

# (How) Does Africa Matter for International Business Scholarship?

Nathaniel Boso, Kwame Nkrumah University of Science & Technology, Ghana

Yaw A. Debrah, Swansea University, UK

Joseph Amankwah-Amoah, University of Kent, UK

## Introduction

It is now a widely accepted view that the whole of Africa is opening up for business with promising opportunities not only for expansion of multinational enterprise (MNEs) activity, but also for development of fast internationalizing African small- and medium-sized enterprises (see AllAfrica, 2018). In tandem with the launch of the “Africa Open for Business Forum” is a host of countries, including Sierra Leone and South Africa, launching their own “Open for Business” initiatives to exemplify the growing importance of projecting an outward-looking continent and national economies (see AllAfrica, 2018; Thomas, 2018). Although Africa continues to trade with traditional trading partners of Western Europe and North America, intra-Africa trade is now growing and trading activities with BRIC emerging market nations is increasing. There is a push towards intra-Africa free trade zone that has the potential to transform African economies by creating a “single continental market for goods and services” through elimination of import/export taxes and tariffs. The goal is to increase intra-Africa trading activity, which currently stands at a mere 18% (*Economist*, 2018; World Economic Forum, 2018).

Despite major institutional weaknesses infrastructural challenges, Africa’s GDP is projected to hit US\$29 trillion by 2050, making Africa one of the world’s fastest growing economies. Given Africa’s projected average growth rate of 3.4% in 2017, which is expected to increase to 4.3% in 2018 (African Development Bank, 2017), and with rapidly growing middle-income consumer segments, along with a growing potential for infrastructural advancement, Africa is likely to remain a fruitful location for international business (IB) activity. The increasing growth of African markets may be attributed to a variety of factors; however, dominant among these is the increased financial inflows estimated at US\$180 billion from Greenfield

investments from emerging markets, and growing remittances from Africans in the diaspora. The growing inflows of foreign investments coupled with increasing domestic private sector investments, entrepreneurial zeal, emergence of a rapidly growing middle-income consumer markets, vast natural resources, and now a free trade zone reflects the dynamism of contemporary African markets (Boso et al., 2018; Mol et al., 2017).

Against this background of resurgent Africa (Amankwah-Amoah et al., 2018), we contend that future progress is more likely to be predicated on not just attracting foreign firms and investments to the continent but also creating the institutional settings that allow innovation, creativity, and entrepreneurship to flourish while also taking advantage of the rapidly growing middle-income markets on the continent. Below, we discuss how the changing business landscape in Africa may serve as a fertile ground for advancing IB research.

## Contextual Richness of Africa and Opportunities for International Business Research

Increasingly, IB scholars have argued that Africa and conditions in Africa are just like any other places (Mellahi & Mol, 2015), and there is a recognition that African management literature in general has gained and would continue to obtain significant traction within the mainstream management literature (see Kolk & Rivera-Santos, 2018; George et al., 2016). Interestingly, while the contextual richness of some exotic regions (e.g., Middle East, South and Central America, and Central and Eastern Europe) have received insightful attention from scholars in terms of their unique potential to enrich IB discourse (e.g., Jaklič et al., 2018; Mellahi et al., 2011), the Afri-

can context has received limited IB scholarly attention. In the sections below, we discuss four thematic areas that we believe Africa offers rich and unique context to advance IB research.

### **Duality of African Market Structure**

Business activity in Africa has to a large extent been influenced by Africa's historical experiences from pre-colonial trading activities, which were governed by informal community ties with trading disputes typically adjudicated by community leaders. Much of the trading activities in contemporary African economies seem to be imprinted with Africa's historical "informal" approach to economic value exchange (Rizzo et al., 2015). For example, the open-air market concept in Africa is a uniquely ingrained approach to retailing that draws its existence from traditional African notion of local networks and community affinity (Asomani-Boateng, 2016), a phenomenon that is unique to Africa and may be strange to Western economies. Thus, an argument can be made that the continuous dominance of informal economy in African economies could be attributed to the enduring influence of traditional African approaches to economic value exchange. On this note, Africa has emerged as an economy with a dualistic socio-economic system that provides legally and spatially accepted divide between formal and informal economies (Charman et al., 2017; Debrah, 2007).

While the formal economy is highly regulated, taxed and located in urban centres, and thus constitute the bulk of tax revenue to African governments, the informal sector exists on the margins of regulation and taxation and tend to be rural based. On average, the informal sector in Africa is estimated at 42% of gross national income, ranging from about 28% in South Africa to 60% in Ghana, Nigeria, Tanzania and Zimbabwe (African Development Bank, 2017). The sector accounts for about 80% of employment and income generation and as such has a large consumer base. The difficulty of levying taxes on the informal sector means that direct taxation in Africa is just about 6% of GDP compared to 23% in developed economies. Although the informal sector defines typical consumption in Africa, the phenomenon currently remains poorly understood. Thus, studies that attempt to explain how MNEs deal with the dualistic market structure in Africa can help enrich knowledge on the effect of legal and geographical diversity on internationalization process. Additionally, although it is largely accepted that the retail industry is not homogeneous (due to differences in sectors, players, format and governance modes), heterogeneity on the basis of formality versus informality of consumption behavior of host markets has received limited scholarly attention, especially with respect to Africa's unique dual market context. Thus, there is an urgent requirement for scholarly research into the strategies that global large retailers and African retailers use to serve formal and informal sectors in African markets.

Furthermore, studies that investigate suitable business models for driving international business performance in this kind of market environment can help advance research on internation-

al market diversity and its effects on MNE performance. Given that consumers in the informal economy are often found at the base of economic pyramid, studies looking at consumption patterns in the informal economy may provide new insights into potential new business models and policy directions for pushing up consumers the economic ladder. Relatedly, many African governments are implementing policies that aim to move citizens up the economic pyramid: this raises interesting research question of how national government policy objective may impact on the success of MNEs in host African markets.

### **Dynamism in Economic Development Trajectory**

The developmental trajectories of Africa, from periods of colonial domination through post-independence era and military dictatorships to contemporary embrace of market-based economic policies, are indicative of the argument that Africa is a unique context for scholarly IB research. Notwithstanding the growing embrace of market-based policies, important challenges remain requiring scholarly attention. For example, levels of development of key industrial sectors (e.g., ICT infrastructure, transportation, and natural resources) remain diverse across the continent. While countries such as Ghana, Kenya, Nigeria and South Africa have decent infrastructure in most major cities, others (e.g., Burkina Faso, DR Congo, and Zimbabwe) continue to experience fragilities in infrastructure. Although natural resources are abundant in most part of the continent, leadership is lacking in the management of such resources. Accordingly, it remains common to see misallocation and misappropriation of national resources. Indeed, despite some countries such as Angola, Nigeria, and Sudan are well-endowed with natural resources such as oil and natural gas, this has often been squandered and yet to be translated into sustained economic growth. Below we highlight some of the key areas and conditions necessary for development of African firms and represent a fruitful line of research.

Although infrastructure remains one of the major problems facing many African economies, it is the case that infrastructure development is crucial for propelling intra-African trading activity. Growth in modern infrastructure, especially in areas of ICT, air, sea, and road transportation linkages can help boost intra-Africa mobility of people, goods and services. By backing the infrastructural development with necessary financial resources and human capital, African economies can begin to sow a seed for new business growth (Asemota, 2018).

It has been argued that individual African country markets are too small to be able to compete in an increasingly interconnected global marketplace. The competitive disadvantage of smallness has led several African countries to form regional economic communities. However, the newly minted Continental Free Trade Area deal is expected to create a "single continental market for goods and services" by eliminating import/export taxes and tariffs and make the "African market" a force to reckon with in the global business arena (*Economist*, 2018; World

Economic Forum, 2018). Although it is widely accepted that a continent-wide economic bloc can help sustain growth, not much is known in the IB quarters with respect to how and when continental trade integration can affect performance of MNEs in Africa. Certainly, there is currently little knowledge on the role that IB activity plays in boosting continental economic integration and intra-Africa trade.

### **Learning from Business and Policy Failures**

While Africa has gradually emerged as a more “hopeful” continent, there is a need to not only look at successes stories, but also examine policy failures, state failures, and business failures as sources of learning to inform and facilitate transfer of best practices (Byrne & Shepherd, 2015). Such knowledge could help minimize the often misallocation of resources associated with replicating failed policies elsewhere and not learning from African history. Moreover, given that new business development and entrepreneurial successes are increasingly predicated on learning from failures and errors, it might be worthwhile for researchers and policymakers to examine the mechanisms for learning from policy and business failures. Paradoxically, while failure is frowned upon in Africa, entrepreneurs face significant family and social pressures for economic support. This raises the question of whether lack of safety net in the society may affect the type and performance of international businesses in Africa. To sum up, the need to learn from successful and thriving firms in and out of the continent cannot be overemphasized.

The optimism about the sustainability of Africa’s economic fortune has also generated significant and growing scholarly interests on the continent. However, ongoing debates from different disciplinary perspectives on the sustainable development of Africa do not seem to engage with one another. Indeed, the role of multinational enterprises and international business in economic development and new wealth creation in Africa remains contentious. Hence, there is a need for scholars with interest in Africa to begin a new dialogue on Africa’s sustainable economic development in a post-aid environment where MNE activities and new business models become key driver of sustainable development of the continent. Sheth (2011) has taken a lead in this dialogue, albeit from a broader emerging market perspective, by arguing that research is urgently needed to address the question of which business models and management practices work best for serving close to a Billion Africans at the base of the economic pyramid.

### **Socio-Cultural Richness of Africa**

International business scholars interested in Africa should begin to investigate and theorize about the effect of Africa’s traditional cultural institutions on continental economic value exchange and their implications for the performance of MNEs on the continent. Additionally, the resilience of traditional African cultural institutions to western influence requires additional IB research. Of course, variations are to be expected across the continent in terms of how different traditional trad-

ing and western approaches to value exchange co-exist, however, theoretical and empirical works that carefully sort through the differences would help enrich knowledge on the uniqueness of the African business setting.

Furthermore, the wide diversity of languages across Africa raises important research questions for IB researchers interested in Africa. Importantly, while language and its implication for IB theory and performance of MNEs has been researched extensively (e.g., Welch & Piekkari, 2006), how language diversity and fractionalization influence IB activities in African MNEs and foreign MNEs doing business in Africa remain under-researched (Luiz, 2015). A major under-researched research questions is: does language plurality (or fractionalization) a facilitator or an inhibitor of IB activities in Africa? Does international higher education in IB help mitigate the effect of language plurality on IB activity in Africa?

## **Concluding Remarks**

It is now largely accepted that Africa is open for business, to the extent that evidence is pointing to growing diversification of international business activities and destination of African firms. Although export of commodities has dominated Africa’s international business activities, we are now witnessing export of value-added products and services from Africa. While Western Europe and North America have been the major destination of African businesses, African businesses are now broadening their export destinations to include emerging markets, and an increasing number of African multinationals are now expanding their activities within the continent.

In view of the huge opportunity (and challenges) that this internationalization phenomenon presents to African businesses competing in the international business arena, this article has discussed four broad thematic issues that future research can explore to make meaningful contribution to the IB literature. First, the duality of African market structure presents IB scholars with opportunity to examine how the co-existence of informal and formal markets impacts on the strategies and performance of NMEs. Second, the dynamism in the Africa’s developmental trajectory with significant differences in the levels of development and size of individual markets raises the question of whether there is a need for economic integration of African markets for global competitiveness. Third, there are several reports on policy failures in Africa and while many businesses are failing across the continent, limited research exist on how policy-makers and business leaders learn from these failures. Finally, the richness of socio-cultural setting in Africa, with particular reference to the impact of IB activities on traditional African cultural institutions and languages, and the effect of Africa’s cultural institutions and language diversity on IB activities and performance, need additional scholarly attention. It is our view that research that carefully investigates these

four thematic areas can help enrich scholarly understanding of how Africa matter in IB research.

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**Nathaniel Boso (nboso@knust.edu.gh)** is a Professor in International Marketing and Entrepreneurship and Dean of KNUST School of Business, Kwame Nkrumah University of Science and Technology, Ghana. He is a Visiting Professor at Strathmore Business School, Kenya. His research focuses on the interface between International Entrepreneurship, Innovation and Marketing Management, and has been published in leading international scholarly journals. He sits on the editorial review board of *International Marketing Review* as an Associate Editor.

**Yaw A. Debrah (y.a.debrah@swansea.ac.uk)** is a Professor of International Human Resource Management and International Business at the Swansea University, UK. His scholarly work has appeared in journals such as *Human Relations*, *Journal of Applied Psychology*, *Journal of Organizational Behaviour*, *International Journal of Human Resource Management*, *Business History*, *Industrial and Corporate Change*, *Journal of World Business*, and *World Development*. Yaw also serves on the editorial board of several reputable journals.

**Joseph Amankwah-Amoah (J.Amankwah-Amoah@kent.ac.uk)** is a reader of international business at the University of Kent, United Kingdom. His research interests are anchored in core topics of strategy and international business specifically business failures and technology in emerging markets. Joseph has co-guest edited special issues for several journals. He has published over 60 articles in refereed leading academic journals. He currently serves as an Associate Editor for *Critical Perspectives on International Business*.