego & D'Oliveira, 2006). A lot of work has been done on Management, Spirituality and Religion (MSR), especially as regard the effect of religion, emotional harmony and emotional labour on organizations and how they affect employees' behaviour (Rafaeli & Sutton, 1987; Morris & Feldman, 1996).

Employees now seek support, meaning and value not just at home but also on the job and according to Cash & Gray (2000), this support and value is shifting to increased spiritual and religious accommodation at work. Thus, the emerging field of spirituality at work cannot be ignored if organisations are to achieve increased performance, organizational harmony and superior productivity, especially in the areas of business ethics and social responsibility (Collins, 2010:95). Proponents of the behavioural or neo-human relations approach to management argued about its importance to the motivation of employees and employee behaviour, particularly towards achieving organisational goals and objectives. This school of thought as a management approach came to the fore due to the various limitations of the classical approach to management, which included the scientific management approach, administrative management approach and bureaucracy approach. While the classical

approach is focused on productivity, task, efficiency and organisational structure; the behavioural approach to management emerged as attention shifted to the human side of management and what motivated workers at work (Stoner, Freeman & Gilbert, 2004; Mullins, 2011; Lawal, 2012).

Over the years, researchers from such diverse social science fields as psychology, sociology and anthropology employed refined research methods to conclude on what motivates employees towards achieving organisational goals. These researchers, who are also known as behaviourists or behavioural scientists, laid the foundation for new management ideas and this led to a shift in perspective from assuming productivity is the most crucial factor in an organisation to respect for employee attitude and behaviour. Ultimately, the behavioural approach to management presupposes that once employees are well motivated, then productivity and output will increase (Mullins, 2011). According to Lawal (2012) and Cole (2004), such major contributors to the behavioural school of thought as Abraham Maslow, Douglas McGregor and Frederick Herzberg have contributed in no small way in ensuring a complete shift in management orientation from organisational structure to workers' management.

In Nigeria, organisations are not exempt from relying on the behavioural management approach to motivate employees and achieve organisational goals. This is because it has been argued that management functions are essentially the same from country to country and it therefore means management is not only universal but also transferrable (Koontz & O'Donnell, 1980). In spite of the assertion by George, Kuye & Onokala (2012), George, Owoyemi & Kuye (2012) and Fashoyin (2005) that the attempt to transfer management approaches to Nigeria have proved challenging because of difference in values and peculiar socio-cultural realities of each nation, many Nigerian organisations, even beyond the workplace, have adopted the behavioural approach to management, either deliberately or otherwise. What has proven an interesting course of study is the evidence that the modern church also adopts similar approaches to management in particular motivational leadership.

This study aimed to show that modern Christianity in Nigeria, specifically Pentecostalism, has shown that religion is not exclusive of management. Most Pentecostals have adopted the behavioural approach to management, especially as it relates to the motivation of the congregation and workers. However, the extent to which church management relies on the modern management approaches to achieving organizational objectives still remains a significant gap in literature. Furthermore, discussions on the similarities between Pentecostals, traditional religious and leadership styles of management have also been limited. It is the aim of this paper therefore, to explore and understand the organisational behaviour of Pentecostal churches in Nigeria in the context of the neo-human relations (behavioural) approach to management. Secondly, the researchers found that religion is actually influenced by multiple factors; scriptures (the teaching of Jesus Christ), secular management and local culture. Beyond the idea that management practices are evident in the church, there seems to be a greater secular and cultural influence than scriptural influence on Nigerian Pentecostalism.

### **WORKING PROPOSITIONS**

Due to the exploratory nature of this study, it will not involve empirical studies and therefore will not be testing hypotheses. Instead it employs a qualitative approach aimed at addressing the following working propositions in order to reach a valid and objective conclusion:

*Proposition 1. The more the evidence of behavioural management approach in Pentecostal church management, the more they reflect the practice of the cultural traditional leadership.*

*Proposition 2. The more Pentecostal leaders in Nigeria strive to motivate their congregation to achieve organizational goals, the less they seem to practice scriptural doctrines.*

## METHODOLOGY AND METHODS

This study is based on the qualitative methodology largely because of the exploratory nature of the research which is more about observing human behaviour and understanding phenomena rather than empirical or numerical verification of patterns (Boodhoo & Purmessur, 2009). The narrative method is used in analysis whilst the interpretivist approach is preferred to the positivist approach because of the exploratory nature of the study. Rieder (1985) believes the interpretivist approach seeks to appreciate issues through observation and in-depth interviews. Also, interpretivists try to comprehend phenomena, as described by participants rather than testing through scientific standards of verification (Roth & Mehta, 2002). As the purpose of this paper is to observe and construct phenomena, the interpretivist method was deemed most appropriate.

## THEORETICAL BACKGROUND

The practice of management and application of management functions to solve problems have always existed since ancient times. According to Robbins & Coulter (2009), the use of such management functions as planning, organizing and controlling is age-old and this was possible because humans had always organised themselves in small groups to accomplish specific assignments. According to George (1972), great examples of management in ancient history, include the Great Wall of China and the Egyptian pyramids. Such massive constructions employed thousands of workers and are substantial evidence of the magnitude of work that was managed in ancient times. The building of these projects, which involved numerous workers, would not have been possible without detailed planning and organizing (Griffin, 2005).

### The Emergence of Behavioural Management Theories

Many researchers and scholars agree that two major events were crucially relevant to management history and the evolution of approaches (Jones & George, 2003; Robbins & Coulter, 2009; Lawal, 2012). These events, according to Robbins & Coulter (2009), are the publication of 'The Wealth of Nations' in 1776 by Adams Smith and the Industrial Revolution which started in the late nineteenth century. Numerous approaches have been expounded in writings constituting management theory and these approaches have been postulated by scholars and researchers from disciplines as diverse as Mathematics and Psychology. Lawal (2012) opines that the attempt to summarize management into theories, principles and concepts is to aid organisational effectiveness. Like all useful theories, Lawal (2012) suggests that management theory is not an end in itself but should rather serve as a means of improving managerial efficiency.

The behavioural or neo-human relations approach to management is one of the management approaches that have been identified and developed by scholars, as a means of assisting managers to achieve organisational goals, if practiced. Stoner et. al (2004), as indeed many other modern management writers, classified these management theories into five major groups and they are: Classical management approach, Human and neo-human relations approach, Systems approach, Contingency approach and Era of dynamic engagement approach.

***The path to behavioural management.*** Before the classical approach was defined and developed, no useful work standards existed and workers were placed on jobs with little concern of matching tasks with abilities or skills. Also, there were no specific tasks, roles and responsibilities for workers and managers due to the emergence of many factories as a result of the industrial revolution (Mullins, 2011; Cole, 2004; Robbins & Coulter, 2009). Since skilled labour was lacking, it was necessary to increase productivity via worker efficiency and this led to the formulation of a group of principles

which became known as the classical approach. The primary objective was to ensure greater employee efficiency through increased productivity (Stoner et al., 2004).

No doubt, there was an increase in workers' productivity but little attention was paid to employee welfare. According to Kuye, Gbadamosi & Adeoye (2010), workers were seen as tools rather than resources. The major focus was on production and efficiency and less emphasis was placed on safety, well-being and working conditions of employees. This led to the resistance of this approach by workers and labour unions (Stoner et al., 2004).

The limitations of the classical approach to management, as well as the great depression of the 1920s and 1930s, shifted focus from productivity to employee behaviour and social factors at work. Researchers from various disciplines, especially social sciences, conducted empirical studies in an attempt to determine what motivated workers and also how to predict human behavior. This later evolved into the behavioural approach to management (Mullins, 2011; Kuye et al., 2010).

According to Stoner et al. (2004), the behavioural approach introduced two new elements to the study of organisations and management. Firstly, a more complex view of humans, and what drives them, was developed. It was also discovered that people wanted more than immediate rewards and that money was not the only motivation factor as far as employees were concerned. Secondly, novel methods of scientific research, exploration and analysis were utilized in various studies by behavioural scientists, in analyzing how people conducted themselves in organisations. This also set the platform for future researches. Thus, the criticisms and limitations of the classical approach to management led to the development of the behavioural management approach, often referred to as neo-human relations approach.

**Major contributors to the behavioural management approach.** According to Robbins & Coulter (2009) and Lawal (2012), some of the major contributors to the school of behavioural management are Abraham Maslow, Douglas McGregor, Frederick Herzberg, David McClelland, Clayton Alderfer, Rensis Likert, Stacey Adams, Victor Vroom and Chris Argyris. However, for the purpose of this study, the researchers focused on the works of Abraham Maslow's hierarchy of needs, Douglas McGregor's theory X and Y and Frederick Herzberg's two-factor theory. These theories are quite popular in practice and they represent the pedestal upon which current motivational theories were developed.

**Abraham Maslow's Hierarchy of Needs Theory.** Robbins & Coulter (2009) considered the work of Abraham Maslow to be the most popular of all theories on motivation and Mullins (2011) suggests that Maslow's work created the platform for the neo-human relations approach, because Maslow advanced the "theoretical framework of individual personality and motivation based on a hierarchy of human needs" (Mullins, 2011:57). Maslow (1943) studied motivation in human beings and proposed that people are motivated by a yearning to satisfy definite needs at a particular moment. He categorised these needs in a hierarchical manner and argued that needs in a level must be significantly met, before the needs in the next level become paramount (Cole, 2004).

Maslow (1943) identified five hierarchical levels of needs:

- Physiological or Basic needs - need for sleep, sex, air, rest, water and food
- Safety needs - security of employment, health, property, family and resources
- Belonging or Social needs - need for friendship, affection and family
- Esteem needs - need for appreciation, confidence, recognition, respect by others
- Self-Actualisation needs - self-fulfillment, creativity and problem-solving

He (1943) classified the Basic and Safety needs as lower-order needs, which are externally satisfied while Social, Esteem and Self-Actualisation needs were deemed to be higher-order needs, satisfied internally.

**Douglas McGregor's Theory X and Y.** McGregor (1960) observed that managers made separate assumptions about their workers and he suggested two different set of assumptions about human

nature and the behaviour of employees to work. He identified workers in either Theory X or Theory Y categories. Theory X holds a pessimistic view of people and assumes that the average worker is inherently lazy, lacks drive and ambition, dislikes responsibility, detests work and will do everything to avoid work. It means managers must control and supervise such workers closely. On the other hand, Theory Y holds an optimistic view of people and assumes that employees enjoy work, are ambitious and seek responsibility. It means managers must give a free hand and create a stimulating environment for such workers to thrive (Robbins & Coulter, 2009; Mullins, 2011). Furthermore, it was suggested that to get the best out of workers and employees, managers must adopt the proverbial 'Carrot and Stick' approach. This means optimistic and hardworking employees (Theory Y) must be encouraged with carrot, which will serve as reward; while pessimistic and lazy workers (Theory X) will get the stick, which will serve as a sanction or punishment.

**Frederick Herzberg's Two-Factor Theory.** Herzberg identified two uniquely different sets of factors affecting satisfaction and motivation among employees at work. The absence of one of the set of factors, known as hygiene factors, will lead to dissatisfaction but will not necessarily motivate workers, if it is present. Hygiene factors such as relationship with supervisor, security, personal life, supervision, salary, working conditions and company policies are concerned with the job environment (Robbins & Coulter, 2009; Mullins, 2011). Nonetheless, a different set of factors were identified as motivating workers to give their best and they are known as motivators. Motivators such as growth, achievement, job advancement, job enrichment, recognition and responsibility are concerned with the job content. It therefore meant that in order to make workers satisfied, hygiene factors must be in place but to motivate workers, motivators must be emphasized.

### Christianity in Nigeria

**Evolution of modern Christianity in Nigeria.** Many historians and scholars agree that the first Christian contact in Nigeria was when the Portuguese came to the coast of West Africa, in the 15th Century, in search of slaves, pepper, gold and ivory in Warri, Benin, Calabar and Bonny (Ryder, 1961, 1969; Isichei, 1995; Adamolekun, 1999, 2012). However, Adamolekun (1999) suggests that Christianity did not become widespread at the point of first contact because commercial activities and trade was the dominant interest of the Portuguese.

Adamolekun (2012) traced the history and development of church growth and Christianity in Nigeria and identified five major periods as the period of Latin Christianity; the period of Denominationalism and Missionary activities; the period of Evolution of Independent Churches; the period of indigenous African Churches; and the period of the birth of the modern Charismatic and Pentecostal Churches.

- *First Period - Latin Christianity (15th and 16th Centuries):* This period was marked by contact in some Nigerian towns with Portuguese merchants. Christianity was not prominent in this period because the focus was more on developing a commercial than religious relationship. The language barrier was also a problem.
- *Second Period - Denominationalism and Missionary Activities (from 1842):* A major highlight of this period was the establishment of permanent mission posts in Nigeria by the American and British churches (Ade Ajayi, 1965; Ayandele, 1966). Roman Catholicism through Society of African Missions, Wesleyan Methodists, Anglican through the Church Missionary Society (CMS) and Presbytery of Biafra through the Presbyterians are examples. The missionaries learnt the local languages, converted indigenes to Christianity and trained them appropriately. A good example is the consecration of Bishop Samuel Ajayi Crowther in 1964 as first African Bishop (Ojo, 1998; Gaiya, 2002).

- *Third Period - Evolution of Independent Churches:* This period was marked by the discriminatory practices of colonial church leaders, where certain African customs were condemned by missionaries and indigenes were also marginalized. This led to several breakaways and the establishment of the first 'indigenous' church in Nigeria in 1891, called United African Church, Lagos (Kalu, 1978). A subtle revolution also resulted in the emergence of the African Bethel Church by some members of St. Paul's Breadfruit Church in 1901 and the breaking away of United African Methodist Church, Eleja from Methodist Church, Ereko, Lagos, in 1917 (Dada, 1986; Adamolekun, 2012).
- *Fourth Period - Indigenous African Churches:* A major focus of this period was the establishment of more indigenous Nigerian churches. Omoyajowo (1973) suggests that Nigeria was dominated by western-oriented churches with prefabricated theology but there was a phenomenon in the 1920s to 1940s referred to by Peel (1968) as the Aladura movement, which started from large Yoruba towns. This coincided with many individuals who 'received' direct inspiration from God to start churches. For example, Isonyin, J.B. Shadare and a young school mistress, Sophia Odunlami established the Faith Tabernacle in 1923, Cherubim and Seraphim Society was founded in 1925 by Late Moses Orimolade, Church of the Lord (Aladura) commenced in 1932 by Joseph Osintelu while Christ Apostolic Church was established by Joseph Babalola in 1940 (Peel, 1968; Oshintelu, 2007). These churches had no affiliations to western missions.
- *Fifth Period - Charismatic Evangelical and Pentecostal Churches:* This period is marked by the exposure of many Nigerian youths to British and American education, discontent of youths with their parent's orthodox churches, influx of Christian literature to Nigeria and influx of foreign preachers in the 1970s faith crusades in Nigeria (Adamolekun, 2012). The effect was that new churches with different purposes and orientation developed. Examples are the Redeemed Christian Church of God, Deeper Life Bible Church, Living Faith Church and Evangelical Church of Yahweh.

This paper will focus on the fifth period of Christianity in Nigeria identified by Adamolekun (2012), the emergence of the contemporary Charismatic Evangelical and Pentecostal Churches and the implication for secular management and culture studies.

**Modern Christianity in Nigeria - The Pentecostal Phenomenon.** The term Pentecostal means different things to various scholars and it has been used to connote or describe many religious scenarios, depending on the particular epistemological or etymological leaning of the author. In Africa, nay Nigeria, the use of Pentecostalism in reference to churches has multiple interpretations. According to Hollenweger (1972) and Anderson (1999), African Pentecostalism denotes any church in Africa that accentuates the understanding of the Spirit and lives out the tenets of the spiritual gifts (Burgess, 2004). Pentecostalism was described by Van Dijk (2000) as one that is fast growing in Africa because of the way it negotiates, mediates and mitigates modernity. Majority of scholars have proposed different names for the new indigenous church movements in Nigeria because they claim that Pentecostalism is not particularly homogeneous. Turner (1967) refers to them as the prophet-healing churches, Kailing (1994) calls them Evangelical-Pentecostal, Ojo (1997) describes them as Charismatic, Kalu (1998) prefers to address the adherents of these churches as Born-again, Hackett (1998) argues that they are Pentecostals while Peel (2000) is convinced they should be referred to as Neo-Pentecostals. However, Gifford (1998) believes that the terms Charismatic or Pentecostals, Evangelicals or Fundamentalists are interchangeable in Africa (Gaiya, 2002). Irrespective of the choice of name, major features of African and Nigerian Pentecostals, according to Ukah (2007), are prophecy, spontaneous prayer, faith healing, exorcism, vision, stress on dreams and energetic liturgical expression. Pentecostals usually revolve around a charismatic male or female leader, who breaks away from another church or starts a congregation with a handful of people. Such leaders remain in control of the church and oversee its

gradual growth. A formal social structure is then developed which will help the administration and effective operations of its activities (Ottenberg, 2012).

**Rapid Growth of Pentecostalism.** According to Ukah (2007), Pentecostalism as a sector of Christianity in Africa has expanded very quickly. "This is unarguably the most complex and socially visible strand of religion in Africa, not only because it is still evolving and changing rapidly, but the proliferation of division and innovation is dizzying". (Ukah, 2007:9). Today, Pentecostalism in Nigeria is a major movement, and it is estimated that Nigeria has the world's third largest population of Pentecostals (Ukpong, 2006). According to him (2006), the astronomical rise of Pentecostalism in Nigeria led to the formation of a body of related churches in 1985, known as the Pentecostal Fellowship of Nigeria (PFN).

Kalu (2008) posited that a major feature which influenced the growth of Pentecostalism in Nigeria, especially in the 1980s, was access to mass media and abundant publications such as Pentecostal books, pamphlets and handbills from abroad. Also, Africans naturally and traditionally believe in divine power and it is therefore not a surprise that the attraction of people, especially youths, to Pentecostal churches is the demand for divine healing and miracles, and departure from mechanistic world of foreign theology and divinity (Olupona, 2000; Ukpong, 2006).

The crazy rush to attend Pentecostal churches in Nigeria is partly due their perceived ability to solve people's problems, prosperity preaching and their grandiosity. No surprise therefore that more Nigerians attend these Pentecostals than orthodox or mission-established churches, which are considered as conservative or outdated (Gaiya, 2002). The proliferation of Pentecostals in Nigeria is not unconnected with the fact that the establishment of house of worship is one of the most profitable 'businesses' in Nigeria, such that many warehouses, bars, cinema halls and stores are being converted to churches in Nigeria. Most of these churches have also tapped into the benefits of the electronic media to reach more people. The use of internet, radio and television in evangelism is now common (Gaiya, 2002). Most of the Pentecostals that originated from Nigeria now have outreaches or branches in America, Europe and Asia. The foreign Missionaries brought Christianity to Nigeria and Nigerians have now succeeded in taking back to them a blend of Pentecostalism and local culture.

### **The Nigerian Culture and Traditional Value System**

All human beings that have an interaction with one another, as members of a distinct group or nation, have an acceptable pattern of conduct or behaviour, also known as values, which is peculiar to them. It therefore means societal values of a group of people cannot be properly situated outside the context of culture. Societal values are rooted in our cultural values, philosophy and norms. It is a feature of our cultural legacy (Madukwe, 2012). Values are the platform upon which all human societies are built. Every society has values, norms, laws, customs and traditional practices, which regulate the behaviour of individuals in a society (Iremeka, 2012). It therefore means it is the society that provides the structure that individuals thrive on. "Thus, most of an individual's life aspirations is nurtured by the society through the system of praise and blame, sanctions and rewards of all sorts" (Iremeka, 2012:190).

A society that is morally rich in terms of its values, will impact positively on the individuals in that society. According to Barnouw (1985:190), moral values are 'the standards of good and evil, which governs individual behaviour and choices'. This definition is apt and applies to the Nigerian traditional value system, which suggests that in every society, individuals actually have choices as regard behaviour. Such choices may be good or bad, depending on the socially acceptable standard in place. Good behaviour or practices are positively reinforced through praise and rewards while bad behaviour or practices are condemned through blame and sanctions.

**Nigerian values.** Some of the core Nigerian values are respect for elders, honesty, hard work, respect for human life, communal interest or collegiality spirit, kinship, respect for other's property, morality, honesty and accountability, personal integrity, hospitality spirit, discipline, chastity, filial relations, truthfulness and diligence (Okolo, 1993; Ushe, 2011; Iremeka, 2012; Madukwe, 2012). These

values are "preserved in the cultural activities of the people from birth through initiation rites - naming ceremonies, puberty rites, the age grade system, marriage institution, initiation into achieved societies, through adult roles until death" (Agujiobi-Odoh, 2007 as cited by Iremeka, 2012: 190). All societies in the world can only achieve social cohesion because of the values which they ascribe. This is because values are at the core of every society's continuous existence and social harmony. Violation of traditional values, according to Madukwe (2012), was regarded as an abomination or a taboo (*aru* or *nso* in Igbo and *ewo* in Yoruba), and these abominations helped to bring sanity and decorum to the society. This was evidence of an ancient form of management.

## DISCUSSIONS AND CONCLUSIONS

### **Pentecostalism: The Modern Form of Traditional Religion?**

Pentecostalism is not only widespread in Nigeria, it is enjoying rapid growth and increase in number of adherents evidenced by the number of warehouses, unused houses, stores, shops and so on, that have been converted to Pentecostal churches (Gaiya, 2002). A major area of debate is the reason for the explosion in the number of Pentecostal churches in Nigeria especially as it can be argued that these churches are built on the same traditional values that Nigerians have practiced for many centuries. For instance, traditional music and dance have always been a natural way of life of Nigerians, especially during celebrations like the King's coronation, New Yam festival and *Egungun* (Masquerade) festival. So it can be argued that Pentecostals exhilarating and loud forms of praise and worship is actually reflective of the traditional religious forms of worship and a departure from the more conservative worship through hymns taught by the missionaries. Another example, of the similarities between the modern church and the traditional religion is the belief in physical objects for protection. Such things like charms and amulets have been replaced with anointing oil, holy water and handkerchiefs in the indigenous African and modern Pentecostal churches.

### **Maslow, Traditional Practices and Pentecostalism**

Decades before Maslow's motivation theory on hierarchical needs, many Nigerian societies had practiced multi-level structures of management for legal and socio-political reasons. For example, the Yorubas in South West Nigeria had a system of structures which was handy for dispute and conflict resolution. The man (*baba*) was the head of the house, the eldest male (*oloriebi*) was the head of the extended family, the eldest male represented the family in each quarter (*adugbo*) and from the quarter comes a representation on the council of elders (*igbimo*), which rules and adjudicates in conjunction with the King (Onadeko, 2008; Oduwole, 2011). Thus, the motivation, especially for males, was to rise through the hierarchy and become a member of council of elders, if not the King. In addition, the *oloriebi* was responsible for providing the basic needs of food, shelter and clothing for all members of the extended families living within the same quarters/compound. This meant providing employment for every male member to ensure his household was well taken care of.

**TABLE 1**  
**Classification of Maslow's Needs, Yoruba Political / Adjudicatory System and Pentecostalism into Hierarchies and Multi-Level Structures**

Self-Actualisation Needs	King (Oba)	Associate or Head Pastor
Esteem Needs	Elders/Chiefs' Council (Igbimo)	Deacon /Church Elder
Social Needs	Quarters Head ( <i>Olori Adugbo</i> )	Cell / Fellowship Leader
Safety Needs	Family Head ( <i>Olori Ebi</i> )	Head of Unit
Basic Needs	Father ( <i>Baba</i> )	Worker / Member

Source: Adaptation from various Authors' books; \*Researchers' Assessment 2013.

Pentecostalism may have also borrowed a leaf from Maslow and Traditional Nigerian Practices. To get the best out of its church member, Pentecostal churches now have a multi-level or hierarchical structure designed to motivate the congregation. Members with basic and safety needs being met are seen to be at the bottom of the pyramid, while the needs within the groups' changes as people go further up the pyramid. Each member has the opportunity to become a worker, the worker can then choose to be in the choir, ushering department, prayer unit, drama group, evangelism unit, pastoral ministry and so on (esteem and social needs). This is usually followed by a desire to be the Head of unit/department or a Fellowship leader. Thereafter, opportunities exist to become a Deacon or an Associate Pastor, depending on the aspiration of the individual. Only a few will achieve the self-actualization goal of becoming the General Overseer or Head Pastor (King in traditional sense).

**McGregor, Traditional Practices and Pentecostalism**

McGregor assumed that employees or workers were either lazy or hardworking and he postulated the Theory X and Y based on this assumption. McGregor suggested the use of stick (punishment or sanction) for lazy workers and the use of carrot (reward) for hard working employees. In traditional Nigerian societies, there was a system in place which punished wrong-doers and rewarded the hardworking. The Yorubas, for instance, had a system that rewarded hardworking men and gave them the opportunity of becoming trusted and revered members of society. Two Yoruba adages are quite pertinent in describing attitude to work:

*Ise l'ogun Ise* (Work conquers Poverty)  
*Eni ko S'ise, a J'ale* (Without work, one is bound to steal)

Work was encouraged but laziness and other acts of crime were also not condoned. Infact, punishment for a wide range of offences were handed down by the King, council, family head or parent, as the case may be. Parents also had the prerogative to punish bad behaviour in children, as well as give rewards for good behaviour, as a way of encouraging them toward better attitude (Ayo, 2002). A

parents' inability to do this meant loss of control over the children and it was expected that the neighbors (village) now had the responsibility to ensure discipline was exerted.

Punishments and sanctions in traditional Yoruba system, according to Ajisafe (1946) included offering of sacrifices to appease gods, flogging, confiscation of property, death, deportation or ejection from the community. Ejection from the community, many centuries ago, is akin to ejection from the Pentecostal churches now, especially if a worker has committed a 'grievous' offence. Offences in the church range from fornication, adultery, embezzlement or misappropriation of tithes/offerings and so on.

Pentecostals have seemingly adopted this age-long Nigerian tradition to reward good behaviour and punish bad behaviour, which conflicts with the scriptural teachings of Jesus Christ. A peculiar case, according to Yakubu (2010), involved an intending couple who were asked to do a pregnancy test just a few days before the scheduled marriage date. The result returned as positive confirming the bride-to-be was pregnant. In spite of the fact that the groom-to-be accepted responsibility, the church - Bible Believers Centre, Nyanya, led by Pastor Mfonido Edidaha refused to solemnize the union on the grounds of fornication. Thus, creating panic, confusion and anguish for invited guests on the wedding day. The cultural tradition of the Yorubas is quite similar. On the wedding night, the groom's family would wait outside the door for a 'stained' white handkerchief as proof of purity of the bride. It was not enough to be known of good behaviour, evidence was required in the tradition of McGregor's theory X which assumes the worst of people. Similarly, pregnancy tests are now the norm for intending couples in Pentecostal churches and this reflects the same attitude of the pessimistic view that people are inherently bad and only the fear of sanction would motivate good behavior. Unfortunately, the evidence shows this does not necessarily work.

### **Herzberg, Traditional Practices and Pentecostalism**

Herzberg postulated that satisfiers are different from motivators and that the presence or provision of satisfiers will not necessarily motivate. Employees can only be motivated, if these motivators are recognised and put in place. Many centuries before Herzberg came; the traditional practices of the different parts of Nigeria had satisfiers and motivators. The Yoruba nation, through the King, for instance, gave pockets of land to its subjects for farming and hunting but these were mere satisfiers. The real motivator was joining the local 'village army' to prosecute wars or in acts of conquest. Returning 'war-lords' are usually given a hero's welcome, celebrated, adorned with ornaments and given titles such as 'Balogun' (War conqueror). In supporting this argument, Omolola (2013) opined that the "history of the Yoruba Aare Ona-Kakanfo title holders communicate the Yoruba concepts of heroism by highlighting the cultural, symbolic marks which characterize their title and form the Yoruba perception of traditional military heroes" (Omolola, 2013:82).

Pentecostals have adopted some ancient Nigerian tradition and Herzberg's theory. These days, churches provide such things as good chairs, beautiful pews, functional air conditioners and projector screens as satisfiers. However, the real motivators are an opportunity for interaction through home worship or fellowship, a chance to become a worker or head of unit, the possibility of becoming an associate pastor, public endorsement by the leadership, prospect of abundant God's blessings by being relevant in church activities through volunteerism and promise of heaven through eternal salvation.

### **Does Pentecostalism in Nigeria still reflect the teachings of Jesus Christ?**

The Holy Bible records all the teachings of Jesus Christ and it is expected that it is on the scriptures that the Pentecostal practice must be based. One of the universal doctrines of the faith is on forgiveness and loving one's neighbor and this was summed up as love - on which all the law is fulfilled.

"If you forgive others the wrongs they have done to you, your Father in heaven will also forgive you. But if you do not forgive others, then your Father will not forgive the wrongs you have done" (Matthew 6: 14-15, Good News Bible).

"Do not judge others, and God will not Judge you; do not condemn others, and God will not condemn you; forgive others and God will forgive you" (Luke 6: 37, Good News Bible).

'So watch what you do!' "If your brother sins, rebuke him, and if he repents, forgive him. If he sins against you seven times in one day, and each time he comes to you saying, 'I repent', you must forgive him" (Luke 17: 3, Good News Bible).

"And when you stand and pray, forgive anything you may have against anyone, so that your Father in heaven will forgive the wrongs you have done" (Mark 11: 25, Good News Bible).

Then Peter came to Jesus and asked, "Lord, if my brother keeps on sinning against me, how many times do I have to forgive him? Seven times?" "No, not seven times," answered Jesus, "but seventy times seven" (Matthew 18: 21-22, Good News Bible).

An adulterous woman was brought to Jesus Christ by the Pharisees and teachers of the Law and wanted the opinion of Jesus as regard the punishment to mete out to her (usually, stone to death, according to Moses Law) but Jesus asked anyone without sin to cast the first stone. No one did and Jesus without condemning her, told her to go and sin more (John 8: 3-11, Good News Bible). Contrary to scriptural doctrine, the practice of condemnation and unforgiveness are widespread in Pentecostalism in Nigeria. It is common practice to hear of church members being forced to leave the church because of sinful acts. According to Ahon (2012), a Pastor of God's Gifted Ministry International named Rev. Lucky Oghenemiroro was expelled from his church by the Pentecostal Fellowship of Nigeria, Ughelli North Chapter, Delta State for having extra-marital affairs and impregnating a woman outside wedlock. Though, a punishable offence, it is clearly against scriptural doctrine. Unfortunately, this Pentecostal practice is more reflective of the traditional practice of punishment for offenders as a form of ensuring societal control and order. Traditionally, men were encouraged in Yorubaland to place a spiritual 'hex' on their wives to prohibit adulterous behavior. The 'hex' known as *magun* (don't climb) was meant to kill the offenders or create public shame and usually, the offenders are ex-communicated.

Jesus Christ accepted water from an adulterous Samaritan woman who had been married five times and living with a man who was not her husband (John 4: 5-42). He had several reasons not to associate with this woman and his disciples' reaction was evidence of this. Jesus recognized her sinful state but gave her another opportunity but the Pentecostal Nigerian churches have shown more evidence of 'shunning' and 'public shaming' all more reflective of the traditional leadership practices. For example, in what has become a controversial case in the history of Pentecostalism in Nigeria, a former Pastor of the Redeemed Christian Church of God (RCCG) - Ituah Ighodalo, was simply disgraced and kicked out of the church. Eyoboka (2009) wrote that the expulsion was due to Pastor Ituah's remarriage, after 10 years of being divorced from his wife, viewed as against the 'tenets' of RCCG which commands that no man must remarry as long as his ex-wife is alive. Scripturally, this could be argued to be 'adultery' but there was no scriptural justification for the punishment.

The greatest commandment Jesus Christ gave revolves around love. In John 13: 34-35, the instruction is to have love for another and in Luke 6 v 27, Jesus Christ admonishes everyone to have sincere love for enemies and even do good to those who hate them, bless those who curse them and pray for those who mistreat them. If the Nigerian Pentecostals love one another, including its members, forgiveness will be easy.

It can be argued that the reason Pentecostal leadership finds it difficult to practice forgiveness is because practices tend towards 'cultural traditional leadership' rather than 'scriptural leadership'. A Yoruba proverb is apt in its description:

*Bi adiyeba da mi l'ogun nu, ma fo l'eyin* (An erring hen must have its eggs smashed).

It also supports the proposition that the more Pentecostal leaders in Nigeria strive to motivate their congregation to achieve organizational goals, the less they seem to practice scriptural doctrines. This is probably the strongest reason why it is so easy to find a context for management theories in Pentecostal practices.

### **Pentecostalism and the practice of traditional values**

According to Ottenberg (2012), the essence of Pentecostalism is on the platform of duality of spiritual connection with Christ, on the one hand and Satanism, demonism and the devil on another. It is therefore not astonishing that all practices which do not glorify Christ or represent his teachings are considered devilish, satanic and demonic. Pentecostals believe traditional values, worships or practices are threats which should be completely eliminated in order to propagate the teachings of Jesus Christ. However, Ottenberg (1973) argues that this notion or perception is completely incorrect and has been referred to as "misplaced concreteness", Ottenberg (2012:73). As a matter of fact, many of the acts or practices of Nigerian Pentecostal churches seem to demonstrate a deeply rooted culture and adaptation of traditional practices. It can even be argued that Pentecostals in Nigeria have large numbers of worshippers because many adherents experience no real change since the practices are similar to cultural practices. It can also be inferred that the practice of the church today is more natural than divine and this explains the significant similarities between the traditional cultural and Pentecostal forms of leadership and motivation. This supports the proposition that the more the evidence of behavioural management approach in Pentecostal church management, the more they reflect the practice of the cultural traditional leadership. To further illustrate this point, two examples of African church and Pentecostal practices are the annual church 'harvests' programs where members are encouraged to bring farm produce, fruits and so on, to the altar and the sowing of seeds.

The first example of the harvest is similar to the annual traditional gathering of villagers for the New Yam Festival every July or August, especially in Igboland (South Eastern Nigeria). Secondly, the sowing of financial seeds with the expectation of multiple-fold heavenly blessing is comparable to the traditional practice of offering sacrifices to the gods in expectation of a bountiful farm season.

A few entrepreneurs in Nigeria may have been able to achieve great financial turnovers and add more value to vested stakeholders perhaps if it had not been for age-long cultural practices and religion. Rather than investigate causes of financial losses or lack of sales, many will blame it on the wrath of 'gods' or witches and intensive prayer and fasting sessions will be declared for business 'miracles'.

### **CONCLUSION**

From the foregoing thus, we can argue that Pentecostals in Nigeria, deliberately or otherwise, rely on the principles of the behavioural management approach to motivate their congregation to achieve organisational goals. It is simply evidence of the natural over the divine. We can also deduce that as Pentecostals in Nigeria apply the behavioural management approach to their operations, they are actually practicing age-long traditional Nigerian values and practices.

Lastly, we can argue that Nigerian Pentecostalism is becoming less reflective of the fundamental teachings of Jesus Christ on love and forgiveness because of the strong tendency towards cultural practices. Though some may argue that religion is not independent of cultural influences, it must be

clear that this is only applicable for as long as there is no conflict with fundamental scriptural doctrines. Pentecostal churches did not fall from heaven and do not operate in a vacuum. The fact that these churches were created by men definitely implies that its organisational behaviour will depend on the socio-cultural realities of men and the dominant environmental factors in its location. This explains why the age-long traditional cultural practices in Nigeria have significantly influenced the doctrines of Pentecostalism.

### LIMITATIONS AND AREAS FOR FURTHER RESEARCH

This article explored the organisational behaviour of Pentecostal churches in Nigeria, in the context of Nigerian traditional practices and the behavioural approach to management. However, it was difficult to get an objective evaluation without empirical/numerical data and analysis. A study of this nature should go beyond informal group discussions, books, casual face to face interviews and articles. As an alternative, the use of questionnaires administered on selected churches, church members, church administrators and members of the public, would contribute towards determining the causal relationships between Pentecostal and traditional leadership. Additional studies in other African locations especially other Anglophone countries such as Ghana, Sierra Leone, Liberia and Gambia, may reveal interesting facts about Pentecostal leadership and management and if they also have their doctrines deeply rooted in traditional values and practices as reflected in Nigerian example.

The researchers have attempted to consider the issues objectively. However, the interpretivist approach leaves room for bias, because the observation and construction of phenomena is largely based on the opinions of the researchers. Thus, irrespective of the fact that the researchers have tried to be objective, a little bias due to being adherents of a particular religion or another may be noticed. Bias due to the socio-cultural history of the researchers is also not completely ruled out.

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### END NOTE

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## EXPOSING THE PERFORMANCE MANAGEMENT EXPERIENCE OF THE FREE STATE DEPARTMENT OF HEALTH, SOUTH AFRICA

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### ABSTRACT

This paper presents the evidence of a research effort exposing the performance management experience in the public government hospitals, which by implication reflects recent issues in the South African public service. The research findings made a general contribution to the knowledge of how performance appraisals were conducted and the management and employee issues associated with this process in organisations. The contribution of this paper is best placed in the field of the professional manager. The reference to public institutions and the peculiar challenges that the public sector brought are well highlighted in the text. This paper presents useful academic insights to the experience of conducting performance appraisals in the South African context, specifically in terms of leaders, managers and employees, as the key role players in the process.

**Keywords:** Performance management system; Performance appraisals; Free State Department of Health; Employee performance

### INTRODUCTION

The absence of competent leadership is recognised as being a worldwide problem facing all organisations. Secondary to this aspect is the problem of poor employee performance. Performance appraisals provide valuable information to a number of critical human resource activities that are important for the success of an organisation. For instance, the allocation of rewards, merit pay, promotions, and feedback regarding the performers productive output and development aspects such as the performer's need for growth, and assessment of training needs, can all enhance organisational effectiveness in order to attain intended goals and objectives (Semakula-Katende, 2012). An effective appraisal requires a holistic evaluation of human resource systems, such as selection predictors and performance documentation (Cleveland, Murphy & Williams, 1989).

Many studies about performance appraisals reviewed have established the usefulness of performance appraisals for leaders, managers and employees in HR activities (Fisher *et al.*, 2003; Rudman, 2004), whilst others have refuted their usefulness in organisational success (Fletcher,

1993a/b). In this paper, it is argued that performance appraisals are still indispensable in today's workplace. However, the key role players (leadership, management and employees) need to be aware of and partake in their roles and commit to executing them to the successful end (Semakula-Katende, 2012). Performance appraisals can serve as a Critical Factor of Success (CFS) with the aim of improving an employee's productive performance. Numerous Key Performance Indicators (KPI's) exist to measure the impact of strategy actions taken in order to assess their value add. A conflict appears to exist between using performance appraisal predominantly as a tool for employee development or merely a system to determine financial material reward. Many organisations appear to have neglected the former and have become steeped in the latter aspect.

Theorists have been found to originate innovative systems and are increasingly starting to focus on three areas of concern: wellness, learning and leadership (Kolbe, 2013). It is anticipated that these aspects will, in time, increasingly form part of existing performance appraisal systems.

### **Background to the Study**

The employee performance management and development system (EPMDS) was introduced as a policy document by the Free State Provincial Government (FSPG, HRM, 2003; 2007). It aimed at improving performance by directing attention to the key areas of activity, which were identified through the strategic planning processes. This established clear links amongst organisational development and culture change, the delivery of quality services, and the personal and professional development of jobholders at work (FSPG HRM, 2007). Its philosophy was to form a common bond of ownership amongst all jobholders, to create a working environment where all individuals were being developed, motivated, and inspired to deliver a quality service based on effective performance (2007: 10).

In its current form, the EPMDS was ineffective. There is evidence that the entire subject of performance appraisal is a practical challenge to the academics who often design it (Freeman, 2002), to researchers, and to managers and practitioners who use it (Forster, 2002). Moreover, the ever-increasing budgetary costs of developing and executing performance appraisals are progressively challenging corporate and financial decision makers to look for alternatives, according to the American College for Personnel Administration (ACPA, 1996). That is, they should embrace innovative re-engineering by making service less cumbersome through the introduction of a legislative framework that curtails the costs. Banks and Murphy (1985: 335-345) noted that organisations continued to express disappointment in performance appraisal systems despite advances in appraisal technology.

Semakula-Katende (2012) concurred, that the status quo would persist as long as the role players are working in silos, without any common purpose. Moreover, there is a growing emphasis on the job performance of employees as a source of competitive advantage to promote responsiveness in enhancing overall organisational effectiveness. In performance appraisal, leaders and managers, on one hand, are intended to lead and manage the performance of employees in an organisation, by acting professionally and transparently in the decision making process. Employees, on the other hand, are not supposed to be there to largely obey instructions, but also to get actively involved in appraisal decisions. There was a gap, which this paper attempted to address, as evidenced by the empirical findings on the experience of performance appraisals in South Africa.

Performance would depend very much on personality traits and actions of leaders and managers. Other external factors, however, known as system factors or opportunities to perform, have a significant amount of influence on task and contextual performance of employees, which in turn influence organisational effectiveness. Constraints to perform, such as ineffective leadership, bureaucratic structure (political mandate), ambiguous organisational goals and objectives, and ineffective job design, will influence individual task and contextual performance negatively.

In addition, leaders and managers, as the key initiators and implementers of the appraisal process have a direct impact on the performance management system, which, in turn influences

organisational success. Such individuals inadvertently would hinder organisational performance, if they are not given special attention in the initial (planning) stage of the process. This paper draws on the empirical evidence and the experience of Performance appraisal in the South African government hospitals to determine interventional strategies required by the key role players for the appraisal system in use to become effective. Thus, leaders, managers and employees have to be prepared (re-training and re-skilling) in order to be effective and skilled in their respective roles.

This paper, also posits that leadership and management competency are key determinants of effective performance appraisal, which the empirical evidence on the experience of performance appraisal, appears to have supported, specifically in relation to their influence on task and contextual performance of their employees (Semakula-Katende, 2012).

## LITERATURE REVIEW

The National Department of the Public Service and Administration DPSA developed a legislative framework that informed the public service on how to improve performance and quality of service delivery as exemplified in the White papers on transformation (RSA 2002; 2005) and White Paper on HRM (RSA, 2002), which informed the EPMDS.

The EPMDS was adapted and modified by the FSPG from DPSA (FSPG HRM, 2002; RSA, 1977; 2003), which was gazetted in a number of legislative documents. They included the White paper on Transformation of the Public Service, (RSA, 1995), the White Paper on Human Resource Management (RSA, 1995; 1997), the South African White Paper on Transforming Public Service Delivery (Batho Pele) (RSA, 1997), the South African Promotion of Equality and Prevention of Unfair Discrimination Act (RSA, 2000), the Employment Equity Act (RSA, 1999) and the Promotion of Administrative Justice Act, (RSA, 2000) were effected to address the challenges in the workplace.

The new Public Service Regulations (RSA, 2002) which introduced a new dispensation to revolutionise performance management and development in an effort to improve the intent of appraisals as discussed in the text. The EPMDS was one such a by-product that was intended to transform employee performance (FSPG HRM, 1996; 2003; 2005; 2006; 2007; 2008). This established clear links amongst organisational development and culture change, the delivery of quality services, and the personal and professional development of jobholders at work (FSPG HRM, 2007).

Its philosophy was to form a common bond of ownership amongst all jobholders to create a working environment where all individuals were being developed, motivated, and inspired to deliver a quality service based on effective performance (2007: 10).

### Overview and Definitions

By definition, Performance appraisal is a formal system of measuring, evaluating, and influencing job-related attributes, behaviours and outcomes of an employee (Rudman, 2004) aimed at determining how productive an employee is and/or whether the productivity of an employee can be improved (Renton, 2000: 41). Performance appraisal (PA), also known as employee appraisal is that portion of the performance assessment that constitutes the management process in which the contribution of the employee to the goal attainment of the organisation during a specified period of time is assessed. This is, usually evaluated in terms of quality, cost and time, according to Hutchinson and Purcell (2003). Performance feedback (PF), informs employees about how well they have performed in comparison with the standards of the organisation (Hill & Jones, 2001) and what is expected from them.

Performance appraisal, so-called employee appraisal, refers to a method by which the job performance of an employee is evaluated (Hutchinson & Purcell, 2003). Without a structured appraisal system, there is little chance of ensuring that the judgments made are lawful, fair, defensible, and

accurate (Karl & Wexley, 1989: 5-20). Margulies (2004) maintains that performance appraisal systems begin as simple methods of income justification. Thus, appraisal is used to decide whether the salary or wage of an individual employee was justified. The process is firmly linked to material outcomes (Fisher et al., 1999; 2003). If the performance of an employee is found to be less than ideal, a cut in pay or demotion followed. On the other hand, if one's performance is seen to be better than what the supervisor expected, a pay rise or promotion was given. Little consideration, if any, is given to the developmental component of appraisal (Wolff, 2005: 9-15). It was felt that a cut in pay, or a rise, provided the only required impetus and motivation for an employee either to improve or to continue to perform well.

### **Origins of Performance Appraisal Systems**

Historically, the generalised institution of systematic evaluation procedures began in the 1950s. It began with a system of performance appraisal as a method for justifying relative income distributions, which included deciding whether the wage of an individual employee, relative to other employees, was justifiable (Rudman, 2004). Its evolution progressively increased the traditional emphasis on reward outcomes rather than personal development. In that regard, the usefulness of appraisal as a tool for motivation, development, and empowerment was not recognised.

Dale (1985: 210) observed decades ago, "just as the organisation (or leadership) strives to make employees down the line serve organisational goals, so the individual jobholders aspire and hope to make the organisation serve their ends, which may be different in many respects from those of the organisation itself." Armstrong and Appelbaum (2003) argue that stress free performance appraisals usually turn leadership and management's most painful duties into powerful motivational tools. Managers continued to emphasise motivation and reward instead of personal empowerment (Black, 2003), as well as responsibility, accountability, ownership, and succession.

In fact, personal development was often neither recognised nor funded in the planning of the performance appraisal process, which explains and clarifies the reason why many employees in the South African government departments view the EPMDS in terms of rewards – promotion, cash bonuses, and an increase in salary notches (FSPG HRM, Reports, 2005/6; 2007/8). Presumably, the foundation of performance appraisal was the job analysis and the subsequent job description (Fisher et al., 2003).

Fisher et al. (2003) refined the definition and understanding of performance appraisal to include a structured and formal interaction between a subordinate and his/her supervisor. Performance appraisals serve to manage people and meet company goals (Pearce, 2006), though, usually, they may not meet individual employee expectations and needs, in comparative terms. Normally, there is the tendency of an individual to make judgment about him/herself or about people he/she works with, which appears to be inevitable and universal. Without a carefully structured system of performance appraisal and evaluation, people tend to judge the performance of co-workers, or subordinates, or superiors or peers arbitrarily, inconsistently and informally (Simmons & Iles, 2007), which creates serious motivational, ethical and legal problems within the organisation. Structured performance appraisal is perceived to be more likely lawful, fair, defensible, valid, and reliable.

In summary, appraisals are as important today as they were several decades ago, despite the numerous problems associated with their use. They, however, required the active involvement of the key role players (leaders, managers and employees) (Semakula-Katende, 2012). Viewed from a modern perspective, performance appraisals form part of a TQM (total quality management) control system with a focus on the human performance aspect.

### **Proficient Leadership in Appraisal Effectiveness**

Leadership is possibly the most important single determinant of an effective organisational environment, according to Kelley (2005), House (2004) and Laubach (2004). This is true in as much as leaders are the initiators and influencers of all organisational activities. This was supported by the findings of this study that indeed, proficient leadership is the pivot of an effective appraisal, around which other factors operate to enhance performance appraisal's success (Semakula-Katende, 2012). This appears to concur with the definition of leadership by Ulrich *et al.* (2008), House (2004) and Freeman (2002), which referred to leadership as the process of creating and shaping, decision-making, and influencing administrative management practices. The evidence supported the perception of leadership by Bolman and Deal (1991) as the key factor that influenced employees to participate actively in tasks, which enhance the effectiveness of a performance appraisal system, for empowering their employees.

### **Management Competency in Appraisal Effectiveness**

Boyatzis (1982) defined competency as an underlying characteristic of a person, which may result in effective and/or superior performance in a job or activity. That job competency may represent ability; whilst the set of competencies of individuals reflect their capability; job competency may denote a motive, trait, skill, aspect of one's self-image or social role, or a body of knowledge that an individual uses, or it could include the existence and possession of these characteristics. A competency may or may not be known to the individual. Similarly, Mitrani, Dalziel and Fitt (1992) agree that competencies are motives, traits, self-concepts, attitudes, values, or content knowledge/cognitive/behavioural skills.

Competency is an individual characteristic that can be measured or counted reliably and that can be shown to significantly differentiate among performers (David, 1995). That is, it is differentiated between superior and average performers, or between effective and ineffective performers, as is reaffirmed by Boyatzis (1982) and Kolbe's (1997) pioneering leading edge work in the field of conation. It was established in this study that the EPMDs' ineffectiveness was partly owing to management being ill-equipped and not prepared for the process. They appeared to have required competencies lacking, which was supported by qualitative and empirical evidence.

### **Employee Commitment in Appraisal Effectiveness**

Employee commitment is inseparable from a successful HR activity such as performance appraisal as evidenced in Semakula-Katende's (2012) research study. In the study, development was established as construct responsible for discovering and developing employee potentials, and selecting and placing talents for effective utilisation. This was in line with Tucker *et al.* (2002) and Kaplan and Norton (1993; 1996; 2005), who distinguished development as another key construct/component of successful performance appraisals and argued that the outcome goals of appraisals ought to be objective, quantifiable, and measurable.

The view held concurred with Kaplan and Norton's (1996) four perspective balanced scorecard, in which they, specifically, emphasised employee initiatives and the learning component in order to enhance the effectiveness of the appraisal system. This, in turn, augmented the representativeness of the normative model, in order to improve the overall success of the organisation (Wolff, 2005). The development of the new model was meant to ensure that the elements and standards missing in the EPMDs were incorporated, including the performance plan, in order to comply with regulatory requirements of the Department of Health (FSPG HRM, 2001).

Firstly, the attempt was to measure some kind of productivity and to motivate employees to work harder (Cropanzano & Wright, 2001). Next was to link this to both the needs of employees and organisational effectiveness, as well as with people having to achieve targets around performance measures (goals/objectives/KPAs). This gave rise to systems thinking and the development and attempt to create integrated organisational and management performance/ employee performance appraisal systems (Quinn, 1988; Boyatzis, 1982).

### Appraisal effectiveness for Organisational Success

According to Boyatzis (1982), effective performance occurred, when the critical components (job demands, individual competencies, and organisational environment) of his model were consistent, whilst Quinn (1988) and Quinn *et al.* (1996) differed and argued that the contributions of managers determined organisational effectiveness, thereby supporting the proposition that the different perspectives of the roles of managers are actually closely related. Hutchinson and Purcell (2003) supported these views.

Quinn's (1988) competing values framework accounted for the non-routine cognitive complexity associated with all managerial jobs, and it perceives organisations as social structures that are created to continuously support the collaborative pursuit of specific goals. In Semakula-Katende's (2012) research study, the empirical evidence confirms that appraisal effectiveness is influenced by the competency of key individual role players. In view of the perception that role players have about performance appraisal, an analysis of empirical evidence with regard to their experience in the use of performance appraisals in South Africa was undertaken, so as to enhance in leaders, managers and employees a greater understanding of what truly constitutes an effective performance appraisal and how it really works.

Key determinants were identified and aligned with the role players, in order to enhance organisational effectiveness. Links were provided between organisational effectiveness and successful employee performance appraisals, which were then investigated in terms of the task and contextual performance of employees. An attempt was made to organise the concepts, constructs, dimensions, and measures into partially integrated links for an effective appraisal system. The complete final integration, however, was presented in the doctoral study after the major determinants had been identified. Thus, the integration and alignment among those factors were completed only after the literature review to be able to form grounds on which to build a normative model.

That model ought to benchmark any empirical analysis to examine the degree of good-fit or mismatch. The mismatch or poor-fit between the normative model and the empirical research findings that emerged from the research led to the opportunity to develop a new modified performance evaluation model which it is hoped will lead to strategies for overcoming the shortcomings of its predecessors (Semakula-Katende, 2012; David & Sutton, 2004).

### METHODOLOGICAL APPROACH

Hypotheses were developed from the established linkages between determinants of the performance appraisal. A point of departure was established and a new line of inquiry identified, so as to guide the conceptual development of the research design and methodology forming the basis of this paper.

This paper's focal hypotheses ( $H_0$ ) were formulated as:

- 1 The extent to which leadership allocated human and financial resources to enhance the EPMDS effectiveness in order to improve the level of productivity. This resulted in the following  $H_0$  hypothesis:

$H_0$ : Effective leadership made financial and human resources available for the EPMDS implementation, which predicted increased productivity, where, effective leadership ( $V_1$ ) combines with efficient management of resources ( $V_8$ ) to enhance productivity, as the first goal/outcome ( $G_1$ ). Thus,  $V_1+V_8 = G_1$ . This study's evidence established that effective leadership is necessary for performance

appraisal effectiveness to attain organisational productivity. This was supported by both the qualitative findings from the personal interviews conducted and empirical evidence from the statistical analysis of the data from the survey questionnaire.

- 2 HR supervisors/ managers had adequate capabilities to align the EPMDS efforts with the objectives of the department, which enhanced the productivity and commitment of employees, resulting in the following H<sub>0</sub> hypothesis:

**H<sub>0</sub>:** HR supervisors/ managers capabilities to align the EPMDS efforts with the departmental objectives enhanced productivity and commitment. Thus, competent management of the appraisal system (V<sub>6</sub>) and aligning objectives with organisational strategies achieve two goals of the organisation, namely productivity (G<sub>1</sub>) and employee commitment (G<sub>5</sub>), or (V<sub>6</sub> + alignment+ strategies = G<sub>1</sub> + G<sub>5</sub>). Qualitative findings from the interview supported the perception that managers and supervisors did not have adequate competency or skills to align the appraisal efforts with organisational objectives. This perception, however, was not supported by the empirical findings from the survey questionnaire.

- 3 There was a perception among employees that they had a clear knowledge of organisational vision, goals and objectives that committed them to teamwork during EPMDS exercise, resulting in the following H<sub>0</sub> hypothesis:

**H<sub>0</sub>:** Employees held the perception that their knowledge of organisational culture and climate (goals and objectives) enhanced teamwork. Thus, organisational culture and climate (V<sub>2</sub>) combined with proficient leadership (V<sub>1</sub>) and effective management of appraisal (V<sub>6</sub>) will enhance teamwork, the second goal (G<sub>2</sub>), or (V<sub>2</sub> + V<sub>1</sub> + V<sub>6</sub> = G<sub>2</sub>). This study established that most respondents did not understand the performance culture and climate. In addition, leadership and management were perceived not to be effective, which led to individual employees working in closed clusters (silos), each isolated from the other. There was qualitative and empirical evidence to support this perception.

## Method

This paper focused on a number of perceptions, which key role players held about performance appraisals effectiveness in the South African Government Health institutions. The sole purpose was to employ the qualitative and quantitative data analysis tools to assess whether the evidence supported those perceptions. Triangulation of data (scheduled) collection, methodology (quantitative and qualitative approaches), and theories (interdisciplinary) were employed, as recommended by Easterby-Smith, Thorpe and Lowe (1994), and the deductive approach of investigating performance appraisal was adopted (Philip & Pugh, 1994). A number of key determinants identified as critical for the appraisal's success included leadership, management, and employee motivation and expectations, which were central to the experience of performance appraisal in public health institutions.

## Sample

Table 1 depicts the research sample characteristics, where 300 participants from a population of 2400 employees of the South African Department of Health were involved in the study. The techniques used for the analysis of the key determinants of the performance appraisal included, (1) exploratory factor analysis (EFA), - to determine the items that form the factors of effective performance management, and (2) confirmatory factor analysis (CFA), to test the invariance analysis of the items and factors.

**TABLE 1**

### Technical Details of the Empirical Research

<b>Research Population</b>	<b>2400 government healthcare employees</b>	
Distribution I	District = 924	Regional =1476
Sample size	300	
Distribution II	District =90	Regional =210
Confidence Level	95%	
Sample Selection	Probability stratified proportionate and disproportionated	
Data Collection Method	Questionnaire personally delivered to identified potential participants in different public hospitals and personal interviews	
Data Collection Period	March 2009 to April 2010	

The analysis of the main determinants was undertaken using canonical correlation and standard multiple regression, whilst Structural Equation Modelling (SEM) techniques were employed to analyse a variety of activities, such as exploratory factor analysis (EFA) and Confirmatory factor analysis (CFA). Factors with eigenvalues greater than one were retained, except when the scree plot indicated more factors are present. Thus, items that were deleted did not meet that criterion.

SEM techniques tested the factorial validity of the constructs and determinants of the effectiveness of performance management systems using the analysis of covariance structures within a CFA framework, as proposed by Byrne (1995; 2001). The recommendations of Anderson and Gerbing (1988) and Bollen and Long (1993), of using multiple measures of fit to evaluate models, and factor analysis and regression of all special cases of SEM, were applied at various significant stages of the research. The evidence which emerged from the data analysis is discussed in the next section.

### FINDINGS

The interview data (qualitative) and survey questionnaire data (quantitative) pertaining to the perceptions of the various role players of appraisals were subjected to statistical analysis, and yielded interesting findings. The research forming the underlying basis of this paper focused on the empirical evidence of the captured information regarding the experience of conducting performance appraisals within a government department in South Africa and its impact on overall organisational effectiveness. Recommendations, which emerged from the study, proposed retraining and re-skilling of leaders and managers in using appraisal systems more effectively so as to understand what really works. It is also hoped to inculcate positive participative attitudes in employees, which in turn may lead to greater organisational success in the attainment of its goals and objectives. The authors argue that appraisal effectiveness depends mainly on effectively engaging all three of the key role players, namely, - leaders, managers and employees (Semakula-Katende, 2012). This paper centred on the hypotheses that specifically corresponded to those three factors and the following evidence emerged.

*Perception of effective leadership:* - this hypothesis sought to determine if a relationship existed between employees' perception of good leaders and organisational effectiveness. That is, whether, effective leadership influenced the EPMDS effectiveness through productivity to enhance organisational

success. This required establishing the existence of a relationship between effective leadership in terms of availability and allocation of resources for appraisals and their success.

*Perception of management competency:* - the second hypothesis envisaged to determine the apparent relationship that existed between management competency and motivation and expectations of employees from organisational success resulting in productivity and satisfaction. This entailed examining the perceptions among the employees, whether management competencies impacted employees' motivation and expectation and enhanced the effectiveness of appraisals in terms of productivity and satisfaction.

*Perception of employees:* - the third hypotheses was the intent to establish whether evidence of perceptions held by employees that management competencies influenced the management of diversity in the workplace, which, in turn, promoted employee teamwork. This required establishing the relationship between management competencies and diversity in the workplace. Teamwork was another outcome, which was found to be critical, but undermined by the majority of leaders and managers of the participating institutions, as supported by the evidence.

## DISCUSSION

This research study of Semakula-Katende (2012) has established the experience of the key role players (leaders, managers and employees) regarding the EPMDS. The experience with the EPMDS (the performance appraisal system within the government Department of Health in South African), was not a very good one. Among the reasons that emerged were, the poor alignment of needs and organisational goals and objectives; ineffective communication among the role players; role ambiguity and each group working in isolation from others (silos).

The Modified Structural Performance Appraisal Model – MSPAM – is proposed as the theoretical and practical contribution made to the body of knowledge, to address these challenges and make the current system of appraisal effective. In the research study it is proposed that the key role players must be identified, their roles specified, and training and development designed for each group according to their intended outcomes. Training programmes ought not to be left on a once-off basis, but may be given quarterly, addressing specific identified problem areas. There should be regular close interaction among the key role players as a team to inculcate teamwork. In the documented research study, the MSPAM is discussed in relation to the key role players and the link that leads to organisational success. It has incorporated and aligned leadership, management and employees in such a way that they are complimentary and supportive to each other in order to enhance organisational success. There is support from the research findings that those factors are critically important for the success of the EPMDS and the organisation at large.

## CONCLUSION

The empirical finding of the experience relating to the use of Performance Appraisals in the government department of Health in the Free State of South Africa by its leaders, managers and employees, with the intent to enhance their understanding of what really works, was established in this study. Jointly the leadership, management and employees are all responsible role players determining the success of the formal performance appraisal system.

For a formal performance appraisal system to function effectively, the leadership of the organisation needs to be supportive and committed in shaping and driving the value adding aspect of the process, whilst managers should possess the necessary competencies for its implementation, and employees have the motivation and commitment to work synergistically together.

This paper has raised a number of questions and concerns about the experience of performance appraisals in South African government departments, and a need to address the key role players (leaders, managers and employees) to achieve the intended purpose. This will require more expanded investigation.

Theoretical and empirical findings have revealed that performance appraisals conducted within government organisations tend to undermine the role played by each of the key role players, and the interconnectedness of their roles, which compromised the organisational success. There is a need to expose the key role players to training and development programmes which focus on leadership succession, management competence and employee empowerment in order to ensure long-term performance sustainability. Future research should look into leadership succession, management competence and employee empowerment to enhance organisational effectiveness.

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#### END NOTE

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## Part 3: Strategy and International Management

### DEAL-MAKING IN AFRICA: DO WE BUY ALL OR SOME OF THE TARGET?

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#### ABSTRACT

Despite facing myriad challenges, foreign firms still view M&A activity in Africa as an attractive investment. An initial decision that must be made is whether to engage in a partial or full acquisition – a distinction infrequently considered in the cross-border M&A literature. Building on institutional and learning theories, we examine the effects of institutional and contextual factors on this decision. Results suggest political risks, relatedness, and prior acquisition experience in Africa have significant independent effects, while financial risks are significant only in combination with both contextual factors. Our paper underlines distinguishing between partial and full acquisitions, and suggests more research is needed to better understand deal-making decisions in Africa, a region experiencing tremendous growth in M&A investments by foreign firms.

**Keywords:** Mergers & Acquisitions, Institutional Theory, Learning Theory, Logistic Regression

#### INTRODUCTION

In 1999 merger and acquisition (M&A) activity in Africa accounted for less than 0.5% of all transactions announced on a global basis (Portelli & Narula, 2006). By the end of 2012, the region accounted for just shy of 1.5% of global M&A activity with inbound M&A investments reaching almost \$35 billion (Thomson Reuters, 2012). Though it is one of the lowest regions in terms of M&A deal value, the significance of Africa on a global basis rests in several recent trends. First, M&A activity in Africa remained robust in 2010 when other regions of the world were suffering from the effects of the global economic regression (Mergermarket, 2012). Second, the annual growth rate in the value of deals announced in Africa during 2012 was 47%, significantly outpacing all other geographic regions (Thomson Reuters, 2012). Third, economic growth in Africa, estimated to be around 5.5% in both 2012 and 2013, continues to exceed the International Monetary Fund (IMF)'s forecasted short-term overall global growth of 3.5% to 3.9% (Mergermarket, 2012). This is further supported by rapidly increasing disposable income levels and growing demand for consumer products in multiple countries throughout the region (Clifford Chance, 2012). Finally, Ernst and Young (2012) predicts that by decade's end, rapid-

growth markets, several of which are located on the African continent, will account for 50% of global gross domestic product and 55% of global capital investment. Collectively, these trends and forecasts suggest that M&A activity in emerging African markets will become increasingly important for foreign firms seeking growth opportunities and thus continue its upward trajectory throughout the decade.

Despite this surging trend of M&A activity in Africa, until recently many foreign multinational corporations (MNCs), especially those outside of France and the United Kingdom that maintain ties based on their past colonization of African countries, appeared hesitant to join in. In fact, South African firms continue to represent the largest group of acquirers in Africa followed by French and UK firms (Mergermarket, 2012). But, over the last five-year period, there has been a tremendous amount of inbound M&A activity in Africa by firms from India and China (Clifford Chance, 2013; Mergermarket, 2012). Such M&A investments take one of two forms – either foreign firms purchase a stake in the African target firm or they acquire 100% ownership of the target firm's assets.<sup>1</sup> While definitely of practical relevance, no known studies from an academic research perspective have examined drivers of cross-border M&A activity for a diverse set of foreign acquirers within the African region.<sup>2</sup>

Within the broader cross-border M&A literature, most researchers tend to consider all deals in which the acquiring firm gains more than 50% ownership of the target firm when testing hypothesized effects. The basic premise is that this threshold guarantees the acquiring firm control over the target firm (i.e., Diaz et al., 2009; Lee and Caves, 1998; Seth et al., 2002; Shekhar and Torbey, 2005). However, several theoretical works in the field contend that differences exist between partial and full acquisitions. For example, Brouthers and Hennart (2007) distinguished between partial acquisitions and full acquisitions in their review of the international entry mode choice literature. In doing so, the authors note while both represent the same establishment mode (i.e., acquisition), they differ in terms of ownership mode (shared or full). Hence with a partial acquisition, no matter the stake owned by the acquiring firm, aspects of the decision-making process and other forms of control will be shared with the target (Lopez-Duarte and Garcia-Canal, 2004; Jakobsen and Meyer, 2008). Similarly, Dikova and Van Witteloostuijn (2007) distinguished between two different establishment modes (greenfield or acquisition), and what they refer to as entry mode choices (full or shared ownership). Not only are there theoretical differences between partial and full acquisitions, but results from empirical studies that distinguish between the two reveal significant differences in their effects. For example, Barkema, Bell, and Pennings (1996) found that joint ventures or partial acquisitions were more sensitive to cultural distance than wholly owned or full acquisitions. Likewise, Chen (2008) discussed how deal motives differ across the two with capability transfers being more of a driving force in full acquisitions. Given these noted differences, there is a need not only to emphasize the importance of capturing differences between partial and full acquisitions in the research design of cross-border M&A studies, but also to gain a better understanding of factors that influence a firm's decision to engage in a partial or full acquisition.

We seek to address both of these gaps – limited research placing an emphasis on M&As by foreign acquirers in Africa and the dearth of studies that consider whether M&As are partial or full in nature – in the current study. In doing so, we draw mainly on institutional theory and learning theory to examine factors that influence whether foreign MNCs will engage in a partial or full acquisition after making the decision to use this entry mode to expand their presence in the African market. First, we discuss factors that influence a firm's decision of whether to engage in a M&A in Africa. Then, we focus our attention on developing theoretical arguments to explain drivers of the acquiring firm's decision to make a partial or full acquisition in Africa.

### **BACKGROUND – SHOULD WE ENGAGE IN M&As IN AFRICA?**

Historically, many foreign acquirers have shown reluctance to engage in M&As in Africa due to a variety of reasons that could hinder their ability to finalize the deal or to create value following the deal. These include unstable political conditions, unpredictable regulatory environments, widespread corruption, weak corporate governance structures, poor basic infrastructure, underdeveloped equity and credit markets, and sharp cultural differences across as well as within some African countries (Asiedu, 2006; Ernst and Young, 2012; Mergermarket, 2012). For example, foreign telecommunications firms from India, Kuwait, France, United Arab Emirates, and the Netherlands among other nations that acquired African assets experienced problems with factors such as the changing responses by regulators and other government officials, wide variety of cultures within Africa, and volatile political environments that hindered the negotiation process and the ability to achieve desired outcomes (Curwen and Whalley, 2011). Similarly, foreign MNCs that engaged in M&As in Nigeria's pharmaceutical industry experienced a host of challenges in the local market including cultural clashes, poor infrastructure, high cost of capital, disorganized distribution channels, and lack of regulations or enforcement to deal with fake, adulterated, and clone products that adversely impacted aspects of their operations (Erhun et al., 2005).

On the other hand, the opportunity to gain initial entry or enhance existing presence in Africa appeals to some would-be foreign acquirers, especially in light of the globalization pressures and dynamic competitive landscapes they face. By engaging in acquisitions in Africa, the potential exists for foreign acquiring firms to reap multiple benefits associated with revenue growth, economies of scale/scope, and learning. Among these are access to an abundance of natural resources, potential to lower production costs, participation in economies that have been relatively robust during the recent global recession, opportunity to exploit existing competitive advantages while developing new ones, and ability to market products/services to a large potential customer base, many of whom are a part of the rising middle class throughout Africa (Clifford Chance, 2013; Ernst and Young, 2012). For example, foreign agro-processing firms that made acquisitions in Tanzania were able to transfer their technological capabilities to the target firm as well as local suppliers which resulted in more efficient operations, improved product quality, and increased profitability throughout the chain (Portelli and Narula, 2006).

After weighing relative challenges and opportunities presented by engaging in an M&A in Africa, a growing number of firms are deciding to pursue deals with local firms operating throughout Africa. However, as is the case in other transitional economies or emerging markets, foreign acquirers tend to make partial acquisitions of target firms which some scholars contend should be viewed as an unique entry mode in its own right (Jakobsen and Meyer, 2008; Meyer and Tran, 2006; Tsang, 2003). Still, some foreign acquirers do engage in full acquisitions in emerging markets. For example, a recent study of acquisitions by US firms of African targets reported that the average percentage of shares acquired was 75.47% and 80% of the deals resulted in change of control where the acquiring firm had more than a 50% stake in the target firm after the deal closed (Triki and Chun, 2011). Yet, cross-border M&A research for the most part either (1) treats partial acquisitions where the shares acquired exceed 50% as the same as full acquisitions (i.e., Diaz et al., 2009; Lee and Caves, 1998; Seth et al., 2002); (2) includes a control variable to capture different ownership levels such as minority < 50% , exact = 50% or majority > 50%, or simply shared versus full (i.e., Barkema et al., 1996; Dikova and van Witteloostuijn, 2007; Westfall et al., 2007); or (3) develops models to predict the choice of entry mode which typically includes greenfield, JV, and/or acquisition (i.e., Hennart and Reddy, 1997; Liang et al., 2009), but not partial acquisitions.<sup>3</sup> As such, there are few studies that place emphasis on developing theoretical models to explain factors driving the choice between just two entry modes – partial acquisition and full acquisition.

## **HYPOTHESES DEVELOPMENT - SHOULD WE ACQUIRE ALL OR SOME?**

Once the decision is made to pursue a M&A investment in Africa and similar emerging markets, the next question for the acquiring firm's managers is... what stake or percentage of the firm's assets/shares should be purchased? As highlighted by Brouthers and Hennart (2007), Divoka and van Witteloostuijn (2007), Jakobsen and Meyer (2008) and others, one of two distinct choices exist relative to an acquisition. Either the acquiring firm can purchase a partial stake or shared ownership interest in the target firm (i.e., a partial acquisition) or purchase all the stake or shares in the target firm thereby gaining complete ownership (i.e., a full acquisition). We now turn our attention to theorizing how institutional factors and contextual factors, individually and jointly, influence the choice between a partial or full acquisition. Institutional factors take into consideration many of the challenges foreign acquirers face when entering Africa and other emerging regions such as Latin America and East Europe that are linked to political, regulatory, infrastructure, financial, and socio-economic factors. Contextual factors represent conditions present within or among the two firms at the time of the deal that influence the ability of foreign acquirers to deal with challenges associated with operational issues such as weak corporate governance structures, poor product quality, and deteriorating financial position.

### **Institutional Factors**

Regulatory environments, political stability, economic growth, infrastructure issues, socio-economic factors, development of financial markets, and similar factors are all reflections of the institutional framework within a country or geographic region (Peng and Heath, 1996). Individually and collectively these factors provide a structure for business activity, reveal the level of uncertainty in the host country environment, and are considered in forming risk perceptions (Demirbag et al., 2008). In general, existing research shows that volatile environmental conditions within a country and its institutional framework induce firms to choose more flexible entry modes (Zhao et al., 2004). Of the two acquisition modes, partial is considered more flexible and involves sharing of control, decision-making, and profits between the two firms (Jakobsen and Meyer, 2008; Lopez-Duarte and Garcia-Canal, 2004).

In the context of M&As, institutional environments viewed as risky and uncertain create additional challenges that acquiring firms encounter when trying to combine the two firms' previous operations into a functioning whole. To the extent that acquiring firms are uncomfortable and unfamiliar with handling uncertainty created by country conditions such as lack of regulatory enforcement, political instability, corruption, and poor infrastructure, they will expect to share more of the decision making with the target firm and rely on the target firm helping them to navigate the local business landscape. Doing so will minimize their risks as well as facilitate mutual understanding and learning between the two firms. Under such conditions, it is likely that the foreign acquirer will not make a full acquisition (Peng and Heath, 1996), but possibly opt for a partial acquisition. On the other hand, if the institutional environment is not risky, the foreign acquirer will likely want to have control over the target firm to be able to initiate actions they view as being essential to capitalizing on the opportunities available in the African markets.

*Hypothesis 1: The less (more) risky the institutional environment, the more likely a foreign acquirer will make a full (partial) acquisition.*

### **Contextual Factors**

Contextual factors represent characteristics of the acquisition itself and the firms involved in the deal at the time of the announcement. Because these factors often denote the similarity or

interdependencies between the two firms involved in the deal, they have a bearing on multiple choices made throughout the M&A decision-making process (Jemison & Sitkin, 1986) including that of entry mode (Chen, 2010; Demirbag et al., 2008). Among the most commonly studied contextual factors are relatedness and prior acquisition experience (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Kanter and Corn, 1994).

Since its beginning in the 1980s, M&A literature in the strategic management field has placed emphasis on the importance of “strategic fit” which captures the extent to which the two firms operate in similar or related product markets prior to the acquisition (Cartwright and Schoenberg, 2006; Jemison and Sitkin, 1986; Lubatkin, 1983). The more common the operations, product and service offerings, and other activities along or outputs of the two firms’ value chain activities, the greater the ability to achieve economies of scale and scope as well as enhance market power (Seth, 1990). Relatedness also has important consequences for the choice of entry mode in general as well as between a partial or full acquisition (Chen, 2010). First, relatedness provides the foreign acquirer with some degree of familiarity (Lopez-Duarte and Garcia-Canal, 2004). By operating in the same or closely related industries, the foreign acquirer is better positioned and more likely to seek operational improvements and transfer its core capabilities to the target firm. Such efficiency gains and transfers would be possible more in the case of a full acquisition as opposed to a partial acquisition (Chen, 2008). Second, operating in related markets should also reduce the perceived risks of the foreign acquirer. As such, higher levels of relatedness will likely result in foreign acquirers engaging in a full acquisition. Conversely, lower levels of relatedness between the two previous firms’ operations are more likely to increase risk perceptions thereby triggering the decision by the foreign acquirer to engage in a partial acquisition.

*Hypothesis 2: The more (less) related the operations of the two firms prior to the acquisition, the more likely a foreign acquirer will make a full (partial) acquisition.*

M&A research also suggests that acquisition experience is a critical determinant of various aspects of the M&A decision-making process (Bruton et al., 1994; Haleblian et al., 2009). Prior experience facilitates organizational learning (Haleblian and Finkelstein, 1999) which in turn influences choices made by acquiring firms such as whether to engage in a partial or full acquisition. Firms with prior acquisition experience tend to be better able to modify their processes or structures and effectively manage independent activities and tasks (Kitching, 1967; Hitt et al., 2001), characteristics that are especially important when making M&A investments outside of their domestic markets (Dikova and van Witteloostuijn, 2007). Moreover, firms actively engaging in M&As often codify their learning gained from prior acquisitions such that routines are established and implemented (Zollo and Singh, 2004). And, what’s more, M&A literature suggests type of prior experience matters (i.e., Barkema et al., 1996; Ellis et al., 2011; Haleblian and Finkelstein, 1999). In particular, the most relevant experience for the foreign acquirer likely to trigger positive transfer effects would be past acquisitions that share some commonality with the focal acquisition.

In the context of our study, positive transfer effects should accrue to foreign firms that have engaged in previous acquisitions in the African region. Having made a M&A investment in the same context should aid in the foreign acquirer being more familiar with the way business is conducted in the region and better able to handle situations that arise in the host country or host region environment (Chen, 2010; Dikova and van Witteloostuijn, 2007). This would in turn generate greater confidence in their abilities regarding target selection, deal negotiation, and integration process management (Luo and Peng, 1999), all of which are necessary for value creation following the acquisition. Thus, foreign acquirers would likely perceive their risk of failure is lower by virtue of having made an acquisition in the market previously and acquire all the assets of the focal African target firm (Lopez-Duarte and Garcia-Canal, 2004). On the other hand, if the foreign acquirers have no experience in making acquisitions in

the African region, they will perceive the risk of failure as higher. To minimize risks due to limited knowledge of idiosyncrasies of African markets and not having established routines in place to guide the M&A process, acquiring firms will choose a partial acquisition.

*Hypothesis 3: The more (less) relevant prior acquisition experience of the foreign acquirer, the more likely the foreign acquirer will make a full (partial) acquisition.*

### **Interaction Effects**

Finally, it is also hypothesized that interactive effects exist between institutional factors and contextual factors. The institutional environment may be one of the first factors that foreign firms consider when assessing their entry mode choices (Demirbag et al., 2008) But, given the economic growth potential throughout the emerging markets of Africa along with the abundance of natural resources and a sizable potential customer base, foreign acquirers will not make the decision about type of acquisition strictly on the institutional framework of the focal host country within Africa or other emerging markets. Instead, foreign acquirers have confidence in their abilities, something which they have control of and familiarity with, to determine an appropriate strategy for dealing with the challenges associated with uncertain institutional environments (Chen, 2010). As such, they will also consider contextual factors which capture characteristics they bring to the deal (Chen and Hennart, 2004; Demirbag et al., 2008) in conjunction with institutional factors in making the choice between partial or full acquisition of an African target firm. Thus, if the institutional environment is fraught with uncertainty and perceived as quite risky, but the acquiring firm has expertise and capabilities that can be transferred to the local target with highly related operations, then the likelihood of choosing a partial acquisition will be diminished. Instead, it is posited that the foreign acquirers will want to maximize the potential deal synergies due to their product market similarities and hope that doing so would outweigh the institutional risks. Thus, acquirers would look to make a full acquisition. Also, if the foreign acquirer is faced with a very certain institutional environment and they operate in a highly related industry as the target then the likelihood of choosing a full acquisition is enhanced.

*Hypothesis 4: In a more risky institutional environment, relatedness will be a positive moderator such that the likelihood that the foreign acquirer will make a full acquisition is increased.*

Similarly, if the institutional environment lacks a stable structure and rules, thereby being more uncertain, but the foreign acquirer has engaged in previous acquisitions in the African region, there is less likelihood that a partial acquisition will be chosen. Instead, it is hypothesized that the acquirer will have confidence that the insight gained from prior acquisitions in the region will facilitate their ability to effectively address or deal with risks present in the institutional environment and as such choose to make a full acquisition. Moreover, if the institutional framework with a country is certain and the foreign acquirer has already engaged in an acquisition within the African region, then it is more likely that the deal will be structured as a full acquisition.

*Hypothesis 5: In a more risky institutional environment, prior acquisition experience will be a positive moderator such that the likelihood that the foreign acquirer will make a full acquisition is increased.*

## **METHODS**

We used the Securities Data Corporation's (SDC) Platinum database to identify all M&As announced between January 1, 2006 and December 31, 2011 where the target nation was among the

Sub-Saharan African (SSA) countries and the acquirer was headquartered outside of SSA. We decided to focus only on this sub-region of Africa for several primary reasons. First, leading global organizations such as the World Bank, United Nations, and IMF tend to consider North African countries<sup>4</sup> to be more similar with those of the Middle East in terms of economic policy/development, socio-cultural factors, and other attributes thereby often combining them as a geographic region. The remaining African countries are grouped together as the SSA region. Also, empirical evidence supports differences between these two regions in terms of liberalization and trade policies (Coe and Hoffmaister, 1999) and the importance of government policies as a determinant of foreign direct investments in Africa (Asiedu, 2006). Finally, differences between the two sub-regions of Africa in terms of economic development, global trading patterns, cultural practices, and other institutional factors likely affect various aspects of M&A activity and the related decision-making process. The final sample consists of 570 deals by 464 unique foreign acquiring firms.

### Sample Profile

As shown in Table 1, Panel A, the most active foreign acquirers in terms of deal volume are headquartered in the United Kingdom (86 firms making 132 acquisitions), Australia (69 firms making 84 acquisitions), and Canada (53 firms making 62 acquisitions).

**TABLE 1**  
**Top Countries of Acquiring and Target Firms in Sub-Saharan Africa, 2006-2011**

Panel A: Acquiring nations ranked by number of deals			
Acquiring country	Number of acquisitions	Percent of sample	Percent full acquisitions
United Kingdom	132	22.53	49.24
Australia	84	14.33	65.48
Canada	62	10.58	64.52
United States	52	8.87	71.15
India	34	5.80	50.00
Netherlands	21	3.58	61.90
France	18	3.07	38.89
Switzerland	15	2.56	46.67
China	12	2.05	16.67
Sweden	11	1.88	90.91
Germany	11	1.88	72.73
United Arab Emirates	11	1.88	45.45

Panel B: Target nations ranked by number of deals			
Target country	Number of acquisitions	Percent of sample	Percent full acquisitions
South Africa	287	48.98	59.58
Nigeria	27	4.61	29.63
Namibia	25	4.27	52.00
Mozambique	23	3.92	43.48
Tanzania	21	3.58	57.14
Ghana	17	2.90	52.94
Congo	15	2.56	66.67
Zambia	15	2.56	60.00
Kenya	14	2.39	57.14
Uganda	14	2.39	64.29

This is in all likelihood due to some institutional similarities and increased familiarity based on colonial ties and mutual membership in the Commonwealth of Nations (de Sousa and Lochard, 2012).<sup>5</sup> Also, acquiring firms from India and China have set their sights on Africa. Of the target nations, approximately half of the deals are in South Africa (see Table 1, Panel B). This is consistent with reports listing it as the most active market within Africa for cross-border deals given the perception among many corporate executives that its business environment is more mature and familiar (Mergermarket, 2012). Nigeria, Ghana, Namibia, and Congo are also frequent target nations given factors such as their population size, deposits of natural resources, and favorable economic growth (Ernst and Young, 2012). In line with this, about 26% of the deals in our sample occurred in the metal/mining sector and the service sector respectively.

Table 2 shows the top ten acquisitions by deal value in the Sub-Saharan region during the sample period. The largest deal occurred in 2010 when Bharti Airtel, an acquiring firm from India, acquired 61 percent of the ownership of Zain Africa, a communications company headquartered in Nigeria for approximately \$11 billion. Among the top ten acquisitions, multiple deals occurred in the communications sector (n = 3), oil & gas (n = 2), and retail (n = 2). As the last column of the table indicates, these top deals were a mix of full and partial acquisitions.

**TABLE 2**  
**Top 10 Acquisitions (by Deal Value) in Sub-Saharan Africa, 2006-2011**

Year	Firms in deal	Countries	Deal value (\$Millions)	Focal Sector	Full or Partial
2010	Target: Zain Africa BV Acquiror: Bharti Airtel Ltd	Nigeria India	\$10,700	Communications	Full
2007	Target: Standard Bank Group Ltd Acquiror: ICBC	South Africa China	\$5,617	Depository Institutions	Partial, 20%
2007	Target: Edgars Consolidated Stores Ltd Acquiror: Bain Capital	South Africa United States	\$3,502	Retail	Full

2010	Target: Dimension Data Holdings PLC Acquiror: NTT	South Africa Japan	\$3,119	Business Services	Full
2006	Target: NNPC-OML 130 Acquiror: CNOOC Ltd	Nigeria China	\$2,692	Oil & Gas	Partial, 45%
2008	Target: Vodacom Group Acquiror: Vodafone Group	South Africa United Kingdom	\$2,413	Communications	Partial, 15%
2010	Target: Massmart Holdings Acquiror: Wal-Mart Stores	South Africa United States	\$2,154	Trade/Retail	Partial, 51%
2007	Target: ARSA Acquiror: CFMM Development	South Africa France	\$2,035	Metal Mining	Partial, 94.5%
2007	Target: Maurel & Prom SCA – Congo Acquiror: ENI SpA	Congo Italy	\$1,434	Oil & Gas	Full
2006	Target: MobiTel Acquiror: MTC Kuwait	Sudan Kuwait	\$1,332	Communications	Partial, 61%

### Measures

**Dependent Variable.** We create a dichotomous variable, *Full Acquisition*, to reflect whether the focal acquiring firm engaged in a partial or full acquisition. This variable is equal to one if the acquisition resulted in ownership of 100 percent of the target firm, and zero otherwise.<sup>6</sup>

**Independent Variables.** The independent variables consist of proxies for the institutional and contextual factors related to Hypotheses 1, 2, and 3. We use the measures for political, economic, and financial risk available from the *International Country Risk Guide* 3 months prior to the announcement date and reverse code them so that higher values indicate greater risk. The contextual factors we include are *relatedness* of the two firms and the acquiring firm's *prior acquisition experience in the SSA region*. The extent of relatedness is an ordinal variable which equals 4 if the acquirer and target firms have the same primary four-digit SIC code, 3 if they have the same primary three-digit SIC code, 2 if they have the same primary two-digit SIC code, 1 if any of the top six SIC codes are the same for the target and the acquirer, and 0 otherwise (Ellis et al., 2011).<sup>7</sup> Prior acquisition experience – SSA is the total number of acquisitions by the acquiring firm prior to the focal deal in countries that comprise the SSA region.

**Control Variables.** We include five control variables suggested by prior literature. They are: (1) Public target - an indicator variable set to one if the target is a public company, and zero otherwise; (2) Government ownership – an indicator variable set to one if the government of the nation in which the target firm is headquartered has any ownership in the target, and zero otherwise; (3) High-tech target – an indicator variable set to one if the target firm primarily operates in a high-tech industry; (4) Simultaneous acquisitions in the region – an indicator variable set to one if the acquirer has any other acquisition of a SSA target firm that occurs between the announcement and effective date of the focal deal; and (5) Prior acquisition experience non-SSA – the total number of M&As outside of SSA made by the acquirer prior to the focal deal. Data for all five control variables and the two contextual factors are gathered from SDC.

## RESULTS

We used logistic regression analyses to test our research hypotheses because our dependent variable is a binary indicator that equals one when the acquiring firm completed a full acquisition, and zero when the acquisition was partial. The variance inflation factors (all less than 1.6) suggested that

multicollinearity was not a problem. However, regression diagnostics presented evidence of heteroskedasticity. Therefore, we used the White (1980) method for obtaining robust standard errors for the regression analyses. The Likelihood-Ratio (LR) statistic provides a test of the overall significance of each model. All models were statistically significant at the  $p < 0.001$  level.<sup>8</sup>

Our results are shown in Table 3. First, when considering the effects of the three separate risk components, we found a significant, negative relationship between political risk and the probability of a full acquisition (models 2-6:  $\beta = -0.03$ , p-values ranging from 0.005 to 0.016). Thus, our findings support Hypothesis 1 which predicts that acquirers in riskier environments will be more likely to make partial acquisitions. Second, the results for all models support the expected outcome from Hypothesis 2 that an acquiring firm is more likely to make a full acquisition when the target firm's primary line of business is more closely related to its own primary operations (models 1-6:  $\beta = 0.12-0.14$ ,  $p < 0.03$ ). Third, the results contradict expected outcomes for hypothesis 3. The coefficient for prior acquisition experience in SSA was significant and negative in most models (p-values ranging from 0.02 to 0.14), indicating that additional experience within the region makes a partial acquisition more likely. On the other hand, prior acquisition experience outside the SSA region increases the likelihood foreign acquirers makes full acquisitions. This further demonstrates the importance of type of experience and its differential effects for M&A decisions. Lastly, we examined the interactions between prior acquisition experience in SSA and various risk measures, as well as that between the extent of industry relatedness and the risk measures as tests of hypotheses 4 and 5. We found a significant, positive interaction effect for prior acquisition experience and financial risk (models 4 and 6:  $\beta = 0.03$ , p-value = 0.08, 0.09), as well as for relatedness and financial risk (models 5 and 6:  $\beta = 0.03$ , p-value = 0.06). When financial risks in a target firm nation are high, those foreign acquirers whose primary operations are more related to those of the target will have a greater tendency to make full acquisitions. This finding supports Hypothesis 4. Moreover, more prior acquisition experience in SSA brings about a strong positive effect of financial risk on the decision to engage in a full acquisition. This suggests that when faced with a more risky institutional environment in terms of the country's ability to finance its debt obligations and its exchange rate stability, foreign acquirers that have engaged in prior acquisitions in the SSA region are more likely to pursue full acquisitions in line with Hypothesis 5. Finally, these results also highlight another important finding and that is that unlike political risks which had a significant, negative effect on the decision to engage in a full acquisition, financial risks tend to have a positive effect on this decision (model 6:  $\beta = 0.03$ , p-value = 0.14). Such findings imply the need to consider the effects of different components of risk separately as they seem to have varying effects on the choice between partial and full acquisitions.

**TABLE 3**  
**Results of Logistic Regression Models for Full (Y =1) or Partial Acquisition (Y=0)**

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.30 <sup>†</sup> (0.12)	1.12 <sup>*</sup> (0.45)	0.87 <sup>†</sup> (0.46)	0.88 <sup>†</sup> (0.46)	0.89 <sup>†</sup> (0.47)	0.90 <sup>†</sup> (0.46)
Public target	-1.15 <sup>**</sup> (0.36)	-1.21 <sup>***</sup> (0.36)	-1.26 <sup>***</sup> (0.37)	-1.26 <sup>***</sup> (0.37)	-1.27 <sup>***</sup> (0.36)	-1.27 <sup>***</sup> (0.37)
Gov't ownership in target	-1.40 <sup>**</sup> (0.41)	-1.43 <sup>**</sup> (0.41)	-1.41 <sup>**</sup> (0.42)	-1.46 <sup>**</sup> (0.42)	-1.40 <sup>**</sup> (0.42)	-1.45 <sup>**</sup> (0.42)
High tech target	0.20 (0.24)	0.21 (0.24)	0.17 (0.24)	0.17 (0.24)	0.16 (0.24)	0.16 (0.24)
Simultaneous acquisition	-0.38 <sup>†</sup> (0.24)	-0.37 (0.24)	-0.21 (0.25)	-0.30 (0.25)	-0.23 (0.25)	-0.31 (0.25)
Pre-existing ownership in target	-0.15 (0.25)	-0.16 (0.25)	-0.08 (0.26)	-0.13 (0.26)	-0.12 (0.26)	-0.20 (0.26)
Acquisition experience-Non-SSA	0.01 (0.01)	0.01 <sup>†</sup> (0.01)	0.02 (0.01)	0.02 (0.01)	0.02 (0.01)	0.02 (0.01)
Acquisition experience-SSA			-0.19 (0.08)	-0.18 <sup>†</sup> (0.09)	-0.19 (0.08)	-0.18 <sup>†</sup> (0.10)
Relatedness			0.13 <sup>†</sup> (0.06)	0.13 <sup>†</sup> (0.06)	0.13 <sup>†</sup> (0.06)	0.13 <sup>†</sup> (0.06)
Political risk		-0.03 <sup>†</sup> (0.01)	-0.03 <sup>†</sup> (0.01)	-0.02 <sup>†</sup> (0.01)	-0.03 <sup>†</sup> (0.01)	-0.02 <sup>†</sup> (0.01)
Economic risk		-0.03 (0.02)	-0.02 (0.02)	-0.02 (0.02)	-0.02 (0.02)	-0.02 (0.02)
Financial risk		0.04 <sup>†</sup> (0.02)	0.04 (0.02)	0.03 <sup>†</sup> (0.02)	0.03 (0.02)	0.03 (0.01)
Political risk * Acquisition experience – SSA				0.01 (0.01)		-0.00 (0.01)
Economic risk * Acquisition experience – SSA				-0.01 (0.02)		-0.00 (0.01)
Financial risk* Acquisition experience - SSA				0.03 <sup>†</sup> (0.02)		0.03 <sup>†</sup> (0.01)
Political risk * Relatedness					-0.00 (0.01)	0.01 (0.01)
Economic risk * Relatedness					-0.00 (0.01)	-0.01 (0.02)
Financial risk * Relatedness					0.03 <sup>†</sup> (0.01)	0.03 <sup>†</sup> (0.02)
McFadden R-squared	0.04	0.05	0.06	0.07	0.07	0.08
LR Statistic	30.23	39.48	52.18	56.69	57.23	61.01

N = 586 Parameter estimates are shown with standard errors in parentheses.

<sup>†</sup> = p ≤ .10, \* = p ≤ .05, \*\* p ≤ .01, \*\*\* p ≤ .001 for two-tailed test.

## DISCUSSION

Consulting firms and advisors based in multiple regions of the world all agree that (1) Africa offers huge potential for foreign investment (Ernst and Young, 2012; Mergermarket, 2012) and (2) M&A activity in Africa is expected to increase at a rate higher than other geographic regions (Clifford Chance, 2013). However, academic research to date has in large part not kept up with this business reality. Thus, we took first steps in examining one critical decision related to this new and emerging phenomenon. In doing so, we built upon and extended existing literature on M&As in general, and cross-border M&As in particular, to theorize drivers of the choice between partial and full acquisitions, a distinction that is largely missing in current M&A research (Jakobsen and Meyer, 2008; Chen, 2008). We considered the individual and interactive effects of both institutional factors and contextual factors.

Our results provide support for four of the five hypothesized effects. One, the main effect of prior acquisition experience, was not supported. Based on prior M&A and IB literature grounded in learning theory, we hypothesized a positive effect. Instead, our results reveal the opposite – a significant, negative effect implying that with more prior acquisition experience in the SSA region, foreign acquirers are more likely to engage in a partial acquisition. One possible explanation for this finding may be that while prior experience facilitates learning and would generally lead to more full acquisitions as revealed by the positive effects of non-SSA acquisition experience, the quality of the experience in the focal context may influence the nature of its effect on subsequent events (Cormier & Hagman, 1987). For example, if the foreign acquirer experienced problems in integrating previous acquisitions in Africa or did not achieve desired outcomes due to issues such as cultural clashes, power struggles, and reduced worker commitment (Erhun et al., 2005), then they may be more likely to use a partial acquisition in subsequent deals. This will allow for more sharing of control and decision making with the local target firm (Lopez-Duarte and Garcia-Canal, 2004; Jakobsen and Meyer, 2008) and leveraging of the target firm's knowledge about local business practices and institutional factors (Chen, 2008), which in turn enhance communications, facilitate collaboration, promote mutual understanding, create favorable perceptions of justice, and similar factors critical to effective M&A process management and post-deal value creation (Ellis et al., 2009; Horwitz et al., 2002). However, as indicated by our findings of significant moderating effects, in the presence of high financial risks, experienced foreign acquirers seem to opt for full acquisitions. This suggests that more research is needed to explore potential moderators of the institutional risk – acquisition entry mode choice relationship.

One potential limitation of our current study pertains to endogeneity issues. In particular, there may be self-selection bias in that firms may choose to engage in acquisitions, whether partial or full, as opposed to other entry mode choices such as joint ventures, alliances, or greenfield ventures (Chen, 2008). This possibility currently is not controlled for in our analyses. Another limitation is that given the private status of many of the target firms, we are not able to obtain any financial data on them. As such we are not able to control for the effects of variables such as the target's preexisting financial position or relative size of the focal firms which have been shown to influence entry mode choice (Hennart and Reddy, 1997). Finally, while our results shed insight into drivers of the choice between partial and full acquisitions on the African continent, these findings may not be generalizable to other emerging markets.

Many opportunities exist for future research. First, our study should be replicated in other emerging markets to test the generalizability of our results. Also, it is possible that other institutional factors such as whether the acquiring firm and the target firm are headquartered in nations that are both members of the Commonwealth of Nations (a group comprised of 54 independent countries, almost all of which were formerly under British rule) or if the acquiring firm's nation had previous colonial ties with the target's nation (such as the target nation being a former colony of France or the United Kingdom) may have an influence on the choice between a partial or full acquisition (Curwen and Whalley, 2011; de Sousa and Lochard, 2012). Moreover, while we controlled for whether the acquiring firm had preexisting ownership in the target, there are other potential types of relationships (i.e., distribution agreements, R&D collaborations, network ties, etc.) between the acquiring and target firms in which learning, knowledge sharing, and trust building could occur (Lin et al., 2009; Peng and Heath, 1996) thereby having an effect on whether a partial or full acquisition is made. Finally, existing studies suggest that in addition to institutional-related risks, foreign acquirers also must deal with challenges created by weak corporate governance structures and poorly managed firms when operating in African markets (Adegoye and Oladejo, 2012; Portelli and Narula, 2006). As such, future studies should also explore the effects of these and other firm-level risk factors on the choice between buying all or some of the target firm's assets.

We trust that we have explicated the importance of developing theoretically motivated models that both consider partial acquisitions as a separate entry mode and examine M&As in Africa in more depth. Will you as a M&A scholar or African scholar join us in the quest for enhanced understanding of these underexplored areas of M&A research?

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## END NOTES

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<sup>1</sup> Of the nine top inbound M&A deals in 2012 listed on page 27 of Mergermarket's 2012 report of which ownership was disclosed, six involved stakes less than 100%.

<sup>2</sup> There is a study of US acquirers of African targets that is a part of the African Development Bank Group's working paper series (Triki and Chun, 2011). Also, there are several published papers focused on South African acquirers (e.g., Smit and Ward, 2007; Wimberley and Negash, 2004). However, these studies consider deals involving (1) target firms that are domestic and (2) for those target firms that are cross-border, they are both within and outside of Africa. The first study includes a control variable for controlling stake while the latter two are silent about the South African acquirers' ownership position or stakes in the target firm.

<sup>3</sup> Some scholars have viewed joint ventures as synonymous with partial acquisitions. However, we adopt the views of Kogut and Singh (1988), Chen (2010), and others who consider joint ventures and partial acquisitions two distinct entry mode choices.

<sup>4</sup> Although there are slight differences in countries considered by various global organizations as a part of North Africa, there is consensus on the following: Algeria, Egypt, Libya, Morocco, Tunisia, and Western Sahara.

<sup>5</sup> Please refer to the following website for a list of the members

<http://www.royal.gov.uk/MonarchAndCommonwealth/Commonwealthmembers/MembersoftheCommonwealth.aspx>

<sup>6</sup> Consistent with Chen and Hennart (2004) and Lopez-Duarte and Garcia-Canal (2002), we operationalized this variable in its truest sense. Other studies have used different cutoff points such as classifying a 95% stake or high as a full acquisition (e.g., Chen, 2008; Jakobsen and Meyer, 2008; Zhou and Yu, 2010) or having a minimum stake of 5% or 10% to be considered a partial acquisition (e.g., Jakobsen and Meyer, 2008; Zhu et al., 2011). However, such cutoffs appear to be more arbitrary in nature as no theoretical justification is provided. Also, Chen (2008) did robustness tests using three alternative cutoff values (i.e., 80%, 65%, and 50%) to distinguish between full acquisitions and partial acquisitions and contended that "main arguments hold up quite well under most cut-off points" (:466). Given different cutoffs were not theoretically justified and did not significantly change main findings in the one study testing the robustness of alternative cutoffs, we feel it most appropriate to use the measure closest to the theoretical definition (i.e., full = 100% and partial = < 100%).

<sup>7</sup> 46% percent of our sample deals occurred between firms with the same primary four-digit SIC code. 5% of the sample operated primarily using the same three-digit SIC code. Approximately 11% had matching two-digit SIC codes, while just over 23% had at least one four-digit match among the SIC codes indicating their top six business lines. For 97 deals (i.e., 16.5% of the sample), the target and acquiring firms showed no evidence of industry relatedness using these criteria.

<sup>8</sup> We also ran the models with the inclusion of payment method and transaction value as control variables. Cash only as a payment method was significant and negative at the 5 percent level indicating that acquirers financing the deal with cash are more likely to make a partial acquisition. Other results were generally robust to those shown in Table 7. Given this and the fact that the deal value was not disclosed for approximately 50% of the deals in our sample, we decided to present the models without the two additional control variables.

## REGIONAL TRADE GROUPS AND FDI IN AFRICA: AN EXPLORATION OF INVESTMENT PATTERNS

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### ABSTRACT

Africa's participation in economic growth and stability is crucial to its own global success as well as that of the rest of the world. In part, economic growth is tied to the activities spurred by the Regional Economic Communities (RECs) approved by the African Union. The ability to create successful trading blocs in turn will help to attract foreign direct investment (FDI) into the region. This paper examines the intersection of these two topics in relation to how Africa is dealing with issues of managing the multiplicity of regional trade groups with the ability to attract foreign direct investment for growth and economic stability.

**Keywords:** FDI, Regional Trade Groups, Africa, Investment Patterns

### INTRODUCTION

The transformation and growth of African nations is gaining more attention in the academic press. Individual nations like South Africa have been highlighted for their transformation into an emerging market as one of the BRICS. This is especially important as the BRICS are seen as a powerful global trading bloc. Over the past decade, foreign direct investment (FDI) inflows to BRICS more than tripled to an estimated US\$263 billion in 2012 (UNCTAD, 2013). The investments are predicted to grow exponentially in the BRICS. Goldman Sachs suggested in a 2003 report that the BRICS countries would become a major player in the world economy by the year 2050. As a result, their share in world FDI flows increased even during the recent economic crisis. A question to be considered is whether other African nations can rise to such a prominent status. A topic that has garnered an equal amount of attention recently is the impact of regional trade groups on the continent (Ott and Patino, 2009). With so many regional trade groups in Africa it is important to understand the impact that this has on trade efficiency as well as the ability for these groups to attract FDI. International business scholars have investigated individual African countries' ability to attract foreign direct investment (Asiedu, 2002; Morisset, 2000); however little is known regarding the eight officially recognized African regional economic groups' ability to attract FDI.

The first part of this paper discusses the process that has been taking place in Africa to harness the capabilities of these groups and the challenges that they face in terms of economic stability. An

equally important topic for Africa, as well as the rest of the global community, is the ability to attract foreign direct investment. The interaction of regional trade agreements and foreign direct investment became a concern in the 1960s with the formation of the European Economic Community (EC). More recently, the formation of the European Union and Single Market initiative has generated renewed concern for this topic. The second part of the paper focuses on the relationship between regional trade groups and foreign direct investment.

The overall focus is to examine the intersection of these two topics in relation to how Africa is dealing with issues of managing the multiplicity of regional trade groups with the ability to attract foreign direct investment for growth and economic stability. This is accomplished by exploring the outward investments by members of the Organization for Economic Cooperation and Development (OECD) into regional economic communities (RECs) approved by the African Union (AU). This examination will include an assessment of intra FDI investments in each of the eight RECs including UMA, COMESA, CENSAD, EAC, ECCAS, IGAD, ECOWAS and SADC. The intent is to identify any patterns of FDI on the continent.

### **Regional Trade Groups**

Regional trade groups (RTGs) were formed to provide nations with political as well as economic opportunities. For many nations, particularly developing countries, regional trade groups were designed as a shield against the aggressive activities of developed nations in the global market. There are many different perspectives or debates on the viability of regional trade groups. Authors O'Brien (1992) and Hopkinson (1992) argue that globalization usher in the end of geography, while Gibb and Michalak (1994) suggest that the multilateral trading system is in decline and regionalism is on the rise. With more regional trade groups being developed, the question to be considered is whether regionalism has truly emerged as an alternative form of trade that can counter aggressive policies of free trade that is supported by the World Trade Organization (WTO). There are those who feel that regional trade groups are desirable as they complement globalized trade (Preeg, 1989). On the other hand, there is consideration that regionalism is a threat to free trade because these groups advocate and instill protectionist policies that shield their members from the effects of free trade (Schott, 1989). The classical theory of economic integration, as explained by Viner (1950) is that the pursuit of a common trade policy between or among countries through partial or full tariff liberalization and non-tariff restrictions subsequently would lead to trade creation/ or trade diversion if such countries chose to enter into a free trade agreement (FTA) or a customs union. For trade creation to be efficient, the costs of goods must fall due to tariff liberalization and easing of non-tariff restrictions within the trading bloc, while tariffs are maintained with third countries. If this can occur, then the price of goods will decrease and there will be more impetus for trading within the bloc. Trade diversion will have the opposite effect. Trade diversion happens when trade flow is diverted from cost efficient countries to less efficient ones, but are members of the trading bloc. These countries make their goods cheaper within the bloc, but the same are more expensive to the rest of the world.

### **The Case of Africa and Regional Trade Groups**

Established in May, 2001 and officially launched in July, 2002 the African Union (AU), a replacement for the former Organization of African Unity (OAU) has set a course to change the way African nations interact individually, with other African nations and with other global partners. The AU was formed with the purpose of accelerating the process of integration on the continent to establish its rightful role in the global economy while addressing multifaceted social, economic and political problems compounded by certain negative aspects of globalization. One of the major issues to be addressed by the African Union deals with regional trade. Regional trade in Africa is a complex system. The continent currently has fourteen inter-governmental organizations (IGOs) working on regional

integration issues. Regional trade groups (RTGs) take different forms from preferential trading agreements to custom unions. They exemplify both sides of the trade debate: some expound on the concept of free trade, while others provide a level of protectionism for the trading partners. Part of the complexity comes from member nations having membership in multiple organizations (Ott and Patino, 2009). While many countries try to rationalize belonging to more than one regional grouping, there are many challenges to doing so. Overlapping memberships, mandates, objectives, protocols and functions create unhealthy multiplication and duplication of efforts and misuse of the continents scarce resources - making these regional groups very inefficient (Konare and Janneh, 2006). With the formation of the AU, they consolidated the RTGs into eight distinct regional economic communities (RECs). These eight RECs include: the Arab Maghreb Union (UMA); Common Market for Eastern and Southern Africa (COMESA); Community of Sahel-Saharan States (CEN-SAD); East African Community (EAC); Economic Community of Central African States (ECCAS); Economic Community of West African States (ECOWAS); Intergovernmental Authority on Development (IGAD); and Southern African Development Community (SADC).

Of the 54 nations listed, 41% are members of only one trade group; 42% have membership in two groups; and 17% have membership in three RECs. Ajumbo (2012) believes that one of the consequences of multiple memberships in economic integration is that it is expensive. These expenses come in the form of fees, manpower and participation in key policy meetings and committees. Additionally, there are structural and administrative factors that need to be accomplished to strengthen the existing RECs. The overall goal was to administer a six-stage process to demonstrate how RECs could move from simply strengthening their current position to a full economic and monetary union position, similar to the European Union.

Konare and Janneh (2006) noted that the AU considers the RECs to be the pillars of continental integration, and thus far they have made substantial progress in trade, infrastructure and regional public goods, such as peace and security. Given the time period for these nations to accomplish their goals, it will be imperative that they also identify additional means for accomplishing economic stability in their regions and countries. For many nation states, the ability to attract foreign direct investment (FDI) is essential for growth and stability. Through FDI the host economies benefit from capital and foreign technology considered to be vital for growth and development (Naudé and Krugell, 2007). Our attention in now turned to the role of FDI in economic development and the impact of FDI in Africa.

### **The Relationship of Regional Trade Groups and Foreign Direct Investment**

Foreign direct investment (FDI) has become a more visible topic because of its rapid growth in the last two decades. Among members of the Organization for Economic, Cooperation and Development (OECD), who account for most of the world's FDI and trade, FDI outflows increased by five times whereas world trade grew by three times from 1981-1996 (Worth, 1998). Worth (1998) also noted that the effects of regional integration are not uniform across the nations and RTG members with stronger location advantages than others attract most of the FDI. However, it should be noted that more nations have developed far more comprehensive agreements on trade than for FDI. Previous studies have been conducted on the relationship of RTGs and FDI. In studying this topic in the Americas, Paez (2008) noted that the 1980s and 1990s evidenced a proliferation of both bilateral and regional integration efforts in the Americas, paired with economic restructuring and reform. Several factors such as rapid changes on the international scene due to globalization, the experience of a debt crisis and the failed success of adopted development models contributed to a reshaping of political, economic and social objectives in the region. South American countries witnessed a deepening of integration via reforms to the now extinct Latin American Association of Free Trade (ALALC) and the Andean Community of Nations (ACN). Additional regional trade agreements were reviewed such as the G-3 (a regional trade agreement (RTA) between Colombia, Mexico and Venezuela), MERCOSUR (Argentina,

Brazil, Paraguay, Uruguay and Venezuela) and FTAA (Free Trade Agreement of the Americas) which has 35 members. This created a new approach towards development, which translated into export-oriented growth strategies, trade liberalization, and ultimately, an increased need for foreign capital.

The keen interest in FDI and regional integration is part of a broader interest in the forces propelling the ongoing integration of the world economy, or what is popularly described as "globalization". Together with the more or less steady rise in the world's trade-to-GDP ratio, the increased importance of foreign owned production and distribution facilities in most countries is cited as tangible evidence of globalization (Blackhurst and Otten, 1996). Renewed interest in FDI within the trade community has been stimulated by the perception that trade and FDI, are two ways or alternatives of servicing foreign markets. Africa's role in the world economy may have been marginalized in the past, but recent economic and political changes in some of the larger nations on the continent are signaling a change that needs further attention by the rest of the world.

### **Historical Perspective on Africa and FDI**

A number of African countries have initiated economic reforms aimed at increasing the role of the private sector, for example by privatizing state-owned enterprises. Additionally, they have taken steps to restore and maintain macroeconomic stability through the devaluation of overvalued national currencies and the reduction of inflation rates and budget deficits (UNCTAD, 1998). During this time, a number of nations improved their regulatory frameworks for FDI, making them far more open, permitting profit repatriation and providing tax and other incentives to attract investments. Furthermore, Naudé and Krugell (2007) contend that the key determinant of FDI to Africa is the change in economic policy. They advocate the creation of a business environment conducive to foreign investment and risk reduction. Progress has been made in this area that is important for the FDI climate; such as trade liberalization, the strengthening of the rule of law, and improvements in legal and other institutions as well as in telecommunications and transport infrastructure (World Economic Forum, 1998, p. 20). In 2013, a more progressive picture of Africa has been emerging. This increased optimism is being spurred on by a decade of historically strong growth, with many countries in Africa relatively unscathed by the global economic crisis, thanks to prudent macroeconomic management. However, growth remains unevenly spread across the region and has not yet translated to a rise in living standards comparable to those observed in other rapidly growing developing regions (World Economic Forum, 2013). To attract FDI countries must exhibit a sustained level of competitiveness. Many African countries continue to be featured among the least competitive economies in the world. By *competitiveness* we mean all of the factors, institutions, and policies that determine a country's level of productivity. Productivity, in turn, sets the sustainable level and path of prosperity that a country can achieve. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. Competitiveness also determines the rates of return obtained by investment. Because the rates of return are the fundamental drivers of growth rates, a more competitive economy is one that is likely to grow faster over the medium to long term. Michael Porter (1990) in discussing the competitiveness of nations identifies three distinct categories of competitiveness (factor-driven, efficiency or investment driven and innovation driven). Factor driven economies are based on having abundant labor, suitable land and capital capabilities. For many nations, this represents a primary stage of development. In contrast, efficiency driven nations raise the level of productivity through more investments. This stage characterizes many regions and countries. Finally, nations can be classified as innovation driven, by being highly efficient, capable of creating unique value in products and services and they thrive through invention and innovation that leads to an upgrading of their industrial base. Table 1 provides a comparative look at African nations to nations at similar stages of development.

While a fair number of African nations are still classified as factor driven economies, there are those that have emerged within the efficiency or investment driven stage. Only one country, the island nation of Seychelles is in transition to an innovation driven economy.

**TABLE 1**  
**African Economies by Stages of Development**

<b>Stage</b>	<b>African countries</b>	<b>Other countries in this stage</b>	<b>Important areas for competitiveness</b>
Stage 1 (factor driven) GDP per capita < US\$ 2,000	Benin, Burkina Faso, Burundi, Cameroon, Chad, Cote d'Ivoire, Ethiopia, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia, Zimbabwe	Bangladesh, Nicaragua, Pakistan, Vietnam, Yemen	Basic requirements (60%) Efficiency enhancers (35%) Innovation factors (5%)
Transition from 1 to 2 GDP per capita US\$2,000-US\$3,000	Algeria, Botswana, Egypt, Gabon, Libya	Azerbaijan, Bolivia, Brunei, Darussalam, Iran, Islamic Rep, Venezuela	Basic requirements (40-60%) Efficiency enhancers (35-50%) Innovation factors (5-10%)
Stage 2 (efficiency driven) GDP per capita US\$3,000-US\$9,000)	Cape Verde, Mauritius, Morocco, Namibia, South Africa, Swaziland	Albania, Belize, China, Costa Rica, Indonesia, Jordan, Mexico	Basic requirements (40%) Efficiency enhancers (50%) Innovation factors (10%)
Transition from 2-3 GDP per capita US\$9,000-US\$17,000	Seychelles	Argentina, Brazil, Chile, Croatia, Malaysia, Mexico, Russian Federation, Turkey	Basic requirements (20-40%) Efficiency enhancers (50%) Innovation factors (10%)
Stage 3 (innovation driven) GDP per capita >US\$17,000		Germany, Republic of Korea, Norway, Spain, United Kingdom, United States	Basic requirements (20%) Efficiency enhancers (50%) Innovation factors (30%)

*Source: The African Competitiveness Report, World Economic Forum, 2013*

In the face of inadequate resources to finance long-term development in Africa, attracting FDI has assumed a prominent place in the strategies of economic renewal being advocated by policy makers at the national, regional and international levels. The experience of a small number of fast growing East Asian newly industrialized economies (NIEs), and recently China, has strengthened the belief that attracting FDI is key to bridging the resource gap of low-income countries and avoiding further build-up of debt while directly tackling the causes of poverty (Prasad et al., 2003). Average annual FDI flows to Africa doubled during the 1980s to \$2.2billion compared to the 1970s, but increased significantly to \$6.2

billion and \$13.8 billion respectively during the 1990s and 2000-2003 (UNCTAD, 2003). While general comparisons across regions have been made by organizations such as UNCTAD and World Bank, there is little discussion in the literature on the activity within the vast number of regional trade groups. Our attention is now focused on examining the FDI landscape within Africa's RECs.

## METHODOLOGY AND DATA SOURCE

To show the patterns of investment in relation to African nations and the official regional economic communities of the African Union, we used numerical and descriptive statistics to (1) calculate the Inward Foreign Direct Investment Index for each of the 54 countries in Africa; (2) compiled the inward investments into Africa by OECD members and partners; and (3) used the 2011 Coordinated Direct Investment Survey of the International Monetary Fund to analyze the intra-regional investment in the RECs. Data is summarized in *Appendices A, B and C*, respectively.

### The Inward FDI Performance Index

FDI has become a key driver of global economic growth and understanding a country's ability to attract FDI is essential on the country, region and international levels. Countries compete to attract FDI because FDI inflows can boost productivity and encourages the diffusion of technology management know-how, as well as more efficient resource allocation. Inward FDI also increases the pool of investment capital. Rather than replacing domestic investment, FDI supplements capital shortfall and helps to develop home capital markets by creating additional export possibilities. Ultimately, FDI leads to higher productivity, improved quality of products, and increased competitiveness.

A way to examine a country's success in attracting FDI is to create an Inward FDI Performance Index (IFPI). The IFPI captures a country's relative success in attracting global FDI. If a country's share of global inward FDI matches its relative share in global GDP, the country's Inward FDI Performance Index is equal to one. A value greater than one indicates a larger share of FDI relative to GDP; a value less than one indicates a smaller share of FDI relative to GDP. A negative value means foreign investors disinvested in that period. To calculate the IFPI for AU member countries in the RECs, the following formula is used:

$$IFPI_i = \frac{FDI_i / FDI_{africa}}{GDP_i / GDP_{africa}}$$

*Appendix A* provides a listing of the African nations IFPI. The equation was scaled to focus on just the nations on Africa's continent, and does not reflect these countries overall global FDI participation level, primarily since our focus is to examine the overall performance of these countries in their regional trade groupings. Thirty of the nations have IFPIs over one, with Liberia distancing itself from the other 53 countries.

Of the top ten countries on the list, most are considered factor driven economies, and the only innovation driven economy, Seychelles, completes the top ten. Sixty (60) percent of the top ten are members of two RECs. Six RECs are represented by this group (*ECOWAS, ECCAS, CEN-SAD, COMESA, SADC and IGAD*). No obvious pattern of participation can be found when examining the leading countries of FDI performance. However, observers might be surprised by the FDI performance level of South Africa (41<sup>st</sup> place), especially given its success as an emerging economy.

### OECD Inward FDI Investments in Africa

OECD member and partner countries represent the largest economies of the world. Therefore, African nation's ability to attract inward FDI from these nations is critical to their future growth and development. In *Appendix B* the inward investments from these OECD nations is revealed. Although previously noted that South Africa ranked lower on the FDI performance index, the country ranks number one in attracting inward FDI from OECD countries. While most African countries draw most of their investments from the actual OECD member nations, Mauritius and Liberia have substantial investments from the OECD partner nations, which are primarily represented by the BRIC nations.

One of the issues that has consistently been associated with African countries is the multiplicity of regional trade group membership. In regards to OECD inward investments, we examine this factor of investments and multiple memberships. Fifty percent of the investments have been acquired by countries that are members of only one regional economic community. This could be a significant factor as 41 percent of the African nations are members of only one regional trade organization. With only 10 percent of total investments going to countries with membership in three regional groups, the case may begin to be made that multiplicity does not provide additional benefit to an individual country. Another way of examining FDI into Africa by the OECD members and partners is to see how the regional groups stack up in attracting FDI. In figure 4, SADC members attract 48 percent of the investments, with CEN-SAD, COMESA and ECOWAS attracting 16, 12 and 10 percent respectively.

Since countries have membership in more than one regional group, their total investments were split evenly between the number of regional groups where they have membership as outlined in figure 2.

**TABLE 2**  
**RECs Ability to Attract OECD FDI Investments**

<b>Regional Economic Communities</b>	<b># of Member Nations</b>	<b>Total OECD FDI Investments</b>
SADC	14	249564.5
CEN-SAD	17	83925.4
COMESA	20	61570.7
ECOWAS	15	51692.8
UMA	5	38356.0
ECCAS	11	21926.2
EAC	5	1408.6
IGAD	8	1032.8

The numbers for SADC show this REC to be leading in the attraction of FDI from OECD nations, further analysis shows that most of the investment was gained by one country, South Africa, and it accounted for \$21, 2517.0 (85%) of the total investments. Other countries, with similar investment numbers impacted other RECS, such as: Nigeria with ECOWAS (67%); Egypt with COMESA (40%); and Morocco with UMA (50%). A fact worth noting about each of these countries is that their IFPI scores are not very high. Only Nigeria and Morocco had an IFPI over 1 that would indicate a larger share of FDI relative to GDP. While looking at investments from outside of the region can provide us with interesting and important FDI statistics, it is just as imperative to see what is happening within each of the regional economic communities when it comes to intra-FDI investments. We focus on this information in the next section of the paper.

### **Intra-FDI in Africa**

FDI represents the consolidation of economic relations between states and business entities and FDI activity within the RECS is as important as FDI coming from other sources. In *Appendix C*, samples of the analysis of intra FDI within some of the eight approved RECs is revealed. The dispersion of FDI between member countries can signal a level of business confidence by foreign investors in a particular economy. Earlier, we developed an FDI performance index to see which countries had gained capabilities in attracting FDI in relation to their GDP. We can also use this index to see if countries within a particular region help to facilitate or influence the movement of FDI within the region. Since a high IFPI signifies a greater ability to attract FDI, those nations within the region can be considered "anchor" countries. Our analysis will begin by discussing any influence in the region by these anchor nations and will follow by identifying other patterns that exist in the region.

### **SADC**

Clearly one of the more active and dominant RECs is SADC, which is led by South Africa. South Africa has risen as a major emerging partner of the BRICS and its influence as an investor and recipient of investments in the region is well noted. South Africa has made substantial investment in all but one of the SADC member nations, the Democratic Republic of the Congo. It also has made a staggering investment in the country of Mauritius. It has also received investments from all but one nation in the region, Tanzania. Ironically, South Africa has one of the lowest IFPI's in the region, and it is Mozambique, with the highest IFPI score of 7.29. It is also interesting that Mozambique has only invested in the nation of South Africa, from which it has also received a substantial level of FDI.

### **CEN-SAD**

The two countries that could qualify as anchor countries Chad (IFPI-7.92) and Niger (IFPI-7.09) have little to no influence in the region. Chad neither provides investments nor receives any investments from the other countries. Similarly, Niger has negative investments in Mali and receives a small amount of FDI from this country. The actual largest investor is Senegal with investments in Benin and Mali. Mali is also the largest recipient, with investments coming from Benin, Burkina Faso, Libya, Morocco, Senegal and Tunisia. CEN-SAD receives the second largest amount of FDI from the OECD nations. Even though Nigeria is in this region as well as ECOWAS, its presence in CED-SAD is minimal.

### **COMESA**

Currently, COMESA holds the largest membership of all the RECs. Its membership also spans the continent from a location perspective, which diminishes any location advantage. The island nation of Seychelles, which boasts being the only African nation listed at the innovation stage of development, leads its other member nations as the anchor state with an IFPI of 6.34. There is not a lot of intra-FDI activity taking place in this regional group. Only Seychelles and Zambia are recipients of inward intra-FDI, with Mauritius and Libya being the providers of those investments.

### **ECOWAS**

The analysis shows that Liberia stands out as the "anchor" country in ECOWAS. With an IFPI of 19.77, Liberia is not only leading in the region in FDI attraction, it also leads all African states. Overall, it is eighth in attracting investment dollars from OECD countries, however, its influence in the region seems to be minimal. Its only intra-FDI is with Nigeria, and no other countries in the region are making investments to them. The leading investor country in the region is actually Togo, with a \$400 million dollar investment in Nigeria. This seems a bit surprising as Togo has the second lowest IFPI in the region. The major recipient of FDI in the region is Nigeria, where eight of the fifteen nations made FDI

investments. The nation of Mali deserves our attention as not only did it make investments in other fellow members, it garners FDI from them as well.

### **UMA**

Both Morocco and Tunisia have similar IFPIs at 1.12 and 1.10 respectively. This REC is primarily a northern African regional group and minimal intra-FDI activity is taking place. Morocco makes no investments in the group and is the only member to receive investments from the other members. Libya has an IFPI of 0, with the other two members score well below 1. For Algeria and Mauritania this is the only REC to which they have membership. The others are in two with Libya having membership in three groups.

### **ECCAS**

This REC boasts some of the highest IFPIs of all the regional groups, but shows the least investment activity of all the RECs. Rwanda with one of the lowest IFPIs (.74) is the only country making investments in other nations, namely Burundi and the Democratic Republic of the Congo. One thing that may be impacting the REC is that two-thirds of the members are in 2-3 other regional groups.

### **EAC**

The EAC is one of the smaller RECs in Africa and one where its members are in the closest proximity to each other. Only two out of the five countries have IFPIs over 1; Tanzania (2.01) and Uganda (1.83). Uganda makes not investments in the region, but is the largest recipient. Tanzania receives no investments and only invests in Uganda. It turns out that the largest investor in the region is Kenya, with substantial investments in Rwanda and Uganda.

### **IGAD**

What may be a surprise in this region is that Somalia has the highest IFPI with a score of 4.27. The other striking fact is that most of the countries in this region are in three regional groups. Only South Sudan, which recently became a recognized country is in only one group and Somalia and Ethiopia are in two groups. Kenya has major investments in Uganda and Sudan has a small investment in the country as well. No other activity is noted in the region.

SADC, CEN-SAD, COMESA and ECOWAS have the largest amount of inter-FDI activity and these regions warrant much more detailed analysis as to what is driving the activity. Equally important, more investigation is needed to determine why there is a lack of activity in the other RECs. It is important to understand what if anything can be done to enhance activity and efficiency in these groups.

## **CONCLUSION**

Finding patterns within the descriptive statistics of the eight RECs in Africa in regards to FDI was the goal of this paper. To this end, we summarize those findings, while identifying areas for further research and investigation on this topic.

### **FDI Performance verses FDI Potential**

We developed and assessed each nation's success in attracting FDI through the Inward FDI Performance Index. No real pattern could be determined based on the individual scores on the index and the amount of actual FDI secured from OECD member and partner nations or the intra-FDI within each of the eight regions. This may be due to the fact that we scaled the index to look only at performance in Africa, rather than on an international scale. However, the use of the index should not be discarded simply because no obvious pattern was discerned. Sulstarova (2008), discussed that such

metrics and rankings have had a positive impact on the policy reform process. For example, he noted, the Government of Japan initiated a numeric goal (e.g. doubling the share of FDI in GDP) after finding how low the Japanese ranking was in an UNCTAD created index. What may be more relevant to the African case is to assess not only the nation's FDI performance, but their potential. A FDI potential index is used to evaluate the host country's ability to attract FDI flows vis-a-vis other countries. While there is limited evidence in the literature on Inward FDI Potential Indices, there are a few notable contributions from Groh and Wich (2009) and UNCTAD's Investment Compass and Inward FDI Potential Index.

He suggests that a more accurate picture of a nation or regions FDI experience is to compare rankings on both the FDI performance and potential indices. He used this information to create a matrix of inward FDI performance and potential with four categories that nations could be slotted into: *front-runners; below potential; above potential* and *under-performers*.

This type of analysis can provide policy makers with the needed support for suggesting changes to improve their country's ability to attract inward FDI. It may also provide some clues as to why FDI is concentrated in particular countries. The attractiveness of FDI cannot be measured simply by looking at indices. It is imperative to identify the investors of IFDI and their motivations for doing so and continuing in the future.

### **Participation in Multiple Regional Groups**

The one clear area where a pattern seems to have appeared is in regards to multiple REC membership. Overwhelmingly, countries in single RECs have attracted more FDI investments than those nations in multiple groups. What we do not know at this point is what factors attribute to this situation. Nor do we have a clear understanding on why nations are members of multiple groups. There should be clear strategic reasons for REC participation. We discovered that the majority of countries with a single REC membership belonged to ECOWAS. However ECOWAS does not lead RECs in the attraction of FDI from OECD nations. Also, the majority of countries with two REC memberships belonged to EAC; and yet EAC does not lead RECs in the attraction of FDI from OECD nations. SADC is the leading REC in the attraction of FDI from OECD nations. Even though countries in a single REC have attracted more FDI than those in multiple RECs, the majority of these countries are not in the leading REC. This finding seems to suggest that, compared to the number of regional memberships; the type of REC plays a significant role in the member nations' ability to attract FDI

In closing, we anticipated from the beginning that this work would spark more questions than answers, but we wholeheartedly believed that the examination of this topic via descriptive analysis would open the door for more detailed empirical research in the future. We are excited and anxious as researchers to see where this examination will lead.

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## END NOTES

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**APPENDIX A**  
**Africa's Inward Foreign Direct Investment Performance Index**

<b>Rank</b>	<b>Country</b>	<b>IFPI</b>
1	Liberia	19.77
2	Congo-Rep.	9.88
3	Guinea	9.73
4	Chad	7.92
5	Mozambique	7.29
6	Niger	7.09
7	Seychelles	6.34
8	Congo-DR	4.69
9	Zambia	4.60
10	Somalia	4.27
11	Madagascar	4.11
12	Ghana	3.67
13	Namibia	3.18
14	Sao Tome/Principe	3.14
15	Djibouti	2.71
16	Central African Rep.	2.22
17	Cape Verde	2.20
18	Equatorial Guinea	2.04
19	Tanzania	2.01
20	Zimbabwe	1.95
21	Uganda	1.83
22	Nigeria	1.62
23	Botswana	1.51
24	Gabon	1.35
25	Gambia	1.31
26	Sudan	1.25
27	Morocco	1.12
28	Tunisia	1.10
29	Mauritius	1.08
30	Swaziland	1.04
31	Lesotho	0.95
32	Guinea-Bissau	0.93
33	Senegal	0.88
34	Sierra Leone	0.76
35	Mali	0.75
36	Rwanda	0.74
37	Benin	0.72
38	Eritrea	0.70
39	Togo	0.65
40	Cote d'Ivoire	0.64
41	South Africa	0.64
42	Cameroon	0.61
43	Algeria	0.58
44	Comoros	0.51
45	Mauritania	0.45
46	Kenya	0.44
47	Malawi	0.42
48	Ethiopia	0.30
49	Burundi	0.04
50	Burkina Faso	0.03
51	Libya	0.00
52	South Sudan	0.00
53	Egypt	-0.09
54	Angola	-2.39

**APPENDIX B**  
**OECD Member and Partner Inward Investment in Africa**

	# OF TRADE GROUPS	OECD MEMBER INVESTMENT* (US \$ Millions)	OECD PARTNER INVESTMENT* (US \$ Millions)	TOTAL OECD (US \$ Millions)	FDI/GDP INDEX
South Africa	1	206951	5566	212517.0	0.64
Nigeria	2	68489	582	69071.0	1.62
Egypt	2	49638	154	49792.0	-0.09
Angola	3	41837	191	42028.0	-2.39
Morocco	2	38358	146	38504.0	1.12
Mauritius	2	15638	13133	28771.0	1.08
Algeria	1	16005	0	16005.0	0.58
Liberia	1	495	6437	6932.0	19.77
Ghana	1	6206	20	6226.0	3.67
Zambia	2	5345	872	6217.0	4.60
Libya	3	5607	115	5722.0	0.00
Congo-Rep.	2	3930	12	3942.0	9.88
Tunisia	2	2830	20	2850.0	1.10
Kenya	3	2349	14	2363.0	0.44
Gabon	1	2072	47	2119.0	1.35
Equatorial Guinea	1	2185	-260	1925.0	2.04
Senegal	2	1694	-14	1680.0	0.88
Cote d'Ivoire	1	1581	-2	1579.0	0.64
Namibia	1	1450	23	1473.0	3.18
Cameroon	1	1404	12	1416.0	0.61
Madagascar	1	1316	0	1316.0	4.11
Tanzania	2	1103	3	1106.0	2.01
Mali	2	1051	11	1062.0	0.75
Mozambique	1	725	109	834.0	7.29
Seychelles	2	382	219	601.0	6.34
Congo-DR	2	522	0	522.0	4.69
Swaziland	2	168	218	386.0	1.04
Benin	2	358	20	378.0	0.72
Niger	2	353	1	354.0	7.09
Cape Verde	1	265	0	265.0	2.20
Ethiopia	2	248	5	253.0	0.30
Guinea	1	242	0.2	242.2	9.73
Central African Rep.	2	237	0	237.0	2.22
Uganda	3	202	3	205.0	1.83
Zimbabwe	2	196	0	196.0	1.95
Sierra Leone	1	161	0	161.0	0.76
Sudan	3	145	0.3	145.3	1.25
Malawi	2	124	0.3	124.3	0.42
Sao Tome/Principe	1	106	0	106.0	3.14
Mauritania	1	67	0	67.0	0.45
Botswana	1	32	24	56.0	1.51
Guinea-Bissau	1	11	0.1	11.1	0.93
Eritrea	3	10	0	10.0	0.70
Burkina Faso	2	5	0	5.0	0.03
Lesotho	1	4	0	4.0	0.95
Gambia	2	1	0	1.0	1.31
Rwanda	3	1	0	1.0	0.74
Togo	1	1	0	1.0	0.65
Comoros	1	1	0	1.0	0.51
Burundi	3	1	0	1.0	0.04
Somalia	2	0.5	0	0.5	4.27
Djibouti	3	0.3	0	0.3	2.71
Chad	2	0.1	0	0.1	7.92
South Sudan	1	0	0	0.0	0.00

**APPENDIX C**

## Samples of Intra-regional Inward Foreign Direct Investments (US\$ Millions)

UMA - 2011 INWARD INVESTMENTS						
<b>UMA</b>	<b>Algeria</b>	<b>Libya</b>	<b>Mauritania</b>	<b>Morocco</b>	<b>Tunisia</b>	<b>Investment From</b>
<b>Algeria</b>	*					
<b>Libya</b>		*				
<b>Mauritania</b>			*			
<b>Morocco</b>	(-0.09)	9.76	0.01	*	4.5	
<b>Tunisia</b>					*	
<b>Investment To</b>						

Source: Coordinated Direct Investment Survey, <http://cdis.imf.org>, 2011

ECCAS - 2010 INWARD INVESTMENTS												
<b>ECCAS</b>	<b>Angola</b>	<b>Burundi</b>	<b>Cameroon</b>	<b>Central African Rep.</b>	<b>Chad</b>	<b>Congo-DR</b>	<b>Congo-Rep.</b>	<b>Equatorial Guinea</b>	<b>Gabon</b>	<b>Rwanda</b>	<b>Sao Tome/Principe</b>	<b>Investment From</b>
<b>Angola</b>	*											
<b>Burundi</b>		*								0.01		
<b>Cameroon</b>			*									
<b>Central African Rep.</b>				*								
<b>Chad</b>					*							
<b>Congo-DR</b>						*					29	
<b>Congo-Rep.</b>							*					
<b>Equatorial Guinea</b>								*				
<b>Gabon</b>									*			
<b>Rwanda</b>										*		
<b>Sao Tome/Principe</b>											*	
<b>Investment To</b>												

Source: Coordinated Direct Investment Survey, <http://cdis.imf.org>, 2010 (NO DATA FOR 2011)

EAC - 2010 INWARD INVESTMENTS						
<b>EAC</b>	<b>Burundi</b>	<b>Kenya</b>	<b>Rwanda</b>	<b>Tanzania</b>	<b>Uganda</b>	<b>Investment From</b>
<b>Burundi</b>	*			0.01		
<b>Kenya</b>		*		0.03		
<b>Rwanda</b>			36 *			
<b>Tanzania</b>				*		
<b>Uganda</b>	(-4)	376		(-5)	25 *	
<b>Investment To</b>						

Source: Coordinated Direct Investment Survey, <http://cdis.imf.org>, 2010 - NO DATA AVAILABLE FOR 2011

IGAD - 2010 INWARD INVESTMENTS									
<b>IGAD</b>	<b>Djibouti</b>	<b>Eritrea</b>	<b>Ethiopia</b>	<b>Kenya</b>	<b>Somalia</b>	<b>South Sudan</b>	<b>Sudan</b>	<b>Uganda</b>	<b>Investment From</b>
<b>Djibouti</b>	*								
<b>Eritrea</b>		*							
<b>Ethiopia</b>			*						
<b>Kenya</b>				*					
<b>Somalia</b>					*				
<b>South Sudan</b>						*			
<b>Sudan</b>							*		
<b>Uganda</b>				376				3 *	
<b>Investment To</b>									

Source: Coordinated Direct Investment Survey, <http://cdis.imf.org>, 2010 (NO DATA FOR 2011)

## FROM VALUE-PRICE-COST TO THAMANI-BEI-GHARAMA: THREE MARKET CONTEXTS AND A UNIVERSAL FRAMEWORK<sup>1</sup>

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### ABSTRACT

The Value-Price-Cost framework and the associated ideas of value creation and value capture are core concepts in the field of management. This paper seeks to extend these concepts, created in the context of developed markets, into emerging and subsistence markets to identify their boundary conditions. Grounded in institutional theory, our reasoning suggests that the notions of value, price, and cost are significantly different as one moves from a developed, to an emerging, and to a subsistence market context, and that these differences do not follow a linear pattern. To reflect this institutional embeddedness, we recommend adopting different terminologies for the framework in different markets.

**Keywords:** Value – Price – Cost, Emerging markets, Subsistence markets, Developed markets, Institutions.

### INTRODUCTION

The concepts, frameworks, and theories used in management disciplines are grounded in an intellectual tradition, mostly stemming from economics and sociology, that was originally developed in Europe and the US during a period characterized by the increasing importance of formal institutions in the economy (Weber, 1947) and by the spread of the Western economic systems across much of the world. As the management field evolved over time, they have become the building blocks of management thinking. At the same time, international business scholars have highlighted the importance of country specificities and brought nuances to many of these concepts, frameworks, and theories. Khanna and Palepu (1997), for instance, have shown that diversification patterns are different in emerging countries, suggesting that, while the reasoning around determinants of diversification may hold, its predicted outcomes in terms of diversification levels vary strongly across countries. Similarly studies have brought nuances to transaction cost economics (e.g., Rivera-Santos, Rufin, & Kolk, 2012) and agency theory (e.g., Kistruck, Sutter, Lount, & Smith, Forthcoming), among others.

Yet, there are situations in which scholars find that the differences across countries are so pronounced that new terminology needs to be incorporated to fully integrate some unique concepts or frameworks into the broader literature. The concept of *guānxì* (关系), for instance, which has gained wide acceptance in the literature recently, is unique to the Chinese context (Chen, Chen, & Huang, 2013). While related to broader concepts of network and social capital, *guānxì* is specific enough to call

for a specific term. The concept of transition economies is another example, as they are similar to emerging economies in many ways, but they exhibit characteristics that are different enough to justify the existence of a specific research stream (Kriauciunas & Kale, 2006). Finally, Ubuntu, which is a typically African view of social relations with important implications for management, is also gaining acceptance as a separate concept that helps better understand some management practices specific to the African continent (Lutz, 2009).

In spite of the recognition that the concepts, frameworks, and theories commonly used in the management disciplines may need to be nuanced when applied in very different contexts, there is a construct at the core of reasoning in management, which still seems to be considered universal: The idea that a commercial transaction involves a cost, a price, and a value, and the premise that the value created needs to be captured by the seller to some extent, seem to be foundational to the very discipline of management. In this paper, we ground our reasoning in institutional theory to explore the extent to which this foundational construct is indeed universal or whether, like other concepts, frameworks, and theories, we need to explore its boundary conditions. With our reasoning, we seek to answer the question: *Is the VPC framework applicable in emerging and subsistence markets?* To answer this question, we study the three constitutive elements of the VPC framework as well as their relation to each other, in the context of the three main types of markets identified in the literature: developed, emerging, and subsistence markets. While our approach is conceptual in nature, we illustrate our reasoning with a product and a service: water and credit.

Our reasoning suggests that the institutional characteristics of the three markets have important implications for the three constitutive elements of the VPC framework as well as for their interaction. While the general idea of value, cost, and price may hold across the three contexts, many of the related assumptions do not hold and what is considered value, cost, and price differs in significant ways from market to market. We also find that these differences do not follow a linear pattern as one progresses from subsistence to emerging to developed markets. As a result, we recommend using a different terminology for the VPC framework in each market, to highlight the important differences that exist between them. Reflecting the cultural embeddedness of the concepts, we suggest using three different languages for the three frameworks: Value-Price-Cost in English for developed markets; Zhí (值)-Jià (价)-Chéngběn (成本) in Chinese for emerging markets; and Thamani-Bei-Gharama in Kiswahili for subsistence markets. We believe that adopting different terminologies can bring precision and avoid implicit assumptions to the reasoning, as we move from developed, to emerging, and to subsistence markets.

Our contributions to the literature are twofold. First, we identify the boundary conditions to the VPC framework and thereby reinforce the theoretical foundation of a key management framework. Second, we identify which characteristics of the institutional contexts inform our understanding of VPC, emphasizing the importance of market-specific, rather than country-wide, characteristics. In this paper, we start by discussing the VPC framework and its constitutive elements, before moving to a discussion of the differences between developed, emerging, and subsistence markets, grounded our reasoning in institutional theory. Building on these two discussions, we explore the impact of the different institutional environments on the constitutive elements of the VPC framework, before discussing the implications of our study for future research.

### THE VPC FRAMEWORK – A UNIVERSAL FRAMEWORK?

The Value-Price-Cost framework is a key framework in management, as the relationship between value, price, and cost, determines the creation and capture of value in a commercial transaction (Ly & Vroom, 2010). In this framework, “value” refers to the value created for the buyer.

“Price” refers to the actual price paid by the buyer, usually expressed in some form of currency. Finally, “cost” refers to the costs incurred by the person/firm providing the good or service to the buyer. In this section, we explore the conceptual foundations and dimensions of the three interrelated elements of the framework.

The notion of *value* has received a lot of attention in management research, as it is at the core of major theoretical lenses, such as the resource-based view of the firm, which views firms as a set of resources and capabilities that lead to value creation (Leiblein, 2011; Mahoney, 2005). This notion has been defined in different ways over time, with neoclassical economics typically equating the value created for the customer and the price paid by the customer, while strategic management scholars emphasize the distinction between a customer’s willingness to pay, which corresponds to the value the customer attaches to a product or service, and the actual price being paid for this product (Ly & Vroom, 2010). From the customer’s perspective, value is a function of the use that he or she can derive from the product or service in the transaction (Makadok & Coff, 2002).

Customer use value can be separated into two constitutive elements. First, a product or service fulfills needs or desires for the customer, which leads him or her to associate a value with the product or service in question, depending on his or her own utility function (Makadok & Coff, 2002). The value associated with water, for instance, can be higher or lower depending on the customer’s thirst. Similarly, the value associated with a line of credit depends on the urgency of the need for liquidity, which explains why firms or individuals can decide to turn to very expensive lines of credit in case of need. It is important to point out that the perception of need or the desire for a product or service, beyond the customer’s “objective” needs, is an important element of value, as the literature on luxury purchasing suggests (Hennigs et al., 2012). As a matter of fact, many studies suggest that firms consciously develop resources and capabilities, such as innovation or branding, with the goal of increasing the perceived value of a product or service for the customer (Lepak, Smith, & Taylor, 2007; Makadok & Coff, 2002). Second, the risk associated with the transaction itself mitigates the value a customer gives a product or service. Access to water in a dangerous area or unsanitary conditions, for instance, decreases the value of the water source as a way to fulfill the need stemming from thirst. Similarly, access to credit from illegal sources decreases the value of the line of credit for a firm likely to suffer consequences if it resorts to illegal activities.

The notion of *cost* has also received a lot of attention in the literature and has led to the development of entire management theories, such as transaction cost economics, which focus on the analysis of costs and their impact on firm decisions (Mahoney, 2005; Williamson, 1975). Costs correspond to the value of resources, including money but not only, used to produce a product or a service. They can be associated with monetary payment, as is the case with the acquisition of inputs for a physical product or the salaries of employees, or not, as is the case with the inefficiencies in a supply chain, for instance.

Costs can be separated into three constitutive elements. First, costs can be associated with the firm-level value chain as defined by Porter (1980). These costs can be related to primary activities, which include inbound logistics, operations, outbound logistics, marketing and sales, and after-sales service, or supporting activities, which include the firm’s infrastructure, human resource management, technology, and procurement. In the case of water, for instance, supply chain costs are mostly associated with the procurement and the transportation of water. In the case of credit, supply chain costs are mostly associated with human resource costs, similar to most service activities. Second, costs can be associated with the exchange itself. As Williamson (1975) suggested, transacting is not free and can entail significant costs, which depend on the characteristics of the product or service associated with the transaction. Beyond the typical transaction costs theorized by transaction cost economists, which are related to the potential for opportunism in the transaction, the costs associated with the exchange itself can also include costs, such as corruption. In the case of water, for instance, exchange-related costs can

include the cost of monitoring the quality of the water being sold or the payment of bribes for access to the water source. In the case of credit, exchange-related costs can include the assessment of the credit-worthiness of the borrower or the cost of operating in an uncertain regulatory environment. Finally, opportunity costs correspond to the cost associated with investing resources in activities that do not provide the best return available. They do not correspond to monetary payment, but, rather, represent lost opportunities.

The notion of *price* has received less attention in the management literature and has been more studied in marketing (Gordon, Goldfarb, & Li, 2013). As we mentioned above, neoclassical economists tend to equate price and value for the customer. Price refers to the actual price paid by the buyer, usually expressed in some form of currency or through bartering. The price is associated the distribution of the value created by the seller's activity between the seller and the buyer. It determines the portion of the created value captured by the firm, which corresponds to the difference between the cost and the price, and the portion of the created value captured by the customer, which corresponds to the difference between the buyer's willingness to pay and the price he or she actually pays for the product or service.

The actual price is determined by the offer and demand associated the product or service, and can be separated into three constitutive elements. First, the degree of competition for a given product or service determines the strength or weakness of the offer. Water is a relatively undifferentiated product, suggesting that competition is likely to be strong, and thus lead to low prices, unless access to water is limited or branding can increase the willingness to pay for a given type of water. Similarly, environments in which credit is plentiful tend to lead to lower loan rates. Second, the power of the buyers determines the strength of weakness of the demand. Concentrated buyers of water, such as fast-food chains, for instance, can negotiate lower prices. Similarly, large firms can negotiate their credit lines more easily than individuals can. Finally, influences from actors outside the actual seller-buyer relationship can influence the price. Many governments, for instance, regulate the price of tap water, considering it a necessity for their citizens. Similarly, access to credit can be influenced by groups of customers joining to achieve more power over lenders.

Value, price, and cost can thus be separated into their constitutive elements, or drivers: value is determined by the degree to which a need or desire is fulfilled by a product or service, and the risks associated with the exchange; price is determined by the strength of the seller, the strength of the buyer, and the influence of group-based or non-market activities; cost is determined by supply-chain costs, exchange-related costs, and opportunity costs.

The relationship between value, price, and cost determines is at the core of management scholarship, as it determines who captures the value in a commercial transaction (Ly & Vroom, 2010) and is associated with the profitability of firms, and therefore the sustainability of the exchanges over time (Makadok & Coff, 2002).

Value minus Price corresponds to the value captured by the customer. It can be positive, meaning that the customer would have been willing to pay more than the price for the product or service offered by the firm. This corresponds to the customer's feeling of a 'good bargain'. It can be zero if the price corresponds exactly to the value that the customer gives to a product or service. It cannot be negative, as the customer would not buy the product or service if he/she considers that the value the product/service provides is less than its price. The exception is that a customer may be coerced into buying a product or service, by a government or another authority, for instance. In such instances, however, the utility function would include coercion, and the value associated with the purchase includes the avoidance of jail or other punishment. In such cases, Value minus Price would once again be positive or zero, rather than negative.

In turn, Price minus Costs corresponds to the value captured by the firm. It can be positive, meaning that the firm makes a profit on the sale. It can be equal to zero, meaning that the firm only

recoups its costs, which corresponds to perfect competition in economics. It can be negative, if a firm sets its price below its cost structure, although such instances may be illegal, as is the case for 'international dumping'. Alternatively, it may be compensated by other profitable sales, leading to a positive relationship across all the sales of a given firm. Finally, the product may have low demand or created limited value for the customer, requiring the firm to drop price below cost to avoid even greater future losses.

In general, the literature therefore suggests that for a business to be viable, the relationship between these three elements needs to be  $V \geq P > C$  (Ly & Vroom, 2010). In this situation, the firm is profitable ( $P > C$ ) and the customer considers that the price of the product/service either exactly corresponds to its value ( $V = P$ ) or is less than its value ( $V > P$ ). In other terms, if companies and their managers do not understand the drivers and underlying system for the VPC, they risk creating a business model, in which  $C > P$  or  $P > V$ , ultimately leading to the firm's demise. This relationship may shift in specific situations, though. State-owned enterprises, for instance, have multiple mandates aside from profitability, such as maximizing employment or making goods and services accessible to the broader public, leading to situations in which  $V > C > P$ . The difference between price and costs is covered through subsidies or soft loans obtained via taxation. Similarly, nonprofits do not have a goal of profitability, also leading to situations in which  $V > C > P$ . In the case of nonprofits, this relationship can be sustainable due to donations received from individuals or companies or from government funding.

The VPC framework is a key concept in management and scholars typically consider that it applies to any commercial transaction, as it is associated with the very sustainability of the transactions and of the firms pursuing these transactions. Yet, many of the elements of value, price, and cost identified in this section originate or are related to the broader economic and institutional environments in which the transaction is embedded. Costs, for instance, are related to the existence of supporting industries in inbound logistics and procurement. Similarly, value or the way prices are set could vary across cultures and institutional environments. In the next section, we highlight the differences that exist across developed, emerging and subsistence markets in terms of business and institutional environments. In turn, the analysis of these differences will allow us to develop a model exploring how the characteristics of these three types of markets impact the VPC framework in a subsequent section.

### **THREE TYPES OF MARKET: DEVELOPED, EMERGING, AND SUBSISTENCE MARKETS**

The impact of country-specific institutions and market characteristics on firms of markets has long been established by scholars in international business (North, 1990; Peng, Wang, & Jiang, 2008). While every country is specific in some ways, three broad types of markets have been identified in the literature: developed markets, which correspond to countries with high income per capita levels, and are principally found in North America, Europe and Eastern Asia; emerging markets, which correspond to countries with mid-income per capita levels and typically high growth, and are found throughout the world, with main examples including China, India, Brazil, South Africa, or Turkey, for instance; and subsistence markets, characterized by high poverty levels, and are found primarily among countries of the Southern Hemisphere, including many sub-Saharan African countries.

Maybe because scholars have emphasized the role of institutions in understanding the differences between these three types of markets, most international business scholars, following the practice of development economists, view countries as the relevant level of analysis (Peng et al., 2008), even though some institutional theorists have discusses the differences in terms of institutions that exist within countries (Scott, 2005). In this paper, we view the market, rather than the country, as the relevant unit of analysis to explore whether the VPC framework applies across different contexts. Indeed, while government-backed institutions are national in nature, their availability for the governance of a given transaction is likely to vary across different areas of a country. If we take the

United States as an example of a developed country, for instance, it can be argued that the vast majority of commercial transactions are governed by formal institutions backed by the federal and state-level governments. Yet, it is also likely that parts of the population living on US territory engage in commercial transactions which are not embedded within the formal institutional frameworks. Some immigrant communities, for instance, are likely to transact in markets that are more similar to emerging markets than to developed markets, especially if they include individuals who are not legal residents. Similarly, extremely impoverished communities can live in subsistence markets, even in the US (Desmond, 2012). The same reasoning applies to emerging countries, in which developed, emerging, and subsistence markets and their respective institutional frameworks are likely to co-exist. Two western firms transacting for an activity in China, for instance, are likely to rely on developed market institutions to govern their exchange, whereas isolated communities in remote provinces are likely to rely on traditional institutions for commercial transactions involving actors inside the community. In other terms, while it is clear that analyzing development at the country level can yield important insights, we consider that the market is a more relevant unit of analysis for our study, as what matters to our reasoning is that actual availability of institutions to transaction partners, rather than the nation-wide and official, but sometimes purely theoretical, availability of formal and government-backed institutions. In the rest of the paper, our unit of analysis is therefore the market.

We define *developed markets* as markets in which formal institutions support economic activity, even though important differences across developed markets exist. The institutional environment of developed markets is characterized by a prevalence of strong formal institutions providing institutional support for business transactions, including property rights, enforceable contracts, and more generally the rule of law (Khanna, Kogan, & Palepu, 2006; Khanna & Palepu, 1997; North, 1990). The availability of clear and enforceable formal rules, in turn, facilitates economic development, and the link between formal institutions and higher income levels is well established in the economic development literature (North, 1990). This does not mean that informal institutions do not exist or do not play a role in commercial exchanges. Sociologists have, for instance, shown the importance of social networks in developed market commercial transactions (Granovetter, 1983; Uzzi, 1997). Yet, informal institutions and personal relations play a lesser role in the governance of commercial transactions than the formal institutional framework. This supportive and mostly formal institutional environment leads, in turn, to a competitive environment in developed markets characterized by market-based competition and by the existence of supporting industries, such as personal and business finance, insurance, distribution, etc. In other terms, developed markets are characterized by few gaps both in the institutional framework and in the business ecosystems surrounding commercial transactions.

We define *emerging markets* as markets in which formal institutions to support economic activity are emerging, even though important differences across emerging markets exist. Having emerging formal institutions means that the formal institutions typical of developed markets are either being developed or have been developed but are not fully enforced. As a consequence, the institutional environment of emerging markets is characterized by formal institutions that provided some institutional support for business transactions, but with significant gaps, typically including gaps in property rights, contracts with limited enforceability, and limited rule of law (Khanna et al., 2006; Khanna & Palepu, 1997). Contrasting with developed markets, informal institutions not only exist but play a very important role, complementing formal institutions to a certain extent. In China, for instance, the importance of *guānxi* as a social network in which commercial transactions can be embedded, and which complements weak formal institutions, has been well documented (Chen et al., 2013). This institutional environment leads to a competitive environment characterized by a combination of market-based and non-market-based competition, as exemplified by the role of *guānxi* networks in China, and with significant gaps in supporting industries (Khanna & Palepu, 1997).

We define *subsistence markets* as markets in which consumers barely have sufficient resources for day-to-day living (Viswanathan & Rosa, 2010), although there are significant differences across subsistence markets, both in terms of poverty levels and in terms of connections to mainstream markets. While they are more common in the Southern Hemisphere, especially in sub-Saharan Africa, they also exist in developed countries, such as the United States (Desmond, 2012). The institutional environment of subsistence markets is characterized by very weak formal institutions, providing essentially no institutional support for business transactions, combined with very strong informal institutions, which provide institutional most of the support for business transactions, albeit in an imperfect manner (De Soto, 2000). In turn, this institutional environment leads to a competitive environment characterized by a relative isolation from mainstream markets, leading to a prevalence of informal firms and of micro-entrepreneurial ventures, and severe gaps in supporting industries (Rivera-Santos et al., 2012).

Developed, emerging, and subsistence markets exhibit distinct characteristics, which are likely to have important consequences for the way transactions are conducted and for the very notions of value, price, and cost. Of course, we are not arguing that all developed markets, all emerging markets, and all subsistence markets are the same. A thriving literature on the specificities of transition economies (e.g., Kriauciunas & Kale, 2006), for instance, highlights the differences between transition economies and other emerging economies. Instead, we argue that these three types of markets are significantly different from each other and that they share important characteristics. In the next section, we explore how these shared characteristics may impact the VPC framework, illustrating our reasoning with the examples of water and credit.

### THE VPC FRAMEWORK IN THREE DIFFERENT MARKETS

As we mentioned above, the VPC framework may be considered as a universal framework, in the sense that its principles lie at the core of management thinking: for an exchange to take place, it has to involve a value for the customer, a cost for the seller, and a price that determines the portion of the value created captured by each party. In this section, we will suggest that, while the broad framework may hold across the three markets, its assumptions, its constitutive elements, and the relationship between these elements do not. As a consequence, we propose to “translate” the framework into three languages that can be seen as representative of the three types of markets to highlight the differences that exist in the way the framework should be applied in these contexts: Value-Price-Cost in English for developed markets; Zhí (值)-Jià (价)-Chéngběn (成本) in Chinese for emerging markets; and Thamani-Bei-Gharama in KiSwahili for subsistence markets. In the rest of the section, we start by the analysis of value, moving on to the analysis of cost, and ending with the analysis of price, which cannot be fully understood without the discussions of value and cost.

#### Value vs. Zhí (值) vs. Thamani

Value has two constitutive dimensions, the fulfillment of needs and desires and the risks associated with the exchange, and both are likely to be impacted by the specificities of developed, emerging, and subsistence markets. In developed markets, market-based competition pushes firms to adapt their offering to what the customers are looking for. A need or desire that is not met typically leads to the development of entrepreneurial ventures that recognize the situation as a business opportunity and developed products and services that either fulfills the unmet need or desire, or that fulfill it in a more efficient manner. In other terms, the needs and desires of customers are likely to be met due to the existence of competition. At the same time, the formal institutional framework reduces the risks associated with the exchange. A buyer realizing that his or her product does not correspond to

what was announced can rely on a judicial system and on activist groups to ensure that the seller is forced to respect the terms of the exchange.

In emerging markets, the fulfillment of needs is not as straightforward as in developed markets. Competition is not as established as it is in developed markets, suggesting that the offer may not fully correspond to the buyers' desires. Furthermore, the typical involvement of governments and state-owned enterprises in emerging markets leads to an important dimension of non-market, i.e., non-customer-focused, competition, further leading to a potential disconnect between the sellers' products and services and the buyers' desires. Characterized by rapid growth, emerging markets are further characterized by an increase in purchasing power that typically leads customers to favor status-related products and services (e.g., Chandler, Wang, & Zhang, 2004), suggesting an interesting difference between the fulfillment of needs and the fulfillment of desires, which may become more prominent in emerging markets. At the same time, the risk associated with the exchange is higher, as the formal institutions that would protect customers are either non-existent or weak, leading to a proliferation of fake and copied products (Phau & Min, 2009), which are driven by the desire of wealthier customers to buy status-related products.

In subsistence markets, customers in subsistence markets typically have to accept products and services that do not fully meet their needs, leading some authors to argue that firms entering a subsistence market "compete against non-consumption" (Hart & Christensen, 2002). Limited competition between small and often informal firms therefore typically leads to poor fulfillment of needs in subsistence markets. An interesting implication is that subsistence market customers are likely to produce the products and services that they need or desire most themselves. Home-brews are common throughout subsistence markets in Africa, for instance, as poor customers may not be able to buy liquor on the market. Similarly, fashion is copied at home when garments cannot be bought from markets. At the same time, the risk associated with the exchange can be high or low, depending on whether the exchange takes place within the community or outside the community. Within the community, informal institutions provide some reduce the risk of the exchange for both the customer and the seller, albeit imperfectly (De Soto, 2000). Outside the community, informal institutions do not provide any protection and formal institutions are virtually non-existent, meaning that the poor can become highly vulnerable in their commercial transactions (Karnani, 2007) and leading development economists to consider that vulnerability is a dimension of poverty (World Bank, 2000).

The difference between Value, Zhí (值), and Thamani can be illustrated by credit and water provision across the three different markets. In developed markets, credit is widely available, and the actual characteristics of the credit lines correspond to specific personal financial situations and overall economic situation, suggesting a close connection between each customer's situation and the credit he or she can access. By contrast, the strong influence of non-market forces, such as government regulations, and the lesser degree of competition create financial markets in emerging markets, which are more closely connected to the needs of the government than to the needs and desires of the customer. The Chinese government, for instance, routinely influences the rates of loans and the ease of lending as a way to avoid overheating in the industry (Anderlini, Tucker, & Hughes, 2010), suggesting that some customers cannot find the credit they desire. Finally, the fact that subsistence market customers have very limited access to credit have led to the development of very complex financial strategies combining personal income, family loans, micro-credit loans and even loans by loan sharks, in order to access the line of credit needed (Collins, Morduch, Rutherford, & Ruthven, 2009). The provision of water across the three different types of markets provides a similar example. Water is easily available in developed markets, with a variety of offers from tap water to bottled water. In emerging markets, the offer is more limited, and is strongly influenced by government regulations. In subsistence markets, the

offer is so limited that customers accept to travel long distances for safe water or accept to drink unsafe water, turning water into one of the main causes of death in many poor areas (UNWater, 2013).

Both the notion of fulfillment of needs and desire, and the level of risk associated with the exchange vary significantly across the three contexts. Most interestingly, the underlying mechanisms seem to also vary. In emerging markets, the relationship between need and desire is different from what is usually found in developed markets, for instance, while, in subsistence markets, the fulfillment of needs incorporates the possibility to making the product and service at home, which is rarer in developed markets. Our reasoning thus suggests that Value, Zhí (值), and Thamani, while similar, cover significantly different realities, as summarized in Table 1.

### **Cost vs. Chéngběn (成本) vs. Gharama**

Cost has three constitutive dimensions, value chain costs, exchange costs, and opportunity costs, and all three are likely to be impacted by the specificities of developed, emerging, and subsistence markets. In developed markets, competition increasingly pushes firms to view their value chains as a source of competitive advantage. Scholars suggest that competition takes place between supply chains rather than between firms (Hult, Ketchen, & Arrfelt, 2007; Ketchen & Hult, 2007), with an emphasis on either efficiency or responsiveness (Fisher, 1997; Parmigiani, Klassen, & Russo, 2011). At the same time, exchange costs are kept at a minimum, due not only to formal institutional protection, even for one-time transactions, but also to informal mechanisms, such as trust, which can reduce the reliance of more costly formal mechanisms for governing transactions (Poppo & Zenger, 2002). Similarly, well-functioning financial markets and the possibility to pursue business opportunities means that opportunity costs, while existent, are also kept at a minimum.

In emerging markets, the advantage that companies seek through their value and supply chains is less related to efficiency or responsiveness, but, rather, is typically led by the availability of inputs, given the typical gaps present in the supporting industries. As a result, while the actual cost of inputs, such as salaries, may be lower than in developed countries, the costs, measured in purchasing power parity (PPP), are likely to be higher, due to the inefficiencies that are created by the difficulty to easily find the inputs needed in the value and supply chains. Similarly, the exchange costs are likely to be higher, as formal institutions provide limited protection, while pre-existing informal institutions lose their enforcement power over time. In other terms, the hybrid nature of the emerging market institutions, with formal institutions that replace pre-existing informal institutions but are not yet fully developed, is likely to increase exchange costs. Corruption, in particular, which is particularly prominent in emerging economies (Transparency International, 2008), adds significant exchange costs. Finally, while opportunities exist in the high growth environments characteristic of emerging markets, opportunity costs are likely to be high, as the opportunities are more difficult to pursue, due to the limited development of financial markets that could fund business expansions if the firm does not already have the financial resources needed, and the lack of market research which would help assess the opportunities.

**TABLE 1**  
**Value Across Developed, Emerging, And Subsistence Markets**

	<b>Developed markets: Value</b>	<b>Emerging markets: Zhí (值)</b>	<b>Subsistence markets: Bei</b>
Fulfillment of needs/desires	High, due to competition	Mid to high, due to emerging competition combined with non-market influences on competition	Low, due to lack of (or weak) competition
Risks associated with exchange	Low, due to possibility of recourse	Mid to high, due to limited possibility of recourse	High/low, depending on vulnerability and possibility of recourse
<i>Examples</i>			
Credit	Available with characteristics corresponding to specific financial situations	Strong influence of non-market forces, such as regulations	Limited offer, leading to acceptance of loan sharks, etc.
Water	Easily available with variety of offers	Available with more limited offers, combined with a strong influence of non-market forces	Limited offer, leading to acceptance of long trips to collect water or of unsafe water

In subsistence markets, value chain costs are likely to be very high, due to a lack of competition and severe gaps in the business ecosystem (Rivera-Santos & Rufín, 2010). Once again, we are not suggesting that the value chain costs are high in absolute terms, even though it may be the case for input costs that originate outside the community, but, rather, that the value chain costs in purchasing power parity terms are very high for exchanges in subsistence markets. At the same time, exchange costs are likely to be not as high as in emerging markets, as the community's informal institutions protect and help govern commercial transactions to a certain extent, but are likely to be higher than in developed markets, as informal institutions are less efficient to govern commercial exchanges than formal institutions (North, 1990). Finally, opportunity costs are likely to be very low, given the lack of opportunities and the difficulty to pursue the opportunities that may exist.

The difference between Cost, Chéngběn (成本), and Gharama can be illustrated by credit and water provision across the three different markets. In purchasing power parity (PPP) terms, the cost of providing credit is lowest in developed countries, as the financial and information infrastructure allows for a reduction in the cost of value chain inputs, such as information on credit-worthiness, for low exchange costs, and low opportunity cost. By contrast, the PPP cost of providing credit is higher in emerging markets, as value chain costs, such as information on credit-worthiness, and exchange costs are higher. Providing credit in subsistence markets incurs the highest costs, as accessing and evaluating the credit-worthiness of potential clients, and the enforcement of loans is particularly difficult. Interestingly, this high cost of providing credit in subsistence has led to the emergence of the microfinance industry, which developed business models that reduce these costs and make the provision of credit attractive to non-profits and some for-profit companies (Chu, 2007). The provision of water tells a similar story, with high costs associated with procuring water in subsistence markets, also leading to the development of technologies and business models reducing these costs, and low costs in developed markets (Westervelt, 2012).

All dimensions of cost vary significantly across the three market contexts. Interestingly, the intuitive notion that costs are likely to be lowest in subsistence markets, low in emerging markets, and highest in developed markets does not hold, at least in PPP terms. Most importantly for our understanding of value, price, and cost, the three dimensions of cost do not evolve in a linear fashion from subsistence to emerging to developed markets, due to the fact that both developed and subsistence markets are relatively “pure” systems, with a predominance of formal and informal institutions respectively, while emerging markets are a hybrid system, in which both sets of institutions co-exist, thereby increasing some of the dimensions of cost. Our reasoning thus suggests that Cost, Chéngběn (成本), and Gharama, while similar, cover significantly different realities, as summarized in Table 2.

**TABLE 2**  
**Cost Across Developed, Emerging, and Subsistence Markets**

	<b>Developed markets: Cost</b>	<b>Emerging markets: Chéngběn (成本)</b>	<b>Subsistence markets: Gharama</b>
Value chain costs	Advantage for low value chain costs (efficiency) or adaptability (responsiveness)	Advantage for availability of inputs, rather than costs, due to inefficiencies in supporting industries	Very high, due to lack of competition and of supporting industries
Exchange costs	Relatively low, due to formal institutional protection, even for one-time transactions	High, due to limited formal institutional protection and loss of local institutional protection	Mid, due to network-based transactions and to local institutional protection for ongoing transactions
Opportunity costs	Low, because opportunities are available and can be pursued	High, because of opportunities are available but more difficult to evaluate/pursue	Low, because opportunities cannot be easily pursued
<i>Examples</i>			
Credit	Lowest cost	Mid to high, due to importance of exchange costs	High cost due to difficulty to access/evaluate customers
Water	Lowest cost	Mid to high, due to inefficient support industries	High cost due to procurement difficulty

### **Price vs. Jià (价) vs. Bei**

Price has three constitutive dimensions, the degree of competition between sellers, the power of individual buyers, and the role of group-based and non-market influences in price setting, and all three are likely to be impacted by the specificities of developed, emerging, and subsistence markets. In developed markets, formal institutions support and encourage market-based competition, thereby decreasing the power of firms over customers in price-setting. Of course, we are not suggesting that perfect competition prevails in all industries, but the ability for customers to choose among different offers, the fact that entrepreneurial ventures can dislodge established players by introducing more adapted products or services in the market, and the active role of formal institutions that ensure that competition is fair, all reduce the ability of firms to set abusive prices. Similarly, individual buyers are not only given power by the simple fact that they can choose the product and service they prefer, but they

are also protected by formal institutions, against potentially predatory actions by firms, as the regulation of the tobacco industry illustrates. In other terms, the price setting mechanisms in competitive environments supported by developed markets ensure that the value is captured by the seller and the buyer in a way that ensures the sustainability of the seller while giving enough power to the buyer to avoid abusive pricing in most industries.

In emerging markets, the dimensions of price setting lead to very different outcomes, mostly due to the typically important role of the government in such markets. The competition between sellers can be high or virtually inexistent depending on the industry, while the protection of customers tends to be more limited due to the relative weakness of formal institutions, resulting in a high number of fake products (Karnani, 2007; Phau & Min, 2009). Most important in price setting, however, is the role of the government. Subsidies of necessity products, for instance, are commonplace in many emerging markets. Similarly, state-owned enterprises (SOEs) and strategic industries with heavy government involvement lead prices for many products and services to be determined outside the market and to reflect government priorities rather than offer and demand. Of course, we are not suggesting that governments in emerging markets determine the price of all products and services. Rather, we argue that government policies and interventions through SOEs can significantly impact the price of products and services.

In subsistence markets, the power of buyers is typically very low, but this does not necessarily result the setting of very high prices by the sellers. Exchanges within the community are typically embedded in social networks (Rivera-Santos & Rufin, 2010), which prevent sellers from abusive price setting, even though deception of particularly weak buyers, such as illiterate women, is commonplace in some subsistence markets (Chaturvedi, Chiu, & Viswanathan, 2009). In markets characterized by a strong overlap between social and commercial networks, situations in which the same individual is a buyer and a seller are very common (Viswanathan, Rosa, & Ruth, 2010), leading to a different type of competition and a different type of price setting, which is not necessarily based on market mechanisms. Instead, scholars emphasize the importance of ongoing social and commercial relations, in which groups, such as families, religious brotherhoods, or age groups, play a very important role (Rivera-Santos & Rufin, 2010). By contrast, exchanges outside the community are typically less embedded in social networks, which tend to be very local, leading to situations in which very low levels of competition give most of the power to intermediaries, who, in turn, can set very high prices for products and services that cannot be made at home or purchased in the community.

The difference between Price, Jià (价), and Bei can be illustrated by credit and water provision across the three different markets. The price of credit, measured with interest rates, reflects our reasoning. The interest rate on a loan to a small business in the United States depends mostly on characteristics of the loan itself, such as size or credit rating (Bender, 2013). A similar rate in China depends to a large extent on the industry in which the business operates, due to the government's involvement in setting rates (Anderlini et al., 2010). By contrast, an average micro-finance rate for entrepreneurs in subsistence markets is about 30% compared to 0% for traditional community-organized lending groups, and significantly more for loan sharks (Chu, 2007; Collins et al., 2009; Karnani, 2008). This difference vividly illustrates our argument that competition in developed markets leads to lower prices, that the role of governments in emerging markets strongly influences prices, and that prices are determined through different mechanisms for exchanges within the community and outside the community in subsistence markets. Water provides a similar story, with tap water being provided very cheaply in the United States, while tap water is typically not drinkable in emerging markets, and while the absolute (not just PPP) price of drinkable water in some subsistence markets in India is higher than in neighboring cities (Karnani, 2011).

All dimensions of price vary significantly across the three market contexts. Most importantly, our analysis suggests that not only the dimensions but the very determinants of price differ. Price tends

to be determined by market forces in developed markets. By contrast, government intervention determines the price in a non-trivial number of industries in many emerging markets. Finally, while prices may be set by the differential of power between buyer and seller in exchanges outside the community in subsistence markets, prices in exchanges within the community are determined by mechanisms embedded in the social and commercial networks and involve group-level dynamics which are very different from market-based mechanisms. Our reasoning thus suggests that Price, Jià (价), and Bei, while similar, cover significantly different realities, as illustrated in Table 3.

**TABLE 3**  
**Price Across Developed, Emerging, And Subsistence Markets**

	<b>Developed markets: Price</b>	<b>Emerging markets: Jià (价)</b>	<b>Subsistence markets: Bei</b>
Competition between sellers	High, because encouraged and supported by institutions	Mid to high, depending on the development of the sector	Can be high, but based on non-market mechanisms, or low, when limited supply
Power of individual buyers	High, because protected by institutions	Mid, because of emerging competition and of limited protection	Low, because of high needs
Group-based and non-market influences	Limited influence by non-market forces, except in specific industries	Important influence of non-market forces, including regulations and SOEs, in price setting	Very high influence, due to exchanges typically governed by non-market / social mechanisms
<i>Examples</i>			
Credit	Low	Low or high, depending on sector	High
Water	Low	Mid	High

## DISCUSSION AND CONCLUSION

In this paper, our goal was to explore whether the seemingly universal VPC framework, which lies at the core of management thinking, and which links value, price, and cost, is applicable to the three main types of market identified in the literature: developed markets, emerging markets, and subsistence markets. Our analysis suggests that the terms “value”, “price”, and “cost” cover significantly different realities in these three markets, leading us to recommend the use of different terms to reflect the embeddedness of these seemingly universal concepts in their institutional environments. We recommend using Value-Price-Cost to reflect the framework as it exists in developed markets; Zhí (值)-Jià (价)-Chéngběn (成本) for the framework as it exists in emerging markets; and Thamani-Bei-Gharama for the framework as it exists in subsistence markets.

Our analysis of the three elements of the VPC framework suggests significant differences in the way these three concepts are understood in developed, emerging, and subsistence markets. Regarding value, our reasoning suggests that both the notion of fulfillment of needs and desire, and the level of risk associated with the exchange vary significantly across the three contexts. Most importantly, the relationship between need and desire seems to be very specific in emerging markets, and the fulfillment of needs incorporates the possibility to making the product and service at home in subsistence markets.

Regarding cost, our reasoning suggests that, at least in PPP terms, the intuitive notion that costs increase as we move from subsistence, to emerging, and to developed markets does not hold. Most importantly, the hybrid nature of institutions of emerging markets has important implications for costs and results in a non-linear pattern of evolution between the three levels of development. Finally, regarding price, our reasoning suggests that the mechanism of price setting vary significantly across the three contexts, with important distortions due to government intervention in emerging markets, and with entirely different rules of competition and price setting within subsistence market communities. Overall, our reasoning thus suggests that the VPC framework in the three market markets, while similar, covers significantly different realities, which do not follow a simple linear pattern of evolution.

An important question is left unanswered in the previous analysis, which is whether the actual relationship between value, price, and cost varies across the three markets. As we mentioned, management scholars would argue that  $V \geq P > C$  needs to be respected for a sustainable exchange to take place (Ly & Vroom, 2010), even though organizations which do not pursue profit maximization may function with a different relationship. NGOs, for instance, may set their prices below their costs and compensate for the loss by donor money. Similarly, Santos argues that the main difference between a social entrepreneur and a commercial entrepreneur is the extent to which value capture matters over value creation (Santos, 2012). Our analysis suggests that the relationship between V, P, and C may actually differ across all three markets. The role of the government in emerging markets leads to a focus on society-wide value pursued by the government, rather than individual value pursued by the buyer, with important implications for both price and cost. Similarly, the fact that competition follows different rules in subsistence markets, at least within the community, also suggests that V, P, and C may not follow the pattern expected in developed or even emerging markets.

With this analysis, we contribute to the literature in two important aspects. First, we identify the boundary conditions to the VPC framework and thereby reinforce the theoretical foundation of a key management framework. Second, we identify which characteristics of the institutional contexts inform our understanding of VPC, emphasizing the importance of market-specific, rather than country-wide, characteristics. This study has some limitations, however, which open avenues for further research. Most importantly, our paper is conceptual in nature. Although we illustrate our reasoning with a product and a service, water and credit, across the three market contexts, our reasoning is relatively stylized and its empirical testing provides a logical follow-up to this study. Collecting data, in particular survey-based data, can prove challenging in emerging and subsistence markets and require adaptation of the survey methodology (Kriauciunas, Parmigiani, & Rivera-Santos, 2011), but a series of in-depth case studies could provide an alternative method to collect data for the empirical test of our propositions (Eisenhardt & Graebner, 2007). More broadly, we hope that our work will incite other scholars to explore the extent to which concepts, frameworks, and theoretical lenses, which we implicitly consider universal in our literatures, may or may not actually reflect cultural and institutional embeddedness.

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**END NOTE**

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## AN EXAMINATION OF THE RESOURCE AND PERFORMANCE CONFIGURATIONS

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### ABSTRACT

There are cherished studies on the relationship between resources and performance in extant strategy literature. However, an examination of the outcomes of these factors using their sub-domains as separate bundles has not widely been tested. Conversely, there are few studies that have used the context of nongovernmental organizations in a developing country. This study intended to retest this relationship to provide fresh insights. Using the configuration theory, the study examined tangible and intangible bundles of resources and those of performance. Results showed that when considered separately, some clusters of the sub-domains had stronger predictions than the aggregate factors. It is important therefore, to identify bundles of latent elements and consider their contribution to operations of the organization. We conclude that configuration approach remains a promise in understanding organizational elements and how they interact to render certain outcomes.

**Keywords:** Configuration, Resources, NGOs, Performance, Intangible attributes, Tangible elements

### BACKGROUND

Resources and performance were found by Olivier, Thomas and Gousseuskaia (2008) among the key words dominating strategic management literature. Grant (1991) defined resources as the assets a firm owns, externally available and transferable while Wenerfelt (1984) illustrated them as anything which could be thought of as a strength or weakness of a firm in the form of tangible and intangible assets which are tied semi permanently to the firm. Performance on the other hand is a multidimensional construct that is influenced by many factors and has been revered as the dominant dependent variable in many studies. Few scholars have examined the relationship between resources and performance operationalized into tangible and intangible measures. An examination of the tangible and intangible attributes as distinct variables is still inadequate. Thus, testing the outcomes with tangible and intangible resources as dependent variables against tangible and intangible performance as dependent variables could add significant insights to strategy scholars. This study was motivated by the configurational approach to examine how these sub-variables coalesced to render certain outcomes. The study used data obtained from nongovernmental organizations in Uganda and was guided by two research questions namely: is the association between aggregate resources and performance higher

than that when their sub-variables are considered as distinct bundles? Secondly, what relationship occurs between the configuration of the aggregate variables and the sub-variables?

## LITERATURE REVIEW

### **The configuration approach**

The configuration theory in strategic management is about the constellation of variables that represent their specific and separate attributes which are meaningful collectively rather than individually (Meyer, Tsui and Hinings, 1993; Dess, Newport and Rasheed, 1993; Short, Pyne and Ketchen, 2008). The configuration of factors enables researchers to identify underlying relationships that render certain outcomes. A stream of literature in the 1990's focused on finding appropriate empirical measurements and operationalization of configurations. Dess et al. (1993) proposed techniques to analyze and determine contribution of configurations to organizational outcomes namely, complementarities and embeddedness in routines and systems. The key premise of this approach is that variables produce different outcomes depending on how they are arranged. Short et al. (2008) contended that configurations provide patterns, interactive effects of variables or simply groupings. It should be expected therefore, that tangible and intangible resources might produce varying outcomes of tangible and intangible performance depending on how they interact. Studies in this direction are still lacking, and therefore much more needs to be done.

### **Resource – performance relationship**

Resources and performance have been most reliably studied alongside other firm factors such as strategy, structure and environment (Boyne & Dahya, 2002). Adner and Helfat (2003) recognized that the ability of firms to utilize their resources for superior performance was influenced by structure. Similarly, Ethraj, et al (2005) argued that resource capabilities are a result of a consistent and deliberate investment in organizational structure. Many studies of the resource based theory posited that firm performance was dependent on resources (Holcomb, Holmes and Connelly, 2009; Koen, Elko and Rever, 2009; Casselman and Samson, 2007; Howard and Walters, 2004). But these studies did not provide the patterns of outcome with the tangible and intangible sub-variables of resources and performance. Marlin, Ritchie and Geiger (2009) were closer to this gap when they proposed testing for overall performance to avoid disputations. Carmeli and Tishler (2004) tested the relationship between intangible resources performance; they focused on managerial capabilities, human capital, perceived reputation, labor relations and organizational culture. Intangible organizational resources had a significant effect on firm performance. This finding was hardly followed up with further empirical tests in various contexts. A study of the interactions among the tangible and intangible attributes of resources and performance in NGOs could provide rich insights.

### **Resource – performance in NGOs**

The complexity of NGO operations has rendered the debate on the factors driving their performance a pertinent area of study. The relationship between resources and performance is inconclusive. It has been given attention mainly using linear models (Abigail, Fafchamps and Ownes, 2005; Abigail, 2005; Brainard and Siplon, 2002; Littlefield, 2010; Tvedit, 2006). Akbar (1999) indicated that the resource capability of NGOs had waned and thus their performance was in question. Edwards and Hulme (1996) attempted to explain the performance predicament faced by NGOs as arising from the declining donor funds. Researchers who have concentrated on the financial capability have been unsuccessful in establishing the real financial resources of NGOs (Lewis 2007; Bendel, 2006). Gaskin (1999) moved the argument a little further by proposing that the resources can be understood by looking at tangible and intangible bundles. Herman and Renz (1998) and Siciliano (1997) did argue that

objective variables like mission statements, reports, independent financial audits, operational manuals, human resources, community acceptance, stakeholder satisfaction, programs and fundraisings could explain performance while Williams (1997) posited factors such as restructuring, enhancing community connections, modeling collaborations and running cross fertilizing projects. Recent studies in this direction are still wanting in extant strategic management literature.

It therefore emerges that tangible and intangible bundles of resources with performance form configurations that could be studied independently to ascertain deeper insights of firm behaviours. The following hypotheses were thus derived to guide this inquiry.

*Hypothesis 1. The association between aggregate resources and performance will be higher than that of their sub-variables.*

*Hypothesis 2. The relationship between aggregate resources and performance will be stronger than that of the configurations of the sub-variables namely,*

*Hypothesis 2a. The relationship between aggregate resources and performance will be stronger than tangible resources and tangible performance*

*Hypothesis 2b. The relationship between aggregate resources and performance will be stronger than tangible resources and intangible performance*

*Hypothesis 2c. The relationship between aggregate resources and performance will be stronger than intangible resources and tangible performance*

*Hypothesis 2d. The relationship between aggregate resources and performance will be stronger than intangible resources and intangible performance*

*Hypothesis 2e. The interaction effect of the sub-variables will have a stronger relationship with the various performance outcomes than that of other configurations.*

## **METHODS**

The study adopted a cross sectional research design with triangulation approaches. The study used a population of 313 NGOs registered under the national NGO Forum in Uganda. A sample of 173 was picked using tables by Bartlett, Kotlik and Higgins (2001). A total of 113 usable questionnaires were returned giving a 65% response rate. Secondary data was obtained from reports and websites. The respondents were the chief executive officers or a designated member of top management team. These were selected as they are the strategy bearers of the organization. Resources were operationalised first as an aggregate variable; then tangible measures that included land, funds, equipment, staff and established units were considered as a distinct variable. On the other hand intangibles namely, networks, internal efficiency, governance and knowledge was taken as another variable. On the dependent variable side, performance was considered first as an aggregate variable; then the tangible and intangible performance indicators were accordingly grouped as distinct variables for further analysis. The measures included revenues, sustainability, services, outreaches, client satisfaction, and adherence to standards, service delivery and quality of governance process. These measures were supported and previously used by Herman and Renz (1998) and Siciliano (1997). Data was analyzed using SPSS with techniques namely correlation and regression.

## **ANALYSIS AND RESULTS**

The descriptive statistics showed that majority of the organizations had been in operation for 6 – 10 years (32%) followed by 11 – 15 years (24%) and above twenty years (23%). In terms of employees and volunteers the majority at 61% had a number below 20, distantly followed by those in the range of 21 – 40 at 18%. There were relatively few firms with employees above 60 (12%).

The association between the variables in the study was obtained through running simple correlation analysis. The coefficients are presented in a simple matrix table with the predictors as columns and dependent variables in rows.

**TABLE 1**  
Pearson Correlation results of resources, performance and the sub-variables

	Tangible resources (TR)	Intangible resource (IR)	Aggregate Resources (AR)
Tangible Performance (TP)	0.772**	0.635**	0.762**
Intangible Performance (IP)	0.541**	0.749**	0.696**
Aggregate Performance (AP)	0.694**	0.696**	0.753**

\*\* . Correlation is significant at the 0.01 level

**TABLE 2**  
Matrix of R<sup>2</sup> for resource – performance configurations

Organizational domains Configurations	Performance Outcomes (R <sup>2</sup> )		
	Tangible Performance (TP)	Intangible Performance (IP)	Aggregate Performance (AP)
Aggregate Resources (AR)	.581	.462	.531
Tangible resources (TR)	.595	.268	.448
Intangible resources (IR)	.403	.563	.449
Interaction effect (TR x IR)	.624	.510	.568

All the relationships were statistically significant with p-value = .000

Table1 presents the correlation coefficients for resources, performance and their sub-variables. All the variables had significant positive correlations. The highest association was between tangible resources and tangible performance with a coefficient of 0.772 significant at the 0.01 level. The lowest association was between tangible resources and intangible performance with coefficient 0.541.

From these results we concluded on H1 which stated that the association between aggregate resources and performance will be higher than that of their sub-variables. The results were that the association of AR and AP was .753. H1 was rejected for the association between TR and TP which had a coefficient of 0.772; we fail to reject H1 for the other associations namely, TR and IP, IR and TP, IR and IP all of which had coefficients below .753.

To provide further insights on the relationship between resource and performance, and to test for H2, we ran linear regression analysis. We tested for the interaction effect of the sub variables with different performance outcomes. The results are presented in Table 2 below.

The matrix in Table2 summarizes the results obtained from linear regression analysis of resources and performance with their sub-domains. The coefficients are for twelve configurations were identified with four domain predictors namely, aggregate resources, tangible resources, intangible resources and the interaction effect of tangible and intangible resources. On the other hand, the dependent variable outcomes in the analysis were three namely aggregate, tangible and intangible performance.

All the models were statistically significant at p-value=.000. With these results, we were able to test for H2 that, the relationship between aggregate resources and aggregate performance will be

stronger than that with the configurations of the sub-variables. The results from the tests of the configurations of the variables and the conclusions are presented in Table 3 below.

**TABLE 3**  
Configuration coefficients

Hypothesis	Configuration	R <sup>2</sup>	Conclusion
H2	AR – AP	.531	
<b>H2a.</b>	<b>TR – TP</b>	.595	Reject
<b>H2b.</b>	<b>TR – IP</b>	.268	Fail to reject
<b>H2c.</b>	<b>IR – TP</b>	.403	Fail to reject
<b>H2d.</b>	<b>IR – IP</b>	.563	Reject
<b>H2e.</b>	<b>TRxIR – AP</b>	.568	Fail to reject
	<b>TRxIR – TP</b>	.624	Fail to reject
	<b>TRxIR – IP</b>	.510	Reject

The relationship between aggregate resources and aggregate performance was  $R^2 = .531$ . This meant that resources when considered as aggregate factor accounted for 53% of the variations in performance significant at  $p\text{-value} = .000$ . The strength of this configuration is thus moderate.

The results of the configurations show that tangible resources predict tangible performance with a higher coefficient than the main variables. This is also true for intangible resources with intangible performance. When bundles of tangible and intangible resources are identified separately and coalesced, they lead to higher prediction of aggregate performance and tangible performance; the interaction term however, leads to a lower variation in intangible performance. These findings form the thread in our discussion.

## DISCUSSION

Short, Payne and Ketchen (2008) opined that explaining performance remains the popular goal of configurations. We have demonstrated that different configurations of resources and its sub-variables will render different performance outcomes. Our results have reaffirmed previous studies that performance is an integrated variable; we have been able to show its prediction using different resource bundles. Configurations can be a popular approach to understand seemingly complicated clusters of organizational factors (Dess, Lumpkin & Covin, 1997; Meyer, Tsui & Hining, 1993; Short, Payne & Ketchen, 2008). Configurations of the resources and performance variables represent their specific and separate attributes which are meaningful collectively rather than individually.

The results have revealed a variety of patterns that are of scholarly interest in understanding NGO behavior. This has addressed Holcomb's (2009) concern that little attention had been given to these issues. We have found that nongovernmental organizations provide a rich context for strategic management scholars. This has answered to Wolf and Engelhoff's (2002) apprehension that most strategy studies were concentrated in profit firms. As Davies (2008) expressed, the configurational theory has not had a linear growth and so its application in analyzing NGOs will require retests. Drawing from our results, it is not adequate to consider factors in totality. The disintegration of resources and performance into sub domains has provided rich insights. We should be aware that resources are a less dynamic factor than performance and thus the plausible outcomes as a result of the configurations may conform to time effects. Resources, per se, is a broad concept for any meaningful study and so is performance. The configuration approach was therefore a useful in isolating the bundles of tangibility and intangibility for more refined conclusions about the behavior of NGOs.

The first research question was, is the association between aggregate resources and performance higher than that when their sub-variables are considered as separate bundles? We have ascertained that tangible resources and tangible performance were more associated than the aggregate variables. The levels of association though were not significantly different. This can be attributed to the nature of organizational set up where tangible attributes are more emphasized than the intangibles.

The second research question was to test for statistical relationships beyond the associations. We wished to examine the how tangible or intangible resources contributed to the variations in tangible or intangible performance outcomes. It stated that, does a stronger relationship occur between resources and performance than in the configurations of their sub-variables? This would enable us conclude on the key factors to look at in studying the complex factor of NGO performance that has drawn public scrutiny. The results however, opened new frontiers for further investigation. To understand performance, it is important to consider how the separate attributes are meaningful collectively rather than individually. This reaffirmed Miller and Whitney (1999). Drawing from the conceptualization of Dess et al. (1993) and Snow et al. (2008) we reemphasize that when domains and sub domains of resources are studied together a better understanding of performance phenomena was obtained. When tangible resources and intangible resources were considered as separate bundles, we ascertained different performance outcomes.

Since studies of configurations in especially nonprofit organizations are still in nascent stages we were unable to get literature to underpin these findings. Aside from direct configuration outcomes, an attempt should be made to uncover factors that indirectly build into this pattern. For instance, scholars of the resources based view and those of dynamic capabilities should no longer be at pains exploring the linkages. Our results have demonstrated that the latent attributes of resources and performance are important in the NGO phenomena. Attributes like networks, culture, affiliations, influence of civic leaders, state of human rights, internal management, community awareness, government policy and governance issues should be recognized it in planning their activities if the desired long term impact of the NGO is to be achieved. Thus, examination of the variables in their internal clusters provides deeper insight than when considered individually.

## **CONCLUSION AND IMPLICATIONS**

In as far as this study was framed we were able to isolate distinct patterns of resources and performance which gave insights of latent relationships and outcomes. Using NGO data we have explored the dimensionality of resource elements and the enduring patterns of performance outcomes. The paper has attempted to overcome deficiency of looking at aggregate factors and drawing quick conclusions on the resource-performance patterns. We would have wished to demonstrate the magnitude of resource bundles and how they clustered to low or high performance under each of the sub-domains. But a project where both the concept and context are in nascent stages of research we contended with the gain attained and recommend further analytical tests of behaviors of these elements.

This study should reenergize scholarly interest in not only the nonprofit sector, the configuration theory but also the African institutional context. NGOs are active players in the region and should be embraced by pure strategic management researchers on reexamination of different theories. We recommend studies NGO strategy, structure, resource and performance configurations. Given the dynamic environment they face, research in this area would also be timely. Practitioners will find these results important to internalize how they previously handled resources in pursuit of desired performance and the outcomes they obtained. This study points to stakeholders who have questioned NGO operations not to rely on isolated single factors in shaping their opinion about NGOs.

The results of this study cannot be without limitations. We relied on a cross sectional survey design. Resources are however, accumulated over time and their appropriation may be affected by other organizational factors. Some configuration scholars propose longitudinal designs to capture influences of factors through different time periods. The results should therefore be seen in light of this. Multicollinearity could have affected our analysis as we attempted to isolate aggregate variables alongside their sub-variables. However, we opine that this study has provided some significant insights on understanding resource-performance typology using the configurational approach.

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#### END NOTES

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## STRATEGIC MANAGEMENT OF BOP INITIATIVES: AN EMPIRICAL APPLICATION TO THE CASE OF COMPANY NESTLÉ IN AFRICA

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### ABSTRACT

We propose a framework for the management of BOP strategies and test this model based on the case of the company Nestlé in Cameroon. We define BOP strategies as advanced CSR strategies aimed at very poor populations. These BOP strategies are developed by private companies proposing specially-designed products and services, often radical innovations involving local communities into the processes of development, production and distribution of goods. The framework we propose is empirically validated through a detailed case study of the BOP strategies implemented by the company Nestlé in Cameroon, Africa.

**Keywords:** BoP strategy, local community, poverty, strategic framework.

### INTRODUCTION

The concept of *Bottom of the pyramid* (BOP) first introduced by Prahalad (2005) has led to an important stream of research in business circles (Prahalad, 2005; Hart and London, 2007; Rosa and Viswanathan, 2007) giving rise to an interesting literature in areas such as strategy, organizational theory, entrepreneurship, microfinance, and marketing (Viswanathan, 2010). The concept also encourages companies to better comprehend and respond to subsistence marketplaces and to focus on the 4 billion poorest individuals of the planet, now considered as potential consumers.

BOP initiatives are studied from different perspectives: strategic management (Martinet and Payaud, 2008, 2010), Corporate Social Responsibility (Hahn, 2009; Hemphill, 2010), strategic marketing (Arnould and Mohr, 2005), consumer behavior (Zhong and Mitchell, 2010), distribution (Vachani and Smith, 2008) entrepreneurship (Webb et al., 2010), international management (Olsen and Boxenbaum, 2009; Schuster and Holtbrügge, 2012) among others. BOP research in these fields essentially attempt to identify conditions for success, limitations and motivations of companies (including multinational companies) to engage in BOP strategies from the perspective of the particular sub-area of business research.

However, there is a lack of a general framework enabling to strategically model the management of a comprehensive BOP initiative. The objective of this research is to propose such a framework in an attempt to enable BOP managers to better design, develop, implement and manage BOP initiatives.

After having defined the concept of BOP strategies and identified its dimensions, we develop this framework through a series of propositions both describing the elements of a genuine BOP strategy

and establishing relationships between these elements. Applying this framework to the particular case of a BOP strategy enables to analyze and fully understand the components of the BOP strategy as well as to identify the possible components which are missing to fully meet BOP objectives. Applying this framework may help managers to improve and further develop their BOP strategies.

The propositions are empirically tested through a case study conducted within the company Nestlé in one African country (Cameroon). Arrays of BOP initiatives conducted by Nestlé in Cameroon are reviewed and analyzed enabling to validate the proposed framework.

The article proceeds as follows. After having defined the concept of BOP strategies, we propose the framework for BOP strategies with a series of propositions enabling both to define and to test the validity of a BOP initiative. We then apply the framework to BOP initiatives that we observed and studied through a field study of company Nestlé in Cameroon. Results of this study leads to the proposition enabling BOP managers to better design BOP initiatives and to reinforce their chances of success.

### THE CONCEPT OF BOP STRATEGIES

Many definitions of BOP strategies focus on the economic dimension with simple dimensions such as low price, low margin, and high volume. This view is overtly simplistic and fails to represent the complexity and dimensionality of BOP strategies. Following Martinet and Payaud (2008), we define BOP strategies as being advanced Corporate Social Responsibility strategies developed by business corporations specifically targeting very poor segments of populations (earning two dollars per day or less). These corporations develop novel products and services aiming at the satisfaction of basic needs while, at the same time, preserving the current organization of local communities and caring for their eco-systems. This definition includes the fact that these CSR strategies are *advanced* which leads to going far beyond CSR strategies linked to mere window dressing. BOP strategies are developed by *business corporations* (not by NGOs or associations) which consider that their role goes far beyond than maximizing shareholders' wealth.

Aiming at fighting against extreme poverty, BOP strategies pursue an objective close to *development and humanitarian aid*. Both BOP strategies and development aid target very poor populations (earning generally less than 2 dollars per day). However, they also differ since BOP strategies do not imply donations and charity. They are not short-term or urgency aid, but are on the contrary *long term offers* available to the local communities.

BOP strategies imply the development of *radical innovations or really new products and services* including the participation of local communities in their design, production and distribution. These new offers are designed to *dramatically cut the consumer price* (by a factor of ten and up to a factor of two hundred) compared to a comparable offer sold in developed countries. *Innovations* in product design, distribution methods, training of employees, production, distribution and delivery interfaces are key factors so that the totally new system becomes profitable in this context with very low purchasing power, lack of infrastructures, lack of organization and corruption.

*The integration of local communities* in the BOP project requires *an anthropological analysis* to ensure a correct recognition of the nature of basic needs to be satisfied as well a sound understanding of the target consumers (Payaud, 2011).

### A FRAMEWORK FOR DEVELOPING AND ANALYZING BOP INITIATIVES

Following Payaud and Martinet (2010), we present a system of propositions describing necessary conditions for business initiatives targeted towards poor populations be considered as BOP strategies. This framework permits to distinguish BOP strategies from less responsible strategies merely

directed at poor target markets and enables to analyze BOP strategies and identify their strengths, weaknesses and areas for improvement.

Proposition 1: Strategic Intent

*Proposition 1.1. A BOP strategy is embedded in the mission and fundamental goals of the company or of one of the company division.*

*Proposition 1.2. A BOP strategy concerns the core business of the company within which BOP products are developed and core competencies are used.*

Propositions 2: Formula and Generic Strategy

*Proposition 2.1. A BOP strategy is linked to the strategic formula of the company.*

*Proposition 2.2. A BOP strategy may help changing the strategic formula of the company.*

*Proposition 2.3. A BOP strategy implies breakthrough differentiation with high value for a very low price.*

Propositions 3: Markets and Consumers

*Proposition 3.1. A BOP strategy aims at satisfying basic needs (Maslow, 1954; Sen, 2003) such as food, shelter, transportation, health and energy.*

*Proposition 3.2. A BOP strategy targets populations or segments of consumers with very low purchasing power.*

*Proposition 3.3. A BOP strategy implies new means enabling a direct access of consumers to the products or services.*

Propositions 4: The System of Offer

*Proposition 4.1. The offer is concentrated on a primary product or service.*

*Proposition 4.2. Place is highly integrated. Suppliers, sub-contractors, distributors, and consumers gradually constitute an « eco-system of activities ».*

*Proposition 4.3. Distribution is a major strategic factor. It generally implies radical innovations especially in countries with weak transportation networks.*

*Proposition 4.4. Marketing strategy combines very low prices, satisfactory quality, and direct promotion using the channels of the eco-system thus maintaining marketing budgets at a low level.*

Propositions 5: The Value System

*Proposition 5.1. The « eco-system of activities » implies dense and close relationships between actors, both physically and culturally.*

*Proposition 5.2. The belonging of actors to local networks implies that they may play multiple roles at the same time: distributor, consumer, supplier, trainer, etc.*

#### Propositions 6: Competencies and Strategic Resources

*Proposition 6.1. Strategic capacities are co-constructed by the company and the local population using the powers and relationships in the territory as well as the global and local competencies of the company.*

*Proposition 6.2. Initial investments may imply specific engineering with a CSR orientation with possible links to global actors such as State agencies or NGOs.*

*Proposition 6.3. Design, development, management, and maintenance of equipments are conceived as an industrial e Proposition co-system and use local knowledge, techniques and renewable material.*

*Proposition 6.4. Processes and systems linked to procurement, production and distribution are developed and maintained as part of the local territory through the use of local human resources.*

*Proposition 6.5. Product or service design and development is based on global competencies (the company), local units and local population.*

*Proposition 6.6. Learning processes are two-way processes: enrichment of local competencies based on global competencies but also development of global competencies based on local processes and knowledge. These learning processes should enrich competencies of the company as a whole.*

### EMPIRICAL INVESTIGATION

Poverty cannot be studied as a whole from a universal standpoint. It should be studied within a cultural, historical and empirical context. This calls for intervention research which is a developing area of empirical inquiry that aims to make research more directly relevant and applicable to practice. The study of poor populations should also be conducted with empathy which leads to anthropological enquiries to gather knowledge on a given population studied in its local cultural and economic context.

We studied the case of company Nestlé and of its BOP strategies in Cameroon through an intervention research which implied two months of observations in Douala, Cameroon. The data collected were composed of primary and secondary data. Primary data were collected on the field from observations and interviews with the personnel of Nestlé Cameroon and from a variety of field visits and enquiries. We visited ten markets, eighty shops, twenty supermarkets, seven bakeries and talked to one hundred and ninety “mammies” who sell the goods on the markets. Secondary data were collected from internet sites, press releases, and from company documents such as activity reports, and sustainable development reports.

All data gathered were treated through a comprehensive analysis and a heuristic analysis. The objective of the comprehensive analysis is to test our theoretical propositions through the detailed understanding of the BOP strategies developed at Nestlé Cameroon. The objective of the heuristic analysis is to derive new propositions and knowledge.

#### Comprehensive Analysis

Company Nestlé is a multinational leading group in the food industry with revenues of 83 billion Swiss Francs in 2011 and net profits of 9.5 billion Swiss Francs. Its CSR strategy is organized around the concept of *Creating Shared Value* (CSV) formally developed in 2006 but implemented years before

naming it. The 2006 report states that 55% of the world population lives in ten countries within which the population has limited purchasing power. Nestlé writes that “our responsibility is to use their knowledge to develop products that answer the needs of consumers while generating sufficient financial rewards. We answer this demand with products at low prices, manufactured locally and which ally flavor, high nutritional value and an affordable price.” *This supports our theoretical proposition P1.1.*

In year 2000, the United Nations launch a program directed at reducing poverty in the world by 2015. Nestlé is involved in this program and publishes in 2010 a report entitled « *Nestlé and the U.N. Millennium Development Goals 2010* ». Nestlé develops with great detail the projects it launched to reach each of the eight objectives of the UN Millennium program. *This is in line with our theoretical proposition P1.1.*

*Also in support of P.1.1*, the concept of « *Creating Shared Value* » includes what Nestlé calls *Beliefs*. On belief is that if a company aims at long-term success and leadership, and if it wants to create shareholder value, it must create value for society as a whole. This relationship between shareholder value and value for Society is very often referred to including in their report « *Creating Shared Value and Rural Development 2010* » which advocates “*Value for Nestlé*” and “*Value for Society*”. This is part of the culture of the company and is shared at all hierarchical levels. In different interviews, the General Manager evokes the initiative of building both a new plant and developing agricultural plans for local farmers, the Sales Manager refers to distribution networks build for sustainable development and asked the salesforce to develop long term relationships with small retailers and help them develop their own businesses during a training program.

Nestlé’s ambition is to become the world leader in the domains of nutrition, health and well-being. Nestlé’s reports indicate that it identified three domains within which it can develop shared value: Nutrition, water supply and rural development. *This corresponds to the theoretical proposition P.1.2.*

*In line with theoretical proposition 3.1.*, the fundamental basic needs which Nestlé targets are linked to its main activities in agro-business. The targeted population is named “*emerging consumers*» and Nestlé developed enriched products following nutritive deficiencies in the region. Some countries suffer from Iron, Zinc, Iodine or A vitamin deficiencies. For instance, dehydrated soup *Maggi* manufactured in Douala (Cameroon) with added iodized salt is a success in Guinea, Cameroon and The Ivory Coast.

*In support of theoretical proposition P3.2.*, Nestlé segments the population in five categories, from category A with revenues over \$ 2000 per month to category E with less than \$ 50 per month). In Central and West Africa in which we conducted our field study, the BoP population targeted (categories D with less than \$ 200 per month and E with less than \$ 50 per month) accounts for the majority of the population (e.g. 71% of the population in Cameroon - 14 million inhabitants).

Nestlé seeks to facilitate direct access of the products to targeted customers. The company informs and educates consumers on the advantages linked to breast-feeding and to balanced nutrition. It takes part in weekly meetings of women within neighborhoods. It developed in 2010 the « *Nido chez toi* » program in Yaoundé and in Douala (Cameroon) in which staff from Nestlé advocates the benefits of the powdered milk *Nido* containing iron and magnesium within neighborhoods and households. In total, 10,000 persons were directly contacted during this promotional campaign. A program named « *RoadShow* » has been deployed for five years within towns where carencies were detected by the Ministry of Health. A Nestlé marketing team joined by a nutritionist and medical salesperson educates the population on the benefit of milk. This team has been recognized by the Ministry of Health.

From a logistic point of view, Nestlé controls the fact that distance does not penalize a consumer with prices rising with the number of necessary intermediaries. *These actions of the company are in line with our theoretical proposition P.3.3.* Twelve distributors work with Nestlé in Cameroon, each distributor having its own salesforce, while Nestlé is in charge of the merchandising within points of

purchase. Distribution circuits and merchandising vary with the nature of the retail outlets which are classified in terms of potential turnover and belong to four categories from Grade 1 (General grocery stores or small stores) who have high turnovers and use many merchandising tools to Grade 4 (“Open to market mummies”) who exhibit a small display of the streets or the markets. For grade 1 and grade 2 shops, the product is delivered directly from the distributor to the shop as for Grade 3 and 4, salesmen on foot or on bicycle deliver the goods. Merchandising tools are adapted to the size and grade of the points of purchase. In this way, distribution, presence and promotion of Nestlé goods are ensured throughout all points of purchases. *This is in accordance with theoretical proposition P.4.3.*

Local competition is fierce and marketing activities are numerous, *in line with proposition 4.4.* However, this does not stop from proposing low prices to consumers, *following theoretical proposition P4.1.* Nestlé developed what they name PPP strategies, i.e. « *Popularly Positioned Products* » which corresponds to offers targeting populations with low revenues. Nestlé developed 4860 PPPs in the world with affordable prices; recipes designed to respond to local deficiencies and adapted distribution methods.

*To illustrate P4.4.,* Nestlé sells in Cameroon the following products: Cube Etoile Maggi (iodized) sold at 10 Francs CFA, Maggi tablets (tomato priced 25 FCFA or shrimp priced 30 FCFA), dry powdered fortified milk Nido 26g priced 150 FCFA, Nescafé coffee 2g, coffee «Ginger/Lemon», coffee « 3in1 », Cereals Cerelac 50g, and sweet concentrated milk. However, if some of these products do satisfy basic needs (dry milk, cereals, iodized cubes and tablets which are or replace at a lower cost basic ingredients of African cuisine), the role of coffee is not so clear. It does change consumption habits which traditionally were the consumption of Limbé or Tiko.

*Concerning our theoretical proposition P.4.2.* linked to an eco-system of activities, the situation varies across products. All products cannot be produced in Cameroon and all raw materials cannot come from the country. Also there cannot be necessarily a 100% integration of the local community. We analyze common patterns and describe specific situation of some products below.

**Raw material.** Raw material used in the plant of Douala is seldom issued from local production because of the lack of local entrepreneurs and of local infrastructure. For example, 80% of the salt is imported because of a lack of local transformation. Corn starch, a basic ingredient of cubes and tablets is imported although Nestlé helps the local development of manioc starch which could be a convenient substitute. Nestlé helps in the selection of manioc plants and promotes local production with the help of the government and of a local entrepreneur. Nestlé therefore promotes local and national production and helps Cameroon in the development of an agro-industry and in the creation of new employment. Nestlé has helped a local producer of palm oil to develop quality products until he obtain a quality certification (e.g. Nestlé, ISO) *in line with theoretical proposition P.6.6.* This also enables the local manufacturer to sell his expertise and his commercial ties with Nestlé on other markets. Other raw materials are fully imported such as powdered milk coming from India or Brai. However, this milk is processed and put into bags in Douala before being distributed.

**Production.** *Linked to proposition P.6.3.,* it appears that the elements of the production plant itself are not manufactured in Cameroon. However, Nestlé trains local firms for the maintenance of machines and for the manufacture of spare parts. These suppliers may then sell their expertise to other clients while benefiting from the fact of being Nestlé subcontractors. They may obtain certification such as ISO or from the OMS.

**Distribution.** *In line with theoretical propositions P.4.3., and P.6.4.,* distribution is fully adapted to the size of the stores and to the targeted consumers. The 12 main distributors in Cameroon are trained by Nestlé and their salesforce operates for Nestlé. To reach small distribution outlets in urban and semi-urban sectors (grades 3 and 4) they deliver the goods through a system of tricycles carrying the Nestlé logo and are directly controlled by Nestlé which limits dependence on the wholesalers.

These salesmen make good money thanks to Nestlé and can become Nestlé employees if results are very good.

**Points of purchase.** Points of purchase are numerous and diverse (formal, informal, supermarkets, mummies on the market, etc.). All points of purchase may sell Nestlé products and particularly PPPs. Nestlé classifies the points of purchase in three categories: *Kiosk/Table Top, Small Stores, l'Open Market, Modern Trade*. Nestlé takes into account this diversity of stores and is fully present in all of them. 71% of the revenue of cubes and tablets in PPP is done in on the *open market*, 23% in *small stores*, 5% in Kiosks and the remainder in *modern trade*. 70%, 76% and 68% of PPP formats of respectively coffee, cereals and dry milk are sold in *small stores*. *Following theoretical proposition P.4.3.*, distribution or « *route to market* » at Nestlé is a key success factor.

**Investments.** *Linked to our theoretical proposition P.6.2.*, no specific financial package has been developed to take into account potential additional costs or reduced margins of PPPs. Profit centers are delineated at the level of the country.

### Heuristic Analysis

Local conditions need to be thoroughly analyzed: first, available raw material and second an understanding of the BoP products that could answer the basic needs of the population. Raw materials are the starting point for the production of BoP products and are essential for the building of an eco-system. Key questions are linked to what raw material is required in the production process and is available locally. In some instance, it might also be possible to adapt the recipe of the BoP product in order to use local ingredients available. Availability of raw material is to be studied in the long run. In the case of Nestlé using agricultural crops, local conditions (e.g. climate, soil, water supply, and insects) needs to be assessed to determine what crops could be locally produced. Necessary volumes need to be determined and real scale tests need to be conducted. These preliminary steps necessitate the participation of the State (Ministry of Agriculture or Ministry of Industry). Then, local production can be stimulated through the use of cooperatives or micro-credit. Nestlé for instance tries to use local production such as manioc, tomatoes, coffee, cacao, eggplants, oil and spices.

The production process is a key element for the creation of an eco-system. If only one or two products are marketed on the territory, a local production process can be developed especially if local raw material is used. This production can be aimed at fulfilling the needs of the population at the regional or the national level or even at the level of the Central and West Africa Region (CWAR). Key questions to be considered by the company are the number of plants to be built especially if distribution is difficult. Should plants be built in each country for a given product or should each plant specialize in one production and export to neighboring countries? In the latter case, transportation costs and taxations linked to exports need to be considered.

Distribution is a key issue given the state of local infrastructure and the complexity of distribution channels in developing countries. If distribution channels are available in towns with local distributors able to distribute products locally from their warehouses, this is rarely the case in rural regions. The organization and costs linked to distribution of products to more remote areas often necessitates the creation of new systems involving local intermediaries. Easy access of the products to the BoP population is a basic BoP principle. New partnerships with associations, NGOs and organizations of the social and solidarity economy may be developed for that purpose as well as building small production unit scattered on the territory.

Partnerships with associations are a means to involve local communities in BoP strategies. On the one hand, it guarantees jobs for members of these associations. On the other hand these associations have a profound knowledge of the territory, its culture and of local consumption habits. Associations are formal institutions which enable the company (Nestlé) to much better control prices

than if goods are distributed through informal economy. Nestlé can also easily train people from these associations and provide salaries to its members thus contributing to their quality of life.

Finding the right partners is however a difficult task. Local associations and their members are very diverse. However, partnering with them is an essential part of a BoP strategy since it enables to develop a social policy (creating local jobs), to guarantee distribution and availability of goods to all and to control consumer prices on the market.

## CONCLUSION

We propose a framework and a set of propositions enabling to better understand and evaluate BoP initiatives. Our set of propositions was then illustrated through the case of the strategies developed by company Nestlé in Cameroon. Our framework leads to clearly consider BoP strategies as part of advanced CSR initiatives if CSR is broadly defined as “activities, decisions, or policies, that organizations engage in to effect positive social change and environmental sustainability” (Aguilera et al., 2007). Dealing with territories in which populations are widely deprived and have very limited resources, genuine BoP initiatives meeting the criteria which we defined in our propositions do effect social change and environmental sustainability. However, we should also acknowledge the fact that all products sold by Nestlé in Africa or elsewhere and named PPPs (Popularly Price Product) do not all qualify for being BoP products. In some instances, some PPPs are neither designed nor produced locally. Some PPPs are simply products which are packed in individual doses, are not necessarily enriched to care for local health deficiencies and do not necessarily create a local eco-system.

BoP initiatives require an extensive and profound knowledge of the territories, of the targeted populations and of the type of poverty that they should combat. They should improve subsistence and quality of life with a total respect of the integrity of the people and of their culture. Partnering with institutions such as NGOs, associations, local, regional or national governments is also an essential part for sharing and mutualizing knowledge and competencies.

BoP strategies imply both strategic thinking and an anthropological view. Successful BoP initiatives favor autonomy and well-being of impoverished populations and also help companies to better understand their needs, social and cultural lives. This fine understanding of unseal markets should lead to BoP innovations which might benefit the company as a whole.

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## THE CONTRIBUTION OF NATIONAL CULTURE TO LOGISTICS STRATEGY, STRUCTURE, AND PERFORMANCE

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### ABSTRACT

In a global world characterized by many border crossings, logistics services have become more important than ever. However, little work has been published regarding the influence of national culture on international logistics services. This paper proposes a conceptual model for assessing the fit of logistics strategy, structure, and performance. Research propositions are provided, and the importance of national culture to logistics outcomes described.

**Keywords:** Logistics, supply chain management, national culture

### INTRODUCTION

The past thirty years have witnessed the increasing internationalization of business. This has prompted several responses in the literature. Hunt (2000) specifically signals the trust component of a culture as critical to economic growth while also highlighting culture as the root of many societal informal institutions that directly influence economic activity. Some scholars have prescribed *cultural intelligence* for successful management (Earley and Mosakowski, 2004) and explored its impact on business performance (c.f., Makino, et al., 2004). Despite a burgeoning literature studying the effects of national culture on business performance and decision-making (c.f., Beekun and Westerman, 2012; Deleersnyder, et al., 2009; Stephan and Uhlaner, 2010; Webster and White, 2010), few logistics studies take the pervasive effect of culture into account. The few studies that exist provide valuable insights into such issues as improving logistics performance (e.g., Grawe, et al., 2011) and the differences in loyalty formation between two different countries (e.g., Wallenburg, et al., 2011).

This oversight seems unfortunate in light of the benefits of logistics<sup>1</sup> management to global business, largely due to increased distances, times, and documentation requirements. Increasing competitive and customer demand pressures over the past half-century have driven businesses to seek every possible opportunity to increase customer satisfaction and lower costs. Many firms have discovered that logistics can be used to increase customer satisfaction and loyalty while simultaneously leveraging increased profits through total cost savings, thus making logistics an important resource than can provide competitive advantage (Drucker, 1962; McGinnis and Kohn, 2002; Fawcett, et al., 1997; Abrahamsson, et al., 2003; Bolumole, 2001; Daugherty, Stank and Ellinger, 1998). Some have even argued that logistics comprises the key coordinating mechanism for geographically dispersed firms and

supply chains (Stock, et al., 1998). While many studies discuss physical issues related to logistics at both the local and global levels, few analyze the complexities of coordinating logistics strategies across multiple national cultures.

A culturally diverse region offering tremendous growth potential is the Sub-Saharan African region, where Gross Domestic Product (GDP) growth is expected to exceed 5 percent annually for 2013 and 2014 (IMF, 2013). Likewise, logistics spending is expected to grow 38 percent, or \$29 billion by 2016 (Analytiqa, 2012). Sub-Saharan Africa offers low-cost labor, natural resource mining, and a growing middle class of consumers (Viljoen, 2013). This largely untapped developing market is lucrative to logisticians who continue to struggle for margins in mature markets of the developed world still reeling from the great recession. Sub-Saharan Africa has an opportunity to capitalize on specific logistic growth strategies such as enticing public-private partnerships necessary to modernize infrastructure and developing an efficient transshipment capacity (Viljoen, 2013).

However, while perhaps the most lucrative growth opportunity, the economic and cultural challenges are formidable. In South Africa's auto industry of seven manufacturers, transportation costs and inventory carrying costs increased 50 and 100 percent, respectively, from 2006 to 2010. While labor costs are comparatively lower than other regions, energy costs are rising (Viljoen, 2013). Logistics costs as a share of GDP rose to 12.8 percent in 2012 (Viljoen, 2013). When omitting services, logistics costs as a share of transportable GDP rises to an alarming 46 percent (Viljoen, 2013). Average cost per container exporting from sub-Saharan Africa is \$1,974 compared to \$732 for Asian countries (Kumar, 2013). Nearly every aspect of sub-Saharan African logistics is problematic; its Logistics Performance Index (LPI) of 2.46 is the lowest of all worldwide regions (Arvis et al., 2012). The LPI rates 155 countries on six criteria: efficiency of border patrol and customs clearance processes, quality of infrastructure, ease of arranging competitively priced shipments, competence and quality of logistics services, ability to track and trace consignments, and on-time delivery. Chief among the problems are: poor port, rail, and road infrastructure; lack of reliable service providers; fuel costs; lack of law enforcement; congestion; prevalent non-compliance; theft; empty return loads (Viljoen, 2013); and bribes and other illicit controls (UEMOA, 2012). It is feared that Africa's window of opportunity to improve its competitive positioning in global trade is closing (African Development Bank, 2010; Ludwig, 2010). As foreign direct investment, manufacturers, and third-party logistics providers rise to the call, we believe it prudent to understand any linkages of national culture to logistics structure and strategy (see "Reciprocating Cultural Blunders" vignette in Table 1).

The purpose of this research effort is to explore the effects of national culture on logistics firm strategy, structure, and performance. While quite a bit of work has been done regarding national culture in business, work up to now has not addressed how it impacts the development and implementation of strategy, structure, and performance of logistics firms (Lai, 2004; Nakata and Sivakumar, 2001; Stank and Traichal, 1998). National culture represents an important exogenous variable that functions as an antecedent to and whose congruence with logistics strategies and structures will directly and significantly affect overall logistics performance. Africa represents an important region of the world to assess this question and apply solutions since many areas are in the early stages of developing infrastructure, supply chains, and other logistics factors. This paper will first describe a theoretical framework for exploring the impact of national culture on logistics strategy, structure and performance. It will then describe the theoretical foundations for the use of these constructs.

### **THEORETICAL FRAMEWORK: HOFSTEDE VS. GLOBE DIMENSIONS**

Figure 1 displays the proposed model. It draws on past work on the interrelationship of strategy, structure and performance in logistics, with the addition of national culture as the antecedent to

strategy and structure. The work of Chow, et al., (1995) spawned a stream of variant models (e.g., Meade and Sarkis, 1998; Stock, et al., 2000) that developed the strategy, structure, and performance paradigm of logistics performance. Defee and Stank (2005) updated the strategy-structure-performance literature review, noting that the business historian Chandler (1962) first documented the relationship between strategy, structure, and performance. The relatively young age of supply chain management as a field, as well as its dynamic nature, mean that solid theory has yet to be established in the field, so this study attempts to lay the groundwork for how national culture affects implementation of logistics and supply chain strategy across organizations in a global environment. The basic underlying thesis is that national culture is an important exogenous variable whose congruence with logistics service provider strategies and structures will directly and significantly affect overall supply chain performance.

**TABLE 1**  
**Reciprocating Culture Blunders Vignette**

Americans take pride in organizations and families, and demonstrate strong in-group collectivism values in their love of sports like baseball and football. This seems at odds with Hofstede's high individuality score. Reconciling this conflict is the observation that effective American leaders *should* express (GLOBE values measure) loyalty and pride in their teams, but leaders must do so in a way that incorporates the worker motivation to at least appear independent (Hofstede individualism index: 91). Indeed, many popular American leaders such as Ronald Reagan and Lee Iacocca have brought Americans together with promises of restoring their proud frontier traditions of individualism via public personae characterized by "being in touch with the common man" (Hofstede power distance: 40). On the other hand, when Daimler took over Chrysler, German CEO Jurgen Schremp alienated American workers with an authoritarian approach (high GLOBE dimension of power distance in practice) and the imposition of a stricter hierarchical structure (high GLOBE practice index for institutional collectivism), the latter which conflicted with accepted American leadership values that prized in-group over institutional collectivism.

Americans reciprocated the cultural blunder when Wal-Mart tried to enter the German market, perhaps in part because it required workers to chant "Wal-Mart!" at the start of each shift as a way to team-build—an effective leadership tactic for boosting group collectivism in America—but the American company failed to recognize that German workers are motivated almost as much as Americans by a sense of individualism (Hofstede's index). German workers also have a very low power-distance score on Hofstede's scale, so Wal-Mart suffered the ignominy of having a heavy-handed ethics code that required workers to spy on one another, submit to video surveillance while working, and prohibited sexual relations between workers overturned by a German court in 2005. The company left Germany in 2006.

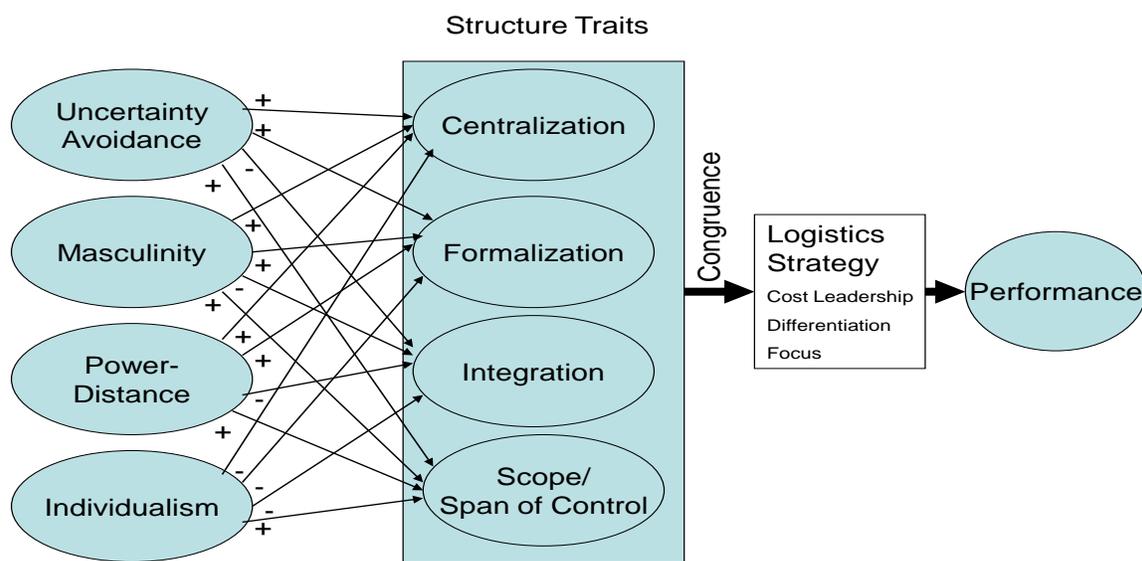
### **Worker versus Leader Perceptions**

Hofstede and the GLOBE study comprise two prominent conceptualizations of the influence of national culture on business. De Mooij (2013) has published a particularly insightful summary of the importance differences between Hofstede's and GLOBE's perspectives, and her observations underlie the conceptual foundation that follows. Additional recent research provides clear support for de Mooij's perspective, especially the observation that Hofstede and GLOBE approach the dimensions of national culture from very different individual versus prescribed norms (Minkov and Blagoev, 2012). These differences represent differing purposes, different questions, and different conceptualizations of the content of the dimensions, even dimensions with the same name. A summary of the differences between Hofstede's and the GLOBE studies' differences reveals significant fundamental differences.

**Different purposes.** Hofstede's empirical findings drew upon workers in IBM's global corporate empire, and as such they eventually came to reflect the motivation of the worker from the perspectives

of 53 different cultures (Hofstede, 1988). These workers occupied all levels of the company, and formed the basis for Hofstede to assert that differences in attitudes across the entire organization could explain the enhanced competitiveness of certain nations over others based upon the small but cumulative advantages of a having many individual workers exhibiting certain traits and behaviors compatible with success in a global economy. On the other hand, the global leadership and organizational behavior research (GLOBE) project (Javidan and House, 2001; House et al., 2002) assesses the role of national culture on conceptualizations of the effectiveness of the leader. As noted by GLOBE's principal investigator, House (2004), over 90% of organizational behavior literature focuses on US-centric studies; GLOBE was designed specifically to separate organizational and leadership conceptualizations from US-centric conceptualizations. GLOBE's central logic proposes that successful leadership and organizational policies are contextual in nature, and should complement local cultural dimensions.

**FIGURE 1**  
**Proposed Model of National Culture as an Antecedent of Strategy and Structure**



**Different questions.** Survey work depends greatly on the type and wording of questions. Hofstede and the GLOBE study represent distinct approaches to questioning respondents. Hofstede relies on one type of question: self-reports of actual behavior or preferences. The questions focus on the individual behavior or preferences in several areas of everyday life. Hofstede asks what's important, feelings, and preferences that reflect recognizable cultural values. Problems with self-reports of behavior are common knowledge and include social desirability bias, exaggerated results, faulty recall, respondent mood, etc. The GLOBE study uses two types of questions. The first type is referent questions that ask about actual behavior of other members in the subject's society, such as "In this society people are generally assertive." This has the advantage of acquiring perspectives of national cultural norms, but the respondent may choose to answer from the nation's perspective or from the perspective of a referent group within the culture, such as a family or tribe. The GLOBE study also uses judgmental referent questions, asking for an assessment of how others should behave rather than how they actually behave. The GLOBE asks degree of agreement with statements such as "In this society followers should

obey their leaders,” and calls the results of these questions values. Such questions may suffer from conflicting values at the personal versus societal levels. A respondent may believe that others should obey the leader, but he may not himself want to be obedient.

***Different conceptualizations.*** The GLOBE study reuses the labels for several constructs that originally appeared in Hofstede’s studies, but the content and interpretation of these constructs often differs. For example, both use “uncertainty-avoidance,” but Hofstede’s definition focuses on the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity, whereas the GLOBE’s definition focuses on how much a society relies on norms, rules, and structure. This construct is often confused with “risk avoidance” when, in fact, societies may take the same risks while implementing more rules and controls. Hofstede’s definition focuses more on aggregated individual perceptions of comfort in the face of vagueness, whereas the GLOBE definition focuses more on aggregating individual judgments of how much society should use formal procedures and laws to regulate daily life. These definitions represent distinct conceptual content. Hofstede and the GLOBE study also exhibit different interpretations of the content of cultural dimensions, such as for the dimensions relating to male-female roles in society (see Table 2 for a summary of conceptual differences).

### **National Culture Dimensions**

Hofstede’s and the GLOBE’s works represent complementary works whose separate contributions would work better when combined. Researchers have noted that Hofstede’s data may be aging, the globalized world suffers cultural contamination and cultural pluralism (Craig and Douglas, 2006), and dichotomous dimensions over-simplify reality in order to make national or cultural level predictions of individual behaviors (Clark, 2003). However, Hofstede’s exhibits strong validity and widespread acceptance in the business literature (Magnusson, et al., 2008; Cagliano, et al., 2011), and his dimensions of national culture remain valuable to scholars engaged in making comparisons of behavior at the country level (Clark, 2003). Additionally, the value of such models results not from their ability to predict individual behaviors (which few or no social science theories succeed at), but rather from the ability to plan and strategize with enhanced cultural intelligence and improved adaptability to local conditions.

Hofstede’s groundbreaking 1980 work drew upon a sample of more than 116,000 workers from all levels of IBM using a 150-question questionnaire administered twice in 40 countries and 20 languages to measure four dimensions of national culture. The results of his research have been reinforced by subsequent studies (Sondergaard, 1994) and are designed specifically for business research application. Hofstede introduced a fifth dimension called the Confucian Dynamic or long-term orientation in a subsequent study (1988) that subsequently has appeared in relatively fewer studies. A sixth dimension—indulgence vs. restraint—enjoys less empirical support and is excluded from this study.

The GLOBE study focused on effectiveness of leadership styles, relying on nine dimensions of culture: power-distance, uncertainty avoidance, humane orientation, collectivism I (institutional), collectivism II (in-group), assertiveness, future orientation, performance orientation, and gender egalitarianism. Each of these nine dimensions receives two measurements, one of societal practices (as things are) and the other of societal values (as things should be). The GLOBE study first placed 60 out of 62 countries into country clusters based on cultural similarity; the researchers subsequently assessed over 17,000 middle managers from 61 countries, leading to the development of 21 leadership scales.

The GLOBE study has prompted much debate, even from the researcher whose work it ostensibly extended (Hofstede, 2006). Most of the criticism focuses on GLOBE’s societal or cultural dimensions, which some have accused of reinforcing national stereotypes (McCrae, et al., 2007). Given the observations of de Mooij (2013) and Minkov and Blagoev (2012), it should come as no surprise that these findings differ in their characterizations of national cultures, yet both find empirical support. Given

that each model of national culture differs in purpose, research design, question composition, and different content and/or interpretations of content, reconciliation of the two models becomes a complex conceptual and nomological exercise. A complete treatment of this debate lies outside the purview of this paper; rather we focus on the perspective that the GLOBE dimensions do, in large degree, also appear to find support in empirical findings, with the possible exception of performance orientation and humane orientation (Minkov and Blagoev, 2012).

Retaining only those dimensions exhibiting (arguably) the strongest empirical support, what remains are four Hofstede constructs that describe worker motivation, and six corresponding GLOBE constructs that describe leader effectiveness. Guiding the decision of which model to develop, parsimony dictates eliminating unnecessary components. As already elaborated, the GLOBE's future orientation and performance orientation constructs have demonstrated poor empirical support and low nomological validity. Therefore these constructs have been dropped from the final model. Hofstede's corresponding Confucian dynamic, or long-term orientation, suffers a relative lack of data, and therefore it has also been dropped. Four of the remaining GLOBE variables use the same labels or are somewhat related to Hofstede variables and these have been retained: power distance, uncertainty avoidance, assertiveness and gender egalitarianism (these last two corresponding to Hofstede's masculinity-femininity index). Hofstede's individualism construct loosely corresponds to GLOBE's two collectivism constructs. Because it has no corresponding Hofstede construct, GLOBE's human orientation is also dropped.

In the end, we have two different if somewhat related models of national culture: one which describes worker motivation and the other that describes leadership effectiveness. This study develops proposals regarding worker motivation because its focus is the scenario of a decision-maker having to go into another country to conduct business, such as a Western company seeking a local logistics company to freight his goods. An example might be Guinness in Cameroon; local workers and companies carry out Guinness's logistics and marketing operations. Such a scenario requires that the visiting or outside decision-maker understand and respect the culture of the local workers. In the case of Guinness, headquarters in Ireland needs to understand its leaders on the ground when they explain their requirements for motivating local workers.

## **NATIONAL CULTURE AND FIRM STRATEGY, STRUCTURE AND PERFORMANCE**

Chow, et al (1995) identified logistics strategy, structure, and performance as critical elements in a logistics firm or supply chain. This model follows their proposed definitions as their model is both parsimonious and established in the logistics literature. The evidence already discussed provides support for the author's belief that national culture manifests itself in the structure of firms. How a logistic firm implements its strategy will reflect in its organization, and also affect the success or failure of the firm in terms of performance. According to this model, dimensions of national culture should inform how logistics service providers will organize in order to attract and satisfy suppliers and customers as well as achieve the best performance in their particular cultural milieu.

The model presents the dimensions of culture and how they relate to the different aspects of structure, which in turn influence strategy. This does not imply that structure determines strategy; rather, culture will usually influence or even determine preferred ways to organize, and the fit between organization and strategy will lead to performance. The better the fit, the better the performance, in accordance with the work of Miles and Snow (1984). Thus there is a complex interplay between strategy, structure, and culture, with culture's most visible impact on the firm structure. Though no doubt culture influences which strategies may seem more desirable, for the purposes of finding

interrelationships among these constructs, the important observable antecedent to the strategy selection will be evident in preferences for firm structure.

### Structure

Structure defines logistics firm structure with the dimensions of centralization, formalization, span of control and scope of managers, integration, and complexity. *Centralization* consists of two dimensions, which are here quoted from Chow, et al. (1995). The first dimension is “the extent to which the power to make logistics decisions is concentrated in the organization.” The second dimension is “the hierarchical distance between logistics decision-makers and senior executives who make more ‘global’ decisions on an organization-wide basis.” *Formalization* is “the degree to which goals, rules, policies and procedures for logistics activities are precisely and explicitly formulated.” Centralization and formalization would seem most attractive to cultures accepting of inequality in society and not so attractive to cultures with strong individualism. They can also serve as protection against uncertainty. Centralization would seem undesirable to a culture with a high masculinity index due to the desire to have strong leaders, but formalization provides cultures with a strong masculinity dimension an outlet for management eager to wield power. Forward-looking cultures would also institute centralized and formal structures and strategies to bolster their long-term viability.

Chow, et al (1995), define *integration* as “the degree to which logistics tasks and activities within the firm and across the supply chain are managed in a coordinated fashion.” Integration would seem most naturally to be the result of low individualism and a higher femininity in cultural outlook. Masculinity and individualism would tend to diminish integration since they imply less cooperation and more acceptance of decisions made by a strong leader or individual. The desire to avoid uncertainty would increase the desire to integrate logistics activities since integration is an important prerequisite to efficient logistics. A high power-distance would be associated with separate functions and a “you do your job, I do mine” attitude, and so would negatively relate to integration.

The two managerial-related traits of logistics structure described by Chow, et al (1995) are *scope* and *span of control*. These are closely-related and easily confused. Span of control is “the number of subordinates who report to a single superior.” Scope is “the degree to which logistics activities are grouped together in the same organization or organizational sub-unit.” We would expect cultures high in uncertainty avoidance, power-distance, and masculinity to seek high scope and span of control. Low individualism and high femininity would relate to low span of control and scope since they indicate the desire for cooperative endeavors.

**Uncertainty Avoidance.** Cultures characterized by higher levels of uncertainty avoidance manifest a strong desire to attain stability and certitude. This desire translates into societal control mechanisms, such as laws and religion (Hofstede, 1980). One would expect a culture high in uncertainty avoidance to adopt structures exemplified by extensive written communications, strong control systems, and conservative management styles. High uncertainty avoidance also results in low tolerance for deviant persons or new ideas that could entail high risk; therefore, discontinuous innovation likely will not appear in such a culture. On the other hand, low uncertainty avoidance has been associated with higher levels of innovation (Nakata and Sivakumar, 1996). Low uncertainty avoidance would also tend to look at more radical differentiation strategies, which in logistics often requires sharing information across loose networks of other logistics firms (Stock, et al, 1998). This leads us to the following propositions:

*Proposition 1a: There is a positive relationship between uncertainty avoidance and centralization.*

*Proposition 1b: There is a positive relationship between uncertainty avoidance and formalization.*

*Proposition 1c: There is a negative relationship between uncertainty avoidance and integration.*

*Proposition 1d: There is a positive relationship between uncertainty avoidance and scope and span of managerial control.*

**Masculinity.** High masculinity typically places a high value on material manifestations of assertiveness and ostentatious manliness. Things and money should accrue to those who perform, and performance is what counts most, especially at the individual level (Hofstede, 1980). High femininity (defined as low masculinity), on the other hand, typically places a high value on interdependence and people. Quality of life is more important than performance, and a strong sense of service should override personal ambitions. This leads us to the following propositions:

*Proposition 2a: There is a negative relationship between masculinity and centralization.*

*Proposition 2b: There is a positive relationship between masculinity and formalization.*

*Proposition 2c: There is a negative relationship between masculinity and integration.*

*Proposition 2d: There is a positive relationship between masculinity and scope and span of managerial control.*

**Power-Distance.** High power-distance materializes in strong social orders with a place for everyone. Those high in the social order can be independent, but the majority should be dependent and led by the powerful. This means there is a large gap between superiors and subordinates, with superiors entitled to many privileges while the subordinates take the blame. Low power-distance cultures seek equal terms for all. Subordinates relate well to superiors and have hopes of one day becoming superiors themselves. Rather than an ordered hierarchy, society should minimize inequality and work harmoniously together. Power resides in institutions insofar as it should be legitimate and is subjected to judgment. This leads us to the following propositions:

*Proposition 3a: There is a positive relationship between power-distance and centralization.*

*Proposition 3b: There is a positive relationship between power-distance and formalization.*

*Proposition 3c: There is a negative relationship between power-distance and integration.*

*Proposition 3d: There is a positive relationship between power-distance and scope and span of managerial control.*

**Individualism.** A high index of individualism indicates, naturally, a consciousness of the individual. Personal identity is important, and society emphasizes individual initiative and achievement. Decisions should be made at the individual level, and universal value standards apply to all. Autonomy and individual financial security are highly sought. A low individualism translates to high collectivism. High collectivism is “group-think.” Individuals exchange their loyalty in return for protection and aid from the family, clan or other social organism. Private life generally is determined by social organizations or clans in whose decisions the individual confides. Personal identity is insignificant due to a morale imperative to belong to and support one or more organizations. This leads us to the following propositions:

*Proposition 4a: There is a negative relationship between individualism and centralization.*

*Proposition 4b: There is a negative relationship between individualism and formalization.*

*Proposition 4c: There is a negative relationship between individualism and integration.*

*Proposition 4d: There is a positive relationship between individualism and scope and span of managerial control.*

### **Congruence of strategy and structure**

The model presented in this study relies on the work of Chow, et al., who examined several typologies of logistics strategy, to include Porter's (1980) consisting of *cost leadership*, *differentiation*, and *focus*. *Cost leadership* is the attainment and maintenance of low-cost advantage. *Differentiation* entails creating a reputation for a unique image or value, and includes market segmentation, brand image, service, and innovation. *Focus* is the specific action of competing in an industry segment or niche in order to serve a specific target customer very well while simultaneously developing cost leadership or differentiation.

Logistics literature traditionally prescribes remedies rather than build theory, so despite the fact that much has been written on supply chain strategies, not a lot of work exists that addresses the fit between strategy, structure and performance in the logistics realm. In addition to the study by Chow, et al., (1995), Bowersox and Daugherty (1987) have found that three basic logistics strategy orientations were used by successful businesses: process, market and information.

Building on Bowersox and Daugherty, Kohn and McGinnis (1997) discovered based on responses from logistics managers in manufacturing firms that the logistics strategies are process (optimized efficiency), market (reducing complexity faced by channel members), and information (channel). High performance was related to high levels of logistics coordination, customer service commitment, and competitive responsiveness. Logistics effectiveness was found to be a function of the structural aspects of processes and channels, specifically the intra- and interfirm linkages. International logistics and the extension of their research to firms outside the U.S. were identified as areas of future research.

Stock, et al., (1998) published a framework for logistics strategy and structure in the international manufacturing context. According to their framework, market forces shape the formation and implementation of firm strategy as well as firm organizational structure. Firms compete based on differentiation or price. Logistics serves two functions: 1) It enables or bridges capabilities so that the firm can compete in multiple dimensions of competition, and 2) it integrates business units that are geographically dispersed. This converts logistics from a mere physical distribution function into a linchpin of strategic capability.

Logistics performance is generally defined by critical logistics functions (inventory turns, item number reduction, lead time reduction, on-time delivery, etc.) in accordance Stank and Traichal's 1998 study that empirically tested Chow, et al.'s model using integration as a moderator. In that study, centralization and formalization were found to be related to strategic flexibility while specialization, firm size, and complexity (all factors that impact scope and span of control) were negatively related to flexibility. Functional integration was found to be a significant moderator of the relationship between organization design and performance.

As Stern and Reve (1980) recognized in their landmark article, centralization of planning processes facilitates efficient and effective transactions in distribution channels. Supply chain and purchasing research has long recognized the importance of centralized decision-making and information sharing in order to reduce supply chain costs due to the ability to leverage discounts from volume purchases, transportation economies of scale, reduced duplication, common supply base, and other factors (c.f., Munson and Hu, 2010; Wisner, et al., 2012). Because centralization reinforces standardization, it contributes to maintaining a unique image and communications across organizational and geographic time and space.

Although centralization often equates with reduced supply chain costs and standardized image and communications, the bureaucracy and standardization introduce rigidities and prevent implementation of local solutions to local problems, which may be important to certain markets or in turbulent times. Closer knowledge and responsiveness to local requirements is also important to a focus strategy aimed at a specific customer or customer base. Where a differentiation strategy hopes to attract customers to the product offering, the focus strategy requires the organization to change as the

customer changes. These rigidities at times reduce the adaptability of the organization to the environment at the local level, while at other times facilitating rapid implementation of solutions across broad geographic spaces. Centralization generally depends upon formalization of procedures in order to standardize processes.

The preceding insights lead to the following propositions:

*Proposition 5a: There is a positive relationship of centralization, formalization, integration and scope/span of control with cost leadership.*

*Proposition 5b: There is a positive relationship of centralization, formalization, and integration with differentiation, but a negative relationship of scope/span of control with differentiation.*

*Proposition 5c: There is a positive relationship of formalization and integration with focus, but a negative relationship for centralization and scope/span of control on focus.*

### **DISCUSSION: INDIVIDUAL VERSUS CULTURAL AGGREGATION**

Understanding the impacts of national culture on leadership and worker motivation represents a complex problem that is difficult to quantify due to its many interactions: values vs. culturally accepted practice, worker motivation vs. idealized leadership characteristics. China has enjoyed some success at leading development endeavors in several countries in Africa in part because of their recent experience developing their own nation, but also in part due to China's ability to work closely with local leaders in Ghana, Ethiopia, Zambia, Algeria and other countries based on appeals to in-group collectivism, which tends to exhibit a high index among African nations according to both GLOBE and Hofstede indices. Chinese money has funded many community projects such as gyms, hospitals, scholarships, and even an opera house. But limitations to the size of the consumer market in many places in Africa have motivated several initiatives by Chinese companies to develop local supply chain clusters, such as "shoe city" in Ethiopia. These endeavors transfer skills, knowledge, capital, and experience to African workers, generating industrialized clusters with workers who earn a solid middle class salary. The "soft touch" approach by some Chinese companies also allows the workers to keep their own national cultural values—a notable departure from the approach of Western powers in the past. The observation could be made that, so far, the "light touch" of certain Chinese companies has been far more successful than the practice in other African countries of bringing in Chinese workers for building infrastructure projects. Interestingly, while both Chinese and many African cultures exhibit high collectivism (Hofstede's scale), many African countries are democracies, and African voters demand that their elected leaders provide for the common well-being, voting out political figures who have befriended Chinese interests over the common interest. The Chinese interests are still adapting to this different interaction of national cultures with political environments (Shih, 2013).

A danger when studying culture lies in relying on national stereotypes to judge an individual. When studying logistics strategy in the context of another culture, managers and researchers should bear in mind that the research proposed in this conceptual model relies on a logic based on stochastic reasoning. In other words, when devising a logistics strategy, this proposed model provides guidance for determining a "most likely to succeed" model. Because they rely on averages of traits across entire national populations, both the conceptual model and culture itself must be regarded as aggregate constructs; researchers must resist applying this model to individuals. However, companies can apply insights to identifying market segments, managerial practices, and organizational decisions based on an informed assessment of the different perceptions, practices, and philosophies that characterize a diverse global economy.

The payoffs for a deeper understanding of the effects of culture on business and logistics strategy are manifold. Cultures with a high sense of the collective, such as Japan, will strongly value

loyalty to the group, but will also expect that the group look after the individual (Hofstede, 1988). Countries high in the Confucian dynamic have better economic performances than those that do not, but will desire long-term partnerships (Franke, Hofstede, and Bond, 1991). Cultural bias can become a danger when dealing with the personnel of an organization (Wright, Lane, and Beamish, 1988). Managers from across many cultures value imagination and intellect, but there are strong differences in opinion regarding the importance of prestige, personal interaction, family and other social values; these differences may account for the high rate of expatriate manager failure (Bigoness and Blakely, 1996). An American company that tried to implement an egalitarian style of project management was surprised to meet strong resistance from the team members of a certain European country accustomed to hierarchical relationships. All of these examples represent the impacts of national culture on the opportunities to enter new markets, form strategic alliances, integrate operations, and make intelligent decisions in a foreign cultural milieu.

The importance of national culture should not be underestimated. Like one group of researchers said, “One of the most pervasive problems in research is cultural bias.” (Wright, et al., 1988). The literature exhibits some support for a model of national culture related to strategy, structure and performance. Strategic choices appear to depend on national context and cultural affinity, at least enough to merit further study, according to one study of Spanish companies (Carr and Garcia, 2003). This finds reinforcement in other research that indicates that the world’s largest multinational corporations have mainly regional rather than truly global strategies, implying that a “one strategy fits all” philosophy does not find support in practice (Rugman and Girod, 2003).

Implementing a market orientation in a multinational setting has been the topic of a conceptual research piece by Nakata and Sivakumar (2001). They proposed for each of Hofstede’s (1988, 1980) dimensions what the effects of national culture would be on implementation the marketing concept at the heart of marketing orientation in a multinational setting. Specifically, they posit the effects of national culture on the generation, dissemination, and utilization of market intelligence. Lower individuality, uncertainty avoidance, and power-distance indices and a higher Confucian dynamic were proposed to be cultural values that would facilitate the implementation of the marketing concept in a multinational firm.

Closely related to or overlapping with logistics and supply chain management, the operations management scholarly community has published several works that attempt to incorporate national culture considerations. Pagell has co-authored several studies (c.f., Pagell, et al., 2005; Wiengarten, et al., 2011; Kristal, et al., 2011) addressing the importance of national culture in operations management research. Results from empirical studies revealed some important and significant insights, but also some weak and mixed results (Wiengarten, et al., 2011; Kristal, et al., 2011), indicating the possibility of a missing construct or an as-yet undiscovered theoretical framing in this nascent field of study.

Of course, were one to try to objectify the effects of national culture in the context of business research, it could be applied to implementing organizational change. Tentative guidelines for adapting organizational development taking into account national culture exist (Jaeger, 1986). These guidelines could either guide companies already present in a foreign country or help plan market entry based on Hofstede’s (1988,1980) rankings of cultural dimensions and taking into account national values. These guidelines need further explication of the effects of national culture on the different aspects of business strategy, structure and performance in order to optimize their benefit.

Another indicator of the relative importance of national culture to logistics and business management are the differential performances for the business units of multiple-business firms. In developed countries, corporate and affiliate effects appear to explain more variation in foreign affiliates, where in developing countries country and industry effects explain more variation (Makino, et al., 2004).

### **Future Research Directions**

The most obvious first direction for future research would be to seek to empirically test this model. Unfortunately, a traditional survey would not only be difficult to administer on the international scale required to validate this model, but may not suffice by itself. The best first step would probably be case study or some other qualitative method. The cultural dimensions have already been measured for many countries by Hofstede (1980) and Hofstede and Bond (1988). Other measures of performance as well as structure exist in marketing literature. Porter's strategy typology has found validation in a few studies, both pertaining to logistics and other industries (Lynch, et al., 2000; Kling and Smith, 1995; Dess and Davis, 1984).

Perhaps a better approach would be to expand the insights of national culture on worker motivation and leadership efficiency to the emerging field of comparative strategic management (CSM). Recent work by Luo, et al. (2011), offers an overarching framework that can integrate cultural dimensions with dimensions of strategy, environment (including socio-cultural factors), and capability differences. Indeed, their framework may hold more promise than the strategy-structure-performance model, albeit at the cost of parsimony. Regardless, the framework integrates strategy, structure, and performance with international management considerations in a holistic fashion; it could provide the foundation for a logistics-specific framework of national culture.

Considering the dependence of logistics on intangible resources, it's only natural to apply the resource-based view to its study. This is very attractive for the sake of parsimony--if the resource-based view can explain certain phenomena, there is no reason for the logistics and supply chain management literature to waste effort re-developing the same theories.

Like other service industries (Bharadwaj, et al., 1993), the physical resources of logistics service provider are largely homogenous, thus driving logistics providers to seek strategic advantages through their processes and knowledge. Logistics firms also must be focused on the customer (Lambert and Stock, 2001). The inimitability and customer focus of the market orientation as resource-based strategy seems particularly applicable to logistics service providers (Barney, 1991; Hunt & Morgan, 1995).

The resource- and competence-based views' particular attraction when studying international or multinational firms is that, unlike traditional strategy typologies like Porter's, they are internally focused. Many non-U.S. countries do not have the abundance of physical and fiscal resources that we enjoy. Thus, the resource-based view may explain better the actions and behaviors of smaller companies, especially in a broad range of socio-economic environments.

The resource-based view of competition predicts that different firms will develop different tangible and intangible assets to achieve competitive advantage. However, very few empirical international studies exist. Empirical studies of the influence of cultural and social context in the development of logistics service provider types and their service performance would provide insight into several critical areas:

**TABLE 2**  
**Leadership Effectiveness and Worker Motivation Dimensions**

<b>Dimension</b>	<b>Leadership Effectiveness (GLOBE dimensions)</b>	<b>Worker Motivation (Hofstede dimensions)</b>
Power Distance	Power distance is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.	
Uncertainty avoidance	The extent to which members of collectives seek orderliness, consistency, structure, formalized procedures, and laws to cover situations in their daily lives	The degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. Conversely, the degree to which they avoid ambiguity, anxiety and stress.
Individuality vs. Collectivism	<i>Collectivism I (Institutional)</i> : The degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.	The degree to which individuals are integrated into groups.
	<i>Collectivism II (In-Group)</i> : The degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.	
Masculinity-femininity vs. gender egalitarianism	<i>Gender Egalitarianism</i> : Equal opportunity for women vs. male domination. For example, more egalitarian societies imply more equal access to tertiary education and work place between the genders, and more likelihood that men are willing to vote women into public office.	<i>Masculinity-femininity</i> : The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented.
Masculinity-femininity vs. assertiveness	<i>Assertiveness</i> : The degree to which individuals in organizations or societies are assertive, dominant, and aggressive in social relationships	

1. Whether the resource-based view correctly predicts differentiation of intangible resources in an international setting.
2. Whether cultural differences influence the basis of successfully conducting business or whether logistics service provider types and their performance are relatively homogenous across cultures.
3. What are the driving forces behind enhancing service capability? Are they tied more closely to social and cultural considerations, institutional forces, or information technology needs?
4. A longitudinal study would delve into whether resources change over time. If so, how do companies with sustained competitive advantage change (or not)? What are the evolutionary implications? How soon are benefits/consequences of resources and strategy realized?
5. Do successful logistics service providers all adopt a supply chain wide view? Or are some still compartmentalized? Does this depend on culture? Social factors? Serviced industry?

With regards to this last thought, integrating logistics strategy research into the resource-based view of strategy and competition hold great promise as a way to parsimoniously describe logistics performance. Future research should also bear in mind the strong environmental effect of national culture to understand formation and implementation of logistics strategy and structure and their effect on performance. But this study must be left for a later date.

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## END NOTES

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<sup>1</sup> In this paper, logistics and supply chain management are used interchangeably in accordance with Defee, et al. (2010).

## CHINA'S SOFT POWER STRATEGY APPROACH TO TRADE IN AFRICA

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### ABSTRACT

This paper analyzes China's business approach to Africa from the perspective of soft power strategy. In contrast to traditional Western powers' hard power and smart power approaches, the Chinese formulated a unique soft power strategy to differentiate itself and create long-term and mutually beneficial relations with African nations. We argue that although China's engagement in Africa is controversial, its soft power strategy has been successful in winning the trust and friendship from the region's countries through persuasion and attraction. Their coordinated efforts have played a principle role in China's peaceful and exceptional rise in Africa as a major key player.

**Keywords:** Soft power, Differentiation, Economic Partnership, Cultural Sharing, China, Africa

### INTRODUCTION

China's role in Africa has grown dramatically in recent decades and has culminated as one of the most influential players on the continent. China's rapid rise to power is more evident in Africa than in any other place in the world. In particular, Africa has become a showcase of China's engagement in third world economies. Recently, China is under scrutiny in both geo-political and business communities as to its strategy to gain a competitive advantage over western powers, as well as whether the engagement is mutually beneficial to China and its local partners.

There is little disputing that China's Africa engagement has been an integral part of its grand strategy to gain economic and political interests globally. China's growing presence reflects this country's growing economic and political power in the world. However, the progress in China's global presentation is unusual. According to Joseph Nye (2011), in contrast to western countries' use of military and economic might to gain their interests in other countries, China has made major investments in soft power to change its image and to increase its global influence. Supplementing its growth in hard power with an attractive soft power diplomacy, "China is trying to use smart power to convey the idea of its 'peaceful rise' and thus head off a countervailing balance of power" (Nye, 2011, p.

xi). With opinion polls having shown an increase in China's overall international reputation and influence, it seems that China's soft power strategy is beginning to transform the world (Kurlantzick, 2007).

Unfortunately, the evaluation of the impact and influence of China's soft power play in Africa has been polarized. While China's soft power in Africa has been largely welcomed as a "responsible power" (Thomson, 2005) and the China-Africa symbiotic relationship is frequently referred to as a "win-win" situation, China's presence in Africa has also been perceived as a "rival for resources and influence in Africa" and its engagement activities there are far more negative in comparison to the Western presence in Africa (Sautman and Hairong, 2008). China's distribution of aid in Africa without conditions was alleged as "callous Yuan diplomacy" to gain "an ugly partnership" with bad African regimes.<sup>1</sup> So far in the literature, specific cases have been studied, with emphasis putting on the impact of this relationship on African development and security. Most of the studies criticized the detrimental effects on the local markets and industries, the unsubstantial transfer of skills and knowledge, and the substandard quality of life in Africa. Although rates of investment were high and trade was increasing, the prominent argument was that Africa is slipping back into another cycle of dependency, like that with Western powers. China has also been accused of furthering its own interests at the expense of poor African nations.

This paper represents an effort to better understand the effectiveness of China's soft power strategy through the case study of China's presence in Africa. To provide a more comprehensive analysis of China's engagement in Africa, this study investigated China's activities in the continent from the viewpoint of soft power strategy. After a brief historical review of Chinese-African relations and identifying China's strategic objectives in Africa, this paper focuses on the analysis of the strategy that has set apart China from Western powers in the colonial and post-colonial era. It examines how China operated as a corporation to formulate and implement its strategy. We argue that although China's engagement in Africa is primarily driven by its own economic interests, its soft power strategy has been successful in contrast to the performance of Western powers. Through soft power play and by creating a mutually beneficial business environment, China has also been successful in winning the trust and friendship of the host African nations. China's well-coordinated trade, investment and aid activities have played a key role in building the infrastructure for sustainable economic growth and stability in Africa. Before analyzing China's engagement in Africa, let's first be clear with the concept of soft power.

### THE CONCEPTS OF SOFT POWER

Joseph Nye initially coined the phrase 'soft power' in his 1990 book *Bound to Lead: the Changing Nature of American Power* — the capability of a nation to achieve the desired objectives through persuasion and attraction by employing a deep knowledge of culture and history. According to Nye, soft power is less tangible in contrast to hard power of coercion via the use of tangible material and military resources. This is very much related to the bases of power, which were popularized through the work of consultants John French and Bertram Raven (1959). The combination of hard and soft power makes "smart power," which necessitates a winning strategy for desired outcomes (Nye, 2004; 2011). In the current age of globalization, less tangible incarnations of power have become all the more important (Ding, 2008, 17). The traditional coercive perception fails to account for "a country's ability to obtain the desired outcomes in world politics without threats or manipulation" (Nyle, 2011, 16). Soft power is the term that Nye has coined to embody this alternate facet of power.

The main dimension of hard power is military strength. Military related power encompasses not only weapon and territory resources, but also the ability to provide protection and assistance to other nations (Nye, 2004, 25-29). Economic power is also a valued component to a nation's overall power status. Through economic strength, a country can not only support its military operations, but also use

this power to either coerce or entice certain behavior from other actors. Economic power embodies both hard and soft power facets. On one side, wealth can act as an impressive bargaining chip to achieve specific means. Hard power tactics include the use of sanctions and a variety of competitive pressures to threaten other states to comply. On the other side, a soft power approach using economics will instead focus on attracting others through aid provisions and preferential trade policies (Nye, 2004, 30-32).

In contrast to coercive hard power, soft power is an additional incarnation of power, which is closely related to persuasion and attraction. Nye states that “soft power rests on the ability to shape the preferences of others...It is leading by example and attracting others to do what you want” (Nye, 2004, 5). Through certain tools such as culture and public diplomacy, a country can work to shape how fellow international actors view its reputation. Soft power goes beyond simple persuasion to become a force of attraction. Rather than command a certain result through hard power tactics, soft power entices others to adopt shared values and objectives. Soft power requires continued interaction between a wide range of actors. The targets of persuasive tactics determine the effectiveness of such measures. While a country may promote a policy geared toward soft power, the ultimate success rests in how the target reacts to the proposed attraction. As Nye writes, “soft power is a dance that requires partners” (Nye, 2011, 84).

A country has three main sources of soft power: culture, shared values, and foreign policies, according to Joseph Nye (2004). Culture encompasses the values and practices of a particular society. These values can range from refined culture to those of mass entertainment. Through international commerce and personal exchanges, culture can be widely transmitted across borders. When certain values are admired by other societies, this increases the overall clout of soft power. A country, which promotes universalistic values that appeal to a wide range of audiences, is more likely to achieve its desired outcomes. Within the realm of international relations, a country often wields soft power to attract others to a certain cause or to set the political agenda. Institutions can help a country legitimize its actions and overall world image (13-15).

Nonetheless, China’s perception of soft power is a largely new incarnation of the original concept of Nye’s (2004; 2011). The core ideas of soft power were embedded in ancient Chinese strategic culture and philosophies (Ding, 2008; Hu, 2006; Johnson, 1995). For instance, Confucius (551-479 BC) preached that, instead of imposing one’s values on others, a state should lead by example to gain the respect and subordination of other states. In Sun Tzu’s (544-496 BC) doctrine, *Art of War*, he emphasizes that subduing your enemy without fighting is the supreme strategy. From Joseph Nye’s perspective, soft power strength is meant to serve as a complement to hard military might. China, however, has adapted this idea of soft power to fit within its overarching national strategy: competing but not confronting. In order to foster a more stable and peaceful international community, China must be vigilant when building up its hard power reserves. Relying too heavily on military strength could lead to dangerous feelings of animosity toward China and jeopardize China’s growing influence within the international community. Instead of viewing soft power as a complement to hard power, the Chinese strategy embraces soft power as a sole entity capable of immense strength (Ding, 2008). China posits a positive-sum scenario as opposed to the zero-sum game within Nye’s initial conceptualization. From this perspective, China aims to create mutually beneficial interdependence and emphasizes that China’s rise as a superpower does not come at the expense of other nations. Instead, those who closely partner with China can also benefit and experience economic prosperity. Essentially, China has developed its own soft power resources and embedded them in its foreign policies.

### **CHINA’S COMMITMENT TO SOFT POWER STRATEGY IN AFRICA**

Following the rapid economic and export growth since its WTO entry in 2001, Chinese national grand strategy among the elite Chinese policy makers is to promote China as a comprehensive military,

economic and ideational preeminence in the 21<sup>st</sup> century with power in might, money and minds all under a peaceful rise (Lampton, 2008). China has gradually come to realize the profound importance of soft power in post Cold-War competition and is committed to develop its own “soft power” at home and abroad. Chinese President Hu Jintao (2007) at the 17<sup>th</sup> National congress of the Chinese Communist Party said: China must “enhance culture as part of the soft power of country... a factor of growing significance in the competition in overall national strength. (Nye and Wang, 2009). According to People’s Daily, the Party’s mouthpiece, “soft power has become the key word, ... there is great potential for the development of China’s soft power”.<sup>2</sup> Over the years, soft power has become central to China’s strategic vision and underlines its sensitivity to external perception (Palit, 2010).

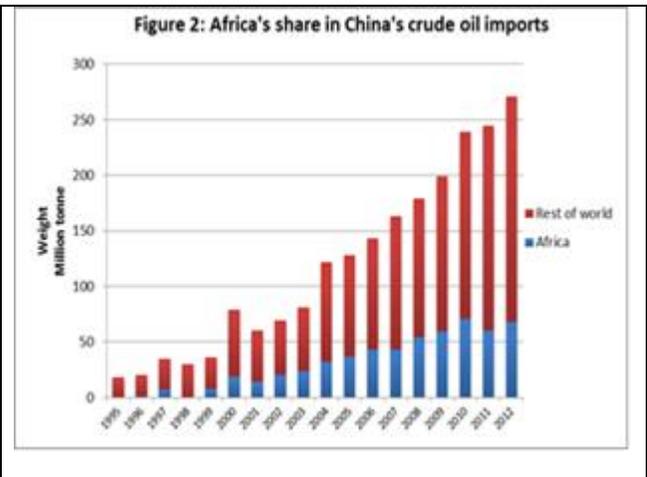
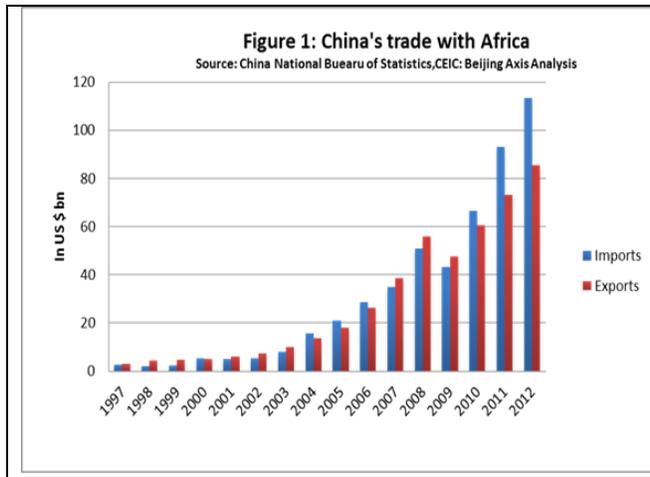
Through a peaceful soft power approach, certain key Chinese goals such as domestic development and international clout can be better achieved by winning friends and alliances rather than through aggressive and intimidating behavior. A soft power focus gives China more time to develop its own economic environment and pursue new avenues to obtain material resources. More importantly, by moving away from hard power focused policy China can better avoid a direct military confrontation with the United States (Ding, 2008, 37-38). China also aims to increase its “comprehensive national strength” (28) and soft power strategy is central to the creation of this strong Chinese image. For example, the profound success of the 2008 Olympic Games in Beijing, a showcase of its soft power play at home, immensely enhanced China’s image in the world stage.

China has demonstrated its multi-faceted soft power presence in the international community through a variety of outlets including activities such as economic influence in developing countries, active participation in multilateral institutions, large-scale public diplomacy events, and the development of worldwide Chinese culture centers. All of these aspects play an important role in conveying China’s rising persuasive power. Through these tools, China aims to win new supporters and strengthen existing relationships with countries around the world. Through stronger ties, particularly with those with the global south, China can better obtain access to trade routes and foster a path of peaceful development and international cooperation. Central to the use of soft power is the idea that China hopes to be recognized as an ally rather than as a threat to international prosperity (Kurlantzick, 2007).

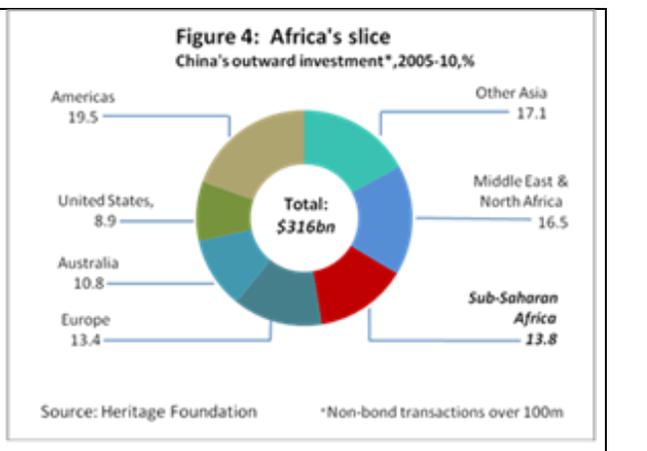
Africa in particular presents many unique and advantageous opportunities for China to exercise its soft power strategy. China also upholds an agenda in Africa aimed at encouraging greater economic relations and cultural exchange. While many Western nations have limited policies toward Africa, China is actively pursuing a strong diplomatic and economic presence on the continent. China also draws on its experiences with exploitation to sympathize with Africa’s history under colonialism. Amid this label of “political brother” and the massive infrastructure investment and aid programs, China has been able to win many new friends. A unique feature of China’s policy in Africa includes the fact that the aid packages it offers come without any preconditions (Ding, 2008, 138-139). China’s use of aid and iconic infrastructure projects are greatly expanding the sphere of China’s influence in the region. China is focused on partnering with African countries for the long-term and is “eager to treat Africa as an equal partner” (140). Over the years, China has become the prominent emerging partner for most of Africa (African Development Bank, AfDB hereafter, 2011).

China’s active engagement in Africa in the last few decades is well grounded historically. China and Africa have been trading partners for centuries, with evidence of trade dating as far back as the 10<sup>th</sup> century. By 1421, under the command of Cheng Ho, direct trade and official relations were established with East Africa between the “Ming court and official figures at Mogadishu, Malindi, Mombasa, Zanzibar, Dar es Salaam and Kilwa” (Reader, 1997). Contact between the regions fluctuated for several centuries, with limited Chinese influence on African political affairs, until the late 1950’s, when the Chinese Communist Party formed close ties with African liberation movements (Shinn, 2007), and later became a big investor in post-colonial Africa, particularly in infrastructure (Broadman, 2008).

In the last 50 years or so the relationship between China and Africa has changed dramatically. “In the early 1990’s, official development aid and government ministries dominated the relationship... (but now it) has evolved to center on markets for each other’s exports” (Wang and Bio-Tchane, 2008). This progression from an aid focused to a market focused association reflects a radical change in China’s foreign policy in which China shifted its strategic interests abroad from a political one to an economic one. This change was carried out through its “open-door” and economic reform policies over the past three decades. The dismantled state’s monopoly on foreign trade resulted in a booming of private and non-state enterprises including foreign entities in China and the skyrocketed exports and imports (Wang, 2008). These policy changes led to the widespread integration of Chinese and African economies.



As shown in Figure 1, China’s trade with Africa grew steadily from 1997 to 2012 with 38% of Africa’s total trade with rest of the world (AfDB, 2011). The trade increased from \$11 billion in 2000, to \$166 billion in 2011 and approached an astonishing \$200 billion in 2012 (China National Bureau of Statistics, 2013). Overall, Africa’s exports to China were greater than its imports from China. While the exports to China are continuing to grow, Africa’s exports to other major global markets are either flat or in decline. Crude oil accounts for about 70% of Africa’s exports to China. This oil makes up 30% of China’s total oil imports (Jiang and Sinton, 2011), as shown in Figure 2.



China overtook the U.S. as Africa's number one trading partner in 2009 and China's trade volume in Africa was twice the volume of the US in 2012, as shown in Figure 3. China's investment in Sub-Saharan Africa is also growing exponentially, reaching \$43.6 billion in 2005-10 which represented 13.8% of China's outward investment, in addition to its \$52 billion investment in Middle-East and North Africa for the same time period, as shown in Figure 4. China's manufactured goods and infrastructure construction projects are nearly everywhere in Africa. Over 35 African countries are engaged with China in infrastructural arrangements (AfDB, 2010).

China's growing influence in Africa represents a new paradigm of globalization. This soft power play is attractive to many African countries and favors China over Western powers such as the US, the UK and France. In his book *China, Inc.* Ted Fishman (2006) argued that China is a rising strategic power throughout the world with increasing global interests. According to Fisherman, the 21st century is "the Chinese century" (p. 271). China's emerging role in Africa exemplifies China's soft power strategy and the opportunities and challenges facing the U.S. and the rest of the world.

### **CHINA'S STRATEGIC OBJECTIVES IN AFRICA**

There were several reasons for China to progress to a more globally oriented foreign policy with a special focus on non-Western developing economies. Its objectives were multifaceted: it needs access to more natural resources to support the high-speed economic growth at home; it needs to expand markets for its products and services; and it needs diplomatic allies to counter-balance the power of developed economies. Rapid industrialization forced China to look outside of their own borders for energy resources with a primary focus on extractive industries. This same industrialization increased China's manufacturing capabilities leading to a need for access to markets abroad. And finally, like any other major economic power, China needed to enhance their position in the global system by aligning themselves with strategic partners. China's emergence in Africa exemplified its global strategy (Yin and Vaschetto, 2011).

The decision to open its economy was fueled by the desire to create multi-polarity in the international system and to counterbalance the uncontested rising U.S. hegemony (Tull, 2006). Creating a strategic partnership with Africa and other developing nations achieved this. China's ability to market themselves as a strategic partner was based on their ideology of non-intervention and assistance without the typical conditionalities imposed by Western and multilateral aids. African nations were ever more inclined to align themselves with China because China offered a market for African goods and provided investment and financial aids for their needs. Additionally, economic ties with China enhance African nationals' ability to further free themselves from Western colonial powers, as well as in response to growing pressure to liberalize their political systems (Tull, 2006).

Fundamentally, what pushed China towards more constructive relations with Africa are its economic interests. In the process of industrialization, the Chinese policy makers found there was a significant shortage of natural resources and energy resources in particular to support China's economic growth. While the supply of natural resources could not catch up with its fast economic growth, China desperately searched for alternative energy resources, especially oil. China developed ties with the traditional suppliers, like Saudi Arabia, Iraq, and Iran, but U.S. presence there was strong and the situation became increasingly unstable. Diversifying oil supply in global markets became necessary. China, with their long-term strategy in mind, naturally set their sight on Africa as the future supplier of its energy needs.

China's strategy was more widespread than only its interests in energy resources; it encompassed their desire for expanding markets and economic integration too. Mutual gains became the foundation of this relationship because for Africa, China had the potential of becoming a major market, financier, investor, contractor, and builder-as well as donor (Wang, 2008, 1). China sets its eyes

on Africa as the most significant growing market for Chinese products, and a long term source of food, manufacturing, and industrial goods (Blanchard, 2009; Lyman and Dorff, 2007, 21). Ironically, most African nations' relatively recent independence and instability created a favorable environment for China-Africa relationship to flourish; their high-risk profile inhibited investment by others but was conducive to China's economic expansion and partnership to Africa with less entry barriers (Blanchard, 2009; Ndenguino-Mpira, 2012).

### **CHINA'S IMPLEMENTATION OF SOFT POWER STRATEGY**

The post-colonial era in Africa is over, African nations no longer need to battle against colonialism or neo-colonialism, but they do need to battle against disease, poverty and exclusion from the global economy. They need assistance in gaining true political and fiscal independence and the vibrant commercial activities they deserve. Humanitarian aid is necessary, but more importantly they need to build the infrastructure for business development, trade and foreign investment. However, what Western powers did to them in the past broke the mutual respect and trust. The imperialist behavior of colonial powers caused Africans to be skeptical about the motives and conduct of any outside forces into Africa.

In contrast to the traditional Western views and behaviors towards Africa, China has pursued a soft power strategy in various dimensions; these areas include low-key diplomacy, culture and value sharing, and partnership in business conduct to build mutual respect and trust. This partnership will allow each country to pursue mutual interests. In addition, China is able to establish itself as Africa's ally rather than as a new imperialist power.

#### **Low-key Diplomacy**

In pursuing its economic and diplomatic interests in Africa, China made consistent efforts to build strategic alliance through low-key diplomacy. In contrast to the U.S. that has often been perceived as arrogant, condescending, unilateralist and hardliner in its interactions with other nations (Perkins, 2007), Chinese leaders took a toned-down approach to establish equality, trust and friendship with African nations from the top of the governments. It insisted in following the principles of mutual respect for sovereignty, non-interference, equality and mutual benefit, which appeals to most newly independent nations and developing economies. Fostering good-neighborly relationships has been thorough; many Chinese diplomatic envoys have visited Africa and vice-versa.

China's commitment to the growth of Africa can be traced back to the 1960s when China helped construct the nearly 1,156-mile Tazara railway stretching from land-locked Zambia through Tanzania to the coast. This was carried out in the midst of the Cultural Revolution, a turbulent time in Chinese history and after Work Band failed to honor its promise to fund for the project. It represents one of the great symbols of China-Africa cooperation and it represents China's commitment to the benefits of newly independent countries rather than its own profit. This expensive project also exemplified China's major steps towards enhancing China-Africa cooperation, a great steel arm of China thrusting its way to inland Africa (Aidoo, 2012; Monson, 2009).

The 2008 global financial crisis hurt Africa badly. The collapse of the financial markets made African countries' limited financial access even worse. When the Group of 20 (G20) met to map out a plan to recover from the crisis in 2009, China pledged to take a major step to offer African nations \$10 billion in credit and loans to endure the continent's long-term economic growth without any preconditions. Since then, China has been Africa's largest trading partner. More importantly China invested heavily in African infrastructure, including in transportation, power generation, and telecommunications. One of the biggest commitments was 9.87 billion made to Ghana for road, railway, and dam works (Schiere and Rugamba, 2011). In 2012, at a summit in Beijing with leaders from 50

African nations, China pledged \$20bn in credit for Africa over the next three years, in a push for closer ties and increased trade.

Essentially, that China managed to maintain a high rate of economic growth during and after the global financial crisis further transformed its relationship with Africa. The growth boosted China's import needs for oil and minerals that Africa can offer. The trade and investment fostered "commodities-for-infrastructure" mutual-beneficial China-Africa economic relations (Gu and Schiere, 2011).

In contrast to Western conditionality in aid, China has offered aid without pre-conditions, with the inclusion of not intervening in the internal affairs of the host countries. The non-conditionality agreements mean that contracts are negotiated and executed rapidly and without consideration for democratic or environmental interests. This strategy gained valuable diplomatic support to defend its international interests. China promises sustained aid without conditionality with respect to their political and environmental standards, because they support national sovereignty over forcing changes in pursuit of self-interest gains. Though this may go against international pressures to improve issues like transparency, fair elections, and human rights, from the perspective of violating nations this is an opportunity to receive the help they need without giving up the freedom to rule themselves.

### **Shared Culture and Values**

Another way for China to set apart itself from Western nations is to win friends and gain influence by sharing its culture and values with its African partners. Lampton (2008) argued that, "[T]he most fundamental strengths that societies can possess are the ideas, concepts, and norms that animate their peoples and reinforce cooperative and entrepreneurial activities at home and prove attractive abroad. ... The cultural values that foster entrepreneurship at home and create the expectation for success abroad are attractive to outsiders, and this, in turn, provide an inducement for others to cooperate" (p. 137-138).

What Lampton argued is a precise description of how Chinese culture enhanced the ideational power of China in Africa. The core characteristics of Chinese culture, such as values of disciplines, mutual respect, sharing and caring, find resonance in African milieu. For instance, the African characteristic generally grouped under ubuntu have common share several traits with Chinese culture (Mangaliso 2001). Furthermore, even in Hofstede's (1980) cultural dimensions of power distance, uncertainty avoidance, masculinity-femininity, and individualism-collectivism, the Chinese and Africans generally fall in the same categories. The double play of creating an environment for economic advance and cultivating friendship has done extremely well in winning trust and cooperation from Africa, which in turn paves the way for China's access to the natural resources and markets there. While China's influence in Africa steadily grows, the U.S. squandered much of its soft power through its misguided policies in Middle East and its penchant for unilateralism (Perkins, 2007).

By viewing Africa as a strong diplomatic ally with ample opportunity for mutual benefits, China made huge investments throughout many sectors of African industries. China's close relationship with Africa seems like a natural fit, or is at least promoted in that way. China portrays itself as a like-minded ally; they are the biggest developing nation with the largest single nation population of 1.3 billion people, and Africa has the biggest number of developing nations and a combined population of nearly one billion people. After the colonial and neo-colonial control by Western powers, the Chinese model appealed to Africa as more desirable and less exploitative because of their similarities.

### **Partnership in Business Conduct**

Another dimension of soft power strategy China followed to differentiate itself from competing Western powers is the complementarity principle in business relations. Complementarity refers to reciprocity and interdependence in business relations. For instance, two trading countries, instead of competing for markets, create markets for importing goods from each other. While North American and

Europeans conducted their business based on preferential trade agreements, such as the African Growth and Opportunity Act (AGOA) or humanitarian concerns, China promotes its business relations with African nations based on ‘complementarity’ between the two economies to pursue bilateral or multilateral interests. While exporting Chinese goods to Africa, China made consistent effort to cultivate the African countries’ ability to export. In fact, Africa’s exports to China grew much faster than its imports from China over the past few years, as shown in Figure 1.

The timing of China’s expanding relationship with Africa was also convenient; increases are simultaneous with large discoveries of oil, especially in the Gulf of Guinea. China’s pursuit of oil exploration, drilling and exporting rights have created vast investments in oil companies all over Africa (Bello, 2007). The use of joint ventures and acquisitions has become standard practice for acquiring Africa’s oil.

China has come a long way in pursuing its economic objectives through coordinated actions. Levels of investment, trade, and aid have reached record highs, and were continuing to grow at exponential rates. Investments have been in all areas, ranging from trade, manufacturing and processing, resource development, communications, and development (Lyman and Dorff, 2007, 21). This situation is resulting in expanded markets and widespread benefits to all parties involved (Alessi, 2012).

During the current slow recovery from the global economic and financial crises, Chinese projects increased markedly; Zambia, Ghana and Mozambique are among the top destinations for FDI from China. Bilateral trade between China and Africa is expected and planned to reach \$300 billion by 2015. The majority of African countries are reaping substantial benefits from this long-term commitment to trade and investment (Schiere and Rugamba, 2011). It is important to note that China’s investment is not limited to oil rich countries but reaches nearly all African countries. In non-resource-rich economies such as Zambia and Tanzania, the Chinese have made significant investments in manufacturing and established industrial zones that produce, for example, pharmaceuticals and tires (Ali and Jafani, 2012). In addition, China has become a major source of foreign financial aid to Africa. Chinese aid has grown in complementing its trade and investment activities to target specific needs of African countries.

In summary, China orchestrated its soft power strategy from low-key diplomacy, shared culture and value, and partnership in business conducts over the past few decades. This strategy helped China rise peacefully in Africa and become one of the major players. However, those activities have led many to question the nature of China’s engagement in Africa. The next section is intended to assess the effects of China’s engagement on Africa.

## **EFFECTS ON AFRICA**

China’s soft power strategy has won trust and friendship throughout Africa. The interests of China and Africa have reconciled through beneficence and exploration partnerships and “win-win” business relationships. China’s trade and investment in Africa has led to several desirable outcomes. The revenue generated from rapid growth of exports to China alongside Chinese direct investment has helped African countries to improve their poor infrastructure and capability of local economic and social development. Without interference, African nations are given the freedom to rule themselves, and develop on their own terms as a result of China’s respect for sovereignty. Enormous financial strains are being alleviated through the cancellation of debts. Desperately needed training is being provided through employment and the establishment of educational centers. China has also opened up the Asian markets to African goods, which Africa desperately needs.

The soft power strategy has highlighted China in a new image as a friend and business partner to Africa, in stark contrast to the image of exploitative Western powers during the colonial and post-colonial period. China became a model of economic development for most African countries and the

most notable example of fighting poverty through globalization, economic reform and trade openness (Lyman, 2007). China's business engagement in Africa has helped African nations move from merely being recipients of humanitarian-based donor-driven aid to becoming enterprise-based venture partners; treated equally in its economic and social developments. It opens more commercial opportunities for Africans and speeds up the integration of their economies into the global economy (Gu and Schiere, 2011; Lampton, 2008). According to a global survey by the Washington-based Pew Research Center (2013), China's biggest positive images were in Africa and Latin America. About 59% of Africans appreciate China's business methods. China has gained the highest favorability ratings in Africa (72%).<sup>3</sup> The survey further confirms the success of China's soft power strategy in Africa.

Whether done for altruistic motives or profit-driven endeavors, it seems that China has significantly contributed to improving Africa's infrastructure and self-reliance (Ali and Jafrani, 2012). Chinese enterprises have built dams and public infrastructure in Gabon, railways all over the continent, and are invested in a hydro plant, airport, and several textile factories in Sudan (Schiere and Rugamba, 2011). Though most of the infrastructural developments have been logistically necessary to get the raw materials out of Africa and into China, the final result is the same: improved conditions and enhanced self-developing capabilities for poor African nations.

Unfortunately the evaluation of China's engagement is always complicated by conflict of interests in Africa and by ideological reasons. There is no shortage of controversy. For instance, those emergent trade patterns appear optimistic, "and yet, it is not evident that Chinese-African trade differs significantly from Western-African trade patterns; nor is it clear that China's engagement will substantially improve Africa's prospects for development" (Tull, 2006, 471). It is argued that this increased cooperation between Africa and China will neither help integrate Africa into the global market, nor free Africa from their dependence on a few price-volatile primary goods, which account for major part of their overall export revenues. Nevertheless, Africa urgently needs capital to accelerate growth and development, particularly in infrastructure, and that is precisely what China is providing them.

China's exports to Africa have also had a controversial effect on African economies. China's large and widespread labor force allows them to offer Africa low-priced goods, like textiles, clothing, electronics, and machinery, which find a huge and soaring demand in Africa. As to the effects of this type of trade on Africa, there are two opposing viewpoints. One is that China provides goods Africans need at a lower price than those available from Western sources; which has a positive effect on Africans, as they can spend less to receive more. However, the other argument is that these products, especially textiles, are competing with locally made products, and that the African people are unable to compete with the cheap prices from China. As a result, rather than creating a "win-win" situation, "Chinese companies in Africa sometimes displace African companies in local markets while creating few jobs and sometimes even taking some away" (Broadman, 2008). This situation may not cater to the anticipated transfer of skills and benefits one would expect.

As much as China's non-interference policy is welcomed in Africa, China has to constantly deal with pressure to pay more attention to issues such as human rights, governance, and the environment. China is often portrayed as a country with the primary objective of securing resources to support their own internal needs, without enough consideration for the implications it has on innocent civilians abroad. This negative image within the international community threatens the soft power image that China is trying to cultivate. China's status as a benign and friendly ally will lose credibility when China is attacked for manipulative and selfish behavior (Alessi, 2012).

In brief, China's active engagement in Africa is at its debut. More is to come and more needs to be done. It is worth to note, how much the trade, aid and investment can benefit Africa depends on what Africans do for themselves more than what China can do for them. For instance, good governance

is a necessary condition for the essential investments in Africa such as beneficiation of its natural resources and infrastructural development. This remains a major challenge in the continent.

## CONCLUSIONS

This study investigated China's soft power strategy in Africa over the past a few decades. It found that China played a well-coordinated soft power strategy in Africa and the strategy was successful. It has largely won the trust from most of the African nations and it has achieved its economic objectives. Trade, investment, and aid have grown dramatically and show no sign of slowing down in the near future. China's prominent position with regard to Africa has been cemented through their pursuit of mutual gains, and by their self-promotion as a like-minded ally; one that respects African sovereignty. If current trends continue it is without doubt that China will become the dominant power contributing to African economic development in the near future.

In summary, China has made extensive efforts to develop African economies through trade, investment, and aid packages rather than focusing merely on aid as the solution to poverty. It has also made dramatic improvements in infrastructure, which is a necessary condition for the agricultural and industrial development on its own right. In addition, China has made enormous diplomatic efforts with Africa, establishing close partnerships with host government and enterprises. This will cater to improved communication during current and future cooperations, whether related to business or human rights, or any other issue of importance. Finally, China has demonstrated confidence in the capabilities, worth, and importance of Africa. There is no doubt that this positive perception will become a self-fulfilling prophecy and bring with it improved conditions in Africa.

With the inclusion of South Africa as the latest member of the BRICS nations the prospects have brightened for Africa to become the next largest emerging market, attracting more trade and investments. China's engagement has ended an era that Africa exclusively depended on the aid and investment from the U.S. and Western countries with strings attached. However, China's presence opens a new era of power competition in Africa from multinational and state-owned enterprises based on the established economies and emerging economies, as well as the rest of the BRICS countries. They will compete for access to African consumers and favorable terms for investment. The competitive structure will be more complicated than ever before and China's initial success in Africa is far from certain. Nonetheless, the intensified competition may lead to a peaceful rise of Africa similar to what happened to China in the past a few decades (Bremmer, 2012). In this sense, China's experience of soft power strategy can be generalized for other developing economies in formulating their growth strategy and searching for foreign policy tools.

Beyond the above considerations, a number of concerns may emerge in the China-African relationships that will need to be resolved. The first concern is that the non-interference policies of China might erode the recent trend in many African countries toward better governance and fiscal prudence, leading to the re-emergence of corrupt leadership. Secondly, as the new massive loans begin to escalate, a concern that countries that are only now beginning to emerge from international debt cancellations will find themselves re-entering into a new cycle of debt. This might later cause African countries to see China as the cause of their misery and stop supporting it. Thirdly, there have recently been widespread reports attributed to Chinese businesses in Africa about their lax attitude toward environmental standards, the low wages they pay African workers, and violations of worker rights. Lastly, their State-Owned-Enterprise (SOE) business model gives them an unfair competitive advantage over local companies since it allows them to sustain more losses because of reliance on state subsidies (Gu 2009). If these concerns persist, they might precipitate a change of heart on the part of African leaders with the eventual upshot being a rejection of closer economic relationships with China.

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## EXPLORING INTRA-REGIONAL EXPANSION OPPORTUNITIES AND LIABILITIES OF AFRICAN FIRMS: A STUDY OF NIGERIAN BANKS

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### ABSTRACT

In recent years, as an unprecedented number of African firms have chosen to expand within the continent, what we refer to as *Africa-to-Africa (A2A) internationalization*, scholars are beginning to examine the internationalization strategy and patterns of these firms. However, there are still wide gaps in our understanding of the international behaviour of firms. In this pilot study of 12 top Nigerian banks that have recently internationalized, we investigate their modes of entry, the organizational structure and control, the sustainability of the foreign market expansions in terms of market opportunities and liabilities. Our findings show that most banks are yet to reap the benefits of internationalization, and there appears to have been considerable challenges in articulating and executing their strategies for market entry, which has centered around countries within closer geographic and administrative distance. We explain this modest performance by looking at several constraints and liabilities these banks face: liabilities of smallness and newness, liabilities of country of origin and foreignness, liabilities of Africaness.

**Keywords:** Nigerian Banks, Africa-to Africa Internationalization, Opportunities and Liabilities

### INTRODUCTION

With the increasing interconnectedness of the global economy in the last two decades or so, there has been phenomenal interest in international business and management in both practitioner and academic circles. One interesting trend that has received considerable attention is the internationalization of firms from emerging economies (Ibeh, et al. 2012; Thite, Wilkinson and Shah, 2012; Thite and Dasgupta, 2011; Hennart, 2012), particularly those from the so-called “BRIC” economies – Brazil, Russia, India and China. Literature on the internationalization of African firms is scarce (Ibeh, et al. 2012; Kuada, 2013), partly a reflection of the relatively low number of firms with a regional or global footprint in the region (see Elumelu and Oppenheimer, 2013). The rhetoric of intra-African trade and

investment, evident in the dozens of treaties, regional trade agreements and public speeches of African political leaders over the last four decades or so simply does not match the reality. Leaving aside the exports and goods in transit between countries, a lot of which happens in “black”, informal markets, our focus is on understanding the internationalization of firms setting up considerable operations and production in another country. As Ibeh et al. (2012: 423) concluded in their comprehensive review of the literature on the internationalization of African firms, “further research is needed to gain fuller understanding of the dynamics of firm-level internationalization behaviour across Africa. This is particularly given the economics-oriented, rather than behavioural or strategic management, perspective taken in several of the reviewed studies”. Our aim in this chapter, therefore, is to provide a better understanding of the opportunities and peculiar challenges for African firms that have chosen to expand within the continent, what we refer to as *Africa-to-Africa (A2A) internationalization*.

This focus on the A2A internationalization is important given the increasing A2A cross-border expansion of firms; particularly those from South Africa, Nigeria and Kenya (see Elumelu and Oppenheimer, 2013). Our broad objective is to develop a conceptual framework for understanding the internationalization patterns and strategies of African firms, providing insights on the market opportunities and internationalization outcomes of some firms, as well as the several liabilities they face as they pursue their regional expansion aspirations. Focusing on the banking sector, which itself is a major facilitator of international trade and investment, our study aims to provide a useful framework for investigating the internationalization behaviour of African firms.

The rest of this chapter is organized into four sections. In the next section, we provide a brief overview of the context and literature on internationalization of African firms within the region. This is followed by a characterization of the market context of the African and Nigerian banking industry, to provide a better understanding of the sector context for the study. In the third section, we discuss our pilot study which examines the cross-border expansions of Nigerian banks with an examination of the market opportunities, outcomes and liabilities. We then propose a conceptual framework for understanding the internationalization of African firms. The chapter ends with a discussion of the managerial implications of our study, and highlights directions for future research.

### **AFRICA-TO-AFRICA INTERNATIONALIZATION: TRENDS IN INTRA-AFRICAN TRADE AND INVESTMENT**

Intra-African trade and investment is weak, largely due to the relatively low level of economic activities in the region, low political commitment, political instability across the region, poor regional infrastructure, and poorly executed intra-African trade agreements (Kuada, 2013: 41).

The issue of regional trade agreements is a particularly problematic issue, not for the lack of preferential economic agreements and frameworks (there are over 30 of them, and some countries belong to five or more), but due to the poor implementation of these various agreements, which Page (2012: 6) aptly describes as “a ‘spaghetti bowl’ of intertwined and overlapping regional organizations”. What is therefore needed is a more serious commitment to pan-African regional trade and integration schemes, to facilitate regional expansion of firms across the continent.

Another colossal challenge to intra-African trade and regional expansion is the scarcity of firm-level resources (Ibeh et al. 2012). As the authors posit, international expansion requires considerable ownership of resources – managerial and corporate resources, and learning and entrepreneurial skills – which are often scarce and difficult to access in many African countries. Firm size and ownership of capital resources are critical factors here, and explain why only a handful of organizations have successfully expanded across the region in the last five decades or so since many African countries gained their political independence.

The sector which arguably has the highest level of A2A internationalization is the banking sector. South Africa’s “big four” have a considerable presence across the region, with Standard Bank

aggressively leading the pack with operations in 18 countries. Nedbank has a presence in six African countries and recently entered into a strategic alliance with Togo-based Ecobank, the regional banking giant with operations in 33 African countries whose subsidiaries have at least 10 percent of total bank credit or deposits in 11 francophone countries (IMF, 2012: 41). Equity Bank of Kenya has expanded to four countries, while Mali-based Bank of Africa operates in 14 countries. Nigerian banks have ambitious regional aspirations too. The United Bank for Africa, for instance, now has operations in 19 African countries; Guaranty Trust Bank in six, Zenith Bank in three, and Access Bank is eight African countries. This phenomenal increase in internationalization activities of financial institutions provides an interesting opportunity to explore the patterns, strategies, barriers and outcomes of the intra-African internationalization process.

### **THE BANKING SECTOR IN AFRICA: CURRENT MARKET DYNAMICS AND FUTURE GROWTH TRENDS**

The banking sector in Africa, which has evolved radically since the establishment of colonial banks in many African countries, is one of the most dynamic and competitive in the region. In many countries, the sector has evolved through the pre-1960s era of colonization, to a period of bank nationalization in the 1960s and 1970s, to privatization and liberalization of banking licenses in the 1980s and 1990s. Following the liberalization, in the past decade an unprecedented number of foreign banks have established a presence in several countries. Although many global banks like Barclays, Citibank and Standard Chartered have benefited from this opening up of the sector, it appears that African-based institutions have gained the most in the scramble for the African banking markets.

The sector has experienced stunted growth over the years due to bank failures, many of which were as a result of weak corporate governance and regulatory oversight. There have been attempts in many countries such as Nigerian to address these issues by shooting up capital requirements and introducing stricter regulations. In Nigeria, recent reforms were aimed at containing the impact of the global banking crisis of 2008. The Central Bank of Nigeria introduced tight regulations and corporate governance reforms, after taking control of nine banks that did not pass a stress test in 2009. The banks most of which were publicly quoted, lost over 70 percent of their market value in this period. A bad bank was established and injected over \$4 billion to rescue these nine lenders and others.

However, Nigeria was an exception as the banking sector in some other countries such as South Africa actually recorded some growth in the midst of the global recession. The Banking Association of South Africa reckons that the early implementation of the Basel II framework to a large extent is one of the major factors that enabled South Africa's industry to be able to successfully manage the risks in terms of capital adequacy, market risks, credit risks and operational risks inherent. *The Banker* asserts that profits in the industry increased by 8 percent, and that the region remains ahead of America, Asia and Europe in terms of return on assets and growth rate.

The Economist Intelligence Unit (2011) predicts that economic growth and financial deepening will drive the expansion of bank assets by 248 percent to US\$1.37 trillion while deposits will expand by 270% to US\$1.1 trillion by 2020, with most of this growth coming from outside of South Africa. Countries such as Angola, Uganda, Ghana and Tanzania that are experiencing new resource booms are expected to have a threefold increase in assets and deposits by 2020. Considerable, but more modest growth is predicted in several other countries, including Nigeria. In comparison, the "big four" banks in Nigeria, First Bank, Zenith Bank, United Bank for Africa and Guaranty Trust Bank have an asset base of \$18 billion, \$15 billion, \$10billion and \$10billion respectively.

The rapid banking industry expansion across the continent will be partly driven by financial deepening, as schemes to create financial inclusion begin to come to life. According to the African Development Bank (2010), only 20% of the region's adult population have bank accounts, and even South Africa, the region's largest and most sophisticated banking market, has an unbanked population

of about 52 percent (see Honohan and Beck, 2007; Russo and Ugolini, 2008). In the Francophone regional bloc, West African Economic and Monetary Union (WAEMU), financial inclusion schemes in recent years have led to an increase of 5 percent in the banked population to 14.3 percent, and there are plans to further increase this by 20 percent. Clearly, there is considerable room for growth for innovative banks in the region, and in Kenya particularly, players are leveraging technology to drive market expansion, with mobile money schemes such as *M-Pesa* and *M-Shwari* capturing the unbanked mass market. Nigeria is expected to experience a similar growth pattern, with the recent high-profile launch of several mobile money schemes (see Russo and Ugolini, 2008; CBN, 2012).

### **A2A IN BANKING: THE REGIONAL EXPANSION OF NIGERIAN BANKS**

The internationalization of Nigerian banks followed the regulator-induced consolidation of the country's banking system in 2005. The number of international subsidiaries of Nigerian banks increased from a just three in 2002, to over 40 operating in 21 African countries in 2012 (IMF, 2012: 41). The Central Bank of Nigeria had increased the minimum paid up capital of banks from ₦2 billion (\$14 million) to ₦25 billion (\$173 million) in 2004, largely in an effort to reduce the 89 banks in the then weakly capitalized, fragmented and highly concentrated system to a smaller number of “mega banks”. The initiative appeared to be successful as 24 banks emerged in 2005, following several mergers and acquisition and capital raising from the equity market. Armed with capital, and facing intensifying competition at home, internationalization became a strategic priority for many banks. Many banks have focused on Anglophone West African countries, partly due to their closer geographical, cultural, and administrative proximity to Nigeria, and the increasing trade and investment links between firms in the region. There are about six subsidiaries of Nigerian banks operating in the Gambia, Sierra Leone, and Ghana, accounting for about 40 percent of the banking system assets in the Gambia and Sierra Leone, 25 percent in Liberia, and over 15 percent in Ghana (IMF, 2012: 41).

United Bank for Africa has so far being the most aggressive of the Nigerian banks, being true to its name. The bank now operates in 19 African countries across West, Central and East Africa, and seems ready to take on Ecobank and Standard Bank as a regional banking giant. The other “big four” banks in Nigeria have not expanded into Africa as aggressively as United Bank for Africa. Zenith Bank, for instance, has focused on Anglophone West Africa, and operates in only three countries: Ghana, Sierra Leone and Gambia. First Bank, which has hitherto been hesitant to expand in the region, has recently announced a major internationalization plan after its recent acquisition of the BIC Bank in the Democratic Republic of Congo. Guaranty Trust Bank recently established its first Francophone subsidiary in Côte d'Ivoire, after earlier commencing operations in the Gambia, Ghana, Sierra Leone, and Liberia, is set to begin its foray into East Africa with Kenya, Tanzania and Uganda. Outside the “big four”, banks such as Access Bank, Diamond Bank, and Skye Bank are also positioning themselves as international players in the African banking industry.

#### **Pilot Study of Emerging Multinational Nigerian Banks**

In order to gain a better understanding of the factors behind the emerging Nigerian banking MNCs, a pilot study focusing on the 12 top Nigerian banks that have internationalized was conducted. Given the sudden expansion of these banks into foreign markets especially in African countries, the study was particularly interested in getting a deeper knowledge of the reasons behind the internalization, the modes of entry, the organizational structure and control, the sustainability of the foreign market expansions in terms of market opportunities and liabilities.

To effectively analyze the above themes, a multi-method approach was utilized. In 2011, using a detailed semi-structured approach, we interviewed 20 senior managers of the banks in Lagos, the

commercial and financial capital of Nigeria. The 20 interviewees included 4 Chief Executive Officers, 5 Directors of Business Development, 5 Chief Financial Officers and 6 senior managers that were highly involved and conversant with the internationalization exercise. The interviews were face to face and lasted for 2 hours on average for each of the interviewees. To enhance the interviews, data and information relating to the banks' foreign market expansions were collected from the websites of the banks, their annual reports, publications from Central Bank of Nigeria and other sources.

The year 2005 signified a turning point in the Nigerian banking history not just because of the consolidation in the banking industry but also for the increased local and foreign expansion of the banks. Deductions from the interviews revealed that the reasons behind the foreign expansions are varied but in line with the theories and approaches that have been used by internationalized banks from developed countries. These include customer-driven and market driven (opportunities), psychic distance, follow your leader (tit-for-tat) factors (see Engwall and Wallenstal, 1988; Erramilli and Rao, 1990). In similarity with Dutch banks (ABN-AMRO, RABO and ING) internationalization between 1983-1992 (Sijbrands and Eppink, 1994), other factors that influenced the internationalization of Nigerian banks include the need to spread risk, economies of scale and the enhanced liberalization of foreign markets. Using mainly customer-driven and market-seeking approaches, the expansions into West African countries and the UK can be said to be in line with both while expansions to other countries including African ones are driven more by market-seeking demands. The banks' host countries, the number of branches, the year and country of first and subsequent internationalizations are presented in the appendix.

From the appendix, it can be observed that out of a total of about 306 foreign branches, West African countries account for about 75% with 31 branches. While Anglophone West African countries have about 161 branches, the Francophone West African countries account for 70 branches. This represents about 53% and 23% for Anglo and Francophone West African countries respectively of the Nigerian banking foreign branch network. The wide difference in branch network between Anglophone and Francophone West African countries is in line with psychic distance especially similarity in law and banking regulations. It also seems to lend credence to the perception of common law countries as more amenable for financial sector development as compared with civil law countries (see Beck, et al. 2003; La Porta et al, 2007). Nevertheless, the cultures and norms of West African countries remain largely the same and this further supports the psychic distance perspective. As such, the high presence of Nigerian banks in Francophone West African countries as compared to other regions in Africa. The other African regions account for about 44 branches as compared to the 70 in Francophone West African countries. Even within these 44 branches is Cameroun that has 19 of them. With Cameroun being Nigeria's immediate neighbor, it can also be explained from the psychic distance perspective. Generally enhancing the psychic distance is the high trade volume between Nigeria and her neighboring West African countries irrespective of the colonial and legal differences. This explains the presence of about 34 branches in Republic of Benin, 19 in Cameroun, 100 in Ghana, 15 in Sierra Leone and 35 in Gambia.

The expansion into other Africa regions outside West Africa is also in line with market-seeking approach with the identification and utilization of the African regional economic/monetary zones by the banks. Having identified the zones, the banks expanded into the biggest or fastest growing economies of their choice in each zone. As most African economies are driven by their natural resources, the countries selected by the banks were also influenced by this factor. Expansions into Cote d' Ivoire, Democratic Republic of Congo, Zambia, and Uganda fall within this framework. Cote d' Ivoire represents the financial hub of French West Africa while Burkina Faso remains a relevant economy in the Community of Sahel-Saharan States. Nonetheless, trade volume between Nigeria and the two countries remain vibrant. In the same vein, operations in Zambia and Uganda are in line with their economic importance in Southern African Development Community (SADC) and East African Community respectively (EAC).

In terms of modes of internationalization, while the banks used modes such as foreign branches and subsidiaries, mergers and acquisitions, franchising, strategic alliances (see Johanson and Vahlne,

2007), the two most common identified modes for the Nigerian banks were fully fledged foreign subsidiaries and representative offices. Their choice of mode(s) is normally influenced by a combination of factors such as the nature of regulation and type of license obtained. The establishment of foreign subsidiaries is normally achieved through setting up a new subsidiary (green field) or through acquisitions (brown field). In a market where the Nigerian banks can identify any local bank with similar organizational culture, the preferred approach would be acquisition if possible. This however, depends on the willingness of the local bank and regulatory authorities in the foreign market to agree and authorize the acquisition. It was also observed that in some cases where both the local bank and the regulatory authorities are amenable to acquisition, the Nigerian banks might prefer a fresh start due to the inherent problems of acquisitions. This includes issues of organizational cultural differences and requirements for acquisition.

There appears to be uniformity among the banks with regards to their approaches to organizational control and human capital structure of their foreign operations. The foreign operations are normally referred to as subsidiaries of the group with head offices in Nigeria. Identified reasons for the uniformity include regulatory requirements, mode of internationalization and cost implications especially with skill recruitment and retention. The regulatory and licensing requirements in some countries require a kind of shared ownership between the Nigerian banks and the local investors. Indirectly supporting the regulatory requirement are the cost implications of recruiting or posting Nigerians to the foreign markets. In line with labor laws, Nigerians recruited or posted to the foreign markets are classified and treated financially as expatriates. Even though the cost implications discourage high recruitment and posting of Nigerians to the foreign markets, they do occupy key positions in their foreign subsidiaries. In appreciation of the inherent national cultural differences and the desire to operate from unified organizational culture, the banks have centralized training centers and high exchange of employees across branches. The centralized training approach normally starts with all new recruits of the banks irrespective of potential country of posting to existing employees that might be required to undergo periodic trainings. Interestingly, the central training schools of most of the banks are in Nigeria. The banks maintained that the central training approach inculcates not only the banks culture into their employees but also provides the opportunities for their employees to appreciate and learn the different cultures of their host countries.

### **Market Opportunities and Internationalization Outcomes**

As can be deduced from sections 1 and 2, the economies of most African countries present enormous opportunities to both local and foreign banks. These opportunities derive from two main factors. First is due to the central intermediation functions of a financial sector to an economy (see Galbis, 1977; Goodhart, 2004) and second is the limited economic and financial development of these African economies. With the market opportunities as explained in sections 1 and 2, it can be argued that there is a convincing justification for the Nigerian banks to internationalize especially within Africa due to socio-economic, cultural and political similarities. However, while the availability of market opportunities might be a necessary condition to motivate internationalization, it might not be sufficient for firms from developing countries especially African firms. The success of their internationalization might be dependent not only on the availability of market opportunities but also on the ways through which other fundamental factors of internationalization are managed. These include the strategies and modes of entry, internal and external factors that affect the internationalizing firms (see Johanson and Vahlne, 1977; Dunning 1988; Turnbull, 1986; Turnbull and Ellwood, 1986; Thite et al, 2012). A consensus that emerged from the interview is that the internationalization was generally not properly planned and executed. Precisely, with the availability of capital at the end of the first phase of the consolidation, most of the foreign market expansions were based mainly on 'follow your leader' (Tit-for-tat) approach than available market opportunities. The Gambian internationalization aptly illustrates this.

GTBank, rated as one of the top five banks in Nigeria, started and induced the observed Gambian excitement. Entering Gambia in 2002 and presently with about 14 branches, GTBank instilled the Gambian ecstasy into Access Bank which later launched into Gambia in 2007 with about 6 branches at the moment. Recalling that the main initiators of Access Bank left from GTBank, their choice of Gambia as the country of first foreign expansion is better understood. With GTBank and Access Bank relishing their Gambian voyage and foreign markets expansions in vogue, enhanced by high liquidity from the consolidation, BankPhB and Finbank could not be left out in the Gambian parade. They launched their foreign market expansions in 2008 and luckily Gambia was their first destination and as 2010 they had 4 and 6 branches respectively. In continuation of the Gambian ecstasy, Oceanic, Skye and Zenith banks having first berthed in Cameroun, Sierra Leone and Ghana respectively re-routed their foreign markets cruises and sailed into the Gambian carnival in 2008.

This is a country of about 1.7million with a GDP of about \$2.004billion in 2008 and 13 commercial banks and 1 Islamic bank. Of these 14 banks, 7 are Nigerian banks implying that Nigerian banks have a 50% control of the Gambian banking sector. Ignoring the other banks (even indigenous ones) with their branches and using only the 35branches of Nigerian banks in Gambia translates into a bank density of about 1 bank branch to about 48,571people. Comparing it to bank density in Nigeria which was estimated at 1 bank branch to 42,424 (see Ezeoha, 2007) shows the extent of invasion of the Gambian banking sector by Nigerian banks. In affirmation to the lack of effective cost-benefit analysis in the Gambian internationalization, the Managing Director of GTB Gambia, Mr. Lekan Sanusi recently revealed that of the 13 commercial banks in Gambia, 10 declared losses at the end of the 2009 financial year. The losses were attributed to the existence of too many banks in a small Gambian economy and the consequent declining revenue (Thisday, 2010).

With these observations, it can be argued that banks did not observe thorough examination of the market opportunities and especially the peculiar African internal and external internationalization factors. Just as the banking sector development across Africa is limited, the performances of the banks' foreign subsidiaries might not be judged as commendable. Generally, the profit generation ranged from negative to below 10% of their total profits. Of the 12 banks that internationalized after the 2004 banking consolidation, 5 of them (Intercontinental, Union, Oceanic, Finbank and Bank PhB) have either been acquired by other banks or managed by Asset Management Company of Nigeria (AMCON) in conjunction with the Central Bank of Nigeria. While Oceanic Bank that had 34 foreign branches has been acquired by Ecobank, Intercontinental Bank with 15 foreign branches was taken over by Access Bank and Finbank that had 6 foreign branches merged with First City Monument Bank. In the same vein, BankPHB that had 23 foreign branches has been renamed Keystone Bank and currently managed by Asset Management Company of Nigeria (AMCON).

Nonetheless, not all the banks have performed badly as the above banks. The remaining 7 banks have recorded varying degrees of successes. Most outstanding is GTBank and Zenith Bank. As at 2011 and with foreign subsidiaries in 5 countries, all the subsidiaries of GTBank were profitable and contributed about 7% of its total assets. Similarly, with all 5 foreign subsidiaries profitable except that of Sierra Leone, Zenith Bank's subsidiaries contributed about 8% of total assets. UBA considered as one of the big four Nigerian banks did not however perform as GTBank and Zenith. With subsidiaries in 18 African countries that account for about 17% of bank's total asset, 7 of the subsidiaries in East and Central Africa declared losses as at the end 2011 financial year. This is also the case with Access Bank where 4 out of 9 foreign subsidiaries that account for 16% of total assets were unprofitable at the end of 2011. Even though Diamond bank as a group made a loss in 2011, its Republic of Benin subsidiary was profitable. Of the 7 remaining internationalized Nigerian banks, Skye Bank seems to have had the worst performance. Accounting for only 1% of total asset, all the foreign subsidiaries declared losses at the end of 2011.

With the above limited performances of the foreign operations, the worry for the sustainability of the expansions is sustained. It is in this perspective and in comparison with other banks that First Bank Plc stands out among the banks that have internationalized. Since starting foreign expansion with a representative office in 1982, it still and presently has only two fully operational branches and two representative offices. Interestingly even with the cautious expansions, First Bank Plc is generally rated as the most capitalized and profitable bank in Nigeria.

### **Internationalization Constraints and Liabilities of Nigerian Banks**

Even with the varied market opportunities available in the financial sector of most African economies, it is very evident that Nigerian banks cannot be said to have effectively harnessed and gained from the opportunities through their internationalization exercise. The question therefore is what should be responsible for the limitedly successful or unsuccessful foreign market expansions. A starting point through which a good understanding might emerge will be the appreciation of the strategies and modes of entry used by the Nigerian banks. As the strategies derived from known theories and practices through which firms from developed countries have internationalized, they might be unsuitable for banks from Nigeria, a developing country. Even though most studies on MNCs have focused on ones from developed countries, emerging studies on MNCs from developing countries are of the view that it might be inadequate for firms from the latter to use the same 'western' oriented strategies due to differences in institutional environment, socio-economic and cultural structures and types (Hofstede, 2007; Thite et al, 2012). Further, even within these studies on MNCs from developing countries, Africa seems to be generally ignored. In its 'new geography of investments' (UNCTAD 2004, 2006), Africa was excluded. Developing countries are divided into two groups with South Korea, Taiwan and Singapore in one group and described as the newer industrialized economies and with known record of outward MNCs. The second group is made up of China and India that are fast emerging. As the exclusion of Africa might be linked to the lagging position of Africa in most economic growth indices such as top global MNCs, it also suggests that there might be some peculiar African factors that should be appropriately considered in business decisions in Africa especially for MNCs from Africa. As will be examined in more detail below, it is argued that in addition to the constraints faced by MNCs from developing countries, these peculiar African factors might have exacerbated the challenges faced by Nigerian banks in African countries.

Focusing on MNCs from developing countries especially from Asian economies such as Japan, Korea, Taiwan, Singapore and recently India and China, it is argued that firms from developing countries exhibit certain common features or factors that constrain their foreign expansions (Hussain and Jian, 1999; Gullien and Garcia-Canal, 2009; Thite et al. 2012). In comparison with MNCs from developed countries, those from developing countries are generally smaller in size and with limited resources and knowledge of the international market which restrict their capability to maintain a unified management practices across their subsidiaries. Acknowledging these constraints, Contractor et al (2007) describes them as liabilities of smallness and newness and they are exacerbated by further constraints or liabilities of foreignness and country of origin especially for MNCs from countries with poor global perception (Ferner, 1997; Ferner, Almond and Colling, 2005; Engardio et al, 2006; Chang, Mellahi and Wilkinson, 2009). With these constraints or liabilities, MNCs from developing countries in comparison with those from developed countries are therefore at a disadvantage in the internationalization race (Gullien and Garcia-Canal, 2009). The success of their internationalization will therefore depend not only on the availability of market opportunities but on the strategic ways through which they understand and manage their constraints or liabilities. As stated earlier, with Nigeria a developing country, her banks' pursuit of their foreign market expansions into other African economies using the strategies of MNCs from developed countries and with lack of detailed consideration of the above liabilities might have contributed to their poor internationalization results.

**Liabilities of smallness and newness:** One of the fundamental reasons advanced for the 2004 consolidation of the Nigerian banks was the smallness of the capital bases of the banks. Before the consolidation, while the most capitalized Nigerian bank had a capital base of \$240 million and the remaining banks with less than \$10 million each, the smallest bank in Malaysia had a capital base of \$526million. Exposing the smallness of the capital bases of the Nigerian banks is the fact that their combined total capital base then was less than that of the Amalgamated Bank of South Africa (ABSA) (Soludo, 2004). Even though that N25 billion (about \$40 million) was achieved by each of the post-consolidation banks, it can be argued to be very small as compared to other international banks and even African ones. Measured by total assets and net earnings, no Nigerian bank is among the top 10 African banks. In the first 20 top African banks, only three, First Bank, Zenith Bank and United Bank for Africa are from Nigeria (see Mckinsey, 2010). Further, as the Nigerian banks were new to foreign markets (liability of newness), their use of mainly green field approach in their foreign expansions showed their lack of appreciation and consideration of the other liabilities inherent with MNCs from emerging markets. The green field approach required immediate high sunk costs as compared to other entry modes like acquisitions, mergers and other approaches that will not require such initial high costs. Like every other business, the banks success in the short run will depend on their ability to cover at least their variable costs and in the long run, all costs. With the combinatorial effects of liabilities of newness and smallness and the ones peculiar to Africa as will be analyzed below, most of the Nigerian banks affirmed that their foreign subsidiaries could not even pay for their variable costs and had to rely on their respective head offices.

**Liabilities of country of origin and foreignness:** In addition to the liabilities of smallness and newness, Nigerian banks are also confronted by the liabilities of country of origin and foreignness. In terms of countries with attractive brand or perception, Nigeria might not be said to be one of them even in Africa. Over the past years, her position as one of the highly corrupt countries in the world has been maintained. In 2012 global corruption index, it ranked 139<sup>th</sup> out of 174 surveyed (see Transparency International 2012). Even though currently under democratic rule, her system of governance is weak and volatile. Examining the 'Kaufmann et al (2009) World Bank Governance Matters, there is limited evidence to support significant improvement of Nigeria in any of the variables and indicators relevant for good governance and even financial sector development. These include voice and accountability, political stability and absence of violence, control of corruption, regulatory quality, rule of law and government effectiveness. In a related study of World Bank Doing Business report, (2013), Nigeria took the position of 133<sup>rd</sup> out of 183 countries surveyed with limited changes in the past years. Focusing on the management of the financial sector, Nigerian result can be described as volatile with bank failures recurrent and instances of fraudulent mismanagements of the banks (see Lewis and Stein, 1997; Soludo, 2004). With these barrage of negativities, it is apparent the kind of global perception Nigeria would have and the resultant consequences on the internationalizing Nigerian banks. It is therefore not surprising the limited revenue generated through the foreign subsidiaries and this is made worse by the kind of business the banks are into, banking services that are inherently trust oriented. Had the Nigerian banks properly considered these liabilities of country of origin and foreignness and their trust oriented business, they would have considered gradual acquisitions and mergers more appropriate than greenfield expansions in their entries into other and non-African countries.

**Liabilities of Africaness:** In addition, as the above liabilities were deduced from studies with limited African input, it might also be important that other MNCs from Africa planning to expand into other African countries appreciate other liabilities peculiar to Africa (liabilities of Africaness) especially for businesses that are highly trust oriented. They include liabilities of regional social capital deficit and deep cultural belief and influence. These African liabilities relate to Hall's (1976) view on how outcomes might vary based on the influence of context. He makes a distinction between situations of limited contextual influence with things being more unambiguous to the ones of high contextual influence with

things less clear. Using this to examine Western and Eastern countries, Hofstede (1984) is of the view that the former are countries of limited cultural context while the latter are high on cultural context. In comparison, MNCs find societies such as Western countries low in contextual or cultural influence more amenable for their expansions. In extrapolation and with Africa perceived as a continent made up of people and groups with deep tribal and cultural affiliations (see Platteau, 2007), the success of internationalization for Nigerian banks and other African MNCs involved in businesses that are highly trust oriented might require good appreciation and examination of the cultural influences. This is not the same with manufacturing firms where the trustworthiness and integrity of the firm are not deeply demanded and scrutinized. It is also not the same with foreign banks from developed countries which are well received and patronized due to their good global image and perception.

The high inclination to deep tribal and cultural sentiments in Africa inherently dissipates national or regional social trust required for economic and financial sector development and subsequent acceptance of banks from other countries. Well illustrated by Guiso et al (2004), societies high in social trust experience better financial sector development as compared to societies with low social trust. Enhancing this tribal or cultural cleavages are the inherent failures of African governments, low literacy rates and recurrent failures of banks including Nigeria (see Lewis, 1996; Rotberg, 2004; Honohan and Beck, 2007). If the levels of internal social trust within African countries are low, it suggests that a worse situation might be the case across the countries and further exacerbated by differences in factors such as their trajectories of origin, legal structures and literacy.

Efficient operations in Africa by Nigerian banks will therefore require the good appreciation and strategic management of both the internal (within countries) and intra (across countries) layers of distrust. This is necessary as the layers of distrust can create further sub-layers of distrusts with consequent high impacts on the banks' overall management approach especially the management of problems of asymmetric information and revenue generation. As the banks are coming from Nigeria, they will not be trusted by the local populace and in the same vein, the Nigerian banks appreciating the trust deficit in Africa might not trust the local populace resulting in what can be described as double jeopardy of distrust. To manage the emergent climate of distrust, the banks will employ strategies and controls which they deem most effective. In line with Hu (1992) and Harzing and Sorge (2003), the control and coordination strategies that the banks will utilize will derive and reflect their country of origin, Nigeria. It will be in the form of high controls and coordination from their respective head offices and which they have used for their local operations in Nigeria, a country low in social trust.

Interestingly, this was affirmed by all the banks with the emphasis for posting of Nigerians as key managers in the subsidiaries and the centralization of training in their respective head offices in Lagos. Expectedly, the desire to avoid or reduce asymmetric information (adverse selection and moral hazard) through increased control and checks will come with added costs. As a consequence and in addition to other lending factors, the total cost of the loans will increase and this will be reflected in high lending rates as the cases of Nigeria and the Gambia properly illustrate. While the average lending rate in Nigeria for 2009 and 2010 was about 18%, in Gambia, a country with about 7 Nigerian banks, it was 27% within the same period (see World Bank, 2013). Further, the increased checks might even enhance adverse selection by creating an environment in which borrowers willing to pay the high lending rates might be the ones most likely to default in repayments (see Miskin, 2001). Similarly, the increased checks and higher cost of borrowing might increase problems of moral hazards as the few successful borrowers might find it difficult to repay due to their engagement in high risk investments in order to pay the high rates.

In addition, the moral hazard might also be worsened by concentrated lending caused by lack of credit data in most African countries and possibly the unwillingness of the borrowers to pay back due to their perception of the banks as untrustworthy and exploitative which caused the high lending rates. In line with Sugden (1986), if the relationship between the banks and the populace is not properly

managed, it will resemble a finite (for the individual) and continuous (for the banks) games with both parties playing very cautiously. Resultantly, there will be high non-performing loans, limited credit to the private sector and declining revenue and operating capital for the banks. While the average of non-performing loans as a percentage of total loans in Nigeria was about 23.15% for 2009 and 2010, it was 16.9% for Ghana within the same period. Interestingly and within the same period as well, it was 3.75% in the UK where both Nigeria and Ghana adopted their legal systems and banking sectors (see World Bank, 2013). However, the banks might not be entirely blamed for the difficulties and high costs of borrowing as other factors like lack of basic infrastructure, non-existence of credit registry with weak enforcement and legal system aggravate the problems.

## **A2A INTERNATIONALIZATION: CONCEPTUAL FRAMEWORK**

In order to get a better understanding of the sustainability of the emerging internationalization of African firms within Africa, this paper examined the patterns and strategies used by Nigerian banks in their internationalization to other African countries. From the foregoing, certain deductions are apparent:

- i. Many Nigerian banks have since the 2005 banking consolidation achieved rapid expansion to other African countries in order to reap from the high market opportunities available in the banking sector of most African countries.
- ii. Their modes and strategies of internationalization are in line with the ones used by firms from developed countries.
- iii. Even with extensive expansion of over 300 foreign branches, the internationalization arguably might not be sustainable given the limited revenue and profit contribution from the foreign subsidiaries. In some cases, losses are being incurred and the foreign subsidiaries supported by their Nigerian operations.
- iv. This limited revenue and profit generation from the foreign operations might be related to the western oriented strategies used which ignored certain peculiar African factors (liabilities).

Interestingly, this use of western oriented strategies and theories has been the case not only in internationalization or banking but in virtually all sectors of Africa. While in the economic sector, this is evident in the wide use of neo-liberal policies in the pursuit of economic growth, in the legal system, it is observed in the use of adopted legal systems, mainly UK common and French civil legal systems. Yet, even with the adopted models and theories, African economies have consistently lagged behind in almost all development and related indicators. Arguably, the persistent lag of Africa in the relevant indicators suggests that there might be some peculiar factors pertinent to Africa that should be effectively appreciated and integrated in innovating and creating growth policies and models. Nabil and Nugent (1989) had argued that the unwillingness neo-classical/liberal theory to appreciate the importance of institutions has made it a shallow theoretical framework in addressing the inherent development problems of developing countries. To North (1990), the institutions include both formal and informal factors (institutions) such as formal and informal legal systems, values and customs, social norms and forms of behavior that increase or reduce uncertainties and transaction costs. Integrating these institutions into economic theories will result in what is described as theory of new institutional economics with the identification of the relevant institutions dependent on the society and context. The limited outcomes from the foreign expansions of Nigerian banks are therefore due to their use of western oriented strategies which ignored liabilities common to MNCs from developing countries in addition to the ones peculiar to Africa. As a consequence, they are faced with increasing uncertainties

and transaction costs reflected in the insignificant or negative revenue and profit contributions from the foreign subsidiaries. To gain from the available market opportunities, it might be pertinent for the banks to have a deep appreciation and understanding of the liabilities and their causative factors. In line with theory of new institutional economics, it will help in turning the liabilities into further market opportunities resulting in reduced transaction costs and more profitable and sustainable internationalization.

## CONCLUSION

In this study, our objective was to explore the intra-African internationalization patterns and outcomes, which overall have not been impressive, with a view to understanding or explaining the reason for this low level of regional expansion of firms. Our study of Nigerian banks, which have in the last eight years or so put internationalization as a strategic imperative provides instructive lessons. African organizations often underestimate the potential liabilities they face when they operate in another country, often overlooking persisting idiosyncratic factors in other economies.

The banking sector provided a useful context to explore the issue of internationalization, as regional expansion has become fashionable among both developed and emerging market firms. In the African context, where huge growth is predicted in banking, what our study on the internationalization of Nigerian bank shows is that “foreign” African banks are somewhat disadvantaged, and may not be major beneficiaries of this sectoral expansion, partly because Western firms do not face the learning challenges these African-based firms face, with their long colonial history, and decades of operating in global markets. Moreover, international expansion requires some scale and size matters in banking; most African banks do not have the financial muscle (as evidenced in the global bank rankings) to compete with the South African banks, and the major global banks, many of which have some interest in operating in the region.

However, we are not suggesting that African-based banks should not pursue their regional or global aspirations. To be sure, the challenges and obstacles to internationalization are not insurmountable. Newly internationalizing firms like those in this study will simply have to build their resilience to be successful in the region; this usually takes a considerable amount of time, hence organizations should have a long-term orientation to their investments.

### Directions for future research

This exploratory study has focused on the opportunities and challenges of Nigerian banks seeking to establish their regional footprint in Africa. Since our objective is to understand the dynamics of the internationalization process within the region, it would be useful for future studies to investigate the experience of firms from other countries. On the one hand, a study on the internationalization of South Africa banks and firms, a number of which appear to have successfully expanded within the region, can provide an interesting contrast. Do these firms face the same liabilities and risks as Nigerian firms? On the other hand, can firms from smaller economies compete within the region? Case studies of organizations that have successfully expanded within Africa can provide insights on the peculiar challenges they faced in the process.

It would also be useful to explore the performance of the Nigerian banks in Africa in the future. As we earlier mentioned, these institutions are new to internationalization, and have perhaps also had their growth curtailed by the global financial crisis which also negatively impacted on the Nigerian banking system. Beyond these factors, we find that over time some banks begin to declare profits and report increased revenue from their international operations. Hence, we suggest that in the near future, studies can explore whether and how these companies have overcome the initial liabilities reported in this study.

From our study, one can infer that firms often pursue internationalization in response to legitimacy pressures from their competitors or reference groups, rather than strictly economic, “demand-pull” factors. Our study has not sufficiently investigated this issue, and future studies will do well to analyse the motives for firm internationalization in the region.

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**APPENDIX**  
**Internationalization of Nigeria banks**

<b>Nigerian Banks</b>	<b>Year of Internationalization</b>	<b>First and Subsequent Countries of Internationalization</b>	<b>Total number of Branches in these Countries</b>
Access Bank	2007	<i>Gambia: Cote d' Ivoire (5), D.R Congo (2), Ghana (4), Gambia (6), Rwanda (4), Sierra Leone (4), Zambia (2), U.K (1), Burundi (4)</i>	31
Afribank	Nil	Nil	Nil
Bank PHB	2008	<i>Gambia : Liberia (6), Uganda (12), U.K (1), Gambia (4)</i>	23
Citibank	1914 (Parent Org. USA based)	<i>Argentina: Located in well-over a 100 countries</i>	1,400
Diamond Bank	2006	<i>Benin: Benin (12)</i>	12
Ecobank	Opened at the same in West African countries	Located in over 29 countries	746
Equatorial Bank	Nil	Nil	Nil
Fidelity Bank	Nil	Nil	Nil
First Bank	(1982)Rep. Office, Branch Operations 2002	<i>U.K: France (1), U.K (1), representative office in China (1) and South Africa (1)</i>	4
FCMB	2009	U.K (1)	1
Fin Bank	2008	Gambia (6)	6
GTB	2002	<i>Gambia: Gambia (14), Ghana (20), Sierra Leone (7), Liberia (1), U.K (1)</i>	43
Intercontinental Bank	2006	<i>Ghana: Ghana (14), U.K (1)</i>	15
Oceanic Bank	2008	Cameroun: Cameroun (14), Sao Tome (1), Ghana (18) and Gambia (1)	34
Skye Bank	2008	Sierra Leone: Guinea(1), Sierra Leone(1) and Gambia(2)	
Spring Bank	Nil	Nil	Nil
STANBIC IBTC	1962	Namibia: Operational in more than 33 countries	400
Sterling Bank	Nil	Nil	Nil
Standard Chartered Bank	1858 parent org.	Mumbai, Kolkata and Shangai: Operational in more than 70 countries	1,700
UBA	1984	USA: United Kingdom (1), France	

		(1), Cayman Island (1), France (1), USA (1), Benin Rep. (13), Cameroon (5), Sierra Leone (2), Zambia (1), Guinea (2), Chad (1), Cote d'Ivoire (2), Ghana (16), Tanzania (1), Burkina Faso (26), Kenya (3), Liberia (4), Senegal (4), Uganda (5), Gabon (1) and rep. office in China (1)	87
Union Bank	1985	U.K: Ghana (10), Benin Rep. (9), Rep. office in South Africa (1), U.K (1)	21
Unity Bank	Nil	Nil	Nil
Wema Bank	Nil	Nil	Nil
Zenith Bank	2005	Ghana: U.K (1), Ghana (18), Sierra Leone (1), Gambia (2), South Africa (1) rep. office	23

(Source: Various Bank publications and interviews)

#### END NOTE

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## FACTORS DETERMINING FIRMS' STRATEGY OF INTERNATIONALIZATION: A CASE STUDY ON POLAND

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### ABSTRACT

The purpose of this paper is to examine the determinants of an internationalization strategy and its impact on success and business performance. To achieve this objective, data were collected through surveys using a structured questionnaire administered to 385 Polish small and medium-sized enterprises (SMEs) that are involved in launching and developing their products in international markets. A confirmatory factor analysis was conducted to examine the reliability and validity of the measurement model, and the structural equation modeling technique was used to test the research model. The results of the study confirm that internationalization strategies of Polish SMEs are influenced by six factors that are: managerial expertise, dynamic capabilities, risk aversion, alliance capabilities, foreign market orientation and markets knowledge.

**Keywords:** Strategy, Internationalization, Business, Performance, Success, Management, Risk, Alliance

### INTRODUCTION

Over the past few decades, the issue of internationalization has become important for small and medium-sized enterprises (SMEs) (Filatotchev et al., 2009), especially for those who internationalized during the early stages of their organizational life-cycle (Wright et al., 2006). These firms are often referred to as 'born global' firms or as 'international new ventures' in the existing literature (Oviatt and McDougall, 1994; Autio et al., 2000; Zahra et al., 2000). Although numerous studies have analyzed the factors that drive the internationalization of smaller firms (Gabrielsson and Kirpalani, 2004; Knight and Cavusgil, 2004), according to many scholars, the understanding of this phenomenon is still limited. Thus, the cases of Polish companies are no exception to this rule.

Since the fall of the communist government in 1989, Poland has been consistently liberalizing its economy and has successfully completed the transition from a centrally planned economy to a primarily capitalistic market economy. Poland is Europe's sixth-biggest economy and is considered to have one of the fastest growing economies in Central Europe, with an annual growth rate of more than 6.0 % before the 2008 recession. Such an economic performance leads us to investigate the relevance of internationalization strategies implemented by Polish firms. Accordingly, the internationalization approach adopted for their products and services would reveal, upon examination, successful strategies in terms of positioning and competing in global markets. The SME sector comprises not only the most numerous group of companies in Poland, but also a significant employer, employing over 60 % of enterprise workers in Poland and generating nearly half of the Polish GDP. This sector has considerably

developed in the recent 10 years. The number of SMEs has grown by nearly 100,000, whereas the number of SME workers has grown by almost 750,000 persons. The significance of this sector for the development of the economy and the social welfare is a key issue, while its growth rate indicates that this will continue to be the case in the future, PAED (2010). According to the PAED report (2010), “among 47,781 small and medium-sized enterprises operating in 2009, there were 15,178 exporters (31.8 %) and 32,603 non-exporters (68.2 %). Recent data show that in 2009, the value of the SME exports i.e. entities that employ from 10 to 249 persons, amounted to US\$ 33.7 billion, which is 3 % more than in 2008. In the same time period, the exports of large companies decreased by 1 %. As a result, the share of small exporters in the total number of SMEs-exporters has increased from 48.5 % in 2007 to 48.7 % in 2008 and to 50.2 % in 2009”.

International business has always been regarded as the domain of predilection of large-scale companies within the framework of a globalized world economy. In fact, since a certain time, there are many SMEs that are involved in strategic processes of internationalization and have developed their product and service in foreign markets. Indeed, the term “internationalization” is an ambiguous concept, and its definitions vary in scope according to the phenomena they include (Welch and Luostarinen 1988; Beamish 1990). Calof and Beamish (1995: 116) define internationalization as “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments”. Several aspects of International trade and of the economic sectors demonstrate the emergence of dynamics in small and medium-sized enterprises to integrate the international marketplace in large numbers, and present important challenges to the traditional way of thinking that relates to the necessity of being a big industry before entering the international arena (Rennie, 1993; Rose and Quintanilla, 1996). If SMEs can be defined here as firms with 500 or fewer employees, a definition used widely in industrialized country markets (OECD, 1997; Knight, 2001), today, whatever may be the size of firms and their level of commitment outside their country of origin, international development is conditioned by an economic and politico-institutional concept allowing them to evolve in new increasingly competitive markets.

The objective of this study is to investigate the determining factors of internationalization strategies within Polish SMEs. Specifically, the objective is twofold, as it assesses strategies that companies implement as part of an internationalization process, and hence identifies key successful factors in regard to corporate strategies associated with their international expansion. The paper is framed around a literature review and the development of hypotheses. Then, are described, the research methodology and conceptual model. Finally, a discussion and a conclusion are presented.

## **LITERATURE REVIEW**

### **Internationalization strategy**

The intention of a company to develop an internationalization strategy (IS) is hypothetically determined by its voluntary intentions towards the diversification and the broadening of its activities beyond its geographic boundaries. However, the failure of not being well prepared may cause a serious concern regarding the viability of the company. To be successful in their internationalization strategy SMEs should combine a set of means and measures which will help them promote their products and services abroad. In a larger sense, there are several factors that could predetermine a good entry on the markets: Risk management, Strategy formulation, Commitment and Strategy execution. Some authors argue that when compared to MNEs, smaller companies are unfettered by bureaucracy and expensive existing information systems (Verity, 1994; Covin and Slevin, 1989; Douglas et al., 1982; Pelham and Wilson, 1995). Today, at the international level of developing their services and products, SMEs are often more innovative, more adaptable, and have quicker response times when it comes to implementing new technologies and meeting specific buyer needs (Verity, 1994; Carroll, 1984; Oviatt

and McDougall, 1994). With the growing role of direct marketing, globe-spanning transportation specialists and buyers with specialized needs, SMEs can increasingly serve niche market segments that span over the world (Oviatt and McDougall, 1995). The above factors are giving rise to the emergence of a distinctive breed of entrepreneurial firms, capable of succeeding in the highly competitive environment of international trade. However, globalization, ever-advancing information and transportation technologies, and other such trends are largely occurring in the firm's external environment and consequently are beyond management's control (Knight, 2001). Thus, formulating strategies is of high importance in order to reach organizational objectives and achieve successful business transactions.

Indeed, within the framework of this study on internationalization strategies of Polish SMEs, the suggested conceptual model is presented in Figure 1 and shows the relationship between factors related to the internationalization process and its impact on internationalization strategies and business performance. Thus, the conceptual model suggests that Managerial Expertise, Dynamic capabilities, Alliance capabilities, Risk Aversions, Foreign market Orientation and Market knowledge influence internationalization strategy formations which in turn impact on Success and business performance.

### **Success, Business Performance and Internationalization Strategy Formulation**

For an organization, selecting and measuring key business performance indicators is a huge issue. In fact, international performance can be defined in this study as those factors by reference to which the development, performance or position of the business of the company can be measured effectively (PWC, 2007). Business success (SBP) can result from different combinations of factors including, among others, expertise in the design and implementation of organizational development projects. It is also seen as a combination of technical and organizational skills for proactive leadership, an adequate human and financial resources allocation, an adapted elaboration of expansive commercial policies and permanent technological business intelligence on its market and business environment (Isik et al., 2009; Ganji et al., 2012). Likewise, the ability to translate the strategic business vision and mission into coherent and consistent plans for organizational objectives should be noted. Kuester et al. (2012) confirm that organizational factors and antecedents indeed play a critical role in a new product launch and its respective performance with internally directed activities having an even stronger impact on time-related and financial success than outwardly directed instruments. Specifically, these internal activities are often viewed as idiosyncratic resources that are hard for competitors to observe and are therefore more difficult—if not impossible—to replicate compared to externally directed activities in market launches. Kuester et al., (2012) clearly pinpoint that the successful launch of new products is a complex task that also necessitates the implementation of internally directed launch activities. At the enterprise level, success in its commercial affairs can be seen as a condition of the ongoing development of its organizational performance, even if the concept of performance is sometimes very ambiguous, given its dependency on many specific components related to the business and its context. It is an established fact that an organization that is performing well, is one that has successfully attained its objectives; in other terms, one that has effectively implemented an appropriate strategy (Otley, 1999). Framing organizational policies for success and performance in companies needs to be articulated around five main areas that are represented as a set of questions linked to : the key objectives that are central to the organization's overall future success; strategies and plans adopted by the organization and processes and activities that are decided; the level of performance the organization needs to achieve and in which defined areas; rewards and motivation for managers and employees; the capabilities for the organization to learn from its experience (Otley, 1999).

In the literature, an internationalization strategy is defined as the logic of the process of formulating the international development strategy which fits into the overall strategy of the company (Mintzberg and Waters 1985). It is indeed through its main lines of development that emerge its

international objectives, namely, the degree of commitment to internationalization and its geographic and regional priorities. But beyond that, various data both internal and external will be taken into account. Such data allow for a better understanding of the business itself, but also provide information on the competitive environment of the enterprise (Andersen, 2004). The importance of strategy formulation in terms of internationalization is useful in the gathering and synthesis of all these data which were collected in order to progressively exploit and process the formulation of strategy. The organization should have the capabilities to formulate its strategy of internationalization before entering a new market. When SMEs reach a certain stage in the growth of their international activities, they need to pay attention to the development of a formal international business strategy, following the example of the existing multinational companies. A strategic plan basically supports 'good salesmanship' in optimizing profitability and avoiding business risks. From a planning perspective, strategy is formed through a sequence of rational analytical steps including mission statement, competitive analysis, internal analysis and strategic control, (Andrews, 1971; Ansoff, 1988; Cohen and Cyert, 1973; Schendel and Hofer, 1979). Even if the empirical research achieved by Fredrickson (1984); Fredrickson and Mitchell (1984) and Mintzberg (1973: 4) shows that in turbulent environments planning is often insufficient and leads to rigidity, various studies have ascribed some significance to structure, comprehensive analyses, and emergent strategic initiatives (Eisenhardt, 1989, 1999; Jelinek and Schoonhoven, 1990). Mintzberg (1978) and Mintzberg and Waters (1985) even suggested that the interplay between intended and emergent strategies was at the heart of the complex strategy formation process. In regards to these above considerations, the following hypothesis H1 has been retained:

*Hypothesis 1. Success and business performance is influenced by the firm's internationalization strategy.*

### **Managerial Expertise**

Managerial expertise (ME) is an issue of manager competency and it can also be defined as the firm's overall proactiveness and aggressiveness in its pursuit of international markets (Knight, 2001). It is also associated with managerial vision, innovativeness, and a proactive competitive posture overseas (Covin and Slevin, 1989; Davis et al., 1991; Khandwalla, 1977; Miller and Friesen, 1984). Likewise, managerial expertise reflects the firm's propensity to engage in innovative, proactive, and risk-seeking behaviours in order to achieve competitive and strategic objectives. PAED (2010) argues that "the basic determinant of success in the global economy will be entrepreneurship understood not only as performing business activity, but also as an independent search for ways to solve problems and organization of own work. Innovativeness (organisational, product, process and marketing) concerning all types of enterprises, including the services sector will remain invariably crucial. In such a reality, it will be indispensable to introduce new ways of human resources management, based on cooperation and information exchange, which will result in the transformation of enterprises into intelligent organisations optimally utilising human capital". This drives to the following hypothesis H2:

*Hypothesis 2: Managerial Expertise positively impacts on a firm's Internationalisation strategies.*

### **Dynamic capabilities**

Dynamic capabilities (DC) refer to the organizational ability to achieve new forms of competitive advantage. A dynamic capability is seen in this study as an organization's reactivity and adaptability to market fluctuations. According to Teece et al. (1997), dynamic capabilities emphasize two key aspects: the first being the capacity to renew competences so as to achieve congruence with the changing business environment; certain innovative responses are required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition and markets difficult to determine. The second aspect emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment. At the level of an organization that experiments with internationalization strategies, dynamic capabilities also involve an operational and strategic flexibility across its business environment. In the literature, there is an emerging consensus in the field of strategic management suggesting that dynamic capabilities are embedded in organizational processes (Nelson and Winter, 1982; While Dierickx and Cool, 1989), captured by firm routines (Zollo and Winter, 1999) and directed toward effecting change (Kogut and Zander, 1992; Iansiti and Clark, 1994). Collis (1994:149) suggests that higher-order organizational capabilities such as dynamic capabilities "allow firms to overcome the path dependency that led to the inimitability of the lower-order capabilities." Eisenhardt and Martin (2000) argue that dynamic capabilities are typically valuable and rare (i.e., they are not possessed by all competitors equally), but are equifinal and hence neither inimitable nor immobile. Thus, this quality implies that dynamic capabilities can be a source of competitive but not sustainable advantage. This leads to the following hypothesis:

*Hypothesis 3: Dynamic capabilities positively impact on the firm's Internationalisation strategies.*

### **Risk Aversions**

In this study risk aversions (RA) are perceived as the company's propensity to make decisions to develop new markets, given a certain level of uncertainty. From the perspective of an organization, risk aversion is defined as the tolerance of threats and uncertainties in business transactions and the deployment of new market development. Today the issue of risk looms so large that some observers speak of a "risk society", where problems of "risk distribution" replace those of income distribution which characterised the industrial society (Majone, 2010). Some threats that are linked to the risk issues can be inherent to the insolvability of markets, high barriers in organizational rules to export, protectionist measures and also of lack of trust in the solvency and integrity of the financial intermediaries. According to Olson and Wu (2008), quantitative methods, cultural awareness, processes and control are all important to an enterprise's risk management framework that is ductile. Indeed, in an era of global competition, technological change and continual search for competitive advantage, it becomes crucial for SMEs who internationalize their activities to integrate risk management in the framework of considering the complexity of their networks reaching out, at multiple levels, to many different stakeholders. In this sense, risk management can focus on identifying better ways and means of accomplishing organizational objectives rather than simply preserving its assets or risk avoidance (Olson and Wu, 2008). This drives to the following hypothesis:

*Hypothesis 4: Risk Aversions positively impact on a firm's Internationalisation strategies.*

### **Alliance Capabilities**

An alliance capability (AC) is defined as an organizational competency to work in networks with other companies or collaborators. In this study, developing and designing alliance capabilities signify to increase partnership activities, and to responsabilize employees throughout the organization. It is also translated into corporations' enhancement skills to develop wider organizational alliance capabilities for the improvement of their market shares. Companies that successfully build such capabilities enjoy a favourable impact on market capitalization and benefit from the “virtuous cycle” of being able to attract (and learn from) quality alliance partners (CEB, 2000). Improvements in the functioning of a firm's alliance capability, “derive from a complex set of factors that include learning by-doing of individual team members and of the team as a whole, deliberate attempts at process improvements and problem-solving, as well as investment over time” (Helfat and Peteraf (2003: 1002). In line with Simonin (1997), Gittell (2002), Kale et al. (2002) and Zollo and Winter (2002), alliance capabilities mediate between alliance experience and alliance performance (Asher, 1976; Lehmann et al., 1998); this implies that the effect an experience has on the alliance performance is explained via a firm's alliance capability (Eisenhardt and Martin, 2000). Hence, an alliance capability is an important variable explaining why an alliance experience positively influences an alliance performance, since it can induce the development of repeatable practices (Eisenhardt and Martin, 2000) via the transfer and replication of experiences and knowledge (Florida and Kenney, 2000) using knowledge sharing routines (Helleloid and Simonin, 1994; Dyer, 2000; Dyer and Singh, 1998). This leads to the following hypothesis:

*Hypothesis 5: Alliance capabilities positively impact on a firm's Internationalisation strategies.*

### **Foreign market Orientation**

Foreign market orientation (FMO) is viewed as the capability to gather financial, technological and human resources in order to be successful when implementing internationalization strategies. Selnes and Wesenberg (1993, p. 23) define market orientation as a 'response to market information', while Kohli and Jaworski (1990, p. 6) state that 'market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, the dissemination of the intelligence across departments, and organization-wide responsiveness to it.' Narver and Slater (1990, p. 21) complement Kohli and Jaworski (1990), by suggesting that market orientation consists of three behavioural components, namely customer and competitor orientations and interfunctional coordination; these 'comprehend the activities of market information acquisition and dissemination and the coordinated creation of customer value'. Market orientation is a capability and the principal cultural foundation of learning organizations (Deshpandé and Farley 1998; Slater and Narver 1995). Through the constant acquisition of information regarding customers and competition, and the sharing of this information within an organization, market-oriented firms are well positioned to develop an organizational memory, a key ingredient for developing a learning organization. Furthermore, market orientation encourages a culture of experimentation and a focus on continuously improving the firm's processes and systems. This implies that developing and improving on a firm's market orientation may make a firm's capabilities become more distinctive (relative to the competition) over the long run, resulting in a Sustainable Competitive Advantage (Kumar, et al., 2011). This brings us to the following hypothesis:

*Hypothesis 6: Foreign market orientation positively influences the formulation of a firm's Internationalisation strategies.*

### **Market knowledge**

The specificity of market knowledge (MK) is defined as a means to understand beliefs, the cultural, social and economic norms of a well-determined region in relation to an organization's international business performance. Whereas traditional international business research was concerned with economic/ legal issues and organizational forms and structures, the importance of national culture – broadly defined as values, beliefs, norms, and behavioural patterns of a national group – has become increasingly important in the last two decades, largely as a result of the classic work of Hofstede (1980); Kwok et al. (2005). National culture is shown to impact on major business activities, from the capital structure (Chui et al., 2002) to group performance (Gibson, 1999). For instance, Wei & Jiang (2005) examined the influence of culture on the standardization of creative strategy and execution, and show that culture impacts on execution more than on creative strategy. Accordingly, it makes sense for international advertisers to develop a single creative strategy to use globally so long as execution accounts for culture. The more culturally different the target market is from the home country, the more localized the execution should be (Wei & Jiang 2005). Thus, the global economy requires business organizations to cultivate their international holdings by respecting the national differences of their host countries and by coordinating efforts for rapid innovation. The relevant literature is reviewed in the areas of communication innovation. An exploration is made into how efforts toward innovative practices are directly related to globalism and business strategy (Ulijn et al. 2000). Hence, particular attention should be given to the strategic factors of foreign firms that may affect brand extensions in a foreign host market. Drawing from international business and marketing literature, Ayoun and Moreo (2008) proposed an integrative, conceptual framework to study these factors at three different levels: consumer-specific, industry-specific, and firm-specific factors in a host market. Specifically, they examined the impact of uncertainty avoidance, consumer innovativeness, market concentration, firms' heterogeneous resources (i.e., international experience and local market knowledge), and firms' strategic posture of standardization/adaptation. This leads to the following hypothesis:

*Hypothesis 7: Market knowledge positively impacts on a firm's Internationalisation strategies.*

### **METHODOLOGY**

Based on previous studies, an internationalization strategy involves a variety of activities that are achieved at both the internal and external levels of an organization. Those activities have converged around seven main domains, as specified in the above literature review. Before undertaking this study, we pre-tested the questionnaire in order to make it intelligible to the understanding of business owners and managers of companies' export service. To accomplish this, we completed a set of 3 focus groups proportionally made up of 18 managers specialised in an export service and/ or implementing organizations' strategies for internationalization, four academicians that are experts in international business, three experts in international trade and export in international trade organizations, and finally nine specialists on foreign markets drawn from public services. The feedback from the pilot test was used to improve the readability and the questionnaire. Then, a confirmatory factor analysis using the Lisrel software was used to test the validity of the studied framework. Prior to the LISREL analysis, a set of items for each construct was examined in the pre-test using an exploratory factor analysis to identify those items not belonging to the specified domain. The properties of the proposed research constructs were then tested with the structural equation modeling (SEM). The maximum likelihood method of estimation was adopted. The SEM procedure is appropriate to test the proposed theoretical model because an evaluation is then possible of how well the proposed conceptual model (Figure 1) that contains observed variables and unobserved constructs explains or fits the collected data (Bollen, 1989; Hoyle, 1995).

### Survey

A questionnaire was administered to business owners and managers in the export department of selected companies. It was sent by email and consisted of the main aspects related to the internationalization strategies of companies. Data were collected from a set of 412 companies but with 27 uncompleted responses, the final number of usable questionnaires was 385, for a response rate 93.44 %. A 39-item questionnaire elaborated in English was employed to measure the constructs. Furthermore, the questionnaire was measured on a 7-point Likert scale. The constructs include seven domains of investigation that are: Managerial expertise (eight items), dynamic capabilities (eight items), risk aversion (five items), success and business performance (nine items), foreign market orientation (five items) and market knowledge (four items).

### Sample

As described in Table 1 above, the socio-demographic distribution of the sample consists of 59 % male managers and 41 % female managers. The managers' level of education shows that 45 % have a university degree while less than 19 % have a secondary level of education and below. 18 % of the companies surveyed have more than three million dollars of annual sales, while 11 % of them have less than 1 M \$ of annual sales. Companies surveyed with less than 50 employees represented 32 % of the sample, while 27 % had more than 250 employees. It is also important to note that 21 % of the companies belong to the sector of activity of machines and equipment, while 10 % are in the wood sector. We noted that food and beverage accounts for 12 %, furniture 15 % and the textile sector is 11 %.

## EMPIRICAL ANALYSES AND RESULTS

### Measurement model

A confirmatory factor analysis (CFA) to test the measurement model was performed. The covariance matrix as an input to Lisrel 8.8 was used. The model was trimmed by discarding items.

The model was trimmed by discarding items for each construct where necessary in order to ensure the best fitting model. A split-sample approach was taken, whereby the total sample was split into a calibration and a validation sample (Diamantopoulos and Siguaw, 2000). Table 2 shows the retained measurement variables and the proposed constructs.

The measurement model has a statistically significant value of the chi-square test (Satorra–Bentler scaled chi-square=506.55, df=378,  $p < 0.001$ ). However, the proportion between the chi-square value and the degrees of freedom is within an acceptable range ( $\chi^2/df=1.35$ ). RMSEA (0.028) and standardized RMR (0.029) show a good fit. All other relevant measures (GFI=0.921; NFI=0.984; TLI=0.992; CFI=0.993) are also within an acceptable range, which allows the conclusion that the fit of the measurement model is acceptable (Bollen, 1989; Hoyle, 1995).

The item and construct reliability (Table 2) were then tested. All items are reliable and all values for composite reliability are above 0.70. According to a complementary measure for construct reliability, that is the average variance extracted (AVE), all constructs have a good reliability. We also tested the model for convergent and discriminant validity as proposed by Anderson and Gerbing (1988). All *t*-values of the loadings of the measurement variables on the respective latent variables are statistically significant. Thus, convergent validity is supported. The correlations in Table 3 provide an initial test of discriminant validity. All correlations are below 0.80, thus, supporting discriminant validity. Discriminant validity was further assessed with a chi-square test for pairs of latent variables with constraining correlation coefficient between two latent variables ( $\phi$ ) to 1. All unconstrained models have a significantly lower value of the chi-square ( $p < 0.001$ ) than the constrained models, which allows the

conclusion that the latent variables are not perfectly correlated and that discriminant validity exists (Bagozzi and Phillips, 1982).

### Structural model

The final structural equation model includes the exogenous latent variables managerial expertise, dynamic capabilities, risk aversion, alliance capabilities, success and business performance, foreign market orientation and market knowledge.

**TABLE 3**  
**Correlations among Constructs**

Constructs	1	2	3	4	5	6	7	8
IS	1.00	0.33	0.36	0.45	0.24	0.30	0.42	0.34
ME	0.35	1.00	0.63	0.51	0.39	0.71	0.37	0.45
DC	0.38	0.46	1.00	0.59	0.41	0.57	0.30	0.41
RA	0.32	0.32	0.50	1.00	0.28	0.23	0.25	0.33
AC	0.41	0.42	0.43	0.51	1.00	0.34	0.58	0.39
SBP	0.35	0.34	0.29	0.33	0.61	1.00	0.44	0.54
FMO	0.34	0.31	0.25	0.37	0.48	0.55	1.00	0.49
MK	0.44	0.30	0.31	0.52	0.47	0.35	0.27	1.00

The independent variables therefore explain the dependent variables well. The fit indices for the overall model are also acceptable. Like with the measurement model, the structural model also has a statistically significant value of the chi-square test (Satorra–Bentler scaled chi-square=526.75, df=395,  $p < 0.001$ ), but the proportion between the chi-square value and the degrees of freedom is within an acceptable range ( $\chi^2 / df = 1.35$ ). All other relevant fit indices are also within an acceptable range (RMSEA=0.028; SRMR=0.034; GFI=0.921; NFI=0.984; TLI=0.992; CFI=0.993). All of the parameter estimates are statistically significant and consistent with the proposed direction in the hypotheses. The findings support all of the seven proposed hypotheses (Table 4).

**TABLE 4**  
**Results of Testing the Hypotheses**

Hypotheses	Standardized path coefficient (t-test)	Results
H1 : IS positively impacts on SBP	0.58 (5.28) $p < 0.05$	Supported
H2 : ME positively impacts on IS	0.45 (4.12) $p < 0.05$	Supported
H3 : DC positively impact on IS	0.49 (1.56) $p < 0.001$	Supported
H4 : RA positively impacts on IS	0.42 (2.63) $p < 0.05$	Supported
H5 : AC positively impact on IS	0.38 (6.31) $p < 0.001$	Supported
H6 : FMO positively impacts on IS	0.36 (5.17) $p < 0.001$	Supported
H7 : MK positively impacts on IS	0.33 (2.65) $p < 0.05$	Supported

## DISCUSSION

In this study, we identified the essential factors that determine the internationalization strategy of Polish SMEs. In fact, the model we tested, has allowed us to validate factors related to Managerial

expertise, Dynamic capabilities, Risk aversion, Alliance capabilities, Foreign market orientation and Market knowledge, which participate in the formulation of the internationalization strategy for the development of the organizational performance and success of Polish firms.

Our results indicate that the way of formulating an internationalization strategy can play a significant role in the organizational success and business performance. In fact, the incidence of IS on SBP is explained by 58 % of the variance (Table 4). These results also suggest a positive influence of ISF on SBP and are consistent with many other authors' findings such as Kuester et al. (2012); Isik et al. (2009); Ganji et al. (2012). Thus H1 is supported.

ME is, as stated by Knight (2001), an important skill that companies need to build within the framework of their business development in general and particularly in their internationalization strategy formulation. As such, our result shows a positive influence of ME on IS. This positive influence is highlighted by 45 % of the variance (Table 4). In fact, the managers' expertise in the development of an export strategy is an asset for the company's achieving success and performance expectations. Thus H2 is supported.

Our result emphasized that DC positively influenced the internationalization strategy formulation. Thus, H3 is supported. Indeed, the Dynamic capabilities are a set of elements and behaviours relating to organizational issues in anticipation of the company's adjustment in relation to its market. Our result shows an impact of 49 % of DC on IS (Table 4). This result is consistent with the findings that show that the dynamic capabilities are also a source of competitive advantage (Eisenhardt and Martin, 2000); which means, the ability of the company to define relevant strategic planning in order to obtain substantial benefits from its internationalization strategy.

The capabilities of taking some risk (RA) in the internationalization strategy are seen as having a positive influence. As indicated in Table 4, the hypothesis H4 is supported. The (RA) factor reveals an influence of 42 % on the IS. Risk management is an issue within companies who want to engage in international markets. Integrating the risk factor in both the tendency to anticipate and to handle it, is thus one of the key components of the formulation of the internationalization strategy. This finding is also consistent with many other authors' research results, such as Olson and Wu (2008).

AC is an important part of an internationalization strategy formulation. This importance is characterized when the small size of some companies - very often the case of SMEs - does not allow them to effectively set up in foreign countries, taking into account the costs related to setting up branches. Taking into account the size and turnover of organizations, some SMEs are often supported by other companies abroad within the framework of launching and distributing their services and products. This situation does not only concern the development of services and products but also integrates all those aspects that are related to knowledge and production process sharing. Thus, the positive impact of AC on IS is explained by 45 % of the variance (Table 4). The hypothesis H5 is supported and is consistent with the findings of authors such as Knight (2001); Eisenhardt and Martin (2000).

FMO impacts positively on ISF as emphasized in the test results (Table 4). Thus, the hypothesis H6 is supported and this is explained by 36 % of the variance of FMO on ISF. Indeed, the orientation of the business to foreign markets is also a dynamic factor that determines the choice to launch a product or service abroad. The mastery of such a factor, however, allows the company to acquire certain assets that will enable it to achieve its performance in commercialization activities. In the same vein, it should also be noted that several authors have mentioned the orientation to foreign markets as being one aspect of achieving success in the business development of the internationalization of companies (Kumar, et al., 2011).

Likewise, MK is a factor that influences positively on IS. As found by many other authors, some specificities of the local market as well as of the national culture are shown to impact on major business activities, from the capital structure (Chui et al., 2002) to group performance (Gibson, 1999). As

indicated in Table 4, MK influences positively on IS by 33 % of the intended variance. Thus, the hypothesis H7 is supported (Table 4).

## CONCLUSION

This study extends the current knowledge related to the interrelationship between an internationalization strategy and business performance. In this study, we found that seven factors determine the internationalization strategy to achieve success and business performance of the Polish SMEs that were surveyed. The Practical implication of this study resides on the fact that Polish firms must pay attention to the way their internationalization strategies are formulated in order to tackle more and more competitiveness and innovation issues at the level of international markets. The study gives an overview of the main factors that determine the internationalization strategy of specific Polish enterprises. In parallel to the literature on internationalization strategies, the study leads to the conclusion that the Polish firms surveyed, utilize almost the same techniques and logic as large companies to penetrate international markets. Indeed, this fact is seen as vital for the achievement of success and performance. The present study significantly contributes to enrich the insight into factors that determine the internationalization strategy formulation and implementation and their impacts on the success and business performance of Polish SMEs. The limitations of this research can be emphasized by the fact that conclusions of the study may not be generalized, given the fact that other specific actors and groups that might be involved in export activities have not been taken into account. That is to say, that the external validity of the study is relatively limited. Therefore, to enhance the robustness of the study, the direction of future research may explore a richer set of variables to predict and explain internationalization strategy formulation and implementation on export capabilities efficiencies, business environment and organizational performance.

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## CONCEPTUALISING A FRAMEWORK FOR TEAM TRANSFORMATIONAL LEADERSHIP, HRM AND COMPETITIVENESS IN THE AFRICAN DIASPORA: A RESOURCE-BASED PERSPECTIVE

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### ABSTRACT

This paper argues a case for the development of ‘team transformational leaders’ in the African diaspora and proposes that team transformational leadership can be used as a strategic approach to developing creative and competitive organisations. It suggests that the human resource (HR) professionals in the small island states of the Eastern Caribbean should lead the process of developing transformational leaders in Caribbean organizations, by themselves becoming team transformational leaders. This conceptual framework suggests that the HR professionals as strategic business partners should align specific HR functions with key dimensions of team transformational leadership. This alignment should then facilitate distinctively competent employees with capabilities that are rare, not easily imitated or substituted, contributing to sustainable competitive advantage. A Resource-Based View of strategy underpins the conceptual framework. Finally, the paper suggests that aspects of the team transformational or shared leadership may be mirrored in the African continent’s leadership concept of Ubuntu.

**Keywords:** African diaspora, shared leadership; resource-based view; Ubuntu; competitive advantage

### INTRODUCTION

Human resource management (HRM) as a discipline has evolved significantly since its beginnings in the United States of America (USA) in the early 1980s (Beardwell & Holden, 1997). Shifting from the Personnel Management paradigm, the HRM intention of creating a strategic focus for the sourcing, development, motivation and retention of the most talented people in an organization has been welcomed by senior executives and owners of organization across the globe (Ozbilgin, 2005). A critical part of the HRM process is the level and quality of leadership that is involved in its strategic and operational functions.

This paper will argue a case for the development of team transformational leaders in Eastern Caribbean organizations and will propose that team transformational leadership can be used as a strategic response to achieve sustainable competitive advantage. It calls for a leading role for the human resource professionals in developing team transformational leaders in organizations and suggests that those individuals should be highly competent in this form of leadership, integrating its concepts into the regular HR function. It is suggested that further research needs to be conducted to explore the alignment of team leadership to Ubuntu leadership.

It is acknowledged that leadership is a multifaceted concept that has been defined in several different ways. However, for the purpose of this discourse, the writer will adopt the following working definitions for leadership. Leadership is defined as “an influence relationship among leaders and followers who intend real changes that reflect their shared purposes” (Daft, 1999: 5). Bennis (1999) states that leadership is key to realizing the full potential of people’s intellectual capital and emphasises

that this is necessary in the new knowledge economy especially with knowledge workers. Bennis (1999) places emphasis on the importance of the cognitive factor in developing people, so that people can perform to their full potential, and are thereby better able to contribute to the improvement of the organization's performance and competitiveness. The importance of knowledge workers and the cognitive factor is supported by Tome (2011) who argued that human resource development strategies must centre around expanding the knowledge base.

Bennis and Nanus (1985) identified specific characteristics of a leader: the leader sees people as assets, solicits commitment, openly shares information and build networks. These characteristics are also essential to achieving the organisation's mission, strategic and operational objectives. Brubaker and Coble (2005) state that leadership is simply an influence process in which the leader utilizes various forms of power to influence followers. They emphasise the importance of power in effective leadership.

These largely western definitions of leadership are measured against Brubaker (2013) and April and Ephraim (2010) contentions related to Ubuntu leadership in Africa. They argue that Ubuntu leadership refers to a philosophical approach to human relationships and place greater importance on community and humanity. Brubaker (2013) and Muchiri (2011) explained that Ubuntu speaks to a focus on compassion, respect, dignity and humanistic concern for relationships. According to these writers Ubuntu emphasizes the collective and does not promote individuality, which is more aligned to team or shared leadership as proposed by Avolio et al (2003).

The leader must ensure that the organization is able to achieve competitive advantage through the people that are employed, to sustain that advantage over time and satisfy the needs of the various stakeholders. Competitive advantage is defined as the process by which an organisation enjoys superiority in performing an activity, as a result of developing and maintaining distinctive competencies (Thompson et al, 2005). A Distinctive Competence is a competitively valuable activity that an organization performs better than its rivals. This advantage is achieved through people who add valuable to the organization (Hitt et al, 2005; David, 2013). For example, a computer software company having in its employ, a group of software developers who possess unique competencies in the development and use of a specific proprietary programming language.

Leadership is accepted as one of the most critical competencies required not only for senior and middle managers, but also for supervisory and front line staff. Additionally, various researchers have found positive relationships between leadership, satisfaction and performance within work teams and organizations (Bass and Avolio, 1996; Chelladurai and Selah, 1980; Tsai, 2011). This suggests that leadership is essential to organizational success based on its mission and business objectives. In the context of HRM, it is more than just creating an environment in which excellent relations are developed but one in which individual and team performance are central to organisational outcomes (Dionne et al, 2004).

### **The Caribbean in Context**

The Caribbean as a region has evolved from the old plantation economies, colonial structures and economic systems, to more market driven, democratic and services-based societies. These islands are part of the African Diaspora, as the majority of their populations are descendants of slaves arriving from the West African coast. In the old plantation system, the managers used their traditional autocratic, paternalistic and discriminatory styles to force workers to produce and meet organizational objectives (Punnett, Dick-Forde & Robinson, 2006). There is evidence to suggest that in the region Caribbean organizations continue to practice management in a way that is consistent with the styles of the old control approach to management (Lindo, 1995; Nurse & Best, 2002; Cowell & Crick, 2004; Punnett, Dick-Forde & Robinson, 2006). Munroe (1995: 283) argued that "frustration is growing daily and the old approach to management is not working", while Khan (1995: 36) contended that

“management in the public sector suffered from over-centralisation of decision-making and lack of delegation of authority”.

In spite of this, with the changing global economy, advancing technology and modernization of countries across the world, the Caribbean has still been able to achieve some credible growth which among other things can be associated with the development and education of its people, if not systems of work in organisations. The United Nations Development Programme (UNDP), Human Development Index (2012) for one hundred and eighty seven (187) countries, rated seven (7) Caribbean nations within the first eighty (80) countries in the world. Those within the first seventy (70) are classified as having high human development. The countries are:

- Barbados – 38
- Bahamas – 49
- St. Kitts and Nevis - 72
- Antigua – 67
- Trinidad & Tobago – 67
- Grenada – 63

These statistics indicate that the English speaking Eastern Caribbean islands have developed significantly from plantation societies into modern market driven economies, largely following western models of business. However, global pressures are now forcing the Caribbean islands to make even more fundamental changes in how the economies of the various countries are structured and how competitive the organisations are in relation to other countries and regions.

### **HRM CONTEXT AND CHALLENGES**

There are challenges posed to the effectiveness of HRM in the Caribbean when one considers the top-down non participative approaches to managing and communicating (Munroe, 1995; Punnett, Dick-Forde & Robinson, 2006), weak team structures, pay not based on performance, and lack of cultures which support creativity and innovation in organizations will not work in the current complex world economy. This provides a backdrop for a discussion on the role of Human Resource Management (HRM) and the HR professional in Caribbean organizations, as the human resource is the most important resource in any organization (Bratton and Gold, 2003). Cowell and Branche (2002: x) describe them “as a country’s richest asset”.

Human Resource Management (HRM) can be defined as “a strategic approach to managing employment relations which emphasizes that leveraging people’s capabilities and [competencies] is critical to achieving sustainable competitive advantage, this being achieved through a distinctive set of integrated employment policies, programmes and practices” (Bratton and Gold, 2003: 7); and also to enable workers to achieve strategic and operational goals (Fisher et al, 1999; Gomez-Mejia, Balkin & Cardy, 2010). It can be concluded that modern HRM practice can be described at three levels: the strategic level (board and executive team); Operational level (performing traditional roles of recruiter, selector, trainer, developer, employee relations); and internal advisor/consulting level, providing strategic and other advice to the line (Noe et al, 2005). The HR function is grounded by an overriding HR philosophy which is that people are a critical resource to be developed for future benefit to an organisation, and not an expense to be controlled (Bratton and Gold, 2003).

These conceptualisations of HRM fit into a Resource-Based View (RBV) of competitive strategy which involves three (3) key concepts or requirements for a resource to result in competitive advantage. The resources must be Rare, Non-substitutable and not easily Imitated (David, 2013). The RBV suggests

that internal resources are superior to external resources and as such should be the main focus on strategic decision-making (Mahoney and Pandian, 1992).

The challenges to management of the human resource in contemporary Caribbean societies or diaspora are many and varied, but the extent to which organizations possess the managerial competencies to adequately respond to the challenges is still questionable and under-researched. This is an attempt to contribute to the limited literature dealing with HRM, leadership and competitiveness in Caribbean organisations.

It is argued that in the Caribbean, absenteeism, low productivity, industrial action and problematic work attitudes are associated with weak leadership, management and a lack of trust (Nurse & Downes, 2002; Moonilal, 1998). This is supported by Carter (1997) who argued that workers in Jamaica do not work because their managers do not know how to manage effectively and Moonilal (1998) who contended that abusive management practices result in industrial relations disputes. This situation raises a number of issues related to the practice of HRM in Caribbean organizations.

Punnett, Dick-Forde & Robinson (2006) found that HR managers in Barbados and Jamaica described their general style as participatory and consultative, but rated the society as high in hierarchy and power, with a preference for tall organizations and decision making at the top. It is the HR professional who would still be expected to play leading roles in facilitating and leading the process of change and improved performance (Guest et al, 2003; Greve, 1996). These issues if not resolved can impact on the ability of an organization to improve employee performance and ultimately the company's overall performance.

The HR professional as a strategic business partner, is expected to be in the forefront of facilitating organizational change and renewal (Price, 1997; Lawler & Mohrman, 2003) and in creating a culture that supports excellence in service on a consistent basis (Zerbe, Dobni & Harel, 1998). It is argued that 'leadership' must become a critical dimension of managing change in any organization and the HR professional may be expected to become an effective agent of change (Guest et al, 2003). The HR professional may need to market and promote himself/herself as a strategic leader in the organisation, understanding the importance and relevance of strategic objectives, while appreciating and knowing what it takes to ensure that HR plans and objectives are appropriately aligned to the wider strategic objectives and strategies (Price, 1997; Singh, 2002; Lawler & Mohrman, 2003). Coke (1995: 221) asserted that the "management of an organisation's human resources is a critical determinant of corporate success".

The dynamics associated with 'team transformational leadership' may provide a new orientation towards tackling current problems and helping the Caribbean region to find new and dynamic solutions to the challenges it faces. We proffer that team transformational leadership should be a key competency of HR professionals. They must adopt the new leadership role that facilitates the transformation from a good or mediocre operation, to one that is excellent, with staff and associates who are highly competent, flexible, amenable to change, team-oriented, committed to the organization and who have the capacity and willingness to share leadership roles. This 'team orientation' which places the collective over the individual is similar to UBUNTU leadership principles.

### **TEAM TRANSFORMATIONAL LEADERSHIP**

Team transformational leadership is now one of the most widely researched and used leadership models and research findings suggest that leadership can be shared by each team member (Bass & Avolio, 2000). Additionally, it is argued that organizations which have a team structure are more likely to benefit most from team transformational leadership (Arnold, Barling & Kelloway, 2001). Team transformational leadership is rooted the principles of shared leadership.

Researchers have written about the benefits of shared leadership, emphasising the importance of delegating authority and responsibility to different levels in an organization (Perry, Pearce & Simms, 1999; O'Toole et al, 2002; Sally, 2002). It was asserted that "shared leadership is a dynamic, interactive influence process among individual in groups for which the objective is to lead one another to the achievement of group or organisational goals or both" (McCauley, 2004, 802). The core characteristics of the team transformational leader as defined by Bass and Avolio (2000) are: Idealised Influence (attributed), Idealised Influence (behaviour), Inspirational Motivation, Intellectual Stimulation and Individual Consideration.

Transformational leadership allows followers to achieve heightened desires, work harder, embrace a greater vision for the organisation, perform beyond expectations and strive to achieve the highest level of performance (Bass & Avolio, 2000; Doherty, 1997; Podsakoff et al, 1996; Ensley, Hmieleski, & Pearce. 2006). Bass and Avolio (2000) operationalised the construct of team transformational leadership as follows: Idealised Influence (attributed) - remains calm in crisis, goes beyond self-interest, acts in ways that builds respect, and displays sense of power and confidence); Idealised Influence (behaviour) – talks about most important values, strong sense of purpose, takes stand on difficult issues, and builds trust in the team; Inspirational Motivation - communicating the vision with fluency, enthusiasm, high optimism, instilling confidence and giving pep talks; Intellectual Stimulation - inspiring members/followers looking at old methods in a new way, fostering creativity and stressing the use of intelligence. Finally, Individual Consideration - personal attention, each person feeling valued, recognizing each individual's contribution as important to the wider purpose of the team. Here the emphasis seems to be on each member committing to the greater cause of the team.

In this team transformational leadership approach to team leadership, each individual on the team is developed to be a transformational leader (Avolio et al, 2003). It differs from the original form of transformational leadership in that it focuses on leadership 'BY' the team and not 'OF' the team (Avolio et al, 2002). It is grounded in the principles of shared leadership which is located at the 'group-level of analysis' and not 'individual level' where a leader is responsible for leading a group. Sivasubramaniam (et al, 2000) in a study of 165 university students found that team transformational leadership was positively related to performance through the mediating effect of group potency.

## FINDINGS

### Conceptualising Team leadership and HRM

**Idealised influence.** An organization can prepare the most elaborate strategic plans and associated goals, but without employees' understanding of these vision, mission, corporate values, goals and plans, and more important, commitment to them, it will not be as effective as planned (David, 2013). There must be sensitivity to the norms and value orientations of the workers, through negotiations to solicit buy-in to the vision and mission.

The HR professional is best placed to provide the kind of team leadership required to lead and champion the process of developing a corporate culture based on shared leadership and competitiveness in Caribbean organisations. This overarching principle would then drive the development of a core of high performing 'leaders' at all levels throughout the organisation, committed to the organisation's vision, mission and competitive strategy.

In team transformational leadership, leadership is shared among the various members of the team. The formal or legitimate leader (eg: the functional manager) would ensure that each person is developed to perform greater leadership roles in the organization, which would be decentralized and flatter in structure. Each employee would see himself or herself as a 'transformational leader' committed to meaningful contribution to the organisation. Coke (1995: 13) contended that there is the growing tendency to 'twin' the ideas of leadership and followership as equally important concepts,

further stressing that both managers and workers “are adults with the potential for self-management and self-determination”. Coke (1995) goes as far as contending that the team members can also share in their manager’s accountability. This is radical in terms of our Caribbean, but consistent with the principles of team transformational leadership.

The ideas, creativity and innovation of committed and competent team members cannot be imitated or substituted by competitors. A culture is created in which teams support the activities of each member and there is a concentrated focus on the vision, mission and values of the organization; the commonality of purpose is emphasised. This would then be a critical linkage to the RBV concept and alignment to HRM leadership. Also, this may present the strongest linkage to the UBUNTU concept of the collective.

The HR leader may have to implement HRD strategies and associated programmes to ensure that all employees are appropriately trained and developed make meaningful contribution to idealized influence: i.e. the vision, mission, corporate values, goals and plans. Additionally, the ways in which employees interact is critical and as such, the HR leader may have to emphasise developing employee relations in the team.

***Intellectual stimulation.*** The minds and intellect of employees may be the most powerful sources of innovation and creativity. It is said that the greatest asset in any organization and country for that matter is the collective minds and talents of the people. This is where brilliant ideas that drive distinctive businesses begin to evolve. When the intellect of people working in organizations is stimulated to a high level, there is no end to the outputs of innovation and creativity that can emanate. There would be a greater focus on inspiring colleagues to look at old methods in a new way, fostering creativity and creating opportunities for workers to make greater use of their intellect. It is contended that as HR professionals practice team leadership that inspires intellectual stimulation, they facilitate the development of human resources that possess distinctive competencies or knowledge and consistently generate innovative and creative products and services which ultimately lead to competitive advantage.

HR leader may have to implement HRD strategies and associated programmes to ensure that all employees are adequately trained and developed based on comprehensive training needs assessments (TNA), supported by HR interventions such as quality Wellness strategies and programmes; and rewards and recognition initiatives with outputs that are valent for employees.

***Inspirational motivation.*** The HR team transformational leader would perform the role in which he/she inspires each employee to inspire other employees. This may be one of the closest linkages to Ubuntu leadership culture. In this process of inspirational motivation, responsibility for consistently communicating the vision and mission does not only belong to the management team or senior management team, but also junior workers. This emphasis on individual leadership related to building the confidence of team members and mobilising the team to positive action, linked to the vision, mission and strategic goals, pertains to all levels in the organisation. This process would ultimately result in the creation of a very flat structure in which responsibility, autonomy and accountability are delegated and shared throughout the organisation. This is consistent with the research and main thesis of Mary Parker-Follett (Robbins and Coulter, 2005) who argued that workers should be empowered to take on greater autonomy and authority where they had the greatest knowledge.

The inspiration of people is particularly relevant at the operational level, where service excellence can only be achieved by and through highly motivated, competent, committed and focused employees. Employees who lack inspiration may be mediocre at best, be major constraints to achieving higher levels of performance and ultimately the strategic goal of competitive advantage. Meaningful and sustained change in organizations can best occur when the employees are knowledgeable about and

inspired to work towards the vision, mission and goals. Additionally, change is fast becoming the main constant in competitive and other business environments, and as such decisions must be made quickly.

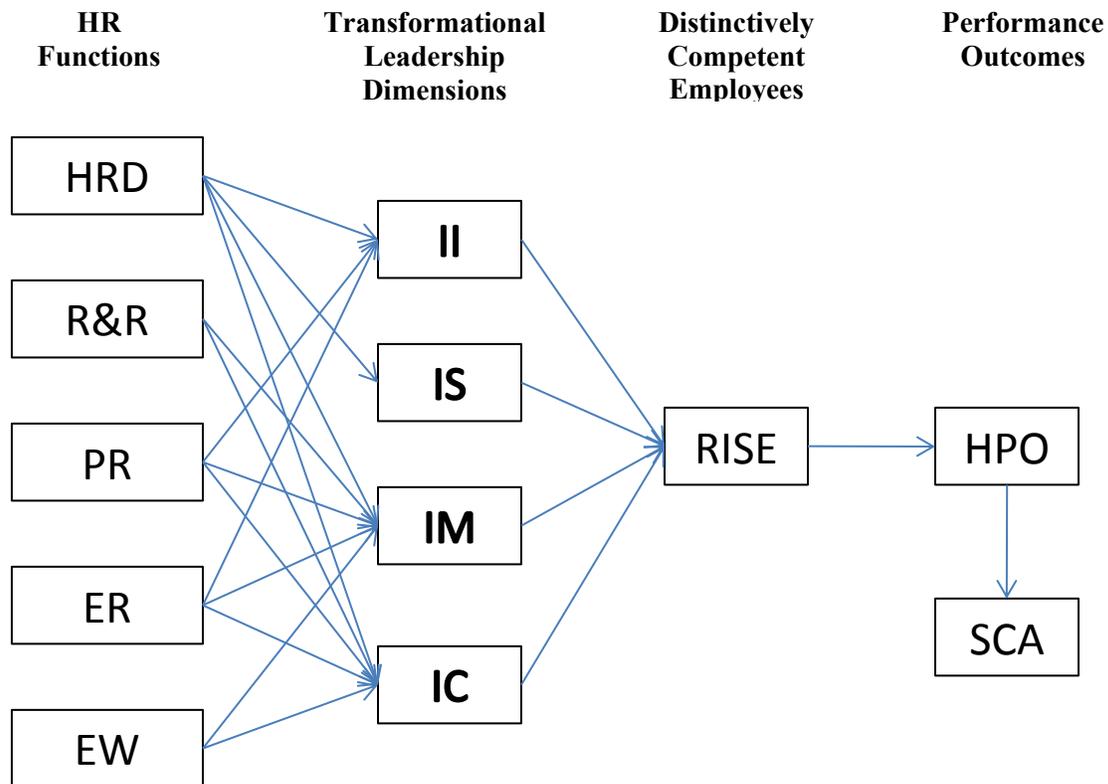
This concept of motivation is grounded in organisational psychology and the forces that drive people to exert effort to complete or develop tasks. The RBV is very relevant here as the HRM leadership facilitates inspirational motivation that is likely to achieve high performance, through the people with high self-efficacy and commitment. Such human resources can never be imitated or substituted and will surely be rare.

HR leader may have to implement HRD strategies and associated programmes to ensure the development of the 'whole person' and not just the technical aspect. Coke (1995) recommended regular modular training programmes tailored to develop transformational leaders. It is argued by the writer that in knowledge and services economies, the mental and emotional capabilities and competitive competencies of the workforce are key success factors in determining whether customer needs are met or exceeded, cost efficiencies achieved, or innovative and creative ideas flow throughout the system. Performance management system assists HR professionals in monitoring employee performance and recommending appropriate rewards and recognition. This is necessary at this phase as rewards and recognition are related to the motivation of employees. The HR function related to employee wellness is also relevant for inspirational motivation as healthy employees are better able to function on the job; body, spirit and mind in balance. Finally, HR may also need to facilitate the evolution of meaningful employee relations. Hence, in the framework five core HR functions are needed to enhance this dimension.

***Individual consideration.*** Even though teamwork is considered essential for the services environment, effective leaders still need to cater to the individual needs of each employee. This suggests that the HR team transformational leaders would lead the process of focusing on individual consideration. Synergy focuses on the whole in relation to desired outcomes, but the value of the part is also very significant in any system and impacts on the effectiveness and efficiency of the whole.

HR team transformational leader is likely to be a professional who makes time to meet with individual employees to provide personal attention and valuing individual effort. This involves building effective employee relations across the organization. Nelson (1995) stressed the importance of catering to the individual needs of workers. She asserted that there must be a philosophy and ethos that gives primacy to the knowledge worker and his/her needs; that their needs must be met, must self-actualise, be empowered and given rewards (that are valent). In today's complex and volatile business environments, the knowledge worker adds significant value to the organizations, especially in its journey to high performance and sustainable competitive advantage. For knowledge workers in particular, training and development are continuous processes that occur throughout the individual's life.

**FIGURE 1**  
**Conceptual Framework Incorporating HRM and RBV Variables**



**Conceptual Framework Incorporating RBV Variables**

We propose a normative conceptual framework based on the key concepts (variables) introduced in the previous sections. It includes: (A) the HRM variables (functions) such as, human resource development, rewards and recognition, performance review, employee wellness, rewards and recognition; performance review; employee relations; (B) Team Transformational variables: idealized influence (II); intellectual stimulation (IS); inspirational motivation (IM); individual consideration (IC); (C) RBV employee variables: rare, not easily imitated or substituted (RISE); (D) Outcome variables: high performance organization (HPO) and sustainable competitive advantage (SCA).

In this framework, it is suggested that the HR professional utilizes specific HR strategies and functions related to human resource development (HRD), performance review (PR), rewards and recognition (R&R), employee relations (ER) and employee wellness (EW). These are hypothesized to enhance the team transformational leadership dimensions of idealized influence (II), intellectual stimulation, inspirational motivation (IM) and individual consideration (IC), which should then result in employees who are distinctively competent – RISE (capabilities that are rare, not easily imitated or substituted). Ultimately, these distinctively competent employees should become high performers (HPO) and lead the organization to sustainable competitive advantage (SCA).

In the conceptual framework expected relationships are defined by:

- Independent Variables: HR Functions
- Mediating variables: team transformational leadership dimensions

- Outcome variables: distinctively competent employees; high performance organization; and sustainable competitive advantage

### **Cascading Team Transformational Leadership to HRM in RBV Framework**

In cascading team transformational leadership, the HR professional would focus on identifying individual differences in each manager and worker and use this uniqueness to positive advantage. If properly implemented this would foster a culture in which each person values the differences in each other, and openly support each other's growth and development. This would no longer be the sole responsibility of the managers but all workers. The HR transformational leader would place greater focus on 'each person' feeling valued and recognizing each individual's contribution as important to the wider strategic purpose of the team. This emphasis on people's development would be consistent with the argument that today's knowledge economies and modern market environments require learning organizations, where people's [workers] personal development and growth are central to organisational effectiveness (Senge, 1990).

Cowell and Crick (2004) referred to the Hilton Hotel in the small island nation Trinidad and Tobago, where the General Manager sponsored an initiative to invest in computer training for all staff as a strategy to build self-esteem and confidence, thereby making a difference in their lives. Worthy of mention is the fact that this emphasis on people development is consistent with the HR philosophy and transformational leadership. The collective competence and competitive capabilities of the organisation's human resources can best be manifested through the HR transformational leader influencing the creation of the new paradigm in which knowledge creation, knowledge management and sharing become commonplace in organisations. This would be consistent with the team transformational leadership focus on intellectual stimulation.

The team transformational leader knows that workers cannot be forced to deliver excellence or to be committed to the organisation, even though some of them can be coerced to work; this can be very counterproductive. Hence, the HR leaders could utilize strategies to gain high respect and trust of the team members, which are so essential to soliciting organizational commitment. Leaders win the confidence of team members through positive example and as such gain power to influence how they accept or reject company initiatives. Instead of following the old paradigm of 'you better do it or else', the transformational thinking is to inspire by communicating, 'each person can do it'. Coke (1995) suggests that there must be open communication flows and employees must be helped to self-actualise.

Research into leadership in West Indies (WI) cricket suggested that the institution of West Indies cricket achieved phenomenal success due to its quality of leadership (Corbin, 2005). It was argued that the most successful cricket captains seemed to have used leadership behaviours consistent with the transformational leadership model. These captains were the leaders of WI cricket teams during the period when they were the 'winningness' and most feared team in international cricket. The WI cricket team consistently repeated its winning ways and was the epitome of excellence. Corbin (2005) studied two captains whose winning performance achievements can be attributed to the practice of transformational leadership.

Barriteau (2003) studied five (5) outstanding Caribbean women of African descent and found that they all displayed characteristics of transformational leadership. She highlighted that they all displayed a combination of both personal and professional characteristics that led to their effective performance in public life. Could this demonstrated transformational approach be replicated in competent HR professionals and applied successfully within the prevailing Caribbean organization culture and environment? Can the HR professional facilitate or lead the process of developing an organizational culture built on shared leadership through team transformational leadership which enhances competitiveness?

The leader skillfully influences and creates the motivational environment that causes workers to look beyond their own self-interests for the good of the team and organisation as a whole. Hence, each team member would perform similar leadership roles as the formally appointed leader and they also begin to consider the needs of their co-workers and assist where possible. In a transformed and empowered work environment, workers would not rush to the manager for assistance with every issue. 'Mangoes on the Beach' is a small high end restaurant on the West coast of the small island of Barbados. Every year, the owner-managers travel overseas and leave the staff to manage the organisation. These staff members are good examples of team transformational leadership, especially where workers then look after the needs of each other in a very autonomous work environment. It is not perfect, but this organisation is one of the more successful organisations in this sector. Cowell and Crick (2004) provide a similar example of leadership by front-line workers using the case of Ritz Carlton Hotel that gave them the autonomy to spend up to US \$2,000.00 to ensure guest satisfaction.

### **The Challenge for HR**

The Caribbean's challenge is that our existing cultures in organisations seem not to be conducive to effective quality and teamwork. Munroe (1995: 285-286) argued that "the national culture in the Caribbean, and hence the organizational culture is traditionally authoritarian and paternalistic" and this was also supported by Punnett, Dick-Forde & Robinson (2006). Furthermore, Munroe (1995) asserted that there is a need for operational procedures which incorporate effective employee involvement in decision making. In the Total Quality Management (TQM) wave that hit some Caribbean organisations in the 1990s, Charles (1995) contended that the main areas of weakness were in the inappropriate structures and weak leadership. He further stated that there may be certain things in our cultural baggage as Caribbean people that may be inconsistent with TQM. Punnett, Dick-Forde and Robinson (2006) found that Caribbean countries (Jamaica, Trinidad and Barbados) scored high on individualism and low on collectivism. This finding may have implications for teamwork as the principles governing individualism such as high self-interest and personal gain, are counter to those of collectivism.

In this age of more career-focused workers, evolving knowledge-based economies, teamwork must go beyond a team structure in which there is just one dominant leader; this is not the best from the perspective of service delivery. This writer contends that the sharing of leadership exposed by the HR team transformational leader, when present in a well-trained and developed team, should add more value at the point of service delivery, as this approach may better facilitate team members making quick and objective decisions in the interest of providing quality service to customers. Punnett, Dick-Forde and Robinson (2006: 67) seem to support this strategy when they argue that, "we believe that encouraging individual initiative (not individualism), and supporting individuals who take responsibility and make decisions on their own, will enhance the competitiveness of companies from the region."

Team transformational leadership would allow the company to strategically balance its need to achieve high return on investment, sustainable growth, efficiency and effectiveness, with the critical human resource dimensions such as trust and respect for each other, sense of community as occurs in UBUNTU systems, genuine care and love for people, commitment to the organisation, satisfaction with the job and motivation to sustain high performance.

It is contended that the HR professionals as the team transformational leaders, would be best positioned to use the characteristic of idealised influence to negotiate at the board table and influence the final strategic decisions. The only caveat here is that there is an assumption that the HR transformational leader has a seat on or audience with the Board, and also that the leader is a highly competent and trusted member of the executive team, who fully understands the business.

Simic (1998) contends that the transformational leader is an agent of change who creates an adaptive, entrepreneurial, innovative and flexible organization. The HR transformational leader must be courageous when attempting to radically change an existing organization culture. As a professional,

he/she must be willing and able to take risks and challenge the status quo in the organization (Simic, 1998). There must be strong confidence in the capacity of the workers to be developed to take on increased responsibilities and autonomy. Of course this approach implies a significant investment in people's training and development within the organization and the HR professional setting the example by consistent personal training and development to become a high quality team transformational leader. The HR transformational leader must be guided by a consistent set of values which are manifested in behaviours on the job (Simic (1998). These leaders must also be willing and able to face the complex, ambiguous and uncertain situations, which are commonplace in the evolving global economy. The HR transformational leader must be willing and able to share power and authority and to lead the process of change throughout the organization.

### **Challenge for Researchers**

The proposed conceptual framework with the interacting variables provides opportunities for academic researchers to test its reliability or validity. In particular, it may best be tested in both the public and private sector business environments of small island states where organisations are seeking to enhance performance to achieve sustainable competitive advantage. Business strategy researchers interested in understanding the role of internal resources, such as the human resource, in adding significant value to the process of gaining and sustaining competitive advantage may also utilize this HR team transformational leadership and sustainable competitiveness conceptual framework.

This normative conceptual framework theorises what should be done in by HR team leaders in order to develop transformational leaders among the average employee in organizations to achieve sustainable competitive advantage. Researchers may experiment with the various variables in different organisational contexts such as, size factors, types of business (manufacturing, hospitality, information communications technology). Researchers may also want to question whether UBUNTU leadership is aligned to team transformational leadership or shared leadership.

## **CONCLUSION**

We have argued that a team transformational leadership model, if well implemented in Caribbean organisations, could make a significant contribution to their sustainable development, competitive capabilities and full readiness for the uneven playing field that is manifested in the global village. We propose the development of team transformational leadership competencies in each employee, as today's organisation requires the full creativity and innovativeness of everyone. It argues that the traditional pyramidal structure with leadership centred at the top, is counterproductive and constrains release of the capabilities of the human resource. This is not the best approach for maximising the potential of people and for developing knowledge within each organisation.

This writer contends that competitive advantage is achieved through the people in the organisation and not just advanced technology; it is distinctive competencies found in our people that are reflected in the tacit knowledge they possess. To achieve this level of competitiveness, the HR manager would adopt the role of team transformational leader and be an agent of change who inspires, stimulates the intellect, develops emotional intelligence, considers the individual differences, leads by example and takes risks in attempting to change the existing culture to one that encourages shared leadership. Team transformational leadership, where leadership is shared among each team member, it is one of the cutting edge strategies that could contribute to the further development of Caribbean organisations, through helping them cope with the increasing complexity of the environment. The HR professional as the team transformational leader, leads the process of organisational change to one in which each employee is developed to be a transformational leader. It is argued that these concepts are consistent with an RBV approach to competitive advantage and sustainability.

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**WESTERNIZED YOUNG AFRICANS: A NARRATIVE DISCOURSE ON GENERATIONAL DIFFERENCES,  
POWER DISTANCE AND THE IMPLICATIONS FOR AFRICAN MANAGEMENT PHILOSOPHY**

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**ABSTRACT**

The emergence of African management philosophies and theories is long overdue. However, as the contribution to literature grows globally, scholars need to simultaneously investigate the implications to the generation of young Africans whose formative years have been significantly influenced by global media resulting in their cultural mind-set being more western than African. This paper explores this possibility and examines the attitude and perception of the globally recognized Generation Y in Nigeria as they enter the workplace. This study is primarily qualitative and employs face to face interviews for data gathering and narrative analysis in analysing the data. The discuss concludes that when the new Generation Y become managers in the next 10 years, new African management theories that recognize and accommodates the reality of power-distance in the African culture may not be applicable to this new breed of managers. Nevertheless, this does not undermine the importance of African management theories but rather encourages the recognition of a growing workforce of ‘westernized Africans’ as more culturally adaptable theories emerge.

**Keywords:** Culture, Management Practice, Generational Identity, Africa, Nigeria, Power Distance, Generation Y, Baby Boomers, Generation X, Multinational Enterprise

**INTRODUCTION**

Since the 1990s, the global competitive landscape has become increasingly populated by Multinational Enterprises (MNE) hosted by semi-developed and developing countries. These ‘new’ MNEs are located in (a) upper-middle income economies such as Spain, Portugal, South Korea, and Taiwan; (b) emerging economies such as Brazil, Chile, Mexico, China, India, and Turkey; (c) developing countries such as Egypt, Indonesia, and Thailand; and (d) oil-rich countries such as the United Arab Emirates, Nigeria, and Venezuela (Mauro and Esteban, 2009). FDI projects into Sub-Saharan Africa have grown at a compound rate of 22% since 2007. Among the star performers attracting growing numbers of projects

have been Ghana, Nigeria, Kenya, Tanzania, Zambia Mozambique, Mauritius and South Africa; for example in the last 5 years, the compound annual growth rate in the number of foreign investment projects in Nigeria went up by 20.1% compared with South Africa and Kenya which were 56% and 60% within the same period (Ernst and Young Business Report, 2013).

The increase in these 'new' MNEs and the frequency with which organizations do business far from home, has given rise to new experiences that disproves the presumption that a definable set of management skills has worldwide validity and this has continued to command widespread implicit disagreement among managers and scholars (Boyacigiller & Adler, 1991; Hofstede, 1994).

In academia, the applicability of modern management theories within the context of strongly defined African cultures is now the central focus of debates. As management theories evolve, the discipline has suffered from a deluge of theories that has been more confusing in practice than directional (Redding, 1994). Though the earlier works of the scientific, bureaucratic, administrative and human behavioural theorists have contributed significantly to developments in management practice (some still applicable today), it is indubitable that the universal validity of management philosophies and theories developed in countries like the United Kingdom (UK) and the United States of America (USA) is questionable especially when applied to other cultures (Koontz, 1980).

In this regard, Hofstede's (1980, 1991) studies lent some form of sanity to parts of the body of knowledge by tackling the differences in relevance across regions as being attributable to cultural differences. Hofstede (1980) defined culture as the pattern, ways of thinking, feeling and reacting, acquired and communicated mainly by symbols, amounting to the distinctive achievements of human groups, including their embodiments in artefacts. Hofstede (1991) argues that every person carries their patterns of thinking, feeling, and potential acting learned throughout their life-time. Using the analogy of the way computers are programmed, he referred to such patterns of thinking, feeling, and acting as mental programs, or software of mind.

Though there are various scholarly perspectives on the substance of culture (e.g. Hofstede, 1980; Triandis, 2004; Trompenaars and Hampden-Turner, 1986; Schwartz, 1999; Hall, 1976). For example, the Iceberg Model of Culture propounded by Hall (1976) presents culture as an iceberg. Icebergs form elements that are transparent (above water) and other elements that are invisible (hidden below water), the larger part of the iceberg being the invisible parts not seen by the naked eye. Hall (1976) argued that like the iceberg, the larger aspect of life and work are hidden mostly within the invisible parts which are unobserved and often ignored. The implication is that the impact of underlying subconscious aspect of the actions, behaviour and perception of people need to be given greater consideration.

The physical (conscious) aspect of culture is visible, such as behaviours, actions and beliefs (tip of the iceberg), while the invisible and unconscious aspect (larger part/below the surface) include underlying values, traditions, beliefs, taboos trigger behaviour and action. Culture therefore cannot be understood by the visible aspect only, but rather with the underlying invisible values, beliefs, traditional norms (Hall, 1979). This argument is similar to Hofstede's (2010) argument that cultural differences manifest in several ways, superficially as symbols, heroes, rituals (these are also referred to as cultural practices which are visible to external observers) and deeper as values which can only be interpreted or understood by insiders (this can be at the individual, community, national level). The common thread of either argument lies in the treatment of culture as a *form of identity expressed by an individual or nation*.

In view of this, post-colonized Africa will prove to be a rather interesting object of study. Firstly, the African case is complicated by the fact that over time, colonialism altered people's thought processes, experiences and environments in cultures that already had pre-existing forms of management evident from the organization of their ancient kingdoms and empires. Interestingly, the

likely forms of management practices that may have evolved independent of colonialism in countries like Nigeria is now open to speculation (Ifechukwu, 2010).

Secondly, it can be argued that the identity challenge for Africa has gone beyond colonization into globalization. With the advent of the internet and global media, the dynamics for mental programming across national boundaries is changing and a new generation of Africans has emerged. Born after 1980 and are globally referred to as generation Y (Gen Y), these young Africans think, speak and act western and are now the new entrants in the workplace. There is growing evidence that traditional 'practices' may no longer apply in managing this new work entrants and it is with this view that this study seeks to address the working proposition below:

*Working Proposition: The more Gen Y managers emerge in the workplace, the less the need for work structures that support high Power Distance cultures*

Although recent cross-cultural studies have produced findings that help leaders manage complex work environments, much still remains to be done. Most research have been conducted in Western cultures and more recently Eastern cultures but the question is whether these research can be generalized to other parts of the world. Perhaps part of the answer to this question is that it depends on the national culture of the employees in particular locations and since executives are increasingly managing diverse, global teams it is more important than ever to understand the cross-cultural differences that may impact workplace dynamics.

The aim of this study is to highlight changing workplace dynamics in the African workplace and challenge emerging African academics to recognize the existence of these 'Westernized Young Africans' as they seek to introduce culturally adaptable management philosophies. This is in view of the fact that the contemporary thinking of management emphasise 'team work' (Kirkman and Rose, 1999).

## **METHODOLOGY AND METHODS**

Due to the nature of the study (culture, cross-culture and acculturation), it adopts a purely qualitative approach employing the philosophy of realism about phenomena that relates to societal activities, behaviours, traditions and beliefs. This methodology will help to achieve an emphatic understanding of social events and recognizes both the historical dimension of human behaviour as well as the subjective element of human experience (Nachima & Nachima, 1996). The methods employed are face to face interviews and focus group discussions for data gathering while the method of analysis adopted was narrative. Qualitative research produces a detailed data on the phenomenon being investigated because they are derived directly from people involved or stakeholders (Patton, 2002). This was found to be the best method for examining intangible or non-quantifiable factors such as culture, norms, religion, status, which are not easily captured by other methods (Pope, 2000; Denzin, 2000; Nkwi, 2001).

The study upon which this paper is based drew its inspiration from a focus group research study conducted in a multinational organization in Lagos, Nigeria in 2009 by one of the authors; Lagos is located in the South West of Nigeria among the Yoruba tribes. The original focus of the study was to determine the main sources of conflicts and causes of declining work productivity within a multinational organization of about 100 staff members. To achieve this, the staff members were split into three main groups consisting of associates, consultants (non-management group) and managers. Though, not the original intent of the researcher, the functional group split resulted in a natural split into identifiable generational identities. The split groups emerged as both cohort-based and age-based generations and this resulted in very interesting observations for the study. Joshi, Dencker, Franz & Mattochio (2010) describe cohort generational identities as the groups/work identities that are formed based on common experiences resulting from organizational entry and age generational identity as that formed by common experiences outside work.

The resulting causes of workplace conflicts observed showed clearly a distinct difference in the cultural values, attitudes and perception of each of the groups, particularly the 'associates'. The findings showed that the younger generation preferred a more consultative work-style, expected to be 'carried along' in management decisions, demanded better training and reward for performance. They also expected rewards for non-performance. In addition, several individual interviews were conducted outside the organization to determine if these findings were organizational specific and the same trend was observed. Interestingly, these findings seemed to be corroborated by more recent research findings on the Gen Y worker and this raised the question of whether there may be similarities in the new generation workforce and if management style should really be culture-driven.

## **THEORETICAL BACKGROUND**

### **Hofstede's Power Distance Dimension**

Hofstede (1980) was the first to perform an experiment introducing the concept of cultural conditioning though not the only scholar to present a robust view on culture (for example, Geertz, 1973), he has been one of the most widely cited authors on the subject. He (2010) defines culture as the collective mental programming of people in an environment, encompassing a number of people conditioned by education and life experiences.

A major critique of Hofstede's theory is that culture is presented at the national rather than at the individual level. Though several scholars disagreed that the nation by itself can be treated as the main unit of culture, to say that nation has no significance may be extreme. Like any clear-cut category, "the nation" has limitations. Hofstede recognized that profession, organizations, the sexes and age groups, religious groups, ethnic groups, etc. manifest culture differently but still treated the nation as the main unit of culture (Hofstede, 2000).

In an initial study of about 40 independent nations, Hofstede (1980) empirically examined the main criteria or dimensions by which national cultures differed, he identified four main cultural dimensions; Power-Distance, Uncertainty Avoidance, Individualism-Collectivism, Masculinity-Femininity and examined the effect of these dimensions on the common managerial practices of motivation, leadership and organization.

The first dimension, Power Distance was defined as the degree of inequality among people which the population of a country considers as normal: from relatively equal (that is, small power distance) to extremely unequal (large power distance). He argued that all societies are unequal, but some are considered more unequal than others (Hofstede, 1983).

In the initial study, South Africa was the only African country included in the sample of 40 countries globally. While the strongest cultural disparities with the UK and USA being in Africa and Asia, this under-representation of African states presented a huge gap in academic literature. This gap was partially addressed in a later study on cultural relativity (Hofstede, 1983) where three West African countries (Nigeria, Ghana and Sierra Leone) were assessed as one unit to determine their position within the cultural dimensions. The West African unit rated top third highest in Power distance of the 53 countries studied. Arguably, the multi-cultural variations in Nigeria alone do not justify the integration of 3 distinct national cultures as one unit.

Subsequently, Peterson & Smith (1995) extended Hofstede's study to examine the applicability of five cultural dimensions on work related stress factors like role conflict and role ambiguity and they included Nigeria and Uganda in their study as individual nations. Findings from both studies confirm Nigeria as demonstrating a high power distance culture. For the purpose of this study, the interaction between the various cultural dimensions will be ignored. Though it is recognized that the cultural dimensional models are complementary, the power-distance dimension will be treated as a 'pure type'.

### **The Culture of Power Distance in Nigeria**

Despite the fact that Africa lacks properly documented evidence of its management philosophies, it does not eliminate the fact they did exist. The African continent had existed before European colonialists claimed to have 'discovered' it, though 'the continent' suggests a foreign and artificial creation. For any society that had been in existence for a while, there would have been forms of governance, economy and management philosophies being practiced (George, 2011). The sophistry of leadership, work groups, productivity, controls and rewards of the ancient kingdoms across Africa was reflective of organized and civilized forms of society existing before the evolution of modern management as we know it today.

For example, the Egyptian pyramids and the Great Wall of China are tangible evidence that projects of tremendous scope, which employed tens of thousands of people were completed in ancient times (George, 1972). The great pyramids, which were built in 2900 B.C., are an archetypal example of management and co-ordination. It is remarkable that a pyramid required 100,000 men, working for 20 years, covering 13 acres, using 2.3 million blocks, each weighing an average of 2.5 tons (George, 1968). This magnitude of achievement clearly shows the job of management was practiced extensively by people who were known to have no formal education.

The same level of ancient organization is evident in Nigeria. Though there were no written laws, customs did exist and were mostly passed through generations via word of mouth. It is in the examination of these ancient structures and customs that a clearer understanding of the power distance dimension can be found. However, it would be impossible to exhaustively discuss the intricacies and complexities of the powerful tribal kingdoms that have evolved the national culture present in Nigeria today.

The Hausa, Igbo and Yoruba are the three major tribes in Nigeria representing over 70% of Nigeria's 175 million population and 250 ethnic groups. The Hausa, Ibo and Yoruba tribes respectively represent 29%, 18% and 21% of the Nigerian population and will be the focus for presenting a background on the national culture (George, 2011).

**The Hausa/Fulani.** The basic elements of kinship among the Fulani/Hausa are based on generations; age, gender, kinship and seniority are vital to the structure of the household. Being patrilineal and patrilocal, people value their *Yettore* (last name), by which they are first identified and the typical organization of lineage is typically traced from a common ancestor and his descendants

Families live in the same compound and members cooperate in daily life activities. Usually, a cluster of lineages constitute a clan and kinship and regional groups regulate conflict within and between groups. Patrilineages also have an important part in regulating, daily administration and tend to control, marriages and inheritance. Regular activities related to kinship are seen in the steady state nature of the Fulani/Hausa culture and are summed up in the etiquette of *Pulaaku*. The *Pulaaku* code of conduct stresses the symbolic importance of cattle, the respect of seniors and the love of mother.

Politically, the Northern Caliphate was a political structure ruling over 30 different emirates from the city of Sokoto (now Sokoto state). The leaders of each emirate (Emirs) were appointed by the Sultan of Sokoto and given independence and autonomy of rule. Interestingly, due to the very strong Islamic religious influence adopted from the 11th century one of the rulers of the caliphate Othman Dan Fodio in 1804 abolished the system of hereditary succession in favour of the appointment of Islamic leaders with high moral standing in society (Sulaiman, C.K, 1994; Burnham and Murray, 1994; Falola, 2009). The Hausa/Fulani are fiercely protective of hierarchy, authority to maintain societal order, respect for authority, servitude and allegiance to clan. A high premium is placed on values such as deference to authority, loyalty, obedience and sensitivity to the interests, opinions, views and demands of one's superiors (Nnoli, 1980).

**The Yorubas.** In the South-Western Nigeria, the Yoruba tribes were also well organized before the British colonial period. Early Yoruba towns and cities were recorded as far back as the sixteenth century (Gugler and Flanagan 1978). These towns and cities had enclosed compounds, with family groups varying in size from 20 to 2,000 persons living together in each compound while each town had divine kings who were selected from a royal lineage by governing bodies of chiefs and elders.

Yoruba families were not ordinarily class conscious though the highly educated elite now represent an emerging upper class. Though the pre-colonial Yoruba society had no class barriers (Aronson, 1980) status barriers did exist and still does in the form of prestige and power where gender, age, descent group, and political role determined social rank (Tuden and Plotnicov, 1970; Lloyd, 1974). The Yoruba concept of family starts with the descent group or lineage, which stressed group loyalty rather than individual independence (Lloyd, 1974).

He (1974) argued that the rights of the individuals within the group were relatively permanent, so an individual, who returned home after many years away, for example, could reclaim entitlement to farm land and other privileges. The *olori ebi* (employer/family head) retained all authority and determined recruitment and rewards not necessarily based on merit but more on seniority. He provided food, housing and security for all family members and even determined when and to whom they would marry (Iwuji, 1968). Families mostly share a compound known as 'agbo-ile' which typically have a patrilineal core group, a hereditary leader, a set of self-regulating functions concerning internal disputes and inheritance, its own titular deities and shrines, its own praise songs, and sometimes hereditary occupations (LeVine, Klein, and Owen 1967). The descent group holds title to land and controls its distribution among members. Inherent in the concept of lineage structure is the system of seniority, which establishes a single hierarchy of reciprocal obligations in all situations (Aronson, 1980).

Traditionally, any senior member had a right to unquestioned service, deference, and submissiveness from the subordinate (Lloyd, 1974). Traditional rules assign age seniority according to order of entry into the lineage, either by birth (Akobi/Egbon) or by marriage (senior wives 'lyale' in a polygamous setting have the same authority). Seniority is also derived from gender, hereditary titles, designated leadership roles, physical ability, and supernatural endowment (as in the case of the priesthood). Seniority traditionally determined task allocation and resource distribution in the labour system of the household production unit. Distinctions defining seniority were, of necessity, elaborate and were expressed in the myriad terms by which individuals greeted and addressed each other (Fadipe 1970). Distinctions among these titles and greetings might claim in the old production system the same importance now attached in the modern sector to job grades and job descriptions. Just as formal and polite forms of address is held in high regard even in the workplace, particularly among the Yorubas.

**The Igbos.** In Igboland, there are thousands of autonomous communities or towns (village group), known as obodo; or mba, each run by a paramount leader known as eze or igwe as the case may be. Distinctly different in this regard from the other tribes which favored strong centralised authority, the idea of paramount chief that cuts across all Igbo societies today is a legacy of European colonial contact, as there was nothing like paramount chiefs in pre-colonial period (Ukpokolo, 2010). Settlement was based on patrilineage relationships as members of the same extended family tend to reside closer to one another than with members of other unrelated patrilineages. The reason for this is traceable to the fact that each nuclear family shares its landed property which is usually a large expanse of land among the male children. As residence is patrilocal, ultimately members of the same *umunna* (same mother) reside closer to one another than to those of other patrilineages. The network of social relationships established through blood bond and daily interactions nurtures closer ties among kin groups and further ensures loyalty from kinsmen and women. For the Igbo people support to one's kin is an essential obligation.

The common practice across the three major tribes in Nigeria depicts loyalty to the centre, leadership that shows a genuine concern for people and production and deep respect for age and authority. This can be summarized as core values, which are; respect for elders and tradition, consensus, co-prosperity or social mutual concern, extended family, paternalism, competition, human relations orientation and hero-appreciation (Ifechukwu, 2010). These core values are apparent among the more than 250 Nigerian ethnic groups and especially the major tribal groups of Hausa/Fulani/Hausa, Yoruba and Igbo (Oghojafor et al 2012). The cultural values observed across the three tribes greatly support high-power distance structures. Arguably, the effectiveness of the practice of modern management concepts like motivation, leadership and organization is dependent on these core values and their origins.

Ifechukwu (1994) argued that effective management and administration could not have been possible in the Egba Kingdom, Sokoto Caliphate, Benin Kingdom or Oyo Empire if there were no applications of these core values. Inductively, high power distance was a natural evolution from the traditional leadership/management styles successfully applied by each tribe in creating order and sustenance within the family and society.

### **Generational Identities**

Effective management and administration is fast becoming a major challenge as organizations are now managing an increasingly age-diverse workplace. Understanding generational identities helps to determine interactions required to accomplish common work goals; since contemporary management emphasizes team-working. This understanding helps in guiding the successful transmission of knowledge, skills and resources between generations as well as predicting patterns for future management practices. “Generational identity” as a multifaceted construct is broadly defined as an individual’s knowledge that he or she belongs to a generational group/role, together with some emotional and value significance to his or her of this group/role membership (Ashforth, Harrison, & Corley, 2008; Ashforth & Mael, 1989; Sluss & Ashforth, 2007; Tajfel, 1982). Building on research across a number of disciplines, three key aspects of generational identity can be distilled: cohort-based identity, age-based identity and incumbency-based identity (Joshi et al, 2010). This study will focus on primarily on age-based identity which is based on membership in an age group that shares collective memories during formative years of life.

Apart from common experiences resulting from organizational entry during a time interval (cohort-based identity), common experiences outside the work domain can also serve to shape a generational identity. Mannheim’s (1952/1928) seminal work in this area suggests that generations contain two essential components: common location in a historic time period and a distinct consciousness that is the result of important events of that time. Mannheim’s work suggests that in order for an age-based generation to function as a source of social identity, both these elements are important (Joshi et al, 2010).

It must be acknowledged that Mannheim’s work predates, but is reflected in, commonly used conceptualizations of generations based on age, such as Generation X, Generation Y, Baby Boomers, etc. These conceptualizations are based on the (often untested) assumption that the process of growing up during a particular era has an impact on an individual’s values and attitudes, and these attitudes are shared by all those who were born during the same period (Egri & Ralston, 2004; Strauss & Howe, 1991; Thau & Helfin, 1997).

The set of experiences and attitudes that results from the successive transition into adulthood is unique to each generation and continues to shape work related attitudes and expectations of a generational gap in later years (Joshi et al, 2010). Following the same pattern, one can easily describe these generational groups in Nigeria by drawing from occurrences in its history, five distinct generations emerge. The pre-colonial-generation, the independence-generation (from the independence era); the

military-generation, generation- X- and the youngest generation globally known as generation –Y- (Mussawa, 2013).

The entrant of the new generation Y poses a different attitude towards leadership, motivation and organizational models. Much of Gen Y was raised in the times of economic expansion and prosperity but it is also a generation that is coming of age in an era of economic uncertainty and violence. In a 24-hour media world, this new generation has seem more at an earlier age than prior generations have seen and it is now being accepted that they may need to be handled quite differently (Sujansky, 2004). Africa is not an exception.

## DISCUSSIONS AND CONCLUSIONS

*The head of the African has long been chopped off like that of a captured fowl. What we are doing now is simply flapping our wings and splashing blood all around. It has long been over for us (Rudolph Okonkwo, 2012)*

### **The Relative African**

It is widely suggested that the present Africans cannot be as ‘Africanise’ as their fore-bearers, much as they can never be as European as the Europeans, no matter how hard they try (Ugwu, 2012). Though it is also argued that, it is impractical to completely abandon original ways even when subject to changes in the environment (Ezeh, 2004). However, it is just as impractical to ignore the power of the changing environment. Efforts are being made by various groups all over the world to reclaim their way of life from the eroding influences of ‘globalization’ as it is being argued that failure to achieve this leaves the society/country in question as only a shadow of other societies whose own ways it senselessly mimics.

All societies of the world are not one indistinguishable mass; they are different owing to the diversity of their cultures, and a good blend of these different cultures gives human groups more possibilities than they otherwise ever had (Ugwu, 2012). However, it is not expedient to ignore the fact that cultures do undergo changes as people are more or less forced to adjust to new environments and new ways of doing things (Oghojafor, 2012).

A host of scholars (Onwuejeogwu, 1992; Ezeh, 2004; Aniakor, 2011; Chinweizu, 2011) have attempted to show that Nigeria and Africa’s troubles owe a lot to the fact that as a whole the continent has failed to sustain its member’s faith in its own ways. Many Africans are gradually changing in a manner that ceases to be original and have become extensions of other groups in which they are in contact. In some cases, there is an outright rejection of all they stand for; an attitude that anthropologists term Xenocentrism (Ugwu, 2012).

### **Nigeria’s Generation Y**

Four distinct generations have emerged in the global workforce; Traditionalists/Silent born before 1945, Baby Boomers born between 1945-1964, Generation X born between 1965-1980 and finally Generation Y/Internet generation born after 1980. Despite variations in the way scholars name/classify the start and end dates of these generations there is a general descriptive consensus regarding them (Houlian, 2009).

In Nigeria, this distinction can be made by recognizing the social milieu and unique events that shaped the attitudes and conduct of each generation distinctly different from the generations that preceded or followed it. It then follows that different age groups have collective mind-sets similar to those born within their age but different from those of other generations.

The pre-colonial generation account for the purely traditional groups that reflect in its purest form the pre-existing forms of culture leadership and work organizations. More relevant for this study are the members of the independence (1940-1949) and military-generation (1950-1970). Both generations, influenced by colonial rule but still exhibiting leadership forms and work structures that reflect deep-set cultural values. The traditional leadership style of family headship is viewed as a life-long position strengthened by seniority. This is evident in the fact that the independence generation have continued to recycle leadership in the political, academic and business arena for over 40 years. Furthermore, the next generation (most notably the ‘military or silent’ generation) have been unwilling to ‘question or challenge’ the older generations continued hold on power. As a result, generations following Nigeria’s independence and military-generation have been stuck in a rut as the ‘elders’ refused to leave the stage.

While the Silent Generation may be stuck in its lack of desire to ‘challenge the status quo’; Generation X demonstrates a somewhat withdrawn, indifferent and cautious approach. Though not as compliant as the ‘Silents’, Gen X also demonstrates an unwillingness to ‘break the culture mould’. This group may question decisions that affect them but they also hold firmly to the cultural values of loyalty to superiors and respect for elders. However, Generation Y may prove to be the most courageous and independent minded generation. This generation most exposed to western values through media channels and the internet seem prepared to break away from accepted cultural values and challenge the status quo. These young ones are so independent minded they are not afraid of conflicts like thier predecessor Gen X. It is these differences that manifest in each generations’ psyche to give credence to the lack of understanding between older and younger people in the workplace (Mussawa, 2013).

### Managing Generation Y

With increasing representation of Gen Y in the workforce (see table 1), more Human Resource professionals have already started reporting conflicts between the younger and older workers (Houlian, 2009).

**TABLE 1**  
**Nigerian Working Population Demography (2005-2010)**

Years	Population ‘000	Dependants (%)	Under working (15-64) (%)	Population Dependents over 65 (%)
2000	123,689	43.1	53.6	3.2
2005	139,823	42.8	53.9	3.3
2010	158,423	42.8	53.8	3.4

Source: National Bureau of Statistics Nigeria, 2010 Nigerian demographic statistics

In Nigeria, over 20% of the current workforce is currently in generation Y and by 2023 this percentage is expected to increase to over 75%. According to the table above, 53% of the population was within working age in 2010; this figure includes the independence/silents generations to the older Gen Ys. It is projected that in another 10 years, the Independence Gen and most of the Silents would have left the workforce, leaving Gen X and Gen Y in as the new generation of owners and managers.

Though Gen Y shares some similar values with Gen X, this group has a very different cultural perspective to the previous generations and it is important to start identifying the impact of this change in evaluating the applicability of contemporary management theories in the evolving workplace.

The incidence of generational conflicts occur within the management function of organization; where factors like authority-responsibility relationships, span of control, use of informal organizations etc. are considered. Age diverse workers need to co-exist in a workplace where the older traditional employees (mostly silents) are conditioned to the command and control management with information only being shared on a need to know basis and employee loyalty being demonstrated through self-sacrifice of long working hours and staying with the company for many years to build wealth and experience. In contrast, younger employees have expectations of non-hierarchical relationships, open information sharing, work-life balance, self-seeking and always seeking new and better job opportunities. This marked difference in attitudes towards power-distance is a major reflection of the cultural shift taking place between generations.

Gen Y was socialized in a digital world; they are continually plugged in and connected to digitally streamed information, entertainments and contacts. It is a generation that has been taught it can do anything and they do tend to believe it. They also favour an inclusive style of management, desire immediate feedback on performance and they are not afraid to '*rock the boat*'.

In Nigeria, this is a generation raised largely on global media and western values. However, many of the newer values seem to conflict with traditional values of respect, deference, unquestioned service and submissiveness. Translating this into the workplace means understanding these generational differences and bridging the gaps to ensure successful co-existence and high performance is sustained.

In Europe and America, behavioural scientists in the social sciences with backgrounds in sociology, psychology and anthropology, relied on sophisticated research methods to explain what motivates employees at work. Furthermore, theorists like Abraham Maslow, Douglas McGregor, Frederick Herzberg, Rensis Likert, David McClelland and Chris Argyris emphasized informal relationships, communication, uniqueness of individuals and motivation, rather than monetary incentives (Mullins, 2011).

The high Power-Distance culture in Nigeria is due to its cultural antecedents and this creates a challenge in the application of European and American forms of management practice. As a result most Nigerian institutions thrive in highly hierarchical structures and the predisposition is for the traditional Nigerian worker to prefer a singular chain of command where there is little ambiguity on his/her line of report as opposed to the newer team-based management structures with multiple reporting lines.

Though a smaller percentage of Independence generations remain in the workplace, they account for the hard-core traditionalist preferring the paternalistic, and autocratic cultural leadership forms. The Silents also fit in this mould, though they tend to be more flexible in their outlook than the traditionalist generation. They seek strong leadership that would provide direction and set rules, procedures and structures. This generation regards this form of leadership as safe, stable and more rewarding for learning and steady growth (mostly in the form of apprenticeship).

The Silents accept the fact that subordinates is expected to aspire to higher privileges as they work their way to the top. Hard work, respect for position, authority and delayed gratification are considered important factors for stability. Unfortunately, this may sometimes come at the expense of the excellence that comes with responsibility and authority. For example, a TV interview aired on March 13, 2013 showed the Lagos Commandant of the Nigeria Security and Civil Defence, being asked to confirm the organization's authentic website address for the viewer's benefit (there was an issue of fake websites being used for fraudulent purposes). Shockingly, he kept insisting that he was not at liberty to provide the information without the approval of 'my Oga at the top' (Interpretation: 'my boss') (Kareem, 2013). As preposterous as it seemed, it was a strong reflection of the enormity of the power-distance dimension in Nigeria and an unfortunate demonstration of how it can foster ineffectiveness at work (Adegboye, 2013).

In the private sector as well, several organizations still separate junior and senior staff canteens (George, 2011). When asked the reasons for segregation, senior management staff responded that it

was necessary for the junior staff to have something to aspire to. This is the cultural program of the typical traditionalist/silents and to some extent the less exposed members of generation X. However, generation Y's seem to have been programmed quite differently.

The results of the focus group sessions conducted by one of the authors to determine the causes of persistent workplace conflicts between the older and younger workers in a multinational firm supports this assertion. The associates and consultants being the largest group shown in table 2 were allowed the benefit of anonymity to express their concerns.

**TABLE 2**  
**Company ABC, Lagos Nigeria. Statistics of Focus Group Discussion (FGD) Conducted 03-04 September, 2009**

<b>Functional Groups</b>	<b>Associates</b>	<b>Consultants</b>	<b>Managers</b>
Number of Staff that Participated	58/58	31/39	12/17
Total Staff count-114			
Age-grade (% mix)	Gen Y (100%)	Gen Y (25%) and Gen X (75%)	Gen X (32%), Silents (68%)

Researcher Analysis, 2009

Issues/Concerns raised by Associates and Consultants during the FGD were as follows;

1. 'Management decisions that affect us are not communicated effectively and so the grapevine is strengthened'
2. 'We need to be engaged on jobs 'full cycle' not just after the contract has been signed. Valuable learning is lost in the process'
3. 'Training is inadequate, yet we are being held responsible for poor quality when the appropriate support is not provided'
4. 'Promotion seems subjective, we prefer clarity on the basis and criteria for measuring our performance'
5. 'Appraisals are punitive and more reflective of personal disposition of managers than actual performance'
6. 'Managers need to walk the talk with open-communication. There are too many barriers'
7. 'This is an open-plan office, why does a manager get to have a permanent seat regardless of when they get to work and we get to 'contend' for limited spaces?'
8. 'Managers need to plan their time more effectively, their inability to do so results in unrealistic deadlines and affects work-life balance'

The management response to some of these concerns was initially that of incredulity at the boldness of the junior staff members and typical responses were; '*We didn't dare raise such issues in our time*', '*this is what you get from asking 'children' for their opinions-tantrums*', '*these associates are so disrespectful, we must not tolerate this behavior*', '*at their age, I was never involved in decision making*', '*who said what?*'

Further interviews conducted revealed issues similar to the multinational study. The issue of forms of address in the workplace was another prominent issue that arose from the generational differentials.

Contemporary management practice advocates first name basis in the workplace as a means of encouraging open communication and better working relationships across the organization. In Western nations like USA and UK, reciprocal forms of address were intended to reduce the perception of power distance between subordinates and superiors, leading to greater job satisfaction for subordinates and greater openness of communication with superiors (Morand, 1996). Unfortunately, the objective is usually lost in transferring such practices when taking into account the fabric of the local culture.

In a series of interviews, it was found that subordinates (mostly Gen Y) who fully embrace such practices are inadvertently subject to workplace tension and lose mentoring opportunities because older managers tactically ignore or refuse to mentor subordinates perceived as not conforming to the culturally acceptable code of conduct. Unlike the West, it is an unspoken taboo to refer to the boss by his/her first name in a high power distance culture like Nigeria. Earlier, it was mentioned that the Yoruba tribes in particular take forms of address very seriously.

Interviewees from the Silents and even some Generation X found it unacceptable to refer to a senior by their first name while Gen Y interviewees did not consider it an issue. However, most Gen Y recognized that they were culturally limited in expressing this liberally.

It was also found that there was significant occurrence of name avoidance in organizations where first name address is part of work policy. Rather than refer to the senior or older worker (even when the older worker is a subordinate) by first name, 'titling' was applied. Titles like Chief, Alhaji, Dr, Prof (even where the person is not an academic) is adopted in address to maintain deference. In other cases, initials are used or Titles (Mrs, Mr) with first or last name.

Furthermore, interview outcomes also show that within and outside the workplace, Silents would not refer to anyone older by at least two years by name and this was enforced at home among siblings within families at an early stage. As generations progress, the age of deference seems to have widened considerably. Gen X's level of deference stretches to a five year age differential whilst, Gen Y averages around 10-15 years depending on how conservative the home culture was in the enforcement of this practice. In contrast, the European and American 10 year old can comfortably address his/her parents friends by name. This practice would still be viewed in Nigeria and in reality most of Africa as lack of respect and proper manners and it is usually the parents of the child that would be treated with contempt. In spite of these cultural constraints, there is still strong evidence of a generational shift in cultural attitudes and behaviors. It is such shifts in attitudes that highlight the importance of predicting patterns for future management practices. It reinforces the proposition that the requirement for work structures supporting high power distance may become redundant with Gen Y at the helm of leadership.

Another example reinforcing the generational gaps and hidden cultural conflicts within the workplace was in the understanding and perception of loyalty. During interviews, one of the leaders in an organization (Silent generation) complained extensively about the lack of loyalty from the younger generation in his organization and gave an example of a staff (Gen Y) who always left work for home at exactly 5pm (based on his employment contract) every day. The boss felt it was improper to leave work ahead of superiors, even if there was nothing to do. It was considered a sign of loyalty and respect if the subordinate left after the boss no matter how late it was.

When interviewed, the perspective of the Gen Y employee in question was different. When asked how he believes loyalty should be demonstrated to employers, he described loyalty as being able to get work done properly and in a timely manner. Still within the same organization, the same question was asked of several Gen Xs and they responded that loyalty was evidenced by the length of time spent in the same employment regardless of circumstance. Though it can be argued that diverse views of loyalty should be expected, it was quite interesting to note the similarities perspectives within the same age-groups. However, most of the Silents seemed to share Gen X's view that loyalty was expressed through number of years spent within the organization as being a critical factor but Gen Ys who tend to be highly criticized for job-hopping did not share this view.

Evidently, as generations evolve the traditional view of loyalty seems stronger among the older generation. This further lends credence to the proposition that as the generations evolve and more Generation Y mature into managers, the age and social inequality in the workplace would be significantly diminished and the implication of this shift is less dependence on management structures that support high power distance. This is observable practice with the older Generation Y's that are already becoming managers and seem to prefer the practice of more western, low power distance approach to management.

## **CONCLUSION**

The emergence of Gen Y in the workforce poses many interesting areas of research for scholars of management worldwide and especially in Africa. The outlook for the future is that culture itself diminishes as the younger generations embrace the western way and with the evolution of African and Nigerian management philosophies it is important to consider the implication of this for the workplace.

Firstly, there is a need to understand the challenges managers now face in managing distinct multi-generational issues. Future studies need to consider the following problems; (i) what motivates Gen Y's satisfaction levels towards work and encourages high performance? (ii) What specific challenges and opportunities are posed by the entry of Gen Y into the workplace? (iii) What strategies can increase retention rate and foster greater loyalty in Gen Y (iv) what strategies are required to reduce workplace conflict between the multi generations in the workplace?

Secondly, scholars have to consider the effect of this coming generation of managers in the workplace in the next decade and the implication for new local management theories. Thirdly, how do managers function effectively where there are cultural conflicts? Industrialization, globalization and internationalization have complicated the boundaries of identity and when it should take form. As managers become increasingly multinational in their functions, how do they make the choice between the dictates of their national culture and prescribed organizational culture? Is there a gradual loss of societal identity in favour of a globally acceptable business identity? How desirable is this in the long term for culture rich 'continents' like Africa?

Despite the number of questions that need to be resolved in addressing a potential generational culture shift, there is a possibility that Westernized Africans are really a small percentage of Gen Y in Africa. It can be argued that this phenomenon is predominantly present in the middle to higher income social classes as well as with youths raised in the urban areas. Gen Y in the rural areas may be less exposed to the western values and still maintains the traditional cultural values and mind-set; but will they count as part of the mainstream workforce?

## **LIMITATIONS AND AREAS FOR FURTHER STUDY**

This study explores several facets of this phenomena but is limited by the following; (i) Power Distance was considered in isolation and did not take into account the dynamics with other cultural dimension especially Collectivism-Individualism. (ii) A broad approach is taken of generational identities, further research is required to test the universal validity of some of the inherent assumptions (iii) There is a need to study multiple organizations to validate the existence and underlying influences of generational conflicts in the workplace (iv) Though the study proposes that this is potentially an African phenomena, the paper significantly focuses on Nigeria mainly due to convenience and availability of information. Further research is expected to explore how other African cultures also translate into the workplace

Though several interviews were conducted in the course of developing this paper, they were mostly informal and took the form of narrative discuss. Furthermore, a significant number of those

interviewed were from the Yoruba and Igbo tribal group which is the original tribe in cosmopolitan Lagos. Though differences exist in cultural orientation, the areas considered in this study are largely shared beliefs across the three major tribal groups in Nigeria and can therefore be generalized. However, it is important to recognize that there is tremendous scope for further study to examine the specific nature of the cultural mind-sets of the various tribal groups and how this difference affects workplace dynamics. A study of this nature should ideally go beyond articles, books and informal discussions to the use of surveys across organizations to a wider range of respondents and time-based observation study. It is important to add that in employing the interpretivist approach the researcher has made every effort to minimize bias in the course of study especially being a Yoruba, Nigerian.

As the body of literature advocating the adoption of African philosophies of management grows, scholars must be aware of the fact that Africa is a continent and not a country and is therefore multicultural. Furthermore, with the growing challenges faced by the average Nigerian managers, more attention needs to be placed on identifying and resolving real-life challenges in the workplace arising from the adoption of western practices especially by multinational corporations operating in host countries.

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## ENDNOTE

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## Part 4: General Management

### SUSTAINING TECHNOLOGY ADOPTION AMONG FARMERS

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#### ABSTRACT

This paper examines the applicability of the Unified Theory of Acceptance and Use of Technology (UTAUT) model in situations of power-dependency relationships between sellers and a monopolistic buyer of farm produce from rural communities. The study posited a direct relationship between performance expectancy, effort expectancy and social influence on behavioral intentions to adopt a technology; and indirectly on the sustained use of the technology through behavioral intentions to adopt a technology. Using data from 102 farmers from a rural district in Ghana and a bootstrap analytical procedure, the empirical findings corroborate most of the posited relationships. Implications of the applicability of the model to farmers are discussed.

**Keywords:** Technology adoption, performance expectancy, effort expectancy, social influence, sustained usage, facilitating conditions, behavioral intentions.

#### INTRODUCTION

The adoption and use of technology by individuals and organizations plays a significant role in the well-being of society and increase in productivity and profitability of organizations. As a result, several studies have been conducted to explain the adoption, acceptance and use of technology. However, most of the studies on the adoption and diffusion of technology have focused on analyzing individual behaviors at the workplace (Ajzen & Fishbein, 1980; Davis, Bagozzi, & Warshaw, 1989) and the adoption behaviors of individuals especially for home use of technology (Venkatesh & Brown, 1998), where voluntary adoption is commonplace. Nevertheless, most of the issues involving the adoption and use of technology by individuals at the workplace is mandatory in nature. The factors that have been found to affect mandatory adoption of technology is based on situations where the employees have little options to opposing the use of the technology once implementation stage of technology development is reached (Davis et al, 1989; Venkatesh, Morris, Davie, & Davis, 2003). In such situations, consumers' beliefs and affective considerations become an important source of measuring the success of the new technology. In those studies, constructs related to the use-productivity contingency (e.g., perceived usefulness of the technology, perceived ease of use of the technology, relative advantage, etc.) have emerged as the strongest predictors of adoption and usage behavior (Crabbe, Standing, &

Standing, 2009; Venkatesh & Brown, 1998; Agarwal & Prasad 1997, 1998). These studies have however paid little attention to understanding user intention to continue using the technology once it has been adopted.

In the knowledge rich global environment, buyer-seller relationships are being developed online. In this regard, buyer- seller technologies such as a Radio-frequency identification (RFID) and enterprise data exchange have been developed to link organizations with their suppliers, distributors, or customers to improve supply chain efficiency and traceability of product flows (O'Connor, 2006). Research in this area has focused on performance metrics such as process efficiency, cost savings, competitive advantage (Saeed, Malhotra, & Grover, 2005), and power dependency relationships usually between the seller and buyer (Frazier & Rody, 1991; Son, Narasimhan, & Riggins, 2005; Lee & Qualls, 2010). Other studies that have looked at technology adoption in unique sectors like churches, and rural communities (e.g., farming and fishing areas), especially in developing countries have found that literacy levels, poverty, and social capital affect adoption (LeDantec & Edwards, 2008, Mendola, 2007). The positive impact of technology in changing the lifestyle of adopters in these societies has been a key success factor in technology adoption. In general, a direct relationship between technology adoption and economic well-being has been established (Mendola, 2007), but the motivation to use a technology at the individual level still differs across cultural, economic and geographical boundaries (Mendola, 2007).

Rural communities have been slow to adopt technologies and even when they do, factors such as economic and financial need, efficacy, social pressure, and apprehension, play significant roles when deciding whether and how fast they adopt technology (Campbell, Harris, & Hodge, 2001). In most of these cases, the adopter is convinced that adopting the technology is a better option for him/her. A firm or a business owner, for example, will depend on the strategic value of a technology as a hallmark for adopting such a technology. Furthermore, the firm or business owner may engage its employees in the adoption process in order to achieve the firm's objectives. Moreover, organizations in challenging the competitive and hostile environments they do business have become more aggressive in capturing opportunities to achieve superior market performance (Peltier, Zhao, & Schibrowsky, 2012). It is interesting to note that in situations where an individual's adoption option is influenced by a compelling economic mediation of a third party, the sustainability of the adoption process is usually threatened. However, this is only so as long as the induced adopter's current condition remains unchanged and the value of technology investment continues to increase.

Previous studies have tended to ignore the conditionality imposed on adopters especially where a small business owner, for personal or organizational considerations, compel or induce other stakeholders outside the firm to also adopt a technology. Some researchers have related such conditionality as power-dependence relationship (Hart & Saunders, 1997; Walton & Miller, 1995). Power, which is exercised through influence strategies, can be either coercive or non-coercive. Lee and Qualls, (2010) defines coercive influence as a firm's direct pressure on other firms to solicit their compliance by emphasizing the adverse consequences of non-compliance. A non-coercive influence strategy involves the use of rewards and an emphasis on desirable consequences.

Moreover, few researchers have examined how owners of small firms influence the adoption of technology and also explored the consequences of the relationships developed in the adoption process (Simmons, Armstrong, & Durkin, 2008). Consequently, we argue that in a seller-buyer technology adoption situations where (a) individual sellers' freedom in the adoption decision making process is motivated mainly by economic considerations; (b) there is an absence of or limited alternatives to sellers to transact their business; and (c) where there are monopolistic tendencies of a buyer firm; the adoption of technology by sellers may be different from the conventional adoption process. The adopter may be compelled to make adoption decisions without the freedom required of such decisions and therefore the effects may also be different. In such circumstances, behavioral intentions to use may elude the

urgency to comply. Notice that in many studies where the Technology Acceptance Model (TAM), the Theory of Planned Behavior (TPB), and the Unified Theory of Acceptance and Use of Technology (UTAUT), have been applied, use behaviors have been influenced by behavioral intention to use the technology (Davis et al, 1989; Ajzen & Fishbein, 1980). Furthermore, we argue that the consequences of regaining that freedom will hurt the sustainability and possibly the diffusion of the technology. The repercussions of these developments on policy and strategy of the buyer firm need to be explored as we study the sustainability of adoption of a seller-buyer technology called the e-zwich technology among farmers in Ghana. The effects of these factors on firms' future investment decisions will also be examined.

### **The e-zwich technology**

The e-zwich technology is a biometric Smartcard, an electronic clearing and payment system, designed to link the payment systems of all banking and financial institutions in Ghana. Launched in 2008, the e-zwich allows holders to perform business and financial transactions such as fund loads, transfers of money, and payment for goods and services including bills, both online and offline. The card holder authenticates a transaction using his or her fingerprint. The biometric card eliminates the problem of theft associated with card transactions, and also allows the use of the e-zwich by users who are illiterate and would usually shy away from formal banking transactions. The Ghana Interbank Payment and Settlements Systems (Ghipps), which is set up by the Government of Ghana to manage the payments and settlements system has the responsibility to market, consolidate and expand the e-zwich services.

## **THEORY AND HYPOTHESES**

Studies in technology adoption have used various theoretical foundations such as the Theory of Reasoned Action (TRA), TPB, TAM and its extension to UTAUT to explore various personal behavioral experiences usually from individuals who are very passionate about a device which invariably has become a way of life (May, 2001). The most popular of these theories which has been used in the information systems field and applied to the study of individuals' adoption and acceptance of information technology is TAM. TAM was developed by Davis (1989) and Davis et al (1989) by adapting TRA to explain and predict the intention to accept, adopt and use and information systems and information technology by individuals. TAM posits that an individual's behavioral intention to accept and use a technology is determined by two cognitive beliefs: perceived usefulness and perceived ease of use. Perceived usefulness is the extent to which an individual believes that using a particular technology will enhance his/her job performance; while perceived ease of use is the extent to which an individual believes that using the technology will be free of effort (Venkatesh & Davis, 2000). TAM also argue that external variable influence intentions to use and actual usage of technology through mediated effects of perceived usefulness and perceived ease of use. Several empirical studies have corroborated the theoretical propositions of TAM as a "robust, powerful, and parsimonious model for predicting user acceptance" (Venkatesh & Davis, 2000, p. 187).

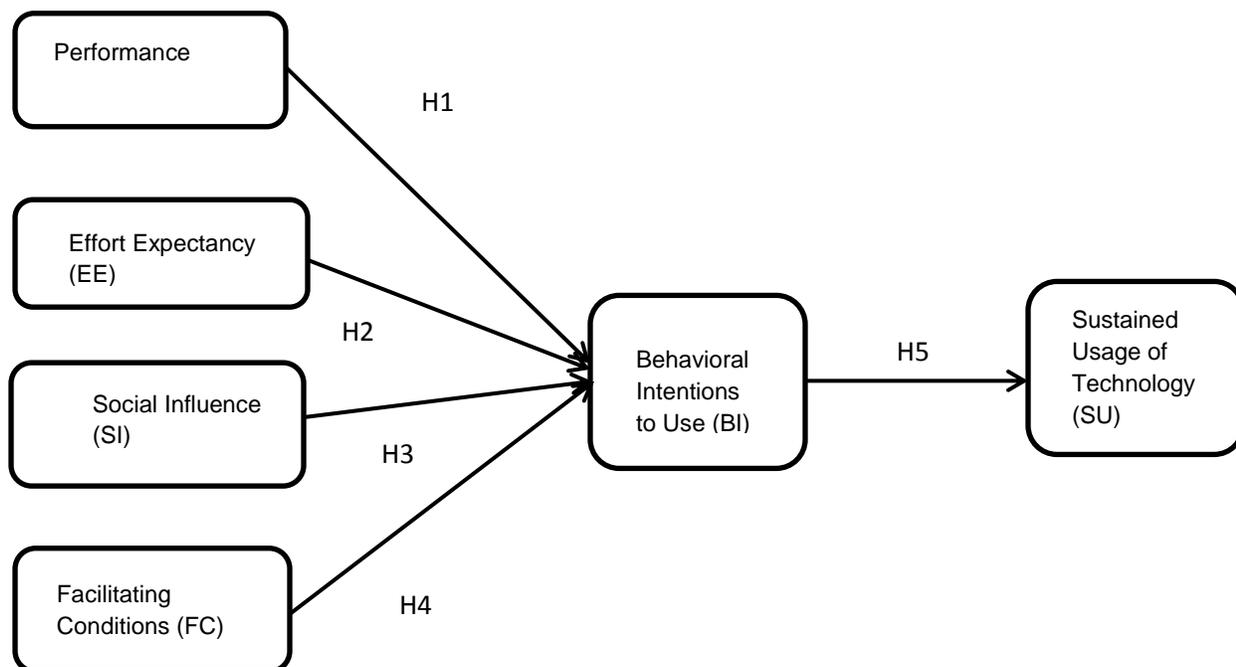
Both TRA and TAM, which have strong behavioral elements, assume that when someone forms an intention to act, they will be free to act without limitations. In practice, constraints such as limited ability, time, environmental or organizational limits, and unconscious habits are found to limit the freedom to act (Cho, Edwin, & Lai, 2009). In addition, TAM does not account for the influence and personal control factors on behavior. Other factors such as economic factors, outside influences from suppliers, customers and competitors are also not considered by TAM (van Akkeren & Cavaye, 1999). Since personal behavioral experiences are difficult to explore, researchers seem to find an easy way out by using samples they are familiar with or probably with assurances of anonymity are likely to provide

honest, useful information. In this regard, students and office workers continue to be used as samples while others use internet data bases and posted questionnaires or e-mails. Studies in adoption that have applied the TAM have also incorporated other constructs not only to increase explanatory power but to reflect the uniqueness of the services (Crabbe et al, 2009).

The TPB developed as an extension of the TRA by Ajzen and Madden (1986) asserts that it is possible to measure people’s perception of the ease or difficulty in performing their behavior of interest. In other words, when people believe that they have little control over performing their behavior because they lack the requisite skills and opportunities, their intentions to perform the behavior may be low even if they have favorable attitudes and/or subjective norms concerning performance of the behavior.

The Unified theory of Acceptance and Use of Technology (UTAUT) which was introduced by Venkatesh et al (2003) comes handy to avert some of the weaknesses of previous models and to integrate the main competing user acceptance models. While extant adoption theories exist independently of each other, their constructs are potentially overlapping (Dillon and Morris, 1996). The UTAUT model uses four key determinants of use and four moderators of individual use behaviors. These are performance expectancy, effort expectancy, social influence, and facilitating conditions. Gender, age, experience, and voluntariness of use are found to moderate the impact of the four key constructs on usage intention and behavior (Venkatesh et. al., 2003). This study adapts the UTAUT model to examine the influence of performance expectancy, effort expectancy, social influence, and facilitating conditions on the sustained usage of technology mediated through the behavioral intentions to use the technology. The model examined in the study is shown in Figure 1 below.

**FIGURE 1**  
**Moderating Role of BI on the Relationships between PE and SU**



## Hypotheses

Performance expectancy or usefulness of the technology is the degree to which an individual believes that using a technology will help him or her attain gains in job performance. In other words, the technology should be useful to the individual if it is adopted. This construct has been found to influence both voluntary and mandatory adoption by increasing the intention to use the technology (Keong et al, 2012; AbuShanab & Pearson, 2007). In rural communities, households determine whether a new technology must be adopted, and often, their decision may be related to the benefits derived from adopting such technology (Mendoza, 2007; Berends et al, 2007). Using the e-zwich to transact business with the buyers of farm produce is expected to facilitate payments to the sellers (farmers) in a timely fashion, allow them to engage in financial transactions without difficulties and protect the farmers against fraud. It is proposed that:

*Hypothesis 1: Performance expectancy will positively influence farmers' behavioral intention to use the e-zwich technology.*

Effort expectancy is the degree of ease associated with the use of a system. The ease of use of a technology is very significant during the exploratory stage of technology use when individuals are adapting to the use (Garfield, 2005; Crabbe et al, 2009). With technologies becoming more and more user friendly in the current global environment, it takes little effort for one to figure out how to use a new technology. However, in situations where intellectual handicap plays important role in adoption, ease of use of the technology plays a major role by eliminating fear and anxiety, and motivating the reuse of the technology to gain experience. Thus, if a technology is easy to use, it would influence an individual's intentions to adopt such a technology. It is therefore proposed that:

*Hypothesis 2. Effort expectancy will have a positive impact on farmers' behavioral intention to use the e-zwich technology.*

Social influence is the degree to which an individual perceives that important and significant others believe he or she should use the new system. This influence is exerted through messages and signals that help to form perceptions of the value of a product or activity (Fulk & Boyd 1991). Social influence include superior influence, peer influence and image building. In rural communities, opinion leaders and family ties have immerse influence on adoption behavior. Munshi and Myaux (1998) found evidence that information diffused among households with similar religious affiliations helps to explain the adoption of improved contraception methods in Bangladesh. Social norms that favor change can promote consultative decision-making and lead to more rapid diffusion of innovations. In villages with more traditional norms, innovators are viewed with suspicion and mistrust. By contrast, in villages with social norms that encourage collective decision-making, innovators are rapid to share their new ideas and influence the opinions of others. Innovations were more rapidly accepted in villages in Brazil with norms that encouraged more participatory decision-making (Herzog, Stanfield,Whiting, & Svenning, 1968). In rural settings, social influence is expected to influence the use of technology. It is proposed that:

*Hypothesis 3. Social influence will have a positive impact on farmers' behavioral intention to use the e-zwich technology.*

Facilitating conditions is the degree to which an individual believes that an organizational and technical infrastructure exists to support the use of the system. The e-zwich technology, which is recommended to farmers in Ghana to use, operates through financial agencies and banks that are likely

to have competing financial products. In such situations, the financial agencies and banks would be unlikely to provide the facilitating conditions conducive to the use of the e-zwich technology. In addition, the biometric smart card that provides adequate security to the technology necessitates that only the owner can use the technology to withdraw money from a bank. This may be detrimental to the adoption of the technology because the distances from the rural arrears to banks are substantial. Moreover, the frequent power outages in Ghana can be a deterrent to old people, the disabled and women who may want to use the technology. Research by Venkatesh et al. (2003) has also shown that facilitating conditions does not influence behavioral intentions in the presence of performance expectancy and effort expectancy. We therefore propose that:

*Hypothesis 4. Facilitating conditions will **not** have an impact on farmers' behavioral intention to use the e-zwich technology.*

Based on studies using TAM and UTAUT it has been proposed and empirically validated that behavioral intention to use a system or technology results in greater use of the system or technology (Davis et al, 1989; Martins & Kellermanns, 2004; Venkatesh & Davis, 2000; Venkatesh et al., 2003). Although the acceptance and adoption of the e-zwich technology by the farmers is mandated by the buyer firm, which will not buy the oil palm produce from the farmers if they refuse to use the technology, once farmers have formed the intention to use the technology they will continue to use it. We, therefore, argue that behavioral intentions to use the e-zwich technology by farmers will lead to sustained usage of the technology. Thus the following hypothesis:

*Hypothesis 5. Behavioral intention to use will have a positive influence on the sustained usage of the e-zwich technology by farmers*

Based on the arguments leading to the hypotheses presented earlier, we hypothesized that performance expectancy, effort expectancy, and social influence will influence behavioral intentions. We also posited that behavioral intentions will influence sustained usage of the technology. Thus we suggest that performance expectancy, effort expectancy, and social influence will influence sustained usage of the technology through the mediating effect of behavioral intentions. We therefore, present the following hypotheses:

*Hypothesis 6a. Performance expectancy will influence the sustained usage of the e-zwich technology by farmers through behavioral intention.*

*Hypothesis 6b. Effort expectancy will influence the sustained usage of the e-zwich technology by farmers through behavioral intention.*

*Hypothesis 6c. Social influence will influence the sustained usage of the e-zwich technology by farmers through behavioral intention.*

## **METHODS**

### **Research Setting**

The setting for the study is the Kwaebibirim District in the Eastern Region of Ghana. Since April 2010, palm oil farmers in the Kwaebibirim District of Eastern Ghana have accepted the adoption of the e-zwich technology for payment of their farm produce through the only credible buying firm, Obooma Farms Product Limited. The farmers, most of whom are illiterates, and have no previous bank accounts were forced by Obooma farms Products Limited to adopt the e-zwich as the only payment system for their produce. The farmers had no option but to enroll in the e-zwich payment system in order to sell their palm fruits to Obooma Farms Products Limited, a better choice considering that Obooma Farms

Product Limited offers a ready market for their produce. About 2000 small farmers have registered with Obooma Farms Product Limited and are using the e-zwich payment system. Local banks act as agents of Ghipps to manage transactions and the e-zwich accounts. Transaction values are recorded and withdrawals from the account are also recorded. The biometric features of the card make it a personalized card and provide adequate security for users, thus, making it extremely difficult for unauthorized access. Sale of palm fruit to Obooma Farms Product Limited is charged to the e-zwich account at the point of sale and the funds can be withdrawn at any bank during the weekdays.

Prior to the roll out of the e-zwich payment system, Obooma Farm Products Limited, which had been in operation since 1973 had supplemented its palm fruit requirements by buying about 100 metric tons of palm fruits annually from small scale farmers in the district on cash basis. Payment for the fruits using tickets and cheques had been with a lot of issues. For example, some of the farmers were unable to produce valid identification cards when they presented their cheques at the banks and could not withdraw their funds. Obooma Farms Product Limited, therefore, required the use of the e-zwich payment system in July 2010 for every farmer who wants to sell his/her palm fruits to the company. The farmers selling their produce to Obooma Farms Product Limited were, therefore, selected to examine the sustainability of technology adoption by farmers.

### **Sample**

Data for the study were collected using questionnaire survey administered to the farmers in the Kwaebibrim District selling their palm produce to Obooma Farms Products Limited. One of the researchers sought permission from the management of Obooma Farms Products Limited to administer questionnaires to their clients (farmers) who are users of the e-zwich smartcard payment system. The farmers who had no prior knowledge of the survey administration were briefed at the premises of the company (after their usual transactions with Obooma Farms Products Limited), and requested their cooperation in completing the questionnaire. An interpreter was previously employed to translate questions in the questionnaire into the local language and the research team read them out for participants who were unable to neither read nor write. This category of participants was assisted to complete the questionnaire.

A total of 200 farmers participated in the research since the research period happened to be within the lean season for the palm fruit farmers. The researchers used research assistants who made repeated visits during a three-week period to collect the data. A total of 160 completed questionnaires were retrieved, however, only 102 questionnaires were useable as some farmers who claimed to be literate and insisted on completing the questionnaire on their own, made several errors in the questionnaires, which were therefore discarded. Thus, the response rate for the useable questionnaires was 51%. This response rate compares favorably with studies conducted in similar environments.

We checked for common method variance problems by using Harman's (1967) one-factor test. We performed a factor analysis on all the independent, moderator and dependent variable together. The results yielded 6 factors with eigenvalues greater than one with the first factors accounting for 21.5% of the variance. The factor analysis results show that common method variance problems are minimized. The demographic characteristics of the respondents show that 75.5% are males; over 90% of them are older than 30 years; 62.8% have at least a junior high school education; and 74.5% of them earn between 200 and 600 Ghana Cedis (about US\$100- 300) per month.

### **Measures**

Most of the measures were adapted from the UTAUT by Venkatesh et al (2003), which have been previously validated therefore showing that the constructs were valid. However, we examined the validity and reliability of the constructs. Content validity was examined by reviewing the items for face validity and the use of factor analysis, while the internal consistency (reliability) of the variables were

ascertained through the use of Cronbach alpha coefficients (Cronbach's alpha is greater than 0.70 for all scales). In all the items, the farmers were asked to indicate the extent to which they agree or disagree with various statements using a 6-point Likert type scale with 1 = strongly agree, 2 = moderately agree, 3 = slightly agree, 4 = slightly disagree, 5 = moderately disagree, and 6 = strongly disagree. The items were then reverse coded. We measured *performance expectancy* (PE) ( $\alpha = 0.736$ ) with the average of three items (I am aware of the benefits that the E-zwich platform may offer my business activities; Using the E-zwich card enables me to accomplish tasks more quickly; and Using the E-zwich card increases my productivity); *effort expectancy* (EE) ( $\alpha = 0.922$ ) with the average of four items (My interaction with E-zwich is clear and understandable; It is easy for me to become skillful at using E-zwich; I find E-zwich easy to use; and Learning to operate E-zwich is easy for me); *social influence* (SI) ( $\alpha = 0.736$ ) with the average of three items (People who influence my behavior think that I should use E-zwich; People who are important to me think that I should use E-zwich; and the management of the business has been helpful in making me use the E-zwich); *facilitating conditions* (FC) ( $\alpha = 0.756$ ) with the average of three items (I have the resources necessary to use E-zwich; I have the knowledge necessary to use E-zwich; and E-zwich is not compatible with other systems I use (not reverse coded)); *behavioral intentions* (BI) ( $\alpha = 0.774$ ) with the average of three items (I intend to use E-zwich for all my transactions; I predict I would use E-zwich as often as possible; and I plan to use E-zwich in the next 12 months); and *sustained usage of technology* (SU) ( $\alpha = 0.742$ ) with the average of three items (I would like to continue using E-zwich for a long time provided it serves my purpose in business and my personal needs; More value-added services provided with E-zwich are beneficial to me; and I have positive attitude towards E-zwich). We also controlled for age, gender, education level, and income level (see Table 1 for how they were operationalized).

## RESULTS

Descriptive statistics and correlation among the variables are presented in Table 2. The correlation analysis indicates that the correlations among some of the hypothesized variables are high (e.g., PE and EE; and PE and SI), however, our check of the variance inflation factors (VIF) in the models through a mediated regression analysis indicated that they were all less than 10, the limit suggested by Neter, Kutner, Nachtsheim, and Wasserman (1996). Therefore, the problem of multicollinearity is minimized in the analysis. To examine the hypotheses, we used the bootstrap procedure for testing mediation suggested by Preacher and Hayes (2008) and Zhao, Lynch and Chen (2010).

Since the mediated effect of an independent variable on a dependent variable is a product of two parameters, it has been argued that the sampling distribution of the product is not normally distributed. The bootstrap procedure is, therefore, a superior method of empirically assessing the statistical significance of the mediated effects because it provides asymmetric confidence intervals for testing the significance of the indirect effects while bypassing the need for the multivariate normality assumption (Efron & Tibshirani, 1993; Hayes, 2009). Zhao et al (2010) argue that if the confidence interval estimate of the indirect effect through the bootstrap procedure does not include zero (0), then it can be concluded that the indirect effect is significant and mediation is established. To conduct the bootstrap procedure, we used the Preacher and Hayes (2008) MEDIATE script in SPSS. Hayes (2009) recommends the use of at least 5000 bootstrap data samples to conduct the analysis; however, we used 10,000 bootstrap data samples generated by randomly sampling with replacement from the original data sets (N= 102). The direct and mediated results from the bootstrap analysis are shown in Table 3.

The results in Table 3 indicate that none the control variables is significantly related to either BI or SU. H1 states that PE will have a positive impact on BI. The results indicate that PE is not related to BI. Thus, H1 is not supported. H2 posits that EE will be positively related to BI. The results show that EE is positive and significantly related to BI (Coeff = 0.316,  $p < 0.001$ ). Thus H2 is supported. H3 states that SI

will positively impact BI. The results show that SI is positive and significantly related to BI (Coeff = 0.145,  $p < 0.10$ ). Therefore H3 is also supported. H4 postulated that FC will not have an impact on BI. Indeed, the results indicate that FC did not significantly impact BI, thus corroborating the hypothesis. H5 examines the relationship between BI and SU. The results indicate that BI is positive and significantly related to SU (Coeff = 0.610,  $p < 0.001$ ). H5 is, therefore, supported.

Hypothesis 6a, 6b and 6c examines the mediating role of BI in the relationship between factors that are hypothesized to directly influence BI (i.e., FE, EE, and SI) and SU. H6a states that BI will mediate the relationship between FE and SU. The results in the lower part of Table 3 show that PE does not influence SU indirectly through BI. The mediated path from PE to SU through BI ( $-0.010 \times 0.610 = -0.006$ ) is not significant as the 95% confidence interval values (-0.124, 0.129) includes zero (0). The results, however, indicate that PE has a direct effect SU though it is negative. Thus H6a is not supported. H6b also posit that EE will influence SU indirectly through its effect on PBI. The results in Table 3 support this hypothesis. The mediated path from EE to SU through BI ( $0.316 \times 0.610 = 0.193$ ) is significant because the 95% confidence interval values (0.014, 0.424) do not include zero (0). Moreover, the results further indicate that the finding is a partially mediated relationship because EE directly influences SU (Coeff = 0.253,  $p < 0.05$ ). H6c posits that BI will mediate the relationship between SI and SU. The results did not corroborate this hypothesis. While there is direct and significant relationship between SI and BI, and also between BI and SU, the mediated path from SI to SU through BI ( $0.145 \times 0.610 = 0.088$ ) is not significant because the 95% confidence interval (-0.010, 0.286) includes zero (0). The results are shown graphically in Figure 2. Overall, five out of the eight hypothesized relationships were corroborated supporting the utility of the UTAUT model.

TABLE 1

## Descriptive Statistics and Correlation Matrix of Variables

Variables	1	2	3	4	5	6	7	8	9	10
<i>Correlations</i>										
1. Gender <sup>a</sup>										
2. Age <sup>b</sup>	-0.01									
3. Education level <sup>c</sup>	0.16	-0.23*								
4. Income level <sup>d</sup>	-0.03	0.08	0.05							
5. Performance expectancy	-0.03	-0.13	0.33***	-0.08	<b>0.736</b>					
6. Effort expectancy	-0.00	-0.14	0.18+	-0.00	0.56***	<b>0.922</b>				
7. Social influence	-0.08	-0.01	0.18+	0.05	0.48***	0.35***	<b>0.736</b>			
8. Facilitating conditions	-0.00	0.05	0.13	-0.06	0.04	0.12	0.12	<b>0.756</b>		
9. Behavioral intention	0.08	-0.15	0.26**	0.03	0.33***	0.46***	0.31**	0.02	<b>0.774</b>	
10. Sustained usage	0.02	-0.01	0.02	-0.06	0.12	0.39***	0.20*	0.00	0.52***	<b>0.742</b>
<i>Descriptive Statistics</i>										
Mean	1.75	3.83	2.92	2.51	4.87	5.16	5.12	4.68	5.53	5.54
Standard Deviation	0.43	0.92	1.44	1.04	0.92	0.84	0.80	0.87	0.69	0.80
Minimum	1.00	2.00	1.00	1.00	3.00	1.75	2.33	2.00	3.00	1.33
Maximum	2.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00

Values in diagonal are Cronbach Alphas (Reliability Coefficients).

Significance levels: + =  $p < 0.10$ ; \* =  $p < 0.05$ ; \*\* =  $p < 0.01$ ; \*\*\* =  $p < 0.001$ .

<sup>a</sup> Gender: Female = 1; Male = 2

<sup>b</sup> Age: < 20 years = 1; 20-30 years = 2; 31 - 40 years = 3; 40 - 50 years = 4; 50+ years = 5.

<sup>c</sup> Educational Level: No schooling = 1; Primary = 2; Junior High = 3; Senior High = 4; Post- Secondary = 5; Tertiary = 6.

<sup>d</sup> Income level (monthly): < GHS 200 = 1; GHS 200 – 400 = 2; GHS 401 – 600 = 3; GHS 601 – 800 = 4; GHS 801 – 1000 = 5; GHS 1000+ = 6.

**TABLE 2**  
**Bootstrap Results of Direct and Mediating Effects <sup>1</sup>**

Independent Variables	Mediator	Dependent Variables	Direct Effect	Indirect Effect	95% CI	
					Lower	Upper
Constant		Behavioral Intention (BI)	3.167***			
<i>Controls</i>						
Age →		BI	-0.042			
Gender →		BI	-0.102			
Education level →		BI	0.070			
Income level →		BI	0.013			
<i>Hypothesized Variables</i>						
Performance expectancy →		BI	-0.010			
Effort expectancy →		BI	0.316***			
Social influence →		BI	0.145+			
Facilitating conditions →		BI	-0.047			
Model R <sup>2</sup> = 0.277						
Model F (8,93) = 4.453***						
<hr/>						
Constant		Sustained Usage (SU)	1.710*			
<i>Controls</i>						
Age →		SU	0.061			
Gender →		SU	-0.015			
Education level →		SU	-0.041			
Income level →		SU	-0.081			
<i>Hypothesized Variables</i>						
BI →		SU	0.610***			
Performance expectancy →	BI →	SU	-0.178+	-0.006	-0.124	0.129
Effort expectancy →	BI →	SU	0.253*	0.193*	0.014	0.424
Social Influence →	BI →	SU	0.063	0.088	-0.010	0.286
Facilitating conditions →	BI →	SU	-0.041	-0.029	-0.121	0.065
Model R <sup>2</sup> = 0.387						
Model F(9, 92) = 6.46***						

<sup>1</sup> N = 102.

<sup>2</sup> Significance levels: + =  $p < 0.10$ ; \* =  $p < 0.05$ ; \*\* =  $p < 0.01$ ; \*\*\* =  $p < 0.001$ .

## DISCUSSION AND CONCLUSION

A major purpose of this research is to understand the sustainability of technology adoption in a power-dependency relationship between sellers and a major buyer where the sellers seem to have limited or no options but to sell their produce to a monopolistic buyer. Using the UTAUT, we proposed that in situations where adoption behavior is influenced by some coercion, the sustainability of adoption will suffer (Lee & Qualls, 2010). In this instance, farmers are compelled to use the e-zwich technology introduced by the seller since there are no immediate competitors who might want to offer cash, the preferred choice of the farmers.

Contrary to the prediction, performance expectancy played no role in behavioral intention to use the e-zwich technology. Performance expectancy measures the usefulness of the technology to the adopter and has been found to relate positively to behavioral intention to use technology in both voluntary and mandatory adoptions (Venkatesh, 2003; Keong et al, 2012; AbuShanab & Pearson, 2007).

The result implies that the farmers do not relate directly to the usefulness of the e-zwich and would probably not think of adopting the technology if it was not mandated by the buyer of their produce. They use it anyway once the payment for their produce is downloaded onto the smartcard. Effort expectancy, however, related positively and significantly with intention to use the e-zwich technology. One may expect that in a sample with about 24 percent illiterate farmers and a total of about 64 percent consisting of illiterate and semi-illiterate farmers with merely basic education, using the e-zwich technology which is new to them, requiring less effort, and easy to use will influence their behavior to use the technology. The result is consistent with many findings in the technology adoption literature which found positive significant relationship of effort expectancy with behavioral intention to use technology (Shi & Lee, 2008; Crabbe et al, 2009). Davis et al (1989) supports this rationale that higher perceived ease of use and perceived usefulness triggers perception of higher technology performance. The farmers may have found the e-zwich technology user friendly.

Social influence is predicted and found to have positive and significant relationship with behavioral intention to use the e-zwich technology. The result depicts the status symbolism and hedonic motivation (Venkatesh et al, 2012) associated with the use of a technology such as the e-zwich which automatically allows users to open a bank account (a status symbol). Social influence of significant individuals and especially extended family members can have pronounced and domineering effect on adoption behavior. Communal influences in rural Ghana affect many decisions including political decisions and it is not surprising that the use of technology for sale of farm produce will be socially determined. The result conforms to studies that have found innovations to be readily accepted in rural settings that encourage participatory decision making (Chieh et al, 2010; Herzog et al, 1968). Facilitating conditions is predicted to have no impact on behavioral intention to use the e-zwich technology. The result affirms the hypothesis, implying that farmers do not concern themselves with infrastructure that facilitates the use of the technology. The personalization of the technology with the use of the biometric smartcard discourages rather than motivates the adoption of the technology. The lack of relationship signifies that the rural farmers do not appreciate the restriction that, for example, a family member cannot be allowed to withdraw money on their behalf. These sentiments expressed by farmers during the interview could be a major factor why facilitating conditions may not influence their intentions to use the technology. Behavioral intention to use the e-zwich technology is found to have significant positive relationship with sustained usage. This finding is supported by previous technology adoption researches (Cho et al, 2009) that have found positive relationship between the two variables.

The study also examined the indirect effect of performance expectancy on sustained usage through behavioral intentions (BI), and found that although there exist no indirect relationship there is a direct relationship between performance expectancy and sustained usage which was surprisingly negative. The result implies that management of the e-zwich technology may have to upgrade the

features of the technology to meet the needs of rural people with diverse challenges. Farmers do not see benefits from the use of the e-zwich technology and the current performance features of the e-zwich technology may not encourage the sustainability of the technology among farmers even though its user friendliness might lead to its sustained usage.

The findings further indicate that effort expectancy not only influences sustained usage directly but it also influences it indirectly. Effort expectancy seems to be the most important factor influencing the sustained usage of the e-zwich technology by the farmers. This may also be linked to the level of education of the farmers who prefer the use of a technology that is not complicated. We did not find an indirect relationship between social influence and sustained usage of the e-zwich technology by the farmers although there was a direct relationship between social influence and behavioral intentions to use the e-zwich technology on the one hand, and a direct relationship between behavioral intentions and sustained usage of the technology. This may be due to the strength of the relationship between social influence and behavioral intentions. Although, social pressure to adopt a technology may be strong it may also be tempered by the lack of formal education by most of the farmers.

### **Theoretical Contributions**

One major contribution of this research to practice is the use of unconventional sample in technology adoption research. Farmers in rural areas in developing countries are the least to be associated with technology adoption, granted that personal computer and internet penetration in Ghana is only about 14 percent (ITU, 2011) and is restricted to urban areas. In addition, many researches in the topical area have used office workers and students that are literate and may have had experiences with technology. It is therefore not surprising that the usefulness of the technology (PE) has no relationship with behavioral intention to adopt (BI). The technology may be foreign to the users even though they are being compelled to use it. Moreover, the result conforms to our prediction that the use of coercion by the buyer firm leaves no room for the seller to process the affective progression of forming the intention and deciding to use. A compelling need to sell the farm produce which is perishable may influence the adoption behavior. Further studies might look at the features of the technology and the cognitive function of prospective users to determine the usefulness of the technology and its sustainability implications.

The indirect relationship between sustained usage and performance expectancy is also another contribution of our study to theory. Many researches that have tested sustained usage have found perceived usefulness to positively influence both usage and sustained usage (Cho et al, 2009; Crabbe et al, 2009). The result of our study implies that increasing effect of perceived usefulness may rather adversely affect the sustainability of the adoption. As more and more users become conversant with the technology, the demand for its usefulness will increase and will challenge the sustainability of the e-zwich technology adoption. The implication for this, although social has strategic implications. Social differences in the use of technology must reflect in the design and implementation of information technology and systems. Our results highlight the issue of standardization of technologies across the globe. Technology deprived areas of the world must be taken into consideration in the commercialization of technologies and systems especially the user interface, to increase perceived ease of use and usefulness across board.

Moreover, the e-zwich is a national economic tool sponsored by the Ghana government to help mop up excess liquidity from households and small businesses which prefer to keep currencies at home. Several amount of money has been invested in this project and therefore expected to succeed in its objectives. Our finding serves as a clarion call for government to engage stakeholders in the discussion of the sustainability of the project. Farmers and rural dwellers constitute a large chunk of deprived population in Ghana. Despite the introduction of rural banks in the 1980s to serve this purpose, large sums of money are still outside the banking systems. Bank of Ghana reports since the 1980s continues

to report on excess liquidity outside the banking system. Performance expectancy of users is important to increase the use and sustained use behavior of adopters. The few adopters currently have the potential to influence other potential adopters as our research found a high propensity of social influence in sustaining the use of the e-zwich technology among farmers and other rural communities. Strategies to achieve this must be community-based, focusing on education and continued improvement of the technology to meet the needs and usefulness of the technology.

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#### END NOTE

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## ENGAGEMENT, EXPECTATIONS, AND ATTRIBUTIONS: QUESTIONS ON CAPACITY DEVELOPMENT FOR KNOWLEDGE AND INNOVATION MANAGEMENT

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### ABSTRACT

Knowledge management and innovation management, or KIM, are significant resources for advancement as African nations seek transformative economic development. In the case of Botswana, KIM is a government priority to support national development goals. Gaining the full advantages of KIM depends on having not just the right technology in place but also aligning it with a motivated and talented workforce. Behavioral issues such as low employee engagement, tendencies toward satisfactory underperformance, and attribution errors may limit KIM utilization. Governments, nonprofits, and private sector organizations can build KIM performance capacity by making human resource investments to create a smart workforce that is fully supported by smart managers.

**Keywords:** Knowledge and innovation management; management skills; smart workforce

### INTRODUCTION

As technology fuels a transformative time in the countries of a southern Africa, increased attention is being given to knowledge management and innovation, or KIM. In Botswana, the government of Botswana has taken a deliberate position to set-up an innovation hub with the sole aim of encouraging innovation. Technology uptake has significantly increased in past 10 years in Botswana in business and government sectors, as well as areas such as medicine. The aim of a new tele-medicine partnership by the Ministry of Health with local and international partners, for example, is to provide specialized health care at government hospitals and clinics around the country. This local attention to KIM is consistent with the advent of a “digital age” described by Google’s Executive Chairman Eric Schmidt and co-author Jared Cohen in their book *The New Digital Age: Reshaping the Future of People, Nations and Business*, as one of intense global connectivity made possible by the Internet and fueling a power shift away from large institutions toward individuals (Schmidt & Cohen, 2013).

At the nation level, Schmidt and Cohen point out that this power shift in the digital means “Authoritarian governments will find their newly connected populations more difficult to control, repress and influence” (Maislin, 2013). Included among the transformative changes for many southern

African nations are new political, social, and economic opportunities evidenced by an expanding middle-class, increased foreign investments, and solid GDP growth.

At the organizational level, the power shift brought by enhanced connectivity in the digital age is bringing more openness and transparency to organizational cultures (O’Toole & Bennis, 2009) and greater collaboration among members and across internal and external organizational boundaries (Hansen, 2009; IBM, 2012). An IBM report entitled *Leading through Connections: Highlights of the Global CEO Survey* states: “Leaders are recognizing our new connected era is changing how people engage” (IBM, 2012).

The field of knowledge and innovation management is center stage in this digital age. Researchers from a variety of scientific disciplines are examining a variety of issues relating to how technology and human capital can be leveraged to harness the great potential of KIM for enhanced achievements for nations and organizations (Denford & Chan, 2011; Magiener-Watanabe, Benton, & Danoo, 2011; Riebière & Walter, 2013). While admitting the importance of technology, this paper is interested the role of the human factor as a critical foundation for organizational performance capacity. The fields of management and organizational behavior view people and their talents as basic building blocks of organizations and understand that the ways people are treated and utilized has a substantial impact on performance (Lawler, 2008; Pfeffer, 1995, 1998, 2010; Pfeffer & Veiga, 1999). Accordingly, the purpose of this paper is raise questions about how the human factor may affect KIM development and utilization in the institutions of southern Africa.

### **TRANSFORMING AFRICA AND THE CHALLENGES OF KIM**

“The rapid pace of technological development has created increasingly more powerful information and communication technologies that are capable of radically transforming the public service. DPSM has thus taken giant steps in keeping up with and embracing such technologies.” *The Directorate of Public Service Management (Republic of Botswana, 2013)*

The above quotation highlights the centrality of KIM to the economic development agenda to not just Botswana, but Africa at large. Knowledge management and innovation are becoming center-stage in government agendas as well as in nonprofit and business sectors. KIM implementation remains a work in progress, however, with both successes and limitations to its credit.

In recognition of the importance of technology and innovation to economic diversification, the Government of Botswana Innovation Hub (BIH) was set up as a way to transform Botswana into a technology-driven and knowledge based economy. It is self-described as emerging from the “Botswana Excellence Strategy which proposed a three pronged National Strategic Goal for the diversification of the country’s economy, creation of jobs and driving the country towards a knowledge-based economy.” (BIH, 2013) The intention of BIH is to promote a culture of innovation and competitiveness of wide ranging impact. BIH is modeled on best practices from science and technology parks the world over, especially Finland, which is recognized as a lead in the area of innovation support. The vision of the BIH is also to be the leading African destination for technology-driven and knowledge intensive businesses to develop and to compete in the global market place.

The Botswana Technology Centre (BOTE) was established by the Government of Botswana in 1979 as a research and technology development organization to support national development goals by aligning research, science and technology products and services with the National Development Plans (BOTE, 2008). BOTE has consistently pursued the Government’s policy objective of technology promotion and innovation as a tool for economic development and improvement of the quality of life in Botswana (BOTE, 2008). It has successfully come up with technology that harnesses the solar energy as well as development of devices to assist those with hearing impairments. The National Food Technology

Research Center (NFTRC) was created by the Government under the Ministry of Agriculture as an international centre of excellence in food science and technology. Its overall mandate is to generate food technologies that promote economic diversification, food security and quality through sustained end user focused research and development. Innovations in areas of indigenous food preparation and preservation have been accepted and widely used by locals.

The Botswana situation displays not only the intention to advance with KIM but also present limitations. Contextual realities suggest to the contrary in that there are few or no corporations in critical industries such as pharmaceuticals and biotechnology, there is limited or lack of availability of venture capitalists. There is lack of skilled expertise in the area of intellectual property management such as specialized patent and copyright attorneys. There is also a somewhat general lack of interest and total disconnect between research and innovation institutions and the corporations operating in the country. Private sector institutions in Botswana have not appreciated the importance of strategically positioning and aligning themselves with research institutions in the country. Hence there is little interest from their part on contributing towards technology development and innovation in the nation. Equally so, academic researchers seem to lack the expertise to commercialize their ideas.

Limitations and struggles in efforts to take advantage of KIM are not limited to Africa, or Botswana alone. They are part of the challenge faced by senior leaders in organizations of all types and sizes around the world. And as leaders strive to harness the great potential of KIM, key questions must be asked and successfully answered.

#### **KIM IN AN ORGANIZATIONAL CONTEXT OF TALENT AND CONNECTIVITY**

*“We need to mobilize our collective brain power for innovation.” President and CEO, Consumer Products, Canada*

*“The time available to capture, interpret and act on information is getting shorter and shorter.” CEO, Chemicals and Petroleum, United States*

*“In our industry, the biggest risk we face is not regulatory mandates, as many think. It’s industry disruption...” CEO, Retail, United States*

The prior quotations from an IBM study of 1,704 senior executives in global business and public sector organizations from 64 countries (*Leading through Connections*, 2012), highlight the challenges faced by leaders in today’s information rich but highly competitive environments. As nations and organizations seek transformation and innovation the focus is increasingly on how people and connections use technology for performance gains. As leaders set plans and commit resources to build out the infrastructure foundations for KIM, it may be easy to overemphasize technology and underemphasize people and connections. But it is important to remember that people and connections activate technology utilization for knowledge and innovation (Dyer, Gregerson & Christensen, 2011).

When it comes to building performance capacity for KIM or any other organizational process, system, or technology, it is important to remember that people still drive the system. The talent they offer powers individual contributions and the synergistic connections for high performance teamwork. They create technology, apply it to the tasks of organizations, and adapt it over time to fit situational needs and demands. The success of KIM in any organization, see Figure 1, rests to a large extent on how well people and connections are mobilized to create a smart workforce. The IBM study (*Leading through Connections*, 2012) uses the term “collective brains” to represent the power of intellectual capital, and points out that 63% of survey respondents were focused on creating a collaborative organizational culture to tap that power.

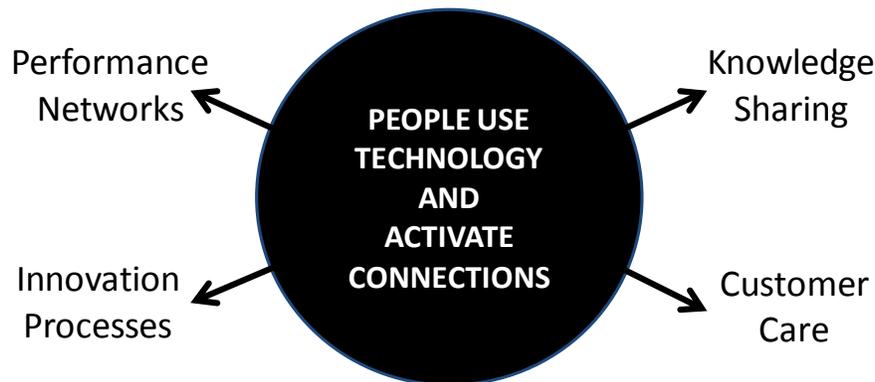
In the book, *The Human Equation: Building Profits by Putting People First*, Pfeffer asks: “When you look at your people, do you see costs to be reduced? . . . Or, when you look at your people do you

see intelligent, motivated, trustworthy individuals—the most critical and valuable strategic assets your organization can have?” (Pfeffer, 1998: 292). He argues quite strongly that organizations perform better when they put people first in their priorities (Pfeffer, 1995, 1998; Pfeffer & Veiga, 1999) and advocates the need for human sustainability practices (Pfeffer, 2010).

Given the importance of human capital as a foundation for high performance, however, why is it that organizations so often fail to tap its great potential? In an interview, for example, scholar Jeffrey Pfeffer describes toxic workplaces where people are treated only as factor of production and end up working only because they have to just long enough until they can afford to leave, and to which they have little sense of commitment or loyalty (Weber, 1998).

**FIGURE 1**

**People and Connections Activate Technology for KIM Performance Gains**



**HUMAN CAPITAL QUESTIONS AND KIM PERFORMANCE CAPACITY**

*Scene 1* – Visiting professor enters office of secretary. After introducing himself he asks for assistance finding a telephone number to contact an IT specialist for help accessing the Internet. After a pause, and look toward the clock on the wall, the secretary replies: “It’s lunch hour.”

*Scene 2* – Visiting professor goes early to a 4:30pm class to set up his Power Point presentation. He is unable to get the computer unlocked and goes to find help in a nearby office labeled “tech support.” He tells a young man sitting at a computer terminal about his problem, points out it is now 4:25pm and his class begins in five minutes, and asks if he is in the right place to get help. The young man answers, “Yes, but we knock off at 4:30” and turns his head back to the computer screen.

Adequate talent was available to assist the visiting professor in both these cases, but it was not activated – by choice of the talent holder. The price paid – perhaps here by the students and academic

program, for such under deployed talent can be significant. At best the individuals in the vignettes were just having “bad days or moments.” At worst, they routinely failed to perform up to their full potential.

QUESTION: To what extent is human capital valued in the southern Africa organizational context, and how does that valuation affect KIM performance capacity?

### **Marginal Performance and Employee Disengagement**

The individuals in the prior vignettes fit the definition of what Gardner and Schermerhorn (2004) call a marginal performer, someone who does just enough to get by in the work situation. This person never quite performs poorly enough to get fired, but also never reaches her or his full performance potential. Gallup researchers discuss such marginal performance in the context of worker or employee disengagement. They define disengaged employees as “physically present, but psychologically absent. They wait for someone else to fix problems. They are unhappy with their work situations and cannot wait to share their unhappiness with their colleagues.” (Blizzard, 2003).

An ongoing stream of Gallup research tracks worker disengagement in the United States. It reports that some 71% of American workers self report as either “actively disengage” or “not engaged” in their work (Gallup, 2011). The estimated cost of such disengagement to the U.S. economy runs into the hundreds of billions of dollars as disengaged workers display less loyalty, lower productivity, and higher absenteeism and turnover. If similar employee engagement surveys were taken in southern Africa, what would one find? Does worker disengagement in the region run 10%, 15%, 20%, or even higher? When human capital consistently underperforms, so too must the organizations – government, business, non-profit, that depend upon it for vitality in the digital age.

Questions: How extensive are marginal performance and employee disengagement problems in organizations in southern Africa? How are these problems viewed and how are they being addressed to build organizational performance capacity?

### **Satisfactory Underperformance**

In addition to the marginal performance and employee disengagement just discussed, another tendency of human behavior poses additional risks to performance and KIM utilization. That risk, shown in Figure 2, relates to the dynamics of performance expectations and human tendencies in organizational systems to gravitate toward sustained underperformance. When reflecting on global challenges in the 21<sup>st</sup> century, international consultant and author Mark Hayes Daniell describes satisfactory underperformance as “generating a continuing state of outcomes, which by objective assessment is not acceptable, but which has over time become accepted as the prevailing norm” (Daniell, 2000: 1).

The human being is a remarkable and highly adaptable living system. So too is the organization (Scott, 1998). The adaptation by each, however, can be positive or negative. In the case of low performance, adaptability may mean that over time it becomes a standard that is accepted rather than viewed as a problem that must be corrected. Anything modestly above low performance may even take on the aura of acceptability, perhaps to the extreme of being defined as excellent. Whether the logic of satisfactory underperformance is applied to individuals, groups, or organizations, the possibilities are equally disturbing. What are the consequences, immediate and future, any time we accept something less than excellence from our students, from the workers in our organizations, from our governments, or from any of the institutions that serve society?

One of the most pressing deficiencies in many organizations today may well be gradual erosion in performance standards to the point where low performance becomes acceptable and anything slightly above becomes exceptional. The human capital risk is that leaders allow continuing patterns of

poor or marginal performance to creep into organizational norms to the point where they become, as Daniell suggests, “in a perverse way satisfactory” (Daniell, 2000: 8). Just look to our schools and universities where, at least in my setting, one often hears concerns for grade inflation. It is no secret that in many of America’s classrooms what used to be “C” work is now often graded at least a “B” and in some cases even earns an “A.” According to Bennett and Wilezol (2013), for example, an average of 43% of letter grades now given by American universities are “A’s.”

The notion of satisfactory underperformance raises the troublesome specter of human potential that is not only lost, it may not even be recognized as missing. People in organizations don’t end up underperforming because of any lack of talent; they underperform because they work only to the level that their managers, peers, and co-workers minimally accept. What are the consequences, immediate and future, any time we accept something less than excellence from students, workers, or leaders in organizations that are supposed to serve society?

Whether the performance context is education, business, government or something else, one has to wonder: Are we getting what we expect? In his classic book *The Human Side of Enterprise*, Douglas McGregor drew upon the social science of human behavior to remind us that people respond to the way they are treated (McGregor, 1960). He argued that managers go to work assuming that people are lazy, incapable and dependent – what he calls *Theory X* assumptions, that is what we’ll get. The *a priori* assumptions of the leader create a negative self-fulfilling prophecy. Conversely, if managers go to work assuming that people are willing, capable, and independent – what he calls *Theory Y*, that, too, is what they’ll get. However, this time the self-fulfilling prophecy is a positive one.

This phenomenon is also known as the Pygmalion effect (Eden, 1990; Livingston, 1969 & 1988; Rosenthal, 1973). Its logic helps explain how satisfactory underperformance can become a norm. Poor performance can become self-reinforcing because the leader who accepts it is actually encouraging it. Whenever poor performance is accepted, whether due to lack of evaluative rigor or plain disregard, it can easily become tomorrow’s performance standard. But if the Pygmalion effect suggests you get what you expect, why not expect the best? Although deploring what he observed to be the predominance of *Theory X* assumptions among the managers of his generation, McGregor was also clear in appealing for them to adopt the *Theory Y* perspective and unlock the benefits of a positive self-fulfilling prophecy.

Questions: To what extent are tendencies toward satisfactory underperformance hurting performance by organizations in southern Africa? What are the societal roots of this phenomenon and what can be done to alleviate them? Do the actions and assumptions of managers create negative self-fulfilling prophecies? Are today’s managers capable of creating more positive self-fulfilling prophecies?

### **Fundamental Attribution Error**

The following equation is a basic summary factors driving human performance in organizations: Performance = Ability X Support X Effort (Blumberg & Pringle, 1982). Although the equation simplifies a far more complex reality, it is a reasonable summary of scholarly thinking. Ability creates the raw capacity to perform. It brings to the persons with job relevant knowledge, aptitudes and skills. Support establishes the opportunity to perform by giving people what they need to best apply their capabilities. Effort shows the willingness to perform. It demonstrates commitment to actually work hard at one’s job.

One of the risks in management of human capital is attribution error (Jones, 1972) that results in failure to take full advantage of the support factor as a lever for boosting performance capacity. When asked to explain poor performance by others, managers may fall prey to fundamental attribution error by assuming the problem is either a lack of ability or a lack of effort, or both. This tendency to blame the individual or team for something like marginal performance or satisfactory underperformance may or may not be accurate. It opens up only management attention to the ability and effort factors as

performance development pathways, and denies the potential for better management and organizational support to improve things.

Factors in the work environment that are subject to managerial influence often constrain the performance accomplishments of otherwise capable people. Sample performance obstacles include cumbersome policies and procedures, lack of adequate resources, and poor supervision. Organizational support is the flip side of performance constraints, and research reviewed by Rhoades & Eisenberger (2002) links perceived organizational support with greater organizational commitment, job attitudes, and performance. Both streams of research suggest that making sure proper attention is given to the support factor in the individual performance equation is warranted when it comes to building and maintaining KIM performance capacity.

Question: To what extent are managers in organizations in southern Africa prone to fundamental attribution errors that blame individual and teams for their poor performance and deny the possibility that performance improvements might be achieved by giving more attention to management and organizational support? Are managers in southern Africa educated and trained to have supportive mindsets in their approach to individual and team performance?

### **BUILDING KIM PERFORMANCE CAPACITY THROUGH PEOPLE**

“Businesses or work units that score in the top half of their organization in employee engagement have nearly double the odds of success... when compared with those in the bottom half. Those in the 99<sup>th</sup> percentile have four times the success rate compared with those at the first percentile. *Gallup, 2013*

If disengagement is the downside of human capital loss in organizations, employee engagement - a strong sense of belonging or connection with one's job and employer, is the upside. A meta-analysis of Gallup research since 1997 links employee engagement with: higher profits, higher productivity, lower absenteeism and turnover, fewer safety incidents, and better quality and customer service. The analysis concludes: “Employee engagement consistently affects key performance outcomes, regardless of the organization, industry, or country” (Gallup, 2013).

Such findings suggest that building the conditions to reduce marginal performance and raise employee engagement can help in developing organizational performance capacity for KIM. The same argument holds for counteracting tendencies toward satisfactory underperformance and management neglect of support as a key performance driver. Taken together, they are the foundations for what we might call smart investments by educators, executives, and government leaders in talent development and utilization for KIM. Positive agendas for government and organizational human resource development policies might be created around giving dedicated attention to educating a smart workforce to increase KIM ability in the talent pool, and to the training of smart managers that are energized and capable of fully supporting this talent in optimizing KIM utilization.

#### **Development Goal: Educating a Smart Workforce**

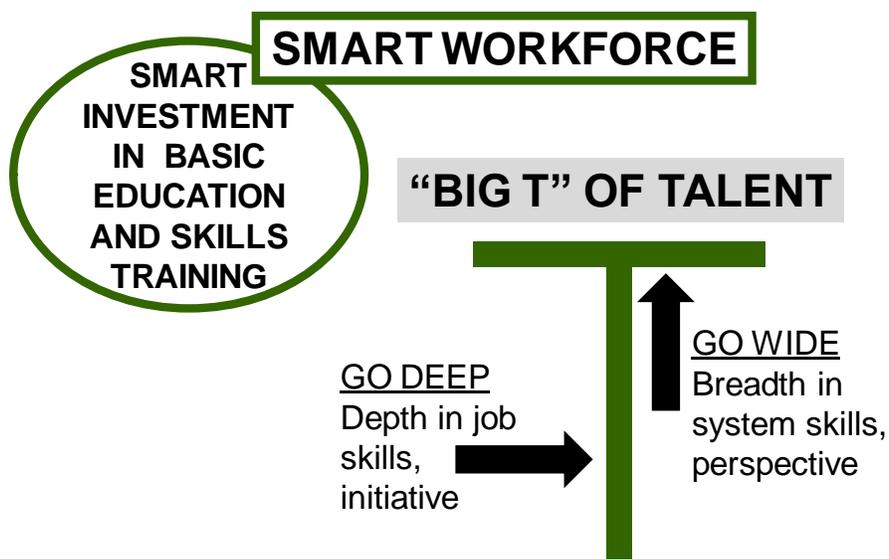
The first goal in creating KIM performance capacity is to develop and put in place the right workforce talents. The ability factor in the performance equation has to be fully activated by building a sustainable pool of human talents that match well with organizational needs as they shift over time. In aligning talent and KIM opportunities, the process begins with primary and secondary education, follows at the university level, and continues on into employer-specific training and development programs. In all cases competencies dealing with technology are critical, from basic technology utilization to information literacy to advanced software engineering.

Figure 2 shows that additional human and organizational competencies appropriate to the digital age and an organizational context of connectivity are also needed to build a smart workforce high in KIM performance capacity. The ideas are borrowed from the “Big T” model of talent used by Toyota and described by Watanabe, Stewart, and Raman (2007). This model focuses attention on two dimensions of smart workforce development – the vertical and the horizontal. The vertical dimension represents talent depth and the individual initiative required to put talent to work with enthusiasm. In respect to developing KIM performance capacity this depth requires acquiring basic technological competencies as well as a strong work ethic and sense of personal pride in working to full capacity. This vertical anchor of the Big T is mostly related to jobs and teams and the tasks that they perform on a daily basis. Think of education and training that “goes deep” into the individual’s skills and motivational portfolios to create true performance capacity.

The horizontal dimension in the Big T model represents talent breadth and total systems understanding of an organization’s purpose and how it works as a whole. In respect to KIM performance capacity this requires breadth in acquiring a solid understanding of how the total system of the organization works, how and why the various components are important to the whole and to each other, and what values and goals guide behavior. This horizontal top for the Big T focuses on collaboration across boundaries (Hansen, 2009) and on tasks and work that takes place around a job, individual, or team. Its foundations are set in education that helps students understand how organizations work as complex systems and how they link with and serve broader society. These foundations must then be strengthened by employers through organization-specific training and development activities that include career paths full of lateral transfers and assignments outside of one’s primary work area. Think of education and training that “goes wide” by linking individual skills and motivational portfolios with true systems awareness, commitment to organization-level accomplishments, and solid collaborative skills.

FIGURE 2

**KIM Performance Capacity and the “Big T” of Smart Workforce Development**



Questions: Are the primary, secondary, and tertiary educational systems of southern Africa well aligned with desires for a smart workforce high in the Big T skills needed for KIM performance capacity? Are employers in southern Africa committing sufficient resources to create and engage workforces that are not just job smart but also systems smart?

### **Development Goal: Educating Smart Managers for the Smart Workforce**

The second goal in creating KIM performance capacity is to develop managers who understand the primacy of human capital in organizations and have the skills needed to nurture and deploy talent to its full potential. The support and effort factors in the performance equation need to be fully activated, and it is the job of managers in every organization to do just that. But the error of focusing too much attention directly on effort while neglecting or downplaying attention to support must be avoided. The managerial mindset must understand the unique power to be gained from investing in support, a power that builds not only the full opportunity for talent utilization but also unlocks intrinsic motivation that drives willingness to work hard at one's tasks.

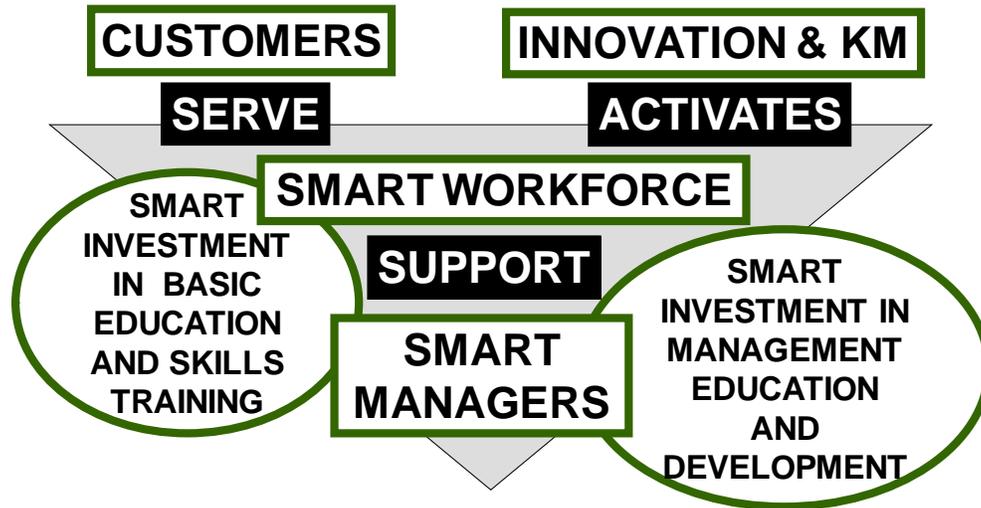
The science of human behavior recognizes the great power that feelings of competency (White, 1959) and self-efficacy (Bandura, 1977) can bring to individual motivation. The premise is that when people feel capable of accomplishing a task they are more motivated to work hard at it. The lesson is that managers should be doing everything they can to help people gain a sense of competency and self-efficacy in their work (Luthans, 2002). This includes creating self-confidence and a sense of positive performance aspirations (McGregor, 1960; Gardner & Schermerhorn, 2004; Luthans, 2002; Pfeffer, 1998; Pfeffer & Veiga, 1999), and giving proper attention to building work environments that are low in performance obstacles (Peters & O'Connor, 1988) and high on perceived organizational support (Rhoades & Eisenberger, 2002).

It takes hard work to engage and tap the full potential of a talented workforce and it takes "smart" managers to build, nurture, and tap KIM performance capacity. Managers have to be active and participating members of every organization's smart workforce. To do so they must understand their roles and have the training and development opportunities needed so that they can excel at them.

A look at Figure 3 suggests how these ideas might be used to help educate smart managers for the smart workforce. The figure flips the traditional organizational pyramid upside down to put customers at the top, managers at the bottom, and smart workers in between. This places primacy on the organization's purpose in society – to add value to society by providing useful goods and services to clients and customers. It moves the managerial mindset away from the "top" where it is easy to get drawn into a sense of privilege and places it at the "bottom" where the focus must be on supporting everything above – the smart workers as they serve clients and customers. Managers with this mindset don't let attribution errors move them away from support as a performance factor. This mindset places support center stage in their daily agendas.

FIGURE 3

Developing KIM Performance Capacity through  
Smart Investments in Developing a Smart and Engaged Workforce



Management training and development for KIM needs to focus on getting the priorities right so that the most important things get done first – talent development and talent support. It must also focus on helping managers learn to take pleasure in helping others do great things by creating conditions under which talented members of the smart workforce can do their best work. Instead of worrying about personal gains and privilege, managers learn that the best payoff for their labors is to see other people and their organization performing really well. Instead of looking at individuals and blaming them for performance failures, they should be looking at them as asking if they have the right talents, if these talents are properly aligned with the work to be done, and if these talents are fully supported.

Questions: Are the skills and mindsets of managers in the organizations of southern Africa appropriate to the needs of a smart workforce and the goal of building KIM performance capacity? Do managers in southern Africa have access to training and development opportunities that help them acquire and build skills and perspectives that best fit a smart workforce and organizations that are transforming in the digital age?

**CONCLUSION**

“[CEOs] are are creating more open and collaborative cultures — encouraging employees to connect, learn from each other and thrive in a world of rapid change. The emphasis on openness is even higher among outperforming organizations...” *Leading through Connections*, 2012

This paper raised questions regarding possible limitations on the development of KIM performance capacity in organizations in southern Africa. These questions relate to the possibilities for marginal performance and worker disengagement, satisfactory underperformance, and fundamental attribution error to hinder KIM utilization. Talent is the issue linking all three issues. Whether one talks directly about the importance to organizations of people with experience, know-how, and ability, or more broadly about the critical role of human capital in the institutions of our day, the essence of the message is the same. Organizations run on the talents of people; so too does KIM. Every time someone lacks talent or fails because of marginal performance, satisfactory underperformance, or lack of management support to deliver it, the performance to be gained by KIM is compromised.

The challenge facing organizational and government leaders concerned with KIM utilization in southern Africa requires leadership attention to the development, mobilization, and maintenance of talent. The summary implications have been described here as making smart investments in the development of a smart workforce that is well supported by smart managers and delivers KIM performance gains to organizations. As Argentine professor Mariano Grondona says:

The principal engine of economic development is the work and creativity of individuals. What induces them to strive and invent is a climate of liberty that leaves them in control of their own destiny... To trust the individual, to have faith in the individual, is one of the elements of a value system that favors development. (Harrison & Huntington, 2000: 36)

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**END NOTE**

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## DOES GENDER DIVERSITY AFFECT THE PERFORMANCE OF MICROFINANCE FIRMS?

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### ABSTRACT

This study examines the effects of gender diversity on microfinance organizational performance. We use ROA to capture financial performance and OpEx to capture operating efficiency. We measure gender diversity at two levels of the organization. The presence of female Directors is used to capture gender diversity at the decision-making level; while the presence of loan officers capture gender diversity at the operation level. We find that the former measure is positively correlated with financial performance and the latter is measure is negatively correlated with operating efficiency. These results indicate that gender diversity enhances organizational performance, especially in Africa.

**Keywords:** Gender Diversity; Financial Performance; Economic Efficiency

### INTRODUCTION

The contemporary field of microfinance is growing rapidly. It comprises of more than 10,000 organizations with a collective asset base of over USD 70 billion and serves approximately 100-150 million clients around the globe (Latortue, 2010). It also operates in a consumer market that is estimated at approximately 3 billion (Armendariz and Labie, 2011). A key characteristic of most microfinance firms is their focus on women, a group that is often underrepresented in the overall worldwide banking industry. According to the Microfinance Centre ([www.mfc.org.pl](http://www.mfc.org.pl)), an intermediary microfinance group based in Poland, “Women comprise over 50% of the world’s population and 70% of the poorest, and hence form the overwhelming majority of the target group for poverty-targeted microfinance.”

Observers of the microfinance marketplace may be surprised to learn that while women constitute the majority of clients in the microfinance industry, the number of women who are employed at various hierarchical levels within the organizations in the industry is relatively modest. African countries, especially in Sub-Saharan Africa are among the poorest nations globally where microfinance institutions (MFIs) have had a steady presence. Gender inequality in Africa, as with many other countries

suggests that more women than men are at the receiving end of the harsh realities of poverty. Such inequality among women prompted the United Nation's Millennium Development Goals (MDGs) to acknowledge the need to address gender inequality as a critical foundation for human development (UN MDGs, 2007). The development of MFIs in Africa targets small-scale enterprises and most of the poor population who have very limited access to deposit or credit facilities provided by formal financial institutions (Basu, Blavy and Yulek, 2004). Some studies reveal that MFIs in Africa are expanding rapidly; are among the most productive globally, as measured by the number of borrowers and savers per staff member; and also demonstrate higher levels of portfolio quality, with an average portfolio at risk over 30 days of only 4.0 percent (Lafourcade, Isern, Mwangi, and Brown, 2005).

Notwithstanding the significance of the record of growth in MFIs globally and the performance achievement of MFIs in Africa in particular, little attention is paid to how this economic growth or performance is attained (Cull et al. 2007; Mersland and Strøm, 2009). In this paper, we examine the relationship between gender diversity within various hierarchical levels of the organization and economic performance in Africa versus the rest of the world, based on two components: financial performance (or profitability) and efficiency. We operationalize financial performance through return on assets (ROA), and we base efficiency on operating expenses (OpEx) as a percentage of assets.

### **GENDER DIVERSITY AND FIRM PERFORMANCE**

Several researchers (Terjesen and Singh, 2008; Francoeur, Labelle and Sinclair-Desgagnes, 2007; Siciliano, 1996; Campbell and Minguez-Vera, 2007) explored the relationship between gender diversity and financial performance. Their analysis demonstrated that it was not a firm's success that allowed it to hire more women, but that the presence of women specifically contributed positively to the bottom line. On the other hand, several studies have found no relationship between gender diversification and firm performance. For instance, DeRiets & Henrickson (2000) found no relationship between gender and firm performance in Swedish firms, and other studies were unable to replicate similar performance findings in Danish firms (Smith, et al. 2006; Rose 2007). These mixed results suggest that there are additional contextual factors at work that require further examination, given that in complex and challenging environments, firms generally benefit from a diverse team of decision-makers (Francoeur, Labelle, Sinclair-Desgagne, 2007; Adler, 2001; Catalyst, 2004; Krishnan & Park, 2005; Hambrick & Pettigrew, 2001; Erhardt et. al, 2003).

There has been a plethora of studies to ascertain the relationship between gender on corporate Boards and performance (Dalton, Dalton, & Certo, 2007). Owing to the conflicting outcomes of such results, Dalton, Daily, Ellstrand & Johnson, (1998) conducted a meta-analysis comprising 85 studies of Board composition with more than 60,000 observations and concluded that little or no evidence exists to suggest that the composition of the Board of Directors has any effect on firm performance. The lack of any strong evidence in favor of Board diversity negates advocating for Board diversity (e.g., Burgess & Tharenou, 2002; Fondas & Salsalos, 2000; Thompson & Graham, 2005).

With respect to MFIs, however, several arguments suggest that microfinance firms would benefit from the presence of women, particularly at higher levels of organizational functions. For example, while women are argued to be more risk-averse than their male counterparts (Schubert, R., Brown, M., Gylser, M., & Brachinger, H.W., 1999; White, Thornhill, S., & Hampson, E., 2007), they also perform internal controls that result in increased levels of organizational efficiency (Pfeffer, 1973; Zald, 1969). Generally speaking, women Directors bring a different perspective from their male counterparts to organizational decisions (Westphal and Milton, 2000), which is important, particularly in a complex environment (Francoeur, Labelle, Sinclair-Desgagne, 2007; Adler, 2001; Catalyst, 2004; Krishnan & Park, 2005; Hambrick & Pettigrew, 2001; Erhardt et. al, 2003), such as the microfinance industry. We believe

that social enterprises such as microfinance firms stand to benefit from a diversified workforce. We, therefore, argue the following:

*Hypothesis 1: Microfinance firms with higher levels of women on their Board of Directors/Trustees will outperform their peers (higher ROA), globally and within Africa.*

*Hypothesis 2: Microfinance firms with higher levels of women in their operational staff are more efficient (lower operating expenses (OpEx)) than their peers, globally and within Africa.*

## DATA

We test our hypotheses using a subset of the microfinance organizations identified in the global database maintained by MIX – a non-profit organization that provides financial and social performance information from MFIs, providing 11,369 observations from 116 countries in the database. Many of these MFIs only recently began to report data on the gender of their employees, managers, and officers. Our models of Return on Assets are based on 675 observations that include a report of the percentage Board members of an MFI that are female. Our models of operating expense are based on 1,025 observations that include a report of the percentage of loan officers of an MFI that are female.

### Dependent Variables

We divide economic performance into two parts: financial performance or profitability, and efficiency. Utilizing figures from the MIX database, we operationalize profitability by using the Return on Assets (ROA) and efficiency by using Operating Expense (OpEx) as a percentage of assets.

### Independent and Control Variables

Our two hypotheses are influenced by essentially one main **independent variable**, gender composition at various hierarchical levels of a microfinance organization. The MIX data have four different gender variables: 1) women on the Board; 2) managers; 3) loan officers; and 4) staff.

We include a set of **control variables** that are likely to influence both the profitability of MFIs as well as the decisions for greater gender diversity at various levels of a microfinance organization. We use the Corruption Perceptions Index (CPI) from *Transparency International* to measure the extent to which a given MFI operates in a context broadly perceived to be governed by transparent institutions. We also use a measure from the MIX database that indicates whether an MFI operates in a country context where microfinance organizations are regulated by a legal authority. Figure 1 describes the reporting activities associated with each MIX Diamond ranking and identifies the number of MFIs associated with each score.

**FIGURE 1****MIX Diamond Ranking Scale**

Diamond Ranking	Additional Disclosures	% of MFIs
1 Diamond	General information	1.0
2 Diamonds	At least two consecutive years of outreach information	0.9
3 Diamonds	At least two consecutive years of audited financial statements (including auditor's opinions and notes)	29.3
4 Diamonds	At least two consecutive years of financial data	35.8
5 Diamonds	At least one year of due diligence reports (e.g. ratings/evaluations, due diligence, and other benchmarking assessment reports or studies)	36.0

In order to identify the location of an MFI, we include an indicator variable *Africa* set equal to 1 if the MFI is located in Africa, and set equal to 0 if the MFI is located in the rest of the world. Table 1 presents our assignment of countries to these sub-regions.

**ESTIMATION METHODS**

We model economic performance by using a robust ordinary least squares regression model with errors clustered by MFI, using a cross-sectional design. MIX only began collecting information about the gender composition of MFI Boards of Directors as of 2010. As a result, only 41% of MFIs report Board of Directors' gender composition, and over 99% of these report Board of Directors' gender composition for only the most recent year, limiting our ability to perform longitudinal analyses.

**TABLE 1**  
**Assignment of Countries to Sub-Saharan Africa and North Africa**

Sub-Saharan Africa	Angola	Madagascar
	Benin	Malawi
	Burkina Faso	Mali
	Burundi	Mozambique
	Cameroon	Namibia
	Central African Republic	Niger
	Chad	Nigeria
	Democratic Republic of the Congo	Rwanda
	Republic of the Congo	Senegal
	Côte d'Ivoire	Sierra Leona
	Ethiopia	South Africa
	Gabon	South Sudan
	The Gambia	Swaziland
	Ghana	Tanzania
	Guinea	Togo
	Guinea-Bissau	Uganda
	Kenya	Zambia
	Liberia	Zimbabwe
	North Africa	Egypt
	Morocco	
	Sudan	
	Tunisia	

## RESULTS

In order to determine whether the result of our sample of observations is comparable to the broader set of MFI observations in the MIX database, we performed a series of two-sample t-tests. The t-tests compare the descriptive statistics of dependent and independent variables for observations that report Board of Directors' gender composition (the smallest subsample) to observations that do not report the gender composition on the Board of Directors/Trustees. Table 2 presents this comparison. The tests suggest that, on average, the MFIs included in our sample are in slightly more transparent countries, are somewhat older, have more personnel, and provide larger loans than the group that did not report on gender diversity. Notably, MFIs included in our sample do not appear to differ significantly in their economic performance as measured by ROA and by OpEx. Table 3 presents pairwise correlations for all of the variables measured in our sample.

Table 4 presents robust coefficient estimates for a set of models that explore the relationship between Board gender composition and MFI financial performance. Model 1 suggests that MFIs with more personnel and larger average loan balances are more profitable than MFIs with fewer personnel and smaller average loan balances. This result is confirmed in all other models presented in Table 3. Model 1 also presents a first test of Hypothesis 1. The positive coefficient for *Percent of Female Board Members* suggests that MFIs with more women on their Boards are more profitable than MFIs with fewer women on their Boards, lending support to the hypothesis. Within the analyzed sample, the percentage of female Board members varies substantially—an MFI at the 20<sup>th</sup> percentile of this distribution has no female Board members, while an MFI at the 80<sup>th</sup> percentile has 50% female Board members. These results suggest that an MFI with 50% female Board members should have an ROA 1.9% higher than an MFI with no female Board members. In as much as the average MFI in this sample has assets valued at \$63M, this could reflect a profitability increase of \$1.20M.

**TABLE 2**  
**Descriptive Statistics, Reporters and Non-Reporters of % Female Board Members**

Variable	Mean (Standard Deviation)		<i>p</i> (equal means)
	Reporters	Non-Reporters	
Return on Assets	-0.041 (1.553)	-0.015 (1.312)	0.608
Operating Expenses/Assets	0.598 (0.430)	0.268 (0.070)	0.205
CPI Score	2.895* (0.775)	2.784* (0.773)	0.000
Regulated	0.543 (0.498)	0.570 (0.495)	0.141
New Firm	0.107* (0.310)	0.197* (0.398)	0.000
Young Firm	0.157* (0.364)	0.231* (0.422)	0.000
Personnel	459.786* (1,628.237)	285.386* (1,225.810)	0.000
Log (Average Loan Balance)	6.426* (1.290)	6.008* (1.396)	0.000
Number of Loans/Assets	0.003 (0.028)	0.004 (0.018)	0.250
Non-Profit	0.599 (0.490)	0.613 (0.487)	0.434
Africa	0.172* (0.013)	0.232* (0.004)	0.000
Sub-Saharan Africa	0.149* (0.012)	0.211* (0.004)	0.000
North Africa	0.022 (0.005)	0.021 (0.001)	0.763
% Female Board Members	0.290 (0.270)		
<i>N</i>	808	10,048	

Note: \*Means are different,  $p < 0.05$ , two-tailed t-test

Models 2 and 3 extend Model 1 to perform additional tests of Hypothesis 1. Model 2 introduces a variable *Africa* that indicates whether an MFI is located in Africa. Model 3 introduces an interaction between *Percent of Female Board Members* and *Africa* to test whether the effect of gender composition on financial performance differs for African MFIs.

Models 4 and 5 extend Models 2 and 3 to perform a final test of Hypothesis 1. Model 4 introduces variables *North Africa* and *Sub-Saharan Africa* which indicates whether an MFI is located in North Africa or Sub-Saharan Africa, respectively. The coefficient for *North Africa* is positive and statistically significant, indicating that North African MFIs are more profitable than their peers in Sub-Saharan Africa and the rest of the world. The coefficient size is large, suggesting that North African MFIs have an ROA that is 7% larger than MFIs elsewhere. For an MFI with an average level of assets of \$63M, this corresponds to an increase in profitability of \$4.41M. Model 5 introduces interactions between *Percent of Female Board Members* and regional indicators to test whether the effect of gender composition on performance differs among African MFIs. Overall these results provide support for Hypothesis 1.

**TABLE 3**  
**Pearson Correlation Coefficients**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Return on Assets									
(2) CPI Score	-0.07*								
(3) Regulated	0.04	-0.17*							
(4) New Firm	0.06	-0.11*	0.18*						
(5) Young Firm	0.01	-0.01	0.02	-0.15*					
(6) Personnel	0.01	0.00	0.05	-0.06	-0.06				
(7) Log (Average Loan Balance)	0.04	0.10*	0.13*	-0.02	-0.14*	-0.12*			
(8) Number of Loans/Assets	0.00	-0.02	-0.05	0.06	0.14*	0.01	-0.26*		
(9) Non-Profit	0.04	0.09*	-0.42*	-0.22*	-0.07*	-0.07	-0.09*	0.03	
(10) % Female Board Members	0.01	-0.05	-0.14*	-0.13*	0.00	-0.03	-0.09*	0.10*	0.16*

Note: \* $p < 0.05$

Table 5 presents an additional set of robust coefficient estimates for a set of models that explore the relationship between loan officer gender composition and efficiency in an MFI. Model 6 suggests that MFIs with more personnel and larger average loan balances, and that are older have lower expenses than MFIs with fewer personnel and smaller average loan balances, and are newer. The model also suggests that MFIs operating in regulated contexts have lower expenses than do MFIs operating in non-regulated contexts. Model 6 also presents a first test of Hypothesis 2. The statistically insignificant

coefficient for *Percent of Female Loan Officers* suggests that MFIs with more female loan officers are no more or less profitable than MFIs with fewer female loan officers.

Models 7 and 8 extend Model 6 to perform additional tests of Hypothesis 2, which focuses on efficiency. The coefficient for the *Africa* variable in Model 7 is positive and statistically significant, indicating that African MFIs have higher operational expenses than those of their peers in the rest of the world. Model 8 introduces an interaction between *Percent of Female Loan Officers* and *Africa* to test whether the effect of gender composition on efficiency differs for African MFIs. The coefficient for this interaction is negative and significant, suggesting that among African MFIs, firms with more female loan officers have lower operating expenses than firms with fewer female loan officers. The within-sample variation of the percentage of female loan officers is almost as large as the variation of the percentage of female Board members. An MFI at the 20<sup>th</sup> percentile of this distribution has no female loan officers, while an MFI at the 80<sup>th</sup> percentile has 48% female loan officers. The coefficient estimate suggests that an MFI with 48% more female loan officers should have operating expenses 5.4% lower than an MFI with no female loan officers. This corresponds to a savings of \$3.39M for an MFI with an average asset level.

**TABLE 4**  
**Robust Coefficient Estimates for MFI Return on Assets**

	Model 1	Model 2	Model 3	Model 4	Model 5
<i>Country Characteristics</i>					
CPI Score	-0.035 (0.025)	-0.035 (0.025)	-0.035 (0.026)	-0.036 (0.026)	-0.036 (0.026)
Regulated	-0.005 (0.009)	-0.004 (0.009)	-0.004 (0.009)	-0.000 (0.008)	-0.000 (0.009)
<i>MFI Characteristics</i>					
New MFI	0.024 (0.022)	0.024 (0.022)	0.023 (0.022)	0.024 (0.022)	0.024 (0.022)
Young MFI	0.011 (0.011)	0.012 (0.011)	0.012 (0.011)	0.013 (0.011)	0.012 (0.011)
Personnel	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)
Log(Average Loan Balance)	0.012* (0.005)	0.011* (0.006)	0.011* (0.006)	0.012* (0.006)	0.012* (0.006)

Number of Loans/Assets	0.986 (2.327)	0.749 (2.330)	0.772 (2.342)	1.126 (2.317)	1.103 (2.334)
Non-Profit	-0.006 (0.008)	-0.005 (0.008)	-0.005 (0.008)	-0.006 (0.008)	-0.006 (0.008)
<i>Independent Variables</i>					
Percent of Female Board Members	0.038* (0.016)	0.038* (0.016)	0.040* (0.017)	0.040* (0.016)	0.041* (0.017)
Africa		-0.006 (0.013)	0.001 (0.017)		
Percent of Female Board Members x Africa			-0.027 (0.043)		
Sub-Saharan Africa				-0.023 (0.013)	-0.024 (0.018)
North Africa				0.070** (0.024)	0.094*** (0.026)
Percent of Female Board Members x Sub-Saharan Africa					0.004 (0.045)
Percent of Female Board Members x North Africa					-0.120 (0.081)
Constant	0.029	0.034	0.033	0.028	0.028
Adjusted $R^2$	0.063	0.063	0.063	0.074	0.074

Note: Two-tailed t-tests. Errors clustered by MFI.  $N=675$ .

\*  $p < 0.05$

\*\*  $p < 0.01$

\*\*\*  $p < 0.001$

Finally, models 9 and 10 extend Models 7 and 8 to perform a last test of Hypothesis 2. The positive coefficient in Model 9 for *Sub-Saharan Africa* indicates that Sub-Saharan African MFIs on

average have higher operating expenses than their peers in the rest of the world. The negative coefficient in Model 9 for *North Africa* indicates that North African MFIs have lower operating expenses than their peers in the rest of the world. Model 10 introduces interactions between *Percent of Female Loan Officers* and these regional indicator variables. While the coefficient for the interaction of *North Africa* and *Percent of Female Loan Officers* is statistically insignificant, the coefficient for the interaction of *Sub-Saharan Africa* and *Percent of Female Loan Officers* is negative and significant. This suggests that the effect found in Model 8 may be attributable largely to operational efficiencies in Sub-Saharan African MFIs. Taken as a whole, these results provide support for Hypothesis 2.

## DISCUSSION AND CONCLUSIONS

This paper has examined the role of gender composition within the microfinance industry. In this article, we assert that decisions with regard to workforce diversity employed by managers of microfinance firms do account for observed variance in economic performance.

We presented two sets of hypotheses to examine our dependent variable, economic performance. Our first hypothesis addressed financial performance while the second addressed economic efficiency. With regard to the first hypothesis, which examined the relationship between gender composition and financial performance, we observed the relationship between gender composition at various hierarchical levels of the microfinance organization and financial performance. Given that prior studies have examined the relationship between gender diversity at the Board level, we tested the effect of the percent of female Board members on financial performance (ROA). The data revealed that microfinance firms with a higher number of women on their Boards are more profitable than those firms with fewer women on their Boards.

As shown in Table 4, MFIs with more women on their Boards are more profitable than MFIs with fewer women on their Boards. These results suggest that an MFI with 50% female Board members should have an ROA 1.9-2.0% higher than an MFI with no female Board members. In as much as the average MFI in this sample has assets valued at \$63M, this could reflect a profitability increase of \$1.26M. This result confirms the former findings of Bassem (2009) who discovered that having more women on the Board of microfinance firms in the Mediterranean and Middle East improves performance. Also, these findings support the assertion by Merland & Strom (2007), who state that having a high percentage of women on the Board of an MFI can produce more effective decision-making with regard to distinguishing good risk from bad risk.

Our own study contributes something new in that we have performed both global and regional studies of the relationship between gender composition on Boards and financial performance. We compared the firms within the global microfinance industry with those on the African continent and have found no difference in performance. In essence, the higher gender diversity at the Board level contributes to stronger financial performance in every country.

A potential explanation for this pervasive finding may stem from the increasing presence of the commercially focused firms that are entering the microfinance industry. It may be that the strength of a microfinance firm's ability to signal its commitment to delivering social benefits for the poor at the base of the economic pyramid becomes increasingly important to differentiate the firms that are committed to delivering social benefits from those that are overly concerned with redistributive profits. As a result, these firms are rewarded for their seeming commitment to the industry's focus on financial inclusiveness through higher gender diversification of the Board. We believe that greater numbers of women, particularly female Directors, signal to investors that a microfinance firm is committed to the principles of financial inclusion.

**TABLE 5**  
**Robust Coefficient Estimates for MFI Operating Expenses as a Percent of Assets**

	Model 6	Model 7	Model 8	Model 9	Model 10
<i>Country Characteristics</i>					
CPI Score	0.022 (0.016)	0.021 (0.016)	0.021 (0.016)	0.022 (0.016)	0.022 (0.016)
Regulated	-0.054*** (0.010)	-0.059*** (0.010)	-0.059*** (0.010)	-0.063*** (0.010)	-0.063*** (0.010)
<i>MFI Characteristics</i>					
New MFI	0.057*** (0.017)	0.058*** (0.017)	0.059*** (0.017)	0.056** (0.017)	0.057*** (0.017)
Young MFI	0.038** (0.012)	0.037** (0.012)	0.038** (0.012)	0.038** (0.012)	0.039** (0.012)
Personnel	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Log(Average Loan Balance)	-0.045*** (0.008)	-0.042*** (0.008)	-0.043*** (0.008)	-0.044*** (0.008)	-0.044*** (0.008)
Number of Loans/Assets	-6.483 (4.082)	-5.879 (3.720)	-6.074 (3.622)	-6.360 (3.728)	-6.522 (3.633)
Non-Profit	-0.029** (0.010)	-0.033*** (0.010)	-0.035*** (0.010)	-0.030** (0.010)	-0.032** (0.010)

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*Independent Variables*

Percent of Female Loan Officers	0.017	0.019	0.035	0.020	0.033
	(0.020)	(0.020)	(0.022)	(0.020)	(0.022)
Africa		0.032*	0.055**		
		(0.015)	(0.018)		
Percent of Female Loan Officers x Africa			-0.112**		
			(0.043)		
Sub-Saharan Africa				0.054**	0.074***
				(0.017)	(0.019)
North Africa				-0.065**	-0.052*
				(0.023)	(0.026)
Percent of Female Loan Officers x Sub-Saharan Africa					-0.108*
					(0.050)
Percent of Female Loan Officers x North Africa					-0.047
					(0.043)
Constant	0.460	0.442	0.446	0.446	0.449
Adjusted $R^2$	0.165	0.170	0.176	0.185	0.190

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Note: Two-tailed t-tests. Errors clustered by MFI.  $N=1,025$ .

\*  $p < 0.05$

\*\*  $p < 0.01$

\*\*\*  $p < 0.001$

A common limitation of all these studies with regard to the gender diversity on Boards is that they do not reveal the individual characteristics of the women on these Boards who contribute to better performance. Moreover, these studies have not revealed any of the internal factors, such as, structures, processes, procedures, and practices that support gender diversity in a manner that enable it to positively contribute to financial performance.

Our second hypothesis focused on economic efficiency, which we operationalized as operating expenses (OpEx) as a percentage of assets of microfinance organizations. While this examination did not reveal anything significant for the global microfinance industry, our results suggest a positive story for the African context, particularly Sub-Saharan Africa. We found that Sub-Saharan African MFIs on average have higher operating expenses than their peers in the rest of the world. Our findings suggest that an MFI with 48% more female loan officers should have operating expenses 5.4% lower than an MFI with no female loan officers. This corresponds to a savings of \$3.39M for an MFI with an average asset level.

Overall, we make two sets of contributions to the relatively scant literature on gender composition and its relationship to economic performance within the MFI. First, we provide theoretical arguments on specific ways gender composition at various organizational hierarchies is linked to financial performance within the MFI. While we found that gender diversity at the Board level had a positive impact on firm performance, this was not necessarily pervasive at the lower hierarchical levels, which include managers, loan officers and office staff. We also show that gender diversity at the lower level of a microfinance organization helps to improve economic efficiency. Specifically, we found that microfinance firms with more female loan officers had lower OpEx as a percentage of assets in microfinance organizations in Africa, compared with those with fewer female loan officers.

Finally, one last interesting finding from this study is that gender diversity does matter at a given stage in the life-cycle of the microfinance organization. We found that gender diversity is particularly important for new entrants to the microfinance industry. While our results present novel thoughts for how researchers, practitioners, investors, and policy-makers can think about gender composition and economic performance within the microfinance industry, our analyses are based on cross-sectional as opposed to longitudinal analysis. Therefore, we are restricted in making pure causal claims.

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#### END NOTE

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## BUSINESS CULTURE IN GHANA: AN EXPLORATORY STUDY

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### ABSTRACT

This paper reports an exploratory study on the Business Culture in Ghana. It examines, describes and develops preliminary taxonomy of the business culture in Ghana. The tensions in the literature between organizational, national and business culture concepts are acknowledged. The paper also focuses on business culture as an amalgamation of practices and orientations of businesses, institutions and organisations in a country. The findings suggest a diversified business culture based on size of organization (SME, Large Corporate, etc.) and origin of firms (local or foreign). National culture per se did not emerge as a deciding variable. It is one of five causative variables which seem to underlie the practices and orientations which make up the business culture. Implications are discussed.

**Keywords:** Business Culture; Ghana

### INTRODUCTION

In the organizational behavior literatures, much has been written about organizational culture and the intersect with national culture (Hofstede, 1990; Trompenaars, 1994). Within these discourses, a key consideration has been how national cultures influence and inform organizational culture and by extension, how organizations are effectively a creation of the cultures of the peoples, countries and societies within which they operate. Perhaps no scholar has influenced this conversation more than Hofstede (1980) and his studies which culminated in the 1980 classic: *'Culture's Consequences'* which later spawned several hundred papers and scholarly contributions. Based on Denison and Mishra (1995) and others, it is very clear that the organizational culture concept itself is an unassailable pillar in the organizational sciences. However, a related concept that has yet to receive sufficient attention, is the matter of 'business culture'. Interestingly, the phrase or concept is used almost as a given – as if to say *it should be understood* – without operational definitions. Researchers such as Martinson and Westwood (1997) use the concept in their research on business practices in China and the adoption of computer based information systems without clear definitions of what it means or stands for. For the purposes of this paper, their narrative and that of others such as Bhaskaran and Sukumaran (2007) provide some basis towards operational definition of the concept.

The paucity of literatures on business culture and practices in Ghana, as well as the potential impact of such on the ease of doing business in the country motivate this research. It used an exploratory design to examine, identify, describe and analyse the components of the business culture and through this develop an initial taxonomy of the business culture in Ghana.

### LITERATURE REVIEW

#### **National culture, business culture and organizational culture**

Operationally, business culture may be conceived of as a concept related to but distinct from

national culture and organizational culture. While organizational culture refers to the within-firm values, assumptions, behaviors and symbolisms (Schein, 1997), national culture refers to the traditions, values, mores and the like of countries with or without differentiating the possibility of diversity of people and traditions within the country (Harris and Moran 1996; Trompenaars 1994; Hofstede 2001). So one may talk of Japanese Culture or American Culture. Business culture however, may be described as the broad range of values and practices of business organizations within a country or region. Such practices are likely to provide the behavioral vehicle through which much business activity (commerce, trading, manufacturing, financial intermediation, agro-processing and so forth) generally takes place. Based on the work of writers like Bhaskaran and Sukumaran (2007) factors such as ownership, legal, regulatory and economic contexts influence the values, orientations, management and other practices of business organizations in a country. These factors together with social, politico-historical and cultural issues as well as government programs and policies may contribute to the evolution of business and management practices which may transcend the narrow borders of organizational culture (of any one organization) and produce a distinct form of culture which informs how people do business in the country. This may best be described as the 'business culture' of or in a country or region. It may be possible that the business culture in a country or parts of a country may differ from the national culture – for example, a country may be considered high on individualism dimension (using of Hofstede's dimensions) however, its business culture may espouse and operate practices that may not be necessarily individualistic. It may also be possible that the organizational cultures of firms and organizations in a country may not necessarily be consistent with the business culture of a region, country or areas within a country. From the work of Hofstede and others, it is clear that several attempts have been made to understand the mutual influences between national culture and organizational culture. Business culture, however, appears to fall through the cracks and has not benefited from sustained scholarly investigation.

This paper suggests that to better appreciate the nuances of corporate existence and operation it is important to achieve a clear sense of the notion 'business culture', its characteristics, and interaction with business issues such as regulation, governance and internationalization. Such understanding would most likely facilitate better attention to the management practices and organizational orientations that hinder or are supportive of greater economic growth and development for countries and economies which may be described as developing or emerging. As noted by Punnett (2012), developing countries are increasingly gaining important place in the global economy and are being described more as 'emerging' economies rather than 'developing' economies. Given the increasing investment traffic between emerging and developed markets, Punnett argues that there is a growing need for attention to the managerial systems and practices in emerging or developing countries – Ghana is one such country. Invariably, research which helps to delineate business cultures and other management practices within countries, describing their characteristics and considering how they may impact national economic fortunes is needed in African countries such as Ghana.

### **Previous work on business culture**

Given the near lack of scholarly African material on the subject, work business culture taken from regions and countries other than Africa are used. These countries however fit the description of emerging, transition or developing countries.

Goić and Bilić (2008) carried out a study of business culture in Croatia and five other countries in Eastern Europe (Bosnia, Serbia, Montenegro, Russia, Slovenia). Their study although very informative and useful, appeared to struggle between the notions of business culture as external to individual firms and business culture as interchangeable with organizational culture. This tension is evident from the use of dimensions that are largely expressive of national culture (universalism-particularism; individualism-collectivism etc) as well as Trompenaars' within-firm model of organizational culture. They also refer to their work as an analysis of culture within organizations as well as a study of a 'complex issue like

(national) business cultures...’ (p.46). This tension is perhaps likely to remain in the area of business culture until research establishes its distinction from national and organizational culture. Amongst their findings about the perceptions of business culture, they note that Croatians for example, seem to prefer a separation between business and personal relations, while in Turkey and Russia, there seems a greater tendency to mix personal and business relations.

In a related study, Bradley et al (2010) noted that despite the impact of the Muslim religion and Arabic culture, the Iraqi business culture resembles the ‘blossoming American business culture during the Industrial Revolution’ (p.21). Martinsons and Redwood (1997), found that Chinese managers made limited use of MIS support due to preference for high context/rich communication mediums. In a study of Turkish business culture, Pellegrini and Scandura (2006) found that delegation in the Turkish business environment may not quite yield expected benefits.

From the above brief review a number of points may be noted as follows: business culture should be tentatively conceived of as an amalgamation of business practices and orientations within a country or region. The research and scholarly work in the area of business culture suffers from the tension of what should be delineated as business culture – with evident oscillation between national culture, firm level organizational culture and supra-firm level business practices found within a country or region. The influences which inform business culture go beyond those that appear to influence an organization’s culture (such as values of owners, assumptions and shared norms within the organization) to include macro variables such as national economic, political issues, regulatory regimes, religion and national histories and present circumstances. The business culture seems to have a reciprocal impact on national economic development fortunes.

## **RESEARCH CONTEXT – GHANA**

Ghana, a former British colony gained independence in 1957. Ghanaian culture is very much like the communalist, collectivist cultures of many other African countries. By 2012 estimates the population is about 25million. It is one of the few African countries that have experienced stable democracy over the last 20 years along with economic growth of about 6% year-on-year for the last 10years. The economy is at present evenly divided between agriculture (33%), manufacturing and mining (about 33%) and services (about 33%). GDP is at present (2012) around US\$74billion with per capita around US\$2000. Financial sector reforms have led to a growth from 5 to 27 banks within 15 years. FDI averages US\$500m a year with the entry of major firms such as Newmont (mining), Cargill (agro-processing) Coca Cola and Vodafone and MTN (telecoms). Since the discovery of off-shore oil in 2007 and commercial production from 2010 by Tullow Oil, it is expected that oil revenues may contribute to enhancing the economic fortunes of the country. Ghana has a mixture of private enterprises of both local and foreign origin. Several multinational firms are represented on the corporate landscape. There are also many thousands of SMEs which form the backbone of the economies of most countries. Aryee (2004) and Puplampu (2010) offer some descriptions of the Ghanaian corporate landscape. There are however, challenges, some of which have been explored by Analoui (1999), Puplampu (2005) and others. Many of these challenges relate to managerial behavior, regulatory compliance as well as procedural issues (both within and without organizations). These challenges have led to many initiatives from government, NGOs and donor agencies towards building corporate and institutional capacity and improving regulation. For example new legislations have been enacted such as Public Procurement Act, Financial Regulations Act, Banking Laws and a Ghana Business Code has been promulgated (although at this time compliance to this code is voluntary).

This research was part of a process which started from 2003, to better understand the Ghanaian Business Sector, offer support through building advocacy capacity, improving business practices and improving the capacity of the public sector to serve business needs. To enable a more context sensitive

attention to these intentions, scholars at some of the country's universities considered the need for research which aimed to provide empirical understanding of business culture by exploring business practices and values in Ghana and the factors influencing these practices. It was considered that such empirical efforts would enable better interventions towards improving the performance of business in Ghana.

### **Research objectives and questions**

This research had the following aim: to use an exploratory design to examine, identify, describe and analyse patterns of business culture in Ghana and through this develop an initial taxonomy of the business culture in Ghana. The broad research questions which drove the data effort were: what are the dominant internal concerns and practices of business organizations with regard to business-to-business relations; relations with government and vice versa and how do these create a characterization of the business culture in Ghana. These research areas were drawn firstly from the limited literatures which suggest the need to examine business practices, economic and larger national issues and secondly from the concerns of the business support program as it sought a descriptive understanding of the business culture in Ghana. Much as these questions may appear descriptive and rather mundane, in the Ghanaian context, they point to a basic information deficit on business culture that needs to be addressed.

## **RESEARCH METHODS**

This study was designed as an exploratory work. Researchers often use exploratory approaches (Leedy, 1990) when the subject matter is being considered empirically for the first time in the particular setting, there is insufficient prior basis to design hypothesis testing research or when there is the need to gather baseline information that would assist better understanding and offer some structure for further research. All three of the above were relevant for this research.

### **Population and Sample**

The whole country was considered but a focus placed on the regions of the country that were considered commercially active with significant business presence. The aims of the research were considered to be best served if data were collected from across the country, across private businesses and public institutions as well as perceptions of random sampling of the general public. Five (5) of the 10 administrative regions of Ghana were sampled: Greater Accra, Ashanti, Western, Volta and Northern Regions. A sampling of organizations was arrived at by simple random selection from the following lists:

- Business/trade association lists (Ghana Employers' Association and Association of Ghanaian Industries)
- Regulatory Agencies and Government Departments
- SMEs (which formally registered with the Registrar General's Department)
- Multinational Firms.

The potential numbers in these populations are vast. In the end parsimony and logistic limitations dictated a target of 150 businesses and institutions in each region.

### **Data Instruments**

A 67-item questionnaire targeting businesses, a 9-item questionnaire targeting the general public and a 19-item structured interview schedule were developed to elicit information from business people, senior officials and policy makers and the general public.

### **Procedure**

Research Assistants were issued letters of introduction to facilitate access to various organizations across the country. Interview appointments were booked; questionnaires were in most cases left and retrieved at a later date; however in some cases the questionnaires were used as interview schedules when it was clear that the data would not be forthcoming if the questionnaire was left for later collection. Interviews were conducted with the officials by appointment. Officials who filled out questionnaires were as a rule not interviewed. Data collection was completed within a 3month time frame.

### **Response rate**

Out of 750 questionnaires distributed, 379 were retrieved, representing 50.53% response rate. Out of 900 street level solicitations for opportunistic interviews, 169 full interviews were recorded, representing a response rate of 18.7%. Out of the 60 senior level interviews by appointment 100% response was achieved.

### **Analysis**

Analyses focused on identifying commonly or frequently occurring ideas, phrases and practices. No distinctions were made in the findings in terms of views from different regions of the country. The aim was to present a basic descriptive account of the entire data set. These were compared across the three data approaches (questionnaires, public interviews and senior level interviews) in an attempt at triangulating the data. The findings detailed in the summaries below are firstly frequently occurring and secondly triangulated.

## **FINDINGS**

A summary of the findings across the data approaches is presented here. The data suggest that businesses in Ghana have the internal firm-specific issues as: how to comply with laws that govern business operations, the cost of using qualified legal and other professional services to support regulatory issues, worker attitudes and productivity as well as dealing with the pressure of family and community expectations of support from those who are in formal employment. Internal practices include the use of a wide range of accounting tools such as manual and computerized systems as well as outsourced accounting services, democratic leadership styles/open door policies in many organizations except sole proprietorships and some public sector organizations, inconsistent use of appropriate systems and processes and lack of Standard operating Procedures/manuals and short-term approach to business due in part to national economic difficulties (high inflation, exchange rate risks etc). In the area of business-to business relations, major concerns include the fear of losing business control to others thus limiting use of partnerships and other forms of equity related involvements.

Practices and orientations of businesses in their dealings on the corporate and business scene include the following a weak view and poor use of contracts as a way of regulating or managing business relations due to low levels of trust across the spectrum of operators. There is a strong tradition of family management. State actors are perceived to be insensitive with poor government responses to appeals and concerns of businesses. There is also a history of victimization of businesses during some political regimes and a tendency to tie business operations to the government in power for favors and opportunities.

## **DISCUSSIONS**

This research has identified some of the practices and orientations which appear to characterize

Ghanaian business culture. This was an exploratory attempt to examine, describe and develop an initial taxonomy of the business culture in Ghana.

### **What factors may account for the business culture in Ghana?**

Based on the data gathered, it seems the factors which underpin the business culture are varied and cannot be linked to explanations derived from national or traditional culture alone. We identify five major causative variables. These are:

**National Political History and Processes.** It seems over the years, the vagaries of politics in Ghana created a sense of insecurity. Some businesses were/felt victimized. Changes of government could mean cessation of contract obligations etc. The net result has been a business culture in which distrust and fear were predominant.

**Size of business.** It seems the larger corporates had certain orientations and the Multinational Companies (MNCs) also behaved in ways that were different from the SMEs.

**Ownership/international links.** Respondents made suggested that the behavior of MNCs and Asian and Lebanese firms is an issue which informs the way those businesses are perceived.

**Government behavior.** Firms seem to react or respond to the way they are treated by government

**National culture.** The cultural preference for managing transactions through face-to-face encounters and use of relationship rather than formal documented contracts.

The causative factors deduced confirm the findings of other studies (Osland and Bird, 2000; Pressey and Selasie, 2003; Bhaskaran and Sukumaran 2007) that it is unhelpful to limit the analyses of business culture to national culture dimensions. Clearly in Ghana, a variety of orientations and practices are perceived to be evident and the size and types of firm seems to inform the dominant practices and orientations. This has particular relevance for ensuring a differentiated approach to business support interventions.

A key area of importance has to do with government relations with business. It appears the business culture in Ghana is struggling with advocacy, information flow between business and government and a lack of inclusive policy formulation. Related to this is the theme around regulatory compliance which emerges from the findings. Businesses are struggling with compliance and it seems there is a need for State attention to the capacity of regulators to facilitate this. Further research is needed to explore how businesses can be encouraged to be as compliant, improve contract relationships and how State agencies can be more supportive of business growth.

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## VOICE AND REPRESENTATION: COLLABORATIVE AUTOETHNOGRAPHY AS METHOD FOR STUDYING AFRICAN LEADERSHIP AND MANAGEMENT REALITIES

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### ABSTRACT

This paper argues that autoethnography is appropriate for studying African organizational realities as it is inherently empowering in its focus on the researcher as subject of study; it engenders the co-creation of knowledge when done collaboratively; and, it allows for the representation of the researcher's and participants voices. As a research approach blending ethnographic and biographic methods, it involves interrogation of personal experiences in specific social cultural and organizational contexts. This paper recommends the use of collaborative autoethnography (CAE) to study the experiences of leaders in African organizations, in order to articulate leadership and management approaches used in/ appropriate to the African context. The paper recommends CAE for use in leadership development and training of emerging scholars in the continent.

**Keywords:** collaborative autoethnography; culturally relevant research methods; voice in research.

### INTRODUCTION

Autoethnography is a qualitative research method that involves studying one's 'self' in relation to a social context (Chang, 2008) That is, autoethnographers use self-narratives and analyze their own experiences of particular phenomena, such as race, gender, culture, work, and spirituality in the context of specific cultural and organizational spaces such as university, community, the classroom, and specific societies (Brogden, 2010; Chang, Ngunjiri, & Hernandez, 2013; Coia & Taylor, 2009; Ellis, 1999, 2004; Ngunjiri, Hernandez, & Chang, 2010). As such, autoethnography "enables researchers to use data about their own life stories as situated in social cultural contexts in order to gain an understanding of society through the unique lens of self" (Chang, et al., 2013: 18).

Autoethnography combines biography and ethnography, bringing together self-*auto*, writing-*graphy*, and culture-*ethno* (Ellis, 2004). The purpose is not navel gazing, catharsis or mere story telling. Rather, autoethnography aims to systematically analyze personal experience within its cultural (social, political, historic, geographic) location. As such, it enables researchers to use their life stories to interrogate, problematize and deconstruct experiences, because it

"Challenges the hegemony of objectivity or the artificial distancing of self from one's research subjects. Instead, autoethnographers place value on being able to analyze self, their innermost thoughts, and personal information, topics that usually lie beyond the reach of other research methods" (Chang, et.al. 2013: 18).

Autoethnography takes seriously Denzin's statement that

“In the social sciences today there is no longer a God’s eye view, which guarantees absolute methodological certainty. All inquiry reflects the standpoint of the inquirer. All observation is theory-laden. There is no possibility of theory-or value-free knowledge. The days of naïve realism and naïve positivism are over” (2003: 245-246)

In fact, autoethnography privileges the voice of the researcher-as-participant, recognizing that her standpoint is reflected in her self-analysis, telling her story from her point of view yet situating those stories within a larger socio-cultural context.

In this paper, I am arguing that autoethnography, particularly when done with others, carries tremendous potential in the study of African life and realities related to leadership and management praxis. Collaborative autoethnography (CAE) is the practice of doing autoethnography-with-others, which can be done at various levels of participation from full collaboration to various levels of partial collaboration (see Chang, Ngunjiri & Hernandez, 2013). CAE has the potential to reduce power differentials that are traditionally present in research relationships between the researcher and the researched, thus democratizing inquiry (Chang, et al., 2013). This is important in the study of African leadership and management, because as other authors have argued, (see for example, Oyewumi, 1997; Tillman, 2002), theorizing and research approaches often privilege western epistemology at the expense of ‘other’ voices (Sandoval, 2000). Contributions to management theory and practice from the African perspective are few and far between, making the work of African Academy of Management (AFAM) and scholars focused on the continent urgent and important (for example, Lituchy, Punnett & Pumplampu, 2013; Nkomo & Ngambi, 2009; Ngunjiri, 2010a, b; Zoogah & Beugre, 2013).

Further, Chang et al argue that CAE has the potential for efficiency and enrichment in the research process as co-researchers share the journey, using self-stories, and digging deeper for better/broader understanding of phenomena. In addition, through collective exploration, co-researchers come away from the process having uncovered and articulated their subjectivity, gaining deeper understanding of individual and group positionality through collective meaning making. These benefits of collaborative inquiry will be further discussed in reference to researching leadership and management in Africa. In the spirit of autoethnography, I explore my particular subjectivity and positionality as a researcher, and then discuss the essential features of collaborative autoethnography at play in my argument.

## RESEARCHER POSITIONALITY

I explore and explicate autoethnography/collaborative autoethnography from the position of an African feminist/womanist scholar currently located in a North American university setting, from whence I still spend time and energy researching leadership and management in Africa. My training and development has taken me through social science research methods, from where I determined that most approaches utilized to study African life and realities did not suit either my own predisposition or my political standpoint; I wanted methods that would enable me to authentically represent the stories of my African participants without pathologizing their experiences or using narrow/western conceptualizations of epistemology. As such, that took me first to portraiture (Lawrence-Lightfoot, 2005; Sarah Lawrence-Lightfoot & Jessica Hoffman Davis, 1997), the method I employed in my dissertation research that allowed me to regard myself as a supplicant learner sitting at the feet of my elder-sage women leaders, learning from them and telling their stories in their words, but with the understanding that this was my interpretation, with some negotiation with them, of their lived experience (Ngunjiri, 2006, 2007, 2010). To assure that negotiation, I invited my participants into an authentic relationship incorporating member checking, giving the participants transcripts of their interviews for review and

further dialogue, and also a focus group that served as a check on my hermeneutic process (see more in Ngunjiri, 2007).

My former colleague Chang introduced me to autoethnography through a learning community and through her book (Chang, 2008). In time, the learning community dissipated, but three of us who shared similarities as immigrant women faculty got together and started researching together. Thus began the journey that has resulted in collaborative autoethnography, and many conference workshops and presentations of our approach.

Further, I view research methods, specifically in this case collaborative autoethnography through the lens of my positionality as a critical feminist researcher, who is guided by the feminist research ideals of reflexivity, critic and accountability (Collins, 2000; Hesse-Biber & Yaiser, 2004; Sandoval, 2000). Critical feminist epistemology further supports the ideal of the significance of experiential evidence and *storying* the lived experience, deconstructing and challenging dominant discourses to allow the *other* to be heard and voiced in research. That is to say, my conceptualization and interpretation of CAE is colored by my critical feminist perspectives; others from a different epistemological standpoint and with varying assumptions may see CAE differently, perspectives which are also welcome in the marketplace of research ideas. For me, foregrounding my epistemological standpoint allows the reader to gain entry into my presuppositions and positionality vis-à-vis interrogating leadership and management practice in the motherland. In the next section, I unpack the essential features of CAE and relate them to the study of leadership and management in Africa.

#### **ESSENTIAL FEATURES OF COLLABORATIVE AUTOETHNOGRAPHY**

There are four elements to CAE that Chang, Ngunjiri & Hernandez (2013) enumerate that are relevant to the primary argument of this paper. First is the recognition that whether one is doing autoethnography or collaborative autoethnography (AE/CAE), the study is self-focused, the researcher plays the role of a “complete member researcher” (Anderson, 2006, p. 375). That is, the researcher is both researcher-and-participant in the study. Most social science methods require the researcher to distance herself from her research participants with the aim of reducing subjectivity. Other qualitative methods recommend processes such as bracketing in phenomenology, or being a non-participant observer in ethnography to reduce subjectivity. Autoethnography invites the researcher to include her own voice and perspective in the study, whereas collaborative autoethnography invites the voices of all participants to co-create knowledge together. In thinking about studying leadership in Africa for example, CAE would involve the researcher working collaboratively with African leaders

Secondly, in CAE, the researcher is visible in the study. Thus, while in most qualitative approaches the researcher is not visible in the study (for example, phenomenologists ‘bracket’ out their own experiences (van Manen, 1990), ethnographers only talk about their experiences in ‘confessional tales’ written after the fact and separate from the main study), in AE/CAE, the researcher turns the interrogative and analytical lenses inward, making the inner workings of her thoughts visible to the reader (Chang, et al., 2013).

Thirdly, autoethnographic methods are conscious of the context, a tenet borrowed from being grounded in ethnography (Chang, et al., 2013). The participants experience is explored as it is impacted, and impacts the social context in which it is enacted. Without a deep interrogation and exposition of context, it becomes impossible to fully understand and interpret experience. Carolyn Ellis and Art Bochner, gurus in the world of autoethnography (Ellis & Bochner, 2000) argue that:

“Back and forth autoethnographers gaze, first through an ethnographic wide-angle lens, focusing outward on social and cultural aspects of their personal experience; then, they look inward, exposing a vulnerable self that is moved by and may move through, refract, and resist

cultural interpretations. ... As they zoom backward and forward, inward and outward, distinctions between the personal and cultural become blurred, sometimes beyond distinct recognition.” (2000: 739)

CAE then involves explicating experience within the socio-cultural context in which it is lived out. Finally, CAE is critically dialogic in that it engenders dialogue between the researcher and co-researchers (Chang, et al., 2013). Dialogue begins in the data collection process, which is heavily dependent on conversation, continues through the meaning making (data analysis) process, and may culminate in the final stage of writing the research product in full collaborative approaches. In some cases where collaboration is partial, the dialogue may start at data collection and culminate in the analysis/meaning-making stage, with the primary researcher then taking the final step of writing the final product alone. Whatever the level of collaboration, engaging in critical dialogue ensures that the voices heard in the final product are those of the researcher and the co-researcher participants, not merely that of the researcher. The potential then for democratizing inquiry is evident in these essential elements of autoethnographic methods, as researchers dialogue and collaboratively create meaning with the research participants, an approach that would enable the voices of leaders and managers in Africa to be heard above the din of western epistemology.

## **VOICE AND REPRESENTATION**

With the four features in mind, this section discusses the use of voice and representation in collaborative autoethnography. Previously, I have utilized portraiture (Lawrence-Lightfoot, 1983; Sara Lawrence-Lightfoot & Jessica Hoffmann Davis, 1997) in my qualitative research about African women leaders. A few years ago as mentioned previously, I was introduced to autoethnography and starting working collaboratively with two colleagues to collect, analyze, and write about our experiences as immigrant faculty (Hernandez, Ngunjiri & Chang, 2011), a project that eventually culminated in writing the methodology text (Chang, Ngunjiri & Hernandez, 2013). In the process, I have come to realize the close similarity between collaborative autoethnography and portraiture. Thus, in my discussion of voice and representation, I derive from both portraiture and collaborative autoethnography to show the potential CAE has for researching about/with leaders and managers in African organizations.

Lawrence-Lightfoot and Davis (1997) explicate six uses of voice in portraiture that I find relevant to my discussion of collaborative autoethnography. The six uses of voice are: listening for voice, voice as autobiography, voice as interpretation, voice in conversation, voice as witness, and voice as preoccupation (Lawrence-Lightfoot & Davis, 1997). Lawrence-Lightfoot and Davis (1997) argue that the researcher has a central role in portraiture as in collaborative autoethnography because the researcher’s role includes “deciding what is important to study to setting the central questions to defining the nature and size of the sample...the predispositions and perspectives of the researcher reflects a theoretical, disciplinary, and methodological stance, but also personal values, tastes and styles” (p. 13), which are most obvious in the two approaches because researchers are explicit about their positionality. Below I articulate the various uses of voice and relate them to interrogating the experiences of leaders and managers in organizations in African.

### **Voice as Autobiography**

First, Lawrence-Lightfoot and Davis (1997) describe voice as autobiography in reference to the fact that the researcher

“...brings her own history – familial, cultural, ideological and educational – to the inquiry. Her perspective, her questions, and her insights are inevitably shaped by these profound

developmental and autobiographical experiences. She must use the knowledge and wisdom drawn from these life experiences as resources for understanding, and as sources of connection and identification with the actors in the setting, but she must not let her autobiography obscure or overwhelm the inquiry.” (p. 95).

Voice as autobiography fits nicely with collaborative autoethnography because both the researcher’s and the participants’ autobiographies provides data for the study. As indicated previously, autoethnography brings together autobiography and ethnography, self stories in cultural contexts. With collaborative autoethnography then, the self-stories of all co-researcher participants become part of the narrative. The risk of one researcher’s self-stories overwhelming the inquiry are diminished because all co-researchers autobiographies must be put into the pot of data for analysis. Thus African leaders and managers would be able to tell their own stories, articulate their own voices in relation to their experiences of leading organizations in the continent, allowing room for co- creating contextually relevant leadership praxis.

### **Voice as Preoccupation**

Lawrence-Lightfoot and Davis (1997) articulate how the researcher’s use of “voice as preoccupation” involves

“The ways in which her observations and her text are shaped by the assumptions she brings to the inquiry, reflecting her disciplinary background, her theoretical perspectives, her intellectual interests, and her understanding of the relevant literature...voice here refers to the lens through which she sees and records reality...more than interpretive description. It is the framework that defines – at least initially – what she sees and how she interprets it.” (1997: 93)

With CAE, voice as preoccupation can mean that all co-researchers bring their various preoccupations (disciplinary backgrounds, theoretical perspectives, intellectual interests) to the table in designing the study, determining the research questions, and even making meaning of the data collected, thus resulting in broader and deeper understanding of human experiences of the phenomenon under study. I have seen this to be true in deepening understanding of the experiences of immigrant women of color faculty in US higher education by working with two colleagues who are from different countries and disciplinary backgrounds – we bring together educational anthropology, educational psychology, and leadership studies in interrogating our experiences. Our combined preoccupations resulted in more profound understanding as we analyze data with the lenses of our differing backgrounds, eventually reaching consensus after much debate and deepened learning. Similarly, bringing together researchers from various disciplinary backgrounds and theoretical lenses would enhance the interrogation of the experiences of leaders and managers in African organizations. We need management scholars, as well as cultural anthropologists, social psychologists, African historians and other social scientists to bring their lenses to bear on the understanding of leadership and management in context.

### **Voice in Dialogue**

In “voice in dialogue”, autoethnographers recognize the need for critical dialogue, engaging the co-researcher participants to hear, capture and articulate their varied experiences with the phenomenon under study. Voice as conversation connects with CAE’s dimension of being critically dialogic, ensuring that the process and product of the inquiry ensues from dialogue, not a monologue or soliloquy, not navel gazing but critical analysis of experiences. Thus the final product, the written report, whether evocative or in a more traditional narrative style, becomes the outcome of convergences and

divergences, conflict and consensus about the meaning of lived experiences related to the topic of inquiry. This is supported by Lawrence-Lightfoot and Davis (1997) of voice in dialogue as “the portraitists purposely places herself in the middle of the action (in the field and in the text). She feels the symmetry of voice – hers and the actor’s – as they both express their views and together define meaning-making” (p. 103). The conversations (interviews, focus groups, and informal interactions) amongst co-researchers function as “past and present reflections on themselves, internal critiques of themselves, and external critiques of society (Chapman 2005: 38) in particular contexts, thus bringing together the auto and the ethno. The potential here lies in dialogue between those who study leadership, and those who lead in the African context, co-creating knowledge that can be utilized in articulating culturally relevant leadership praxis.

### **Voice as Interpretation**

Voice as interpretation is the role of making meaning (analysis) of the stories. In collaborative autoethnography, voice as interpretation indicates ensuring that the voices of all can be discerned in the meaning-making process and product of the study. Thus CAE does not privilege the voice of researchers at the expense of the participants as can happen in traditional qualitative and all quantitative approaches. Yet, the researchers in a CAE project are careful to ensure that all voices are present and accounted for, that the less powerful voices are not silenced. As Lawrence-Lightfoot and Davis (1997) conceptualized it, voice as interpretation is “the researcher’s attempts to make sense of the data” (p. 91). CAE offers co-researchers richer levels of analysis and rigor as they together bring in their various interpretations of the data, dialogically discussing those various meanings until they reach consensus. It adds a level of analyst triangulation that adds rigor, but that also adds depth of understanding that is enhanced as the two or more voices of interpretation bring in their own disciplinary and experiential lenses to the task. As such, whereas in a solo qualitative project the researcher’s voice is particularly privileged in the interpretation, collaborative projects diffuse individual power, further democratizing the research process.

### **Voice as Witness**

CAE researchers recognize that they act in the capacity of “voice as witness”, but herein again lies the potential for democratizing that witness by ensuring that it is not just the voice of the researchers, but also that of the participants who are the witnesses of their own experiences. Thus the researcher is a witness to her own experience, and listens to and for voice in the experiences of the participants. Lawrence-Lightfoot and Davis (1997) conceptualized voice as witness to underscore

“The researcher’s stance as discerning observer, as sufficiently distanced from the action to be able to see the whole, as far enough away to depict patterns that actors in the setting might not notice because of their involvement in the scene. We see the portraitist standing on the edge of the scheme – a boundary sitter – scanning the action, systematically gathering the details of behavior, expressions, and talk, remaining open and receptive to all stimuli” (1997: 87).

My conceptualization of voice as witness in CAE visualizes the co-researchers acting in that capacity; listening to, interrogating and unpacking each other’s autobiographic data for deeper, hidden meaning. I’ve seen that in my work with my co-researchers, where as each one of us told our autobiographic data relating to particular experiences, the other two would prompt for deeper reflexivity, as they would see something that the other could not. In that role, the co-researchers would prod and prompt, asking incisive questions that got the co-researcher looking at her critical incident or experience with a new pair of lenses (see “epilogue” in Chang et al ( 2013) for example of one approach to CAE). Similarly, researching leadership in African organizations utilizing CAE would involve various

forms of voice as witness, including bringing together scholars in Africa and the diaspora to together witness/interrogate praxis and bringing scholars and practitioners together to enrich our understanding of leadership phenomena.

### **Listening for Voice (Discerning other Voices)**

Voice as “discerning other voices” is particularly strong in collaborative projects because those other voices are intimately involved in various aspects of the inquiry. Lawrence-Lightfoot and Davis (1997) conceptualized this as “when a portraitist listens for voice, she seeks it out, trying to capture its texture and cadence, exploring its meaning and transporting its sounds and message into the text through carefully selected quotations” (1997: 99). With CAE inquiry, the co-researchers determine together what is to be published for public consumption and what remains the purview of private sharing, thus assuring the likelihood that participant’s confidences will only be divulged as agreed. Further, CAE encourages co-researchers to listen to each other’s voices, to discern where their voices converge and diverge, to capture the essence of each participant’s experience. When each researcher-participant “listens for the nuance and the range of individual voices...always alert to the metaphors...attentive to the sound and the silence, the talk and the gestures, the words and the emotions, the repertoire and the range” (Lawrence-Lightfoot & Davis, p. 100), they are able to capture the full diversity of individual voices and include that in the collective voice. An excellent example of the struggle involved in this process is the work of Geist-Martin and colleagues, who found it challenging to determine how to represent each individual co-researcher’s autobiographic data in the written methodological piece (Geist-Martin et al., 2010).

These elements of voice borrowed from portraiture and articulated in reference to CAE praxis enable the autoethnographer to capture her own voice, as well as the voices of the co-researchers/participants, thus democratizing the process, reducing power differential between researcher and researched, and, in cases where such power differentials are a result of education access and economics, ensure that the voices of others who would otherwise be silenced in theory-building and policy-making are articulated and included. Such uses of voice result in a multivocal text, one that is inclusive of all participating voices. CAE’s use of voice as articulated above enables all – irrespective of the social, economic and educational levels, to sit at the table, to have their perspectives and thinking articulated. There are, however, challenges associated with using CAE to produce polyvocal texts in any context.

### **CHALLENGES OF CAE IN RESEARCHING AFRICAN REALITIES**

One of the primary challenges of using CAE in researching leadership and management in Africa lies in the fact of the disparate rates of literacy, such that, it is possible especially when researching amongst the poor/grassroots, to find that people cannot read or write. That does not mean such people are unintelligent or unable to articulate their life stories and experiences. Rather, it places a greater need for the researcher to be constantly aware of her positionality and to seek to empower such participants to tell their stories, regardless. That is, the researcher would need to capture the stories, share those stories back with the participant (even when this might mean reading the story to them), deal with the issues of language, yet ensure that participants feel that their opinions and stories are being honored and respected. I suspect that this is more achievable in CAE (and portraiture), but harder in other approaches that privilege the role of the researcher and see participants merely as subjects of inquiry. Karra & Phillips (2008) recognize that management researchers who are local to the context would have the advantage of familiarity with the language, culture, social skills, and community access, enabling them to deal with this challenge.

CAE also comes with the risk of vulnerability, as the researcher has to share her own life story, her own perspective and experience with the topic of inquiry (Hernandez & Ngunjiri, 2013). This risk of vulnerability is present whether one is researching with co-equals, or with those where there is a power differential. Co-researchers have to be willing to share their stories even when that involves unmasking hidden areas, as long as the stories shared are relevant to the phenomenon under study. It is in being vulnerable that the co-researcher participants share in the power of CAE, and that engenders rapport (Berger, 2001; Karra & Phillips, 2008).

Thirdly, CAE comes with the challenges related to qualitative methods generally; in many instances it is difficult if not impossible to obtain external funding for research involving the use of methods that are at the margins. I cannot even begin to imagine how one would frame a study in which she claims she will use a more democratic methodology to study the life and realities of the otherwise marginalized 'other', or of those whose stories do not normally show up in hegemonic theorizing. Yet, even this leads to a certain freedom. If the research is not being funded, the researcher does not have the same sense of 'he who funds the study determines its direction'. My colleagues and I have faced that challenge, where we applied for an NSF grant that was not funded, probably partly because even though we were employing mixed methods (qualitative and quantitative), it is difficult for reviewers to see the value in autoethnographic methods. Funders want to see the potential for generalizability, but autoethnographic methods are about 'radical specificity' (Sotirin, 2010) rather than generalizability. Autoethnographers, as with ethnographers, seek depth rather than breadth, the specific rather than the general, the unique rather than the common.

Fourth, there is another element of risk involved in utilizing CAE as an approach to study with/about others: the participants become co-researchers thus they are empowered to challenge the researcher's interpretations and even the processes of inquiry. That, I believe is a good risk, because depending on how the inquiry is framed, it can result in deeper hermeneutics and ensure that the interpretations include the viewpoints of the co-researchers. As discussed previously, CAE engenders critical dialogic approach to inquiry, which can elevate participants to the position of empowered co-researcher, thus such challenge to the hegemony of the researcher are a welcome distraction that should produce a better outcome. This is only possible, however, where the primary researcher is comfortable with their position of reduced power, and is not threatened by the empowerment of the co-researchers.

## **DISCUSSION - CAE AS CRITICAL RESEARCH AND PRAXIS METHODOLOGY**

With this discussion of CAE, it becomes evident that it has the potential for use in democratizing, decolonizing and deconstructing inquiry about the realities of life and leadership in African organizations. That is, CAE has the potential to act as a critical methodology that "seeks to expose structural and systemic problems that deny voice, access, power and privilege" (Sullivan 2005: 55). Below I articulate various ways that this can be achieved.

### **Collective Exploration fits with African Culture**

Here in lies one of the potential applications of CAE methodology in studying African life and realities – as collective exploration, it fits neatly with African collectivism culture. Unfortunately, African education at all levels is inundated with western epistemological perspectives, such that African thought, theorizing and perspective is subjugated knowledge. Furthermore, many of us who would be researching African life and realities would be doing so from our locations in western institutions, where such knowledge might be subjugated. CAE offers us the potential to decolonize epistemology and knowledge by allowing us to borrow from African cultural heritage and to utilize collectivism as an aspect of our empirical praxis. CAE allows us the opportunity to take our western or westernized

knowledge and tools, and critique, contextualize and employ them to the benefit of African epistemology and leadership praxis. Using CAE, we can elevate African leadership knowledge and epistemology by writing and publishing collective research with researchers and participants in Africa.

### **Power Sharing and Democratizing Epistemology**

CAE enables the sharing of power amongst researcher-participants (Chang, et al., 2013). This again can contribute to democratizing epistemology as it allows us to collaborate across disciplines, nationalities, ethnicities, and other social markers of difference. Furthermore, when thinking in terms of co-researcher participants (i.e. those who are not researchers by training or trade), it allows us to gain entry into deeper understanding because those of us who are researchers (i.e. academics) no longer need to hold that power over our research participants, no longer hold on to the power to interrogate, interpret and represent research participants only from our own intellectual and elitist positionality. Instead, power sharing in CAE enables us to truly share in the power that is inherent in collaborative research – the power of collective story telling, collaborative meaning-making, and where feasible, collaborative writing and publishing. The co-researcher participants come away from that experience empowered and engaged, with the knowledge that their perspectives and viewpoints are important to the research outcome. Therein, we would break down the barriers inherent in African communities that often feel over-researched from the ‘subject’ position and the misinterpretation that sometimes accompanies such perspectives. For those of us who would be studying leadership and management in Africa from the position of ‘back home’, CAE enables us to have the advantage of access to local organizations, and “cultural, linguistic, and social skills that provide a degree of insight not available to foreign researchers” (Karra & Phillips, 2008, p. 542). This process of using CAE approach would enable researchers on leadership in Africa to then articulate co-produced knowledge on leadership learning, development and practice (Kempster & Stewart, 2010).

### **Efficiency, Enrichment and Empowerment**

CAE has the potential to allow for efficiency and enrichment in the research process because co-researchers need look no further than their own experiences and rich sources of data (Chang, et al., 2013; Karra & Phillips, 2008). With this efficiency – having data in close reach for collection, and enrichment – having different perspectives on the same phenomena, CAE has the potential for empowerment of both the researcher and the researched, as they play that double-edged role of researcher-participant (see for example, Kempster and Iszatt-White 2013 articulation of co-constructed coaching as enriching both the researcher/coach and the leader/coachee experience). Efficiency also draws from the team research model. This is not without its challenges, as co-researchers may take long to agree on certain aspects of the process, most notably the meaning-making (analysis); yet the challenges are out-weighed by the benefits of team learning, individual and group empowerment.

### **Deeper learning about self/other and the politics of representation**

As my colleagues and I have argued,

“Collaborative work has potential to engender a deeper understanding of self and others in the social and cultural context than is possible from a solo analysis. This is because, in the process of dialogically engaging with each other’s stories, collaborators interrogate others’ experiences intimately and deeply.” (Chang, Ngunjiri & Hernandez, 2013: 28)

When co-researchers work together to interrogate their self-stories, this deeper learning has the implication of assuring more authentic representation of all involved – the researchers, and the co-researcher participants. In full collaboration models, this is assured because all co-researchers write

together and agree on what to include/exclude, how to interpret phenomena, and even the order of authorship. Even in partial collaboration models, it is less likely that a researcher will misrepresent the co-researcher participants, as they are more likely to read the final product. Even where it is not possible for them to read the final product, the relational authenticity required of CAE approach to research would act to militate against blatant and/or unintentional misrepresentation. In autoethnographic writing, it is possible to misrepresent the unintentional and/or non-author participants because primacy is placed on the viewpoint of the storyteller – the autoethnographers. However, CAE mechanisms reduce that possibility with collective meaning making and co-authorship where all co-researchers have to agree on how they are represented. The idea is not to flatter co-researchers, but rather to critically dialogue about the interpretations and reduce misunderstanding. Imagine with me how powerful this would be in carrying out research on/with African leaders and managers. It would enable us as researchers to further *dehegemonize* epistemology, assuring that knowledge produced truly reflects the experiences of research participants.

### **Building Community**

This benefit of CAE does not need an ‘and’ to connect it to researching African organizational realities. Amongst those of us who espouse Ubuntu, the goal of life in society is to build and sustain community. Amongst autoethnographers, collaboration engenders the building of community as co-researchers get to know one another through the research process (Chang, et al., 2013). Thus, CAE used in studying African organizational life and leadership would enable us to build community in several ways. First of all, it would enable the building of communities of research across different disciplines and social identity markers.

Secondly, it would enable the building of community by connecting researchers with co-researcher participants, irrespective of social location. Thirdly, it would create community amongst African researchers themselves, the very people that make up African Academy of Management, who meet only during conferences, would have reason to engage at other times as they interrogate their lived experiences – such as the lived experience of being African scholars, African immigrants in western countries, scholars in African institutions, and many other experiences that connect us to one another that deserve interrogation and analysis. Further, should researchers collaborate with co-researcher participants (non academics), it could enable building of community that can result in our involvement in the policy-making mechanisms in African nations, and the management of organizations in the continent, thus bridging the theory-practice divide. Building community could also enable the process of using research as activism (Chang, et al, 2013), that is, using research in the form of narratives, poetic forms, and research reports to engage with powers be it at institutional or national level.

### **Developing Leaders and Researchers for African Organizations**

Further, utilizing CAE praxis could enable the extending of multiple voices to leadership research as well as leadership development. For instance, Kempster and Iszatt-White (2013) argue that CAE, which they call co-constructed autoethnography (CCA), can be extended into leadership development to craft co-constructed coaching praxis. They recommend CCA in articulating “co-constructed coaching [that] may be a most suitable approach to enable reflexive dialogue within leadership development” (2013: 320). This is enabled by the fact that co-constructed forms of knowledge draw on both the researcher and the leader’s expertise in the coaching process, enabling the manager to derive “a critical perspective of their situated practice – rather than the more circumscribed performance outcomes common in coaching – and the researcher gains deeper understanding of the situated practice under investigation” (Kempster & Iszatt-White, 2013: 320).

Similarly, CAE can be utilized in developing researchers from African institutions. CAE has been used effectively in training graduate students in research skills (see for example, Coia & Taylor, 2006,

2009) and developing scholarly identities for emerging academics (Learmonth & Humphreys, 2012), both of which would be appropriate in the African context. The lack of research resources in African institutions, and thus limited research training is a problem well recognized by AFAM and AOM, resulting in previous efforts at professional development activities for African scholars in Rwanda and Ghana in the last few years. Such efforts can be much enhanced by adding CAE approaches to the existing methods.

## CONCLUSIONS

The potential for CAE as a method of researching African leadership and organizational realities is open to further inquiry and deliberation. A method that deconstructs current social and institutional arrangements, democratizes epistemology by diffusing power differentials, and decolonizing knowledge by elevating the voices of African themselves as co-researchers and co-constructors of information about their own lived realities, there is yet room for growth and further conceptualization. I offer this paper as a starting point for conversations about AE/CAE, and suggest two areas of further inquiry.

First of all, I believe there is room to conceptualize collaborative approaches in regards to the oral culture that is still prevalent amongst African peoples and to utilize it in capturing the stories of Africans leader-elders, to capture their views and knowledge about leadership and other topics from their wisdom and experience in traditional societies. I suggest that there is room to use CAE in the study of management, to capture the stories of the older generations, because many 'die with their stories still in them'. I believe there is power there, particularly thinking about older leaders who were involved in the early history of our nations and in instituting some of the earliest organizations, such as freedom fighters and early political and institutional leaders, many of whom never get to write their stories. There is much that contemporary leaders can learn from the experiences of their forefathers and foremothers in leadership practice, even as they 'stand on the shoulders' of those pioneers.

Secondly, there is room to further conceptualize the use of CAE as a tool for professional development (Chang, et al, 2013), particularly thinking about those in African institutions who may have limited resources to carry out other types of research, and can be a tool for training others in qualitative research. I can even imagine using CAE in training people to tell their own stories and telling the stories of others in their context, with the purpose of publishing such to contribute to African knowledge production in leadership and management. Indeed, some of the most insightful books on leadership in Africa have been written from a self-reflective perspective, looking at the life experiences of leaders such as Reuel Khoza who articulates Ubuntu in the context of south African corporations (Khoza 2005; 2011), or the recently deceased Wangari Maathai's exploration of political, organizational and national leadership (Maathai 2006, 2009). Autoethnographic methods can be utilized to train other such leaders to tell their own stories, which involve both personal stories as well as their analysis of the cultural context in which those stories were lived out.

In concluding, collaborative inquiry in the form of CAE is an approach whose time has come for explicating and capturing African leadership and organizational realities authentically, from a decolonizing, democratic and deconstructive perspective. CAE affords us university based researchers opportunity to work in collective inquiry with members of African organizations and communities, to capture the essence of African leadership and to interrogate African leaders lives in context. For sure, as long as the hunters keep telling tales, the lion's perspective will remain subjugated. CAE offers us that opportunity to tell our own stories and/or tell the stories of others with them, rather than for them. Indeed, there are growing examples of the use of autoethnographic methods in the field of management and leadership in other contexts (Boyle & Parry, 2007; Karra & Phillips, 2008; Kempster & Iszatt-White, 2013; Kempster & Stewart, 2010; Learmonth & Humphreys, 2012). It is time for scholars of African leadership and management to add this approach to their repertoire, as it is culturally relevant

and would result in contextually rich data, democratically attained, to contribute to knowledge production in/about/for the continent.

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## **“MUDDLING THROUGH” CONFLICTING POLITICAL AND ECONOMIC PRESSURES: A POLITICAL APPROACH OF CORPORATE COMMUNITY INVOLVEMENT**

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### **ABSTRACT**

This study examines how an organization responds to conflicting political and economic pressures in its corporate community involvement (CCI). Through the longitudinal case study of a hybrid organization significantly exposed to such conflicting pressures, I show how innovatively “muddling through” is a form of response to external pressures that provides the organization with leeway. Rather than a mere discretionary activity, CCI thus becomes an area of innovation for corporate social responsibility. I contribute to the political CSR literature by opening the “black box” of the dynamic that is at the core of its theoretical contribution, namely the blurred frontiers between the political and economic spheres. The findings suggest promising avenues for more empirical research on CCI to further the political CSR research agenda.

**Keywords:** Corporate social responsibility; corporate community involvement; political CSR; space industry.

### **INTRODUCTION**

In many developing countries, corporate community involvement (CCI) represents the common form of engagement for companies willing to invest in corporate social responsibility. CCI generally represents the point of departure for such companies and can therefore be considered as the most traditional practice (Chapple & Moon, 2005) of corporate social responsibility (CSR), dating as early as the 19<sup>th</sup> century with the giving back ethos of the so-called ‘robber barons’ (Scherer, Palazzo & Matten, 2009). Often considered as mere philanthropy by students of CSR, CCI has seldom been conceived as an avenue for innovative practices. Yet it has evolved quite significantly, notably in industries like the mining sector that has been under increased scrutiny (Jenkins, 2004; Kapelus, 2002), but not only. As Hess, Rogovsky & Dunfee (2002) have highlighted, there has been a shift in the practice of CCI which has become more sophisticated and better tied to the corporate strategy and the core business of the firm.

The potential of CCI to inform and refine the wider theories of CSR remains largely overlooked, probably mirroring the fact that the community is still a neglected stakeholder in the study of firms engaged in CSR (Dunham, Freeman & Liedtka, 2006; Freeman, Harrison & Wicks, 2007). Hence it deserves both empirical and theoretical developments. In that research endeavor, firms operating in developing countries constitute opportune settings to investigate since they are highly inclined to give a central place to community relations as it is an “expected norm [but also because] companies realise that they cannot succeed in societies that fail” (Visser, 2006: 40). Understanding the processes by which CCI unfolds and evolves over time is critical for advancing our knowledge of how CSR gets enacted on the ground.

This article examines the evolution of 50 years of CCI at the CSG, a hybrid organization of the space industry implemented in French Guiana. Comprising both private and public enterprises, the CSG is confronted to conflicting political and economic pressures when it comes to fulfilling its mission, a situation that also reflects in its CCI activities. As this study reveals, the CSG’s response to the complexity

of its environment is flexibility in its stance toward engagement in the community. Endorsing both political and economic missions related to CCI, this organization succeeds in “muddling through” (Lindblom, 1959) the blurred frontiers between the political and economic spheres. This finding gives resonance to the political CSR literature which point of departure is the erosion of governments’ capacity to assume their prerogatives and its consequence on the politicization of companies that are expected to take on more social responsibilities. In the case of the CSG, the blurred frontiers generate a converse movement: while initially being a strictly political actor, the CSG is pressured to take on more economic responsibilities over time. “Muddling through” allows it to create enough leeway to implement CCI practices that reinforce its legitimacy. From the lessons learned in this case, I contribute to the political CSR research by reconciling its macro perspective on institutional changes with a more micro perspective of CCI processes at work.

I start by reviewing the literature on political CSR and CCI, and identify the point of intersection between the two that offers an opportunity for development. I then present my case study of the CSG unique setting where blurred frontiers between political and economic spheres are exacerbated and shape the organization’s CCI. Building on my longitudinal data that provide a rich description of the evolution of the CSG’s engagement in the community, I argue that CCI is decisively shaped by the organization’s innovative response to the conflicting political and economic pressures it is confronted to.

## **POLITICAL CSR AND CCI**

### **Political CSR**

Defining and delineating the role of business in society has been a central question for the field of CSR and remains a contested issue. Many decades after Friedman’s (1970) and Levitt’s (1958) influential debunking of CSR, the economic view of the firm is still the dominant paradigm in organization theory, for which CSR initiatives are legitimate to the extent that they enhance the profit-maximizing purpose of the firm or help reduce tangible risks. Adopting this economic view, the proponents of the instrumental approach of CSR have engaged in a long quest to determine whether doing good is financially rewarding (Margolis & Walsh, 2003) and still craft influential models positively correlating greenness and competitiveness (see Porter & Kramer, 2002; Porter & Kramer, 2006). Yet other approaches of CSR have proposed alternative views of the role of the firm in the wider social life. The political CSR approach, which emerged during the last decade (Moon, Kang & Gond, 2010) and offers some promising theoretical avenues, has adopted a descriptive stance to challenge the instrumental theories of CSR (see Matten & Crane, 2005; Scherer & Palazzo, 2011). Bearing on the transformation of the global governance system which erodes national institutions (Scherer & Palazzo, 2007), the proponents of this approach argue that modern corporations cannot escape the pressures they face to engage increasingly into the political sphere. Rather than a discretionary activity, CSR then becomes a well-established norm which corporations can hardly ignore. Whether through the provision of social rights, the enabling of civil rights or the channeling of political rights, the contemporary corporation exhibits attributes of citizenship (Matten & Crane, 2005).

One of the main contributions of the political CSR is the unveiling of blurred frontiers between the political and the economic spheres. Observing the erosion of governments’ capacity to enact the prerogatives they were granted in the Westphalian system, the students of political CSR seek to provide a realistic explanation for the evolution corporations are confronted to (Matten & Crane, 2005; Moon, Crane & Matten, 2005; Scherer & Palazzo, 2007; Scherer & Palazzo, 2011). While the theoretical insights brought in by the political CSR are compelling, they have not been followed by strong empirical research, despite early calls from Matten & Moon (2005). Thus it has remained a promising yet unfulfilled research agenda with significant prospects of development. This study aims to contribute to this literature by reconciling its macro perspective with a micro analysis of *how* political CSR is enacted at the local level with a specific type of stakeholder group, namely the community.

### **A Political Approach of Corporate Community Involvement (CCI)**

Considered a primary stakeholder of the firm since Freeman's (1984) seminal work, the community is probably the most under-conceptualized of all stakeholders (Dunham, Freeman & Liedtka, 2006). As Bowen, Newenham-Kahindi & Herremans' (2010) recent review of the literature shows, the research on CCI has gone through a significant growth over the last years. However "few authors actually defined what they meant by community" (Bowen et al., 2010: 302), revealing a need for stronger conceptual work. In fact, the CCI literature is mostly empirical and often directed toward practice. Bringing in some theoretical insights from the political CSR provides prospects of refinement of our general understanding of processes of CCI. Such an avenue has already been explored by Crane, Matten & Moon (2004) but surprisingly they omitted the community among the analyzed stakeholders, somehow reproducing the same mistake that Freeman, Harrison & Wicks (2007) identified from stakeholder theorists.

This study proposes to reconcile an a-empirical macro perspective with an under-conceptualize micro perspective, by adopting a political approach of CCI. In line with Muthuri, Chapple & Moon (2009), I define a community as individuals and groups combining dimensions of locality, shared interests and collective action. Recognizing the blurred frontier between the political and economic spheres, I investigate how an organization navigates this complexity through its community engagement. Because CCI is the most traditional form of CSR (Chapple & Moon, 2005), it is possible to find a rich setting that lends itself to a longitudinal study of the processes at work over time.

### **METHODS**

The empirical work performed is based on longitudinal data, as any process research which is concerned with shedding light on the way phenomena evolve over time (Langley, Smallman, Tsoukas & Van de Ven, 2013). In order to answer the *how* question of this research and because the CCI being investigated is still an ongoing process, the case study appeared as the most suitable strategy (Yin, 1994). An additional rationale for this strategy is that the 'thick description' (Geertz, 1973) of an organization's CCI can be achieved through a case study compiling rich archival data and interviews in order to "deliberately [...] cover contextual conditions" (Yin, 1994: 13). In the case study approach, the specificities of the setting become critical in understanding what is happening (Eisenhardt, 1989).

#### **The Guiana Space Center (CSG)**

The Guiana Space Center (commonly named the Centre Spatial Guyanais or CSG) is a rocket launch site located in French Guiana, a French overseas department in South America. Placed under the property of the CNES (Centre National d'Études Spatiales), a public enterprise responsible for the elaboration of the French space policy, the CSG is a major local actor composed of public and private entities. According to the CSG, in 2012 it was employing 1600 persons, generating 9000 direct and indirect jobs, and responsible for about 15% of both the GDP and the fiscal contributions of French Guiana.

The CSG provides an extreme case. Firstly it is an organization whose CCI has evolved quite significantly throughout its 50 years of existence punctuated by moments of tension, contradiction and crisis. Secondly, as this study shows, CCI for the CSG is not merely a discretionary prerogative as Carroll's (1991) classical pyramid of corporate social responsibility implies. On the contrary it is an activity that corresponds to high expectations on the part of its stakeholders, as in the case of many companies operating in developing countries (Eweje, 2006; Muthuri, Chapple & Moon, 2009; Muthuri, Moon & Idemudia, 2012). In fact, if the CSG is located on a piece of the French territory, it is confronted to the paradox of a locality belonging to both the industrialized world (in terms of political and institutional organization) and the developing world (as regards socio-economic issues and geography). It then faces

continuous pressure to engage in CCI at the height of its economic power. Thirdly, since the CSG is a hybrid organization composed of both private and public enterprises, it is particularly exposed to conflicting political and economic pressures. As the advantage of an extreme case is to provide a context exhibiting a particularly strong manifestation of a phenomenon (Patton, 2002), the CSG offers a revelatory setting for the understanding of how CCI is shaped by contradictory economic and political demands. These demands derive from important external stakeholders of the CSG which have had varying levels of salience – in terms of power, legitimacy and urgency (Mitchell, Agle & Wood, 1997) - over time.

The reasons for CCI to become a central and strategic issue are twofold in this peculiar setting: (1) the CSG was initially created on behalf of a prestigious political endeavor, namely the French space adventure, in the midst of the Cold War and at a time when having access to the space was a privilege held by a handful of powerful nations starting with the United States and the U.S.S.R. Being a political actor from the outset exposed the CSG to an assessment of its practices in the light of what is commonly expected from political actors, such as a contribution to the provision of social and civil rights. To a certain extent, engaging in CCI was therefore inescapable for the CSG. The second reason why CCI is more than just a discretionary prerogative in this context results from (2) the increasingly economic nature of its activities. If the research component of the CSG is still entirely subsidized, the commercial component has become more important over time and is now prominent. Thus the competitiveness of its activities have gained a central place in the public discourse of the CSG, a feature that is related to the accrued difficulty to justify public spending in the present context of state-downsizing. In terms of CCI, the consequence of this evolution is the legitimation of a discourse of disengagement on the part of the CSG.

### **Data Collection**

To study how the community relations of the CSG are shaped by the conflicting political and economic demands it faces, I adopted an inductive approach. The data collected consist of interviews, archival data and a few observations.

***In-depth interviews.*** Primary sources of data were 25 semi-structured interviews collected between November 2012 and January 2013 in French Guiana. In order to understand how the community relations of the CSG evolved over time, I sought diversity among respondents in terms of group membership and stance toward the CSG. I first interviewed high-level managers of the CSG (7) including its director as well as the director of an arm's-length organization created by the CSG in order to contribute to French Guiana's economic development. I also interviewed external stakeholders such as political actors who hold or have held elected positions that led them to interact with the organization (5); members of trade unions (2); partner organizations for specific projects (2); members of the local community (6); researchers who made an extensive work on the CSG (2); 1 journalist specialized in the space sector for the mainstream local media; and 1 top-level representative of the French Ministry of Ecology locally. I audiotaped all the interviews, which lasted between 40 minutes and two hours. Once transcribed verbatim, these interviews resulted in 390 pages of single-spaced text.

***Archival data.*** In January 2013, I was given access to the whole archival center of the CSG and I gathered more than 700 pages of a wide variety of documents including corporate publications, socio-economic studies elaborated by third parties, academic research and interview transcripts of prominent actors in the history of the CSG. As a complement to these rich documents, I collected archives from general and political newspapers dating as early as 1964.

***Observations.*** Finally, I was able to conduct 2 non-participant observations of scientific events organized by the CSG (in October and November 2012) and 1 participant observation of a seminar on the social responsibility of the main economic actors in French Guiana (December 2012).

## **Data Analysis**

I adopted a grounded theory approach (Glaser & Strauss, 1967; Strauss & Corbin, 1990) by going back and forth between the categories emerging from the field and the analysis. After each interview, I tried to link the new findings with what I had previously identified in the former interviews. My interview protocol was incrementally evolving as concepts and categories were emerging and becoming salient. During the interviews I focused on events that appeared critical in the trajectory of the CSG, on the basis of the timeline I had built with archival data and refined progressively with interviews. The objective sought, as recommended by Langley (1999), was to gain an understanding of the different perceptions and interpretations of actors who had experienced the same events.

During the first interview that I conducted, my attention was drawn on an initiative that what was later confirmed as an important finding: an important choice was made by the CSG in 2000 to create an arm's-length organization that would centralize most of its CCI. Presented by the CSG as a natural step in the efforts made continuously to improve and give visibility to its CCI activities, it appeared as I questioned other interviewees that the *raison d'être* of this organization was highly contested. For some it had a salutary economic and development purpose, and was sometimes perceived as a reaction to pressing demands of local stakeholders to have the CSG contribute better and more to local development. Yet for others, such an organization was in fact a highly politicized actor which granted political power to the CSG and was to be placed under close scrutiny. It is at this step that the tension between the perceived economic and political role of the CSG emerged as an important shaper of the organization's CCI. Some key interviewees from the CSG seemed aware of the conflicting political and economic demands of their stakeholders and were frequently moving from political to economic justifications of their community relations. Thus I reached the idea of a continuum between a political role of equity, redistribution and transparency and an economic role of competitiveness and value creation.

Such a continuum revealed the blurring of political and economic frontiers and inspired me to search for insights from the political CSR literature. Because one of the central claims of this political approach is that the traditional division of labor between public (political) and private (corporations) actors no longer holds (Matten & Crane, 2005; Matten, Crane & Chapple, 2003; Scherer & Palazzo, 2011), it entered in resonance with the phenomenon I was observing in the field. When studying the CSG, it was difficult to delineate the political from the economic, particularly during the recent years. However, the blurring which was taking place was converse to the one revealed by the political CSR: instead of "a movement of the corporation into the political sphere" (Scherer & Palazzo, 2011: 910), I was witnessing the movement of a political actor into the economic realm. In fact, what appeared is that the contribution of the political CSR could be extended to a different set of actors, namely public ones, and shed a different light on the way these actors engage in CCI.

## **FINDINGS**

The main findings of this study are twofold. First, my investigation shows that the CSG has been the constant receptacle of conflicting political and economic pressures throughout its existence, a situation that led it to increasingly invest into CCI. The second finding is that the mode of CCI undertaken was a bumpy process in which political and economic pressures acted as triggers for innovation.

### **The CSG as a Receptacle of Tensions**

The implementation of the CSG in French Guiana was tainted with tensions from the outset. On an official trip to French Guiana in April 1964, the General de Gaulle, then President of the French Republic, announced pompously the creation of the CSG: "we are called upon to achieve, you onsite and France with you, a great French work". This announcement was soon followed by outraged reactions

from local political actors, worried about the intentions behind such a decision made during the Cold War and its resulting arms race (see Heder, 1964a; Heder, 1964b). In fact, the decision to create the rocket launch site in French Guiana was based on two years of research for the best location among 14 preselected sites. The assessment relied on 15 criteria, including the geographic location (latitude), available surface, population density and political stability. French Guiana was ranked first and well in advance (Debomy, 1964) but no consultations were made with the local population and political actors (Colmenero-Cruz, 1987). According to the present mayor of Kourou, the city which hosts the CSG, “*there has been a historical split between the CSG and a whole generation of Kourouciens*”<sup>1</sup>. Echoing this analysis, the present director of the CSG recognized that the difficult conditions of implementation created a “*trans-generational marking*” that reached even the youngest members of the community who were born long after the installation of the CSG.

If the absence of consultation with the local community was a common trait of political decisions at that time, the particular context of French Guiana exacerbated the tensions. In 1964, this territory had been part of France as a department in its own right rather than as a colony for less than 20 years. The promises of economic development that came with this institutional evolution were not met and the space adventure was not seen as an alternative to past failures. Therefore the CSG soon became the receptacle of all the political and economic tensions. On the political side, the CSG was considered as another illustration of the colonial relation between Paris and French Guiana (see Heder, 1964a; Heder, 1964b) and the expropriations that were ordered in 1966 to implement it gave a strong echo to such claims. On the economic side, the local community expressed disenchantment (Granger, 2010) and throughout its existence the CSG has been accused of not doing enough to contribute to economic prosperity. As Table 1 shows, tensions have emerged on a variety of issues and have been present in public discourse of various stakeholders from the local community.

### **A CCI Shaped by Political and Economic Pressures**

Being at the center stage and a target of both political and economic demands strongly shaped the CSG’s CCI. The decision of the French government to implement the CSG with no prior consent of the local actors was followed by a long period of distrust and absence of dialogue. This state of affairs did not threaten the survival of the CSG because its legitimacy at the time was entirely granted by the central political authorities: whether accepted or not by the local community, it would remain in place in the name of national interest. While private firms which activities are deemed disruptive for their community strive to earn their social license to operate (Gunningham, Kagan & Thornton, 2004; Manteaw, 2008), public enterprises are generally protected by the strong legitimacy of their sponsor, at least in the case of legitimate states. The CSG was no exception to the rule and succeeded in maintaining its activities with no change during the first 20 years of its existence. Yet after this period where local communities mostly refused to recognize the legitimacy of their imposed neighbor and recurrently denounced it, another period of construction of a relationship followed.

When analyzed on the long term, the CSG’s trajectory of CCI has been characterized by periods of tension and paradox. Using the temporal bracketing strategy of sensemaking proposed by Langley (1999), I identified four main phases in the construction of the CSG’s CCI. During each phase, a different set of processes occurs and shapes the subsequent phase.

TABLE 3

## Time Line of Tensions that Emerged in Relation to Political or Economic Issues

Issues Raising a Tension	Exemplar Quotes
Absence of consultation prior to the implantation [P]	“All the Guianese have been convinced for good that the French government has no intention to take into account our legitimate aspirations and, even worse, behaves like a ‘master’ ” [Heder, 1964b]. <i>June 1964.</i>
Lack of economic benefits [E]	“What will be left to Guianese in this business except from the crumbs and the heavy work?” [Heder, 1964a]. <i>May 1964.</i>
Disruptive effect for the local economy [E]	“Development is not something that simply happens. Each launching represents 100 millions of francs injected into the Guianese economy but our dependency ratio is such that this input of money is nothing more than an import subsidy” [A Member of the Parliament in Lassalle, 1996]. <i>June 1996</i>
Need for local ownership [E]	“Today the CSG is a cash cow. [...] But let us take their stance seriously: it is the Guianese space center, then let it become Guianese. It belongs to us” [Local community and farmer operator - Interview]
Disruptive effect for the local community [P]	“The urbanization was organized to serve to space industry’s interests. [...] Even today, there are strong socio-economic disparities between the local population and the space industry’s employees” [Researcher -Interview]
Exclusion of the local community [P]	“For a long time, the Foreign Legion [responsible for the security of the CSG] has been placed at the entrance of Kourou. It sent the wrong signal of a fortified city, excluding the locals” [Former member of the Parliament- Interview]
Interference into the local political affairs [P]	“There was a time when the CSG had a complete control over the town council. [...] The CSG remains an important land owner. Consequently it has had a strong control over the land planning. [...] It is the State’s responsibility to compensate for the shortfall, not the CSG” [Mayor of Kourou - Interview]
Disruptive effect for the local economy [E]	“There are studies on the statistic impact of the CSG, but none of them takes a dynamic approach to measure its pernicious effects. Yet it has contributed to a degradation of our trade balance” [Former member of the Parliament - Interview]
Lack of technological benefits [P]	“It is unacceptable that there are still some areas with no network while we are on a spatial zone” [Mayor of a city near Kourou - Interview]

Caption: [P]: Political tensions

[E] Economic tensions

All the quotes were translated from French to English therefore they are not verbatim.

The trajectory observed is not a linear one, as some models of CSR tend to implicitly state (see Zadek, 2004), and reflects the somehow bumpy road of CCI. Referring to the specificities of the relationship between the CSG and its local communities, the four phases are: repudiating, reconciling, renegotiating and reconquering. I used gerunds to label these phase as a way to highlight the dynamic nature of the processes under study (Langley, 1999).

**Repudiating (1964-1985).** During the first 20 years of its existence, the CSG showed no visible sign of community engagement and was seen by most local actors as an enclave, a transplant with no chance of success in terms of integration to the local economy and community. The activities in which the CSG was involved were related to its own needs such as the construction of a bridge, the elongation of the main road, the extension and modernization of the airport or the urbanization of Kourou to accommodate its employees. As regards the latter it is worth mentioning that the whole urbanization of Kourou, which population dramatically increased from 650 in 1964 to 26 000 today, was planned according to military principles of spatial segregation. This results from the fact that the CSG was initially run by the army, until the pacifist ambitions of the industry were confirmed. According to a former member of the parliament interviewed, for a long time Kourou looked like a fortified city hostile to the local community. Manifestations of racism were also common, as related by one interviewee from a labor union who recalled the display of signs in front certain bars of Kourou forbidding access to black people. 1985 reached a climax in terms of tensions when a group from the Foreign Legion, responsible for the protection of the CSG, attacked civilians of Kourou randomly. After this serious incident that stirred indignation, the military group was denied access to downtown Kourou for ten years (Choteau, 2006).

**Reconciling (1986-1995).** The mounting tensions that characterized the previous period were followed by sustained efforts, on both the side of the CSG and the local community, to engage into a dialogue and construct a relationship. Various long-term projects were undertaken between the CSG and local authorities, whether the Guianese executive chamber, the municipality of Kourou and its neighbor city called Sinnamary, or the local representative of the French State. The flagship project during this period certainly was the Plan P.H.E.D.R.E. designed with the intention to create the conditions for the space industry to contribute to local development. Co-financed by the State and the CSG, this plan was meant to initiate “an alliance, a support and a ripple effect without imbalance between French Guiana and the space industry” (Prefecture of French Guiana, 1989). The remaining projects were related to education, research, city planning and health infrastructure among others. Despite these efforts, the relationship between the CSG and its local employees were marred with accusations of discrimination. The labor unions representing the locals were contesting the legitimacy of the existence of two classes of employees, namely the sedentary (locals) and the *détachés* (from France and later other European countries). Disparities in wages and privileges generated growing discontent and triggered recurrent strikes.

**Renegotiating (1996-2000).** The third period was short but particularly agitated. On the local political side, first there was a change of mayor in Kourou after 47 years of ruling by the previous mayor, and the newly elected official announced his intention to restore the balance between the CSG and the municipality. Moreover there had also been a renewal at the French Parliament a few years before and one member of the parliament representing French Guiana expressed publicly her criticism toward the CSG in terms of economic contribution. The political pressure exerted by these new political actors was soon followed by a technical failure from the CSG that caused the explosion of a rocket in June 1996. The management of the incident was itself a complete failure admittedly, as it took the CSG a long time before being able to inform the population about the proper behavior to adopt. In addition the army which was deployed to reassure the local community about the containment of the risks was equipped with masks while the population was being told not to panic. In the aftermath of these events the CSG was constrained to create a permanent committee to oversee its risk management. The members of this

committee which was implemented in 1997 included the mayor of Kourou and the new member of the parliament, among others.

**(Re)conquering (Years 2000).** The difficulties faced by the CSG in the period of renegotiating led it to reconsider its mode of CCI and reframe it in a more proactive way. (Re)conquering the tenuous trust of its local partners became an ambition that influenced various strategic decisions. The best illustration of this new direction is the creation in 2000 of the *Mission Guyane*, an arm's-length organization that would coordinate the projects put in place by the CSG to contribute to the local economic development on the long term. Today *Mission Guyane* is recognized as an important and structuring actor of French Guiana's economic development, a view shared by the majority of my interviewees. The average budget of this organization is 27 million euros per period of 6 years. Other projects launched during this era of reconquest include various partnerships with research institutes, health institutions, industrial groups and the civil society. In terms of communication directed to the local community, the CSG has also innovated by sealing partnerships with local media, the scientific community, the civil society and the local representative of the education ministry.

## DISCUSSION

The existing literature on CCI offers vivid descriptions of the way various organizations go about engaging with their local community (see Banerjee, 2000; Eweje, 2006; Idemudia, 2009; Labelle & Pasquero, 2006; Muthuri et al., 2009; Whiteman, 2004). The case study is the most common methodology chosen by students of CCI yet "very few would meet the standards imposed by Yin (1994), Miles & Huberman (1994) or Eisenhardt (1989)" (Bowen et al. 2010: 301). The result is that this literature remains in need of a conceptual core and calls for more developments.

Borrowing from the political CSR's highly conceptual literature (see Matten & Crane, 2005; Moon, Crane & Matten, 2005; Scherer & Palazzo, 2007; Scherer & Palazzo, 2011), this study contributes to our understanding of CCI by unveiling the political and economic pressures they entail. In line with Muthuri and colleagues who acknowledge the strong implications of transformed business-governments relationship for community relations (Muthuri et al., 2012), it reconciles a macro perspective that informs us on high level institutional dynamics and a micro perspective that brings the richness of processes at work.

### **CCI as the Process of "Muddling through" Political and Economic Pressures**

The CSG offers a context in which conflicting political and economic pressures shape the way this organization engages with its community. In this study I show how these constraints give the CSG some leeway to craft innovative CCI initiatives. While navigating the complexity of its external environment, the CSG adopts more or less political or economic stances. This process of "Muddling through" (Lindblom, 1959) allows it to take advantage of the blurred frontiers between the political and economic spheres and to preserve its overall legitimacy.

The experience of the CSG reveals how the transformation of corporations into politicized actors is a phenomenon that also manifests in the opposite logic, as political actors are increasingly dragged into the economic sphere. The new public management paradigm that has been well studied by public management scholars is a good illustration of the shift in the conception of public institutions, with the institutionalization of neoliberal precepts such as managerialism, downsizing or privatization. The CSG is no exception to this evolution and over the last years it has been the subject of reforms that resulted in its activities becoming more business-oriented. Yet its legitimacy remains predominantly political as its existence is guaranteed by subsidies, preventing it from neglecting its mission as an organization directed toward the provision of collective benefits.

**Implications for research and practice.** An important point of departure of the political CSR literature is the transformation of the global governance and its impacts on the extended social responsibilities of private companies. As this study shows, there is a parallel transformation that leads public enterprises to assume new responsibilities in the economic realm. This observation confirms the descriptive accuracy of the political CSR, which describes the blurred frontiers between economic and political spheres, but also extends it and calls for more empirical research. New avenues include the exploration of CCI in hybrid organizations that cumulate both logics of private and public enterprise. As Jay (2013) highlights in his recent study, the complex environment of a hybrid organization does not necessarily constrain its ability to navigate but rather may be an impetus for innovation.

Another avenue for research stems from the erosion of the economic system and its implications for the legitimacy of corporations (Scherer & Palazzo, 2007). It is worth investigating to what extent this weakening of the economic system mirrors the erosion of the political institutions described by the political CSR and may reinforce the incentives for corporations to dynamically balance between economic and political stances. As for practical implications, this study shows that rather than a recipe, CCI requires organizations to be attuned to their environment and capable of flexibility in addressing the challenges they come across.

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#### END NOTE

<sup>1</sup> Italics represent interview quotes.

## Part 5: Public Policy, Administration of Government, and Non-governmental Organizations

### STOCK EXCHANGES AND ECONOMIC GROWTH: EVIDENCE FROM AFRICA

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#### ABSTRACT

This paper investigates the impact of the development of capital markets on economic growth in Africa and reports a significant increase in real GDP per capita after stock exchanges are established. This paper also reveals that there are significant improvements in the level of private investments in the post stock market launch era. The results also indicate that stock markets play a complementary role to the banking sector by contributing to the availability of private credit. Although African capital markets are relatively less advanced when compared to capital markets on other continents (particularly in terms of technology, structure, and liquidity), we find that their establishment has been crucial in helping African countries catch up with the rest of the world.

**Keywords:** Stock exchange; financial markets; economic growth; Africa

#### INTRODUCTION

*Many people wonder why a poor country like Malawi should have a stock exchange in the first place. But the reason for having it here is the same as in London or Frankfurt: enabling the private sector to raise capital.*

*- Rob Stangroom, CEO of Malawi Stockbrokers Ltd.<sup>1</sup>*

As at 1990, only 11 countries had stock exchanges in Africa, but by 2005 there were stock exchanges operating in 22 African countries including a regional exchange in Cote d'Ivoire that serves eight countries.<sup>2</sup> The primary purpose of establishing these stock markets are to mobilize savings and improve the allocation of capital thereby promoting economic growth. Though in theory this premise cannot be disputed several scholars have argued however that it is premature for African countries in their current state of development to establish stock markets. The standard argument is that African

economies are not well developed and they lack the requisite institutions necessary for financial development. For example, Stiglitz (1989:61), in commenting on financial market development in poor countries, states: “If investors are inadequately protected by strong securities and fraud laws, and a judiciary which can fairly and effectively enforce such laws, there is a high likelihood of abuses; the resulting loss of investor confidence may have repercussions well beyond the securities directly affected.” Mkandawire (1999: 327) similarly notes: “[The] volatility of stock markets in the developing countries renders them a singularly unreliable guarantor of efficient allocation of scarce resources for development purposes...They are unlikely to make much of a difference in mobilizing and allocating savings.” This sentiment is in sharp contrast with Atje and Jovanovic (1993: 636) who report upon finding a relationship between stock market trading volume and economic growth, that: “We have found a large effect of stock markets on subsequent development. We have failed to find a similar effect of bank lending. That this differential effect should exist is in itself surprising. But if it is true, then it is even more surprising that more countries are not developing their stock markets as quickly as they can as a means of speeding up their economic development.” Considering these contrasting viewpoints the question this article hopes to address is simple: Do stock markets add value to Africa’s economies?

We are motivated to look at this issue as a result of the welfare implications. Countries in Africa are consistently fraught with malnutrition, high rates of unemployment, widespread corruption, political instability, poor roads, and widespread poverty. 39 out of the 48 countries<sup>3</sup> in sub-Saharan Africa are classified as low income with only 5 being able to reach upper middle income status (see World Development Report, 2004). Eighteen (18) of the 20 slowest growing countries in the world over the period from 1960 to 2000 happen to be in Africa, with 38 African countries recording an abysmal mean growth rate of 0.6 percent per year over this period (Barro and Sala-i-Martin, 2004). Even worse, less than one in five households in Africa have access to any formal banking service (Beck *et al.*, 2009). Africa historically has the highest percentage of its members living below \$1 a day. Therefore, having a proper financial system to spur the effective allocation of capital is clearly a necessity if Africa is to escape from this predicament. According to Aghion *et al.* [2005] when it comes to factors explaining non-convergence of growth rates between countries “financial development is among the most powerful of these forces.” In their analyses, low levels of financial developments makes convergence between countries less likely.

Another important issue this article hopes to address is the following. Do African countries with business environments characterized mainly by small firms necessitate financial systems centered on both banks and stock markets? Or the establishment of stock markets is likely to take business away from banks due to competition and as a consequence weakening economic growth in the long-run. The answers to these questions are not trivial. Boyd and Smith (1998) in their analyses report that banks are necessary at low levels of economic development but as a country develops it becomes useful for the financial system to become more market-based. Tadesse (2002) also provide some answers. In his study based on industry level data from 36 countries argues that for countries dominated by smaller firms “market-oriented systems retard economic growth.” Claessens and Laeven (2005) also address this issue by examining the impact of banking sector competition on economic growth. They report that greater competition in a country’s banking system leads to improved bank performance and also improvements in borrower firms’ product quality as well as increases in banking innovation. Much remains to be done to obtain concrete answers. Proponents of the bank-based financial system argue that this system is superior to a market-based system as bank monitoring helps resolves the agency problem between management and outside investors<sup>4</sup>; plus, in weak institutional settings such as those existing in Africa, banks can more effectively force firms to reveal information and repay their debts (Chakraborty and Ray (2006); Levine (2002) also provides a discussion along these lines). The argument against the establishment of these markets is that the economies in these countries are not well developed and therefore they should rather focus their limited resources on developing their fragile banking systems.

This begs the question as to what is the interplay between stock market development, banking activity, and economic growth.

Two of the eight Millennium Development Goals set forth by the United Nations is for Africa to halve the proportion of its population living in abject poverty and hunger by 2015; and also for African countries to enhance access to their financial markets. Therefore this study is not only imperative but timely.

The results of our empirical analyses indicate that establishing stock markets help improve living standards; in other words stock markets in African countries are not a misuse of resources but have a positive impact on the economy. We also document, African countries with stock markets have a superior growth profile compared to other African countries without stock markets. The results are consistent with Levine and Zervos (1998), Caporale *et al.* (2005) among others. However, they run counter to Rioja and Valev (2004) and Tadesse (2002) who find no connection between finance and growth for low income countries. The article also finds that the availability of credit from banks to the private sector improves after a stock market development is launched, indicating that stock markets play a complementary role to the banking system; having stock markets augment the development of financial intermediaries. Overall, our conclusions are in support of the arguments that most African countries are ready for stock market development.

#### LITERATURE REVIEW ON THE FINANCE-GROWTH NEXUS

The finance-growth literature has experienced a revival over the last several years partly due to the classic work of King and Levine (1993)<sup>5</sup> who report, using data on 80 countries over the period from 1960 to 1989 that financial development is positively associated with economic growth; physical capital accumulation; and economic efficiency improvements. They argue based on their regression results that an increase in liquid liabilities can eliminate a ‘substantial’ portion of the difference between fast and slow growing countries. Levine and Zervos (1998) in their study on the same subject report even stronger findings as they introduce measures of stock market development: liquidity; size; volatility; and integration with world capital markets. They find only stock market liquidity to be a predictor of real per capita GDP growth – after controlling for initial income, initial investment in education, political stability, fiscal policy, openness to trade, macroeconomic stability, and the forward looking nature of stock prices. They offer arguments suggesting that though both banking development and stock market liquidity both predict long-run economic growth; banks provide different services from stock markets (they report a correlation of 0.65 between bank credit and stock market capitalization). Beck and Levine (2004), based on a panel of 40 countries over the period from 1976 to 1998 provide empirical evidence rejecting the hypothesis that “overall financial development is unimportant or harmful for economic growth.” They also report that stock markets and banks produce services different from each other, thus they are complements rather than substitutes.

Minier (2009) examines the growth impact of stock exchange establishment for a sample of 40 countries between 1960 and 1998 and finds the stock exchanges to have spurred growth in the short-run. She finds that countries that established stock markets grew faster over the next 5 years after the exchange opening compared to similar countries without a stock market. Her results of rapid economic growth in the short run seem to disappear in the long-run, however. Henry (2000a) looks at the impact of financial liberalization on equity prices in 12 emerging economies and reports the liberalizing countries experiencing abnormal returns of 3.3% per month in an eight month window leading up to the liberalization date.<sup>6</sup> His findings indicate that financial liberalization leads to a reduction in the host country’s cost of capital. Our article contributes to the literature by providing additional insight on the macroeconomic impact of stock exchange establishment for a larger cross-section of developing countries.

Yartey and Adjasi (2007) pursue a research agenda close in spirit to my work. They document that in Ghana for example, the stock market accounted for about 12 percent of total asset growth of listed companies over the period 1995 to 2005; and in Zimbabwe over the period from 1990 to 1999 equity financing contributed to 8 percent of the funds raised by public companies. So whereas stock markets have contributed to the long-term financing of corporate growth in some sub-Saharan African countries their results are inconclusive on the overall impact of stock markets in Africa. The only stock market indicator that contributes to economic growth in their empirical analyses is the ratio of value of shares traded to GDP. They do not find the ratio of market capitalization to GDP, and stock market turnover to have any impact on economic growth. More analyses are therefore warranted.

## DATA

The appendix provides additional details on the data and sources for our empirical analyses. Most of our variables are from the World Bank Development Indicators (2011) which is undoubtedly the most comprehensive database on country level data that goes as far as 1960. We also obtain data from Andrei Shleifer's homepage.<sup>7</sup> The key explanatory variable in our empirical analyses is *stkmktp* which takes a value of 1 if a stock market is present in a year for a particular country and zero when no stock market is present. It is assigned a value of 1 in the year of the stock market establishment.

We control for standard factors that are known to impact economic growth: *Birth rate* measures the female fertility rate, it is the number of births per woman; government expenditure (*Govexp*); trade openness (the ratio of a country's exports and imports expressed as a percentage of GDP); real GDP per capita in 1960 (*GDPpercap60*) – this is a proxy for the starting value of GDP and is to control for convergence. To capture political and civil unrests we use a dummy variable *War* that is equal to 1, when a civil war, civil violence or ethnic war is observed for a country; it is zero otherwise [see Marshall *et al.* 2011 for additional details]. We also include additional controls which are more evident for Africa: ethnolinguistic fractionalization (*Ethnofract*); country distance from the equator (*Latitude*); and the degree of corruption (*Corruption*). *Latitude* runs from 0 to 1; the closer a country is from the equator the smaller this value. The variable *Ethnofract* is the probability that two persons chosen at random are from two different ethnic groups. It runs from 0 to 1. A low value indicates a homogeneous society and a high value indicates a very diverse society. See La Porta *et al.* (1999), Easterly and Levine (1997) for additional details on how this variable is constructed. We also include a legal origin dummy (*Legalorigin*) in our regressions. This is a dummy variable that takes a value of 1 for English common-law countries and zero otherwise. For African countries the legal origin is either English common-law or French civil law.

Table 1 shows the 25 countries used in our empirical analyses (except for Table 9 where the entire pool of African countries are considered). Not all stock exchanges in Africa are included in our analyses due to lack of data on relevant macroeconomic variables. Older stock exchanges in South Africa, Egypt, Nigeria, Kenya, and Morocco are excluded in most of our analyses (except when the entire pool of African countries is analyzed in Table 9). The oldest stock exchange in my sample is Tunisia's founded in 1969; and the youngest stock market is Libya's established in 2007. Though a regional stock exchange was established in Cote d'Ivoire in 1998, Cote d'Ivoire already had a stock exchange that had been in existence since 1976 and 1976 is therefore the reference year used in the before-and-after analyses for this country. The eight countries italicized are all part of the regional stock exchange in Cote d'Ivoire. For each country the year of stock exchange establishment is in brackets.

The stock exchanges in Africa comparable to international standards are those in South Africa and Egypt. Uganda's stock exchange opened to trading in 1998 with no securities listed; while the Tanzanian stock exchange opened to trading with four listings with trading lasting for two hours per week (Minier, 2009).

### Summary Statistics

Summary statistics for the variables used in our before-and-after analyses are shown in Table 2. These are based on data recorded over 10 years for each variable, if available. Even though the countries in our sample are mostly ‘poor’ there is a wide variation across the sample; real GDP per capita range from \$403 in Mozambique to \$15,361 in Libya (as at 2009). A standard measure of the extent of banking development in the finance-growth literature is the amount of credit available to the private sector. By this measure Cote d’Ivoire has the most developed banking system; I find the least developed banks to be in Sudan and Ghana – with a private credit to GDP ratio of 0.02 recorded in both countries. The caveat however is that while Sudan experienced this value post stock market establishment in the case of Ghana this value was recorded prior to the country having a stock market.

Africa is known to have some of the most corrupt nations. Five of the ten most corrupt countries in the world are in Africa (Transparency International, 2010). Government corruption according to Shleifer and Vishny (1993) is defined as “the sale by government officials of government property for personal gain.” In our sample the least corrupt country is Namibia with a corruption index of 7.22 and the most corrupt country is Mali with a score of 2.78. The lower the index value the more corrupt the country. In terms of ethnic diversity (Ethno linguistic fractionalization), the most homogeneous country in our sample is Swaziland and the most heterogeneous is Tanzania.

### Correlations

The correlation results displayed in Table 3 are in line with the literature on economic growth: GDP per capita has a negative and statistically significant correlation with *Birth rate*, political unrests (*War*), and ethno linguistic fractionalization (*Ethnofract*) (see Barro 1991). Corruption has a statistical significant relation with all our variables except *Latitude*. From the table, less corrupt countries have higher real GDP per capita, have better developed banking sectors, trade more with other countries and have more investments in the private sector.<sup>8</sup> We can also infer from Table 3 that political unrests (*War*) impede output per person.

**TABLE 1**  
**Stock Markets and Year of Establishment in Africa**

Algeria [1997]	Tanzania [1998]
Botswana [1989]	Uganda [1997]
Cameroon [2001]	Zambia [1994]
Ghana [1990]	Zimbabwe [1993]
Libya [2007]	Cote d'Ivoire [1976]
Malawi [1995]	Togo [1998]
Mauritius [1988]	Benin [1998]
Mozambique [1999]	Burkina Faso [1998]
Namibia [1992]	Guinea Bissau [1998]
Rwanda [2005]	Mali [1998]
Sudan [1995]	Niger [1998]
Swaziland [1990]	Senegal [1998]
Tunisia [1969]	
<b>Egypt [1883]</b>	<b>South Africa [1887]</b>
<b>Kenya [1954]</b>	<b>Morocco [1929]</b>
<b>Nigeria [1960]</b>	

## EMPIRICAL RESULTS

Our empirical analyses take a two-step approach. We first perform a before-and-after analysis to gauge the impact of a stock exchange on a nation's economy for all 25 countries in our sample giving a total of 250 country-year observations. Next, we perform a difference-in-difference analysis to examine if indeed stock exchanges have been beneficial to African countries. In our difference-in-difference estimates we use the full sample of 53 countries to mitigate the issue of the possibility of policy makers timing the formation of a stock exchange based on the country's growth profile.

### Effect of Stock Markets on Economic Output

In Table 4 we estimate the effect of stock markets on living standards using OLS. Models (1) and (2) indicate that having a stock market has a positive effect on living standards. However, the significance disappears when we introduce a battery of controls in model (3). One has to be cautious with these estimates since OLS assumes homoscedasticity of error terms. Further tests are therefore warranted. We therefore perform further analyses using the method of generalized least squares. The results are shown in Table 5 and Table 6. In both tables we focus on the economic impact of having a stock exchange a couple of years before-and-after the exchange has been set up. In all of these regression specifications having a stock market clearly boosts economic output.

**TABLE 2**  
**Summary Statistics on 25 African Countries with Stock Markets over a 10-Year Period**

	Mean	Median	Stdev	Min	Max	N
GDP per capita,PPP	2362.54	1086.59	2898.78	403.29	15361.16	219
Private credit (ratio to GDP)	0.11	0.09	0.08	0.02	0.40	211
Liquid Liabilities (ratio to GDP)	0.23	0.21	0.11	0.05	0.65	209
Legal Origin	0.36	0.00	0.48	0.00	1.00	250
Trade Openness (% of GDP)	63.88	55.79	32.08	11.09	171.00	247
War	0.20	0.00	0.40	0.00	1.00	246
Private Investment (% of GDP)	11.32	11.79	5.09	0.70	23.98	240
Birth rate	5.65	5.82	1.34	1.99	7.94	249
Ethno linguistic Fractionalization	0.60	0.71	0.28	0.00	0.89	250
Latitude	0.19	0.17	0.13	0.01	0.67	250
Corruption	4.95	5.12	1.25	2.78	7.22	210

N is the number of observations.

**TABLE 3**  
**Correlation Table**

	1	2	3	4	5	6	7	8	9
1. GDPpercap,PPP	1								
2. Private credit	0.274***	1							
3. Liquid Liabilities	0.540***	0.572***	1						
4. Trade Openness	0.512***	0.530***	0.579***	1					
5. War	-0.071	-0.241***	-0.071	-0.345***	1				
6. Private Invest.	0.105	0.385***	0.347***	0.194***	0.077	1			
7. Birth rate	-0.747***	-0.129*	-0.626***	-0.400***	0.046	-0.280***	1		
8. EthnoFract	-0.512***	0.006	-0.214***	-0.191***	0.021	-0.009	0.290***	1	
9. Latitude	0.353***	0.005	0.125*	0.164***	-0.119*	0.195***	-0.333***	-0.209***	1
10. Corruption	0.264***	0.128*	0.189**	0.374***	-0.249***	0.145**	-0.155**	-0.225***	0.113

\*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels respectively.

### Effect of Stock Markets on Economic Output

In Table 4 we estimate the effect of stock markets on living standards using OLS. Models (1) and (2) indicate that having a stock market has a positive effect on living standards. However, the significance disappears when we introduce a battery of controls in model (3). One has to be cautious with these estimates since OLS assumes homoscedasticity of error terms. Further tests are therefore warranted. We therefore perform further analyses using the method of generalized least squares. The results are shown in Table 5 and Table 6. In both tables we focus on the economic impact of having a stock exchange a couple of years before-and-after the exchange has been set up. In all of these regression specifications having a stock market clearly boosts economic output.

Table 5 estimates a before-and-after analysis for 25 African countries with stock markets two years before and two years after a stock market is launched. The dependent variable is the natural logarithm of real GDP per capita. The purpose of this table is to basically explain how African countries perform upon establishing a stock market. The regressions are run in a panel as random effects using the method of generalized least squares. Since our key explanatory variable is constant over time a random effects is considered appropriate as this is generally more efficient than a pooled OLS. All the regressions include time dummies to account for time specific effects. From the table, the coefficient of *stkmktp* has a positive sign in all our specifications and is also statistically significant in all of them. The standard errors of our coefficient estimates clustered by country are in parentheses. We want to exploit the effect of legal origin (*Legalorigin*) in our analyses and so we interact this variable with our stock market dummy in regressions (3) through (6). In Table 6 we increase our estimation window and collect data five years before and five years after a stock exchange establishment to see if the findings in Table 5 exist in the medium-run. We still have statistical significance as in Table 5 with smaller standard reported for our key explanatory variable *stkmktp*. Overall the results of Table 5 and Table 6 are robust to a battery of controls and demonstrate a strong positive association between a stock exchange establishment and economic output. These findings are in line with the findings of Levine and Zervos (1998) who also find a strong positive link between finance and growth.

**TABLE 4**  
**Effect of Stock Market on Output - OLS Results**

	(1)	(2)	(3)
stkmktp	0.094*** (0.024)	0.090** (0.035)	0.122 (0.160)
Legal origin		0.035 (0.336)	-0.011 (0.314)
stmktp *Legalorigin		0.011 (0.067)	0.102 (0.120)
Ethnofract		-1.659** (0.793)	
War			0.009 (0.315)
Latitude			3.17 (1.849)
Time dummies	Yes	Yes	Yes
Constant	7.284*** (0.199)	8.285*** (0.596)	6.590*** (0.365)
Number of observations	219	219	215
R-sq	0.40%	24.00%	22.70%
Adj. R-sq	< 0%	19.50%	17.70%

The dependent variable is the natural logarithm of GDP per capita, PPP adjusted. \*, \*\*, \*\*\* denote the level of significance at the 10%, 5%, and 1% levels respectively. Standard errors clustered by country are in parentheses.

**TABLE 5**  
**Effect of Stock Market on Output Two-Years Before and Two-Years After a Stock Market Establishment**

	(1)	(2)	(3)	(4)	(5)	(6)
stkmktp	0.071*** (0.024)	0.038* (0.020)	8.436*** (0.621)	6.447*** (0.596)	6.758*** (0.377)	6.555*** (0.616)
Liquid Liabilities		-0.845 (0.583)				
Legal origin			0.026 (0.340)	-0.14 (0.442)	0.0522 (0.326)	-0.146 (0.447)
stmktp* Legalorigin			0.001 (0.043)	0.031 (0.048)	0.001 (0.039)	0.031 (0.041)
Ethnofract			-1.785** (0.843)			
Corruption				0.179 (0.149)		0.167 (0.153)

War					-0.168 (0.130)	-0.169 (0.110)
Latitude					3.28 (2.011)	
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	88	79	88	72	88	72
Number of countries	22	21	22	18	22	18
R-sq within	0.00%	45.51%	19.67%	12.41%	38.27%	37.36%
R-sq between	0.00%	49.49%	26.62%	6.88%	21.84%	5.48%
R-sq overall	0.08%	39.70%	26.59%	6.90%	21.91%	5.60%

The dependent variable is the natural logarithm of GDP per capita, PPP adjusted. The regressions are run as a panel effects generalized least squares random effects model. \*, \*\*, \*\*\* denote the level of significance at the 10%, 5%, and 1% levels respectively. Standard errors clustered by country are in parentheses.

Growth theory posits that past levels of economic output can influence its current value. This fact cannot be ignored. Introducing lags introduce serially correlated errors which can lead to our estimates being inconsistent. To address this issue and to control for simultaneity and omitted variables we employ the generalized method of moments (GMM) estimation developed for dynamic panels (see Arellano and Bond (1991); Arellano and Bover (1995); Arellano and Bover (1995); and Blundell and Bond (1998)). We use both a one-step difference GMM and a two-step system GMM. This approach allows us to control for unobserved time- and country-specific effects and to extract the exogenous component of stock markets on growth. These tables are not shown but are available from the authors upon request and they also indicate that establishing a stock exchange increases output per person by about 6% on average.

**TABLE 6**  
**Effect of Stock Markets on Standard of Living Five-Years Before-and-After a Stock Market Establishment.**

	(1)	(2)	(3)	(4)	(5)	(6)
stkmktp	0.190*** (0.039)	0.068*** (0.025)	0.197*** (0.044)	0.123*** (0.041)	0.175*** (0.053)	0.072* (0.041)
Liquid Liabilities		-0.212 (0.398)				
Legal Origin			-0.028 (0.332)	-0.162 (0.409)	-0.004 (0.313)	-0.171 (0.409)
stmktp*LegalOrigin			-0.019 (0.060)	0.027 (0.062)	-0.008 (0.066)	0.039 (0.070)
Ethnofract			-1.610** (0.812)			
Corruption				0.188 (0.144)		0.185 (0.143)

War					0.000 (0.058)	-0.018 (0.055)
Latitude					3.090* (1.870)	
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	219	200	219	179	215	176
Number of countries	23	22	23	19	23	19
R-sq. within	44.78%	45.55%	44.98%	35.77%	45.84%	37.69%
R-sq between	0.00%	27.76%	23.03%	7.84%	20.88%	8.12%
R-sq overall	0.25%	2.62%	23.73%	6.99%	22.47%	6.06%

The dependent variable is the natural logarithm of GDP per capita, PPP adjusted. The regressions are run as a panel effects generalized least squares random effects model. \*, \*\*, \*\*\* denote the level of significance at the 10%, 5%, and 1% levels respectively. Standard errors clustered by country are in parentheses.

### Effect of Stock Market on Private Investment

Establishing a stock exchange provides an additional conduit of borrowing for firms. A project which in the absence of a stock exchange had a negative NPV thus has a positive NPV due to a reduction in the cost of borrowing. Therefore, we should expect an improvement in the level of private investment upon a stock exchange establishment as stock exchanges provide additional financing choices which lead to more investment opportunities. The results in Table 7 clearly support this hypothesis: establishing a stock market leads to an increase in the level of private investment.

### Effect of Stock Market on Banking

Next we examine the effect of stock markets on the banking system. This is important since there is the argument by some scholars that stock markets can compete with banks for customers thereby taking business away from the banking sector. Deidda and Fattouh (2008) argue that the development of equity markets can lead to 'disintermediation.' Their argument is not centered on competition for customers between equity markets and banks but is premised on the fact that since stock markets subject firms to disclosure requirements, firms can be screened by investors thereby reducing information asymmetry; investors can ascertain the value of the firm from price signals and from the disclosures by the firm and as a consequence firms would have less need for banks. This happens since the cost of acquiring information about the firm is reduced, therefore the pool of potential investors for these firms increase implying less need for bank borrowing. Boyd and Smith (1998), Demirguc-Kunt and Maksimovic (1996), and Sylla (1998) on the other hand write that stock markets and banks are complements – not substitutes. If the argument that stock markets take business away from banks is true then we expect to see a negative sign on our stock market dummy in a regression with a measure of banking development as our dependent variable.

**TABLE 7**  
**Effect of Stock Market on Private Investment**

	(1)	(2)	(3)
	LogPrivInv	LogPrivInv	LogPrivInv
stkmkt	0.240*	0.249**	0.240*
	(0.132)	(0.113)	(0.132)
War	0.105	0.11	0.105
	(0.155)	(0.143)	(0.156)
Legal origin		-0.015	
		(0.239)	
stkmkt*Legalorigin		-0.0249	
		(0.198)	
Ethnofract			0.0917
			(0.42)
Time dummies	Yes	Yes	Yes
Constant	2.097***	2.101***	2.042***
	(0.166)	(0.189)	(0.296)
Number of observations	236	236	236
Number of countries	25	25	25
R-sq within	6.53%	6.55%	6.53%
R-sq between	1.82%	1.93%	1.96%
R-sq overall	2.76%	2.97%	2.54%

The dependent variable is the natural log of gross fixed capital formation to the private sector i.e. private investment (LogPrivInv). The regressions are run as a generalized least squares random effects model.

\*, \*\*, \*\*\* denotes the level of significance at the 10%, 5%, and 1% levels respectively. Standard errors adjusted for country clusters are in parentheses.

We follow the empirical literature on finance and growth and measure banking development as the ratio of private credit to real GDP. The results are displayed in Table 8. The regressions are run as random effects generalized least squares. Standard errors clustered by country are in parentheses. In model (1), the effect of establishing a stock market on banks is positive and statistically significant but the overall R-squared is low indicating the likely effect of omitted variables. In models (2) to (4) we introduce several control variables: legal origin, ethno linguistic fractionalization, corruption, and political instability (War). All the regressions control for year effects. In model (2) the result indicates that though stock markets are beneficial to African countries on average, the effect of stock markets on banking is higher for French civil-law countries. If we assume the legal origin doctrine advanced by La Porta *et al.* (1998) hold for African countries then these results mean that since French civil-law countries have lower investor protection, hence are less financially developed; these countries therefore have more to gain than their English common-law counterparts when a stock exchange is created.

**TABLE 8**  
**Effect of Stock Markets on Banking**

	(1)	(2)	(3)	(4)
stkmktp	0.021*** (0.008)	0.029*** (0.010)	0.026** (0.011)	0.020*** (0.007)
Legalorigin		-0.064*** (0.024)	-0.054** (0.022)	-0.063*** (0.021)
stmktp*Legalorigin		-0.025* (0.015)	-0.020 (0.017)	-0.026* (0.015)
EthnoFract		0.020 (0.046)		
Corruption			0.006 (0.009)	
War				0.010 (0.013)
Time dummies	Yes	Yes	Yes	Yes
Constant	0.0980*** (0.016)	0.106*** (0.021)	0.0797* (0.041)	0.116*** (0.020)
Number of observations	211	211	175	211
Number of countries	22	22	18	22
R-sq. within	14.32%	18.28%	18.94%	19.06%
R-sq. between	0.04%	24.48%	24.61%	21.48%
R-sq. overall	1.97%	23.72%	23.66%	21.40%

The dependent variable is the ratio of credit by deposit money banks and other financial institutions to GDP. The regressions are run as a generalized least squares random effects model. \*, \*\*, \*\*\* denotes the level of significance at the 10%, 5%, and 1% levels respectively. Standard errors adjusted for country clusters are in parentheses.

The overall results from Table 8 indicate that stock markets do not take business away from banks but rather play a complementary role. Stock markets by helping improve investment opportunities available to firms create additional demand for bank credit. That is, the establishment of stock markets creates an improvement in African countries' fragile banking system. The results are consistent with Sylla (1998), Boyd and Smith (1998), Demirguc-Kunt and Maksimovic (1996).

#### Differences-in-Difference Regressions

The analyses in Table 9 consist of the full set of 53 countries in Africa over the period from 1988 to 2006. Our cross-sectional regression is in the spirit of Levine *et al.* (2000) and takes the form

$$GDPpercapgrowth_i = \alpha + \beta stkmktp_i + \gamma' [CONDITIONING SET]_i + \varepsilon_i \quad (1)$$

$GDPpercapgrowth_i$  is the real per capita GDP growth for country  $i$ ; the variable  $stkmktp$ , as before, is a dummy set equal to 1 when the country has a stock exchange (this list includes all participants of the West African regional exchange) and 0 otherwise. The conditioning set is essentially our set of controls as in our before-and-after analyses except here we introduce the logarithm of GDP in

1960 (GDPpercap60) to control for convergence. In the table we find African countries with stock exchanges to outperform those without stock markets; the difference in growth is about 1.5% annually. We conclude that African countries with stock markets have a superior growth profile over the period from 1988 to 2006 than their counterparts without stock markets.

**TABLE 9**  
**Difference-In-Difference Regressions on the Effect of Stock Markets on Economic Growth for the Entire Pool of 53 African Countries.**

	(1)	(2)	(3)	(4)
stkmktp	1.339*** (0.491)	1.962*** (0.562)	1.435*** (0.472)	1.204* (0.583)
Corruption	0.285 (0.219)	0.177 (0.206)	0.328 (0.227)	0.254 (0.214)
Ethnofract	-1.536 (0.999)	-2.785** (0.999)		-0.996 (1.416)
GDPpercap60		0 (0.001)		-0.001 (0.001)
Birth rate				-0.736 (0.443)
Constant	Yes	Yes	Yes	Yes
Number of observations	674	456	674	456
R-sq	2.40%	3.60%	2.10%	4.20%
Adj. R-sq	2.00%	2.70%	1.80%	3.20%

The dependent variable is annual GDP per capita growth. \*, \*\*, \*\*\* denotes the level of significance at the 10%, 5%, and 1% levels respectively. Standard errors are in parentheses.

## SUMMARY AND CONCLUSIONS

This article contributes to the growing literature that emphasizes a linkage between finance and economic growth to which African countries form a natural laboratory. The economic history of African countries has been abysmal with no growth occurring in most countries over the past several decades. This article takes the position – consistent with several finance-growth academics – that African countries can move out of this economic quagmire by having well-functioning financial markets. The development of stock markets can provide an additional source of much needed external financing for firms; firms can undertake more projects and can therefore produce a higher stock of physical capital; and investors can diversify their portfolio with better stock markets. Despite stock markets in Africa not being as developed as the rest of the world's [with the exception of South Africa and Egypt], we find in this article that they do have a positive impact on economic activity; the link between stock markets and economic output is therefore not elusive for Africa.

The criticism that African countries are not ready for stock markets is unwarranted; rather the existence of stock markets can help facilitate globalization of African markets by enhancing the connections between domestic and foreign investors. Alfaro *et al.* (2004, 2009) argue that countries with well-developed financial markets benefit substantially from FDI inflows through total factor improvements than those with weaker financial markets; thus, well-functioning stock markets are even all the more important for Africa. Furthermore, stock exchanges can assist African governments in their privatization programs through public offerings. As an example, the Nigerian Stock Exchange is known to

have played an active role in the countries' privatization programs to restructure the countries' economy (Irving 2000).

By and large our results suggest that stock market development can be an important contributor to alleviating poverty, as it promotes private investment and banking development. Moreover, stock markets can help firms expand and employ more labor, which leads to a higher economic output. African policy makers should therefore extend to stock markets the priority that is already offered to the banking sector.

Further research on this topic can examine the factors which drive stock market development. A starting point would be to look at the impact of political regimes. As African countries have varying political profiles ranging from unstable (for example Zimbabwe) to very stable (Botswana); plus several countries on the continent have embraced multi-party democracy recently, it will be interesting to see the linkage between democratization and financial development. If more democratization reduces the development of financial markets due to electoral disputes and a regime switch every four years (which is likely to create discontinuity in policy) then policy makers should focus on addressing this trade off.

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## END NOTES

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<sup>1</sup> As quoted in Minier [2009].

<sup>2</sup> The Bourse in Cote d'Ivoire was established in 1998 to serve the following eight countries: Cote d'Ivoire, Mali, Burkina Faso, Senegal, Togo, Benin, Guinea-Bissau, and Guinea.

<sup>3</sup> The number of countries in Sub-Saharan Africa is now 49: South Sudan spun off from Sudan in 2011. A country is classified as low income by the World Bank (as at 2004) if its GNI per capita is \$735 or less; lower middle income if it falls between \$736 and \$2,935; between \$2,936 and \$9,075 it is classified as an upper middle income; and a high income country if it is \$9,076 or higher.

<sup>4</sup> The caveat here though is that since monitoring is costly the cost of bank debt is likely to be higher.

<sup>5</sup> The view that financial development correlates with growth is not new, however – the seminal works in this area are: Gurley and Shaw [1955], Goldsmith [1969] and McKinnon [1973]. Levine [2005] provides an extensive literature review that also looks at different empirical methodologies, their advantages and shortcomings.

<sup>6</sup> Henry [2000b] also report similar findings – stock market liberalization is strongly associated with investment booms.

<sup>7</sup> Available on the web: [scholar.harvard.edu/shleifer/publications](http://scholar.harvard.edu/shleifer/publications). Last accessed 10/05/2012.

<sup>8</sup> It must be emphasized that one is not inferring causality here. Low standards of living can induce corruption; and corruption can hinder economic growth.

## ASSESSING ICT TRAINING IN SOUTH AFRICA, WITH SPECIAL REFERENCE TO CISCO ACADEMIES: LESSONS FOR AFRICA?

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### ABSTRACT

Global human capital will rival, if not displace, financial capital as the most important driver of economic growth in the future. With ICT skills outstripping supply by 20%, the South African government responded to the shortages in various ways. This study investigated which factors foster or retard the success of Cisco ICT training programmes in selected sites in South Africa. The sample comprised of 166 students from five training academies. The results showed, inter alia, that the quality of instructors was an important determinant of student performance; that the use of technology played a big role in the practical skills examinations; and that the motivational impact of the course material was the main determinant of performance in the written examination.

**Keywords:** skills shortage, information and communication technology, training

### INTRODUCTION

According to the World Economic Forum report (WEF, 2010), the global human capital will rival, if not displace, financial capital as the most important driver of economic growth. According to the same report, filling jobs with the right skills is difficult. Information and communication technology (ICT) skills appear to be in demand, as research shows that these skills provide new growth opportunities and a source of competitive advantage to all business firms (WEF, 2009). In other words, ICT skills are a catalyst for economic growth (WEF, 2009). The Global Competitiveness Report on Africa, however, notes that one of the major policy areas that is restricting Africa's competitiveness is that of skills availability (WEF, 2011), including ICT skills. Calitz (2010) reported that there is an international ICT skills shortage. The present study assesses the success of ICT training in South Africa offered in a public-private partnership involving the Nelson Mandela Metropolitan University (NMMU) in South Africa, an American multinational corporation, Cisco Systems, and other stakeholders. The Cisco ICT training programme is also used in other African countries. This assessment could therefore produce lessons for ICT training on the African continent.

## **PROBLEM STATEMENT**

Many countries face a skills shortage in ICT. According to the U.S Department of Labour's Bureau of Labour Statistics, computing jobs would grow from 800 000 in 2010 to 1.5 million in 2018, but the growth in skills does not match the job growth (Krakovsky, 2010). Litecky, Prabhakar and Arnett (2006), already in 2006, predicted an annual computer skills shortage growth rate of 10% in the USA. Countries such as Australia and some in Europe are experiencing similar growth patterns and challenges (Litecky, Prabhakar and Arnett 2006). According to the 2008 ICT survey carried out by ITWeb and the Johannesburg Centre for Software, South Africa had a shortage of 70 000 practitioners. Merkofer and Murphy (2010) projected that the ICT skills demand for 2009/2010 would exceed supply by 20%. This lack of ICT skills is costing the South African economy dearly (ITWeb, 2010; Kayle, 2010).

The skills required by South Africa range from low level computer literacy skills to high level technological skills (Kraak, 2005; Alexander, Lotriet and Matthee, 2009). The first-mentioned set of skills are needed by individual members of society to access technology-based services, while the last-mentioned set of skills are needed by specialist ICT professionals. Griesel and Parker (2009) are of the opinion that, regardless of one's career, ICT skills are needed by all employees; while ITWeb (2010) claims that the right skills are just not available for the right jobs. It is therefore clear that the ICT skills shortage is broad and requires a multi-pronged approach in addressing it.

Against the above-mentioned background, the present study investigates the ICT skills shortage problem on the basis of the following thematic questions: (1) Is the Cisco model a success model for ICT training in South Africa?; (2) if so, what are the factors leading to its success?; and (3), if not, what are the factors leading to its failures? It is hoped that lessons from the South African experience would be beneficial to ICT training in Africa and the rest of the world.

## **RESPONSES TO ICT SKILLS SHORTAGES IN SOUTH AFRICA**

The South African government has responded to the ICT skills shortage in various ways through institutions and programmes such as the e-Skills Institute (eSI), the National e-Skills Plan of Action (NeSPA), the Meraka e-Skills Institute, the Joint Initiative on Priority Skills Acquisition (JiPSa), the Sectorial Education Training Authorities (SETAs), and the higher education institutions. Despite these efforts ICT skills demand outstripped supply by 20% (Merkofer and Murphy, 2010). Kayle (2010) and Kraak (2005) also pointed to acute shortages in ICT. Such a situation calls for a look at the effectiveness of the interventions that have been made to address the shortage of ICT skills.

According to the Council on Higher Education, the number of graduates in science, engineering and technology has been increasing steadily (CHE, 2009). However, Erasmus and Breier (2009) still pointed to the magnitude of the skills demand in the fields of science, engineering and technology. Griesel and Parker (2009) concur that the knowledge, skills and competencies of university graduates was out of sync with the immediate needs of employers. According to Calitz (2010), this is particularly applicable to ICT skills.

Some researchers have made assertions about the lack of responsiveness of FET colleges to the skills shortage in the country. McGrath (2004) identified an underdevelopment of crucial intermediate level ICT skills. Erasmus and Breier (2009) assert that FET colleges, which replaced apprenticeship systems, have not been able to clear the training backlog but have yielded inappropriate skills and experience. According to Pauw, Oosthuizen and Van der Westhuizen (2008), FET colleges are under-resourced, provide inappropriate skills and have a poor image with employers. This might have led to little or no training in fields like computer programming and computer networking to provide the intermediate skills. Against the above-mentioned background, a need has been created for organisations such as Cisco Systems to step in and contribute to the development of ICT skills.

## **CISCO SYSTEMS**

Cisco Systems, an American-based global ICT multinational corporation, manufactures and sells networking equipment. The Networking Academy is Cisco's largest corporate social responsibility initiative. It was started in 1997 and has since established more than 10 000 academies in over 165 countries (Cisco, 2012). The thrust of the initiative is to pass on computer and networking skills as well as share Cisco's intellectual capital with people all around the world. In the Networking Academy, Cisco uses a public-private partnership model to deliver the programme (Cisco, 2012). It partners with educational institutions, non-profit and non-governmental organisations, governments, and community centres to run the programme.

### **The operational structure of the Cisco Networking Academy**

The Networking Academy has an operational structure tailored to simplify administration of the programme. It has institutions that perform three different roles, namely:

- Academy Support Centre (ASC)
- Instructor Training Centre (ITC)
- Cisco Academy (CA).

An institution with the role of a Cisco Academy primarily recruits ordinary students for training on Cisco curricula and in accordance with the Cisco Quality Assurance Programme. Of the three types of institutions, the Cisco Academy role is performed by the majority. Instructor Training Centres are responsible for training other instructors and providing instructor professional development opportunities. The Instructor Training Centres are also expected to provide technical support to instructors for a year after completion of training. In a country, there should be at least one Instructor Training Centre. Owing to the stature of the programme, South Africa has the most Instructor Training Centres.

A regional grouping of academies is supported by an Academy Support Centre (ASC). In Southern Africa, for example, the Nelson Mandela Metropolitan University (NMMU) performs this role as the Southern Africa Cisco Academy Support Centre (SACASC). An Academy Support Centre recruits new academies, manages the quality of the programme, facilitates communication among the stakeholders and provides programme-related support to the Cisco academies in its region. Quality is a major responsibility for an Academy Support Centre. The major components of quality are student performance in the curricula and its effect on employment prospects; the training and certification of instructors; and the adequacy of equipment, as measured by student to equipment ratio and the suitability of equipment for curricula changes.

Monitoring is made easy by the fact that institutions and classes exist in a Learning Management System called the Cisco Networking Academy Management System. Cisco provides some funding to the Academy Support Centres to meet part of their operational expenses.

### **The Cisco approach to ICT training**

In the Networking Academy, Cisco develops and freely gives curricula to the Academies. The curricula are well-researched, relevant, pedagogically rich and constantly updated in step with constant changes in information technology. The major emphasis of the programme is networking skills and to this end, Cisco allows academies to purchase equipment at a discount of 75%. Content is delivered in multiple languages through a blended learning model that combines classroom instruction with online curricula, interactive tools, hands-on activities, and online assessments that provide immediate feedback to the learner. The courses that are offered include:

- Basic course (IT Essentials: PC hardware and Software) focusing on personal computer hardware and software;
- Intermediate courses (the Cisco Certified Network Associate (CCNA) Course and the Health Information Network Course); and
- Advanced courses (Cisco Certified Network Associate Security Course and the Cisco Certified Network Professional (CCNP) Course).

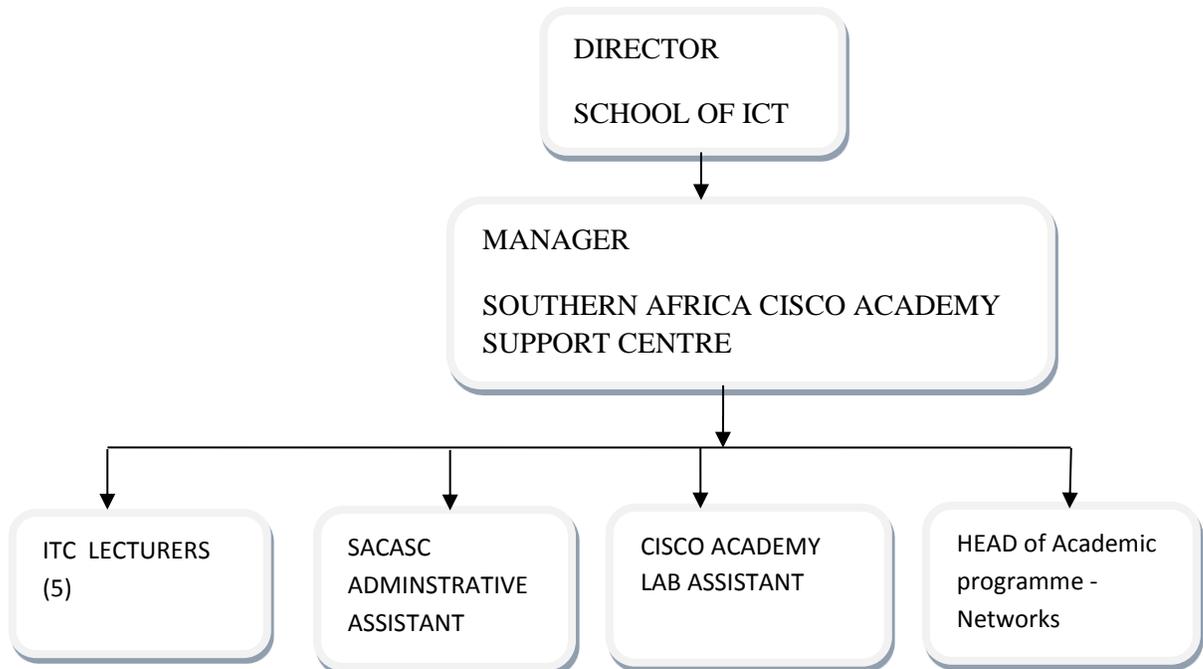
While the courses utilise Cisco equipment and technologies, students who emerge from the training are also equipped to handle other vendors' equipment and technologies.

The basic course targets high school graduates who need to embark on a career in information technology. The intermediate courses target college graduates who are pursuing a career in computer networking. The intermediate and advanced courses are popular amongst employees of Internet Service Providers, Telecommunications (fixed-line and wireless) operators, Financial Services organisations and any other enterprises or organisations with sizable networking infrastructures. Because of the rich theoretical content as well as practical exercise embedded in the curricula, many colleges and universities have integrated the Cisco curricula in undergraduate and master's degree programmes.

#### **The Cisco Academy Programme at NMMU**

In 1999, the Faculty of Computer Studies (at the then Port Elizabeth Technikon) approached Cisco Systems to form an ICT training partnership. In 2000, the programme was implemented in the Technikon's Computer Studies Faculty. The Faculty initially operated as a local and later a regional Cisco Academy. The programme was so successful that in 2006, Cisco Systems appointed the (then) NMMU regional Cisco Academy as a Cisco Academy Training Centre (CATC) responsible for the Sub-Saharan Africa region. In May 2012, all academies migrated to a new business architecture which saw the role of a CATC being removed. In its place, the CATC at NMMU assumed both roles of Instructor Training Centre and Academy Support Centre for Southern Africa. The Southern Africa Cisco Academy Support Centre (SACASC) now operates as a unit of the School of ICT in the Faculty of Engineering, the Built Environment and Information Technology. The role of the SACASC is to manage and support Cisco programmes and Academies in Southern Africa.

Several of the Academy Programme courses are integrated into the diploma and degree programmes offered by the NMMU School of ICT. The organogram depicting the placement of the SACASC entity in the School of ICT is shown in Figure 1.



**Figure 1: The SACASC organogram**

### ASSESSING CISCO'S PERFORMANCE

Owing to challenges to do with quality and sustainability of the Cisco Academy programme in developing countries, which include South Africa, such factors started receiving focused attention from 2004 (Cisco, 2007). Such challenges had manifested in poor student performances and even termination of the programme in some institutions while others had done well. It is imperative that the programme in South Africa delivers according to expectations since Cisco, its partners such as the United Nations Development Programme (UNDP), government agencies and the academies themselves make investments into the programme.

For Cisco Systems, the desired outcomes of an academy include high student marks, success of students in the job market, success of students in starting their own businesses and impact of the academy on the disadvantaged communities. For the purposes of this study, however, the performance of the Cisco programme was defined as the perceptions of students about whether they are doing well given the money and effort they invested into the programme; whether they have gained more computer networking knowledge and skills than they had before; and whether they are achieving pass marks in their Cisco courses.

After taking into account the experience of various academies in South Africa, the authors have identified the following factors that might influence the academic performance of students in the Cisco courses: instructor quality, quality of technology tools, supporting infrastructure, accommodation of multi-cultural needs, student motivation and the accessibility of Cisco courses. The present study therefore investigates the influence of these independent variables on the dependent variable, perceived academic performance in Cisco courses. Against this background the following hypotheses were formulated:

*Hypothesis 1a – c. Supporting infrastructure is positively related to (a) the perceived academic performance, (b) the written examination results and (c) the practical skills results of the students in the Cisco Academies.*

*Hypothesis 2a – c. Instructor quality is positively related to (a) the perceived academic performance, (b) the written examination results and (c) the practical skills results of the students in the Cisco Academies.*

*Hypothesis 3a – c. The accommodation of multi-cultural needs is positively related to (a) the perceived academic performance, (b) the written examination results and (c) the practical skills results of the students in the Cisco Academies.*

*Hypothesis 4a – c. The motivational impact of the courses is positively related to (a) the perceived academic performance, (b) the written examination results and (c) the practical skills results of the students in the Cisco Academies.*

*Hypothesis 5a – c. The accessibility of the institution is positively related to (a) the perceived academic performance, (b) the written examination results and (c) the practical skills results of the students in the Cisco Academies.*

*Hypothesis 6a – c. The quality of technology tools used in the training is positively related to (a) the perceived academic performance, (b) the written examination results and (c) the practical skills results of the students in the Cisco Academies.*

## **RESEARCH OBJECTIVE**

The primary objective of the study is to make a contribution to ICT training in South Africa by investigating which factors foster or retard the success of Cisco ICT training programmes in selected training sites.

## **METHODOLOGY OF THE STUDY**

### **The research paradigm**

The study is generally located within the positivistic rather than the interpretivist research paradigm (Collis and Hussey, 2009). Positivistic researchers believe that the nature of reality is objective, singular and separate from the researcher, while the interpretivists believe that reality is subjective as seen by the participant. There are therefore as many realities as there are participants. Positivistic researchers write in set definitions and quantitative words, while interpretivists use qualitative terms and evolving definitions. In positivistic studies, how theories manifest in situations (deductive logic) is applied, while in interpretivist studies theories are developed from observations or experiences in particular situations. The latter process is referred to as inductive logic. Finally, the methodologies that are associated with positivistic studies include experimental studies, surveys, cross-sectional studies and longitudinal studies, while the methodologies that are associated with interpretivistic studies include grounded theory, action research, case studies, ethnography, hermeneutics, participative inquiry and feminist, gender and ethnicity studies. The present study is a positivistic one, as a survey design was used to collect quantitative data on which the investigation of cause and effect relationships was based.

### **The sample**

The Cisco Academy programme in South Africa has about 59 academies with about 8000 students enrolled in a programme every year. The academies offer courses such as IT Essentials, CCNA 1-4, CCNA Security and CCNP. Of the 8000 enrolment per year, about 5000 students graduate each year. Of these graduates about 2000 graduate with CCNA 4 certificates. Even though there are many programmes, CCNA is the flagship programme for Cisco Academies. Of the 59 academies, only twenty academies have produced CCNA 4 graduates. It was important to consider CCNA 4 graduates because they would have the widest experience of the Cisco Academy programme. Five of the twenty academies participated in the study.

Permission to conduct research was received from the Heads of Information Technology departments in the Cisco Academies involved in the research. The study was also cleared by the Research Ethics Committee (Human) of the NMMU and the ethics clearance number H12-BES-IOP-016 was assigned to it.

A total of 225 questionnaires were distributed to CCNA 4 students, but only 166 usable questionnaires were returned. Table 1 shows the demographic composition of the sample. Table 1 reveals that the sample consisted of 69.9% males and 30.1% females. This is a true reflection of the cohort composition found in the various academies.

The majority of the respondents (97.6%) were in the 20-29 years age group, with 56.0% having matric certificates and 44.0% who had already attained diplomas. The majority of the respondents came from Port Elizabeth (44.6%), followed by Bloemfontein (24.1%), Cape Town (17.5%), Durban (11.4%) and Johannesburg (2.4%). Most of the home languages in South Africa were represented. With the bulk of the participants based in the Western and Eastern Cape provinces, Xhosa-speaking people made up 42.2%. The other languages involved were Sotho, isiZulu, Afrikaans and Setswana. The researchers were satisfied that this sample is representative of the population of CCNA 4 graduates.

### **The measuring instruments**

Self-constructed instruments were used to measure the variables investigated in this study. All the questionnaire items were anchored to a 5-point Likert scale ranging from (1) strongly disagree to (5) strongly agree.

Six items that capture the following themes were used to measure the perceived academic performance of the CCNA 4 graduates: Whether they are doing well given the money and effort they invested into the programme; whether they have gained more computer networking knowledge and skills than they had before; and whether they were achieving pass marks in their Cisco courses.

Nine items were constructed to capture the graduates' perceptions about infrastructure. These items include, among others, themes such as whether there were enough computers for training; whether the computers were always in a working condition; whether internet was always available and whether its speed was always good; and how many students were sharing networking equipment.

**TABLE 1**  
**Demographic composition of sample**

	<b>Number of Responses</b>	<b>Percentage of responses</b>
<b>Gender</b>		
Male	116	69.9
Female	50	30.1
<b>Total</b>	<b>166</b>	<b>100.0</b>
<b>Education</b>		
Matric	93	56.0
Diploma	73	44.0
<b>Total</b>	<b>166</b>	<b>100.0</b>
<b>Age</b>		
20-29	162	97.6
30-39	4	2.4
<b>Total</b>	<b>166</b>	<b>100,0</b>
<b>Academy location</b>		
Port Elizabeth	74	44.6
Cape Town	29	17.5
Durban	19	11.4
Bloemfontein	40	24.1
Johannesburg	4	2.4
<b>Total</b>	<b>166</b>	<b>100.0</b>
<b>Home language</b>		
Xhosa	70	42.2
English	10	6.0
Afrikaans	20	12.0
Zulu	26	15.7
Sotho	21	12.7
Setswana	10	6.0
Others	9	5.4
<b>Total</b>	<b>166</b>	<b>100.0</b>

The technology used in training was measured with a 7-item instrument constructed around the theme of the extent to which various technologies facilitated learning. Questions were asked around, among others, the use of the Packet Tracer simulation and visualisation tool, multimedia flash objects, video clips and on-line discussions.

Instructor quality was measured with a 6-item instrument capturing themes such as, among others, whether the instructors presented concepts in an understandable way; whether the instructors had good knowledge about their subjects; whether they were available for consultation outside normal working hours; and how helpful they were during laboratory exercises.

The accommodation of multi-cultural needs was measured with a 6-item instrument capturing perceptions around, among others, whether adequate steps were taken to deal with students' language

difficulties; whether cultural differences were handled maturely in courses; and whether students from poorer education backgrounds received the necessary assistance.

A 6-item instrument was constructed to measure the motivational impact of the courses. Questions were asked around, among others, whether the courses motivated the student to maintain a high interest in his/her studies; whether he/she enjoyed challenging course material; whether the courses are important for his/her career development.

Accessibility was measured with a 6-item self-constructed instrument capturing how accessible the Academy site was to the respondents. Among others, the instrument captured the following themes: what distances students had to travel to the site; whether the site was easily accessible through public and private transport; and whether the time-table for the courses made it easy for students to attend all classes.

The respondents were also asked to indicate their actual marks obtained in the Online Final Examination as well as the Practical Skills Examination on a continuous scale ranging providing the following options: Below 60%; 60 – 69%; 70 – 74%; 75 – 84%; and 85 – 100%. This scale was necessary in order to protect the confidential information of the student and because accessing the students marks through the university information systems is not permitted.

## **EMPIRICAL RESULTS**

### **The pilot study**

A pilot study was conducted with 56 students from the School of ICT at the Nelson Mandela Metropolitan University. To test the reliability of the data, initial Cronbach alphas were calculated, resulting in the following: Accessibility 0.61 (after deleting items ACC3 and ACC5); infrastructure 0.76; instructor quality 0.80; motivational impact of courses 0.70; accommodation of multi-cultural needs 0.73; effective use of technology 0.71; and perceived academic performance 0.78. All the Cronbach alphas were above the 0.60 cut-off point for fair reliability (Zikmund, Babin, Carr and Griffin, 2013) and were therefore retained for further analyses.

### **Validity and reliability of the actual study**

To establish the validity of the data, confirmatory factor analyses were conducted, using the LISREL 8.8 (Scientific Software International Inc., 2007) computer program. It was surmised that the data had internal validity as the questionnaire items used to measure the variables under investigation truly measured what they were supposed to measure. The fit indices (RMSEA, 0.07; Chi-square, 1660.82; df, 924;  $p = 0.000$ ) supported this hypothesis. The Cronbach alphas calculated in the pilot study therefore remained the same for the actual study. Against this background, it was decided that the data of the actual study exhibited sufficient construct validity and internal reliability to proceed with further analyses.

### **Multiple regression analysis results**

Three sets of regression analyses were conducted:

(1) a multiple regression analysis between the independent variables (accessibility, infrastructure, instructor quality, motivational impact of courses, accommodation of multi-cultural needs and technology) used in training, on the one hand, and perceived academic performance (the dependent variable) , on the other hand; (2) a multiple regression analysis between the above-mentioned independent variables, on the one hand, and self-reported performance (the dependent variable) in the online final examination, on the other hand; and (3) a multiple regression analysis between the above-

mentioned independent variables, on the one hand, and self-reported performance (the dependent variable) in the practical skills examination, on the other hand.

The results of these analyses are shown in Table 2. The empirical results (Table 2) reveal that instructor quality ( $r = 0.24$ ,  $p < 0.01$ ) and technology used in training ( $r = 0.36$ ,  $p < 0.001$ ) are significantly positively related to perceived academic performance, while the other independent variables are not. Hypotheses H2a and H6a are therefore supported, while hypotheses H1a, H3a, H4a and H5a are not. This result means that the knowledge and teaching competencies of instructors and the technology used to train ICT students are important determinants of their perceived success in the Cisco programme, while the other independent variables are not.

The empirical results further reveal that the motivational impact of the courses is significantly positively related ( $r = 0.21$ ,  $p < 0.05$ ) to the written examination results of the students, while the other independent variables are not. Hypothesis H4b is therefore supported, while hypotheses H1b, H2b, H3b, H5b and H6b are not. This means that the extent to which the content of the courses is motivational to, for example, the career development of the student plays a big role in his/her performance in the written part of the examinations.

Table 2 also shows that the technology used in the training of the ICT student is significantly positively related ( $r = 0.33$ ,  $p < 0.01$ ) to the performance of the students in the practical skills examination. Hypothesis H6c is therefore supported, while hypotheses H1c, H2c, H3c, H4c and H5c are not. Understandably, these results mean that the quality of technology used in the training of the students determines their performance in the practical skills they are supposed to demonstrate after training.

## **DISCUSSIONS OF RESULTS, RECOMMENDATIONS AND CONCLUSIONS**

The empirical results indicate that the quality of instructors is an important determinant of perceived academic performance in the Cisco CCNA 4 courses, which are the flagship courses in the Cisco Academy. This is an indication to the Cisco Academy management and other ICT training institutions that improving the quality of instructors through regular training is very important to achieve good performances and thereby increase ICT skills in the country. The empirical results indicate that the training of instructors should include increasing their knowledge about the subject and enhancing their teaching methodology and didactics of the subject. More specifically, instructors must be trained in how to provide and support laboratory exercises and how to explain concepts in understandable and interesting ways.

The empirical results also reveal that the use of technology in the training of graduates plays a big role in their perceived academic performance in the Cisco CCNA 4 courses, particularly the practical skills examinations. This appears to be the strongest antecedent of perceived academic performance and success in the practical skills examinations. This finding means that Cisco Academies and providers of ICT training programmes must always endeavor to use the proper and up-to-date technology to train graduates on. In this study, the graduates indicate that visualization, collaboration and handling of difficult concepts are made easier through the use of online discussion tools, multimedia flash objects, video clips and the Packet Tracer simulation tool. The Packet Tracer simulation tool was rated the most useful (80% of the respondents with a mean response score of 4.20) for its use in explaining difficult concepts and also in promoting collaboration among students and instructors. The Packet Tracer was also rated the strongest determinant of practical skills due to its ability to simulate practical computer networking topologies.

The empirical results furthermore showed that the motivational impact of the course material is the main determinant of performance in the online written examination of the CCNA 4 course. This indicates to the Cisco Academy management and other ICT training institutes that it is important to pay

attention to the content of what is taught. The empirical results reveal that the greater the extent to which course material is challenging and relevant to the career development of the graduates, the more motivated they will be to study and perform well in their written examinations. The empirical results further reveal that the greater the extent to which the course material links on to the pre-existing knowledge of the graduates before they enrolled for the Cisco programme, the higher will their motivation be to study and perform well in their written examinations.

The results are important findings for ICT training in South African Cisco Academies. ICT training providers on the African continent and in the rest of the world can certainly learn from these findings.

**TABLE 2**  
**The multiple regression analysis results**

Dependent variable: <b>Perceived academic performance</b> $R^2 = 0.41602408$ $F(6,159) = 18.1879, p < 0.0000$						
	<b>b*</b>	<b>Std.Err. - of b*</b>	<b>B</b>	<b>Std.Err. - of b</b>	<b>t(159)</b>	<b>p-value</b>
Intercept			0.9414	0.2975	3.1646	0.0018
Infrastructure	-0.0067	0.0813	-0.0063	0.0763	-0.0835	0.9335
Instructor quality	0.2354	0.0811	0.2252	0.0776	2.9013	<b>0.0042**</b>
Multi-cultural needs	-0.0378	0.0846	-0.0353	0.0790	-0.4470	0.6554
Student motivation	0.1473	0.0812	0.1482	0.0817	1.8130	0.0717
Accessibility	0.0816	0.0782	0.0681	0.0652	1.0435	0.2982
Technology	0.3621	0.0814	0.3841	0.0864	4.4443	<b>0.0000****</b>
Dependent variable: <b>CCNA 4 online written examination</b> $R^2 = 0.09651019$ $F(6,159) = 2.8307, p < 0.0000$						
Intercept			1.7973	0.6540	2.7479	0.0066
Infrastructure	-0.1233	0.1028	-0.2013	0.1678	-1.1995	0.2321
Instructor quality	0.0534	0.1027	0.0888	0.1706	0.5206	0.6033
Multi-cultural needs	-0.1386	0.1069	-0.2254	0.1738	-1.2969	0.1965
Student motivation	0.2051	0.1030	0.3583	0.1800	1.9906	<b>0.0482*</b>
Accessibility	0.0129	0.0992	0.0189	0.1453	0.1305	0.8963
Technology	0.1687	0.1032	0.3107	0.1901	1.6341	0.1042
Dependent variable: <b>CCNA 4 practical skills examination</b> $R^2 = 0.10598197$ $F(6,159) = 3.1217, p < 0.0000$						
Intercept			1.4204	0.6409	2.2160	0.0281
Infrastructure	-0.1601	0.1008	-0.2612	0.1645	-1.5879	0.1143
Instructor quality	0.1920	0.1007	0.3187	0.1672	1.9058	0.0584
Multi-cultural needs	-0.0782	0.1048	-0.1271	0.1703	-0.7463	0.4565
Student motivation	-0.0090	0.1010	-0.0158	0.1764	-0.0897	0.9285
Accessibility	-0.1249	0.0973	-0.1827	0.1424	-1.2828	0.2014
Technology	0.3335	0.1012	0.6138	0.1863	3.2938	<b>0.0012**</b>

Note: \* indicates significance at  $p < 0.05$   
 \*\* indicates significance at  $p < 0.01$   
 \*\*\* indicates significance at  $p < 0.001$

Despite the important findings that are emanating from this study, there were a few limitations. The study did not include extensive research in the other types of institutions such as high schools and FET colleges. The South African government has a special focus on FET colleges as part of a broad solution for fixing the ICT skills shortages in the country. These institutions might have their own peculiar challenges which can yield a wealth of information and more significant insights. There was also little participation by provinces such as Gauteng and Limpopo due to difficulties synchronising obtaining permission to conduct the study from institutions in these provinces with the ethics clearance process of the university under whose auspices the study was conducted. A wider participation of South African institutions and a bigger sample could have yielded results of greater statistical significance.

In conclusion, the shortage of ICT skills in South Africa and the rest of Africa is well documented. A flurry of interventions has been made without significantly improving the situation. The Cisco Academy programme is a highly rated one in complementing the efforts that the South Africa government has been making. The lessons learnt from this empirical study could go a long way in improving ICT training in South Africa, Africa and the rest of the world.

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#### END NOTE

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## **POLITICAL AND ECONOMIC COMPLEXITIES IN AFRICAN MINING PUBLIC PRIVATE JOINT VENTURES: A CASE STUDY**

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### **ABSTRACT**

This paper investigates political and economic issues in public private joint ventures (PPJVs) often employed by developing country governments to exploit natural resources. However, this choice of exploitation of natural resources raises many questions about the effective governance of this type of business arrangement which is multifaceted and complex especially because of its public/private shareholding structure. In a nutshell, the aim is to stimulate debate about the effectiveness of the PPJV in the African extractive industries given that a great number of concerns including political interference, corruption and accountability issues are apparent. The fundamental question is thus whether the outcome indeed justifies the means and whether suitable alternatives and/ or tangible improvements are indeed achievable in the institutional environment of PPJVs.

**Keywords:** Public private joint ventures, mining, natural resources

### **INTRODUCTION**

This paper investigates political and economic issues and complexities prevalent in public private joint ventures (PPJVs) which are often the preferred method of developing country governments to exploit natural resources. However, this particular choice of exploitation of natural resources raises many questions about the effective governance of this type of business arrangement which is multifaceted and complex. In a nutshell, the aim is to stimulate debate about the effectiveness of the PPJV in the African extractive industries given that a great number of concerns including corruption and accountability issues are apparent. The fundamental question is thus whether the outcome indeed justifies the means and whether suitable alternatives and/ or tangible improvements are indeed achievable in the institutional environment of PPJVs. It was found that not many academic studies have been conducted to investigate this specific issue, especially from an external point of view which is the angle that this paper is taking.

In the context of Africa's extractive industries, PPJVs are considered a type of public private partnership (Kotin and Grgas, 2008). These are companies that are established when particular high investments are required in sectors of high importance for the development of the local economy (Beamish 1985). Consequently, governments in developing countries often opt for the PPJV partnership in the extractive industries as considerable investment and highly specialised skills and know-how are required. As natural resources are predominantly strategically and geopolitically significant, State involvement tends to be high (UNCTAD 2007). For this reason, theoretically it can be argued that the state ownership and involvement ensure strong governance in companies that result from such partnerships. The role of the government would be to represent the interest of its citizens when managing the PPJV (Commission of the European Communities 2004). The role of the government

would be to represent the interest of its citizens when managing the PPJV (Commission of the European Communities, 2004). This implies that a company co-owned by a state and a private corporation would exhibit a strong sense of good corporate governance. It would emphasize its contribution to social welfare, including the protection of the natural environment and exhibit a strong sense of accountability and transparency towards the country's citizens in order to legitimise its privileged position.

Ideally successful PPJV's take cognizance of the collective roles of both the public and the private entities in the achievement of projects and other tasks that form the object of the partnership, including appropriate allocation and management of risks inherent to the contractual arrangements (Zou 2005, Howard 2006). In a nutshell, the major crux of the partnership between public and private sector organizations is to seek and establish mutual benefit (Jacobson & Choi 2008).

However, in reality, more often than not, PPJVs are often considered to be in contradiction with this perceived constructive role which ideally includes ensuring a just distribution of the profits, an efficient exploitation and a strong bargaining position on the international market (Bult-Spiering & Dewulf, 2006). In fact researchers have found a strong negative correlation between resource richness and economic development which seems to be moderated by the quality of the countries' governance institutions (Boschini et al. 2007, Shaxson 2007, Heller 2006) and by the inability of governments to implement and monitor their own policies. The apparent paradox is called the resource curse (Auty 1994, Karl 1999, Sachs & Warner 2001) and Dutch disease (Davis, 2005). Thus wealth created through the extractive industry is not truly employed for the benefit of the population but flows into the pockets of a small elite.

The PPJV is thus a complex arrangement even though it does not seem as multi-layered at a first glance. Interests and stakes, sometimes conflicting, of both shareholders are at play while relationships are clearly often based on political and economic power to varying degrees depending on situations and issues at stake. As a result, the interdependence of the two shareholders and the governance of the PPJV are often questioned and debated by citizens and other concerned parties. This paper aims to shed some light on the types of issues experienced by external stakeholders and how these are interlinked and affect each other. This is done through an investigative study of a PPJV, Namdeb, owned by the Government of Namibia and De Beers, international diamond mining giant and retailer.

This paper is divided into three parts – Firstly an overview of Namdeb and its economic importance in Namibia is given. Secondly, the methodology is explained. Thirdly, the results and implications are discussed.

### **PPJV NAMDEB AND ITS IMPACT ON THE NAMIBIAN ECONOMY**

Mining in Namibia, a country with only 2,2 million inhabitants, plays a crucial role in the overall economic and social development of the country. In 2009, for example, the mining industry was the fourth largest contributor to the nominal gross domestic product (GDP) (Namibia Trade Directory, 2011). Regarding the diamond mining industry specifically, Namibia is the world's sixth largest producer (Weidlich, 2008).

Namdeb, a diamond mining company, was established in 1994, four years after the independence of Namibia from South Africa. As stated before, the company is owned by two shareholders – De Beers and the Government of Namibia which each hold 50 % of the total shares. It has a workforce of approximately 1 600 making it the second largest employer in the country after the Government (De Beers, 2011). The PPJV makes a major contribution to Namibia's economy and the government's budget by contributing a larger share of its profit than other businesses do. Furthermore, with its focus to sustain mining operations to 2050 and beyond, Namdeb promises to continue to remain a significant contributor to the national economy (De Beers, 2011). From 2007-2011 alone, Namdeb has paid almost N\$4 billion in remuneration to employees, who then paid more than N\$ 600

million in income tax (De Beers, 2011). Diamond mining companies are taxed with 55 % corporate profit tax opposed to 37.5 % for other minerals and 35 % for any other business. For rough diamonds that are exported 10 % royalty is imposed (IMF, 2008).

Following is a short description of the methodology employed to uncover some of the main issues prevalent in the PPJV which specifically affect the institutional validity of this type of company.

### **OVERVIEW OF THE METHODOLOGY**

In this qualitative study an emergent, exploratory approach was employed. Both primary and secondary sources of data obtained from four main sources were combined in this study: 1. desk research including academic publications, legal and official documents; 2. newspaper articles from both the international but mostly the local media; and 3. a total of 42 in-depth interviews.

Interviewing was the best data collecting method in the context of this study as the direct input of the external stakeholders is important to allow for informed analysis about the types of issues playing an important role in companies (Dowling & Pfeffer, 1975; Wood, 1991; Aldrich & Fiol, 1994; Clarkson, 1995; Hillman & Keim, 2001). In the scope of this research only the input of external stakeholders are taken into consideration.

A sampling approach designated for stakeholder network analysis was employed to identify and constitute the final data sample of interviews with 42 prominent individuals mostly holding strong political, economic and social leadership positions. This method is a stakeholder mapping approach which includes snow-balling (Boutillier, 2009; Adamic & Adar, 2005). A total of 41 stakeholders representing nine stakeholder groups were identified. The nine stakeholder groups including the mining community, civil society, the government, research institutions, the media and so forth. A 42<sup>nd</sup> interview was also conducted with the CEO of Namdeb, the focal organisation. Content analysis was employed and 36 political and economic issues were identified as is shown in Table 1 below. The number of times issues were brought up is indicated at the end of each issue.

Following is a discussion of the findings and the related implications.

### **RESULTS AND IMPLICATIONS**

Thirty-six (36) political and economic issues were identified – 20 issues are political and 16 economic. Political issues count for 68% of total identified issues while economic issues account for 32%. Furthermore, 29 issues were negative and 7 positive. It is clear that the difference between negative and positive issues is great as the former counts for 90% and the latter a mere 10%. Positive issues refer to the constructive actions and attributes, while the negative issues point to those actions and perceptions which detrimentally affect Namdeb.

As negative issues account for 81% and positive issues for only 19%, it is understood that the overall critical tone of the interviews may be a reaction to Namdeb operations and the implications of these being the subject of the interviews. This is related to Sutton's (1993) explanation that puts forward the idea that negative issues are closely connected to discontent and complex negative issues. Thus, asking about an organisation's operations and issues related to it, is an invitation to evaluate the reasons for why it may be seen as a complex and complicated organisation. Therefore, it is not sufficient to only count the incidents, but it is important to also analyse how people argued in favour and against the political and economic issues at Namdeb.

As the data is quite rich, the outcome of the investigation is discussed according to five broad themes, three political and two economic. These are shown in the table 2 below.

**TABLE 1**  
**Political and Economic Issues identified**

<b>ISSUES (Total 36)</b> <b>Total Instances – 1046</b>	<b>NEGATIVE ISSUES (Total 29)</b> Total Instances – 942 (90%)	<b>POSITIVE ISSUES (7)</b> Total Instances – 104 (10%)
<b>POLITICAL – 20 Issues</b> Instances - Total 715 (68% of all issues)  677 negative – 95% of total political issues  21 positive – 5% of total political issues	<b>Negative Political Issues (17)</b> Governance issues related to the structure of the public-private joint venture (219) Transparency issues (85) Corruption (75) Accountability issues (44) Not all stakeholders are included (40) Ownership of diamonds (37) Political interference (34) CSR seen as public relations (34) Local communities do not benefit (29) Distrust from society (24) Reputation and power of multinational enterprises (18) Laws in place but not necessarily implemented and applied (17) Internal staff issues (11) Reputation of parastatals (8) Reactive instead of proactive (7) Most workers are not from the region (9) View that governments should not be involved in business (3)	<b>Positive Political Issues (3)</b> Good corporate governance (12) Sharing the ‘know-how’ with the government (7) Improved public relations (2)
<b>ECONOMIC – 16 Issues</b> Instances - Total 331 – (32% of all issues)  248 negative -75% of total economic issues  83 positive – 25% of total economic issues	<b>Negative Economic Issues (12)</b> High profits and no reinvestment (111) Resource curse (33) Paying taxes not enough (31) Reputation of the diamond industry (25) Finiteness of diamonds (13) Govt’s investment regime too lenient (12) Cost of mining (10) Not having a specific development fund (4) Not planning well enough to cope with the fluctuations on the international market (4) Diamond mining skewing development (3) Unfair competition (1) Disregards unprofitable operations even if people benefit (1)	<b>Positive Economic Issues (4)</b> Driving economic development (68) Investing in sustainable projects (10) De Beers’ technical & marketing know-how (4) Training employees (1)

**TABLE 2**  
**Five Political and Economic Themes**

<b>Political Themes</b>	<b>Economic Themes</b>
1. De Beers’ exploitative history of Namibia under apartheid 2. Views about the current business environment in Namibia 3. Negative political issues directly related to Namdeb	4. Contrast of very high profits & lack of reinvestment 5. general challenging obstacles to economic development

The political issues are firstly addressed.

### Political Issues

Political issues were found to be dominant at Namdeb. A total of 20 issues were counted - 17 negative and three positive. The total instances counted are 715 adding up to a noteworthy 68% of overall issues identified. Political issues here are described as issues related to power relations,

perceptions about the government and sometimes business and general governmental, business and citizen relations. Issues may also include facts and points of view related to company history and management choices made over the course of the company's existence. Negative political issues which are 95% of all political issues are discussed first.

**Negative political issues.** Negative political issues account for the biggest overall category of identified issues. A total of 17 issues were identified with 698 instances counted amounting to 68% of all issues. This outcome reflects the highly political nature of the PPJV. The most important political issue 'Governance issues related to the structure of the public-private joint venture' (219) falls in this category. The negative issue mentioned the least in this category is the 'view that governments should not be involved in business' (3). The issues are discussed according to three themes – "De Beers' exploitative history of Namibia and South Africa under Apartheid", "Views about the current business environment in Namibia" and "Negative political issues directly related to Namdeb". Throughout this explanation, it is of fundamental importance to keep in mind that all these issues are in fact intrinsically intertwined and therefore has a collective bearing on how Namdeb is perceived in its institutional environment.

#### *Theme 1: De Beers' exploitative history of Namibia and South Africa under Apartheid*

Indeed several issues identified are related to De Beer's exploitative history under Apartheid but some of these were deemed a more appropriate fit for the following discussion on 'economic issues'. In view of this, only one negative political identified issue is taken into consideration here. This is 'distrust from society' (24) which will be discussed in combination with other contextual issues such as some of the intricate and controversial issues related to the diamond mining industry which has been dominated by De Beers for decades.

Generally, with regards to a company such as De Beers, 'distrust from society' (24) plays an important role. For example, De Beers is more often than not, considered in negative terms as many Namibians exhibit resentment and bitterness towards the company. In order to better understand this deep antagonism, it is important to reflect more on Namibia's political history under the South African Apartheid regime before 1990. Namibia, formerly known as South West Africa (SWA), was under the mandate of South Africa before independence in 1990, resulting in the application of South Africa's Apartheid laws which were discriminatory and racist to the Namibian population during the Apartheid era (1948-1993 in South Africa and 1948-1990 in Namibia). Namibia eventually gained independence from a very reluctant South Africa in 1990.

In the aftermath of Apartheid, dislike and distrust in companies such as De Beers is still very much a part of the social and political landscape of Namibia and South Africa. In the context of De Beers' operations in Namibia, many people do not accept the company and refer to its long history of operating in Namibia and South Africa in a very negative way. The general point of view is that De Beers managed to become a powerful company only because it could exploit Africans and their natural resources. However, companies in general often have a bad reputation especially in the extractive industries. Some of the issues responsible for this negative connotation attached to business are further discussed under the following theme which explains some of Namibia's business environment in more detail.

#### *Theme 2: Views about the current business environment in Namibia*

The current Namibian business environment is more and more plagued by serious corruption which involves a great number of political elites (Yikona, Geller, Hansen & Kadiri, 2011; Melber, 2006). It also suffers from a lack of work skills, work ethic, crime, access to finance and public sector bureaucracy (!Gawaxab, 2010). In the specific case of the powerful De Beers operating in Namibia, many people express disdain and an indignant opinion that injustice plays an important role in the company's local

operations. This is in line with the view that sometimes big multinationals operating in developing countries employ irresponsible and unethical business practices (Hurst, 2004; Elfstrom, 1991). More often than not, these negative issues perpetuate general distrust of big multinational business both internationally and locally. In this study these issues are further elaborated upon in the next section and are contained in the ‘reputation and power of multinationals’ (18) category.

The other two issues under this theme are ‘CSR is seen as public relations’ (34), and ‘view that the Government should not engage in business’ (3). In the case of ‘CSR is seen as public relations’ (34), companies in Namibia, including De Beers are accused of pretending to be doing good while, in actual fact, they only engage in CSR to improve their image, improve their brand reputation and to stay in the good books of the Government. For example, the following respondent explained his opinion of CSR as it is practiced in the Namibian business context:

*“I have to say that I have a more cynical understanding of it (CSR) which is that it is for a lot of companies simply about their branding and they are conscious of their reputation and how they are perceived in the public arena and they want to be seen as doing something. So it is also about their public image and branding and they do certain things or limited amounts of things to promote their brand rather than genuinely making interventions that can actually assist communities” (Academics and Research Institutions Representative, Respondent Nr.15).*

The last issue which is the ‘view that the Government should not engage in business’(3) is generally shared amongst Namibians as Government is often accused of incompetence and some government officials and people placed in high positions of corruption and other damaging actions. The general opinion is that the Government should rather concentrate on its role as facilitator and enabler of business. This negativity which is also evident at Namdeb itself is further discussed below.

### *Theme 3: Negative political issues directly related to Namdeb*

In this section, the most important issue identified in this research, ‘issues related to the PPJV structure’ (219), is embarked upon in three parts. Firstly, an explanation of why the Government decided to engage in a PPJV with De Beers is given. Secondly, the relationship between the two shareholders are analysed while taking into consideration issues such as ‘corruption’ (75). In a third instance, the debate about ‘the ownership of diamonds’ (37) is highlighted while looking at why, for example, ‘not all stakeholders are included’ (40).

Today Namibians benefit from diamond mining mainly through Namdeb’s contribution of nearly 10% to state coffers in GDP payments (De Beers, 2011). However this was not always the case, as for example, at independence, in 1990, De Beers was the sole beneficiary of Namibian diamonds. To correct this, the newly elected Government of Namibia obviously had serious matters to take into consideration when it came to the negotiating table with De Beers around 1990. In a first instance and an understandable move, they wanted to optimally increase national income from diamond mining and other natural resources in order to develop the country’s economy and people. However, the new government did not have most of the mining and even marketing expertise needed to play a role on the international market. In a second instance, they promised freedom, rights and equality to all Namibians in the brand new Namibian constitution. The Government therefore had to guarantee and plan for equal business opportunities for all Namibians while at the same time opening the country’s economy for foreign direct investment. This was not an easy task for a new government which consisted mainly of liberation fighters who were not trusted by international investors.

In order to gain from the country’s diamonds in the best possible way, the Government decided to enter into a partnership with De Beers which was the most important international diamond mining company for centuries. A government minister interviewed stressed the need for the Government to

assure the expertise to be able to efficiently and effectively mine the country's diamonds, as well as to have a real presence on the international market. He is of the opinion that De Beers definitely fulfilled both these requirements:

*"... the name De Beers commands up to 80% worldwide ... they deal in diamonds. It's a fact, it's not only in Namibia, and therefore, Namibia also benefits from that type of exposure in terms of the marketing but also in terms of the skills, how to deal in diamonds. As Namibia, we have benefited tremendously from them. So in terms of their role and their responsibilities, yes, we may not be happy at the level that they are playing their uh, uh corporate responsibility, but indeed they do play their part"* (Government Minister, Respondent Nr. 29).

The De Beers representative interviewed confirmed the above statements made by the Government representative:

*"It [ ... ] was set up like this so that government can have a material stake and interest in what is the country's most important company from a revenue generation point of view. It enabled the new independent Namibian government an opportunity to be involved in the affairs of this company ... Eh, and for government not just to be the beneficiary of the royalties and the taxes etc. but also to be involved to the point where they understand how the business is working, how it's doing, etc"* (De Beers Representative, Respondent Nr.14).

He further added that the relationship between the two shareholders is good and that the PPJV structure is an excellent model to be replicated, especially in the African context where colonialism and Apartheid prevented people from playing a role in their own lives and that of their countries:

*"I think it is a ... well a relationship. I think we have a good relationship, an excellent relationship but I was just going to expand and say I think it's a model that I think can replicated in many things ... this concept of public/private sector partnership particularly in the African context where we come from a past and a history that people didn't decide their own destinations, you know. In other words, those colonial or apartheid ... I think this model that we have, I think it's the best model"* (De Beers Representative, Respondent Nr.14 ).

However, when talking about the company's governance structure and general issues pertaining to the relationship between De Beers and the Government of Namibia, many different and often conflicting accounts are given. For example, as one respondent from the private sector explained:

*"It is an interesting relationship. [ ... ] I liken it to a sort of seven year itch in a marriage, a marriage that was not quite working. [ ... ] So you know it's like government is the male partner looking around and eyeing out the other possibilities, [...] and thinking, oh, she looks nice, maybe I should switch partners"* (Industry and Business Related Organisations Representative, Respondent Nr. 10).

The person making this statement is a well-known Namibian economist who has been an advisor to the Government on various economic policies, including the diamond mining industry. He has always been very outspoken about both political and economic issues in the country. In the above statements he alludes to the fact that maybe the Government did not really bargain a fair deal with De Beers at independence in 1990 and that it now somehow felt trapped in this PPJV relationship. This

observation is further supported by the possibility that the Government did not have a choice but to accept De Beers as partner as it was the only company, and thus only option to consider at the time.

Furthermore, specific issues regarding the equality or rather inequality of the two shareholders are prominent and include concerns that Namdeb is not managing its shareholding properly because of incompetence and lack of skills of Government representatives on the board and the fact that De Beers is too powerful a partner for the Government. As the same economist quoted above mentioned:

*“I think Government could do a better job managing its shareholding. You’ve got to remember that government puts in place people who know nothing about the diamond industry and they have to go up against De Beers people who spend their whole lives in the diamond industry”* (Industry and Business Related Organisations Representative, Respondent Nr. 10).

The speaker suggests that the fact that De Beers is more knowledgeable than the Government about the diamond mining industry, places the Government in a vulnerable position which leads to less powerful negotiations with De Beers. With regards to this, another respondent suggests that negotiations were flawed right from the start resulting in the Government being ‘ripped off’ while De Beers is continuously making sure that they are in the better position:

*“It is a non-renewable resource that they have been mining ... it is kind of a special relationship. There are special extenuating circumstances here that could have been addressed better if there was better cooperation between De Beers and the Government right from the onset. However, it was by its nature always been an adversarial relationship because the Government knew they were being ripped off and De Beers was watching its wickets, you know and was fending off whatever attack they could see coming at them because they are a formidable organisation to deal with and I think they got the better of this government”* (Media Representative, Respondent nr. 21)

A representative from Namibia’s most important human rights organisation also added to this viewpoint by stressing the ‘power’ of De Beers and the weak position in which the Government is perceived to be:

*“De Beers is a very powerful company ... actually more powerful than its other partner, the Government of Namibia. If you ask me now between De Beers ... because it is now called Namdeb ... yes, between Nam and Deb ... if you ask, who is more powerful ... is that ‘Nam’ or ‘Deb’? ... then ‘Deb’ will be the answer. [ ... ] All I have to say is the relationship between Namibia and De Beers is that of the master and the slave ... the slave being Namibia and the master being De Beers”* (Civil Society and Civil Rights Organisations, Respondent Nr. 31).

And finally, yet another respondent who closely works with the Government on legal matters added:

*“From what I have seen ... for example with the issue of the Diamonds Act, the passing of the Diamonds Act, there was some real pressure on government ... and there were also some exemptions that were given to De Beers. I do not think that one can call it good but I feel that some pressure was exerted on the government to ... to give in to the demands of De Beers. So I do not think that it is an equal partnership to put it that way”* (Civil Society and Civil Rights Organisations, Respondent Nr. 7).

The above statement also refers to another very important aspect – that of the independence of the judiciary and the opinion of some Namibians that De Beers is so powerful that it directly influences the laws of the country. This is directly linked to the different ‘hats’ which the Government is wearing – for example, on the one hand, as a democratically elected government, it has the responsibility to take care of Namibia and Namibians by formulating, implementing and regulating laws and on the other hand it has a shareholder role in Namdeb which is linked to the maximisation of profits. As the De Beers representative him-self remarked:

*“[ ... ] the problem is not so much for the private sector partner. The problem comes for Government because Government sometimes has to wear two hats: one as the investor, business person and one as the regulator and sometimes those two things come in conflict and I think we’ve been going through a process of very interesting discussions with government over the last two years and that has come up quite strongly that there is often this conflict between the regulator and the business partner. But it is not insurmountable and I think if government just manages one at a time and make those separations clearly, it is do-able” (De Beers Representative, Respondent Nr. 14).*

Furthermore, the economic power of De Beers and the dependence of governments where it operates are also important challenges. These points are pointed out in the following statement:

*“... because it is an international company and it has interests and resources that exceeds many developing economies, especially those economies where it operates and literally controls a resource that so many governments depend on for their income. And in that sense it has a lot of control over government. If you look at it in Namibia how much control they have over what should happen and what should not [ ... ]. They have absolute control over one of the world's most valuable resources. So in that sense they are one of the most powerful organisations that I am aware of” (Academics and Research Institutions Representative, Respondent Nr. 12).*

This is considered a serious issue as normally governments are attributed more power than companies. Governments lose credibility in the eyes of citizens if it is suspected that they are overpowered by any other entity, especially a multinational company. In the case of Namdeb, some stakeholders are of the opinion that the Government is being overpowered by De Beers and that it does not do enough to protect the interests of the Namibian people. For example, the next respondent refers to the Government as ‘a silent partner’ who accepts all of De Beers’ decisions without questioning them:

*“Government seems to be, from what I picked up from the unions, the kind of silent partner in the partnership so the unions get the impression that the Government is happy to get the taxes and some of the shareholders’ earnings and therefore basically lets De Beers make all operational decisions. I think it is a questionable arrangement because it means that the social benefits of diamonds mining in Namibia are going to be limited. De Beers, obviously, like any private company have their own agenda and interests and for a government to get more out of it, it means that they should play a more decisive role but for that they need more capacity ...” (Academics and Research Institutions, Respondent Nr. 11).*

This is clearly a political issue which puts into dispute the Government’s reputation as both democratically elected leader of the country and equal shareholder of Namdeb which mines the country’s diamonds, a strategic resource as explained above. This negative opinion of the Government and ultimately De Beers indicates the weak faith some stakeholders have in the Government as Namdeb

is described as a ‘questionable arrangement’ which does not guarantee that Namibians are sharing the wealth generated through the diamond mining industry. Indeed some are of the opinion that the Government does not do enough to ensure that Namibians benefit from diamonds in the most fair and just way. This point raises questions about the Government’s ability to negotiate the best deals for the Namibian people.

Thus problems related to the relationship between De Beers and Namdeb as well as issues of conflict of interest exist. In this difficult situation, it is not easy to ‘switch partners’ if the Government wished to do so and Namibians can only speculate about the contract between the two partners as it is not a public document. Consequently, as seen from the above statements, a serious concern about the equality of the relationship between the two shareholders, De Beers and the Government of Namibia, arises, especially from two different camps. Firstly, some academics and industry and NGO representatives are of the opinion that De Beers is more powerful than the Government while, secondly, others such as the Government representatives and some industry and business representatives dispute this.

One explanation for this confusion or different points of view regarding the Government and De Beers’ relationship is that not much information about the governance structure and decision-making in general at Namdeb is available to the public, as was for example mentioned before regarding the agreement between De Beers and the Government. This leads to ‘transparency issues’ (85), ‘corruption’ (75) and ‘accountability issues’ (44) which are often interrelated. One stakeholder said that:

*“If Government is [ ... ] just providing the diamonds or the goods, and the rest of the company can disclose what they want to disclose, who is knowing what is going on? And the public in the end, any information that they get can be so totally distorted and out of the picture that they just get the positive things and not the negative things. So it makes a mockery of the whole system”* (Academics and Research Organisations Representative, Respondent Nr. 5).

This statement echoes the confusion of many Namibians. In the next section a look is taken at positive political issues.

**Positive political issues.** Only three positive political issues were identified. These are ‘good corporate governance’ (12), ‘sharing the know-how with the Government’ (7) and ‘improved public relations’ (2). These issues account for 3 % of total political issues with a total of 21 instances counted.

In the case of ‘good corporate governance’ (12), a few people said that Namdeb had good structures in place to ensure that the company was managed properly. The De Beers representative pointed out a number of technical measures:

*“But there are lots of structures in place to ensure corporate governance. First of all there’s the board and the board has a sub-committee of the audit committee which is really important in setting the governance structures of the company. Then of course like any other company is required by law, we are audited both internally and externally and the board also has a management committee which comprises both GRN (government) and De Beers representatives which sets the tone for the board, in other words they review things before they get to the board.”* (De Beers Representative, Respondent Nr. 14)

However, the fact that measures are in place does not always guarantee best practice and good corporate governance as can be seen from the afore-mentioned examples. Nevertheless, it is an important positive political issue which deserves mentioning. In fact it can be argued that the stakeholders mentioning ‘good corporate governance’ (12) automatically link it to Namdeb’s economic success. Following is a discussion of some of the economic issues identified by the stakeholders.

## Economic Issues

Economic issues are understandably closely linked to the political issues discussed above as these are related to financial stakes, investment matters and the positions of the powerful and the powerless. This category has 16 issues and 331 instances counted amounting to 32% of overall issues identified. Twelve negative and four positive issues were counted with 248 (78% of the total of economic issues) and 83 (25% of total economic issues) instances respectively. Issues identified range from being mentioned 111 times ('high profits and no reinvestment') to only once ('unfair competition', 'disregarding unprofitable operations even if people benefit and 'training employees'). Following is a discussion of negative economic issues.

**Negative economic issues.** 12 Negative economic issues which account for 29 % of overall issues were identified. It was initially expected that this category would be more important than the political category. As explained before, political issues are overbearing in the PPJV because of the interests, stakes and conflicting role of the government. Here some negative economic issues are discussed according to two themes – "Contrast of very high profits & Lack of reinvestment" and "Some general challenging obstacles to economic development".

### *Theme 4: Contrast of very high profits & Lack of reinvestment*

This theme contains not only most of the negative economic issues but also the most important economic issue which is 'high profits and no reinvestment' (111). This issue was mentioned briefly in the previous section as it is closely tied to political issues which include De Beers' history of economically benefitting from Apartheid policies and laws. Many of the respondents raised the issue of 'high profits and no reinvestment' (111) as they see De Beers as making a lot of money from Namibian diamonds but that the company does 'not have a specific development fund' (4) and does 'not plan well enough to cope with the fluctuations on the international market' (4). Indeed many stakeholders have strong viewpoints about what they perceive as De Beers' 'responsibility' to invest some of its profits in the country's economic and social development. As said before, De Beers is said to have built its current economic empire during Apartheid which is considered a by-product of laissez-faire capitalism (Lowenberg & Kaempfer, 1998). For example, De Beers is said to have sold 85 to 90 % of diamonds mined world-wide (Stein, 2001) while receiving mining rights at low prices from the Apartheid government (Roberts, 1996).

At the same time the company was able to intensively exploit black labour under Apartheid laws (Roberts, 1996). In all industries, including the mining industry, there were no controls in place protecting the black Africans and it was 'legal' to exploit them under the discriminatory Apartheid laws. Companies were therefore not held accountable and managed to get away with acts which are considered gross human rights abuses today. For example, more than one thousand mineworkers died in 1909 alone from accidents arriving from unsafe working conditions (The African Business Journal, 2012) indicating that several thousands died over decades.

Another issue is that 'paying taxes are not enough' (31). In actual fact, some stakeholders expect that De Beers need to do much more than pay their taxes because the profits the company is suspected of taking out of the country are huge. This is explained by the same respondent quoted above:

*"I do not think that they should look at taxes as a contribution. Part of the taxes they are paying, especially those in the extractive industries, they must pay just for the right to have access to those natural resources. Just to be able to extract the uranium from the Namibian soil, the mines must pay taxes apart from the license fees... that is peanuts compared to their profits [ ... ] how much profit they are making and how much they are putting back into society"* (Academic and Research Institutions Representative, Respondent Nr. 12).

However, when De Beers was interviewed, they said the taxes they are paying are sufficiently contributing to the development of the country. The representative speaking on behalf of De Beers was quite adamant that the Government should do a better job of redistributing taxes where it is needed and not expect business to do its job:

*“I think Government must have effective mechanisms in place to do the appropriate taxation, do the appropriate levies on royalties [ ... ]. I think it must encourage business to grow, to become stronger and bigger and through that growth government will enjoy even more fruits through taxation but I think when government is expecting the private sector to do its job ... it’s not right”* (De Beers Representative, Respondent nr. 14).

Another respondent referred to the fact that the more turmoil and governance inconsistencies there are in a country, specifically in the political and economic arenas, the better it is for some MNCs as they can then ‘do whatever they want to’. He was very agitated when he said that:

*We have all these mining companies and if Namibia falls apart socially and politically, they will find elsewhere to operate if they cannot find a way to do business the way they want. Because sometimes for them it is even better if you have unrest and turmoil because they can do whatever they want without anybody asking any questions* (Academic and Research Institutions Representative, Respondent Nr. 12).

#### *Theme 5: Some general challenging obstacles to economic development*

Three issues fall under this theme – ‘Government investment regime too lenient’ (12); ‘diamond mining skewing development’ (3) and ‘unfair competition’ (1). The first issue which is ‘Government investment regime too lenient’ actually compliments the ‘paying taxes not enough’ (31) issue was discussed before because De Beers is seen to be unfairly benefitting from the moderate investment climate in the country. Some Namibians, mostly the well-educated ones, are of the opinion that the Namibian Government makes Foreign Direct Investment (FDI) measures too lenient for multinationals and other potential international investors. The belief is that because of this, the Namibians, both poor and rich, across the board, benefit much less from the country’s natural resources. The perception is that the Government is overly dependent on FDI and is willing to ‘sacrifice’ the benefits of the ordinary Namibian.

Following is a discussion of the positive economic issues.

**Positive economic issues.** Four positive economic issues were identified. These are ‘driving economic development’ (68), ‘investing in sustainable projects’ (10), ‘De Beers’ technical & marketing know-how’ (4) and ‘training employees’ (1). In the case of ‘driving economic development’, the following respondent stated that:

*“ ... (De Beers) is a very powerful company, I would say. They are still the giant of the diamond world. They are massive in southern Africa, they are very big in Botswana and in Namibia they contribute enormously to the development of the country and tax revenues and GDP and skills development. They are very, very powerful”* (Industry and Business Related Organisations Representative, Respondent Nr. 10).

As is stated above, one of the most important effects of the Namdeb’s operations is the fact that the company contributes a great deal to the country’s GDP and consequently to Namibia’s development goals in Vision 2030 as can be seen in the following statement:

*“Obviously, Namdeb, given their economic power, [ ... ] De Beers makes a bigger contribution than most of the other businesses in terms of realizing some of these development goals or Vision 2030” (Academics and Research Institutions Representative, Respondent Nr. 16).*

This is an important economic issue because, as mentioned before, Namibia has unemployment of over 50%. A government minister interviewed also stated that he believes that De Beers is willing to cooperate with the Namibian Government and “to share in the wealth of the country”. However, in the same statement he says that he is not sure whether Namibians are indeed receiving their full share:

*“Uh, I must say, taking from where they are coming from and where they are now, there has been a change in terms of their responsibility towards the country. So previously they were responsible for their own profit, etc. There were no laws that obliged them to do A, B, C, but now, uh, De Beers, uh, is in partnership with the Namibian Government. [ ... ] Uhm, whether we are getting our full share in terms of that, that is another issue ...” (Government of Namibia Representative, Respondent Nr. 29).*

Another point of view is that De Beers realises that it has a moral obligation and responsibility towards the people and the environment it exploited for decades in Namibia and South Africa. In view of this, it is argued that in order to address some of these issues mentioned above, De Beers has implemented what it calls the ‘Beneficiation for Africa’ strategy. Beneficiation is the term given to the initiative to increase the local benefit of diamonds to the local economies by creating a downstream industry, for example cutting and polishing factories. De Beers’ managing director, Gareth Penny noted, that it is not altruism which is leading the company towards beneficiation, but a sense of what is right, what makes good business sense, what consumers will demand, and a determination to create the necessary conditions for the future and stability of business.

The beneficiation initiative in Namibia started in 2007 with the creation of the Namibia Diamond Trading Company (NDTC), an equal joint venture between the Government and De Beers, ensuring the supply of up to 10% of Namdeb's rough diamonds to local diamond manufacturing companies. However, this process is questioned as some people argue that De Beers’ beneficiation strategy is limited and that Namibia still does not benefit enough from downstream business. It is underlined that the laws have changed after independence in order to benefit locals but that nothing substantial has taken place thus far. A researcher from the principal labour research institute pointed out that:

*“Partly the laws and regulations have changed after independence but we have not seen a move towards value addition to natural resources. The only exception is maybe this little bit of polishing that we see now of diamonds. But compared to the value addition of diamonds generated this is minute. [ ... ]” (Civil Society and Civil Rights Organisations Representative, Respondent Nr. 11).*

As illustrated above, numerous examples of economic issues exist. As with the political category, negative issues are dominant and range from very broad issues which affect all Namibians (eg. high profits and no reinvestment, tax issues and so forth) to very specific issues only affecting a part of the population (eg. unfair completion). The most important to remember here is that Namdeb contributes largely to Namibia’s GDP and provides jobs for thousands.

## CONCLUSION

This paper raises questions about the effectiveness of the PPJV by highlighting the numerous and complex political and economic issues this type of company may face. Considering the great number

of political issues (68% of all issues) and the percentage of negative issues (90%) brought up by the external stakeholders of Namdeb, it is fair to say that the PPJV is not necessarily seen as the best way to exploit natural resources in Africa for the benefit of Africans. The political nature of the PPJV, exacerbated by the government's role as shareholder, as well as the strategic importance of natural resources, are important sources of conflict and inefficiency of the PPJV. In some cases it is evident that the proximity of the government and its various organs enable issues such as corruption and that transparency and accountability issues do not get the attention they deserve. It is also evident that many of these issues cannot be divorced from each other as influences and impacts such as the political, economic and historical backgrounds of both the country and the shareholders involved influence the PPJV.

The biggest problem is that PPJVs are criticized but no tangible alternatives are put forward. Strong points of view about the business disengagement of government in the exploitation of natural resources were pronounced by different stakeholders but no practical and real solutions were offered. Generally two camps of external stakeholders were discernible – on the one hand especially some government officials were adamant that the PPJV is a good 'tool' to ensure the trickling down of benefits to all citizens while on the other hand, NGOs, mining communities, academics and so forth argued that the PPJV generally serves the interests of the powerful ruling elite. An important limitation of this study is of course that serious generalizations cannot be made about other PPJVs as only one PPJV in a very specific context was studied. However, the results contribute to existing debates about governments and their traditional roles as enabler and facilitator of business, rather than engaging in business themselves. It also raises, again, the question of the collective ownership of natural resources and who and how benefits are shared.

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## SCIENCE AND TECHNOLOGY CAPACITY IN AFRICA: A NEW INDEX

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### ABSTRACT

In 2001, the RAND Corporation's Science and Technology Policy Institute created an Index of Science and Technology Capacity for the World Bank, which ranked 150 countries on their potential to innovate and collaborate with more scientifically advanced nations. At that time, the African nation that ranked highest on the list was Mauritius, at number 59, and of the bottom 20 countries, 14 were African. In the ensuing years, some African nations have posted their highest growth rates in several decades, and institutional change has begun to take in root in some parts of the continent. Have these changes had any effect on the scientific and technological capacity of African nations? This paper replicates the RAND Index to 2011 to answer this question, and suggests which African nations might be best poised to move forward technologically in coming decades.

**Keywords:** Science and technology capacity, development, Africa

### INTRODUCTION

What drives growth and development? In search of an answer to this question, researchers have explored macroeconomic and institutional factors in depth since the early 20<sup>th</sup> century to try to identify the keys to sustained economic growth. In recent years, both researchers and policymakers have turned increasing attention to a third factor that may play a role in development, which is the science and technology capacity of countries. Science and technology (S&T) capacity has been shown to be closely linked to variations among countries in productivity. Countries with a larger S&T capacity generally tend to be the most prosperous and most industrialized. They also tend to be more politically stable, often with functioning democratic systems; and they provide high-quality employment for their best talent, which helps to stem the brain drain and bolster the country's human capital. Clearly, S&T capacity has a role to play in the development process of the world's lagging and emerging economies, and in maintaining technological competitiveness in the most developed ones.

What constitutes S&T capacity, and how can different countries be compared? One effort to answer this question is the S&T index developed by the RAND Corporation for the World Bank in 2001, in the context of a study on collaborative research. This index ranked most countries in the world according to their S&T capacity, into **scientifically advanced** countries, **scientifically proficient** countries, **scientifically developing** countries and **scientifically lagging** countries. The 22 countries which they identified as scientifically advanced accounted at that time for 90-95% of all research and development (R&D) spending in the world, or some \$450bn per year (Wagner, Brahmakulam, Wong, & Yoda, 2001).

In the interim since this index was published, the process of globalization has intensified, a group of emerging economies have experienced unprecedentedly high Gross Domestic Product (GDP) growth rates, and the developed countries have suffered their worst economic crisis since the 1930s. Have these events changed the ranking of countries in the world by S&T capacity? Has very fast growth in some emerging economies helped them to narrow the gap with developed countries? Most importantly, are there signs among the poorest nations, particularly in Africa, of an emerging S&T

capacity that will underpin their development processes? This report attempts to answer these questions.

The outline of the paper will be as follows. First, the original S&T index developed by RAND Science and Technology for the World Bank (Wagner, et al., 2001) will be described and critiqued. Second, an updated version of their index with 2011 data will be presented in two versions: one with the same variables, and one that adjusts the original variable for country size. Finally, the new rankings, in which many emerging nations and some African countries move up, will be discussed, and a leading indicator will be proposed to help identify the nations that are poised to advance in S&T capacity in coming years. While African nations are still far behind and most remain near the bottom of the list, countries like Morocco, Algeria, Nigeria, Botswana, Mozambique, Ethiopia, Sudan and Libya had advanced in the ranking by 2011. This may give some clues as to which nations on the continent could develop most quickly and take larger economic strides in the decade to come.

### **SCIENCE AND TECHNOLOGY AND DEVELOPMENT**

Development economists for years have sought to identify the specific factors that drive sustained economic growth. Early researchers proposed that growth was a function of capital and labor inputs (the so-called Harrod-Domar model from Harrod, 1939 and Domar, 1946). The discovery of the “residual” in growth accounting in the 1950s pointed up the fact that measures of conventional inputs such as capital and labor failed to fully explain observed outputs such as GDP. Economists embraced the explanation that progress came not only from improvements in the quality and quantity of labor and capital, but also from unmeasured sources of efficiency and technical change, which in turn proceeded from formal and informal R&D spending and the unmeasured contributions of science and other spillovers (Griliches, 1994). In most recent years, research has turned to the role of institutions and governance in promoting economic development, specifically whether those institutions facilitate and encourage factor accumulation, innovation and the efficient allocation of resources (Acemoglu, Johnson, & Robinson, 2004).

Interest in the role of science and technology capability in development has intensified in recent years. Successive researchers have identified and quantified the links between S&T inputs and economic outcomes for advanced economies, beginning with the groundbreaking work of Solow (1954) for the U.S. economy, and in later work by Comin (2004), Denison (1979) and Griliches (1973), who estimated the contribution of R&D to productivity growth in the United States.

In developing countries, evidence of the link has been more elusive. One study on South Korea (Yuhn & Kwon, 2000) found that technological progress accounted for only 7% of the real output growth in the country’s manufacturing sector over 1962-1981, which was similar to findings for Japan and Singapore. One reason for the differences could be that returns to S&T are largely dependent on the country’s already existing S&T capacity, so that countries starting out along the path to higher technological capabilities may at first reap little visible fruit from their efforts.

Even though empirical evidence of the link is only partial, development economists generally accept that greater S&T capacity is one of the building blocks that puts poorer countries on the path to development; and amassing knowledge and social/organizational capital in developing countries is a way for them to fully participate in and “own” the process of transformation implied in development and eventually have a greater international voice (Stiglitz, 1998). As a reflection of this consensus, the World Summit for Sustainable Development in Johannesburg in 2002 centered on the role of science and technology in driving more successful and more sustainable development paths.

## THE RAND S&T INDEX

In this spirit, the different S&T capabilities of countries around the world have become an important indicator, both as a predictor and as a reflection of their levels of development. Yet many facets of these capabilities are unobservable. Much of the human capital involved in S&T activities exists at an individual level, and only manifests itself when the human capital interacts with the institutional environment and scientific infrastructure. And the capacities implicit in the country's S&T infrastructure are built up gradually over time, so that they cannot be entirely captured by annual data.

Various indicators have been developed to attempt to quantify S&T capacity across countries, such as the OECD's Science, Technology and Industry Scoreboard or the European Innovation Scoreboard. Many of these cover only developed countries. RAND Science and Technology, in a 2001 report for the World Bank, built a broad composite indicator that could reflect the most relevant observable features of S&T infrastructure and output for most countries in the world. This index selected seven components for which national-level data were available for most countries for 2001 or an immediately preceding year. The variables were the following:

- Gross National Product (GNP) per capita, which is a proxy for the country's general economic infrastructure;
- The number of universities and research institutions in the nation, per million people, as a representation of S&T infrastructure;
- Number of scientists and engineers per million people, to reflect the human resources that are potentially available to become engaged in S&T activities;
- The number of students studying in the United States, adjusted for those who decided not to return home when their studies were over, again to capture human resource potential for S&T;
- The proportion of GNP spent on R&D, as a representation of the financial resources that the economy is devoting to S&T activities;
- The number of academic S&T journal articles published by citizens of the nation;
- The number of patents registered by citizens of the nation with the U.S. Patent and Trademark Office (USPTO) and the European Patent Office (EPO) (see Griliches (1998) for a survey of the literature on the usefulness of patent statistics as economic indicators).

A quick glance at the list reveals that the first two were selected to give a picture of the infrastructure backdrop against which S&T activities could take place; the next three show the human and financial resources available to carry out those activities; and the last two reflect the measurable or observable S&T outputs. The most developed countries could be expected to show good results on all seven indicators. In contrast, countries that are earlier along in the process of developing an S&T capability might be expected to make a good showing on the first two (income and research institutions) and then proceed to the next three (students studying in the United States, scientists and engineers and R&D spending) before beginning to show results on the last two (patents and academic publications).

To combine these very different components into a single index, the World Bank/RAND team standardized the numbers to show national performance. The value of each national characteristic was compared to the international average, and "performance" was ranked based on the number of standard deviations of the national value away from the international mean. Hence above-average numbers produced a positive contribution to the index and below-average numbers made a negative contribution. The indicators were then weighted as follows:

- one point each for infrastructural and human resource factors –GDP per capita, number of university and research institutions and students studying in the United States—as well as for patents;
- two points for the primary output, which the RAND team considered to be S&T journal articles;
- three points for indicators of capacity to conduct S&T: R&D spending as a per cent of GNP and the number of scientists and engineers per million population.

The weighted sum of the standardized values yielded an index that ranked 150 countries in the world into four categories:

- Scientifically advanced countries (a total of 22), which evidenced scientific capacity well above the international mean;
- Scientifically proficient countries (24 countries), which had positive standing in scientific capacity compared to the rest of the world (with a final score greater than 0);
- Scientifically developing countries (24) which were below the international mean even though they had some features of S&T capacity; and
- Scientifically lagging countries (80) which either had very poor S&T indicators or insufficient data to make comparisons on these components with the rest of the world.

The original country ranking is presented in the Appendix (Table A1) and included few surprises. The leading countries were the United States, Japan, and Germany, and all countries in the top group (scientifically advanced) were developed economies except for the Russian Federation. In the second group of scientifically proficient countries were the rest of the world's developed economies plus some emerging nations such as various East European economies, China, India, Brazil, South Africa and (surprisingly) Cuba. For the third and fourth groups, the composite score was less than zero and the ranking passed through middle-income East European and Latin American states and Turkey to end with some of the world's poorest nations at the bottom: Cambodia, Myanmar, Mozambique, North Korea, Laos, Chad and Eritrea. For only the African nations that were included in this original RAND index, South Africa was at the top, followed by Mauritius, Benin, Egypt, Uganda, Togo and Tunisia. Mozambique, Chad and Eritrea were at the bottom.

Since 2001, the world has undergone many transformations. Not only have emerging nations – some of them African—shown some of the world's highest economic growth rates, but many of these same nations were left relatively unscathed by the financial crisis that began in mid-2007 and which is still dampening spending and output in some of the richest developed countries. At the same time, globalization has continued apace, stimulating S&T investments and cross-border scientific linkages while making travel, communication and the exchange of information less expensive. All of these changes have potential spillovers to the S&T capability of lagging countries.

The time seemed ripe, therefore, to broaden and update RAND's 2001 S&T Index to provide a window on the process of evolving S&T capabilities in developing countries, especially the ones in Africa that were near the bottom of the previous list. The exercise would make it possible not only to identify success stories but also to point out potential future performers where investments in higher-value-added sectors could become more attractive and/or the pace of development might be expected to quicken.

In order to do this, I first replicated the original RAND index with the latest available data in 2011, broadening it to include more countries for which data were now available. The first index presented here, therefore, takes exactly the same form as the RAND index of 2001, but with 63 new countries added for a total of 213 (compared to 150 in the original index). Many of the new countries

were either very small island nations (Vanuatu, Turks and Caicos, Virgin Islands) or were relatively new countries (Uzbekistan). However, some were African nations that were omitted from the 2001 report (e.g., Zimbabwe, Liberia, Equatorial Guinea), presumably for lack of data. Eight new African countries were added to the index. Tables 1 and 2 below present descriptive data on the variables used in the index for 2011, and the 2011 ranking of African countries is given in the Appendix (Table A2).

The most remarkable results of the new index were that some emerging countries advanced strongly and joined the developed nations at the top of the list. The most notable of these were China, which climbed from 38<sup>th</sup> in the old index to third in the new one; and India, which rose from 44<sup>th</sup> to 12<sup>th</sup>. What propelled China forward was a dramatic increase in articles in science and technology journals, a key output; and strong rises in the number of scientists and engineers as well as patents and students studying in the United States. India also showed a sharp increase in patents, with improvement across all indicators. Four other important moves upward in the rankings were for Turkey, which rose from 53<sup>rd</sup> to 19<sup>th</sup>, Brazil, from 39<sup>th</sup> to 16<sup>th</sup>, Spain, from 25<sup>th</sup> to 10<sup>th</sup>; and Italy, from 17<sup>th</sup> to ninth. For Spain the driving factor was the number of academic publications; for Turkey it was a dramatic increase in patents. Italy boosted R&D spending and universities per capita, but it dropped off in number of patents; while Brazil rose in R&D spending and number of scientists and engineers. Some of the developed countries that dropped significantly in the ranking were Canada (from 4<sup>th</sup> to 8<sup>th</sup>), Sweden (from 5<sup>th</sup> to 15<sup>th</sup>), Switzerland (from 8<sup>th</sup> to 17<sup>th</sup>) and Finland, Denmark and Norway.

**TABLE 1**  
**Descriptive Statistics for Variables in 2011 S&T index, 213 Countries**

	GNP per capita	Number of Scientists and engineers per million	S&T journal articles per million	Expenditures for R&D (% of GNP)	Institutions and universities per million population	Patents (USPTO and EPO) per million	Adjusted metric for students studying in USA per million
<b>Minimum</b>	136	0.0	0.0	0.0	0.0	0.0	0.0
<b>Maximum</b>	84,640	7,382	1,188.7	4.6	91.8	18,573.7	3,166.4
<b>Average</b>	11,326	811.8	124.8	0.4	3.0	203.9	231.7
<b>Std dev.</b>	15,483	1,489.2	248.1	0.8	8.9	1,453.6	389.7

<sup>a</sup>All from World Bank except adjusted metric for students studying in United States (U.S. State Department).

**TABLE 2**  
**Descriptive statistics for variables in 2011 S&T index, African countries only (53 countries)**

	GNP per capita	Number of Scientists and engineers per million	S&T journal articles per million	Expenditures for R&D (% of GNP)	Institutions and universities per million population	Patents (USPTO and EPO) per million	Adjusted metric for students studying in USA per million
<b>Minimum</b>	136	0.0	0.0	0.0	0.0	0.0	0.0
<b>Maximum</b>	12,420	1,587.0	72.6	0.9	7.5	352.4	243.8
<b>Average</b>	2125	103.7	7.5	0.2	1.0	7.7	40.2
<b>Std dev.</b>	2,886	253.7	14.1	0.2	1.7	48.4	50.4

<sup>a</sup>All from World Bank except adjusted metric for students studying in United States (U.S. State Department).

On the African continent, the leader of the 53 countries included in the new index was South Africa, the same as in 2001. However, the other positions showed considerable change and some of the top countries showed impressive gains. Morocco and Algeria showed the most progress, advancing from 116<sup>th</sup> to 62<sup>nd</sup> in the world, in the case of Morocco, and from 123<sup>rd</sup> to 68<sup>th</sup>, in the case of Algeria. In sub-Saharan Africa, Nigeria moved forward to 77<sup>th</sup> from 104<sup>th</sup>, and Botswana, Mozambique, Ethiopia and Sudan also improved. In contrast, African leader Mauritius declined in the 2011 index, from 58<sup>th</sup> to 79<sup>th</sup>; as did Benin, Uganda, Libya, Togo, Congo and others. The ranking of African nations can be consulted in the Appendix (Table A4). It should be noted that for some indicators, many African countries show no data. I have followed RAND researchers by assuming that this data vacuum reflects very low levels, and have recorded those values as 0.

What indicators are holding sub-Saharan Africa behind, according to this version of the index? The widest differences, as could be expected, are in those indicators that reflect science and technology output. In the number of scientific and technical articles published in academic journals, every African nation was below the sample average, with Tunisia, South Africa, the Seychelles and Botswana as the best performers on the continent. In patents, only Seychelles was above the world average, with other nations lagging seriously behind. The human resource indicators also were substantially lower than for the rest of the world. In number of scientists and engineers per million, every African nation was below the global average except for Tunisia; and in university students studying in the United States, all were below the average except for Libya, where median incomes were relatively high. For indicators reflecting the basic infrastructure for science and technology, some differences were also large: in GDP per capita, only two countries (oil producers Equatorial Guinea and Libya) had incomes above the global average.

Research and development spending, an indicator reflecting the financial resources for S&T activities, is the one where Africa does best compared to the rest of the world. South Africa, Tunisia, Benin, Morocco, Togo and the Democratic Republic of the Congo all have figures that are above the average for the sample of the 213 countries, and Botswana, Sudan, Mauritius and Uganda are not far behind. This might show in part that development funds have been made available for R&D spending in some of these countries. In number of universities and research institutions per million inhabitants, which reflects human resource potential, the continent also shows some good figures: Mauritius, Guinea-Bissau, Gabon, South Africa and Botswana all have numbers that are above average.

However, the original RAND index included a number of indicators that were susceptible to country size, and therefore “discriminated” against smaller countries. Those indicators are the main output indicators: number of science and technology indicators published in academic journals, and number of registered patents. Both could be expected to be smaller in countries with smaller populations, all other things remaining equal. Additionally, the number of students from any given country studying in the United States is likely to be lower in countries with small populations. To adjust for these differences, I divided these three indicators by country population to adapt human resources and output better to the size of the country. They then entered the index with the same weights as in the RAND 2011 index.

Unsurprisingly, this adjustment boosts in the global index some countries with smaller populations, such as Finland, Sweden, Israel, Iceland, Denmark and Canada (these become the top six countries, just ahead of the United States). At the same time, it pushes down countries with large populations like Japan and Germany, but especially China and India, which drop back down to 44<sup>th</sup> and 80<sup>th</sup>, respectively.

For African countries, the new weighting actually meant declines on the global ranking for most countries. Because of their large populations, South Africa, Morocco, Egypt, Algeria and especially Nigeria all moved downward. Tunisia moved up, as did little Mauritius (from 79<sup>th</sup> to 75<sup>th</sup>) and tiny Seychelles (from 98<sup>th</sup> to 87<sup>th</sup>). Gabon and Libya moved up but remained below the average. The

countries lagging the furthest behind were the same as in the first index: Mauritania, Tanzania, Niger, Sierra Leone, Liberia, Comoros, Eritrea, Chad and Somalia. Hence the need for this correction is not an explanation for the poor S&T performance of Africa; in fact, it makes the picture worse. The ranking for the 53 African countries on this adjusted index is shown in Table A3 in the Appendix.

Following a ranking exercise like this one, an obvious question that arises is which countries are best poised to move forward in the next decade, as some have done since 2001. In order to do this, one or several indicators must be identified that capture the process during which countries prepare themselves for better science and technology capabilities, whose results may be seen in coming years first in human and financial resources and later in S&T “outputs”, like scientific articles or patents. Of the available indicators, the one that seemed most like a “leading” indicator—one that could predict where S&T capability could go in the future—and which offered the most complete and comparable data was the gross enrollment rate in tertiary education (as a per cent of all students in the university age bracket)<sup>1</sup>.

Tertiary education in poorer countries has recently come back into the limelight as an important indicator of economic development, as well as S&T capacity. Higher education has taken on increasing importance as a driver of growth and technological capability as primary education has advanced, and cases like Japan, Finland, Sweden Korea, Taiwan and Korea manifest how efforts to raise higher educational standards can deliver high benefits in terms of capacity for technological innovation (López-Claros, & Mata, 2010). The World Bank, after years of emphasizing the key role of primary and secondary education in poverty reduction, published *Knowledge in Development* in 1998 to demonstrate how developing countries could use knowledge to narrow their income gap with high-income countries (World Bank, 1998). Many experts on Africa now acknowledge the key role played by higher education in development, as an “essential complement to educational efforts at other levels as well as to national initiatives to boost innovation and performance across economic sectors” (Bloom, Canning, & Chan, 2006). Among other benefits, higher education yields a capacity to understand and use global knowledge in science and technology, for application to agriculture and to other sectors. Bloom et al. found that investment in higher education could accelerate the rate of technology catch-up in Africa and boost per-capita incomes.

The data I used is not a completion rate, and it excludes the very capable students who might be studying in the United States or in another developed country. However, it does reflect the human resources that could potentially become available for future science and technology activities in a country. Although enrollment rates in tertiary education are the lowest in the world in Africa—the African average is 7.1%, compared to 25.1% for the world—, there is one country that stands above the global average, which is Libya. Others that are at the top of the African ranking and well above the African average enrollment rate are Tunisia, Egypt, Algeria, Mauritius, Morocco and Cape Verde. These countries are already at the top of the S&T index, so their figures on college enrollments are unsurprising. Botswana, Gabon and Senegal are also relatively high on both African rankings.

However, there is a small group of sub-Saharan African nations that show above-average enrollment rates in tertiary education and which are still lagging in science and technology capability. These countries are Liberia (17%), Nigeria (10%), Guinea and Namibia (around 9%), Cote d’Ivoire (8.4%) and Cameroon (7.8%). If higher education is indeed a key determinant of future S&T capacity, these nations could advance in an S&T index for the continent in coming years. See Table A4 in the Appendix for a full ranking of African countries by tertiary enrollment.

This exercise in updating and adjusting an index launched by RAND in 2001 offers some insights into the readiness of African countries to move into a more advanced stage of development and join a higher value-added global economy. A few African countries show signs of moving upward in science and technology capabilities, in particular South Africa, Egypt, Tunisia, Morocco, Algeria, Nigeria and Mauritius. Within sub-Saharan Africa, the countries with the greatest promise besides South Africa and

Nigeria appear to be Benin, Botswana, Uganda, Mozambique, Ethiopia and Sudan. The countries that today are ranked rather low but that show some promise for joining them in the future, judging by their current participation in higher education, are Liberia, Guinea, Namibia, Cote d'Ivoire and Cameroon.

### CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

Any index, no matter how comprehensive, provides only a static picture of a single moment in time; and it relies for its accuracy on the quality of the underlying data. This index is no exception. The countries with poor or missing data are left at the bottom of the index, which might not be a fair reflection of their true capabilities.

This exercise also leaves out of the picture all of the dynamic external factors that could influence the context in which S&T capability can flourish. A nation's S&T capacity, or in a broader sense, a national system of innovation, is deeply influenced by a country's institutional features (Lundvall, Johnson, Andersen, & Dalum, 2002). One of the key factors in fostering these systems of innovation is political stability (Allard, Martinez, & Williams, 2012). When this political stability is either interrupted or restored, the framework for science and technology capabilities is fundamentally altered, and will heavily influence the course of its future. In this sense, the spread of political unrest in recent months in some African countries could mean that their evolving S&T potential could be cut short, to recover in better political circumstances at a later date. Particularly at risk could be countries like Liberia, Cote d'Ivoire, Sudan, Egypt and Tunisia, which are revealing a nascent S&T capability that relies on a politically stable environment in order to flourish. Tracking the dynamics of manifest science and technology capabilities as the political context changes would give important insights into the nature of this relationship, and would provide guidance to policymakers interested in their countries' development potential.

As the new S&T index shows, some countries experiencing fast economic growth can advance quickly in the ranking of nations, if the benefits of that growth are invested in human and technical resources. If Africa in fact registers some of the fastest growth rates on the globe in coming years, the foundations for its future S&T success could be laid quickly, and an updated index in another decade could give a radically different picture of the continent. More importantly, as African countries advance in S&T capability, their chances of orienting their economies toward sustained and sustainable growth are greatly enhanced. Hence this becomes a key indicator for the future.

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#### END NOTE

<sup>1</sup> I had originally intended to add another variable to this final index, which was public expenditure per student in tertiary education, expressed as a percentage of GDP per capita. However, the data from UNESCO, which includes government spending on educational institutions and administration, whether they are public or private, and any subsidies to private education, showed figures that were well above the average for developed countries. In fact, the top 10 countries in spending per student/GDP were African: Lesotho, Eritrea, Ethiopia, Mozambique, Burundi, Niger, Swaziland, Botswana, Burkina Faso and the Central African Republic. There is potential bias in the indicator, since countries with a tiny university population might spend their entire budget on a few students, giving a large per-capita figure; and a very low GDP would tend to boost the ratio (spending per student/GDP) in small, poor countries. However, the figures were such dramatic outliers that I decided not to use the indicator at this time, until I could determine what produced such high values.

**APPENDIX A: ITEMS IN SCALES****TABLE A1**  
**Original RAND Index 2001, Africa Only**

<b>Country</b>	<b>2001 rank</b>	<b>Rank in world 2001</b>
South Africa	1	43
Mauritius	2	58
Benin	3	60
Egypt, Arab Rep.	4	65
Uganda	5	70
Togo	6	74
Tunisia	7	77
Gabon	8	80
Burundi	9	85
Cape Verde	10	86
Congo, Dem. Rep.	11	87
Central African Republic	12	91
Burkina Faso	13	96
Guinea	14	97
Madagascar	15	98
Guinea-Bissau	16	99
Botswana	17	101
Nigeria	18	104
Libya	19	105
Kenya	20	107
Zimbabwe	21	110
Namibia	22	111
Senegal	23	112
Rwanda	24	115
Morocco	25	116
Ghana	26	119
Zambia	27	120
Malawi	28	121
Algeria	28	123
Tanzania	30	124
Cote d'Ivoire	31	126
Cameroon	32	127
Lesotho	33	129
Gambia, The	34	131
Congo, Rep.	35	133
Ethiopia	36	134
Mali	37	135

Mauritania	38	136
Angola	39	137
Sudan	40	138
Sierra Leone	41	140
Niger	42	141
Mozambique	43	144
Chad	44	147
Eritrea	45	148

**TABLE A2**  
**2011 S&T Index for African Nations Only**

<b>Country</b>	<b>Rank in Africa</b>	<b>Rank in World 2011</b>
South Africa	1	37
Egypt, Arab Rep.	2	42
Tunisia	3	51
Morocco	4	62
Algeria	5	68
Nigeria	6	77
Mauritius	7	79
Benin	8	80
Botswana	9	89
Uganda	10	93
Seychelles	11	98
Kenya	12	99
Mozambique	13	102
Togo	14	103
Ethiopia	15	109
Congo, Dem. Rep.	16	112
Sudan	17	113
Senegal	18	115
Gabon	19	119
Cameroon	20	122
Madagascar	21	123
Burkina Faso	22	126
Burundi	23	128
Ghana	24	134
Tanzania	25	135
Libya	26	137
Zimbabwe	27	140
Central African Republic	28	141

Guinea-Bissau	29	143
Equatorial Guinea	30	147
Malawi	31	152
Zambia	32	153
Guinea	33	154
Cote d'Ivoire	34	160
Namibia	35	161
Cape Verde	36	167
Congo, Rep.	37	169
Lesotho	38	173
Mali	39	175
Angola	40	180
Rwanda	41	182
Gambia, The	42	183
Niger	43	185
Swaziland	44	189
Mayotte	45	194
Mauritania	46	200
Sierra Leone	47	204
Eritrea	48	207
Sao Tome and Principe	49	208
Comoros	50	210
Chad	51	211
Liberia	52	212
Somalia	53	213

TABLE A3

## 2011 Adjusted S&amp;T Index for African Nations Only

Country	2011 rank	2001 rank
Tunisia	1	7
South Africa	2	1
Morocco	3	20
Mauritius	4	2
Benin	5	3
Seychelles	6	
Botswana	7	
Egypt, Arab Rep.	8	4
Togo	9	6
Mozambique	10	41
Gabon	11	8
Congo, Dem. Rep.	12	10
Algeria	13	24
Sudan	14	37
Libya	15	17

Uganda	16	5
Senegal	17	23
Burundi	18	9
Equatorial Guinea	19	
Burkina Faso	20	12
Central African Republic	21	11
Madagascar	22	14
Guinea-Bissau	23	15
Ethiopia	24	
Gambia, The	25	33
Guinea	26	13
Cape Verde	27	
Namibia	28	21
Nigeria	29	18
Zimbabwe	30	19
Zambia	31	30
Lesotho	32	34
Congo, Rep.	33	32
Cameroon	34	25
Ghana	35	27
Cote d'Ivoire	36	26
Angola	37	31
Swaziland	38	
Kenya	39	16
Malawi	40	28
Mali	41	35
Rwanda	42	22
Sao Tome and Principe	43	
Mauritania	44	36
Mayotte	45	
Tanzania	46	29
Niger	47	42
Sierra Leone	48	43
Liberia	49	
Comoros	50	
Eritrea	51	40
Chad	52	39
Somalia	53	

<sup>a</sup> For the 2001 ranking given in this Table, I made the same adjustments to the original 2001 RAND data and re-ranked the countries.

**TABLE A4**  
**Ranking of African Countries by Gross Enrollment Rate in Tertiary Education**

<b>Country</b>	<b>School enrollment, tertiary (% gross)</b>
Libya	55.74
Tunisia	33.70
Algeria	24.02
Liberia	17.39

Mauritius	16.04
Morocco	12.29
Cape Verde	11.91
Nigeria	10.07
Guinea	9.22
Namibia	8.94
Cote d'Ivoire	8.37
Senegal	8.00
Cameroon	7.82
Botswana	7.58
Gabon	7.06
Ghana	6.20
Sudan	5.93
Benin	5.85
Mali	5.44
Togo	5.29
Congo, Dem. Rep.	5.05
Swaziland	4.39
Sao Tome and Principe	4.14
Kenya	4.05
Rwanda	3.97
Mauritania	3.83
Zimbabwe	3.80
Uganda	3.69
Lesotho	3.63
Ethiopia	3.60
Madagascar	3.40
Equatorial Guinea	3.26
Burkina Faso	3.06
Guinea-Bissau	2.85
Angola	2.79
Comoros	2.70
Burundi	2.52
Zambia	2.40
Central African Republic	2.29
Sierra Leone	2.05
Eritrea	1.96
Chad	1.92
Tanzania	1.48
Mozambique	1.45
Congo, Rep.	1.37
Niger	1.33
Gambia, The	1.23

Malawi	0.49
South Africa	0.00
Seychelles	0.00
Mayotte	0.00
Somalia	0.00

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<sup>a</sup> Source: World Bank.

**CONTINUOUS CAPACITY BUILDING FOR SUSTAINABLE ECONOMIC GROWTH, IN THE AREA OF INFORMATION AND COMMUNICATION TECHNOLOGY WITH SPECIAL REFERENCE TO EMERGING AFRICAN ECONOMIES**

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**ABSTRACT**

This paper deals with importance of human capital and continuous capacity building. Human capital is an important agent in any nation's sustainable economic development and growth. Regarding human development issue, it is an observation that, many nations give attention to health, food & shelter as part of economic system. In emerging African economies, inclusion of human capital development dimension is essential in their economic policy reforms. By focusing on human capacity build, nations like India felt the positive impact in their poverty reduction and economic development programs. Through this paper, authors have put forth some of their observations & experiences from their association with information and technology industry in African region on human capital importance and impacts.

**Keywords:** Human capacity development in ICT, ICT skill development, ICT in emerging African economies

**INTRODUCTION**

Capacity development is largely driven by overall Supply & Demand of economic system in any nation. This in turn impacts on nation's economy, poverty reduction, quality of life etc. The race of development continues despite global economic BOOMS & FALLS. Indeed Booms & Falls are cyclic in nature, only the period of recurrence is uncertain. However nations have no excuse but to continuously and actively perform the task of capacity building such as Infrastructure, Human capacity, innovations etc. A good example; India's Continuous effort in building the Information and Communication Technology-ICT human capital since 1980 helped it to be on global map, as a country with large pool of Human Capital in ICT. India has constantly focused on Human Capacity building in the area of ICT irrespective of several cycles of recession period in the past 2 decades such as;

- Y2K era – during 1995 – 2000
- Dot.com Boom era - during year 2000 – 2005
- Dot.com recession era – during 2006 – 2008

## NEED FOR HUMAN CAPITAL IN TIMES OF GLOBALIZATION

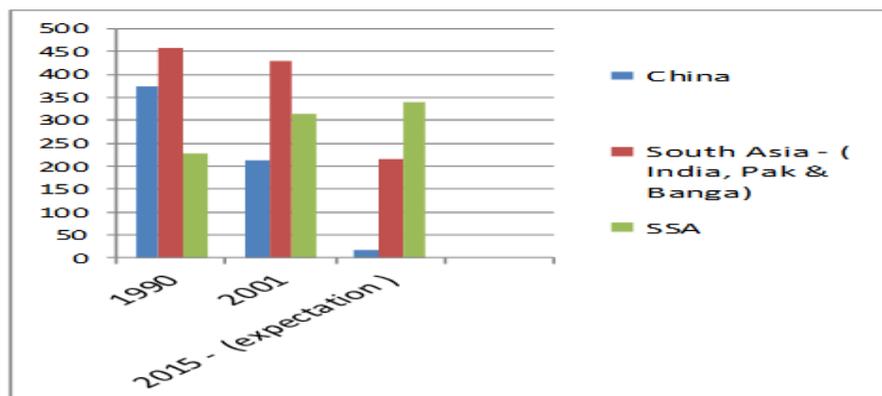
The word globalization is very liberally used & known to everyone in the society, these days. In business terms, globalization can be defined as “A system of Interaction between the nations of the world for development of economy, It helps in integration of society, better living of humans across the world.” We can safely say that the era of globalization has begun seriously around the same time of fall of Berlin wall in early 90’s. The globalization is the key driver to approach worldwide markets. In order to effectively reach worldwide markets, nations are forced to give increased attention to education and improving nation’s capacity such as Infrastructure, Finance & Human Capital.

Human Capacity building in general terms is an activity of strengthening, building skills and capabilities of human resources. These developed resources will be a real value creating assets of the nation (Ejere, 2011). Therefore, it is important for developing nations of Africa to concentrate on development of human resource assets by way of policy reforms. This act needs a focus and drive from nation’s political leaders to ensure suitable policy reforms. Human Resources are more value creating assets than conventional infrastructure in development of a sustainable economic system. Globalization is all the more reason for a nation to focus comprehensively on human capital development for the purpose of long term economic development

To quote, Friedman (2006), in his book “World Is Flat” he writes lot about reforms and its importance in globalized world. He explained different types of reforms, and calls macroeconomic policy reforms as “Reform Wholesale”. Basically “REFORM WHOLESALÉ” is something to do with a nation’s high level policy changes, such as reduction in import duties, export subsidies etc. However, these alone will not suffice in human capital building in globalized world. Hence, there is a need for more focus on Human Capacity development related policies.

Timely actions on Human Capacity development of developing nations such as India in Information & Communication Technology domain, China in Manufacturing domain, have shown good progress in their poverty reduction programs. (PovcalNet, 2010) Figure 1 show that between 1990 till 2001 both China and India had reducing trend and also expected great improvement in living standards by 2015. In contrary, progress made by Sub-Saharan Africa is dismal.

**FIGURE 1**  
**People Living on Less Than \$1 Per Day, In Millions**



**TABLE: 1**  
**Living Standards**

Region	% in \$1.25 a day poverty	Population (millions)	Pop. in \$1 a day poverty (millions)
East Asia and Pacific	16.8	1,884	316
Latin America and the Caribbean	8.2	550	45
South Asia	40.4	1,476	596
Sub-Saharan Africa	50.9	763	388
Total Developing countries	28.8	4673	<b>1345</b>
Europe and Central Asia	0.04	473	17
Middle East and North Africa	0.04	305	11
Total		5451	1372

### PAST SUCCESS STORIES

#### The Indian Model

Indian Industries had capitalized on relationship with ICT technology partners of developed nations in building Human Capital assets over the last two decades. During 80's, India had not much options but to import ICT hardware from developed nations such as USA & UK, through special import license policies of Govt. of India. In fact, this era in Indian Information & Communication Technology history was popularly known as "LICENSE RAJ". Only few Companies such as TATA BURROUGH / Unisys, Wipro were eligible to import ICT hardware. However, these companies ensured that foreign suppliers visit India to complete the commissioning of imports by involving local human resources through the implementation. Further they used to conduct the skill development trainings for subsequent 1st level support. Foreign suppliers also ensured that all supporting documentation was made available onsite in India, so that 1st level support was carried out effectively. Since then the Human Capacity building activities in India have been continuous and done in 3 levels such as:

- Learning on Job
- Learning from OEM's (Original Equipment Manufacturers) premise
- Learning through frequent visits by OEM.

This way, it helped Indian companies in achieving sustainable business growth and contributing to nation's economic development as under;

1. Foreign Technology suppliers made use of developed Indian Human Capacity in their projects in UK & USA which in turn was a FOREX earning for Indian companies.
2. This helped in avoiding complete dependency on Foreign Technology partners during post implementation support & enhancements as and when required.
3. Created more jobs for engineering and science graduates.
4. Over period of time, India could build large Human Capital asset base that is innovative & knowledgeable in ICT domain.

Today, results of Indian learning from initial globalization era are;

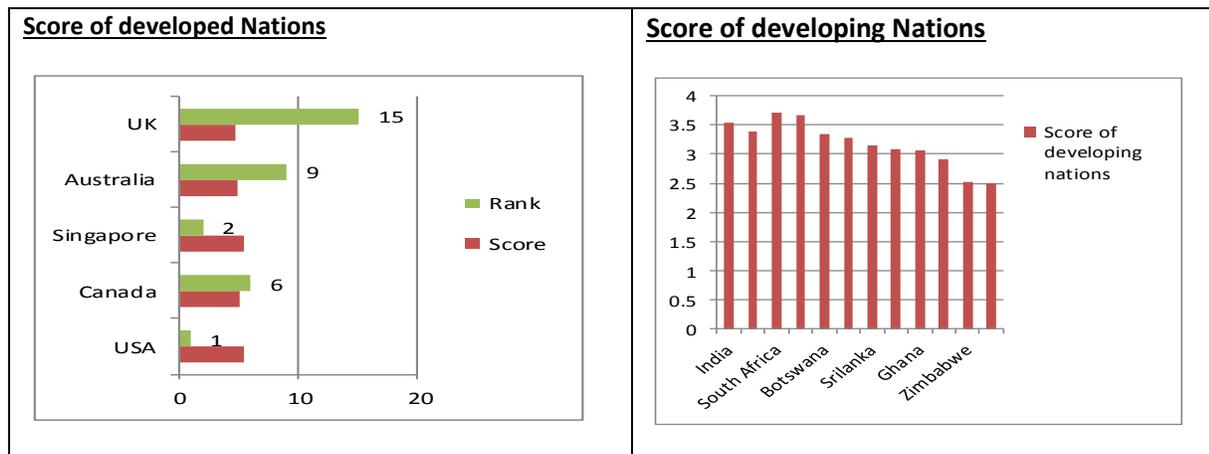
- Technology adoption in every phase such as; Business, Governance, Life style is quick & affordable.
- Availability of large Human Capital base in ICT made exporting of software services easy & competitive.
- Large pool of ICT Human Capital Assets attracted developed nations such as US & UK to set up their back office activities in India for cost effectiveness.

In other words, Indian ICT sector is contributing enormously to the nation’s economic development program, which is evident from the fact that the IT Sector alone contributed in excess of USD 100 billion to Indian economy during FY 2013. Therefore, what globalization should mean to developing African nations is that, urgency and need to understand that Human Capital Market is hostile and unpredictable, so be prepared for Human Capacity development programs aggressively and continuous.

### HUMAN CAPITAL DEVELOPMENT IN AFRICA

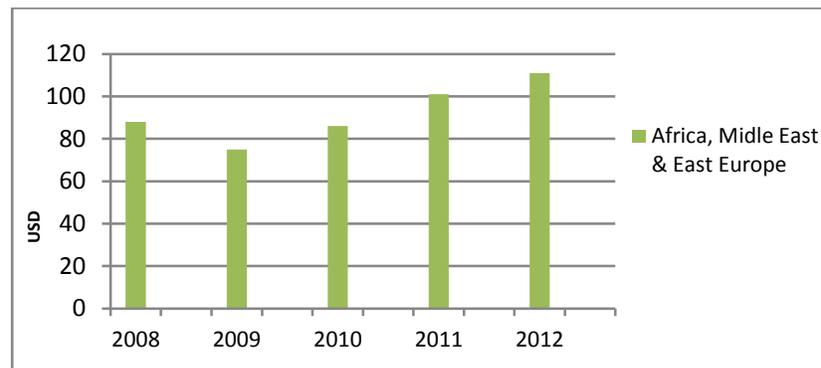
Today, Africa with all the help from many international development partners such as IMF, World Bank etc. is making a good progress in economic development. Many developing & developed nations are looking at the African continent for business opportunities, because GDP of many nations in Africa are on raise and the growth is in the range of 6% to 7% approx. (Kim, 2013), which is much better than GDP of several developed nations. However, author’s observations are; Progress in Human Capacity development, specific to ICT is slow. This in turn could weaken the poverty reduction program of the nation. Noteworthy part is that, in Africa, the National Development Plans of the respective countries are aligned to the (UN, 2012) Millennium Development Goal-MDG targets set by UN for the purpose of global poverty eradication. The African nations, in addition to the existing objectives of MDG -2015 programs i.e. Health, Food, Shelter & education programs, need to consider the Human capital development as independent strategy .

**FIGURE 2**  
**ICT Readiness Ranking Score of Developed and Developing Nations**



Consider Figure 2, Figure 3 ( Forrester, 2012) and TABLE 2 , it portrays that good number of countries in AFRICA such as South Africa, Botswana, Namibia etc. were ready to go with ICT implementation (World Economic Forum, 2003). Also, investment of these nations' in ICT was considerable and increasing year on year. Though, magnitude of investment cannot be compared with developed nations as it depends on the overall size of the economy. However the development was not at the expected levels because of non-availability of ICT Human Capital base. Regarding technology adoption, these nations are far behind, as they still depend mostly on developed countries for ICT implementation.

**FIGURE 3**  
**IT Business and Government Purchases**



#### **HUMAN CAPITAL BUILDING - POSSIBLE OPTIONS**

Africa is on fast growth track with around 1 billion population and anticipated to reach to 2.3 billion by 2050 (AfdB, 2012). This projected growth in the human resources will be a great asset for Africa. This could also be an alternate economic development source for natural resources in Africa. However, African continent cannot afford to go slow on Human Capital development policies & programs, else, it could result into a threat for their economic development. Human Capital is most costly of all factors in operating business (Branson, 2011). Building Human Capital asset base successfully need not be the responsibility of Government alone. It needs to follow cohesive contribution approach, along with expected participants / partners such as;

- Government
- Business organizations - Both Local & Foreign
- Society

Everyone in the above list will have a crucial role to play in achieving the successful & sustainable Human Capital build.

#### **Government**

For building effective capital base, Government will have to go beyond macroeconomic policy and deep dive into policy reforms dealing with microeconomic factors. In this connection it is relevant to recall (Friedman, 2006) - Reform Retail. In order to keep country sufficiently on sustainable economic growth, a deeper process of policy reform is required. This is to transform education, Infrastructure, Governance etc. in more profound manner.

**TABLE 2**  
**Network Readiness Ranking**

NRI – Rank	Country	Score	NRI-Rank	Country	Score	NRI-Rank	Country	Score
1	United States	5.5	32	Chile	3.94	62	El Salvador	3.22
2	Singapore	5.4	33	Czech Republic	3.80	63	Russian Rep	3.19
3	Finland	5.3	34	Greece	3.76	64	Morocco	3.19
4	Sweden	5.2	35	Latvia	3.74	65	Egypt	3.19
5	Denmark	5.19	36	Hungary	3.74	66	Sri Lanka	3.15
6	Canada	5.07	37	South Africa	3.72	67	Bulgaria	3.15
7	Switzerland	5.06	38	Thailand	3.72	68	Vietnam	3.13
8	Norway	5.03	39	Brazil	3.67	69	Philippines	3.10
9	Australia	4.88	40	Tunisia	3.67	70	Peru	3.09
10	Iceland	4.88	41	Slovak	3.66	71	Tanzania	3.09
11	Germany	4.85	42	Lithuania	3.63	72	Venezuela	3.09
12	Japan	4.80	43	Mauritius	3.62	73	Indonesia	3.06
13	Netherlands	4.79	44	Mexico	3.57	74	Ghana	3.06
14	Luxembourg	4.76	45	India	3.54	75	Pakistan	3.03
15	United Kingdom	4.68	46	Jordan	3.53	76	Nigeria	2.92
16	Israel	4.64	47	Poland	3.51	77	Uganda	2.90
17	Taiwan	4.62	48	Croatia	3.48	78	Senegal	2.90
18	Hong Kong	4.61	49	Costa Rica	3.46	79	Gambia	2.85
19	France	4.60	50	Argentina	3.45	80	Cameroon	2.82
20	Korea	4.60	51	China	3.38	81	Zambia	2.80
21	Austria	4.56	52	Thailand	3.37	82	Algeria	2.75
22	Ireland	4.55	53	Jamaica	3.36	83	Malawi	2.71
23	New Zealand	4.48	54	Uruguay	3.35	84	Bolivia	2.66
24	Belgium	4.43	55	Botswana	3.34	85	Madagascar	2.60
25	Estonia	4.25	56	Turkey	3.32	86	Bangladesh	2.57
26	Malaysia	4.19	57	Dominican Republic	3.32	87	Zimbabwe	2.53
27	Malta	4.15	58	Panama	3.31	88	Mali	2.52
28	Italy	4.07	59	Namibia	3.28	89	Mozambique	2.51
29	Spain	4.01	60	Colombia	3.28	90	Angola	2.41
30	Slovenia	3.99	61	Romania	3.26	91	Haiti	2.27
31	Portugal	3.94				92	Ethiopia	2.13

Government's policy reform goal should be focused on enhancement of competency / skill building in the ICT domain or relevant innovation & Technology fields such that technology adoption is made easy and does not depend on external resources. This would help the nation to attain the MDG-2015 set goals in the area of poverty reduction. This reform needs to go along with Reform Wholesale like Labor law reforms, physical Infrastructure provisioning, Educational Infrastructure etc.

Africa is blessed with huge natural resources compared to any other continent in the world, still progress in poverty reduction progress is slow which can only be attributed to lack of skilled Human pool and the poor health. Here it may be relevant to quote (Mills, 2010) Greg Mills - In his Book why Africa is poor says that "in an unprecedented opportunity existence in the globalized world, one of the reason why Africa is poor or growth didn't catch up with the same speed as other nations like India & china is because of its LEADERS" It means government and governance play very important role.

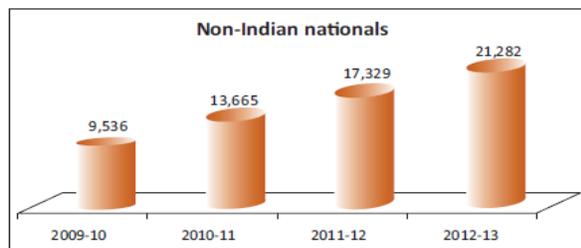
## Business Organizations

Today business organizations, in order to excel in current globalized era are aggressively reforming their Human Resource spreads. They are very ambitious to have mix-up of Human resources from varied geographies, to ensure that they have a trouble free & sustainable business operations in global markets. This is very much essential for a global organization to overcome the trade barriers like Immigration restrictions, Repatriation issues etc. imposed by developed countries such US & UK. Success stories of global companies like TCS, IBM etc. show that these companies have continuously adopted a skill localization policy as an important dimension for their growth.

**TCS model.** Tata Consultancy Services – TCS is an India based Global IT Company, presently on of the Big4 IT Companies of the world. Established in 1968, TCS has now expanded to 45 countries with over 12 Billion USD of revenue in last Financial year. During this Growth Trajectory, TCS has continuously adopted the policy of developing Local Skills for all its assignments outside India. Today over 17% of its employees are of foreign origin, Fig 4 shows Talent Diversity in this organization. TCS always believed in the age old saying **“By giving a fish for one day, it can only be eaten that day, but by teaching how to catch fish, it can be eaten every day”**. Today, most of its customers abroad are self-reliant approaching TCS for major enhancements or support.

**Talent diversity.** The Company employed persons from 118 different nationalities. The number of non-Indian nationals was 21,282 as at March 31, 2013. Efforts are made continuously to integrate differently-abled individuals into the workforce. Efforts are also made to increase recruitment of individuals belonging to disadvantaged sections of society (Tata Consultancy Services, 2013).

**FIGURE 4**  
**Talent Diversity, Year-On-Year Growth of Non-Indian Nationals**



**IBM model.** Example of another leading multinational company IBM, its intention is to create an environment that maximizes the employees' productivity and connection to the enterprise on a global scale. According to the IBM's Annual report 2012, their growth strategies for emerging markets, in African continent is aligned to the National Development agenda and create a unique business model. IBM continuously invests in Capacity expansion, Talent development & Deepen R&D on the ground (IBM, 2012).

So from these two organizations business policies, its clearly visible that MNC's based in developed nations such as US & UK are generating more job opportunities in fast growing emerging markets to overcome business suffocations due to trade restrictions in developed nations. It is very appropriate time for Africa to align their Human Capital building focus to the large MNC's HR development plans.

## Society

Society plays very vital role in successful implementation and building of globally acceptable human capital. Society, while balancing between traditional (Laszlo, 1977) culture & global trends needs

to support both Government & business organizations in their acts of human development programs through active participation.

### STRATEGIES FOR HUMAN CAPITAL BUILDING

In order to achieve globally acceptable Human Capital asset repositories, emerging African economies may possibly consider implementing some of the following;

#### Human Capital Development-Focused Policy

Implementation of policies for mandatory industrial trainings to graduating students is highly recommended. During this period student should be paid suitable stipend. In-house learning and development programs could be designed for working employees, in their respective field of specialization at the cost of government. Special courses and schemes for competitive improvement for Below Poverty Line-BPL students need to be in place. Table 3 shows a preparatory framework constructed by authors based on their experience. This will be a useful tool while building Human Capital strategy.

#### Creating an ICT Specific Environment to Develop Human Capacity

Government employees should undergo compulsory ICT training either conducted in-house or outside their premise. ICT trained employee should be motivated with additional allowances, may be encouraged with official email facilities and go for paperless office environment so that employees are encouraged to learn & use ICT systems.

**TABLE 3**  
**Preparatory Framework**

Preparatory Framework			
Frame	Objective	Tasks to be covered	Possible benefits
<b>Identify and Align</b>	Identify & align with National Development Plan-NDP of country	1. Identify top3 areas of development defined in NDP 2. Alignment of ICT Human Capacity development programs with selected top 3 areas from NDP	To be focused and Ensures that skill development policy & expenses are aligned to the NDP
<b>Assessment</b>	Ensure that chosen NDP area has the required or adequate ICT infrastructure	1. Study the present infra availability in the chosen area 2. Study the compliance to the latest technology trends	Helps prepare the ground for skill development
<b>Procurement planning</b>	Infrastructure & services procurement planning	1. Procure the required technologies to plug the gaps	Focused investment in ICT infra build
<b>Execution</b>	Prepare the implementation plans	1. Implement Infrastructure necessary 2. Select the Resources for development & training	Trained Human Resources will be ready to use effectively, either in nation or abroad

#### Custom-made Contract with Foreign ICT Implementers

To ensure that Local skills & talents are developed during contract phase, in addition to all necessary international contract terms, importing nations should ensure that there is suitable

Knowledge transfer or build clause is in place in the contracts and they are measurable. For example, involvement of certain percentage of Human Resources in project execution along with implementing agencies, certain number of Human resources has to be trained. Commonly used business contracts such as PPP-Public Private Partnership model, either Capex / Opex model, BOOT-Build Own Operate & Transfer models would increase opportunities build Human Capacity.

#### **Adoption of some of the proven successful models**

African nations may consider adopting some of the successful models of other developed / developing nations through customizing them suiting to their local conditions. For example, the model adopted by India has already been explained earlier.

#### **Cohesive participation by stakeholders**

Government, Business organizations both Local & Foreign and Society in developing Human Capacity building programs is essential. This needs substantial amount of promotional programs.

Table 4 shows cohesive program chart, it gives some of the possible training programs to be initiated by stake holders.

**TABLE 4**  
**Cohesive Program Chart**

<b>Feasible Cohesive Program Chart</b>			
<b>Session</b>	<b>Stake holders</b>	<b>Programs</b>	<b>Expected achievements</b>
Entrepreneurial Sessions	Government & Business	1. Sector Specific Meetings along with various Govt. Departments at regular frequency	1. Narrow down on the specific sector to be focused for business growth, In turn helps to Human Capital development requirements
Global Sessions	Government, Industrial Associations & Business	1. International visits for export business promotions 2. International & Domestic Investor Meets in country of origin 3. International Conferences	1. Helps in quantifying the global demand for Human Capital sector wise. 2. Helps in promoting the Human Capital in global market
Citizen Services Sessions	Citizens & Government	1. Area wise citizen meetings with different ministries to appraise on the respective field globally & locally 2. Citizen Portals 3. Education Counseling Meeting	1. Helps in understanding the concerns of citizen in building the skills 2. Helps citizen in understanding where & how to spend their efforts & money effectively
Trade Exhibitions	Citizens & Business	1. Demonstrate the services, Products in demand globally 2. Plenary Sessions on Manpower issues & Skills capabilities issues	1. Largely helps citizen in understanding the demand trends

## COMMON CHALLENGES FACED IN HUMAN CAPACITY BUILDING

African nations need to deep dive into and study the possible challenges affecting human capacity building such as:

### **Hurried Reformation Policy**

Inadequate human capital imposing policy reforms puts country in a very vulnerable position, as there will not be any local capacity to sustain the growth/image built during growth phase. Example: collapse of Zimbabwean economy starting early 2000, due to change in Land policy reforms i.e., seizing of commercial farms. For many years, Zimbabwe had enjoyed the status of JEWEL of Africa and attaining of this status was due to hard work & skills of White population, who were instrumental in development of commercial agriculture (Richardson, 2005). A hurried land reform decision of Zimbabwean Government, without proper Human resource backup plan resulted in deteriorating performance of commercial lands.

*“To build may have to be the slow & laborious process. To destroy can be the thoughtless act of a single day” - Sir Winston Churchill.*

### **Fear of Wealth Exposure / Loss of Jobs to Foreigners**

Africa is gifted by nature with abundant amount of wealth which is unexplored still. There is an inherent fear in the minds of many national leaders that by inviting other successful nations to build a Human Capital Base, the visiting nations will exploit their wealth or rob the jobs of their local population. This fear is totally unfounded. Collaboration with developed nations or permitting them to enter for joint economic development would never impact in evaporating their wealth. This can be tackled through adequate contractual protection and may result in a Win-Win outcome.

### **Cultural Barriers / Openness**

African nations have a very rich heritage and culture, which was protected by them over several centuries. They fear that, if too much of interaction is allowed for their people with outside nations, this might result in erosion of their culture. This is true to some extent. But, the African leaders must wake up to the fact in the world over, cultures are metamorphosing and this Cultural tsunami cannot be arrested no matter what steps you take. Instead of screening of their population from global interactions, they must concentrate on educating them on value and richness of their culture and caution them against diluting it. This step will throw open gates of skill abundance to their citizens and help the cause of Human Capacity and capability building enormously.

### **Lack of Succession Planning**

African Nations must guard against natural causes of skill turnover due to death, retirement, attrition, migration etc. through proper succession planning techniques. Training, Re-skilling, better Retention etc. could be considered for adoption.

## CONCLUSION

In the current era of globalization, developing African nations must effectively take complete advantage of MDG set by UN. As a part of guidelines provided by UN & other agencies, they are required to develop Human Capital development policies, as nation's development priority. Focused strategy on Human capital build will ensure the readiness to spread across the globe along with Business Organizations of developed nations. This needs to be in addition to mere spending on Health, Shelter

and Education Infrastructure. Multinationals such as IBM, TCS etc. are looking at emerging African nations for business expansion, by having mixed ratio of employees on their payroll. Human Capital building has become an inevitable task of emerging nations as global companies are ready to play on an equitable global arena which can be successfully handled through local skill development. It is the responsibility of a nation to ensure timely availability of Human resources and manage regular improvements of Quality & Competency of Human Resources. Therefore, continuous and sustained efforts in building the Human Capital, by every nation of emerging African region, will boost poverty reduction programs and bring them at par with the other developed nations of the world and portray them as Knowledge & innovative nations in the global market.

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#### END NOTE

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## THE DEVELOPMENT OF PUBLIC EMPLOYEES OF EGYPT AIR VS DELTA

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### ABSTRACT

The focus of attention in this study is to explore the “Development” function of human resources management in two public sector airline companies; namely, Egypt Air and Delta Airlines, to find out approaches adopted, and their influence on organizational success. Challenges to public sector employees’ development in less developed countries include inadequate budgets, weak political support and responsiveness to the needs of employees, and favoritism and influence of work politics on the selection of participants. The study findings highlight the difference in approaches to development in both companies. Training provided in Delta Airlines was more sophisticated, advanced, long-term oriented and satisfactory than training provided in Egypt Air, which eventually influenced financial performance in Delta Airlines, and enhanced customer satisfaction.

**Keywords:** Public sector organizations, Human resources development, organizational performance

### INTRODUCTION

#### Background

In efforts to improve performance, organizations link functions of human resources management with their strategic objectives, and follow a coherent approach in managing and directing employees to help them collectively contribute to organizational strategic objectives. Our focus of attention in this study is to explore the “Development” function of human resources management in two companies operating in the airline industry. In particular, this paper focuses on the approaches adopted towards development of employees of two leading public sector airlines companies; namely, Egypt Air and Delta Airlines, and the influence of such methods on each organization’s success.

Development is on key function of human resources management, and is as important as other functions like planning, or acquisition. Employees training and professional development could be through interpersonal and other skills enhancement, technical training, managerial training, and other types of training and professional development such as attending seminars and conferences. The amount of funding available and allocated for training, the specificity and complexity of the knowledge and skills needed, the techniques used to develop trainees, the selection of training providers are important factors to consider.

As a third world developing country, the Egyptian public sector suffers from poor performance in many areas; one is the area of the public sector employees training and professional development. This is due to many reasons that include, but are not limited to, the limited budget allocated to training purposes, weak political support and responsiveness to the development needs in the public sector, favoritism in selection of participants for training sessions and conferences, and the influence of workplace politics on the selection process in general. Going on training workshops is perceived to be a reward to selected participants, rather than a decision that is made to satisfy a need for development. Egypt Air, a state owned self-financing company founded in 1932 operating with no government intervention. It is one of the oldest airlines in the world based at Cairo Airport and a member of Star Alliance operating scheduled passengers and freight services in more than 75 destinations around the world has demonstrated the scale of its commitment to the highest standards of safety (Egypt Air, 2011).

On the other hand, in an advanced country like the United States, government and federal officials are not only interested in the development of the government and public sector employees, but also have and provide the funds necessary to be allocated to this area. Over the past twenty years, the HRM functions have undergone tremendous change to shift from loyalty systems to systems that focus on and ensure the efficiency and effectiveness. In subsequence, the approach to recruiting & training the best employees and ensuring they are high performers becomes a major concern for the government officials. Delta Airlines a major airline based in the United States of America and the oldest airline operates an extensive domestic and international network serving all continents by operating 4000 flights per day (Wikipedia, 2012). Both airline companies encompasses a huge number of personnel from the executive level to the administrative support staff; the workforce consists of pilots, flight attendants, dispatchers, hostesses, airplane maintenance workers, clerical functions holders, baggage handlers, passengers check-in agents and others. According to Egypt Air website (2011), there are 17000 permanent employees currently serving at Egypt Air, while 80000 are serving at Delta Airlines (Wikipedia, 2012).

### **Preliminary Hypothesis**

Based on previous literature, the background of the two companies, the main preliminary assumption of this paper is that the approach to professional development has a significant contribution on an organizations' success.

## LITERATURE REVIEW

### Public Personnel Management

Public personnel have long been “described as the subfield of public administration which is sometimes more descriptively known as ‘human resource management’” (Bayat, Cheminai, Fox & Waldt, 1998: 2 as cited from Huddleston, 1992: 41). It is basically concerned with ensuring that “the public institution has the most competent people working for it; this involves not only recruiting and selecting the best employees but also ensuring that these employees acquire the skills, knowledge and competence to perform their tasks effectively” (Ibid). In other words, according to, Schwella, Burger, Fox and Muller (1997: 6), public human resource management “concerns itself with the people involved in reaching policy goals and objectives optimally” (Bayat, Cheminai, Fox & Waldt, 1998, p.2). It is important to note that an agency ability to achieve its mission effectively is very much determined by its employees’ skills, determination and morale, therefore public personnel management is considered the heart of any government agency (Bayat, Cheminai, Fox & Waldt, 1998, p. 5).

On the other hand, Ellinger, A.E., Elmadg, A.B., & Ellinger, A. D. (2007) examined the influence of the development of front office service employees on performance using data gathered from 307 customer contact employees. Findings revealed that employee development may not always result in most useful outcomes. Mishra, U.S. et al. (2010) examined perceptions of bankers with regards to the quality of services and customer satisfaction levels in public and private banks in India to find out that though public sector banks invest more on development of employees, private banks invest more in infrastructure and choose best locations to attract high value customers. Schmidt, S.W. (2007) investigated the relationship between satisfaction with training of employees and overall job satisfaction of customer contact agents and discovered a significant relationship between satisfaction with job guidance and job satisfaction.

According to Bayat, Cheminai, Fox & Waldt (1998: 6), public personnel management “has manifested as an emerging sub-discipline of the broad curriculum of public administration and management” that studies the “various processes and specific functional activities by the institutions that must function within a particular environment to improve the general welfare of society”, thus it has the following functional components:

- Context and Background
- Environment of Public Personnel Management
- Personnel Provision
- Maintenance and Administration
- Training and Development
- Motivation and Compensation
- Labor Relations
- Personnel Equity

### Evolution of the Public Sector and Public Personnel Management in Egypt

It is crucial to take into account that “Egypt has nurtured and sustained a centralized system of bureaucracy that has borne the brunt of its public administration” (Subramaniam, 1990: 131). There are three major events that took place in Egypt, which had directly affected its public administration and indirectly affected its public personnel, these three events are as follows (Ibid);

- The French Invasion under Napoleon (1798-1801) – Which opened the door for the European influence and had an ever-lasting cultural impact.

- The Rule of Turkish Viceroy Mohamed Aly (1805-1849) – In which a “highly centralized system of administration was followed, a system of civil service training was introduced, and personal loyalty to the ruler was emphasized”.
- The British Occupation of Egypt – This did not leave a major impact on the Egyptian administration, in spite of its predominance.

It is also important to note that in 1951, the Egyptian government has introduced the merit system for the first time, as the basis for recruitment as well as personnel administration in the government in general. Therefore, the “Egyptian administration has reflected a mixture of the traditional influences of centralization and patrimonial influences in running a modernizing merit-oriented bureaucracy” (Subramaniam, 1990: 132). Nowadays, HRM divisions in Egypt “are concerned with understanding and applying the policies and procedures governing personnel management, which are in accordance with the Egyptian Labor”, therefore the public HRM divisions “are accountable for planning for and effectively utilizing and training HR in accordance with organizations’ needs and strategic goals” (Budhwar & Mellahi, 2006: 211). Therefore, it could be argued that public personnel management in Egypt is still more of a rigid, centralized and traditional system that follows and expresses traditional values such as responsiveness, efficiency, individual rights and social equity.

#### **Evolution of the Public Sector and Public Personnel Management in the U.S.A**

According to Ingraham (1984:13), “The U.S. personnel system is a large and complicated beast, not amendable to easy change. In the years after World-War II, it grew, like Topsy, by leaps and bounds. In the 1960s, the new social program by the Kennedy and Johnson Administration spurred its growth again. This period of history saw federal bureaucrats assume responsibility for civil rights, expanded educational opportunities, employment programs for the poor, and other programs.” It is important to note that “from the time the first executive-branch agency opened its doors, even before ratification of the U.S. constitution, the personnel recruitment, selection, training and promotion functions were vital parts of American public administration” (Milakovich & Gordon, 2011: 278). There are three predominant values that have a great but shifting impact on the U.S. approach to personnel practices, these values are:

- The quest for strong executive leadership, where both “representativeness of social groupings and representation of the political majority are served through administrative appointments” (Milakovich & Gordon, 2011: 278).
- The Desire for a politically neutral, competent public service, Which involved “formal disregard of race, gender, ideology, or political-party ties in filling administrative posts” (Milakovich & Gordon, 2011: 279).
- The belief that the composition of public service should generally mirror the demographic composition of American society.

According to Milakovich and Gordon (2011: 287), the federal personnel administration in the U.S.A. has evolved through seven major phases, as follows;

1. Government by “Gentlemen”; which reflected the use of nepotism within political participation.
2. Government by the “Common Person”; which moved towards a more egalitarian political system.
3. Government by the “Good”; which focused on elimination of corruption in hiring.
4. Government by the “Efficient”; which focused on maintenance of merit system, political neutrality and pursuit of efficiency.

5. Government by “Administrators”; which developed an activist political role for public administrators.
6. Government by “Professionals”; which gave greater concern for testing applicants skills and increasing professionalism.
7. Government by “Citizens, Experts and Results”; which calls for increased accountability, improved performance, and expanded minority participation.

Therefore, it could be argued that public personnel management in the U.S. has shifted from traditional systems and values, to new and more contemporary systems/values that encourage decentralization, accountability and flexibility.

### **Evolution of Development**

Since the focus of this paper is on the “Development” function of public personnel, it is crucial to identify what is “Development”, and how various scholars defined it. It has been noted that personnel training, education and development is the “expansion of knowledge, the acquisition of skills and the changing of attitudes. Which involves a learning process in which information is obtained and processed” (Bayat, Cheminais, Fox & Waldt, 1998: 188). However, it is important to differentiate between the concept of training, the concept of education and the concept of development, whereas training “involves those activities which are designed to improve human performance on the job the employee is presently doing or is being hired to do”; education is more concerned with “the human resource development activities which are designed to improve the overall competence of the employee in a specified direction and beyond the job now held”; while development “is concerned with preparing the employees so they can move with the organization as it develops, changes and grows” (Laird, Naquin & Holton, 2003: 14).

In other words, Human Resource Development (HRD) “can be defined as a set of systematic and planned activities designed by an organization to provide its members with the opportunities to learn necessary skills to meet current and future job demands” (Werner & DeSimone, 2012: 4). Therefore, it is crucial to integrate development programs with the long-term plans and strategies of the organization, in order to be able to respond to job changes, and to use human resources in a more effective and efficient manner (Ibid). This shift from training to development is crucial since “employees are central to performance potential, especially within the public administration”. Moreover the fact that tight labor markets might become a long-term problem in the foreseeable future, makes “restructuring away from bureaucratic personnel management and towards human resource oriented development required” (Naschold & Otter, 1996: 75).

### **Development of Personnel in the Egyptian vs. the American Public Sector**

According to the Ministry of Insurances and Social Affairs in Egypt, decision number 192 was made in September, 1999 for the purpose of establishing “centers for professional training with the objective of developing Egypt’s human resources and to enhance access to work for persons who have been deprived of a basic education” (DPADM, DESA & UN, 2004: 12). This decision was based on Act No.47 of 1978 governing civil servants in the public sector and Act No.153 of 1999 regulating the practices of national institutions. It is also important to note that Egypt is one of the countries that have established special schools for training public sector managers and senior civil servants; for example the Ford Foundation has helped Egypt in setting up “the National Institute for Higher Administration and Development, whose training functions have now been absorbed by the Sadat Academy” (Waterbury, 1993: 169). However, there is no evidence in the literature regarding differentiating between training, education and development in the Egyptian public sector, thus it could be argued that Egyptian public

entities are still limiting themselves to short-term training or educational programs, rather than development programs.

On the other hand, “evidence of systematic public sector training is found in the Employee Training Act, 1958 in the United States of America” – “The Act is considered as one of the pioneer steps in emphasizing on the importance of training” (Huque & Vyas, 2004: 20). Also, it should be noted that the U.S. is one of the few countries that advocates and focuses on ensuring that training programs in the public sector should not be limited to developing specific skills and abilities, but should also encompass “broad understanding of the functions of the governmental activities and the fundamental principles, which govern public administration” (Ibid); this could be viewed as developing staff for long-term changes, growth and adaptability. Therefore, it could be argued that American public sector has reached the level of identifying the various levels of training and has reached the point at which public employees are not just trained and educated, but also developed.

### **Development of Personnel in Egypt Air vs. Delta Airlines**

On the one hand, “Egypt Air offers the highest quality cabin crew training in the Middle East and Africa regions. All categories of training from initial new hire training to up-grading, recurrent and requalification training for all cabin crew members including instructors & pursers” (Egypt Air Training Center, 2011). Training is provided for the following employees:

- Pilots – these are provided with “Ground School Training” for various aircraft types, using various training devices and simulators.
- Cabin Crew – are provided with “Emergency Training Courses”, as well as “Cabin Service Courses”; which includes introduction to the meaning of cabin crew, grooming, etiquette, crew members coordination and communication, nutrition, crew security and safety, managing passenger interaction, customer service and catering.
- Technical and Maintenance Staff – are provided with “Basic Technical Training” as well as “Maintenance Training” for various types of aircrafts.
- Ground Staff – are provided with “Ground Service Training”.

Egypt Air also offers “Commercial Training Courses” to its staff, such as “Marketing & Sales”, “Finance”, “Administration”, “Quality”, “Security”, “Airport Handling” and “Cargo” courses, in order to satisfy the needs of its customers (Egypt Air Training Center, 2011). Also, Egypt Air provides “Professional Training Programs” to its staff which offers the required skills and knowledge needed to cultivate future leaders; this type of program is considered to be in the category of staff education. Moreover, Egypt Air Training Center has been a full TRAINAIR Program member since 27th of January 2006 by establishing a Course Development Unit, (CDU) to produce standardized courses in the form of Standard Training Package (STP) which have been made available on the TRAINAIR international sharing system. The Goal of the ICAO-TRAINAIR Program is “To improve the safety and efficiency of air transport through the establishment and maintenance of high standards of training and competency for aviation personnel on a global basis” (Egypt Air Training Center, 2011).

On the other hand, Delta Airlines provide various training programs – these programs are mainly considered to be in the category of training, as follows (Delta, 2012):

- Employees are given “Healthcare Training Courses”, such as BLS Healthcare Provider or HeartSaver CPR, which teaches employees how to provide first-aid and treat life-threatening emergencies, just in case employees are faced with life or death situations on the job.
- Employees are provided with “Curriculum Development Programs”, such as;

- Aviation Regulation – which gives an overview about aviation regulations.
- Compliance Services – which seeks to enhance the performance of the crew.
- Custom Curriculum Design and Development – which seeks to identify performance gaps and training needs.
- The crew is given “Flight Attendant” and “Pilot Training”, which seeks to improve customer service and develop confident, professional crew members that are ready for line flying. The use of simulators and training devices are common in these programs.
- Managers and supervisors in Delta are given “Professional Development”, which helps leaders become adept at hiring, mentoring, facilitating and providing feedback. Some of the courses in this program are as follows;
  - Assessment and Selection for Hiring – in which “the process consists of personality and cognitive assessments, a work simulation based on real work scenarios, and in-depth interviews. Personality profiles are created and recommendations are made to hiring managers”.
  - Facilitation Skills Training – the focus of this program is on providing “training on presenting information, demonstrating techniques, and assessing skills designed for facilitators”.
  - Mentoring and Coaching Development – “This program describes what coaching is and how it is distinct from mentoring, training, counseling, or teaching. It also covers basic coaching skills such as listening, questioning, evoking, clarifying, requesting, trust and rapport building, challenging, acknowledging, collaborating, and action planning”.
  - Leadership for Managers – this course helps “participants identify personal leadership styles, and develop leadership skills such as communication, conflict resolution, problem solving, and managing change”.
- Frontline and technical employees are provided with “Technical Operations Training”

Delta even goes beyond training its current employees, to providing “College Programs” that seek expose students to “challenging projects that include hands-on experience in flight simulation, engine maintenance, project management, network planning, demand forecasting, research and analysis, just to name a few” (Delta, 2012). Moreover, Delta provides employees with “Diversity Workshops”; which are “intended to raise awareness of prejudices and biases in the workplace, and targeted at translating diversity into a business capability” – and to “embed the philosophy of accepting diversity into the behaviors and beliefs of its people and into its processes” (Delta Root Learning, 2012). This type of training program is considered to be part of the employee development that prepares Delta employees for changes and growth. Therefore, it could be argued that despite the fact that both Egypt Air and Delta airlines provide various and somehow similar types of training programs, Delta offers development programs to their employees, while Egypt Air limits its programs to training and education only.

### **Performance of Egypt Air vs. Delta Airlines**

Egypt Air (2011) seemed to be performing financially well. According to its annual report, total revenue consistently increased from 2002/2003 to 2009/2010 by 269%. Moreover, the on-time arrival performance rated the airline as arriving on-time in 72% of the flights. Similarly, Delta also seems to be operating fairly well, since their net income has reached \$854 million in 2011, which shows an increase of \$261 million compared to 2010. Moreover, the total operating revenue has increased from 2010 to 2011 by \$3.4 million, on an 11% increase in passenger yield (See figure 6) (Delta Airlines Annual Report, 2011: 26). According to Flight Stats (2012), on-time arrival performance ratings were found to be 84% for Delta, thus showing better on-time performance for Delta Airlines as compared to Egypt Air. On the

other hand, ratings shown on Skytrax (2011); the airline review site, show slightly better passenger reviews for Egypt Air than Delta airline, with a score of 4.1 out of 10 for Egypt Air, as opposed to 3.8 out of 10 for Delta Airlines. However, all in all Delta airlines seems to be performing slightly better when compared to Egypt Air.

## Hypotheses

*Hypothesis 1: Employee professional development has a positive impact on the financial performance of an organization.*

*Hypothesis 2: Employee professional development has a positive impact on customer satisfaction towards an organization.*

## AIMS & METHODOLOGY

### Research Aims

- a. Identifying how each organization approaches and handles development - Resources used and time allocated to development efforts by each organization.
- b. Identifying how each organization addresses the development needs of various employees in the professional, administrative and technical levels of the organization
- c. Identifying the level of customer satisfaction in each organization, the reputation of each organization, and the performance of each organization in terms of revenues.

### Research Methods

A review of the literature was conducted on the history and background of Egypt and the United States, the concept of development in Egypt and the United States, the history and background of Egypt Air and Delta, and the development approaches adopted by both Egypt Air and Delta. This review of the literature conceptualizes the framework of the research and constitutes the secondary data used for the research. Primary research was carried out through conducting interviews with employees and managers from Egypt Air and Delta, as well as distributing questionnaires to customers of Egypt Air and Delta.

- a. Interviews with managers and employees in Egypt Air and Delta were conducted regarding the development plan and framework adopted within the organization. These interviews sought to identify the development efforts undertaken by Egypt Air and Delta. A total of eight interviews were conducted. On the one hand, six interviews were conducted in Egypt Air, with the following respondents; Magda Shafik (Head Hostess and Trainer), Dalia Atef (Domestic Controller, Central Reservation), Shahira Nashaat (Hostess), Noha (Interior Designer), Amira (Working in the Sales Department) and Nilly (Hostess). On the other hand, two interviews were conducted in Delta, with the following respondents; Erin (Hostess) and Nancy (Working in the Sales Department).
- b. Questionnaires were distributed to a random sample of customers who had an experience with Egypt Air or Delta, in order to identify customer experience and satisfaction with the service offered by the organization. This sample was chosen randomly based on convenience; where the selection of cases was selected based on those who are easiest to approach and obtain. A total of 100 questionnaires were distributed, while eighty two responses were obtained.

## RESULTS AND FINDINGS

### Results of Interviews

**Interviews conducted at Egypt Air.** The results of the interviews conducted in Egypt Air were as follows:

- (a) Magda Shafik, 55 years old, Chef Hostess and Trainer at Egypt Air. She has been working at Egypt Air for 33 years. She mentioned that the company provides staff development and training. Examples of such are Customer service, Customer Care, First Aid and Security Awareness. Only 100 hosts/hostesses out of the 2,500 were selected as trainers. She added that she was honored to be selected as one of them. Trainers have to be registered in Civil Aviation authority and are always supervised and monitored by a Minister's representative and who evaluates them. <sup>4</sup> This training plan applies to all air hostesses as well. Additionally, we do one to one training for new comers. Where they travel for 5 trips with us and stay with us at the same hotel. We train them even on how to pack their bags and what to include and what not to include. Each trainer is responsible for three models of planes only. Training is not based on needs assessment as the same training is offered to all hosts. Training is not related to education and its aim is not to fulfill HR needs it is a standard training set by IATA that we have to follow. <sup>5</sup> years ago my rating for the quality of training was 5 (excellent) as they were sending International foreign trainers to train us. When Egyptians conducted the training it dropped down to 4 or maybe 3. The training provided keeps us updated on all new plane models, we use simulators, we refresh our memories on whatever we know or learned. What I dislike most is that the intensive training is too compressed; the information is a lot for 5 days. It needs to be shortened and distributed among the days. All hosts are eligible for training whether new or old. What is different is that new comers are offered 3 months initial ground school training and then they join the routine training. All employees getting this training have to stay in the company for three years or else they pay a \$10,000 penalty fee. Moreover, it helps stay updated and it is a good chance to ask questions and be part of the discussions going on. I consider training part of my pay package as it is an international training certified by IATA. Training is monitored as trainers are supervised during training by a Minister's representative to evaluate them. Additionally we have a yearly licensee that must be renewed our license every year along with do a complete medical checkup.
- (b) Dalia Atef, 42 years old and works as Domestic Controller, Central reservation. I have been working at Egypt Air for 17 years. On average I can be considered satisfied. As central reservation we don't receive training whatsoever on soft skills. The kind of training we receive is when the company introduces a new computer software or system we all get trained on how to use this system. Egypt Air does not invest on other kinds of training for the reservation employees. Additionally, we are not considered trained compared to other airlines. So basically training is not part of our package, we don't benefit from it other than learning the new systems. Normally the trainers are the software providers and we find it too technical and boring. Training is not a factor in our promotion as we get promoted based on the seniority only no other factors considered. Dalia rated the instructors and training as 3 (average).
- (c) Shahira Nashaat, 52 years old and hostess and I have been working with Egypt air for almost 30 years. We receive staff development workshops and technical training. Examples of such are Customer service, Customer Care, First Aid and Security Awareness. Additionally, whenever a new plane model is launched we normally receive training on such model with the pilots and it is

the same type of training. We find it beneficial as we are trained on simulators and hence it increases our knowledge and information. This training plan applies to all air hostesses as well. Training is not based on needs assessment as the same training is offered to all hosts. Training is not related to education and its aim is not to fulfill HR needs it is a standard training set by IATA that we have to follow. My rating for the quality of training is around 4 (good). The training provided keeps us updated on all new plane models, we use simulators, we refresh our memories on whatever we know or learned. What I dislike most is that the training is offered once and year only, which I see insufficient. All hosts are eligible for training whether new or old. What is different is that new comers are offered 3 months initial ground school training and then they join the routine training. All employees getting this training have to stay in the company for three years or else they pay a \$10,000 penalty fee. Moreover, it helps us stay connected with our colleagues and familiar with all new planes and rules. I consider training part of my pay package as it is an international training certified by IATA, so if I decide to join another company this training will be a plus. Additionally we have a yearly license that must be renewed our license every year along with do a complete medical checkup.

- (d) Noha, 37 years old and has been working for Egypt Air for the past 12 years as an Interior design. She is very satisfied and content and said that Egypt Air provides very good and efficient training for the employees in her department. She mentioned that she takes one or two training on a yearly basis as they gave them a full catalogue of 20 different topics and every employee should choose what he wants and what suits him. She rates the instructors as very good and she is happy about the quality and the quantity of the training. The training policy in Egypt air is restricted about the number of years they should spend after taking the training otherwise they should pay all money they spent on them. She believed that the impact of the training she took during her past years in the organization was positive and she gained a lot of nice and good experience.
- (e) Unlike Noha, we found Amira, 39 years old and she has been working for Egypt Air for the past 14 years in the sales department. She is not that satisfied with her job and she felt that to get promotion in the department is hard because of the high number of the employees in her department. She mentioned that she took one training when she started her work on the basics of her duties and it's very rare when she takes a new training and this happened only when they have something new. She rates the instructors as satisfactory. She wasn't sure about the policy of the training as she doesn't know about it. She also added that the organization doesn't care about the development of the employees; they just want to sell tickets and operate the organization and that it.
- (f) Another example was Nilly, 32 years and she has been working there for the past 10 years. Her satisfaction about with her work is limited and she is willing to join another company as the payment is not satisfying her need and also she wants to learn to fly on different aircrafts. She mentioned that they take frequently training and whenever there is a new aircraft or something; they simply train them. She told us about a very nice simulator training facility they have and another training center where they took most of their training there. About the training policy, if the flight attendant after taking all the training and she was suffering from a certain medical problem and will not be able to fly again and the medical unit transfer her to work in another office or something like this; she is not entitled to pay back her training but if she chooses on her own will to move or to take leave without pay; she should pay back all the

money of the training she took. She rates the instructor as very good especially in the simulator training facility and of course she benefited from all the training she learned.

**Interviews conducted at Delta Airlines.** The results of the interviews conducted in Delta Airlines were as follows:

- (a) Erin 34 years old and she has been working there for the past 14 years as a flight attendant, she told us that she took a variety of training on different modules of air craft's and customer services, she told us that they have an excellent huge training facility in Atlanta with a motion based simulator and the classrooms are fully equipped. Delta airlines are very restricting about the training policy there. She is happy and satisfied with her job. She rates the instructor there as very good and she benefited a lot of all the training she took there all over her career.
- (b) Nancy 24 years old and she have been working in the sales department for the past 2 years. She is satisfied about being part of this big organization and working as sales woman is hectic but still interesting as there is something new on a daily basis. She rated the instructor there as very good and that she took the basic training in the beginning of her career and then she took another two, she also said that the organization main concern is that the sales personal should talk politely and be patient with clients and this is something she learned from there and it has a positive impact in her personal life.

#### **Analysis of Interview Results**

In general, the perception of employees regarding the benefit of the training they acquire was more positive in Delta than in Egypt Air, while most of the employees interviewed in Egypt Air rated their training benefit as average, employees interviewed in Delta rated their training benefit as high. Therefore, it could be concluded that training provided in Delta was more satisfactory, successful, long-term oriented and beneficial, than the training provided in Egypt Air.

#### **Results of Questionnaires**

The population of customers responding to the questionnaire consisted of a sample of 52% females, 48% males, 82% Egyptians, and 18% Americans. The following figures 1 and 2 show the average perception of customers regarding the behavior of ground staff, the behavior of hostesses, the quality of food, the cleanliness of plan and the overall level of satisfaction for each airline.

Iso, when customers were asked about their impression regarding the training of employees in each airline, 59% answered that employees in Egypt Air were well-trained versus 78% in Delta. Moreover, when customers were asked which airline did they prefer more, 47% preferred Egypt Air versus 66% for Delta. When customers were asked if they would recommend the airline to other people, 66% said that they will recommend Egypt Air to people versus 55% recommended Delta.

**FIGURE 1**  
**Customers Perceptions on Egypt Air Services**



**FIGURE 2**  
**Customers Perceptions on Delta Services**



**Analysis of Questionnaire Results**

Generally, most of respondents had a more positive perception towards Delta Airlines than towards Egypt Air, they also believed that Delta Airlines employees were better trained than Egypt Air, and thus most of customers stated that they prefer Delta Airlines over Egypt Air; this could be attributed to the enhanced training of staff in Delta Airlines. On the other hand, more people recommended Egypt Air to others, however this result may not be very accurate, since most of the respondents had more experience with Egypt Air than Delta Airline, and thus were more prone to recommend Egypt Air rather than Delta.

**Analysis of Interviews and Questionnaires**

Both interviews and questionnaires conducted shows that better training is provided in Delta rather than Egypt Air, which reflected better employee as well as customer satisfaction towards Delta Airlines.

## CONCLUSION

### Summary of Results and Findings

Training provided in Delta Airlines is more sophisticated, advanced, long-term oriented and satisfactory than training provided in Egypt Air, as derived from the literature, interviews with employees and questionnaires from customers; where it could be concluded that Delta goes that beyond than just training and education, but also employee development, which is absent in Egypt Air. This enhanced training and development in Delta, resulted in better financial performance in Delta Airlines, as derived from the literature, as well as enhanced customer satisfaction as derived from the questionnaires. Therefore, these results support the two hypothesis proposed by the researchers, thus it could concluded that employee professional development has a positive impact on both the organizations' financial performance, as well as customer satisfaction.

Therefore, it is recommended that Egypt Air starts adopting a training and development system that is similar to Delta Airlines, and focus on long-term rather than short-term impact of the development aspect, but this requires a shift in the culture and perception towards training, which may take years. However, if the organization realized that enhancing the training and development aspect has a direct impact on both the financial performance of the firm, as well as customer satisfaction, it will be more motivated to change the approach to its training and development.

### Limitations of the Study

It is important to acknowledge that the research has the following limitations:

- Due to time limitations, only eight interviews and eighty two questionnaires were conducted and analyzed.
- Many of the respondents did not travel on Delta Airline, but traveled on Egypt Air, therefore the results may be subject to bias.
- Analyzing the performance and the training of Egypt Air and Delta requires more than interviews and questionnaires, but also required long-term observation and analysis, however due to time and budget constraints such tool were not utilized.

### Recommendations for Future Research

Given the limitations mentioned above, it is recommended that future research be done to analyze the training methods and performance of both Egypt Air and Delta, using more interviews, questionnaires and long-term observation of both the performance of both organizations. Moreover, further research is required in order to identify the exact mechanisms and processes needed to make training and development more effective and efficient in public organizations in Egypt that function with limited resources. Such research would not only benefit public organizations in Egypt, but would also benefit all public organizations in the Middle East countries that have the same culture and face the same hurdles as Egypt.

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**END NOTE**

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## TAX COMPOSITION AND ECONOMIC GROWTH IN NIGERIA

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### ABSTRACT

The broad objective of the study was to examine the tax composition – growth dynamics. Co-integration and error correction mechanism were adopted in the estimation techniques. Phillips-Peron test was used to ascertain of the variables. The short-run dynamic behaviour of the model was tested using Engle-Granger two-step procedure. The discrepancy between the long-run and short-run impact of the explanatory variables was tested using the Autoregressive Distributed Lag (ARDL). Data were sourced from the Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Service. The initial diagnostic tests suggest a well behaved model. While direct tax had a positive relationship with economic growth, indirect tax was negative and insignificant. This calls for policy makers to focus on direct taxation in Nigeria.

**Keywords:** Indirect taxation, direct taxation, petroleum profits tax, companies' income tax, value-added tax, New National tax policy.

### INTRODUCTION

The relationship between tax composition and the dynamics of economic growth has received serious empirical consideration in the developed countries of Europe and America over the last few decades, though these attempts have provided less conclusive results. Results have ranged from negative or non-significant relationship between direct taxation and economic growth as reported by Ferretti and Asea (1996); Koch, Schoeman and Van-Tonder (2005); Barry and Jules (2008); Arisoy and Unlukaplan (2010) to positive and statistically significant relationship between indirect taxation and economic growth (Kneller, Bleaney & Gemmel, 1999; Burges & Stern, 2003; and Aamir, Qayyum, Nasir, Hussain, Khan & Butt, 2011).

While previous attempts on the tax composition and economic growth nexus have focused mainly on OECD countries using cross-country analyses, there has been paucity of country-specific empirical consideration with developing countries of Africa as a reference point safe for Koch *et al* (2005). Data from OECD countries and the rest of the world according to Grier & Tullock (1989) do not share common set of coefficient and should not be pooled. Therefore, generalising results from such studies to developing countries may be counterproductive.

Against the above backdrop, the fundamental objective of this study is to investigate the relationship between tax composition (direct and indirect taxation) and economic growth using

macroeconomic and taxation data set for the longest feasible time period. Data were sourced mainly from the Central Bank of Nigeria Statistical Bulletin and the Federal Inland Revenue Service in Nigeria covering the period 1980 to 2011.

This study is motivated by two congenial developments: The diverse theoretic and conflicting evidences presented by the theoretical and empirical literature and secondly, paucity of country-specific studies which emphasises developing countries of Africa.

This study contributed to knowledge in several respects. Primarily, the study has helped to close the wide existing knowledge gap arising from the paucity of empirical literature in the developing countries of Africa. To the best of our knowledge, this is the first study to address the impact of total direct and total indirect taxes on economic growth in Nigeria. In addition, the study marks a substantive methodical advancement, having estimated different variants of baseline models to check the problem of multi-collinearity among the covariates.

Majorly, we found a negative and statistically insignificant relationship between indirect taxation and economic growth in Nigeria. The two sub-components of indirect tax (value-added tax and custom and excise duties) were dropped from the robust estimation having failed the test of significance in the baseline regression. On the other hand, as expected, we found a positive and statistically significant relationship between direct tax and economic growth.

The rest of the paper is organised as follows. Section II presents empirical evidence on the relationship between tax composition and economic growth. Section III presents the methodology of the study with emphasis on the analytical framework and model specification. Section IV focused on the presentation and analysis of the results while summary of findings, conclusion and recommendations are contained in section V.

## **EMPIRICAL EVIDENCE ON THE TAX COMPOSITION AND ECONOMIC GROWTH**

The effect of taxation, tax components (direct and indirect taxes) and the sub-components of taxation on economic growth has been given serious empirical consideration. This section addresses the different studies.

### **Total Tax and Economic Growth**

The empirical literature on the taxation-growth dynamics is divided along the neoclassical growth theory which found no long run relationship but transitory relationship between tax and economic growth and the endogenous growth theory which advanced a steady growth relationship between taxation and economic growth. Against the above backdrop, empirical literature is organised in two perspectives: Those that support a positive relationship between taxation and economic growth and those that are of the view that taxation has no relationship with economic growth.

The earliest empirical research on the taxation - growth relationship is the study by Roman and Subrahmanya (1979). They employed multiple regression technique and discovered that high taxes do not only drive the business but also the person. In the same vein, Marsden (1983), using a sample of 21 countries across America, Asia, Africa and Europe argued that countries which impose a lower effective tax burden on their populace achieved substantially higher real growth compared to their more highly taxed counter-part. Marsden (1985) examined 17 low developed countries in Asia and Africa and concluded that low tax rates stimulated economic incentives and economic growth in the high and medium growth economics.

Engen and Skinner (1996) put forward a disaggregated study on the effect of taxes on economic growth. First, they argued that higher taxes can discourage investment rate through higher statutory tax rates on corporate and individual income. Second, they posited that taxes may attenuate labour supply growth by discouraging labour force participation or distorting the choice of occupation or the

acquisition of education and training. Third, tax policy can discourage productivity growth. Fourth, tax policy can influence marginal productivity of capital by shifting investment from areas of heavy tax to lightly taxed sector of the economy and finally they asserted that heavy taxation on labour supply can distort the efficient use of human capital. Reed (2006) estimated the relationship between taxes and economic growth using data from 1970 – 1999 for the 48 US states. He discovered that taxes used to finance general expenditure have a significant and negative relationship with economic growth. Barry and Jules (2008) investigated the impact of tax policy on economic growth in the United States within the framework of an endogenous growth model. Using regression analysis, they estimated the impact of taxes on economic growth from 1964 to 2004. The result of the analysis revealed a negative relationship between taxes and economic growth in the United States.

The other end of the continuum is researches which found a positive relationship between taxation and economic growth. In support of the endogenous growth model, (Lucas 1990; Jones *et al* 1993) arrived at a consensus that taxation has positive impact on economic growth. In the same vein, Ariyo (1997) using data from 1970 – 1999, studied the productivity of the Nigeria tax system with emphasis on its buoyancy along three episodic periods of independence, oil boom and structural adjustment programme. It was discovered that the oil boom had a significant effect on the country's revenue sources peaking at a buoyancy coefficient of 1.88. The non-oil revenue component of GDP fell to 0.61 during the study period. The result also confirmed the low quality of tax information system in Nigeria. In the same vein, Mamatzakis (2005) investigated the relationship between tax composition and economic growth in Greece between 1960 and 2003. It was discovered that there is a positive and significant relationship between tax mix and economic growth.

### **Direct Tax and Economic Growth**

Mihaiioan, Octavia and Dan-Constantin (2006) using pooled data from European Union (Eu23) from 1995-2005, discovered that tax policy encourages economic growth when using direct tax. But some others are of the view that direct tax has negative implication for economic growth. For instance, Barry and Jules (2008), exploring the impact of tax policy on economic growth in the States within the framework of an endogenous growth model, discovered that income taxes (direct taxes) impacted negatively on economic growth in the States. They used regression analysis in their estimation. In the same vein, Greenidge and Drakes (2009) using an unrestricted error correction model, examined tax policy and its effect on macroeconomic activities in Barbados. It was discovered that direct taxation had a negative impact on growth in both the short run and long run. In the model provided in Lucas (1990), it was discovered that economic growth responds differently to the different tax components. The study reported that direct taxation is harmful to growth in nearly all endogenous growth models.

Arisoy and Unlukaplan (2010) tested the effect of direct-indirect tax composition on economic growth in Turkey for the period 1968-2006. They established that direct taxes have no significant effect on economic growth but that real output is positively related to indirect tax revenue. The result directly conflicts with the study in South Africa by Koch *et al* (2005). In the South Africa case, it was discovered that direct taxes have a significant positive impact on economic growth which is also a direct opposite of the result of OECD countries. Mashkoor, Yahya and Ali (2010) tested the relationship between tax revenue and rate of economic growth in Pakistan using data from 1973 – 2008. The result shows that the entire coefficients were statistically significant and the coefficient of error correction term shows low rate of convergence in the long run. It was discovered that direct tax to GDP ratio and direct tax to total tax ratio caused the real GDP growth. Aamir, Qayyum, Nasir and Hussain (2011) using panel data of direct and indirect taxes in Pakistan and India from 2000-2009 discovered that direct taxes have statistically significant impact on the total revenue of the economy of India. The result shows that if direct taxes are increased by RS.1, the total revenue of India economy will increase by RS.2.293, which is significant enough to impact positively on growth.

### Indirect Taxation and Economic Growth

The earliest study on the relationship between indirect tax and economic growth was Harberger (1964). In the study it was observed that indirect taxation does not affect investment to such an extent to contribute meaningfully to higher growth. In the model tested, the changes in direct and indirect tax composition do not affect the labour supply and investment. Therefore, it resulted in insignificant changes in economic growth. The findings of Harberger (1964) however contradict the Conventional Wisdom Hypothesis which was popularised by the work of Burgess and Stern (1993). They recommended indirect system of taxation for developing nations. Though Emran and Stiglitz (2005) and Gordon and Li (2005) challenged the conventional wisdom hypothesis. Their argument was based on the presence of active and relatively large informal sector in developing countries which according to them may justify a different type of tax structure. Kneller, Bleaney and Gemmell (1999) reported that in designing tax policies to promote growth, greater emphasis should be placed on indirect tax. They concluded that indirect tax is less harmful to the economy as it does not reduce the return on investment compared to direct taxation which presents a disincentive to invest in physical and human capital. Koch, Schoeman and Van-Tonder (2005), using data from South Africa for the period 1960- 2002, observed that an increase in indirect taxation compared to direct taxation reduces economic growth.

Aamir *et al* (2011) using panel data of direct and indirect taxes in Pakistan and India from 2000-2009 discovered that in Pakistan, indirect taxes have statistically significant impact on the total revenue and by extension economic growth.

### ANALYTICAL FRAMEWORK AND METHODOLOGY

#### Analytical Framework and Model Specification

The framework for the analysis of the study was based on the Feder's two-sector production function approach. Feder (1982) formulated separate production function for the export and non export sectors of the economy and assumed equality of marginal productivity between the two sectors. We assumed that the Nigerian economy comprises of two sectors: the public and the private sector (Ram, 1986; Koch *et al*, 2005; Arisoy & Unlukaplan, 2010). In these sectors, the conventional, continuous and twice differential production functions are presented as:

$$G = G(L_g, K_g) \quad (1)$$

$$P = P(L_p, K_p + G) \quad (2)$$

Where: G = Government sector; P = Private sector; L = Labour input; K=Capital input; Subscripts *g* and *p* represents the sectoral inputs; Y= Total output.

The total inputs of the formal and informal sector can be specified as

$$L = L_p + L_g \quad (3)$$

$$K = K_p + K_g \quad (4)$$

$$\text{The total output (Y) = } f(L_g, K_g; L_p, K_p, G) = Y = P + G \quad (5)$$

Differentiating with respect to both sectors or taking the total differentials of (5) with respect to changes in inputs and the share of government spending, total output yields.

$$\frac{\Delta Y}{Y} = \frac{\Delta P}{P} \left( \frac{P}{Y} \right) + \frac{\Delta G}{G} \left( \frac{G}{Y} \right) \quad (6)$$

Where  $\Delta$  indicates growth rate, with variation in relative factor productivity of both sectors, the relation can be specified below:

$$\frac{G_L}{P_L} = \frac{G_K}{P_K} = (1 + \sigma) \quad (7)$$

Where:

$G_L = \frac{\partial G}{\partial L}$  = Marginal Product of labour in the government sector;  $P_L = \frac{\partial P}{\partial L}$  = Marginal Product of

Labour in the private sector;  $G_K = \frac{\partial G}{\partial K}$  = Marginal Product of Capital in the government sector;

$P_K = \frac{\partial P}{\partial K}$  = Marginal Product of Capital in the private sector.

Using the two sector production functions and equation (7), we derived the following aggregate growth equations:

$$\frac{\Delta Y}{Y} = \alpha \frac{1}{Y} + \beta \frac{\Delta L}{L} + \theta \frac{\Delta G}{G} + \left( \frac{\delta}{1 + \delta} - \theta \right) \frac{\Delta G}{G} \left( \frac{G}{Y} \right) + \epsilon \quad (8)$$

In a balanced budget, government expenditure can be proxied with taxation such that:

$$G = T = Td + Tid \quad (9)$$

Where: G = Government expenditure; T = Total Tax Revenue; Td = Direct taxes; Tid = Indirect taxes.

Therefore,

$$\frac{\Delta G}{G} = \frac{\Delta Td + \Delta Tid}{G} \quad (10)$$

Substituting equation (10) into equation (8) we have

$$\begin{aligned} \frac{\Delta Y}{Y} = & \alpha_0 + \alpha_1 \frac{1}{Y} + \beta \frac{\Delta L}{L} + \theta T_d \left[ \left( \frac{\Delta Td}{Td} \right) \frac{Td}{T} \right] + \left[ \frac{\delta}{1 + \delta} - \theta \right] \left( \frac{\Delta Td}{Td} \right) \frac{Td}{Y} + \\ & \theta_{Tid} \left[ \left( \frac{\Delta Tid}{Tid} \right) \frac{Tid}{T} \right] + \left[ \frac{\delta}{1 + \delta} - \theta \right] \left( \frac{\Delta Tid}{Tid} \right) \frac{Tid}{Y} + \epsilon \end{aligned} \quad (11)$$

From the estimated equation (11) above,  $\epsilon$  represents the error term while  $\theta$  according to Ariso and Unlukaplan (2010) represents the impact of taxation on the economy. Therefore if  $\theta Td$  and  $\theta Tid$  are statistically significant, it means that direct taxes and indirect taxes impacts on economic growth in Nigeria.

### Model Specification

To circumvent the problem of multicollinearity, estimated equation (11) was decomposed into two baseline growth equations and a robust growth equation. The empirical methodology of using baseline model is in line with the works of Levine and Renelt (1992); Niloy, Haque and Osborn, (2003) and Rosa and Fernando (2004).

### Base-line Growth Equations

The empirical model consists of two baseline equations and the robust growth equation.

$$GDPGR = \beta_0 + \beta_1 \frac{PPT}{TD} + \beta_2 \frac{CIT}{TD} + \beta_3 \frac{PIT}{TD} + \beta_4 \frac{EDT}{TD} + \sum_{i=1}^3 \beta_i Ln(Z) + U_t \quad (12)$$

$$GDPGR = \beta_0 + \beta_1 \frac{CED}{TID} + \beta_2 \frac{VAT}{TID} + \sum_{i=1}^3 \beta_i Ln(Z) + U_t \quad (13)$$

Where Z is a control vector including population growth rate, inflation rate and openness.  $U_t$  is a stochastic error term.

### Robust Growth Equation

To examine the robustness of the baseline regression functions, we expanded the **Z** vector of control variables to now include the variables of investment-income ratio, ratio of total tax to total federal revenue and a measure of human capital development in Nigeria. Thus, the robust regression model is formulated as:

$$GDPGR_t = \beta_0 + \beta_1 \frac{I}{Y} + \beta_2 \frac{\Delta L}{L} + \beta_3 \frac{Td}{T} + \beta_4 \frac{Tid}{T} + \beta_5 \frac{T}{TFR} + \sum_{j=1}^{p-1} \{\beta_j^p - \beta_p^p\} (TD_{j,it}^I) + \sum_{j=1}^{p-1} \{\beta_j^p - \beta_p^p\} (TID_{j,it}^I) + \sum_{i=1}^3 \beta_i (Z) + U_t \quad (14)$$

The terms  $\sum_{j=1}^{p-1} \{\beta_j^p - \beta_p^p\} (TD_{j,it}^I) + \sum_{j=1}^{p-1} \{\beta_j^p - \beta_p^p\} (TID_{j,it}^I)$  capture the variables that could survive significance under the baseline estimation for direct and indirect tax components respectively. By definition,

$\frac{PIT}{Td}$  = Personal Income Tax as a percentage of total direct tax;  $\frac{PPT}{Td}$  = Petroleum Profit Tax as a

percentage of total direct tax;  $\frac{CIT}{Td}$  = Company Income Tax as a percentage of total direct tax;  $\frac{EDT}{Td}$

= Education Tax as a percentage of total direct tax;  $\frac{CED}{Tid}$  = Custom and Excise duties as a percentage of

total indirect tax;  $\frac{VAT}{Tid}$  = Value Added Tax as a percentage of total indirect tax;  $GDPGR$  = Annual

growth rate in real GDP per capita;  $\frac{1}{Y}$  = a measure of physical capital stock;  $\frac{\Delta L}{L}$  = a measure of human

capital stock;  $\frac{Td}{T}$  = Direct tax as a percentage of total tax revenue;  $\frac{Tid}{T}$  = Indirect tax as a percentage of

total tax revenue; and  $\beta_1, \dots, \beta_6 > 0$  = Unknown Coefficients of the variables.

By *a priori*,  $\beta_1, \dots, \beta_5 > 0$

### **Data Description and Source**

Annual data from 1980 to 2011 was used for our estimation. Direct and indirect tax figures for the sample period were sourced from the Federal Inland Revenue Services, Abuja. The output growth (Y) - average annual growth rate of real GDP – was collected from the Central Bank of Nigeria Statistical Bulletin for various years. The secondary school enrolment rates for the period covered were sourced from the Federal Ministry of Education Abuja and United Nations Educational Scientific and Cultural Organisation. Values for Gross Fixed Capital Formation were gathered from the various editions of the Central Bank of Nigeria Statistical Bulletin. Openness was calculated using the usual index. The population growth rate was sourced from the office of the National Population Commission and African Statistical Bulletin. The yearly inflation rate was sourced from the Federal Office of Statistics Abuja, World Bank and CIA publications.

### **Estimation Procedure**

We adopted a combination of co-integration and error correction mechanism. To test if the mean and variance of the time series variables are constant overtime, we adopted the Phillips-Peron tests. To test for the presence of long-run relationship between the variables, we adopted the Engle-Granger two-step procedure. In addition to the above, we carried out initial diagnostic tests to establish the usual regression assumptions. Regression specifications bias was tested using the Ramsey (1969) RESET test to ensure that our model was not mis-specified. To avoid over estimation of the t-statistic and under-estimation of error term, we tested for serial correlation using both the Durbin Watson (DW) statistic and the correlogram-Q-Statistic. To establish if the regression variables assumed the standard normal distribution, we employed the Jarque and Bera (1987) statistic. Finally, to test the serial correlation of the error term, we adopted the White and Autoregressive Conditional Heteroskedasticity (ARCH) test.

## ESTIMATION RESULTS

## Analysis of Stationarity Test Results

**TABLE 1**  
**Results of Stationarity Tests based on Phillips-Peron (PP) Test**

Variables	Level Form		Difference Form		Integration Order	Inference
	Drift &Trend	Critical Value	Drift &Trend	Critical Value @ 1%		
GDPGR	-4.382639	-4.2826	-9.871909	-4.2949	I(1)	Stationary
TD/T	-3.622105	-4.2826	-5.944793	-4.2949	I(1)	Stationary
TID/T	-3.622105	-4.2826	-5.944793	-4.2949	I(1)	Stationary
CIT/TD	-3.041216	-4.2826	-6.358254	-4.2949	I(1)	Stationary
PIT/TD	-2.462259	-4.2826	-7.833037	-4.2949	I(1)	Stationary
PPT/TD	-3.031245	-4.2826	-6.731292	-4.2949	I(1)	Stationary
EDT/TD	-2.221677	-4.2826	-4.900241	-4.2949	I(1)	Stationary
CED/TID	-2.038509	-4.2826	-5.507216	-4.2949	I(1)	Stationary
VAT/TID	-2.566056	-4.2826	-5.978811	-4.2949	I(1)	Stationary
INFL	-2.896788	-4.2826	-5.928985	-4.2949	I(1)	Stationary
PGR	-2.609785	-4.2826	-7.522968	-4.2949	I(1)	Stationary
OPN	-3.884466	-4.2826	-9.028382	-4.2949	I(1)	Stationary
I/Y	-3.480300	-4.2826	-5.332255	-4.2949	I(1)	Stationary
$\Delta$ L/L	-3.002723	-4.2826	-6.176487	-4.2949	I(1)	Stationary
TTR/TFR	-1.943584	-4.2826	-6.289356	-4.2949	I(1)	Stationary

Note: \*\*(\*) indicates statistical significance @ the 10% (5% ) levels respectively

Source: Author's computation 2013

The results obtained from the test statistics are as reported in Table 1. The PP test statistics provide evidence of non-stationarity of all the variables in level except the growth rate of GDP. As observed in Table 1 above, the PP test of GDPGR (-4.382639) exceeded the PP critical value of (-4.2826) at the 1% significance level. After first differencing, the mean and variance of all the variables in the Phillips-Peron test became constant over time (stationary).

## Analysis of Co-integration Test Results

**TABLE 2**  
Co-Integration Test Results Based on Engle-Granger Two-Step Approach

Residuals from Static Regression	Augmented Dickey Fuller (ADF) Test Statistic		Phillips-Perron (PP) Test Statistic	Statistical Inference
	One-Lag ADF Model	Two-Lag ADF Model		
<i>ECM [Baseline Equation 1]</i>	-3.431123**	-2.910503**	-4.467693*	Co-integrated
<i>ECM [Baseline Equation 2]</i>	-3.637155 *	-3.301180*	-4.767629*	Co-integrated
<i>ECM [Robust Growth Model]</i>	-3.737053 *	-3.300785*	-5.052108*	Co-integrated
	Critical Values			
	1%	5%		
<b>ADF model</b>	<b>-2.623</b>	<b>-1.9526</b>		
<b>PP Model</b>	<b>-2.6453</b>	<b>-1.9530</b>		

\*(\*\*) denotes the stationarity of residuals and hence co-integration at the 1% (5%) levels respectively. No deterministic component is captured in the auxiliary regression since we cannot ascertain the *DGP* of the residuals.

Source: Author's computation 2013

As reported in Table 2 above, the one lag, two lag ADF test statistic exceeded the ADF critical value at the 1% and 5% levels of significance. In the baseline equation 1, the one lag (3.431123) and the two lag (2.910503) ADF test statistic exceeded the ADF critical value of (-1.9526) at the 5% level of significance. Same is applicable to the baseline equation 2 and the robust growth model. In the robust growth model, the one lag (-3.737053) and the two lag (-3.300785) ADF test statistic exceeded the ADF critical value of (-2.623) at the 1% level of significance. The result of the Philips-Peron test is similar to that of the ADF test. The (PP) test statistic for baseline equation 1 (-4.467693); base line equation 2 (-4.767629); and the robust growth equation (-5.052108) all exceeded the (PP) critical value of (-2.6453) at the 1% level of significance.

### Disaggregated Analysis of the Impact of Tax Composition on Economic Growth in Nigeria

In this study, we have been able to established co-integrating relationship amongst all the variables. In what follows therefore, the short-run adjustment dynamics can be modeled as an error correction. In view of this, we estimated the error correction models for each of the base line equations with direct and indirect tax components respectively together with the robust growth model which then included all the control variables and the tax variables that were found to have exhibited significant correlate with the growth rate of real gross domestic product. From the initial base-line regression, only the ratios of company income tax and petroleum profit tax to total direct tax were statistically significant. And in the indirect tax sub-component, only the ratio of CED to total indirect tax was significant. And the diagnostic tests reported a relatively stable result.

### Analysis of Robust Results of the Impact of Taxation on Economic Growth in Nigeria

Estimation 1 utilised the significant direct and indirect tax sub-components that sustained the test of significance under the baseline regressions together with the control variables of inflation rate, population growth rate and openness. As presented above, the error correction coefficient in the robust estimation 1 shows that 72.65% of the total disequilibrium from the long-run growth of real output is corrected within one year. The direct tax sub-components of the ratio of petroleum profit tax to total direct tax and the ratio of company income tax to total direct tax maintained their significance under the

robust estimation, having reported t-values of (2.5453) and (14.5972) respectively. The indirect tax sub-component of the ratio of customs and excise duties to total indirect tax also reported a significant t-value of (2.1839) at the 5% level.

**TABLE 4**  
**Robust Error Correction Estimates of the Impact of Taxation on Economic Growth in Nigeria**

Explanatory Variables	Dependent Variable: D[GDPGR]		
	Estimation 1	Estimation 2	Estimation 3
Intercept	-0.3043 (-0.3881)	-0.0992 (-0.1132)	-0.2219 (-0.3033)
<b>Direct Tax Component(s)</b>			
D[CIT/TD]	1.3041*** (14.5972)	0.2272** (2.6916)	1.1173*** (34.281)
D[PPT/TD]	1.4723** (2.5453)	1.1602*** (28.0374)	1.3414** (2.2332)
D[TD/T]		1.0628*** (9.6495)	
<b>Indirect Tax Component(s)</b>			
D[CED/TID]	0.2542** (2.1839)	0.1502 (1.2206)	0.1229 (1.0843)
D[TID/T]		-0.0599 (-0.5817)	
<b>Control Variable(s)</b>			
D[INFL]	-1.2612*** (-22.6672)	-2.0573*** (-34.9310)	-1.0826*** (-18.5428)
D[PGR]	2.4011*** (5.975)	2.0618*** (3.8359)	2.3835 (1.1284)
D[OPN]	1.1047*** (17.4521)	1.0799*** (16.5641)	1.1244*** (15.7763)
D[I/Y]			1.1716*** (5.0481)
D[ $\Delta$ L/L]			-0.2437 (-1.4544)
D[TTTR/TFR]			2.0886*** (19.9276)
<b>Error Correction Coefficient</b>			
ECM <sub>(t-1)</sub>	-0.7265*** (-3.2995)	-0.7956*** (-3.4007)	-0.8068*** (-3.6704)
<b>Diagnostic Test Statistic(s)</b>			
R <sup>2</sup> [Adjusted R <sup>2</sup> ]	0.645[0.6250]	0.8763[0.8676]	0.8399[0.8096]
F-statistic[Prob.]	64.43[0.0000]	46.000[0.0000]	26.56[0.0000]
Durbin-Watson	2.0994	2.1883	2.1268
B-G LM Statistic [Prob.]	48.662[0.9000]	42.032[0.0002]	26.347[0.0009]
ARCH Test Statistic [Prob.]	0.137[0.0391]	1.2026[0.0451]	1.005[0.3002]
Jarque-Bera Statistic [Prob.]	0.1099[(1.8622)]	1.0828[1.0526]	1.0062[.0289]
Ramsey RESET Test[Prob.]	10.1002[0.0002]	20.859[0.0009]	82.270[0.0000]
Note: ***(**) indicates statistical significance of variables at 1%(5%) levels respectively			

Source: Author's computation 2013

Estimation 2 integrated the ratio of total direct tax to total tax revenue and the ratio of total indirect tax to total tax revenue to the existing sub-components of direct and indirect tax. The result of the error correction estimates presents a one year lagged value of (-3.4007) which is negative and significant. The variables of interest, direct and indirect tax reported a mixed result. While the ratio of direct taxation to total tax revenue presented positive coefficient (1.0628) at the 5% level, the indirect tax to total tax ratio presented a negative coefficient of (-0.0599) and an insignificant t-value of (-0.5817). The indirect tax component was dropped from the final estimation because it failed the test of significance. The sub-components of CIT/TD, PPT/TD; passed the significance test.

Estimation 3 integrated three explanatory variables of investment-income ratio, human capital stock and the ratio of total tax revenue to total federal revenue. From the result, the direct tax sub-components maintained their significance having reported t-values of (34.281) and (2.2332). The ratio of total tax revenue to total federal revenue reported a positive coefficient of (2.09556). Investment-

income ratio, openness and population growth rate all reported a positive coefficient and were statistically significant with the exception of population growth rate. The DW statistics of 2.1 indicates the absence of autocorrelation.

### Analysis of parsimonious results of the impact of taxation on economic growth in Nigeria

**TABLE 5**  
**Parsimonious Error Correction Estimates of the Relationship between Taxation and Economic Growth in Nigeria**

Explanatory Variables	Dependent Variable: D[GDPGR]			
	Coefficients			
Intercept	0.09982	(0.1318)		
D[CIT/TD]	0.4531**	(2.4399)		
D[PPT/TD]	1.5495***	(7.6386)		
D[TD/T]	1.0187***	(27.5825)		
D[INFL]	-0.060**	(-2.0121)		
D[OPN]	1.0883***	(11.3959)		
D[I/Y]	1.8850**	(2.8460)		
D[TTR/TFR]	0.1828**	(2.0363)		
ECM <sub>(t-1)</sub>	-0.535***	(-3.115)		
Model Validation: Diagnostic Test Statistics				
Test	Measure	Chi-Square [Probability]	Statistic	Statistical Inference
Goodness-of-Statistical Fit	R <sup>2</sup>	92.87%		Significant
	Adjusted R <sup>2</sup>	90.86%		Significant
	F-statistic	99.68[0.0229]		Significant
Normality	Skewness	6.17022[0.0000]		Positive
	Kurtosis	28.6345[0.0000]		Mesokurtic
	Jacque-Bera	1.033[0.5674]		Gaussian Normality
Serial Correlation	Durbin-Watson	2.084		Absent
	B-G LM Statistic	0.6211[0.0000]		Absent
Specification Bias	Ramsey RESET Test	22.756[0.0000]		Absent
Heteroskedasticity	White Test Statistic	0.8366[0.0000]		Homoskedastic Residuals
	ARCH Test Statistic	1.0756[0.6782]		Homoskedastic Residuals
***(**) indicates statistical significance of variables at 1%(5%) levels respectively, t-values are reported in parenthesis below each parameter estimate, [ ] contains probabilities				

Source: Author's computation 2013

Following Hendry (1996), some of the variables that could not survive significance beyond the likelihood of chance were dropped from the final estimation. Interestingly, direct tax variable was found to have positive and statistically significant impact on economic growth in Nigeria having reported a robust t-value of (27.5825) and a positive coefficient of (1.0187) at the 1% level. This finding is consistent with those of other studies (Mihaiioan, Octavia & Dan-Constantin, 2006; Koch *et al*, 2003; Mashkooor, Yahya & Ali, 2010; Aamir, Qayyum, Nasir & Hussain, 2011) which found a positive relationship between direct tax and economic growth. However, the findings differ from those of (Barry & Jules, 2008; Greenidge & Drakes, 2009; Lucas, 1990; Arisoy & Unlukaplan, 2010) which concluded that direct taxation has a harmful effect on economic growth. The direct tax sub-component of company income tax to total direct tax reported positive coefficient of (0.4531) and a robust t-value of (2.4399). The finding is an agreement with those of Iyoha and Oriakhi (2010) and Adegbe and Fakile (2011). The ratio of petroleum profit tax to total direct tax expectedly reported a positive and significant relationship

with economic growth with a t-value of (7.6386). This finding is consistent with the study of Ogbonna and Ebimobowei (2012). It however contradicts the position of Iyoha and Oriakhi (2010).

The ratio of total tax revenue to total federal revenue reported a t-value of (2.0363) at the 5% significant level. The finding is in tandem with the endogenous growth theory and supports the findings of (Lucas, 1990; Ariyo, 1997; Koch *et al*, 2005; and Iyoha & Oriakhi, 2010). Openness was positive with a coefficient of (1.0883) and robustly significant with a t-value of (11.3959) at the 1% level. The result is consistent with those of (Balassa, 1978; Utkulu & Ozdemir, 2004; Obadan & Okojie, 2008; and Bakare, 2011). As expected, inflation reported a negative coefficient of (-0.060) and a t-value of (-2.0121) at the 5% level of significance. This corroborates the existing empirical studies of (Malla, 1997; Ghosh & Phillips, 1998; Gokal & Hanif, 2004; and Salami & Kelikume, 2010) which found a negative and significant relationship between inflation and economic growth.

## SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

### Summary of Research Findings

Based on the empirical investigation, the following findings were made:

- (a) The ratio of total direct tax to total tax revenue was found to have a significant and positive impact on economic growth in Nigeria. This ratio sustained an enormous t-value of (27.5825) at the 1% significance level. On the basis of the above, the null hypothesis of no significant relationship, between direct tax and economic growth in Nigeria was invalidated.
- (b) The effect of personal income tax, value added tax, education tax and custom and excise duties on real GDP growth are not statistically significant in all the estimations.
- (c) The sub-component of petroleum profit tax was found to impact positively and significantly on economic growth in Nigeria. The ratio of petroleum profit tax to total direct tax reported a robust coefficient of (1.5495) and a positive t-value of (7.6386) at the 1% level of significance.
- (d) The ratio of company income tax to total direct tax reported a coefficient of (0.4531) and a t-value of (2.4399) at the 5% level of significance which shows a significant and positive impact on economic growth in Nigeria.
- (e) The ratio of total tax revenue to total federally collected revenue was found to have a positive and significant relationship with economic growth in Nigeria having reported a robust t-value of (2.0363) at the 5% level of significance.
- (f) The study found a statistically significant relationship between openness and economic growth in Nigeria. At the 1% level of significance, openness reported a coefficient of (1.0883) and a positive t-value of (11.3959).
- (g) Inflation reported a t-value (-2.0121) at the 5% level of significance which signals a significant negative impact on economic growth in Nigeria.
- (h) The study revealed an insignificant negative relationship between secondary school enrolment rate and economic growth in Nigeria. The variable reported a negative coefficient of (-0.2437) and insignificant t-value of (-1.4544) as reported in Table 4.6.
- (i) The investment income ratio reported a robust coefficient of (1.8850) and a t-value of (2.8460) which signals a significant and positive impact on economic growth in Nigeria.

### Conclusion

This study has investigated the relationship between tax composition and economic growth in Nigeria with emphasis on the effects of direct and indirect tax. The study was motivated by two congenial developments: The vast majority of theoretical and empirical literature on the tax composition – growth dynamics in the developed economies are endowed with diverse theoretic

accounts and confounding evidences, and secondly by the paucity of empirical evidence on this topical issue in developing countries with emphasis on Nigeria. The findings of this study supported the endogenous growth theory which established a steady growth relationship between taxation and economic growth. In addition to the positive impact of taxation on economic growth in Nigeria, we found that only the direct component of taxation has a positive and significant impact on economic growth in Nigeria. The sub components of petroleum profit tax, company income tax were also found to have positive and significant impact on economic growth. The explanatory variables of inflation, secondary school enrolment, population growth rate were found to have insignificant and negative impact on economic growth in Nigeria. Openness was found to have a positive and significant impact on economic growth in Nigeria.

Finally, the information disclosed in this research can be used to develop targeted interventions aimed at shifting emphasis from indirect tax to a more vibrant direct tax system. Presently, the new National Tax Policy is emphasizing indirect tax, a policy which may not have had any empirical justification.

### **Policy Recommendations**

While this study does not foreclose any further research on the tax composition and economic growth dynamics, there are some lessons that can be taken from the evidence thus far:

- (a) There is need for a comprehensive tax system in Nigeria since the composition of the tax system is evidently a growth driver. In this regard, efficient administration and enforcement is likely to exercise a modest, but cumulatively important influence on the steady growth rate of the National economy.
- (b) The implementation of direct taxation should be strengthened in Nigeria. This means that the current emphasis on the global transition from direct to indirect taxation as a means of stimulating growth should be down played in Nigeria. It lacks empirical justification. Contrary to the current position of government as expressed in the new National tax policy, emphasis should be redirected to direct taxation.
- (c) Petroleum profit tax was found to have a positive impact on economic growth. In this regard, government should make concerted effort to compel the multinational companies in the upstream sector to be listed in Nigeria Stock Exchange so as to ensure public scrutiny and adequate disclosure of all their activities.
- (d) The positive impact of taxation on economic growth in Nigeria is evidence that Nigeria can diversify its revenue structure by exploiting the potentials of direct tax components such as company income tax, personal income tax and petroleum profit tax. This will help to shift emphasis from petroleum revenue.
- (e) Rather than expand the indirect taxes, the government should strengthen existing direct taxes in Nigeria. Indeed, efforts should be made to actively educate the tax payer on the benefits of tax payment and hence minimize the syndrome of tax evasion, avoidance, false declaration and ambiguous interpretation of existing laws.

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