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Kuada, John

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As a continent, Africa occupies nearly a quarter of the world's land area and is home for one-seventh of its population. But a large proportion of the people, especially those living in Sub-Sahara Africa (SSA), are mired in abject poverty. Recent years, however, have witnessed some positive developments. Six of the world's ten fastest-growing economies in 2010 were from there. But their growth has failed to translate into job creation and inclusive development. This experience has encouraged a renewed search for a sustainable economic development model for the sub-continent.

The present dissertation contributes to this search by endorsing the view that private enterprise-led growth will help reduce poverty since it strengthens individuals' capacity to care for themselves and their families and provides tax revenues necessary for anti-poverty and welfare policies of governments. It also argues for an emphasis on *soft economics* (i.e. the human side of economic activities) and introduces *human capability development* as a new theoretical framework for understanding and studying economic growth and development.

About the Author

John Kuada *is Professor of International Management with the International Business Centre, Department of Business and Management, Aalborg University in Denmark. He has 30 years of teaching and consultancy experience* in areas of management, marketing and cross-border inter-firm relations in Europe and Africa. He is author and/or editor of some 12 books on management and internationalization of firms and has written over 100 articles in refereed scholarly and professional journals on a wide range of international business issues including international marketing, intercultural management, leadership and strategy. He serves on the editorial review boards of a number of marketing/management journals focusing on business and management in Africa and Asia. He was the founder and former editor of *African Journal of Business and Economic Research* and founder and current editor of *African Journal of Economic and Management Studies* (published by Emerald).

PRIVATE ENTERPRISE-LED ECONOMIC DEVELOPMENT IN AFRICA: A SOCIO-CULTURAL PERPECTIVE

JOHN KUADA

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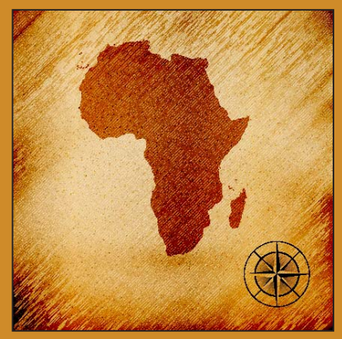
VOL.1



JOHN KUADA

BREAKING NEW GROUND
AALBORG UNIVERSITY

PRIVATE ENTERPRISE-LED ECONOMIC DEVELOPMENT IN AFRICA

A Socio-cultural Perspective

John Kuada

International Business Centre
Department of Business and Management
Aalborg University
Denmark
October, 2014

A DISSERTATION SUBMITTED TO THE FACULTY OF SOCIAL SCIENCES, AALBORG UNIVERSITY, IN FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF *DOKTOR* IN BUSINESS ECONOMICS (*DR. MERC.*) DEGREE

VOLUME 1

Dedication

Affectionately dedicated to

GITTE, ESI AND SENYO

For their patience, understanding and support

Acknowledgement

This dissertation would not have been written without the help and generosity of several people. My colleagues at the International Business Centre (Aalborg University) have provided me with an enriching academic atmosphere and have consistently engaged in stimulating intellectual conversations with me. My sincere thanks go to all of them. I am also grateful for the assistance of Professor Seth Buatsi, Professor Robert Hinson, Dr. Daniel Ofori, and Dr. Adelaide Kastner for working with me on different aspects of the empirical investigations in Ghana. Funding for the data collection in Ghana came mainly from Danish International Development Assistance (DANIDA). I am very grateful for the support.

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I am also immensely grateful to the following institutions for providing me with academic "homes" during this intellectual journey: University of Ghana Business School where it all began, Copenhagen Business School where I received my PhD in Business Economics in 1981, University of Nairobi (Department of African Studies) where I did my empirical investigations about managerial behaviour in Kenya and Aalborg University, Department of Business and Management, my academic home during the past 24 years.

Finally I would like to acknowledge my profound gratitude to my wife and children without whose encouragement and support the dissertation would not have been completed. To them, I extend my sincere thanks.

John Kuada
October, 2014

“Culture is the most important asset of any country, but it can also be its worst liability”

John Kuada

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PART 1

GENERAL OUTLINE

CHAPTER 1

INTRODUCTION

Background and Justification of the Study

As a continent, Africa is home for one-seventh of the world's population (in 2014) while holding nearly a quarter of its land. It occupies about 30.3 million square kilometres of land surface and is therefore larger than the USA, Western Europe, China, and India combined. But a large proportion of the people, especially those living in Sub-Sahara Africa (SSA) are mired in abject poverty, most of them barely eking out subsistence despite enormous natural resources of substantial commercial value. As a result, SSA is commonly described in the development economics literature as a continent of missed growth opportunities (Akyüz and Gore, 2001). When the sub-continent is compared with Asia, the discrepancies are even more staggering, bearing in mind that several Asian nations such as South Korea and Malaysia were at similar levels of economic growth as African countries barely five decades ago[1].

In all fairness, it is important to point out from the onset that SSA has not been totally neglected by the richer countries of the world. Trillions of dollars of development assistance have been poured into it (on projects spearheaded by individuals and institutions with the best intentions), but the results have been woefully disappointing. This is not to say that none of the assistance that has been provided has ever done any good. There are examples where aid has done some good. But the overriding conclusion is that Africa has remained relatively poorer than the rest of the world despite

[1] I will discuss the links between economic growth and poverty alleviation in later chapters of the dissertation

these generous aid contributions. Thus, the verdicts of both academic and journalistic analysts have been consistently negative. As Najam and Kariuki (2010:1) informs, the prevalent narratives about SSA have followed the pattern of "bursts of peaking global interest (optimism), followed by periods of global neglect (pessimism); recognition of continental potential, followed by litanies of despair and dismay; expressions of great expectations, followed by prognoses of hopelessness". There have been justifications for the persistent pessimism registered by contributors to the debate. The available evidence shows that only six SSA countries have more than trippled their per capita incomes between 1960 and 2005, nine have per capita incomes equal to or less than where they started in 1960 and the rest have seen some net improvement, but not enough to make any real dent in their poverty levels (Punam, *et al.*, 2011). Those countries that showed promises of fast growth in the 1970s (e.g. Côte d'Ivoire) have faced stagnation or even decline during a greater part of the past five decades. Furthermore, until the beginning of the 21st century, investment in most African countries yielded less than half the return measured in growth terms when compared with other developing regions (Akyüz and Gore, 2001).

The non-growth syndrome that has characterized most countries on the subcontinent has hitherto been discussed largely in terms of purely economistic and institutional considerations, including policy mistakes and implementation difficulties that have resulted in structural weaknesses and inefficiencies. But the explanatory power of neoclassical economics and the policy guidance that it produces has been seriously challenged by a number of leading economists and analysts who have loudly called for a search into alternative explanations and directions.[2]

[2] The writings of Sen, Adelman, Morris, and Abramowitz provide illustrative examples of the call for alternative explanations for Africa's poverty.

This dissertation responds to this search. It seeks to do so by examining the "economistic" logic that has underlined contemporary economic growth initiatives on the continent. Leaning on recent studies in economic sociology, I argue that the "economistic" logic does not explicitly factor the enormous reservoir of socially embedded resources available in civil societies into enterprise and economic development policies, nor does it encourage their development, where they are weak or lacking.

This line of thinking directs the searchlight for Africa's poverty problems and solutions inwards. I argue that it is generally easy to blame the outside world for all of Africa's predicaments. However, this easy route does not change the stark realities of poverty. It is therefore purposeful for Africans to reflect soberly on internal circumstances that hamper growth and development in their countries and the sub-continent as a whole. Thus, I share the view expressed by a growing number of African scholars that Africans must demonstrate an inner motivation to endure the human challenges that a change process entails for sustained growth and poverty reduction to occur (Edoho, 2001; Nwankow and Richards, 2001). This focus on endogenous growth drivers underlies my choice of *human capability development* as a core concept in the overarching theoretical framework that I present later in the dissertation.

Main Research Questions

As indicated above, this dissertation seeks to place "the human factor" at the centre stage of the contemporary debate on enterprise-led economic growth and development in SSA[3]. It challenges the "economistic" logic that has underlined contemporary economic growth initiatives on the continent. With this objective in mind, the study has been guided by the following questions:

[3] This research question endorses the view that enterprise-led economic growth is a more viable approach to poverty alleviation in SSA. This argument is developed in subsequent chapters.

1. What are the current conditions for the development of human capabilities and sociocultural resources that can serve as fundamental determinants of private enterprise-led economic development in Sub-Sahara African countries?

2. To what extent do existing sociocultural conditions promote or constrain enterprise growth and general business development in Sub-Sahara African (SSA) countries?

3. How effective are the current leadership and institutional mechanisms in SSA countries in nurturing and mobilizing sociocultural resources for private enterprise development?

4. To the extent that participation in the global economy advances private enterprise development, what opportunities and constrains do the social and cultural factors create for SSA businesses' integration into the global economic system?

These four questions define the focus and tone of the arguments presented in the dissertation. As such, they lead me away from conventional perspectives on Africa's economic development and explore the extent to which Africans, as individuals and as societies, cherish a strong inner desire to step out of despondency, hopelessness, apathy, and are willing to make a determined effort to transform their economic destinies.

Leaning on scholars such as Karp and Helgø (2009), I argue that the citizens of every country construct their future together by building on their history, their identity and growth agenda through an unceasing process of interaction and dialogue. I acknowledge that the atrocities of the colonial era combine with the negative consequences of global capitalism, trade

restrictions and global politics to constrain the developmental opportunities available to the least developed countries of the world, including SSA countries. But I do not endorse the emotionally seductive arguments of external victimisation as a complete explanation for the non-growth syndrome in Africa.

In emphasising the human and sociocultural factor of economic development in the present study, I do not intend to suggest that culture alone (or its related concepts) provides the single universal organising principle to explain Africa's limited economic growth and poverty. My argument is that the importance of the human factor has been downplayed or outrightly ignored in contemporary discourses and it is important to position it at the centre stage so that all key actors on Africa's economic scene can revisit this perspective and do so with the seriousness that it requires.

Building on these observations, I initiate this search for alternative perspectives on SSA's failed economic progress and poverty alleviation efforts by reviewing the contemporary thinking on Africa's economic growth and development. I then present and discuss the theoretical viewpoints that inform the discourse. The last section of the chapter provides an overview of the structure of the dissertation.

Contemporary Perspectives on Africa's Economic Growth and Development

A quick review of the development economics literature suggests that scholars (within and outside Africa), have been in continuous search of good explanations for Africa's growth failures as well as suitable guidelines for policy and strategic actions. Many acknowledge that the fact that a greater part of the African continent has hitherto been unable to build sustainable economies and remain dependent on charity deserves serious

academic attention (Maathai, 1995; Kuada, 2010). This awareness has placed Africa's economies at the centre of academic investigations during the past five decades. One estimate informs that over 300 English language journals and e-journals have been specifically devoted to the topic in the Western world alone (Phillips, 2003). Scholars in disciplines such as economics, sociology, anthropology, political science and trade have all made significant contributions to an understanding of the phenomenon during the last half a century.

Some scholars argue in support of a re-examination of the existing economic models (Hoeffler, 2000, 2002; Jerven, 2011). Others have questioned the statistical accuracy of Africa's poverty descriptions. They argue that the hitherto accepted accounting principle for GDP measurement all over the world is the 1993 UN System of National Accounts. But only 35 countries in Africa were using this accounting system by the end of 2012; the other African nations continue to use earlier systems, some dating back to the 1960s. The result is that most countries underestimate the monetary worth of their economies. This was the case of Ghana until 2012 when the country decided to change its national accounting system to the 1993 UN System. The decision resulted in upgrading Ghana's GDP by 62 percent pushing the per capita GDP over $1,000 and elevating her to a middle-income country[4]. In a similar manner Nigeria re-based her GDP in April 2014 and raised the value of her economy to $509.9 billion and became Africa's largest economy and the 26th largest in the world. Barakatt and Sereke-Brhan (2010:21) also argue that "there are 16 nations in Africa that have GDP per capita greater than that of China. In addition, remittances by

[4] Distinction is now drawn in the economic literature between *nominal* and *real* GDP. Nominal GDP is the sum value of all produced goods and services at current prices. This measure does have its uses. Real GDP is the sum value of all produced goods and services at constant prices and is indicative of how average living standards change over time.

immigrants in the U.S. amount to around $40 million per year, equal to Indian remittances. The tourist inflow to Africa is close to 25 million people every year, almost five times the annual number of tourists visiting India." To them, this is evidence of an undervaluation of the economies of most African countries. Thus, the emerging conclusion is that SSA is not as poor as most previous GDP figures suggest.

Not withstanding the accounting errors, the economistic logic cannot be entirely dismissed. This logic holds that economic growth is driven by investments, savings, and consumption, with people's willingness to save for future consumption growing with their incomes. This implies that the poorer people are, the less they can afford to plan for the future and save. Thus, savings are normally low in poor countries, where most incomes have to be spent to meet current (often urgent) needs. Low savings hinder domestic investment in both physical and human capital. Without new investment, an economy's productivity cannot be increased and incomes cannot be raised. This scenario is commonly labled "the vicious circle of poverty" in the development economics literature. According to the dominant versions of neoclassical economics, a solution to the problem lies in governments' abilities to formulate and implement policies that break the vicious circle. Seen from this perspective, the persistence of poverty in Africa can be attributed to failed government policies and failed leadership.

Proponents of this perspective argue that those African countries that have benefited from the leadership of liberal economists and introduced macroeconomic policy interventions aimed at raising investment and productivity within the private sector have achieved distinctive economic growth. Some of the popular liberal economic policy interventions during the last three decades have included the deregulation of the banking sectors of the economies, removing trade barriers, privatizing natural resources and

government industries, devaluing currencies, strictly adhering to balanced budgets, changing national laws to make the economic environment more conducive to foreign investment, and building up export economies.

These policy initiatives have produced noteworthy economic outcomes, and there have been some positive signs of turnarounds in some African countries in recent years. As Gatune and Najam (2011:102) remark with a distinct sense of joy, "poverty in Africa is falling, and falling fast; food productivity is rising; inequality is falling; women are assuming positions of leadership; democracy and elections are becoming the norm; regional markets are developing; anti-corruption measures are gaining prominence; Africa is becoming an important destination for foreign direct investment, especially from China; African intelligentsia is finding a more prominent voice in defining Africa's options; and continent-wide cultural expression is strengthening a positive continental identity".

Reports on the business environment of the 20 largest Sub-Sahara African (SSA) countries by Spring and Rolfe (2011) as well as Spring, Rolfe and Odera (2013) have produced evidence that reinforces this positive trend. They showed that most of the countries have experienced significant positive changes in their integration into the global economy and there have been significant increases in Foreign Direct Investment (FDI) flows in some of the countries. Examples include Nigeria's FDI inflows of US$ 5.8 billion in 2009 (as against US$ 2.1billion in 2004), South Africa received US$ 5.6 billion in 2009 (as against US$ 0.799 billion in 2004), and Angola US$ 2.2 billion in 2009 (as against US$ 1.45 billion in 2004). Furthermore, 12% of all FDI targeted at developing countries in 2011 went to Africa with the largest share going to oil-producing economies such as Chad, Angola, Equitorial Guinea, Ghana, and Nigeria.

There is no doubt that these developments represent a positive break from the general pessimism that has engulfed Africa for decades. Thus, the 21st century has been dubbed by some futurists as Africa's century – a century during which Africa's economic, intellectual, political, and leadership resources will be optimally utilized to generate welfare for the citizens and provide the continent with a positive identity within the world of nations. The McKinsey Global Institute report in 2010 therefore concluded that global business can no longer afford to ignore the business potential provided by these trends (McKinsey, 2010). These changes also undergird Nwankwo's (2012) observation that Africa is now standing at the threshold of an exciting growth era.

But these positive developments do not support unqualified optimism for sustained economic progress. There is therefore a continued search for explanations for the non-growth predicament and new approaches to growth and development on the sub-continent. Even the most optimistic assessments indicate that the prospects of achieving UN's Millennium Development Goals (MDGs) in Sub-Saharan Africa by the target year 2015 remain bleak. Approximately 210 million people still live on less than $1 a day, and the number living on less than $2 a day is expected to rise from 400 million to some 600 million by 2015.

Furthermore, the positive changes noted above do not provide the neoclassical perspectives unqualified theoretical legitimacy in explaining the limited growth in SSA. As noted earlier, some scholars have called for a re-examination of the explanatory contents of these models, arguing that they are extremely simplistic, mechanistic and deterministic (Hoeffler, 2000). In the views of some scholars, "inclusive growth" that provides wider access to sustainable socio-economic opportunities for a broader number of people, countries or regions, while protecting the vulnerable, is

what SSA needs (Greenwood and Holt, 2008). This critique is predicated on the understanding that recent high growth experiences in some African countries have been largely less job creating and less inclusive than one would have wanted, and thereby having limited developmental impact (ILO, 2010; Hailu and Tsukada, 2011).

Some Preliminary Conceptual Clarifications

I have already indicated that the present study shares the above sentiments and seeks to explore an alternative explanation for SSA's slow economic progress. It also aims to provide some guidelines for improving enterprise development and thereby accelerate the pace of economic progress on the sub-continent. In doing so, it suggests that key concepts in social sciences that emphasise the human side of enterprise management and socioeconomic growth must be given greater prominence in the debate. These concepts are introduced briefly in this section of the chapter in order to provide a conceptual language for the discussions that follow.

It is important to bear in mind that I write about SSA in general terms in this dissertation mindful of the fact that the sub-contient is home to over 700 distinct societies with nearly 1000 languages. As Najam and Kariuki (2010:2) remind us "There are 'many Africas' and many realities within Africa. To say anything about the entire continent is to condemn oneself to saying only that which can be easily generalized". In the same vein Barakatt and Sereke-Brhan (2010:15) argue that "while it is easy and tempting to generalize about 'one Africa', the continent's individual countries and regions face different challenges and respond in different ways, depending on cultural traditions and the strength of local governance". I share Najam and Kariuki (2010) view that such an academic endeavour must be undertaken with reverence for the diversity within the sub-continent but with the hope that the commonalities in historical and developmental

experiences are large enough that the discussions will enrich our understanding of what factors can propel development in the individual countries and across them.

Economic Growth and Development

We have noted above that the theories and models which development economists have drawn on to explain the nature and causes of economic progress and how economic growth is linked to poverty alleviation have been rooted in two contrasting paradigms. One is the neoclassical economic paradigm that gives support to the notion that economic systems can be likened to machines that transform inputs into outputs. The key drivers of economic progress are, therefore, symbolically described as "engines of growth". I find it expositionally appropriate to label this perspective as *hard economics.* The ultimate presumption underlying this paradigm is that all human beings are rational, self-interested actors in the economic game. They seek to maximize their values in the actions that they undertake, are boundedly rational and exhibit negative opportunism. This perspective has been criticized by several social scientists and economists during the past three decades. They argue that the assumptions underlining neoclassical economics are deficient because they underrepresent the importance of interpersonal and other nonmarket resources in human motivation. Instead they see economic decisions as social and political constructions that accommodate intangible needs, expectations and behaviours of individuals and communities of people. I label this *soft economics*. The two paradigms, however, share the desire for poverty alleviation in human societies, and agree with Robert McNamara's description of poverty as "condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities and a condition of life so common as to be

the lot of some 40% of the peoples of the developing countries"[5]. But they differ in their understanding of the roots of poverty and approaches to poverty alleviation.

The divergence in perspectives championed by the proponents of hard and soft economics is reflected in debates between leading development economists during the last half century. It is also a debate about the meaning and constituents of economic *growth* and *development*. Following Hirschman (1963) the term "development" implies the process of change from a less developed type of economy into some other more advanced type. Implicit in his understanding and those of many other development economists is that development results in poverty alleviation. It also connotes the goal of "enlarging people's choices in a way which enables them to lead longer, healthier and fuller lives" (Ranis, Stewart, and Ramirez, 2000:197). In other words, development provides a qualitative interpretation of economic growth – i.e. growth must be converted into social change that benefits the poor for it to be described as development-oriented.

Building on these perspectives, scholars have also vigorously debated whether social development is a necessary requirement for economic growth or vice versa. An example of this debate is between two leading Indian economists – Amartya Sen and Jagdish Bhagwati. While Sen believe that India should invest more in its social infrastructure (including health and education) to improve human capabilities as prerequisites for increased productivity and growth (Sen, 1981), Bhagwati argues that only a focus on growth can yield enough resources for investing in social sector schemes – i.e. seeing growth as a prerequisite for social development (Bhagwati and Panagariya, 2013). The prevailing understanding therefore is that there is a

[5] This description was contained in a speech that Robert McNamara gave in Nairobi, Kenya in 1993. See Alacevich, 2007

dual link between economic growth and economic development - economic development provides the necessary conditions for economic growth and growth produces resources necessary for economic development.

I see development in this dissertation as an issue of poverty alleviation. I therefore agree with Ranis, Stewart and Ramirez's (2000) view that poverty alleviation must be reflected in qualitative changes in the lives of many people in a given country or society. There is therefore a link between economic growth and poverty alleviation. But growth alone is insufficient to advance human development; it must be backed up by pro-poor policies that require good governance and institutional mechanisms to work well. I will argue further that private enterprise development is a viable approach to poverty alleviation in Africa, since it creates jobs and allows people to support themselves economically while providing governments with revenues required for financing pro-poor initiatives.

Sociocultural Resources and Human Capability Development

Another important set of concepts that I have used extensively in the dissertation are *socio-cultural resources* and *human capability development*. Arguments underlying their relevance to SSA's economic progress are presented more elaborately in subsequent chapters of the dissertation. But let me present the premise of my arguments in a succinct form in this section.

Following (Friedrichs and Boter, 2009), cultural traits, along with economic and institutional characteristics, are important for attaining positive economic development and stimulating new business creation and entrepreneurial activities. When people interact with each other they cultivate a sense of understanding that shapes the evolution of their relationships. The shared experiences allow them to form similar

perceptions that they jointly reflect on. The experiences also encourage them to explore common solutions to challenges that they face in their lifeworlds. This enables them to nurture common values and norms that regulate their co-existence and help them cultivate stronger desires to collaborate. Sociological and anthropological studies use the concept of "social resources" to describe the complex set of "goodwill" that these interactions produce over time in a given community or society. Adler and Kwon (2002:17) describe it "as the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action". It is referred to in some conceptualizations as social capital (Burt, 1992; Portes, 1998). I describe them as *sociocultural resources* in this dissertation.

I will argue subsequently that the availability or absence of such sociocultural resources can help explain the differential success (or failure) of economic endeavours as well as specific entrepreneurial activities in different communities. The understanding that I wish to forward is that the collective mindsets that emerge out of dialogues around shared experiences can propel economic and social development. This happens if the social resources are captured and galvanized by visionary and transformational leaders in households, organizations, communities and societies. But the reverse can also be true. That is, the interactions can produce sets of values or mindsets that constrain economic and social development. It is therefore often argued that culture is the most important asset of any country, but it can also be its worst liability.

Another related concept is human capital which is usually defined as a product of deliberate, planned and purposefully directed education and training (OECD, 1998). It is generally argued that the quality of a society's labour force is an indicator of the level of its human capital development. The concept of *human capability development* adopted in this dissertation is

linked to the notion of human development and human capital used in the UNDP reports.

But more than that, human capability development also enhances a society's capacity to absorb new knowledge. In a word, it is a summary construct that describes the individual and collective capabilities found in a society that enable the citizens of that society to live creatively and progressively. When the cultural values and norms of a society permit its citizens to question existing ways of doing things, their minds become more open and they are more likely to discover wider range of opportunities within their immediate environments and beyond. They are also more capable of exploiting these opportunities to enrich their individual lives as well as those of thousands of others. Thus, human capabilities guide people to make prudent choices within a prurality of possible options in an increasingly globalized world. This means the higher the level of human capability of a society, the greater its development potential.

I will discuss the constituents of the human capability development construct in greater details in chapter 4. I will also argue subsequently in this dissertation that human capability development requires the facilitation of transformational and visionary leaders in groups, organizations, communities and/or societies. The presence of such leadership capacity ensures that "capable people" are guided and encouraged to make consequential choices that move their societies forward and may even change aspects of their cultures. Thus, in my view, human capability development combines with social resource composition to form the foundation of any sustained economic development in a given society.

Positioning the Study within Contemporary Development Discourse

The sociologically-inspired concepts forwarded in this dissertation are in line with the "non-economistic" logic (i.e. what I label as soft economics) that an increasing number of development scholars now subscribe to. Scholars such as Adelman and Morris (1967), Abramowitz (1986) as well as Harrison (2006) have wondered why some communities appear to have the innate ability to easily mobilize resources while others (including SSA countries) never seem to get organized enough to manage the resources of the community. To many of these scholars, a plausible explanation lies in the differences in the social, institutional and cultural structures of the nations. That is, the slow economic growth may not be due exclusively to the failure of SSA countries to make effective use of the tangible resources at their disposal, but rather due to the constraints imposed by intangible (or soft) resources – i.e. constraints imposed by demands and expectations embedded in the civil society as well as the pervasiveness of growth-disabling cultural values (Moore, 1997). For example, differences in how national cultures define what it means to be a worthy person, and differences in how worthiness is signalled, have been applied to explain variation in levels of business development.

Ealier studies in development economics have shown an awareness of the link between culture and economic progress. However, their perspectives have been presented in a "catch-up" argument championed by modernization theorists. Following Inglehart and Baker (2000), modernization was widely viewed as a uniquely Western process that non-Western societies could follow only in so far as they abandoned their traditional cultures and

assimilated technologically and morally "superior" Western ways[6]. One of the chief proponents of this perspective in the 1960s was Walt Whitman Rostow (1960), who later became a special assistant to President Lyndon Johnson. In the words of Thompson (2001:5), "the general proposition taken by Rostow, and others, was that in order to produce and consume like the wealthy, one had to change "traditional" cultural attributes and proceed in orderly fashion to achieve a "take-off" into sustained development".

The argument that "non-economistic" factors matter in understanding economic growth is also consistent with the distinction drawn in development economics between *deeper* or fundamental determinants of economic growth and development on the one hand and the *proximate* conditions for economic growth and development on the other. The most commonly identified candidates of "deep" or fundamental determinants of growth in the economic development literature are geography (location); integration capabilities (trade) and institutional quality. This dissertation introduces *human capability development* as a more important candidate to this set of fundamental determinants. The proximate determinants refer to the conventional factors of production in neoclassical economic literature – i.e. capital, labour and technology (Rodrik, 2002; Bloch and Tang, 2004). The emerging understanding from this strand of research is that human characteristics are fundamental determinants that affect development and these characteristics are transmitted from one generation to the next within populations over the long run. History is therefore an important source of knowledge in any analysis of economic achievements (Spolaore and Wacziarg, 2013).

[6] This perspective runs counter to the endogenous sociocultural resource argument endorsed in this dissertation. As subsequent discussions will reveal, I do not believe that copying Western values will produce sustainable economic development in SSA.

My own research into various aspects of enterprise management and economic development in Africa during the past three decades support the emerging understanding that the socio-cultural context of economic activities constitutes a set of key variables in analysing growth directions of SSA economies. They also show that economic development process is not necessarily guided by a single "vision" or a model that is commonly agreed upon, but mostly by individual and collective actions based on what appears sensible to the citizens of any country, given their circumstances. This perspective is in line with emerging understanding within some multilateral development organizations such as the United Nations Development Programme which sees culture-oriented economic development (COED) as an "emerging paradigm, integrating the symbolic and creative elements into any aspect of an economy, pursuing distinction, innovativeness, and a higher level of interaction between localised individual and collective knowledge and globalising markets" (UNDP, 1994:2).

I will, however, argue subsequently that while some culturally-derived habits of thinking and behaviour found in African societies are positive and economic development-promoting, others are development-constraining. It is necessary for every growth-loving African society to be guided more by the development-enhancing patterns of behaviour and consciously discourage the development-constraining attributes. I will also argue in support of the view that although cultures are dynamic by themselves, their dynamism can be gently managed to support a path of inclusive economic development. I am therefore willing to question the existing ground rules for organizing economic activities in Africa.

Managing the Human side of Economic Activities

Apart from drawing attention to the contribution of human capability development and sociocultural resource mobilization to enterprise development and economic development in SSA, the dissertation seeks to make three additional contributions to the extant literature on economic development. First, I revisit discourses on entrepreneurship and enterprise development in SSA countries. Granting that entrepreneurs engage in gap-filling, input-completing and value-innovative activities that propel economic growth in all countries, strong enterprise development initiatives can set an upward mobility spiral in motion in SSA. Second, I argue that the concept of management in general (and leadership as well as governance in particular) is important to any meaningful discussion of economic development in Africa. Third, I forward the view that SSA will be economically best off if its companies, institutions and states are embedded within the global community of businesses and nations rather than outside it.

The role of management is central to any economic growth logic – be it neoclassical, neoinstitutional or neosociological. I see management in this dissertation from two broad perspectives: (1) management of markets and competitive forces to deliver desired values to the members of a given society, (2) management of the human beings as individuals and groups in work organizations and communities to undertake coordinated actions that produce transformational development. The first stream of management research encompasses (and has given birth to) distinctive academic fields such as marketing management. It also includes issues related to management of value creation processes (of goods and services) in economic systems, (e.g. value chain analysis), minimization of transaction costs, optimization of production scales as well as the management of innovation processes (including upgrading value creating systems). The

second stream of research shows in studies of leadership, human resource management and the human side of organizational and industrial development processes.

Structure of the Dissertation

The dissertation is in two volumes. The present publication is volume one and it is divided into five parts. **Part one** consists of three chapters. Chapter one is the present one, in which I introduce the dissertation as a whole. Chapter two reviews explanations found in the literature for the relative economic success of a handful SSA countries in recent years. It concludes that the frequently cited reasons for the latest high-growth experiences in these countries have focused on exogenous factors such as commodity price increases and investments from China. I argue in that chapter that to the extent that these factors account for the growth of these countries, their prospects for maintaining this growth rate in the long run appears weak, unless the windfalls they currently receive are wisely invested in a humnan capability development process. Chapter three provides an outline of the neoclassical economic perspectives and their critique. It also highlights the sociological, cultural and institutional economic perspectives that have informed my thinking. I have also introduced the neo-marxist inspired critique in this chapter. But since this dissertation focuses more on the managerial and socioeconomic arguments rather than the political economic perspective on development, I have taken the liberty of simply nodding to this strand of research. Chapter four presents a general theoretical framework/model that has been the pivot of my research during the past three decades. In the model, I argue that human capability development is a fundamental (deep) determinant of enterprise development in SSA. This, in turn, drives sustainable economic development. The model also posits that human capability development process is shaped by complex interactions among four main factors: (1) culture and civil societal characteristics, (2)

institutional quality and capabilities, (3) management/leadership and governance capabilities, and (4) global orientation and integration. The discussions in the subsequent parts of the dissertation have strengthened my conviction that the four factor conditions provide a useful framework for organizing and debating the opportunities and challenges of enterprise-led poverty alleviation initiatives in SSA.

The discussions in **part two** forward and elaborate on the view that the role of culture in the economic development process has been downplayed in the contemporary economic development literature, presumably because such 'soft' factors are very difficult to measure and to disentangle from other kinds of variables. It consists of four chapters – chapters 5, 6, 7 and 8. Chapter five introduces the concept of culture and the theoretical arguments that support the link between culture and economic growth and the manner in which cultural changes can stimulate transformational development through changing the mindset of members of a society and establishing a collective will to challenge the existing ways of behaviour. Chapter six discusses the concepts of subcultures, networks and trust. It argues that most macrocultures are heterogenous or even fragmented. Thus, networks, trust and commitment among individuals and subcultures help to maintain some degree of stability and allow for gradual change processes in most societies. Chapter seven introduces the concept and theories of organizational culture and links them to systems and processes that encourage enterprise development and growth. Chapter eight provides a summary of the arguments of the three previous chapters and relates them to the Sub-sahara African context. It draws attention to the dominant characteristics of African culture, discussing their human capability development potentials as well as their growth-enabling and constraining implications. It also draws attention to the positive changing trends in the African culture, signifying greater hope and providing living testimonies of Africans' capacity to harness their

inner energy and potentials to transform the sub-continent. It does so without underrating the fortitude of the challenges ahead.

Previous studies of leadership in Africa have portrayed Africans as passive and subservient to their leaders, behaving collectively just like the obedient African child who dutifully fetches a cane to his father to beat him for an offence he is not too sure about. Part three of the dissertation explores these claims by examining the anatomy of dominant African management and leadership preferences as well as the governance arrangements that help regulate behaviours within societies, organizations and firms. It revisits the arguments that justify the inclusion of leadership and governance as one of the four sets of factor conditions for human capability development in SSA. It also seeks to uncover the emergent positive changes in African management and outline the factors that encourage these changes.

Part four of the dissertation is devoted to the discussion of the rich and diverse perspectives on entrepreneurship as a construct and the strategies and processes of managing small businesses. It also discusses the link between entrepreneurship to creativity, leadership, learning, innovation and economic growth in general and interrogates the challenges of enterprise formation and management on the continent.

Part five examines internationalization and integration of SSA economies into the global economic system as a contributing factor to the economic growth and development process. It draws on the growing awareness among policy makers that diversification of export base remains critical to Africa's long-term economic growth and shows that intra-African trade has done even more poorly, accounting for only 10% of Africa’s international trade in 2004, growing only to 12% in 2009. This compares poorly with situations in other developing regions, including Asia and Latin America. The final

chapter rounds up the discussions, providing highlights of the central issues and reflecting on issues requiring additional theoretical and empirical attention.

Volume 2

Volume two has the title *Management Strategies and Economic Development in Ghana*. It presents results of empirical investigations that I have conducted in Ghana on aspects of small enterprise development and management in that country. The aim in that volume is **not** to provide empirical tests of models and propositions presented in volume one. The reason is simple; the framework presented in chapter four of this volume did not inform the empirical research strategy that I adopted three decades ago.

My ambition in volume two is therefore rather modest, i.e. to provide **illustrations** of some of the arguments presented in volume one. Apart from illustrating aspects of the arguments in the framework, my ambition in that volume is also to move the discussions of Africa's economic development from the continental level to a country-specific level.

CHAPTER 2
EXPLAINING AFRICA'S RECENT ECONOMIC GROWTH EXPERIENCES

Introduction

I have earlier indicated that sustained economic development has eluded nearly all SSA countries for much of their post-independence history. This weak economic performance has been well documented in the development economics literature (see for example Fosu and O'Connell, 2000; Hoeffler, 2002; Tahari *et al*., 2004). These previous studies have primarily attributed the growth failures to wrong economic policies and undue state interventions. Their explanations have provided a justification for the World Bank and IMF sponsored structural adjustment reform programmes implemented in the 1980s and 1990s aimed at rolling back state involvement in the economies and thereby also reducing its negative side effects such as the emergence of cronies and rent-seeking cultures within the administrative hierarchies.

I have also noted that the persistent stagnation legacy appears to have changed in recent years and some SSA economies are experiencing a new era of economic vibrancy. The emerging evidence is that Africa's economies are consistently growing faster than those of almost any other region of the world. The economies of at least a dozen SSA countries have expanded by more than 6% a year for six consecutive or more years. A middle class is emerging in most of these countries, and many people are moving from the rural areas to live in urban areas while physical and social infrastructural services have significantly improved in many rural communities. One estimate suggests that 60 million African households have annual incomes greater than $3,000 at market exchange rates. By 2015, that number is

expected to reach 100 million people[7]. Africa's collective GDP was estimated at $1.6 trillion in 2008, which roughly equals Brazil's or Russia's. IMF forecasts seven African countries to be among the top ten high growth countries between 2011 and 2015 (see Table 2.1). *The Economist*, which labelled Africa "the hopeless continent" in 2000, wrote in its December 2011 edition that "labour productivity is now growing by, on average, 2.7% a year. Trade between Africa and the rest of the world has increased by 200% since 2000. Inflation dropped from 22% in the 1990s to 8% in the past decade. Foreign debts declined by a quarter, budget deficits by two-thirds. In eight of the past ten years, according to the World Bank, sub-Saharan growth has been faster than East Asia's (though that does not include Japan)"[8].

These facts are quite compelling and heartwarming for all observers of Africa's development plight. The more gratifying it is that the *Economist* is not alone in its analysis. Research units of leading consultancy groups such as McKinsey have made similar observation. Analysts of the World Bank, the Standard Bank and African Development Bank have also added their voices in support. But some commentators remind African leaders and policy makers that it is too soon to start rejoicing – there have been false dawns before in Africa's economic history when promised miracles turned into mirages. The question that skeptics ask is whether Africa will sustain this growth momentum. Said differently, the continent's transition to modern economic growth will thus require a break in the boom-and-bust pattern which has characterized its economic performance during much of the 20th century (Broadberry and Gardner, 2013).

[7] See a paper delivered by Thomas Stelzer , UN Assistant Secretary-General for Policy Co-ordination and Inter-Agency Affairs at the 2012 ECOSOC Annual Ministerial Review, Addis Ababa, Ethiopia, 25 March 2012 (see http://www.un.org/en/ecosoc/newfunct/pdf/12_opening_statement_by_asg_21_march.pdf Accessed on 20 – 02 -2014

[8] See The Economist (2011) "Africa's Hopeful Economies" Available at http://www.economist.com/node/21541008 Accessed on 17 – 02 -2014

This chapter brings together and discusses factors that have entered the economic development debate as possible explanations for the current levels of high-growth. It also explores the extent to which these high-growth countries can spearhead a new cycle of growth on the sub-continent as a whole. I finally set the debate in relation to the central issues taken up in the dissertation – i.e. the extent to which the current explanations embrace or ignore the human factors of economic growth and development and the implications that the current understanding carries for the sustainability of the enterprise-led economic development and poverty alleviation process.

Table 2.1 World's fastest-growing economies (Annual Average GDP growth %)

Country	2001-2010	2011-2015
Angola	11.1	
China	10.5	9.5
Myanmar	10.3	
Nigeria	8.0	6.8
Ethiopia	8.4	8.1
Kazakhstan	8.2	
Chad	7.9	
Mozambique	7.9	7.7
Cambodia	7.7	
Rwanda	7.6	
India		8.2
Ghana		
Tanzania		7.2
Vietnam		7.2
Congo		7.0
Ghana		7.0
Zambia		6.9

Source: The Economist (2011)

Popular Explanations of SSA's Current Economic Progress

Economic commentators ascribe the current positive economic experience in SSA countries to five main factors: (1) commodity boom, (2) increased Chinese trade and investment, (3) remittances from the diaspora, (4) official development assistance, and (5) population-fuelled domestic demand. These factors are briefly discussed below in an effort to explore the extent to which they jointly and/or separately produce a base for sustained economic growth.

The Commodity Explanation

The first explanation provided by many analysts is the increased demand for commodities and the resultant upsurge in commodity prices. It is a common knowledge that Africa has about half the world's gold reserves and a third of its diamonds, as well as copper and many other minerals and metals. Many SSA countries including Chad, Sudan, Equitorial Guinea, Ghana and Gabon have also joined the group of oil exporting countries that, until recently, counted only Nigeria and Angola. The central argument is that the rapid growth of the so-called BRICS countries (Brazil, Russia, India, China and South Africa) has resulted in increased demand for Africa's natural resources. This has produced a significant increase in the prices of oil, copper, and other primary commodities that constitute a significant proportion of Africa's exports (IMF, 2006) and has created economic windfalls for the resource-rich countries on the sub-continent. In some countries, the windfall has allowed governments to increase their spending on infrastructural projects that have aided job creation with positive multiplier effects in the economies[9]. But while the region benefits from such price booms, it also makes its economies quite vulnerable to global economic conditions and resulting price shocks thereby seriously reducing

[9] For example oil rose from less than $20 a barrel in 1999 to more than $145 in 2008.

the prospects of sustainable growth. However, if the economic windfalls from the surge in commodity prices are wisely invested in the building of infrastructure and human capital and in the diversification of their economies, these investments can provide a foundation for sustained economic growth and development.

But commodity price increases do not appear to provide a complete explanation for the recent growth experiences. Studies have shown that only about a third of Africa's recent growth is due to commodities[10]. The remaining two-thirds have come from other sectors, including wholesale and retail, transportation, telecommunications, and manufacturing. Furthermore, while it is true that economic growth is generally highest in the resource-rich countries, there is also sustained high growth in countries such as Ethiopia and Rwanda, which are not dependent on natural resources. It is therefore important to look for additional explanations.

The China Factor

Another commonly cited explanation is the emergence of China on the global economic scene and the increasing Sino-African trade relations**.** The available data show that China's imports from Africa amounted to US$113.171 billion in 2012, while exports were US$85.319 billion – i.e. a total of US$198.49 billion in trade[11]. It is therefore true that China has become a high growth market for African export products. (Oil alone represented 71 per cent of Africa's trade with Beijing in 2012). In 2010, China's three state-owned oil companies – China National Offshore Oil

[10] See The Economist (2011) "Africa's Hopeful Economies" Available at http://www.economist.com/node/21541008 Accessed on 17 – 02 -2014

[11] According to The Information Office of the State Council, China's share of Africa's total foreign trade volume in 2000 was 3.82%. This increased to 16.13% in 2012. See BEIJING, Aug. 29 (Xinhua) 2013.

Corporation (CNOOC), China National Petroleum Corporation (CNPC) and China Petroleum and Chemical Corporation (Sinopec) – have either acquired stakes in established African operations, or have entered into prospecting deals and exploration contracts with major oil-producing countries such as Nigeria, Angola, Sudan, Equatorial Guinea, Gabon and Chad.

Naturally, this dramatic growth in economic relations has attracted substantial attention among academics, political commentators and journalists within and outside Africa. Protagonists argue that China has offered a mix of trade and investment incentives, aid and technical assistance, and low-interest loans to many SSA countries and are therefore filling critical infrastructure gaps. What is more, and they are doing it cheaply, less bureaucratically, and within a shorter time frame than Western countries have been able to do in over five centuries of economic and political relations with the sub-continent (Bodomo, 2013). They argue further that Chinese investments in the infrastructure sector – form roads, power generation, ports and new airports – have opened up opportunities for African producers to increase production, move goods to local, regional and global markets relatively quickly resulting in increased incomes to Africans (Cheru and Obi, 2010).

Notwithstanding the economic benefits that Africa derives from growing engagement with China, some critics have begun to accuse China of 'neocolonialism' in its relations with Africa. They point out that the Chinese 'winner-take-all' business model has limited spillover effects to the local economy either through employment creation or sub-contracting opportunities to local firms. Chinese have also been accused of supporting undemocratic African regimes, disregard environmental standards, and engage in poor labour practices. There is therefore a call for African leaders

to develop coherent national policies and an integrated regional/continental strategy for engaging with China.

The Diaspora's Contribution

The third popular explanation for the recent growth experience is the rise of domestic consumer income, fulled by remittances from migrants of SSA origin living outside the sub-continent. Conservative estimates put their annual remittances at $40 billion in the destination countries (Bodomo, 2013).[12] This figure is likely to increase in the coming years because of the formation of new Diasporas in economically fast developing areas of the world like China, Russia, India and Brazil. In terms of consumption spending, remittances have significant advantages over aid and other external money flows because they go directly to the recipients most of the time and can therefore be immediately spent on activities for which they have been earmarked. It has also been argued that under the right conditions, a significant proportion of this amount could be invested in Diaspora bonds (Kayode-Anglade and Spio-Garbrah, 2012). But, in the interim, remittances are believed to contribute significantly to boosting the service sector in the high-growth African countries, including retail, real estate, telecommunications and transportation.

Population Growth as a Factor

Some analysts attribute the current growth partly to sheer population growth that is stimulating domestic spending. After Asia, Africa is the world's largest and most populous continent and accounts for about 15% of the world's population. Available figures show that sub-Saharan Africa's population has grown from 186m in 1950 to 859m in 2010 – i.e. at an average annual rate of 2.6%. It is forecast to reach 1.2 billion in 2026 and

[12] According to Lemma (2012) remittance flows to Africa have exceeded official aid and amount to approximately $200 billion between 2007 and 2011.

2.5 billion in 2050. Thus, by the middle of this century one in five people on the planet will be African. This high growth rate is driven largely by high fertility rates, on average 5.2 children per woman (compared to a world average of 2.5).

Africa is also the youngest region in the world. As of mid-2011, the top 10 countries with the youngest population were in Africa. By 2040, Africa will have the largest workforce in the world, surpassing China and India. Within the continent, East and West Africa will be the youngest regions. A large young population offers opportunities for economic and social development, if their talents are harnessed and channeled towards the productive sectors of the economy. The argument is that many African countries are now in a position to reap the demographic dividend that benefited East Asian economies. The dramatic fall in fertility and dependency ratios in Asia provided many of the countries with demographic advantages of increasing labour size and increasing income and demand.

I will argue subsequently that the ability to cash in the demographic dividend and turn it into growth will depend on SSA countries' ability to effectively manage their human capability development processes and improve their overall institutional environment and civil society involvement in the development process.

On the flip side, the rapid population growth is also a challenge for governments that must provide it with basic services such as education, health services, housing, drinkable water and electricity. Enterprise-led economic growth appears to be the most secure way of addressing the social and political challenges that increasing demand for affordable social services entail.

The Aid Factor

As noted earlier, trillions of dollars of development assistance have been poured into Africa. The projects funded by these monies and resources have been spearheaded by individuals and institutions with the best intentions. But the results have been woefully disappointing.

The reasons for the disappointing results are many. Dambisa Moyo in her book *Dead Aid* has listed myriad inefficiencies related to foreign aid and even pointed to the magnitude of official corruption that can be involved in foreign aid funds management. There are estimates showing that in some cases less than 10% of ODA funds actually get to benefit the most vulnerable populations, the 90% or so entering the pockets of government officials and even foreign aid workers who are sometimes paid huge sums to make them live like kings in the midst of the poverty that they are supposed to eradicate.

There is also some evidence suggesting that aid can be a drain on national human resources. As Phillips (2013:31) notes, "while 100 or so national government aid agencies employ about 90,000 international staff, they also probably directly employ some 30,000 consultants and local staff on a regular basis, spending 7 to 9 per cent of their budget on overhead administration". Riddell (2007) cites a finding that there were as many as 100,000 expatriates in Africa in the late 1980s costing more than US$ 4 billion per annum and amounting to 35 per cent of ODA payments. Berg (1981) noted that the cost of foreign experts in Tanzania in the 1980s amounted to twice the cost of the entire civil service payroll. With SSA talents recruited to administer aid money, there is a dearth of human resources in other sectors of the economy, and even fewer to thread the less certain paths of enterprise formation and management.

The primary motives of aids to Africa have also been debated in the development assistance literature. The arguments are that donor countries tend to provide aid to Africa on two inter-related grounds: (1) moral, and (2) security. First, the industrialized countries consider it immoral that so many people in Africa remain mired in poverty. Second, it is in the international community's self-interest to do so, since a failure to respond would encourage the export of African problems (e.g. refugees, and terrorists) to Europe and North America (Mills, 2006).

For all the above reasons, there are diminishing intellectual and political justifications for continued dependence on aid as a source of external resource flows to stimulate growth in SSA countries. The expectations are that the contributiuon of aid to growth in SSA will decline in the coming years.

Examining the Sustainability of the Recent Growth Experience

On the whole, a general problem with the recent SSA economic growth experiences is that they have failed to make any real dent on the poverty experienced by the majority of the citizens of these countries. A survey of 50,000 people in 34 African countries by Dulani, Mattes, and Logan, (2013) shows that after a decade of growth about half of them reported facing shortages of food, clean water, and medicine at least once in the year in which the investigation was conducted.

This evidence has prompted Broadberry and Gardner (2013) to suggest that there is a danger of a reversal of current economic gains since the institutional changes necessary to eliminate growth reversals have not taken place in most African countries. They therefore argue that African policymakers must focus a great deal more on the introduction of measures that

can encourage the development of a robust civil society. To them, a strong and vibrant civil society will nurture organizations independent of the state and reduce the dependency of economic growth on state initiatives.

Other critics have argued that until SSA nations are able to design and implement national and continental growth strategies that are inclusive enough to unleash the endogenously anchored creativity, innovation and productivity enhancement capabilities in the soceities themselves, there can be no hope for poverty alleviation for the sub-continent (Dulani, Mattes, and Logan, 2013). These observations reinforce my earlier argument that broad-based human capability development is a key to sustainable and development-oriented economic growth in Africa.

Summary

In sum, the experience from nearly a decade of economic growth in selected African countries has shown that the key to achieving sustained economic growth and poverty reduction lies not in exogenous factors such as commodity earnings, aid and remittances from the Diaspora. These resources are important, but not sufficient on their own to produce the desired results. An increasing number of scholars are subscribing to the view that the development of civil society system enriched with cultural values of entrepreneurship, innovation and reward at individual and collective (community, national and regional) levels provides a more solid base for sustainable economic progress. This perspective ties in well with the concept of human capability development introduced in chapter one (see chapter four for an elaboration). The emerging understanding is that civil society development depends not so much on the number as on the contents and values of the people in a given society (i.e. the intangible constituents of a society's development capability). It is therefore important to explore the links between values and economic growth in African countries. The central

themes in this dissertation extend the understanding conveyed by this argument further.

CHAPTER 3

CONTEMPORARY PERSPECTIVES ON ECONOMIC GROWTH AND DEVELOPMENT

Introduction

I initiated this study by drawing attention to the weaknesses inherent in the economistic models and perspectives on issues of economic development and poverty alleviation in SSA. I have, however, noted that a handful of SSA countries have experienced significant economic progress in recent years. In chapter two, I reviewed some of the prominent explanations of this growth experience. I have noted that most of the identified growth factors are exogenous – i.e. they lie outside the respective African countries. Thus, leading commentators have expressed doubts about the sustainability of these growth experiences. I share their reservations.

This chapter presents an overview of the contemporary debate on economic growth and development in order to provide a backdrop against which alternative theoretical perspectives can be discussed. It starts with a brief discussion of the central arguments in the neoclassical economic development thinking and the criticisms levelled against it. In general, critics have challenged the wisdom inherent in blaming the people in underdeveloped societies for failing to adopt modern values and institutions that are expected to ensure them development. But I will argue that these critics have not provided well-grounded alternative perspectives. I therefore discuss institutional and sociological perspectives on development, including discussions of Whitley's national business systems theory as

alternative perspectives on capitalism. I then present and discuss neo-marxist inspired critique of neoclassical growth theories.

Neoclassical Perspectives on Economic Growth

Briefly stated, the fundamental assumption underlying the neoclassical economic thinking is that economic growth obeys a set of law-like principles that shape resource availability and their application to satisfy demand within and outside a given economy. The theories therefore predict that wealth accumulation can be maximized by putting idle resources to work, achieving allocative efficiency, and taking advantage of gains from trade. In other words, growth occurs when labour and capital shift from less to more productive sectors of an economy and stimulate the development of dynamic and inter-linked sectors (Chenery *et al*., 1986). Thus, given enough time, and except for differences in tastes and natural resource endowments, all countries are expected to naturally and rapidly converge to the same level of well-being. The theories also predict high rates of growth in poor countries, since returns to initial units of physical and human capital should be very high. It has been further argued that the stage of economic development of a country could affect the structure of income distribution. The distribution of income, in turn, affects the level of aggregate income.

There have been many variants of the neoclassical arguments. One variant holds that economic sectors vary in terms of their relative contributions to economic growth. Thus, inter-sectoral resource re-allocations must be slanted in favour of leading sectors that are active determinants of growth momentum, or "engines of growth", as they are often referred to. Rostows' (1960) formulation is one of the best known in modernizationist economic development thinking. He argues that all societies lie within one of five categories: (1) the traditional society, (2) the preconditions for take-off, (3)

the take-off, (4) the drive to maturity, and (5) the age of high mass-consumption. These categories also represent stages of economic development, with traditional societies being at the lower level. Furthermore, societies must use resources at their disposal at each stage to prepare themselves significantly for the next stage of economic growth. Thus, a progression from the traditional society stage to the "take-off" stage requires structural adjustment and a corresponding shift in resource usage through upgrading. Subsequent developments of Rostow's thinking indicate that there is a strong positive causal relationship between the growth of manufacturing output and (i) the growth of GDP, (ii) the growth of manufacturing productivity, and (iii) the growth of productivity outside manufacturing (Kaldor, 1966).

The modernization thinking of the 1960s produced policy prescriptions that relied strongly on a process of technology and skill upgrading within agricultural and manufacturing sectors. It is premised on the understanding that structural changes are necessary for economic growth and development. In this context, structural change in an economy is defined as continuous dynamic changes in some economic sectors in terms of their relative contributions to GDP[13]. The belief is that modernization of the agricultural sector releases resources for investment in the manufacturing sector. High growth economies have been found to be those in which the share of manufacturing increases gradually and makes the highest contribution to GDP (Kuznets, 1966; Chenery and Taylor, 1968). The expected outcome is higher productivity within the economy as a whole, higher earnings and profits for firms, integrated industrial products, product sophistication and output diversification. The assumption here is that technology is freely traded and available to developing countries that are attempting to catch up.

[13] These models acknowledge the centrality of agriculture during the initial stages of economic growth.

But the high cost of capital or its unavailability can prevent "catch-up" growth from occurring. This often traps countries in a low-efficiency cycle whereby the most efficient technology is too expensive to be acquired. The resultant differences in productivity techniques therefore separate the leading nations from the following nations[14].

Another strand of neoclassical inspired economic growth research rejects the production function approach on the grounds that it explains growth solely in terms of the supply of factors of production and their productivity and ignores the role of demand in this process. Theories of demand-led growth recognise that at any point in time, the level of utilisation of productive resources may vary according to demand conditions. A variant of this perspective holds that balance of payments can limit the growth of aggregate demand if the import components of production inputs in a given economy are fairly high (McCombie and Thirlwall, 2004).

Neoclassical Explanation of Slow Economic Growth in Africa

Africa's failure to prosper economically seems to defy all the fundamental predictions of the neoclassical economic growth models of smooth and rapid convergence in standards of living. But this defiance is usually not interpreted as an indictment of the theory, but rather as an indictment of Africa itself – i.e. a self-nursed non-growth syndrome (Fafchamps, 1998). This is referred to by some observers as the "African dummy" effect. Simply put, the dummy effect hypothesis holds that Africans are happy the

[14] It is however surprising to note that agriculture has been conspicuously neglected in all Western supported economic development efforts in Africa. As Phillips (2013:19) observes "despite its centrality in the alleviation of poverty the World Bank's 2008 World Development Report was the first one to focus on agriculture for 26 years. But while agriculture is back on the donor's rhetorical agenda there is a long way to go in terms of action. In 2009 and 2010 agriculture still took a historically low share of World Bank lending". In the 1970s, agriculture averaged 28 percent of total World Bank lending. But it fell to 15 percent in the mid 1980s.

way they are. As such, they do not wish to save, go to school and grow[15]. Others attribute the non-growth phenomenon to bad leadership – i.e. SSA governments have launched ruinous social experiments, and many are corrupt, self-serving, inefficient and not committed to the development of their societies.

Those who reject the contention that Africa's growth shortfalls are due to the African dummy effect have offered various competing explanations including colonial legacy and locational disadvantages (Sachs and Warner, 1997), the debilitating impact of the tropical climate (Acemoglu *et al*., 2001), and institutional weaknesses (Easterly and Levine, 1997, 2002). For example, Sachs and Warner (1997:1) argue that "the colonial legacy or ethnic divisions may help to explain Africa's poor choices of economic policy, which in turn are responsible for much of the growth shortfall…. Similarly, Africa's distinctive geography – with a substantial population in landlocked countries, and a very high proportion of land in tropical climates – surely has contributed to the poor economic outcomes in Africa, but in ways that are consistent with the effects of geography evident in other parts of the world". Similarly, Bloom and Sachs (1998) argue that tropical climate has an adverse impact on agricultural productivity, and tropical regions are also home to diseases like malaria that can lower life expectancy and labour productivity and discourage foreign investment. Others argue that Africa's failure constitute special and extreme forms of non-linear growth experience in the history of nations and may be considered as evidence of the failure of neoclassical growth theory (Jerven, 2011). For example, Gelb *et al* (2007: 32) argue that traditional comparative advantage theory based on factor proportions "cannot explain Africa's low income level, its dynamic path of factor accumulation…. or the fact that wages are lower in many African

[15] This hypothesis is highly contested in the literature due to the effrontery connotations it carries.

countries than in manufacturing powerhouses like China which are often assumed to compete on the basis of cheap labour". Thus, the African dummy effect is regarded not only as an over-simplistic and effrontery explanation of the problems faced by SSA countries. It is also considered to be counter-constructive since it produces no substantive policy prescriptives that can guide future development initiatives.

The basic assumptions of the neoclassical model have been challenged by scholars from other disciplines as well, especially by institutional theorists and scholars of political economics. Some of these critics argue that the neoclassical viewpoint tends to focus on the relative "efficiency" of markets and hierarchies in highly abstract and simplified circumstances. To them, the main drawback is that neoclassical thinking assumes that economic, social, and political life is susceptible to voluntaristic manipulation. That is, economies are seen as responding in a rational, predictable way to incentives and constraints, and change can be engineered through a deliberate transformation of the framework of rules and institutions (Weyland, 2007). Reality always proves to be a lot messier than what theories predict.

Alternatives to Neoclassical Development Economics

Two streams of research provide alternative perspectives to the neoclassical approach to economic growth and development. They are (1) the socio-institutional perspective, and (2) the neo-marxist political economic perspective (Pedersen and McCormick, 1999). Economic sociologists focus attention on how and why particular patterns of economic organization become established, reproduced, and changed in specific sociohistorical circumstances. To them, economic actitivies are more meaningfully understood as being socially constructed. As such, economic actors'

perceptions and beliefs constitute the guiding principles of their behaviour within an economic context. Similarly, the institutional economists argue that the effectiveness of the different modes of capitalist business systems is shaped, to a large extent, by the institutional contexts within which they operate. Thus, a good starting point in understanding the success or failure of economic activities is to analyse the institutional context within which they are embedded. The neo-marxist scholars are concerned with an understanding of political history and the relative positions of countries and societies in this historical evolutionary process. They see key institutions of the leading economies as mechanisms that seek to protect the profitability of capital. They argue in favour of the need for each society to negotiate the terms of its inter-dependence with the rest of the global economy. The central arguments of the two streams of research are briefly presented below.

Institutional and Economic Sociological Perspectives

Institutional economists[16] and economic sociologists criticize neoclassical economic models' assumptions that people behave in dominantly rational and predictable manner to economic incentives and constraints. To them, human beings and the systems they construct evolve through relational transformations (See Fast and Clark, 2012; Fast, Hertel and Clark, 2014). Seen from this perspective, there are a number of different ways of organizing economic activities successfully in a market economy, and no single pattern is clearly superior to the others.

[16] The term institution has featured prominently in the development economics literature under many different labels including the following: "economic institutions," "structural policies," "growth promoting policies," and "social infrastructure." (See Eicher and Rohn, 2007 for elaborations).

One of the prominent contributors of the sociological thinking in economics is Mark Granoveter. In 1985 he made an impassioned plea to economists and sociologists to theorize economic action in ways that acknowledge its strong linkages to social structure. An economy, he argued, is structurally embedded in social networks that affect its functioning. Thus, "a fruitful analysis of human action requires us to avoid the atomization implicit in the theoretical extremes of under- and oversocialized conceptions. Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing [social] systems..." (Granovetter, 1985:487) He re-introduced the concept of "embeddedness" into the economic sociology literature in order to capture the social contextuality of economic activities and as a critique to the Williamsonian perspectives on economic transactions (Williamson, 1975 and 1985). To him, relational constituents such as social and emotional attachments, information flows and general inter-personal processes contribute immensely to explaining the growth potentials of economic systems and entrepreneurial activities in different societies. Other contributors to this line of thinking include Polanyi, Arensberg and Pearson (1957: 250) who argue as follows:

"The human economy . . . is embedded and enmeshed in institutions, economic and non-economic. The inclusion of the non-economic is vital. For, religion or government may be as important to the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labour."

Building on these perspectives, DiMaggio and Zukin (1990) identify four different kinds of embeddedness: (1) cognitive embeddedness, (2) cultural embeddedness, (3) political and institutional embeddedness, and (4) structural embeddedness. The cognitive embeddedness relates to the

individual and collective habits of mind or mental processes found in any given society at any given point in time. They shape the structured regularities found in the society and influence the exercise of economic reasoning. Cultural embeddedness signifies the role of shared collective understandings in shaping economic strategies and goals. Political and institutional embeddedness describe the role of political and other non-market institutions in shaping economic institutions and decisions. Structural embeddedness covers the patterns of social structures, networks and relationships.

Empirical studies tend to support these further distinctions. For example, Kahneman and Tversky (1973, 1979) have shown that cognitive embeddedness is reflected in the decision-making processes of individuals. Biggart and Hamilton (1992) have shown that Asian economic action is culturally embedded in different principles of social action developed through the historical experience of Asian nations. Relatedly, Burt (1992) has shown how economic action and outcomes are politically embedded within interorganizational networks of power.

National Business Systems Perspective

Institutional-sociological strands of these studies emerged in the 1990s, particularly through the works of such scholars as Richard Whitley (Whitley, 1990, 1992, 1994), Biggart and Hamilton (1992) and Kristensen (1996). Whitley has developed the *national business systems* model that focuses on the systems of co-ordination that link the various actors (individuals and organisations) together in a sort of a framework. To him, national business systems can be sufficiently defined in terms of three main components: (1) firms as economic actors, (2) modes of organising of economic activities, and (3) the nature of the dominant authoritative co-ordination and control system within the economy. Based on these characteristics he identified six archetypes of business systems: (i)

fragmented systems, (ii) co-ordinated industrial districts, (iii) compartmentalised systems, (iv) state organised systems, (v) collaborative systems, and (vi) highly co-ordinated systems. The defining characteristics of national business systems are therefore their linkages and coordination mechanisms. Whitley argued further that, business systems are historically contingent. That is, within each national boundary, a set of social, cultural, political and economic institutions interacts to shape the uniqueness of the system. This institutional context is, in turn, divided into two broad categories: (1) the proximate social institutions, and (2) the background social institutions. The former comprise those institutions directly involved in the economic system and constitute the more immediate business environment (e.g. bureaucratic institutions and legal systems), while the latter cover those elements in the civil society that structure patterns of trust, cooperation, identity and maintain social order. (See chapter 9 for a discussion of the relevance of the national business systems model to innovation, learning and creativity).

The fact that business systems are historically conditioned and institutionally embedded means they change rather slowly. Thus, no individual firm behaviour can be expected to produce a dramatic change in the system as a whole. Significant changes entail considerable institutional reforms that produce restructuring of economic relationships. This also implies that these characteristics can be identified and studied by researchers from historical as well as current perspectives. Such investigations will identify the actors within the business system, the dominant characteristics within the system (including ownership and non-ownership co-ordination and authority structures), and the institutional profiles.

Other scholars of the national business systems perspective endorse the view that markets and the state have different, complementary strengths.

Some types of government action are critical to get development started. For example, government intervention would be needed to propel the economy from a low-level income trap onto a growth trajectory that permits the realization of the inherent technological and financial increasing returns to scale achievable through coordinated investments (Jacobsen and Torp, 2001). However, as development proceeds, the role of the private sector in development must increase. The strength of markets is their emphasis on efficiency, but only when institutions are rendered competitive through various authoritative interventions by the state. The reason is that markets are not particularly good at predicting the future when development is nonlinear and/or at taking account of externalities. Since the strengths of markets and governments are largely complementary a mix of the two is needed to achieve sustainable economic growth. These arguments are developed more elaborately in chapter13.

Neo-Marxist Inspired Critiques of Neoclassical Theories

A second stream of research that provides an alternative explanation to the perpetuation of poverty in the developing countries (including Africa) has drawn inspirations for neo-marxist conceptualizations. Scholars subscribing to this explanation have re-directed attention to the roles of structures and institutions at national, regional and global levels as critical factors in economic development processes. The central argument is that economic and political power is unequally distributed among developed and underdeveloped countries and that capitalist expansion has the tendency to reinforce these inequalities. For this reason, societies that constitute the global capitalist system have unequal access to resources. As a result, instead of modernizing and gradually progressing towards economic development, underdeveloped countries are trapped by their disadvantaged position within the global geopolitical structure. This asymmetrical insertion of the developing countries into the global capitalist order and the domestic

class divisions that they produce, cause structural heterogeneity in the economy as well as domination and oppression of vast segments of the populations of these societies, both in economic and political terms.

These arguments have been forcefully presented in the writings of such scholars as Andre Gunder Frank (1969), Fernando Cardoso and Enzo Faletto (1979), as well as Samir Amin (1973, 1976). They blame global institutional arrangements built around the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank for nursing neo-liberal economic regimes in Africa and Latin America. These institutions, they argue, serve the interests of international capital through structural adjustment programmes (SAPs) that perpetuate unequal participation of developing countries in the economic gains that globalization produces. Their arguments have succeeded in placing market-induced structural conflicts and contradictions in modern societies at the centre stage of discourses of poverty and economic growth.

Frank's (1969) argument runs as follows: underdevelopment in the developing countries stems from Western imperialism and hegemony because Africa and Latin America were incorporated into the world capitalist economy as subordinate partners. In the global system of trade and exchange, which is designed to serve the West, the "metropolis" (i.e. the developed/industrialised countries) exploits the resources of the "satellite" (i.e. the developing countries). While demand for manufactured goods produced by the metropolis has increased, the prices and demand for primary products produced by the satellite countries have fallen. Because satellite countries have to borrow financial capital and purchase advanced technology from the metropolis, they are dependent on external economic forces and this severely constrains their development. The dependency on the metropolis is not simply economic; it is political, as well, since the

resource advantages of the West provide them with the power and political muscle to impose their "developmental" agenda on the satellite nations. These scholars see power not merely as domination but also as hegemony – i.e. the ability to influence society morally and intellectually. Thereby Western industrialized nations impose their world-views and system of values on the developing nations.

Some dependency theorists advocate an import subsitution strategy as an antidote to unfair competition from established firms in the West (see Prebisch, 1963). The idea was that, by protecting their domestic market from international competition, developing countries helped their infant industries grow and prosper. Policy guidance from this thinking led to the adoption of import substitution strategies in Africa in the 1960's and 1970's. But these policies failed to deliver sustainable industrialization (Steel and Evans, 1981).

Most African intellectuals have endorsed the emotionally seductive arguments of external victimization to explain the non-growth syndrome in Africa. Arguably, the atrocities of the colonial era have combined with the negative consequences of global capitalism, trade restrictions and global politics to constrain the developmental opportunities available to the least developed countries of the world. But I submit that it is equally important for Africa to reflect soberly on the internal circumstances that hamper growth and development on the continent. In other words, limited growth in Africa may be as much due to externally imposed trade barriers as to domestic incapacity to produce and to satisfy basic needs of the local people (Mills, 2006). Furthermore, recent economic experiences of countries such as China, India and Brazil (as well as South Korea and Singapore before them) have shown that domestic political actions and policy interventions can change the economic destiny of nations.

At the same time, there is some evidence suggesting that the collective mindset of people in a given society tends to influence the preparedness of its citizens to choose or ignore the path of capitalist forms of economic growth – i.e. private enterprise-led economic progress. When people gain the freedom to do the things that they have reason to value and when the sociocultural and institutional contexts enable them to do so, they collectively produce a wellspring of positive energy – an intangible set of resources – that sets a positive growth spiral in motion in a society.

Private Enterprise-led Economic Development

There is now a growing academic endorsement of the view that private enterprise-driven economic growth provides a greater promise for absolute poverty reduction through lowering the levels of real unemployment and strengthening individuals' capacity to care for themselves and their families (Fafchamps *et al*., 2001; Kuada, 2008). Added to this, businesses also tend to generate revenues necessary for anti-poverty policies of governments. Stated differently, the tempo of absolute poverty reduction will be higher in countries where enterprise development raises the average income levels through employment. It has been argued further that growth policies must be biased in favour of the poor in the sense that the income growth of the poor should exceed the average income growth in a given country for growth to make a real dent on poverty (Klasen, 2008).

As discussed in details in chapter 4, business economists argue that it is not enough for firms to possess valuable, rare and inimitable resources to succeed; these resources must also be managed effectively (Barney & Arikan, 2001). Here, leadership is of vital importance. For example, those firms whose employees have capabilities to undertake an effective leveraging and bundling of the resources are those that have caring and

employee-centred leaders who can motivate their workers to accomplish assigned tasks.

Summary

Current thinking in development economics acknowledges the inadequacy of the assumptions on which neoclassical economic thinking has been based. There is a growing acceptance of the view that both tangible and intangible resources are necessary to ensure economic growth and the intangible resources, including knowledge appear to be more important than tangible resources in any economic growth process. It is also argued that all economic activities are socially embedded and the manner in which institutions and the civil society shape individuals' mindset and motivate them to engage in entrepreneurial activities will determine the pace of economic growth in socieities. For example, if society provides enough economic, social and psychological incentive for people to innovate, individuals will choose to grow their capabilities and look harder for new innovations.

CHAPTER 4
THE HUMAN FACTOR IN ECONOMIC DEVELOPMENT

Introduction

The discussions in the previous chapters suggest that the process of economic development is both multidimensional and highly nonlinear. It entails dynamic change not only in production patterns and technology but also in social, political and economic institutions, as well as in patterns of human development. Furthermore, history is an important explanatory variable in economic growth equations. Stated differently, histories of nations or groups of nations exert strong influence on both the tangible and intangible conditions for successful long-run development. This implies that an understanding of a country's prior history of interaction patterns between civil society and the government, the bureaucracy and the military is important in understanding the economic development challenges and opportunities in SSA countries. All these considerations have crystalized into what is now dubbed as a *new economic growth theory*.

I have forwarded the view that private enterprise-driven growth is the most certain approach to poverty alleviation in Africa and this must be based on human capability development for it to be truly sustainable. This chapter builds on this observation and provides a more detailed discussion of the human capability development approach to poverty alleviation. Leaning on this emerging perspective, I submit that it is important to see economic development in Africa in terms of multiple drivers operating concurrently. This viewpoint also reflects my understanding that human (or soft) factors have more important role in shaping a nation's development capability than previously articulated. It is a perspective championed by such notable

economists as Amartya Sen, Irma Adelman, Cynthia Morris, and Moses Abramowitz.

This perspective on development posits that the accumulation of human as well as social capital combine with local innovation to endogenously drive economic growth (Armstrong and Taylor, 2000; Dunford, 2003). I explore the theoretical foundations of this emergent perspective and examine its potentials in providing coherent conceptual and theoretical framework for understanding SSA's developmental challenges and opportunities. I have based these discussions on the concept of capability in general – a concept that is gaining increasing acceptance among pro-poor thinkers. My contribution to the theoretical development debate is mainly in terms of arguing in support of the link between human capability development and private enterprise development and economic growth. The main constituents of the framework are discussed in details and their dynamic characteristics explained in this chapter.

The Capability Perspectives in Development Thinking

The concept of human "capability" in social, political and economic literature is not new. Notable contributions to this thinking are from Amartya Sen (the 1998 Nobel Prize holder in Economics) and the feminist scholar Martha Nussbaum[17]. The perspective has emerged now as the leading alternative to standard economic frameworks for thinking about poverty, inequality and human development generally.

[17] Sen's capability approach has emerged as a flexible and multi-purpose framework, widely applied in pro-poor policy studies. Whitley's national business systems concept discussed in chapters 3 and 13 also presents similar arguments. But the capability concept adopted in this dissertation is anchored on the notion of the individual's development as a creative human being in a social context. This perspective differs from contemporary uses of the term in both Sen and Whitley's studies.

Proponents of this perspective base their arguments on two core normative claims: (1) the freedom to achieve human well-being is of primary moral importance to all people, and (2) freedom to achieve well-being is to be understood in terms of people's capabilities. They view capabilites as the real opportunities that people have to *do* and to *be* what they have reason to value. To them, the overriding objective of development is the expansion of human capabilities rather than economic growth. That is, while growth may be necessary for development, it is not always sufficient. Growth must be regulated and directed through proficient welfare programmes that support health, education and social security for it to support development. For this to happen, development-oriented societies must be encouraged to engage in internal criticism of local values and practices that hamper social and political progress (see Nussbaum and Sen, 1989). Furthermore, they must promote inclusive economic and institutional development.

Another concept that is related to Sen and Nussbaum's capability approach (and is relevant to the theme of this study) is the "dynamic capabilities framework" (DCF) that builds on the the resource-based view (RBV) of the firm (Wernerfelt, 1984; Barney, 1991). DFC has been popularized by the influential studies of scholars such as Teece, Pisano and Shuen (see Teece *et al*., 1997; Teece, 2007). Following the RBV, resources that are simultaneously valuable, rare, inimitable and non-substitutable can be a source of superior performance, and may enable firms to achieve sustained competitive advantage (Barney, 1991, 2001; Eisenhardt and Martin, 2000). The dynamic capabilities framework extends this thinking by arguing that firms' capacity to renew competencies so as to achieve congruence with the changing business environment ensures their sustained competitive advantage in an intensive and volatile competitive environment. Helfat *et al*. (2007:1) have defined a dynamic capability as "the capacity of an organization to purposefully create, extend or modify its resource base". To

Teece, “dynamic capabilities” are idiosyncratic – i.e. unique to each company and rooted in the company’s history and therefore difficult to imitate. It allows companies to identify trends within their environment before other companies and to adapt to them or influence the trend itself.

Scholars of DCF also argue that companies do not automatically adapt to changes within their operational environment. Adaptation requires top management ability to keep the organization agile enough for it to be able to sense and shape opportunities and threats and to maintain high levels of competitiveness through enhancing, combining, and reconfiguring the business enterprise’s intangible and tangible assets. As Teece (2007) explains it, dynamic capabilities can usefully be thought of as belonging to three clusters of activities and adjustments: (1) identification and assessment of an opportunity (*sensing*); (2) mobilization of resources to address an opportunity and to capture value from doing so (*seizing*); and (3) continued renewal (*transforming*). Sensing is seen as an entrepreneurial set of capabilities that involves exploring technological opportunities, probing markets, and listening to customers. Seizing capabilities include designing business models to satisfy customers. It also includes securing access to capital and the necessary human resources. The transformation of capabilities is needed when radical new opportunities are to be explored and exploited. But it is also needed periodically to soften the rigidities that develop over time through the adoption of standard operating procedures. I will argue subsequently that the dynamic capability concept can be extended to describe a society’s ability to nurture, transform and apply its resources to support its development development. That is, nations can develop dynamic capabilities (just as firms) through the interactive engagement of its citizens in a lifelong learning process – i.e. by developing a learning culture.

The Human Capability Development Framework

As indicated in chapter one, I have done empirical investigations into enterprise management in Ghana and a few other Sub-Sahara African countries (including Kenya) during the past three decades. I have also supervised doctoral students whose researches have been on similar issues. The results of these empirical investigations have informed the conceptual framework that I propose in this dissertation. In this sense the framework has been both inductively and deductively inspired. I will present my reflections on some of the empirical investigations in Ghana in the second volume of the dissertation.

Based on these previous studies I am of the opinion that the "capability" concepts presented above can be synergistically combined and extended to provide a novel theoretical framework for understanding and analyzing the challenges of entreprise-led societal transformation and progress. I have been guided in the development of such a framework by the view that to be useful, a theoretical framework must be general and flexible enough to provide intellectual direction in a variety of situations in which the framework is to be applied. This calls for parsimony so that an overwhelming number of variables do not render analysis an impossible task. My ambition here is to outline a theoretically and empirically informed framework that is fairly general for organizing and understanding the basic processes underlying enterprise-driven economic and social development processes in nations.

The Core Construct of the Framework

Let me start with a distinction between the capability concepts discussed above and the capability concept proposed in my framework. The previous studies see human capability as an opportunity or a collective set of

intangible organizational attributes. These perspectives differ from the perspective that I put forward in this dissertation. The term "capability" in my usage connotes a variegated set of competencies that individuals and groups possess that enable them to actively face the challenges of life and to take moderate personal and/or collective risks to achieve what they set out to achieve. Thus, the unifying theoretical argument for my framework is that human capability development process is at the foundation of sustainable socioeconomic development of any nation. It provides the vital input for creativity, innovation and enterprise development which sets in motion a vertous cycle of socioeconomic development in the sense that economic growth provides additional economic resources for pro-poor investments that further reinforces human capability development process in a country, and which again produces enabling conditions for enterprise development and economic growth.

I have chosen term "development" in the human capability development construct purposefully. It connotes change over time and space within individuals and also within the network of relationships that constitutes a society. It also connotes change that signals improvement. Thus, "capabilities" in this theoretical framework are not static. They are dynamic in a manner similar to what Teece and his colleagues describe as "dynamic capabilities". This understanding of the term "development" also assumes that individuals take action to transform their capabilities and contribute to the transformation of their societies from one condition to the other.

A related concept in the development literature (with a focus on individual development) is United Nation's concept of *human development.* The United Nations Development Programme (UNDP) has operationalized this concept in the form of *human development index* (HDI) – a composite of indicators on life expectancy, education and command over the resources

needed for a decent living[18]. In its various human development reports, the UNDP rightly observes that economic growth alone does not automatically translate into human progress. "Pro-poor policies and significant investments in people's capabilities - through a focus on education, nutrition, health, and employment skills – can expand access to decent work and provide for sustained progress" (see UNDP, Human Development Report 2013:ii).

However, the UNDP human development construct is narrower than the concept that I suggest in this dissertation in the sense that the UNDP perspective leans a lot more on the notion of human *capital* development than human *capability* development, as I see it. Human capital is often described as the sum of the knowledge, skills, competence and other attributes embodied in individuals in a given society, and are usually accumulated through formal education (OECD, 1998). Its emphasis on formal education means that human capital is measured mainly in terms of the literacy levels in the focal countries.

The weakness of the human capital construct is shown in the fact that although the theoretical arguments linking human capital development and economic growth are strong, it has been difficult for researchers to establish any conclusive empirical connection between what students learn in school (or how long they remain in their classrooms) and what subsequently happens in a nation's economy (Romer, 1990; Psacharopoulos, 1994). The reason is partly because other factors than "school attainment," contribute to an individual's preparedness to engage in entrepreneurial activities or to be productive on the job market. Furthermore, the extant literature on human

[18] See various issues of UNDP human development reports.

capital is still unsettled on the issue of whether the level of education in a given country is a cause or consequence of economic growth.

In my view, entrepreneurship and enterprise development is not necessarily dependent on the level of formal education of an individual. In effect, although the level of formal education in a specific country may be low, this will not automatically write that country off as being capable of achieving economic growth. This does not mean that I underrate the importance of formal education in the capability development process of individuals in a society. It rather suggests that there are other capability acquisition processes in a society than formal education. The key issue here is learning and building oneself into a capable citizen rather than seeing formal education as an endpoint.

In this regard, I suggest a classification of human capabilities in terms of three distinct but related categories: (1) *basic capabilities*, (2) *formal capabilities* and (3) *combined capabilities*. In doing so, I lean on classificatory models proposed by such scholars as Nussbaum (2000). *Basic capabilities* in my conceptualization reflect the innate qualities of individuals that are essential for developing core competencies needed for co-existence in groups of other persons. It is also that inner drive that encourages people to challenge their circumstances, seek knowledge and take actions that move them forward in life. I therefore see human capability as unique to each person and rooted in each individual's history. It is therefore difficult to be immitated by others. As such, these capabilities must be painstakingly built over time – i.e. they are products of individuals' upbringing and socialization processes that occur through complex interactions among myriads of cultural transmission mechanisms within a given society. *Formal* capabilities are those skills and knowledge acquired through formal (and some degree of informal) education and training. As

noted above, this is what the literature refers to as human capital. The *combined* capabilities are manifested in abilities that pull together the basic and formal capabilities. This also requires guidance and socialization processes (occasionally in the form of mentoring). The first two of these capabilities are necessary but not sufficient requirements for economic progress (i.e. they cannot on their own bring people to a state of readiness to take actions necessary for economic growth). It is the combinations of the two that define the quality of human capability development in a given society. But each provides latent (potential) conditions for efficient and effective enterprise management and economic growth (granting an enabling and supportive environment).

In addition to the three defining characteristics outlined above, human capabilities can also be analysed at different levels of aggregation – individual, group, organizational, societal and international. The collective human capabilities are reflected in the values and attitudes of the groups or organizations to which individuals belong and are therefore related to the concept of culture. The synergistic interaction between individuals helps translate personal capabilities into a pool of collective capabilities within a community and/or nations. In this way, individual capabilities become institutionalized within a social space and culture. To preempt the discussions below, let me suggest that cultural values signalize the types of competencies that a society expects the majority of individuals in a given society to acquire and rewards the effective application of these competencies in value creation endeavours of people. This partly accounts for the differences in the resource mobilization potentials of societies.

Social Space and Capability Development

Human capability development takes place within a social space. Sociologists perceive social space both as a geographical location for human

action and a social forum for engaging in such actions. In other words geography and physical conditions shape the developmental opportunity frontiers of nations. But in line with the resource-based perspectives outlined above, it is the inner energy of individuals and their knowledge that produce the most important conditions for economic growth.

Bourdieu (1985) presents a social space as a multidimensional arena in which individuals explore the limitless possibilities that life offers within the community of other individuals. Space therefore helps people define social reality and generate the "habitus" of everyday life. In a similar vien, Gotham, Shefner and Brumley (2001:317) define social space as "having a form, function, and social meaning that shapes, and is shaped by, individuals and groups engaged in historically determined social relationships". To Lefebvre (1974) all social space is produced – i.e. co-constructed by people going about their daily life but within the regulatory and facilitatory framework of the state and its institutional agents, economic actors and the civil society. The relative power and intensity of interaction between these actors define the pathways along which citizens live and experience their social reality. Furthermore, the capabilities of individuals help them carve out and occupy social spaces and define the nature of their engagement with other actors as individuals and collectives.

These observations form the bedrock on which I discuss the human capability framework outlined below. I argue that some individuals appear to have the characteristics required to actively engage in socially and economically enriching relationships with others and therefore appear to contribute a lot more to economic progress than other individuals. The difference in characteristics may be attributed to differences in human capabilities. I will also argue that visionary and transformational leaders can help citizens create spaces of collaborative engagement with others in their

lifeworlds. The creative interactions and reflections produce learning experiences that nudge individuals to reach beyond the edges of their knowledge at any given point in time.

In sum, individual actions, reflections and learning take place with a social space. The dynamics within the social space therefore impact on the capability development of individuals.

The Contextual Constructs in Details

Building on the observationsabove, Figure 4.1 presents the overall theoretical framework on which the discussions in the rest of the dissertation are based. It shows that there are four main sets of "essential factor conditions" that shape the human capability development processes of individuals and societies. These are (1) the *cultural and civil societal characteristics*, (2) the overall *institutional capabilities* of the nation, (3) *leadership and governance capabilities*, and (4) the *global orientation* of individuals, organisations and the society as a whole (as well as the integration of firms and institutions within the global family). Stated differently, the interplay between these four factor conditions in a given country produces unique set of resources that enhance a country's capacity to manage enterprises in competitive business environments and to grow economically.

The term "civil society" in the first factor condition is used to depict and analyze self-organization of social relationships outside state (read government) control and can be likened to a grand "capability architect" – defining the values, norms and visions of individuals and capturing the aspirations of the society as a whole. The understanding I intend to convey is that civil society collectively can hold growth expecations and ambitions. But the translation of these collective ambitions into real growth will depend

on the personal capabilities of its citizens. The greater the number of citizens with capabilities to think outside the dominantly accepted frame of thinking, the greater will be the chances for them contributing to the overall growth of societies.

The other three factor conditions serve as *transmission conduits* – i.e. vehicles for interpreting societal aspirations and rules of accepted behaviour and translating them into actionable opportunities. In this way, the institutional capabilities of the nation, its management/leadership and governance capabilities, and its global orientation jointly prescribe what can be done, proscribe what cannot be done, and promote the accepted courses of action. They therefore help to shape individual and collective mindsets and motivate action. Said differently, the framework suggests that the four factor conditions are organically related to each other and jointly influence innovation and enterprise development and thereby economic growth. I also argue that innovation and enterprise development also depends on strategic management decisions taken by top management of enterprises.

The general ideas informing this framework are consistent with perspective emerging from researchers in some of the leading multilateral organizations including the World Bank and the UN. For example, the 2013 UNDP's Human Development Report identifies three notable drivers of development among the high growth countries in the developing world during the past decade: (1) a proactive development state, (2) tapping of global markets, and (3) determined social policy and innovation. They observed further that "*these drivers are not derived from abstract conceptions of how development should work; rather, they are demonstrated by the transformational development experiences of many countries in the South.*

Indeed, they challenge preconceived and prescriptive approaches" Human Development Report (2013:4).

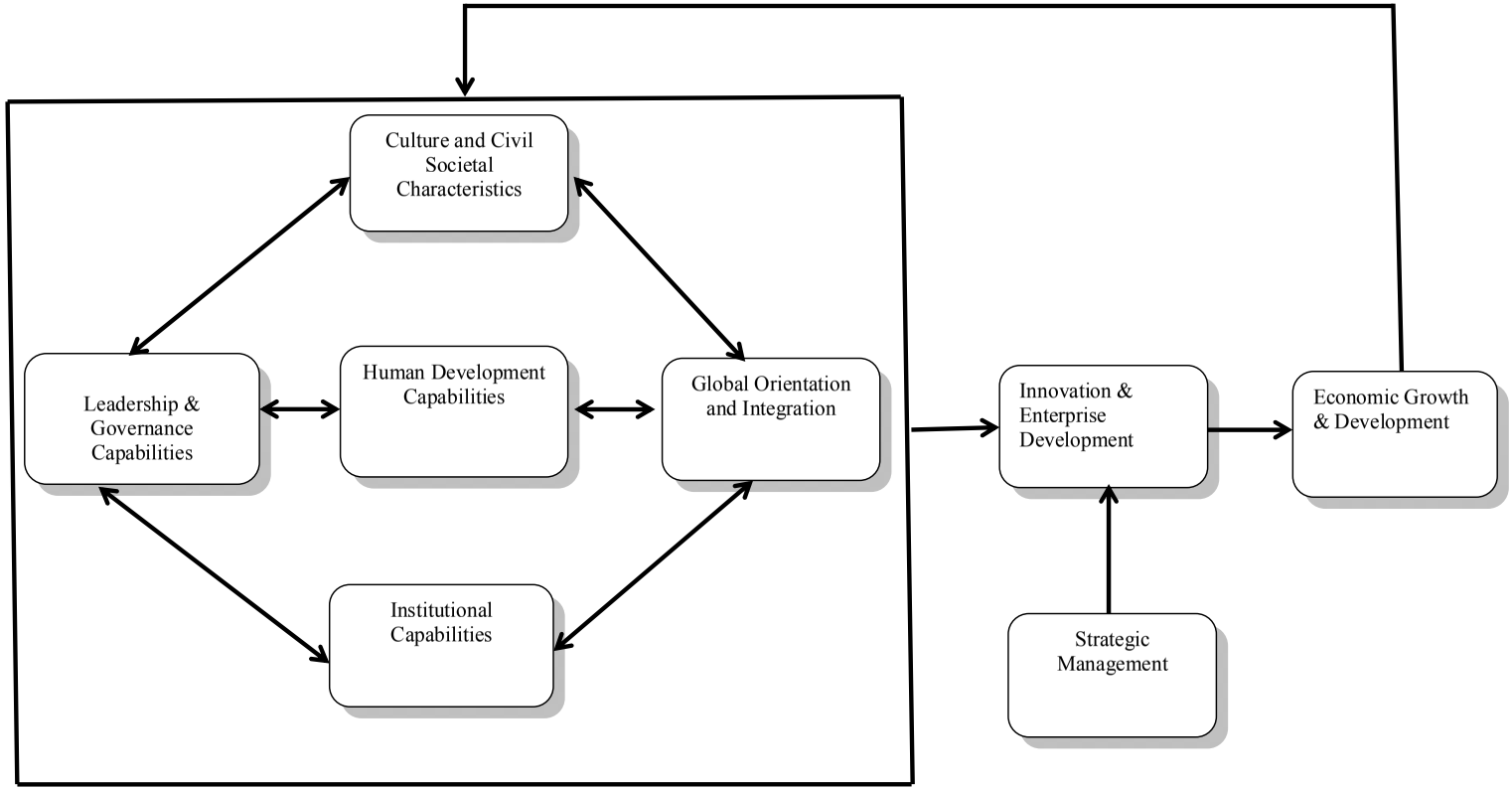
I see individual capability development as a process that starts at birth and involves all the four key factor conditions identified in the model below – culture and civil society, institutions, leaders and governance mechanisms at all levels of society and interactions with the outside world. These interactive processes produce rules and regulations that are embedded in the fabrics of society and are communicated to individuals through the four factors. Some are manifested in routines while personality differences enable individuals to define their own rules of behaviour. This enables them to sense and seize new opportunities in life by attentively exploring their environment. It also enables them to identify their knowledge gaps and take steps to renew, replace or upgrade their existing knowledge base.

As noted earlier, I see individual capability development as occurring through a learning process – i.e. through individuals' day-to-day actions and interactions with each other within a social space. The unit of analysis in individual's capability development process is therefore the *interactions* and *actions* of people and their ability to reflect on the actions (i.e. interpret the experiences). In order to reflect effectively, individuals must mentally "step back" from their actions and consciously observe these actions – thinking them through individually or with others. *Reflection-in-action* requires a certain level of experience within the social world and ability to shift attention from doing specific acts to examining how the actions are done. An important tool for reflection is dialogue – i.e. articulating and making tacit understanding explicit to self and to others.

Building on this understanding, I will argue subsequently that although individual learning occurs within a cultural context and is guided by rules of

accepted behaviour, they are not blank sheets of paper on which culture writes its scripts. That is, the extent to which culture impacts an individual's life and learning process depends on how individuals interpret their experiences as they engage in social activities. Similarly, cultural psychologists such as Lightfoot and Valsiner (1992) argue that culture is not imposed on passive subjects; rather individuals actively express themselves in the culture. In this process, personal choices are not made in a vacuum. This is where culture becomes important. As Taylor (1985:207) said, "since the free individual can only maintain his identity within a society/culture of a certain kind, he has to be concerned about the shape of this society/culture as a whole. He cannot be concerned purely with his individual choices and the associations formed from such choices to the neglect of the matrix in which such choices can be open or close, rich or meagre". I will elaborate on these discussions in part two of this volume of the dissertation.

Figure 4.1: Determinants of Human Development Capabilities



Civil Society and Cultural Impact on Development

Traditionally, civil society has been described from the perspectives of not-for-profit organizations that fulfill the responsibility of society towards more needy people, groups, and communities by providing charitable giving and thereby addressing needs not fulfilled by the market mechanisms. The perspective adopted in this dissertation is broader. To me, civil society inhabits a social space as defined above – i.e. a space within which individuals construct and co-construct their social reality within the community of others. In other words, the civil society is embedded in a social space and gives life to the interactions between individuals within a community. The ambitions articulated within the civil societal space through such interactions provide individuals with directions for their actions in life. They do so through negotiations, interpretations, selections, and modifications of institutions. Thus, the civil society is a major platform for social capital generation and leveraging.

Civil society is also an arena for both political socialization and interest articulation of citizens in a given society - i.e. a venue at which they organize themselves and find means of expressing these values in a manner that help them define the path of their development as members of a society (Hyden, Court and Mease, 2003). It is therefore an interface of social organization between the state and the individual. It is also an avenue for engaging other people and forming social networks that encourage individuals to question the exiting ways of doing things in their communities and defining new paths out of existing problems. As Salamon and Anheier (1997) see it, it constitutes an arena within which citizens become aware of(and raise) political issues.

From this perspective, it can be argued that the form and nature of the state found in a given society or nation is a reflection of the way civil society is

represented and organized. Stated differently, civil society is not a given, but rather a product of desires and demands that people have. Hyden, Court and Mease (2003) suggest that civil society has at least three main functions:

(a) Promoting voluntarism,
(b) Building social capital, and
(c) Creating an enabling environment for developmental policy input.

There is an interconnection between state, economic mechanism and civil society. Even where individuals have formal rights, they find it difficult to exercise them because of their vulnerable status in society. This understanding underlies my argument that economic growth is possible only with a mutually-supportive relationship among the civil society, the state, and the business community (Salamon and Anheier, 1997). Furthermore, the capacity of civil soceity organizations to create and harness social social capital facilites entrepreneurs' ability to leverage economic resources necessary for enterprise creation and growth.

Civil society concept concept relates closely to the concept of culture. From the time of its introduction into social science literature, the concept of culture has been found extremely useful in the analysis of social structures and behaviours in different societies. Sociologists use the concept of "civility" to describe the sense of collective social obligation – i.e. the obligation of people to fulfil their individual needs without jeopardising the chances of others to fulfil theirs or the entire community to survive and progress. Where such civility is lacking, jungle rule tends to prevail, creating a de-constructive social structure. Thus, the social and cultural characteristics of a nation can harbour forces of innovation, collective efficiency, network resources and human drive that combine to shape firm-

level economic action. Conversely, the social contexts can also be a source of constraining forces in the form of collective inefficiencies and disadvantages as well as inclinations to mediocre performance of firms and institutions.

Earlier formulations of the link between culture and business development come from the works of Max Weber who argued that Protestantism was one of the reasons why capitalism succeeded in the West. As Weber (1930: 19) writes:

"... one's duty in a calling, is what is most characteristic of the social ethic of capitalistic culture, and is in a sense the fundamental basis of it. It is an obligation which the individual is supposed to feel and does feel towards the content of his professional activity, no matter in what it consists; in particular no matter whether it appears on the surface as a utilization of his personal powers or only of his material possessions (as capital)."

He argued further that Calvinists in particular, were encouraged by their religious beliefs to enjoy less and save more. This means the level of entrepreneurship and the propensity to save in a nation depends on what kind of people are increasing more or less rapidly in that nation and the convictions that they hold. If the people have the attitudes and values that promote economic growth, a rapid increase in their numbers might actually be considered positive gains in human capabilities. But if their collective values and personality structures do not lend themselves to efficient economic productivity, then a rapid increase in their numbers would have to be counted as a liability. The economic implications of SSA population growth discussed in chapter 2 must be seen in this light.

David McClleland (1961) built on Weber's ideas to discuss the links between societal values and economic activities in his book the *Achieving Society*. His arguments run as follows: Societies in which most individuals have high *n Ach*[19] will witness the adoption of improved techniques more quickly and more extensively. Such a society is also likely to adopt more efficient means of attaining their goals. Thus, to him, achievement motivation is in part responsible for economic growth. He argued further that "a high level of *n* Achievement might predispose any society to vigorous economic activity" p. 63).

A similar line of thinking can be found in Harisson's (2006) study. He draws a distinction between *progress-prone cultures* and *progress-resistant cultures.* To him progress-prone cultures are characterized by the following attributes: high emphasis on Work/Achievement, moderate level of frugality, moderate risk propensity, acceptance of competition and emphasis on innovation as well as advancement based on merit. He argues further that "one reason Japan developed is that it had a culture suitable for it. The Japanese attached importance to (1) material pursuits; (2) hard work; (3) saving for the future; (4) investment in education; and (5) community values." [20] Societies with predominantly progress-resistant cultures may promote behaviours that constrain the capability development process of their citizens.

It must be pointed out, however, that societies do not deliberately elect to be progress-resistant. As suggested above, it is the dominant value set and socialization process that results in the preferred achievement orientations found in these societies. As such, these tendencies are reversible.

[19] *n Ach* is a term McClelland used to describe need achievers.
[20] See Harrison, L (2006) *The Central Liberal Truth* (New York and Oxford: Oxford University Press p.128.

Institutional Capabilities

We have already noted that institutional literature defines institutions both as structures and mechanisms that reproduce and convey norms, rules, conventions, and habits that govern and shape economic and political life (see North, 1990). Others see them as arrangements that define networks of relationships within societies (e.g. markets, states, corporate hierarchies, administrative units communities (see Hollingsworth and Boyer, 1997). These mechanisms are also repositories of value sets that help to contain the socially undesirable consequences of unguarded market systems, leveling the playing field for all stakeholders. Strong institutional capabilities therefore help expand the circle of opportunity and promote an inclusive developmental and welfare-oriented economic growth processes; societies with weak institutions may experience the opposite. Bourdieu (1985:53) echoes similar perspective by suggesting that "in differentiated societies, the state [and its institutional apparatus] has the ability to impose and inculcate in a universal manner, within a given territorial expanse, a principle of vision and division, identical or similar cognitive and evaluative structures".

Acemoglu and Robinson (2012) classify institutions into two broad categories – inclusive or extractive institutions. They argue that inclusive economic institutions create the incentives and opportunities necessary to harness the energy, creativity and entrepreneurship in society. Such institutions also protect private property rights, enforce the principles of rule of law and maintain predictable enforcement of contracts. Extractive institutions do not. Those who control political institutions use their power to extract surpluses in often brutal ways – extracting incomes and wealth from one subset of society to benefit a different subset (usually, the governing elite). Thus, poor countries on average have extractive institutions while rich ones have inclusive ones. Governance has the same

connotation. It refers primarily to the administrative and technical capacities of the state. Harrison's progress-prone and progress-resistant cultures therefore find their parallels in Acemoglu and Robinsons' inclusive and extractive institutional categories. Progresss-prone cultures give life to inclusive institutions while progress-resistant cultures cultivate extractive institutions.

Building further on this perspective, I submit that institutions constitute a deep determinant of economic growth. As fundamental determinants, institutions define the rules of the economic game and establish the structures that regulate the power relations among all stakeholders of an economy. They also facilitate and coordinate the exchange mechanisms among the actors. Thus, accountability, rule of law, political stability, bureaucratic capability, property rights protection and contract enforcement, are frequently listed as mutually reinforcing aspects of growth-enhancing institutions. Consequently, societies with weak institutional quality are normally faced with very high costs in market transactions (Rodrik, 2008). But the reverse can also be true – i.e. a higher level of development will generate the need for and lead to better institutions (Paldam and Gundlach, 2008).

Strong institutional capabilities will reduce the resource disadvantages that African firms are likely to experience within the domestic and global business environment. They will also be able to compensate their shortcomings in technology and market sophistication through institutional innovation, under the guidance of national development policies and actions[21].

[21] The World Bank has created Country Policy and Institutional Assessment (CPIA) framework that it uses to measure institutional quality in different countries of the world. The CPIA is intended to capture the quality of a country's policies and institutions, and is measured annually for all countries borrowing from the World Bank. It has evolved into a set of 16

The link between civil society and institutional quality is apparent from the above discussions. It is worth noting that institutions enforce regulations and the manner in which regulations are enforced impact the extent of inclusiveness or otherwise of institutions. There is ample evidence from SSA countries that those with power in a given society can control institutions and are better able to frame 'the rules of the game' to protect their own privilege. Or, in many cases, to ignore the rules of the game they themselves have framed. A dynamic and articulate civil society is required to put pressure on governments and elites to make institutions more inclusive so as to encourage people to participate in the economic development endeavours of their nations.

Leadership and Governance Capabilities

Good leadership is another requirement for human capability development. It is often said that good leaders are expected to "lift ordinary people to extraordinary heights" (Boal and Bryson, 1988: 11), motivate citizens to perform above and beyond the call of duty and to think innovatively. Thus, while enculturation mechanisms in societies guide individuals' action pathways, leaders serve as instruments that lead people to these pathways and ecourage them to travel them and overcome the challenges along the journey.

As Wheatley and Kellner-Rogers (1996) see it, human beings are identities in motion, searching for the relationships that will evoke more from them. Through these relationships they seek meanings, create systems and rearrange their lives. They invariably bring these characteristics into their work organisations, seeking from their co-workers, as individuals and collectives, the opportunities to explore their potentials in life.

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criteria that are grouped in four clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public-sector management and institutions.

Thus, to me, leadership is the underlying energy in every collective endeavour, be it in groups, organizations, communities and/or nations. Citizens are linked through these energy flows and it is this energy that brings a society into life for its citizens. In the same vein, Dahlberg (2004) argues that leaders with the right frame of mind and psychological dispositions can facilitate the flow of positive energy that improves their followers' ability to develop. Such leaders can encourage divergent and convergent thinking, attitudes of curiosity, risk-taking, tolerance for ambiguity and openness among followers. In other words, good leaders verbalize the collective convictions of the progressive segments of a population and translate them into actionable plans and strategies. As people join to implement their actions, they share the convictions underlying them and become "transmitters" of the conviction, thereby extending their geographic outreach. With sustainable efforts, increasing segments of the population embrace their convictions and encourage others to adopt them.

Leadership of public institutions relate to another key concept – governenance. Good governance is epitomized by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law (World Bank, 1994). However, it is important to bear in mind that leaders do not always have the control that most leadership theories suggest. This is becaused human lifeworlds are complex and people constantly negotiate their relationships with each other in any given society. In this sense it is worth noting that the future is under perpetual construction and the past is continually reconstructed (re-interprreted) in relation to the present moment. These discussions reinforce my argument that a society's overall development depends on individual capabilities that

are collectively institutionalized through their engagement in the society as individuals and groups. It is this dynamic interaction that shapes the value systems and behaviours that we find at all levels of the society.

This explains why scholars of public sector management use the concept of governance to describe the set of traditions and institutions by which authority in a country is exercised for the common good of the people (Ayittey, 2006; Maundeni, 2004). To them, public sector governance includes the process by which those in authority are selected, monitored and replaced; the capacity of the government to manage its resources effectively and to implement sound policies; and the manner in which economic and social interactions are managed. The public service sector serves as the organization that implements the institutional norms, rules and practices and manages the competing needs of diverse interest groups and civil society at large. It is often suggested that in countries where the public service works effectively towards ensuring an effective administrative framework that delivers goods and services efficiently, maintains security, law and order and ensures access, fairness and justice the society thrives and grows economically.

Rule of law, participatory political process and effective judiciary systems are also considered important defining characteristics of good governance since they contribute immensely to peacefully settlement of economic, social and personal conflicts (Ayittey, 2006; Maundeni, 2004). As noted earlier, Acemoglu and Robinson (2012) draw a distinction between inclusive and extractive institutions and types of governance. In their understanding, inclusive political institutions distribute political power widely in a pluralistic manner but are able to achieve some amount of political centralization so as to establish law and order, the foundations of secure property rights, and an inclusive market economy. On the other hand, extractive economic institutions are synergistically linked to

extractive political institutions, which concentrate power in the hands of a few, who will then have incentives to maintain and develop extractive economic institutions for their benefit and use the resources they obtain to cement their hold on political power. Thus, the failure of most nations today to deliver equitable and sufficient economic value to their citizens can be mainly explained by the perpetuation of extractive economic institutions in these countries.

Thus, to Acemoglu and Robinson (2012: 458) "pluralism, the cornerstone of inclusive political institutions, requires political power to be widely held in society, and starting from extractive institutions that vest power in a narrow elite, this requires a process of empowerment". Similarly, Alence (2004: 166-7) suggests that "institutions of political representation make governments responsive and accountable to broader constituencies through competitive elections, and often restrain governments discretionary authority by creating multiple 'veto players' whose approval" .

The notion that one cannot secure an effective and accountable system of governance unless a country endorses a particular way of establishing political institutions is not shared among scholars of public sector management and political science. What is generally agreed upon is that institutional capability of some sort is required for effective economic management. But countries must draw on their historical heritage, values and norms as well as ethnic compostitions to design the most suitable governance system at any particular point in time. Furthermore, the greater the distributive justice, protection of civil rights and liberty and the more inclusive the governance systems the more stable the country will be and the greater the chances of building economic prosperity.

Turning to SSA, many scholars of Africa's development have decried the absence of positive, strong and developmentally-oriented leadership at all levels of the societies. Scholars such as Udogu (2008:14/15) argue that if African countries "continue to elect, select, appoint or tolerate ineffective and selfish leaders, the issue of bad governance and its associated problems of political instability, social malaise, corruption, lack of accountability and transparency, and the respect for the rule of law will persist". Similarly, Edoho (2001) argues that what we need in Africa today is effective leadership and governance systems that can help change our mindsets.

These discussions imply that there is a link between leadership and governance. The quality of governance in a country will depend on the type of leadership found at all levels of the society. In line with this thinking, Söderbaum (2004) suggests that it is conceptually useful to distinguish between public and private as well as between formal and informal aspects of governance:

- Public governance serves an identifiable population across a range of issues of general concern.
- Private governance is generated by and for a specific group of actors, and is concerned with a restricted range of self-interested issues.
- Formal governance is backed by legal treaties or constitutions.
- Informal governance is based upon mutual understandings and accommodations, tacit agreements

Leadership and governance in public spheres impact institutional capabilities and the management of civil society organizations. Good public sector management also creates enabling conditions for businesses to grow. Thus, while public governance impacts institutional quality and the management of civil society organizations, the quality of private

governance is reflected in the management of businesses. (See chapters 9 and 10 for elaborations.)

Global Orientation and Integration

The fourth factor conditions for business-oriented human capability development is global orientation of individuals, businesses, institutions and societies. It is now acknowledged that many of the pressing problems that the world faces today are beyond the solution of any single country or society. Cross-border collaborations, increasing commitment to civil society at the global level and greater citizen awareness of their role in public life, are therefore viable ways of sustainable co-existence. Global orientation shapes peoples' mindsets, encourages open mindedness and guides them in acquiring inter-cultural competence skills, thus contributing to the construction of a regional identity through horizontal dynamics.

At the business level, the international trade literature also suggests that African companies will accelerate the pace of their growth if they adopt an international orientation. Two main reasons support this argument. First, the domestic demand for nearly all goods and services in individual African countries is too small to allow them to reap scale advantages. Thus, entering foreign markets provides African firms and countries the opportunity to make optimal use of their productive resources. By competing on international markets, the firms are also compelled to remain up-to-date in production, sourcing, and marketing techniques. This stimulates innovation and enhances their overall competitiveness (Fafchamps *et al,* 2001). Second, due to the limited domestic demand for consumer goods, support industries that serve the producers of the consumer goods are virtually non-existent in most African countries. African manufacturers of consumer goods must either produce their own inputs or import them from Western industrialised countries.

Internationalization also provides firms with the opportunity to fulfill the twin objectives of resource leveraging and market growth. For example, cross-border collaborations allow firms to tap into new knowledge and technology outside their locational confines (Driffield and Taylor, 2002; Mathews, 2006). This will enhance their capacities to produce better quality products which in turn become inputs to other local firms. Furthermore, linkages create positive spillover effects that can set off a dynamic economic growth process (Hansen and Schamburg-Müller, 2006).

Research into the internationalization processes of businesses also informs that many small firms face twin liability problems during the initial stages of their internationalization process – (1) liability of network outsidership, and (2) liability of foreignness (Johanson and Vahlne, 2009). These two liabilities can be partly remedied through the enhancement of the human and relational capabilities of key employees of the firms. These capabilities include knowledge about host partners and ability to relate to them with deep sense of understanding. This produces shared meanings, trust, norms of reciprocity and commitment between the collaborating parties (Granovetter, 2005). Furthermore, entrepreneurial firms are expected to develop these capabilities through their embeddedness in highly committed local networks of relationships (Westhead *et al*, 2001).

Strong relational ties in business networks require strong relational capabilities of individuals involved in the management of the relationships. It is often noted that relational capabilities in such cross-cultural settings require cultural sensitivity, which itself is partly a product of socialization processes that individuals undergo in their own cultures. For example, the concept of good relationships with others carries different connotations in different cultures. In some societies openness about issues of disagreement and (constructive) conflicts are considered good indicators of healthy

relationships; other societies eschew such behaviours. Furthermore, previous studies have suggested that individuals and organizations from long-term oriented societies show a higher propensity to engage in the long-term development of relationships within and outside their own cultures. (See chapters 14 and 15 for elaborations).

Entrepreneurial Orientation and Innovative Capabilities

As stated repeatedly above, there is a growing acknowledgement among economists that private enterprise-driven economic growth provides a greater promise for absolute poverty reduction through lowering the levels of real unemployment and strengthening individuals' capacity to care for themselves and their families (Fafchamps *et al*., 2001). In the same vein, Barakatt and Sereke-Brhan (2010:21) argue that "entrepreneurship in Africa is vital to the empowerment of the poor because they are the most potent source of employment creation in the economies". Added to this, businesses also tend to generate revenues necessary for anti-poverty policies of governments. Stated differently, the tempo of absolute poverty reduction will be higher in countries where enterprise development raises the average income levels through employment. This focus is consistent with results of recent World Bank investigations indicating that overwhelming majority of African jobs come from the private sector, and private businesses are responsible for some of the most dramatic improvements in the African economic landscape over the past decade.

But for entrepreneurial activities to make real dent on poverty, enterprise development policies in SSA must be biased in favour of the poor in the sense that the income growth of the poor should exceed the average income growth in a given country (Klasen, 2008). The challenge is how to design policies and strategies that induce pro-poor growth without de-motivating the more industrious segments of a country. It is in this light that the links between the four factor-conditions in the theoretical

framework on the one hand, and enterprise development and innovation on the other, become important.

Regarding the link between culture and civil societal characteristics on the one hand and innovation and enterprise development on the other, there is considerable amount of evidence from entrepreneurship studies to the effect that the institutional and sociocultural contexts within which individuals have been raised have a determined influence on their propensity to form businesses and to succeed (Krueger, 1993; Steyaert, 2007). In line with this perspective, Ajzen (1991) argues that the intensity of social pressure on individuals to create something new or to behave in a particular way contributes to entrepreneurial intentions and behaviour in different societies. Similarly, Shapero (1984) suggests that people's decisions to engage in entrepreneurial activities depend on the extent to which society perceives these activities to be desirable. That is, if a society considers entrepreneurial drive as a value on its own, entrepreneurs will emerge in that society. But if the society encourages individuals to see themselves as being entitled to the wealth of others through birth or ascription (rather than to create their own wealth) very few within that society will choose the tortuous entrepreneurial path. The contextual factors combine with the individual's assessment of his/her competencies, resources and opportunities to determine whether or not he or she makes the decision to establish a business. More elaborate discussions of these issues can be found in chapters 11, 12, and 13 of this volume of the dissertation.

Strategic Management

All enterprises must be properly managed for them to leverage innovative potential within their operational frontiers. The first requirement for doing so is top management's strategic orientation. Most business management

scholars agree that effective strategic management in a company must be seen as an ongoing process that evaluates and controls the business and provides it with an overall direction. This process must also involve regular assessment of customer needs and satisfaction with exiting actions as well as assessment of possible actions that competitors are likely to take. These assessments are considered necessary for managers to direct actions that should be taken to ensure satisfactory performance.

Building on this perspctive scholars of management describe strategies as being composed of two essential characteristics: (1) they are made in advance of the actions to which they apply, and (2) they are developed consciously and purposefully. That is, the process is supposed to start with the formulation of what leaders of the organization "plan" to do, and then followed by the actions. This conventional understanding implicitly assumes a separation between those with the talent and skills to formulate strategies and those who implement them.

In contrast, Minztberg and Walters (1982, 1985) see strategy as a pattern in a stream of decisions. That is, to them, strategies need not be deliberately planned but can emerge as patterns or consistencies in streams of decisions and behaviours which managers and other key employees take. Following this line of thinking, the strategic process can be broken into the following four distinct phases: viz:- intended strategy, deliberate strategy, emergent strategy, and realized strategy. ***Intended strategies*** are plans conceived by the top management team. ***Realized strategies*** constitute those parts of the intended strategies that organizational members are able to implement. Some parts of the intended strategies may not be implemented, possibly because assumptions made in the intended strategy have been found not to hold in reality. ***Emergent strategies*** represent all the strategic decisions that emerge from the complex processes in which individual managers adapt to changing external circumstances and make modifications in the intended strategies. Thus, the realized strategy is a consequence of deliberate and emerging factors that influence companies' behaviour.

The dissertation subscribes to Mintzberg and Walter's conceptualization of strategy. It sees innovation and enterprise development as guided partly by deliberate (i.e. planned) strategies and partly by effective responses to new development within the business environment. The understanding is that the process of assessing and adjusting the direction of a business in response to changes in its operational environment need not be carefully planned in advance for it to be called a strategy. As long as managers are clear about their companies' objectives and are alert about changes that might affect the attainment of these goals and take steps that consciously respond to these changes or initiate actions that improve their chances of success, they will be considered to be managing their companies strategically. Strategic management therefore means making conscious choices that respond to current situations or anticipate the environment in which their businesses will be operating in the future. It requires what may be aptly described as *strategic awareness.*

Linkages between the various Constructs in the Framework

I have argued in the previous sections of this chapter that there are clear links between culture and civil societal characteristics on the one hand and the three other factor conditions on the other. The four factor conditions together determine the extent and manner in which human capability development takes place in a given society. They also jointly and independently influence innovation and enterprise development which in turn leads to economic growth and development.

To recapitulate, culture constructs and reproduces the deep-seated beliefs and convictions of people which are vocalized through their civil society networks. In that way the civil society organizations become bearers of public opinion, and the convictions that people cherish move them to action in various fields of life's endeavours – including business. For example, a culture that encourages flexibility, adaptability and openness to

change will stimulate leaders' readiness to spearhead transformational process in their organizations and communities. These actions will, in turn, transmit values of adaptability and innovativeness to future generations in the society and thereby reinforce the innovative culture. Similarly, such leaders encourage the development of flexible institutions and see continuous investment in endogenous improvements as one of their primary goals. Good practices are communicated to other institutions and help improve the overall institutional quality in the society. But some cultures may put greater emphasis on "indulgence" than on thrift and continuous economic efforts. This is likely to generate pervasive reluctance among individuals to exert themselves and manifest an intrinsic desire to develop their capabilities. This, in turn, will be reflected in weak institutional capabilities as well as weak leadership and governance characteristics.

As will be argued subsequently, cultures have two key attributes that promote economic development. Firstly, cultures are dynamic – i.e. they absorb impulses of change from key carriers of change from within and outside. Secondly, cultures are not entirely homogenous. This means there are always subcultures that may be prepared to spearhead a change. The combination of these two conditions means that even if a particular society's cultural profile appears to be economic growth-constraining, there are opportunities for turning it into economic growth-enabling cultures, if this is what the leadership of that society considers appropriate.

Summary

In sum, I submit that the formation and management of sustainable enterprises (and thereby economic growth and development) in SSA depends on the extent to which the societies and their leaders are able to develop the capabilities of their citizens for individual and collective

economic and social engagement. Well-developed human capabilities will also enable individuals and their societies to leverage domestic and foreign resources to efficiently produce and market goods and services in demand at home and abroad. This will depend significantly on the extent to which the dominant cultural characteristics are growth-enhancing rather than creating social liabilities (as opposed to social capital) for key economic actors. It will also depend very much on leadership and governance capabilities available at all levels of organized activities – economic or otherwise.

Based on this thinking, I have suggested a new theoretical framework in this chapter to bring the current (but diverse) stream of thinking labelled as "new growth perspectives" under a common umbrella. The supporting theories for the framework derive mainly from the works of Sen and his colleagues adopting the human capability approach to understanding economic development combined with management scholars such as Teece, Pisano and Shuen who have adopted the dynamic capability approach to understanding the growth of businesses. The framework is also consistent with perspective emerging from development economists working within the UNDP and the World Bank. Despite its broad theoretical foundation, the framework does neither presume to provide an exhaustive list of factors that impact enterprise development and economic growth in SSA, nor does it fully capture the complexities of their relationship. Its aim is rather modest – i.e. to synthesize and coordinate concepts that I consider relevant in understanding the human dimensions in innovation and enterprise management.

The remaining chapters of this volume of the dissertation will be devoted to providing more detailed theoretical exploration of the factor conditions outlined in this chapter. The second volume will provide empirical

evidence that examines how some of the factor conditions influence enterprise development and management in Ghana, one of the high-growth sub-sahara African economies.

PART 2

CULTURE, CIVIL SOCIETY AND ECONOMIC GROWTH

Introduction to Part 2

I have argued earlier that several scholars have drawn attention to the link between culture, enterprise development and economic growth during the last 150 years. The writings of Bert Hoselitz, Margaret Mead, Edward Banfield, Everett Hagen, Seymour Martin Lipset and modernization theorists such as Walt Whitman Rostow and Gunnar Myrdal are among the most important contributions to this line of research during the 1940s and 1950s. The pivotal question in their studies concerned the way of the causation – i.e. did culture determine the pace of economic development or, was the nature of society and culture determined by the development process. Recent economic growth experiences in such Asian countries as Japan, Korea, Taiwan, Singapore, Hong Kong, and Mainland China have reinforced academic interest in studying the link between culture and economic growth in different relatively high growth economies. The significant growth records in the Asian countries have been partly attributed to Confucian values or what Branco (2007) describes as an Asian version of the Protestant ethic (with reference to Max Weber). Explaining why Singapore has succeeded in development, Chang (2003:91) states that the communitarian character of economic policy played an important role, arguing that one of the major aspects of this communitarianism is to ‘‘define the interest of the whole nation as of paramount importance and perceive individuals’ interest derivable from the well being of the nation’’

Despite the intuitive legitimacy of these arguments, the role of culture in economic development process has remained contestable in the contemporary economic development literature. This is presumably because such ‘soft’ factors as cultural values are very difficult to measure and/or to disentangle from other kinds of quantifiable economic variables.

This part of the dissertation aims at throwing additional light on the subject with particular reference to SSA countries.

The discussions are organized into four chapters – chapters 5, 6, 7, and 8. Chapter 5 provides a review of the contemporary theories of culture and argues that culture is dynamic and is unceasingly constructed through decisions and actions of key persons and groups that either coerce adherence to their behavioural prescriptions or negotiatively invite other members of the societies to accept to adopt them. In other words, culture is not innate. It can therefore be learnt and unlearned. Chapter 6 discusses the concepts of subcultures, networks and trust. The central understanding that this chapter seeks to convey is that cultures are not homogeneous social constructions. They are rather differentiating (and, in some cases, fragmentary) with competing values and rules nursed in different coalitions of interest groups. Individuals continuously position themselves in webs of relationships and enjoy both tangible and intangible resources from their relative positions. Coordination of economic activities within such social networks depends on trust. Trusting persons and organizations in a given society depends on the extent to which that society tolerates or sanctions breaches of agreement. Trust impacts costs of transactions and therefore influences the relative efficiencies of economic activities carried out in any given society. Chapter 7 discusses the concept of organizational culture and its role in the management of economic activities. Since many management scholars perceive organizations as mini societies with socialization processes similar to macro societies, I forward the view that the presence of even a small number of growth-oriented organizations in a given society can stimulate growth in a society as a whole. The view that organizations tend to change more quickly than entire societies underscores the potentials in deliberately creating organizations as growth poles. Chapter 8 pulls the cultural discussions in the preceding chapters

together and provides an overview of the dominant characteristics of the cultures of African societies and organizations. The chapter also offers my views on the extent to which African cultures are development-enhancing. It also brings to attention evidence of positive changes in African cultures and provides examples of major carriers of cultural change. I have deliberately showcased the contributions of young African men and women in this change process to underline my belief that the emerging patterns of change habour potentials of being sustainable.

CHAPTER 5

CULTURE AND ITS RELEVANCE TO ECONOMIC DEVELOPMENT DISCOURSES

Introduction

Culture is usually described in the anthropological and sociological literature as a system of socially transmitted behaviour patterns that serve to relate human communities to their environment as well as order relations among individuals (Kluckhohn and Stroodtbeck, 1961; Geertz, 1973; Harris, 1997; Gullestrup, 2006; Triandis, 1994; Trompenaars and Hampden-Turner, 1997). The transmission mechanism is referred to as the process of *socialization***.** Through socialization individuals are taught the norms and values as well as the shared expectations of the community in which they live. The process starts from childhood. Each child is taught the customs and norms of "good behaviour" of a particular sub-unit of its community in order to equip it with means of interacting sensibly and smoothly within its social structure. As the child grows other older members of the community become involved in the transmission mechanism to build him/her into a useful citizen of the community and thereby ensure the perpetuation of the institutional arrangements of the society. Thus, the term culture has been used in the general literature to mean an individual habit of mind and the whole way of life of a group or people (Milner and Browitt, 2002).

The discussions in the present chapter have been informed by these perceptions. The chapter seeks to provide an overview of contemporary theoretical perspectives on culture and how they are linked to enterprise development and economic growth. I commence the discussion with a

review of the general descriptors of culture found in the literature. I then discuss the change processes in cultures, drawing mainly on the writings of Gullestrup.

The Concept of Culture and its Constituents

In principle, human understanding is based on a tacit background pre-understanding of one's world as a cultural situation consisting of a totality of meaningful artefacts. When one opens his/her eyes in the morning, one is immersed in a meaningful world that he/she already understood. This world was created by social activity in the past, in which meaning was interactively constructed, externalized and preserved as the common culture of a community. Following this perspective, Gullestrup (2006:57) defines culture as *"the world conception and the values, moral norms and actual behaviour – and the material and immaterial results thereof – which people (in a given context and over a given period of time) take over from a preceding generation, which they – possibly in a modified form – seek to pass on to the next generation; and which in various ways make them different from people belonging to other cultures"*.

Based on this definitional tradition, most scholars of culture consider it purposeful to initiate their studies of culture with characteristics that they consider to be general enough to capture their understanding of the construct. Many of these definitions present culture in terms of dichotomies such as *individualism-collectivism* (Hofstede, 1980; Triandis 1994), *vertical-horizontal* (Triandis, 1994), *masculine-feminine* (Hofstede, 1980), *active-passive,* (Triandis, 1994), and *universalism-particularism* (Trompenaars and Hampden-Turner, 1997). Other typologies are *emotional expression or suppression* (Triandis, 1994; Trompenaars and Hampden-Turner, 1997), *instrumental-expressive* (Triandis, 1994), *ascription-achievement*

(Triandis, 1994; Trompenaars and Hampden-Turner, 1997), and *sequential–synchronic* with respect to time (Trompenaars and Hampden-Turner, 1997). The contrasts are useful as communicators of distinctive cultural characteristics. But they mask their co-existence to a more or less degree in every culture. It is perhaps useful to highlight the dynamic interplay of such characteristics as individualism and collectivism in most societies and how these competitive social forces shape the dynamics of cultures.

Some scholars present culture in terms of seven definitional characteristics (see Mazrui, 1980). First, culture provides *lenses of perception*, i.e a way of looking at reality that a given society has constructed over time through its processes of socialization. Second, it provides *standards of evaluation of values* such as good, evil, beauty, and legitimate acts. Third, it *conditions motivation of individuals* in a given society to act or refrain from acting in a particular manner. Fourth, it provides a *medium of communication* and defines the rules of communication within a given social context. Fifth, it provides a *basis of stratification*, a pecking order in society – thereby defining status, rank and class. Sixth, it shapes the *patterns of production and distribution* of economic wealth and resources in a given society. Seventh, it defines *identity*, determining those who belong to in-groups and those who are outside. Variants of these seven characteristics are found in most cultural models and definitions[22].

Hofstede's Cultural Model

This section presents and discusses Hofstede's cultural model, partly because it is one of the most cited set of descriptors in contemporary management and

[22] Gullestrup (2006) offers 8 dimensional typology of culture. These are: social dimension, identity creating dimension, security creating dimension, management and decision making dimension, integration dimension, conveyance dimension, distribution dimension, and processing dimension.

economic development literature. It therefore provides an illustration of how most researchers perceive the cultural construct as it is applied in management. Hofstede (2001) describes culture in terms of the following 6 dimensions:

Power distance indicates the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally. Power and inequality, of course, are extremely fundamental facts of any society and anybody with some international experience will be aware that "all societies are unequal, but some are more unequal than others". The distribution of power in a society is reflected in the values of both the less powerful and the more powerful members of the society. High power distance societies are those in which inequalities of power and wealth have been allowed to grow within society. These societies are more likely to follow a stratification system that does not allow significant upward mobility of its citizens. Low power distance societies tend to de-emphasize the differences between citizens' power and wealth, stressing equality and opportunity for everyone as a central cultural value.

Uncertainty avoidance indicates the extent to which a society feels threatened by uncertain and ambiguous situations and tries to avoid these situations by providing clearly defined rules to guide people's behaviour. Uncertainty avoidance may create a strong inner urge in people to work hard in order to protect themselves against eventualities in the future. People in high uncertainty avoidance cultures tend to look for structure in their organizations, institutions and relationships to help them interpret and predict events in their daily lives. They are also less willing to take risks. People in countries with weaker uncertainty avoidance show a higher tendency to accept such risks as starting novel activities for which there are no rules. Low uncertainty avoidance thus implies "willingness to enter

into unknown ventures" (Hofstede, 2001: 164). Uncertainty avoidance as a cultural characteristic of a society may therefore derive partly from the economic history of the society and the presence or absence of institutional mechanisms that guarantee the basic necessities of life (i.e. food, shelter and clothing).

Individualism - Collectivism dimension indicates whether the social framework in which people are supposed to take care of themselves is loosely or tightly knit. Individualistic societies are loosely knit – i.e. everyone is expected to look after her/himself and her/his immediate family. In contrast, collectivism indicates the degree to which individuals are integrated into groups. Collectivistic societies are believed to be tightly knit – i.e. people from birth onwards are integrated into strong, cohesive in-groups, (often extended families with uncles, aunts and grandparents) that continue protecting them in exchange for unquestioning loyalty.

Masculinity – Femininity: This dimension measures the level of importance a culture places on stereotypical masculine values such as assertiveness, ambition, control, power, and materialism as well as stereotypical feminine values such as an emphasis on human relationships. Cultures that are high on the masculinity scale exhibit higher degree of gender differentiation and tend to be more competitive and ambitious. In these cultures, males dominate a significant portion of the society and power structure, with females being controlled by male domination. Those that score low on this dimension have fewer differences between genders and place a higher value on relationship building. In these cultures, females are treated equally to males in all aspects of society.

Long-term and Short-term Orientation: This dimension describes a society's time horizon. People in long-term oriented societies attach more

importance to the future. They foster pragmatic values orientation towards rewards - emphasizing persistence, saving and capacity for adaptation. In short-term oriented societies values promoted are related to the past and the present, including steadiness, respect for tradition, and fulfilling social obligations. Short-term oriented cultures view time as circular. This means the past and the present are interconnected and that which cannot be done today can be done tomorrow. This is thought to support a strong work ethic where long-term rewards are expected as a result of today's hard work.

Long term-oriented societies also believe that most important events in life will occur in the future. Need gratification is therefore deferred until later and traditions are adapted to changing circumstances. Virtue, thrift and perseverance are also characteristics frequently associated with long term-oriented societies. On the other hand, short-term oriented societies believe that most important events in life have occurred in the past or are taking place in the present. Members of these societies therefore seek immediate gratification and consider traditions as being sacrosanct. Businesses in these societies stress short-term profits.

Some scholars have linked the time orientation of societies to their economic performance. Javidan and House (2001) suggests that the greater a society's future orientation, the higher its average GDP per capita and its level of innovation and competitiveness. It has been argued that societies whose cultures encourage people to focus on the past and present rather than the future are expected to remain perpetually poor (Harrison, 2000; Branco, 2007). For example, Deng (1998) reports that the Dinka in southern Sudan extol their ancestors to the extent that they are not expected to show greater accomplishment in life than their forefathers.

Indulgence versus Restraint: Indulgence, as a cultural descriptor, stands for a society that allows relatively free gratification of basic human drives – i.e. enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

Hofstede's studies have received critical comments from many scholars. Some of the notable ones have come from Dorfman and Howell (1988) who have questioned the composition of Hofstede's dimensions. They have pointed out, for example, that his Uncertainty–Avoidance Index is composed of three items that reflect seemingly disparate constructs. Along the same lines McSweeney (2002) has argued that social values are best seen as dynamic constructs and cannot be appropriately captured as independent cultural dimensions as Hofstede has done. Others question the wisdom in presenting the dimensions as bi-polar constructs. As Triandis (1994:42) states, dimensions such as individualism and collectivism can "coexist and are simply emphasised more or less . . . depending on the situation". Putting the various critiques together McSweeney (2002:112) comments as follows:

"*The limited characterization of culture in Hofstede's work, its confinement within the territory of states, and its methodological flaws mean that it is a restricter not an enhancer of understanding particularities. The identification claims are fundamentally flawed and the attribution of national level actions/institutions to national cultures is an easy but impoverishing move. We may think about national culture, we may believe in national culture, but Hofstede has not demonstrated that national culture is how we think."* p. 112

Notwithstanding these critiques Hofstede's descriptors have won wide acclaim within the contemporary management literature. They have served as a theoretical framework for numerous empirical investigations during the past three decades and provide quick initial descriptions of cultures prior to fine-grained analyses. It is for this reason that I find it purposeful to commence the discussions in this chapter by drawing attention to them.

Values, Norms and Relationships

In a general sense, Hofstede's 6 dimensional descriptors of culture explore the manner in which societies construct and communicate values, norms and relationships between people living within a defined social space. It is therefore purposeful to discuss these constructs in some details and to examine their relationships with each other.

It is commonly agreed that *values* serve as a social compass to individuals in a given society. According to Smelser (1963:7) values are "beliefs that legitimize the existence and importance of specific social structures and the kind of behaviour that transpires in social structures". In simpler terms values define the *dos and don'ts* in any given society and are therefore considered indispensable for effective functioning and acceptance as a member of that society. Values are presented in the culture literature as having four dimensions: cognitive, affective, emotional and prescriptive (Kluckhohn, 1951). The cognitive aspect refers to values as an internal code that permits one to distinguish between bad and good and to assist individual decision makers in formulating judgments. The affective dimension refers to the motivating force that induces the individual to reach a final course of action. The prescriptive dimension serves as a guidance system that individuals use when confronted with a conflict (Kluckhohn and Stroodtbeck, 1961).

Some values are regarded as universally acceptable to all people, and therefore not society-specific. Other values are society-specific and are described as "local" values. They emerge, for example, out of historical events that specific societies have experienced. Thus, the American sociologist Robert K. Merton suggested that the most important values in American society are wealth, success, power, and prestige, but that everyone does not have an equal opportunity to attain these values. Similarly, Talcott Parsons noted that Americans share the common value of the "American work ethic," which encourages hard work.

In practice, cultural values are emotionally charged beliefs. They are therefore notoriously resistible to rational analysis. The same behaviour may invoke opposing interpretations in different societies (and possibly at different points in time in the history of a given society). Each interpretation is legitimized and jealously guarded by the prevailing notion of value. Hitting a child for misconduct is regarded as an obligation of elders and parents in certain societies, while other societies abhor such a conduct even from parents. Societies that endorse child-spanking at a given point in time may reject it at another point in time.

Culture also defines the *relationships* that exist between people within a given community as well as between them and their environment (Jenks, 1993). These relationships are based on a set of shared assumptions that develop over time to solve problems that people face both as social units and in their adaptation to physical environmental demands (Schein, 1985; Schneider, 1989). It is therefore important to study culture relationally - i.e. with attention to multiple interconnections between the various cultural groups. From this perspective, some scholars describe culture as an *unceasing process of social transformation***.** "Relationships are formed, roles are constructed, institutions are built from the encounters and confrontations

of people in their daily round of life" (Benson, 1977). This implies that the realities accepted by members at any particular time may be continually undermined by on-going acts of social transformation. This understanding informs the discussion of cultural change processes.

Homogenizing, Differentiating and Fragmentary Characteristics of Culture

The fact that the members of a given group share a common frame of understanding and interpretation (i.e. culturally prescribed mental models) means that they are able to to live their lives with a sense of uniformity and singularity. In this sense culture serves as a system that sustains and reproduces social relations. But people that belong to a given culture perceive themselves as different from other groups of people. The sense of belongingness generated by the commonalities of behaviour and perception is jealously guarded and can be a source of conflict during inter-group interactions (Martin, 1992; Sackmann, 1992). That is, people generally develop positive feelings towards their own groups (the in-group) and negative feelings towards outsiders (the out-group). In this way culture can act as a differentiating phenomenon, drawing a wedge between societies, organizations and groups.

Some scholars have found it useful to present macro cultures as lying on a spectrum with higher-order spheres and lower order spheres at opposite points on the spectrum (Kuada and Gullestrup, 1999). Higher order cultural spheres reflect higher levels of cultural aggregation. For example, at the highest level of aggregation, all human beings belong to a culture that distinguishes them from other entities within the universe, e.g. animals. A distinction can also be drawn between “European Culture" and macro-cultures found in other parts of the world, e.g. Latin-American culture or East Asian culture. In a descending order of aggregation, the

European culture may be classified into, for example, "white Australian culture", "white New Zealand culture", "North American culture" and the "cultures in Europe". The latter might, at an even lower order, be classified into "East European culture", "South European culture" and "North European culture". Again, the North European culture will include British culture, German culture, Scandinavian cultures, etc. At yet a lower order of aggregation, the Scandinavian culture will consist of Norwegian culture, Swedish culture, and Danish culture and so on. Members of each of these relatively distinct cultural spheres are simultaneously members of a variety of other cultural spheres. A member of white European culture in Australia may, at the same time be a Christian, Jewish, Muslim, or Buddhist. The Christian members of the society may either belong to the Lutheran denomination, or a Catholic (Roman or Othordox). Individuals define the situations they are in with the help of the cultural values and rules of behaviour appropriate to the situation.

Cultural Change Process

Despite the semblance of stability, there are strong undercurrents of change in every society as individuals and groups persistently experiment with new ways of doing things as a means of adjusting to changing physical and social situations. The acceptance of successful experiments by significant parts of the society results in the renewal and growth of the societies and their cultures.

I have argued earlier that the degree and tempo of cultural change in a given society can impact innovation and enterprise development, and thereby, economic growth. This implies that growth-constraining elements in cultures must be changed for economies to grow.

Gullestrup (2006) distinguishes between two sets of factors that influence the change process; namely (1) *change initiating factors* and (2) *change determining factors.* The underlying rationale of this distinction is that an initiation of cultural change by itself will not result in change unless change facilitating conditions exist within the specific culture to receive and transmit the new ideas.

Initiating the Cultural Change Process

Change initiating factors can be either *exogenous* or *endogenous*. Exogenously initiated changes are usually targeted at one or several of the fundamental institutions that constitute Gullestrup's horizontal cultural dimension (e.g. technology, education, economic and political systems). There are, however, instances where initiated changes are targeted at deeper layers of culture, such as the ideological foundations of life. The most common exogenous change initiating factors can be grouped into three categories:

1. Direct contact with other cultures through immigrants within the focal culture, or occasional visitors such as tourists or short visits of a significant number of members of the focal culture in other cultures;
2. Indirect contacts through the international media, international marketing of goods and services and other forms of transmission of artefacts from other cultures;
3. The establishment of specific projects that in various ways induce changes within the focal culture - e.g. religious “missionarism” and aid donor projects that influence some of the fundamental institutions of a recipient society.

Immigrants for example, bring with them the cultural values that have shaped their behaviour before migration and, to a large extent, preserve

these values in their new societies. Assuming the willingness of their host societies to interact with them, it is possible that some degree of cultural symbiosis will result from the interaction. But such interaction will, as subsequently argued, depend on the degree of differences between the underlying cultural values of the immigrants and those of their hosts, the preference of the host society (or dominant groups within it) of the cultural values of their guests, as well as the threat (real or imagined) of cultural domination that such interaction may pose. For example, although Western values are basically incongruent with dominant values in Sub-Sahara African societies, the elite groups in Africa show high preference for Western life-styles and would like to present them as ideals worth pursuing. On the other hand, most West European societies see Islamic cultures as very much alien to the underlying values of their societies and partly for this reason, waver to interact with people from those cultures. Thus, while Western culture has greater chances of diffusion in African societies, the Islamic culture's influence in Western societies is very limited. Societies that have adopted tourism as part of their economic strategy also experience some degree of cultural influences, which in an increasing number of cases have not always been positive.

We have discussed the impact of the Diaspora on recent economic growth experiences in some SSA countries. Our discussions were, however, only based on remittances. We can now add the potential contributions of Africans living outside the continent to cultural change in their countries of origin to the list of influences that they can exert on economic development. Their sojourn in other cultures equips them with new perspectives and attitudes that enable them to question existing ways of doing things in their home countries. Those who are able to organize themselves into influential sub-cultures within their societies on their return are likely to exert a profound impact on the change process.

Indirect cultural contacts require no elaborate comments. It has been frequently argued that the increasing internationalization of marketing efforts, improved mass-communication technology and travelling as well as international political and social interaction have combined to exert pressures on members of all societies to become aware of, and be influenced by, events and materials in other cultures. Again, depending on the change reception and transmission capacities of a given society, these pressures can produce considerable influences on the cultures.

One of the factors listed in the theoretical model presented in chapter four is the impact of global orientation on human capability development. We can now revisit the arguments in that chapter in the light of cultural change processes. Interactions with people outside one's society produce multi-layered relational challenges and therefore heighten the need for learning and new knowledge acquisition. That is, finding solutions to relational challenges provides opportunities to take a serious look at home country patterns of behaviour and thereby trigger endogenous changes.

Alongside these interactions there are situations where external agents and institutions may initiate projects which indirectly tend to change aspects of the cultures of societies in which they are initiated. The propagation of the leading world religions such as Christianity and Islam provides an eloquent example. The same goes for politics, public administration and economic development strategies. One only needs to go a few years back to note the impact of imperialism on the shape of socio-political and economic institutions of present-day developing nations. These institutions can hardly be described as emerging from the domains of the core culture. They may be more appropriately seen as experiments with foreign cultural institutions that are still struggling to take roots in their host cultures.

"Development" projects initiated by the industrialized countries in the realms of economics, politics, physical environment and social change provide more recent examples of externally initiated cultural change experiments in developing countries. The purposive change efforts made at this cultural level can eventually engender changes within the deeper lying value sets of the societies. For example, economic growth and the changes in social structure that the development projects induce may compel a society to revise its values, norms and rules of behaviour. Behaviours previously considered unacceptable, may become permissible (and eventually become established norms) as a result of this transformation process. But if the process of transformation is aborted or constrained due, for instance, to the inadequacy of internal change facilitating mechanisms, the society is likely to become differentiated (more heterogeneous) mainly because those who have directly benefitted from the change experiments may group themselves into subcultures and defend the values that the change carries with it. Such a possibility is evidently illustrated by the socio-cultural consequences of economic development experiments in most African countries, i.e. the emergence of distinctive class structures and new avenues for social mobility competing with traditional ones. The common picture in many of these communities is the juxtaposition of the imported cultural segments and the dominant core culture of the focal society; a distinction more aptly captured in the "modern" versus "traditional" cleavage. I forward the view that this cleavage can produce some kind of social and emotional instabilities with the potential of producing intellectual and social turmoil.

The understanding that culture affects beliefs and values means that it can also have an effect on broader political and institutional configurations and outcomes. The institutional capability factor conditions introduced in chapter four must, therefore, be seen in this light. We have argued that there

is a strong link between cultures and institutions and they complement each other in shaping human resources available to economic growth in a country. This implies that "developmental" institutions have the potential of transforming tensions between "modern" and "traditional" values in societies into positive growth-inducing energies through institutional amplification of positive results.[23] But when dominant powers within a society support inefficient institutions (due to their vested interests) the transformational capabilities of the institutions may be weakened due to the limited commitment of key institutional actors (Acemoglu *et al*. 2002.)

Endogenous Change Initiating Factors

The *endogenous change initiating factors* in Gullestrup's theory include the influence of natural and man-made changes in the physical environment, the effects of economic progress on culture and the influences of internal social strife. Natural catastrophes change conditions of living and reshuffle people's perception of their environment as well as the modes of interaction with it. For example, drought-stricken communities are compelled to change their diets and eating habits. Food items not particularly relished in the past may become life-savers and thereby essential ingredients in kitchens. New forms of production and technologies may be invented and/or adopted, and new institutions may be created to ensure sustenance of life.

Change may also be driven by reshuffling of power constellations in societies. As Knights and Willmott (1978) forcefully argue, the construction and deconstruction of shared systems of norms and values are usually

[23] The existing literature draws a useful distinction between "predatory/extractive" and "developmental/inclusive" institutions (see Acemoglu *et al*. 2002.) Predatory institutions allow the minority in power (usually, although not necessarily, under a dictatorship) to use its power to prey upon economic agents, thereby reducing the latter's incentive to invest and produce. Developmental institutions, by contrast, encourage development and growth by providing a "helping hand" to private agents, providing public goods like education, infrastructure, and incentives to invest.

underpinned by power and domination, conflicts and struggle between participants of a given society, community or organization. That is, within every social structure, there are powerful groups that tend to support or impede the change process. Where newly introduced perceptions run counter to the interests of the dominant groups, the latter are likely to frustrate the change process by imposing and enforcing their conception of reality on others and by structuring the network of relations to their advantage, thereby maintaining a superficial stability that camouflages any tendencies of alienation that the culture may harbour. Such internal struggles for power and domination can be detrimental to a society's development but also open up for the introduction of new ideas and methods within the focal environment.

Change Determining Factors

As noted above, certain enabling conditions are necessary for a cultural change to proceed. These conditions will determine not only the tempo and direction of change but also the extent to which the change embraces society. That is, a change process may have two outcomes: either a *cultural modification, (*i.e. incremental or marginal changes in the upper layers of the culture without any immediate disruption of the underlying value systems) or a *cultural transformation* that produces radical departures from hitherto prevailing values. The internal requirements that shape the change process and determine the outcome are:[24]

1. The degree of homogeneity within the culture
2. The mutual consistency between the new ideas and the prevailing values sets of focal the culture.

[24]The requirements listed here have been inspired by Gullestrup's discussion of change determining factors. But I have used the terms in a way slightly different from Gullestrup's original presentation.

3. The internal power balance between the various groups within the culture

A fully homogenous culture exhibits no major differences between the various groups within society in terms of their cultural orientation. There is also a perfect harmony between all the cultural segments. The lack of differentiation has both positive and negative consequences for the change diffusion process. If the new ideas are received by the society, their diffusion is usually rapid. By the same token, once rejected, the new ideas have no significant chance of being adopted. A society with a substantial degree of heterogeneity, such as a multi-cultured society, produces the opposite effect.

New cultural elements are more likely to be readily accepted if they are not in total conflict with the underlying cultural values and world-views of the focal society. Conflicts between the two will provoke dominant groups whose interests are threatened to impede their acceptance and diffusion. However, their abilities to do so depend on their power base within the society compared to the impetus of the change initiating factor. In more extreme situations where the initiated change is backed by a superior military or economic might, the efforts of the hitherto dominant groups in society to thwart the change process can be neutralized. But if the change is subject to the voluntary acceptance of the members of the society, the local power constellations can play a determined role in its acceptance or rejection.

The role of civil society organizations in promoting cultural change must be highlighted at this stage. It has been argued that strong networks of civil society organizations can facilitate the creation of social capital and enable citizens to identify and articulate their values, beliefs, civic norms and

democratic practices. In this way, they do not only promote cultural change; they also promote institutional reforms by mobilizing particular constituencies to monitor the performance of state insitutions and the action and behaviour of public officials in their local areas.

It is also important to note that change can be either gradual or dramatic and can either entail calling everything into question or limiting itself to specific aspects of a social phenomenon. When a sufficient number of people in a given society is convinced about the appropriateness of a new set of values different from those pervasive in a society and is committed to adopting new behaviours related to the new values, a shift in dominant behaviours occurs in a society. This is what Malcolm Gladwell describes as "the tipping point"[25] in cultural change – i.e. that magic moment when an idea, trend, or social behavior crosses a threshold and spreads to other parts of a society.

Furthermore, cultural change is neither quick nor easy. Some cultures may show strong resistance to change and may be described as being rigid. Cultural rigidification may be said to reach its absolute limit when the world surrounding the culture has changed to the extent that the focal culture is unable to fulfil the needs and expectations of those who practice it. Following Guiso et al (2006) there are three main reasons why some aspects of culture change slowly. First, parents have a natural tendency to teach their children what they have learned from their own parents, without a full reassessment of the current optimality of those beliefs. Thus, even if cultural norms were efficient when they were introduced, they might continue to be taught even after they have become inefficient.

[25] Malcolm Gladwell The Tipping Point: How Little Things Can Make a Big Difference

Second, the institutions of enculturation (e.g. the state, religious bodies) may have vested interest in perpetuating certain traditions. Finally, some cultural norms may negatively affect economic output, while raising fertility; such norms can spread in a population despite their economic inefficiency.

Summary

The discussions in this chapter reinforce my argument in chapter 4 that socio-cultural factors influence the tempo and effectiveness with which economic factors are deployed in a given society. In line with scholars such as Alvesson (2013), I see culture not simply as a homogenous social phenomenon, but as an "emergent, dynamic, situationally adaptive" mechanism of socialization and change.

Contemporary literature has generated a number of cultural descriptors that provide researchers with stereotypical snapshots - i.e. a first-stage approximation of macro cultures of societies. I have presented and discussed some of these descriptors above. But I have maintained, all along in the discussions that despite the semblance of stability, there are strong undercurrents of change in every society. Thus, culture must be seen as a dynamic construct. Cultural dynamism allows differences and dissensions between and among individuals and groups to flourish within societies and thereby nurture creativity without threatening the core fabrics of the societies. Abramowitz (1986) uses the concept of "change in social capability" to capture this attribute of culture.

CHAPTER 6

SUBCULTURES, NETWORKS AND TRUST

Introduction

Most students of culture agree that national cultures are hardly monolithic. That is, all cultures have crosscurrents to their mainstreams (Groeschl and Doherty, 2000). The concept of sub-cultures has therefore been introduced to capture this multiplicity within a given social context. The existence of multiple cultures suggests that social behaviours are conducted within a network of relationships of trustworthy actors (Holmquist and Boter, 2004). Thus, in addition to subcultures, the concepts of social networks and trust have become prominent in all contemporary discourses of culture. This chapter discusses these concepts and links them to the management of economic actitivies in market economies. It builds on the discussions of cultural change process in chapter 5 and argues that the tempo and characteristics of cultural change will depend on the presence of "leading subcultures" within the focal society – i.e. those groups of people who are willing to challenge the existing ways of doing things in the society and are prepared to spearhead the change process.

The chapter continues with this brief introduction first with a discussion of the concept of subcultures. It then provides a typology of subcultures and their dominant characteristics as well as their propensity to manage innovation and change.

The Concept of Subcultures

The notion that cultures are differentiating and fragmentary has been captured in the concept of subcultures. But previous research into subcultures describes them as 'relatively distinct social subsystem[s] within a larger social system and culture' (Fischer 1975:1323). The contemporary perspective is that subcultures emerge because not all citizens in a given society fully embrace all values and norms. Thus, within any given period, a macro-culture harbours a wide range of diversities. Some people find themselves more similar to other persons in some situations than others. Those who share similar perspectives learn similar habits and subscribe to a given set of rules. They may actively spread their views and encourage other people to embrace their perspectives and thereby behave as they do.

Some earlier studies see subcultures as evidence of disjunctures between the cultural goals of a society and the ability of its members to achieve those goals. This might cause psychological strain for individuals who then decide to dissociate themselves from the mainstream cultural goals by adopting contrary behaviours. Other scholars see it as the natural disagreements within societies and their interpretations and responses to societal dynamics and power configurations.

The concept of differentiated norms has now been introduced to explain the way in which societal values apply in subcultures and the relationships between them within a broader societal structure. The basic point is that although the subcultures share a common societal value set, they develop specific norms to regulate the application of these values as they relate to their behaviour. Thus, the expectations of behaviour of those who are

members of a particular subculture are not the same as those of non-members.

Subcultures are however conceived as standing in relationships of interdependence and interpenetration with one another. The result, as Parsons (1951) sees it, is that almost any concrete pattern of actions has consequences for many different subcultures. But since each subculture ascribes its own set of norms to the underlying values shared by the culture as whole, no particular course of activity is capable of fully and simultaneously serving all the needs of the subcultures that are embedded in the macro-culture.

Subcultures may be classified in terms of their response to new ideas and innovation. This classification is predicated on the observation that some subcultures are more receptive to some kinds of new ideas than other subcultures. The degree of receptivity will depend on the relative importance of the new ideas to the solution of problems faced by the subculture, and the extent to which these ideas fit the prevailing values and norms.

The existence of subcultures has led some writers to the conclusion that some nations are simply arbitrary boundaries around collections of subcultures sharing some integrating elements of the dominant subcultures (Gregory, 1983). The dialectical relationship between the dominant subcultures in a society influences the change process within the macroculture and shapes the future of societies. Thus, the multiplicity of subcultures provides societies with mechanisms for evaluating, accepting and diffusing new and useful ideas. But cultural changes are likely to be localized initially – i.e limited to the initiating subcultures. The diffusion of change will therefore proceed in an incremental fashion, depending on

the position and degree of influence the subculture initiating the change has within the society. In special situations, for example a crisis, however, change may be revolutionary and traumatic, if the society's entire survival depends on such a change.

Typology of Subcultures

Collin (1987) identifies three types of subcultures: 1. *reinforcing subculture, orthogonal subculture*, and *deviant subculture*. Those belonging to the reinforcing subculture share all the features of the dominant culture of the society or community but cherish them with greater intensity than other groups in the society. Examples can be religious fundamentalists or identifiable groups who unflinchingly adhere to certain traditional cultural values and rules within their societies. The creation of industry clusters and innovation science parks can also produce conditions for the development of enterprise growth-oriented subcultures.

The orthogonal subcultures differ from, but are not in conflict with the dominant culture. That is, they have their roots in the fundamental cultural values and perspectives of the society. Examples include urban and rural cultures as well as professional bodies and associations. Seen from enterprise development perspective, it has been noted that urban communities produce greater opportunities for individuals to become members of multiple networks. This provides them with greater opportunities to leverage resources. Furthermore, professional groups - e.g. doctors, lawyers and accountants - organize themselves into bodies that can be safely described as subcultures. These professional bodies may have their own myths, histories and value structures which cut across national boundaries and are taught to new members in their training periods, and reinforced after their education through social interaction or

formalized meetings such as conferences. At a more aggregate level, it is instructive to view industries and business organizations as subcultures within their ambient societies. They have distinct norms that define their responsibilities, expectations and obligations.

The deviant subcultures are, as the name implies, in direct conflict with the fundamental cultural values of the society. Most frequently these groups provocatively challenge the established values in order to draw attention to specific situations in the society (e.g. squatters) or to further their own parochial emotional interest (e.g. leather jacket groups).

The existence of subcultures in societies has significant developmental and transformational implications. In highly stratified cultures, some subcultures play leading roles in implementing new ideas in their respective areas of interest and competence and it is important for a change agent to identify these groups when introducing new ideas. Results from previous studies that I have undertaken have revealed that there exist three cross-cutting subcultures in any given society at any given point in time (Kuada, 1994). These are:

Leading subcultures – i.e. those groups who are actively searching for new ideas to improve certain aspects of their life. They are usually willing to give these new ideas a try, if they do not radically challenge their existing values.

Mainstream subcultures – i.e. those groups who defend existing cultural values and have difficulties accepting new ideas introduced into society.

The laggard subcultures – i.e. those groups who have ambivalent attitudes towards new ideas and would not adopt changes until all others have tried the new ideas and demonstrated their validity.

The typology of subcultures presented above suggests that the different subcultures are likely to exhibit different propensities to accept or reject new ideas. It also suggests that acceptance of new ideas fuels cultural dynamics and may result in a restructuring of the existing social system. Leading subcultures are more likely to show willingness and commitment to accepting new ideas. Such subcultures are not hierarchically structured and use informal (rather than formal) coordination mechanisms. They therefore adopt what may be described as an "ordered flexibility" approach to dealing with environmental variability, exhibiting limited internal consistency in behaviours across individual members.

Mainstream subcultures may be said to have "strong" cultures rooted in a set of core values, and this provides their members with a common mindset based on and a high degree of conformity (Davenport, 1993). As such these subcultures are characterized by a powerful source of stability and internal integration. This ensures their survival in dynamic and shifting environments. But their ability to absorp new ideas is severely limited.

Social Networks and Trust

By definition, subcultures create cultural barriers that separate them from each other. They therefore require some degree of coherence for them to function effectively. These are taken care of through the development of relational arrangements that facilitate intra- and intercultural coordinations

that serve as bridges across subcultures. Where these linkages are effectively developed they constitute networks of relationships. Two sets of theories capture how these arrangements play out in societal lifeworlds. They are the social network theories and theories of trust.

The literature argues that the social networks in which individuals and firms are embedded, may reflect characteristics of cohesiveness or may be loose-knit and the nature of the structure of the relationships, and each individual's position within the social network, tend to influence the nature of economic benefits they derive from the relationships. Dense or close-knit networks in which members interact intensively with each other (i.e. form strong ties) tend to become exclusively self-sufficient, while the loose-knit ones (i.e. those with weak ties) are more open and are therefore likely to access new information about business opportunities from the environment within which they are located.

Building on the social network theory scholars such as Coleman (1988), Sabel (1993), Hyden (1997), Unger (1998), Portes (1998), and Barr (2000) have popularized the concept of *social capital* as a construct that describes the benefits that accrue to an individual by virtue of his participation in social ties or durable networks of relationships. These relationships provide a sense of obligations based on feelings of gratitude, respect and friendship, and their economic benefits include willingness of business partners to engage in joint resource creation and ability to leverage external resources by the aid of referrals, and lower costs of transactions due to lower monitoring costs.

As Unger (1998) conceives it, social capital is simply a social infrastructure created by groups of individuals through their interactions over a fairly long period of time. This social infrastructure enhances people's ability to negotiate and/or create and share economic and non-economic resources.

The spectrum of associations forming social capital ranges from small, exclusively local organisations to organisations with a national or international orientation. But their dominant characteristic is that they are formed by civil social groups and associations and exist outside the state structure. According to Hyden (1997: 16), "anything that takes place outside the state realm counts as part of civil society and contributes to building social capital". Thus, countries that are rich in social capital can reduce the negative consequences of limited financial resources on their business operations and strengthen their competitiveness.

Social ties can be *strong* or *weak*. They are strong when they generate trust, mutual respect, and commitment between interacting parties. Weak ties are characterized by less informal interactions and less emotional attachment, possibly because the parties do not know each other well enough to invest emotions in the relationship. An individual can only have a certain number of strong ties because of the maintenance costs associated with intimate relationships. By contrast, the number of weak ties can be high. These weak ties do not require high maintenance, but can significantly help individuals (including entrepreneurs) in accessing information. Granovetter (1973) argues that weak ties act as bridges to sources of information not necessarily contained within an individual's immediate (strong tie) network.

Trust and Networks

Societies depend on trust to operate effectively. Economic sociologists therefore describe trust as a key component of any market economy because of transactional uncertainties. Trust has been shown to increase cooperation, improve flexibility, lower the cost of coordinating activities, and increase the level of knowledge transfer and potential for learning (Simonin, 1999). Without minimal levels of trust and confidence that commitments would be honoured, markets could not function (Whitley,

1992). Where trust exists between people in relations, they are willing to sacrifice their short run individual self-interests for the attainment of joint goals or longer-term objectives (Sabel, 1993). Stated differently, trust is an indication of a person's belief that his partner would behave in such a way that they both gain rather than lose from the relationship. It also produces mutual concern for long-term benefits by partners, and therefore serves as a lubricant for enduring business relationships (Nielsen, 2001). In a similar vein, Fukuyama (1995) defines trust as the expectation of regular, honest, and co-operative behaviour based on commonly shared norms and values. He argues that high trust societies tend to develop high social capital and enjoy higher economic development than low trust societies.

Inter-personal trust is associated with individuals who are engaged in a relationship. It depends, usually, on initial knowledge about the individual stemming from prior interactions or may be based on information obtained from sources that individuals consider highly reliable. It may also depend on the characteristics of a group such as an ethnic group or kinship. That is, partners in a business arrangement may select each other on the basis of *ex ante* trust (Zucker, 1986), or from a community that they are familiar with on the basis of kinship, friendship or reputation. Having done so, they may design the relationship and plan its progress so as to build up trust in the process (Gulati, 1995; Nooteboom 2001). Thus, the concept of *personal bonding* (Williams *et al*., 1998) has been introduced into the literature to characterize the individual's role in inter-firm relations. This is, in contrast to structural bonding that characterizes organization-specific relationships. Personal bonding defines the personal and social relationships that individuals in one firm or organization have with their counterparts in another firm or organization. These bonds contribute immensely to the stability and predictability of relationships.

It is, however, important to remind ourselves that trust is not created overnight. Empirical studies have shown that partners are likely to increase trust in each other when they have demonstrated to each other that they would not betray the confidence reposed by their partners in them and are committed to developing the relationship (Humphrey and Schmitz, 1998). Honest dealing, veracity, openness, acceptance, support and dialogue are important attributes that must be nurtured among firms in order to build trust (Fukuyama, 1995). Trust building has therefore been appropriately described as a learning process.

Some scholars argue that there is a link between social capital and trust. Citizens in communities with high levels of social capital are expected to be far more likely to develop the heuristics of trust and to respect the norms, rules and obligations of community life than people living in non-civic regions. Following Letki and Natalia (2006: 308) "People who are active in community life (for example, participating in voluntary associations) are socialized into trust, reciprocity and honesty towards fellow citizens. Thus, the communities with a livelier civic life are also those with higher levels of interpersonal trust and trustworthiness."

Subcultures and Human Capability Development

Going back to the theoretical framework presented in chapter four, it is important to note that the subculture to which individuals belong combines with their position within a social and economic network to influence their capability development. Individuals belonging to a mainstream culture will mostly likely be encouraged to engage in refining their patterns of behaviour than questioning the core assumptions of these, let alone explore new grounds. They will view their capability in terms of the specific actions that they are engaged in and will be less concerned with the rationale underlying these actions and their ability to interpret and use

information and experience to influence their actions. By improving competencies within frequently used procedures, applying these procedures will guarantee them results that may be consistent with what their superiors expect. Those belonging to subcultures that endorse openness towards new ideas and experiences – i.e. leading subcultures – will naturally motivate individuals to strive for future gains based on creativity and innovation.

In business organizations, subcultures serve as silos within which individuals can experiment with their creativity and their creative talents can be nursed by in-group mates that insulate them from the broader society. By providing enabling environments for creative ideas to flourish, subcultures do not only help individuals to develop their capabilities, they also provide societies with rich sources of new ideas.

Summary

Subcultures provide opportunity for societies to experiment with alternative approaches to solving human challenges. As long as they remain tolerable deviations and do not disrupt the normative solidarity that the macrocultural values produce, their existence can be seen as productive. They provide windows of creativity and experimentation. There are however dangers that the deviations may become strong and challenge the dominant values and therefore become sources of intolerable conflict. The challenge for every society is to manage its deviant subcultures in a manner that does not constrain creativity but at the same time avoid dysfunctional misalignment between the dominant values and the deviant values of the subcultures.

CHAPTER 7
THEORIES OF ORGANIZATIONAL CULTURES

Introduction

The concept of culture has turned some researchers' attention to novel perceptions that have produced alternative frameworks for understanding how organizations actually work. Most management scholars agree that culture enhances firm performance by guiding organizational members' response repertoires within their operational environments (Gordon and DiTomaso, 1992; Sørensen, 2002). Strong corporate cultures increase behavioural consistency within organizations. In more recent years the link between culture and economic development has been echoed in the works of such scholars as Fukuyama (1995) as well as Harrison and Huntington (2000). Most of these scholars have presented culture as an obstacle to economic progress and have not paid any attention to the potential positive contributions that culture can make to economic activities, even in poor countries. This chapter builds on the discussions in chapters 5 and 6. It focuses the cultural lense on the anatomy and transformation process of organizations – seeing them as primary agents of economic growth in societies.

Structures and Processes of Organizational Development

Writers on organizational culture hold the view that the anatomy of organizations contains both objective and subjective components. The objective components include organizational structures, positions, formalized goals and functions, equipment and other physical artefacts. The subjective components include the informal interactions and rules of behaviour, non-articulated goals of organizational members, the myths, legends and traditions that combine to define "the correct approach to

doing things" in an organization (Schein, 1983; Hatch, 1993; Holmquist and Boter, 2004). Following this viewpoint, it has been argued that the harmonious behaviour of organizational actors is not determined exclusively by the formalized roles and structures agreed upon by the leaders. It depends very much (or perhaps mainly) on the shared value set of the organization as well as various mechanisms of non-formalized sanctions and manipulations.

The growing body of literature in the area also reflects diversities in the authors' perceptions of organizations and culture. Writers holding an anthropo- morphic perception of organizations argue that organizations have personality, needs and character as well as cognitive processes just like human beings (Selznick, 1957; Hedberg, 1981). To them organizations are miniature societies, equipped with socialization processes, social norms and structures; they breed meanings, values and beliefs; they nurture legends, myths and stories and are engaged in rites, ritual and ceremonies (Allair and Firsirotu, 1984; Hatch, 1993). Such central topics as commitment, socialization and turnover are now set within the cultural context.

Other writers see organizations not in human terms but argue instead that organizations are subcultures of the cultures of their ambient society. They contain elements of occupational, hierarchical, class, racial, ethnic and gender-based identifications which provide a substantial degree of diversity in individual organizations (Meyerson and Martin, 1987). In Parsons' (1960) view, an organization's value system must by definition be a sub-value system of the ambient society's since the organization is always defined as a subsystem of a more comprehensive social system.

Organizations do not, however, depend entirely on the ambient culture for their cultural values. There are other contingency factors, both within and outside organizations that contribute to the formation of their cultures, giving individual organizations unique ideologies and characteristics by which they are identified. To put it in other words, organizations enact boundaries that separate them from the macroculture of the ambient society, thereby preventing them from being absorbed by the external environment, or from losing their distinctive character. Taking business organizations operating in competitive market economies for example, one notices that factors such as the degree of competition and the tempo of change within the industry of the firm, the extent of internationalization of the industry, the nature of technology and R&D investments as well as the type of ownership of the specific firm all contribute to determining both the formal and non-formal rules of behaviour and policies within the firm.

The extent to which an organization's culture reflects that of its ambient society depends on the relative influence exerted by these other contingency factors. That is to say, organizations as socio-cultural systems may reflect values, beliefs, assumptions and ideologies that diverge substantially from those obtained in the ambient society. As a system with specific goals and purposes, organizations are viewed as interacting functionally with their environments, filtering signals from them, adjusting to some and dismissing others in order to attain their objectives as separate entities within the broader environment.

Organizational participants' faith in the culture of their organizations has been presented as a vital supplement to the wave of strategic management tools that management literature has generously produced. The belief is that firms that have internal cultures supportive of their strategies are more likely to be successful (Smircich, 1983).

Following this perception, attempts have been made in the literature, at both conceptual and empirical levels, to determine the relationship between organizational culture, on the one hand, and individuals' behaviour and organizational performance on the other (Holmquist and Boter, 2004). Amsa (1986) reports that loitering behaviour (unauthorized rest breaks) in work groups is related to company beliefs about the desirability of discipline. Jenster and Bigler (1986) find a significant relationship between cultural patterns and the pursuit of particular strategies. Gordon and Di Tomaso (1992) find a significant correlation between the extent to which individuals agree in their view of the total culture of their organizations (cultural strength) and the performance of the organization.

Organizational culture's contribution to performance improvement is erected on the belief that (1) it conveys a sense of identity to organizational members, (2) it facilitates the generation of commitment to something larger than the self, (3) it enhances social system stability, and (4) serves as a sense-making device that can guide and shape behaviour (Smircich, 1983). As discussed extensively above, (see chapters 5 and 6) culture develops as a natural outcome of any human social interaction, particularly when people share the same geographical territory. By continually meeting and interacting, members of an organization exchange and assimilate forms of conduct, customs and beliefs. But as the management literature on organizational culture suggests, culture can and should be purposefully fostered by top management to avoid a situation in which members develop cultures that do not necessarily promote organizational goal attainment.

Organizations are described as either having weak or strong cultures (Sørensen, 2002). Organizations with strong cultures tend to have greater internal consistency in goals and behaviour and provide their members with clear rules of behaviour or well rehearsed mental models (Weick,

1979). Weak organizational cultures are found to have some positive attributes in some situations and negative attributes in other situations (Sørensen, 2002). When the operational environments of organizations are stable, strong organizational cultures produce efficiency and can encourage optimal use of resources. When the operational environment is turbulent weak cultures allow for flexible responses to the challenges that the environmental variability produces (Saffold, 1988).

Sørensen (2002:73) put forward three interrelated explanations for the performance benefits of strong cultures. First, widespread consensus and endorsement of organizational values and norms facilitate social control within the firm. When there is a broad agreement that certain behaviours are more appropriate than others, violations of behavioural norms may be detected and corrected faster. Corrective actions are more likely to come from other employees, regardless of their place in the formal hierarchy. Informal social control is therefore likely to be more effective and cost less than formal control structures. Second, strong corporate cultures enhance goal alignment. With clarity about corporate goals and practices, employees face less uncertainty about the proper course of action when faced with unexpected situations and can react appropriately. Goal alignment also facilitates coordination, as there is less room for debate between different parties about the firm's best interests. Finally, strong cultures can enhance employees' motivation and performance because they perceive that their actions are freely chosen.

The shared mental models that strong organizational cultures provide employees with enable them to handle new situations effectively. Even the most rational decision-makers discover that deliberate efforts at systematic analysis of business environments are always fraught with enormous uncertainties. Environmental cues are usually unreliable; the reliable ones

occur infrequently and only hold true for relatively short stretches of time (Weick, 1979). For this reason a firm may develop elaborate rules of behaviour with respect to product and service quality, customer satisfaction, and ethics that guide the treatment of employees and the general public.

The shared mental models are communicated to new managers and workers by the old. Senior managers frequently argue for consistencies out of repertoires of established operating procedures. In the absence of convincing alternatives, new employees join in the perpetuation of prevailing traditions and norms and become integrated into the fabrics of the organizational culture. The behavioural regularities exhibited and shared by organizational members as a result of the organizational culture, are expected to provide them with a sense of identity, facilitate commitment and enhance the stability of the organizational social system.

Special attention has also been focused on the role of founders of companies and other leading organizational members in shaping the cultural profiles of the organizations (Selznick, 1957; Pettigrew, 1979; Schein, 1983; Bates and Khasawneh, 2005). There is ample evidence showing that the founder of an organization defines its mission and motivates the initial leaders to work towards its realization. He lays the foundation of the organization, so to speak, and inscribes in it his ideological preferences and cultural attachments (Schein, 1983). People who ascend to top managerial positions of their organizations do so mainly (but not exclusively) because they show evidence of having accepted the norms of the management culture that the founding fathers have established.

In a similar vein, Starbuck and Hedberg (1977) argue that organizations are stages where repertoires of plays are performed by individual actors. The actors act, but they are directed. They are assigned roles, they are given

scripts and they become socialized into a theatre's norms, beliefs and behaviour. Although the repertoires of play shift, especially with the arrivals of new top executives, there are rich traditions of plays and standards that remain as time passes.

Multiple Organizational Cultures

Like national cultures, organizations have conglomerates of sub-cultures. All organizational members belong to one or several identifiable subcultures within the culture of their societies and carry with them elements of their special subculture norms and values into the organization. When two or more of those belonging to the same subculture become members of the same organization, there exist strong tendencies for them to re-establish those cultural characteristics among themselves. Examples are gender-based subcultures, ethnic, racial and professional subcultures.

The notion of multiple cultures is not new in management literature. For example, Lawrence and Lorsch (1967) have shown that functional specialisation in business organisations (production, marketing, personnel administration, finance etc.) has impact on managers' perception and behaviour within organisation. The literature has also registered interdepartmental conflicts and subtle tensions between different professional groups within organisations. These may arise from both individual psychological strains due to inconsistent demands from the multiple identities, and from differences in departmental values and needs (Ashforth and Mael, 1989). Other writers have drawn attention to conflicts between organisational needs and values, on the one hand, and needs and values of individual organisational actors. Goal convergence has therefore been suggested as one of the means of resolving such conflicts (Kuada, 1994).

Along the same line of reasoning, Daft and Weick (1984) argue that organisations are series of nested systems. Each subsystem has its unique identity and self-knowledge within the broader organisational domain. Similarly, Gregory (1983) conceives organisations as arbitrary boundaries around collections of subcultures. The contemporary literature therefore provides a justification for the view that organisational actors are members of several cultures at the same time. That is, they conduct their lives and duties within multiple cultural spheres. Thus, organizational members may find themselves navigating "a sea of complex relationships' in their organizations 'continually confronted with competing allegiances', (Zabusky and Barley 1997:395) The lack of any allegiance to a particular group means organizational members are compelled to remain constantly adrift while positioning themselves across different discourses.

Cultural change in work organizations is also influenced by the high mobility among the participants of such organizations - the members come and go more frequently than in larger societies and ethnic groups. This means that their cultures are likely to be more dynamic and volatile than the cultures of their ambient societies, particularly so if new members join and leave rapidly or in large numbers relative to those who stay. Such organizations must devise means of transmitting their cultures quickly and intensively if they are to be maintained (Harrisson and Carroll, 1991).

Organizational Culture and Human Capability Development

I have argued in chapter 5 that although organizational culture has powerful influences on the behaviour of its employees, it is important to note that human beings are not blank sheets on which culture writes its texts. Due to their cognitive endowments, individuals are scarcely passive

recipients of culturally prescribed "realities". As mentioned above, children are susceptible to cultural conditioning because of their complete dependence on others. But over time, their own cognitive capacity to process their life experience and to establish a value set of their own plays an increasingly vital role in their personality formation. As such, adults usually have their own interior rules of behaviour in addition to the shared cultural rules. These personal "rules" function as a filter of the individual's cognitive process, letting through only certain stimuli and modifying their interpretation. Different individuals with their own cognitive styles, and emotional flexibility will therefore perceive and react to a given environmental stimuli in different ways. In other words, culture provides the individual with a frame of reference and a set of opportunities within his natural and social environment; personality allows him to select from the culturally defined opportunities to fulfil his personal requirements. This is reflected in the fact that there is always some degree of incongruence between individual and societal goals and no two individuals are the same.

Thus, the link between organizational culture and human capability development must be construed from two main perspectives that both impact human learning (Prahalad and Hamel 1990; Bates and Khasawneh, 2005): (1) a structural perspective and, (2) a trait (or personality) perspective.

Learning, Institutional Characteristics and Capability Development

From a structural perspective, it is argued in management literature that culture that supports the acquisition of information, as well as the distribution and sharing of learning is critical for individuals' ability to learn (Marquardt, 1996). Thus, studies have also shown that individual

learning in an organization is impacted by employees' willingness to work with others, even when collaborative work behaviour is not formally demanded (Chatman and Jehn, 1994). Furthermore, the extent to which organizational cultures emphasize individualistic or collectivistic values will impact employees' disposition to working together (Chatman and Barsade, 1995). In other words, if an organization places priority on collective goals and cooperative action, and members are rewarded for joint contributions to organizational accomplishments individuals will show greater propensity to co-create and share new knowledge and thereby enhance the organization's potential for collective creativity (Chatman and Jehn, 1994). It has also been suggested that when these cultural characteristics are reinforced by leadership style and organizational practices that provide rewards and recognition for learning and its application, employees become a lot more dedicated to learning and their competence development. In cultures with high power distance (Hofstede, 1980) and autocratic leadership, subordinates are likely to be dependent on top management as centres of excellence and tend to hold their own capacity to learn and take initiatives in check. Most of them would define their role as simply following, responding and carrying out instructions from their superiors. As such they would fail to reflect on work-related problems that they face, let alone consider the possible solutions to them. This pathological state of inaction may be labelled *learned* or *socialised helplessness* (Bate, 1984). As long as this behaviour reduces overall anxiety among subordinates, it would persist until top management changes its leadership style and empowers subordinates to question existing rules of behaviour without fear of punishment. This empowerment strategy is at the heart of learning and knowledge sharing processes as well as innovations in organizations.

The dominant view in organizational learning literature is that knowledge is in a perpetual flux and therefore accepts shifts in dominant rules of behaviour. Learning therefore entails and encourages the emergence and dissolution of specific social orders. Actions, counteractions, reflections and thoughts in turn combine to influence the on-going socio-cultural construction. In other words, individuals' ability to perceive, interpret and evaluate phenomena depends on the sustained and intensive interactions that they have with other people in a given community or context as well as leaders' endorsement of such interactions. These interactions help create shared mental models and enable people to make sense of their environments. The situational setting provides a constellation of meanings that both informs and constrains socially acceptable behaviours, including socially constructed identities and forms of participation – that is, it both informs and constrains social practices**.**

The discussions in chapter four also suggest that there is a link between institutional capabilities of societies and human capability development. In a sense, institutions are best seen as sociocultural systems that are embedded in wider social and political environments. They are produced and reproduced by human being with acquired habits and ways of working. As such they can be analysed with the intellectual lenses and perspectives of organizational cultural scholars.

Ideally, institutions are expected to develop cultures that encourage responsiveness, accountability and impartiality as key manifest characteristics of employee behaviour. This provides them legitimacy in the eyes of citizens and improves their trustworthiness. Tyler (2006: 376) defines legitimacy as "the belief that authorities, institutions, and social arrangements are appropriate, proper, and just". Letki and Natalia (2006) suggest that institutional characteristics directly influence civic morality

and attitudes to the public order. In their view, quality and predictability of institutional setting positively shape individuals' community-oriented attitudes, while particularistic, corrupt and clientelist policies undermine them.

Personality and Capability and Development

Added to this, managerial personality researchers argue that a manager's particularities, personality and experience before entering an organization remain important filters that select, modify and interpret the cultural lessons taught him. Where his interpretations vary remarkably from the intentions and spirit of the rules of behaviour taught him in an organization, his relationship with his colleagues may be in a perpetual state of tension, disharmony and dissonance that will eventually lead to his exit. An individual with a dominant personality can, however, revolutionalize the organization's meaning-structure to the extent that the values predating his arrival are totally replaced by his perception and values.

Said in other words, managers are not captives of the roles, official purposes and formalized procedures of their organizations. They have the chance to (and very often try to) reach beyond the limits imposed by existing frameworks and explore new possibilities and approaches to attain the organizational objectives. Depending on their positions within the organizational structure and decision systems, they can bring their personal convictions to bear on decisions in which they are involved and are actively engaged in implementing. They may share some viewpoints, disagree about some, and be ignorant or indifferent about others (Meyerson and Martin, 1987). If their experiments prove successful, the new approaches they introduce are adopted by their colleagues (albeit with varying degrees of enthusiasm). Over time, they may prevail throughout the entire organization and become a standard of routinized behaviour. In

this way individual managers keep the vehicle of change in organizations in persistent motion.

These observations suggest that managers' behaviours cannot be fully understood without an understanding of the determinants of their individuality. Psychology and psychoanalysis are disciplines traditionally associated with the study of individuals and human personality. The perspective adopted in this study is, however, different. Since managers work within an organizational system - i.e. with other people and with definite objectives to fulfil, a purely psychological perception of their personality is inadequate for my purpose. For one thing, psychology tells us nothing about the special attitude and mode of activity of a person in a given sociocultural context. To come to grips with this problem, Bidney (1974) coined the term psychoculture that discusses personality from both psychological and cultural perspectives. A discussion of the link between culture and personality development will offer a better insight into the role of individuality in management behaviour and development.

The link between culture and personality has been aptly captured by Murphy (1975:16) who observes that "we cannot define a problem in temperament even from the most rigidly biological point of view, without determining how culture selects from a given individual certain kinds of temperamental expression; how it draws .... his latent personal attributes. In the same way, we cannot effectively specify how the individual grows without specifying how he sucks in this or that aspect of the cultural total". Let me admit, however, that discussing the relationship between culture and personality is a tricky intellectual undertaking, since the two are inextricably linked in practice but nevertheless maintain their conceptual independence.

An individual's personality has two primary sources: (1) the culturally transmitted knowledge and perceptions; and (2) his cognitive capacity. Cultural elements in a given society provide the individual with a range of opportunities that will enable him to attain an integrated satisfaction of his needs and drives. He makes his selection from the available range and charts his life's path based on his choice. His initial knowledge of the culturally prescribed opportunities is normally obtained from his family. Training received in childhood and the social surroundings in which the training is given therefore have significant influence on personality development. Thus child psychologists talk of warm mothering affection as being of critical importance in the formative periods of personality development. Since child-rearing practices vary across cultures and with the educational and social status of parents, one should expect individuals to have unique personality traits on the account of these differences.

The personality of an individual, however, does change over time as a result of changes in his cultural roles and his psychosomatic constitution as he passes through the ages of life (Biney, 1974). As a child grows older, it joins other social groups and plays other social roles whereby it acquires new values that modify, replace or complement the previous ones. As an adult, the individual's roles and social orientations are radically altered and his experiences in life continue to shape his perception and personality.

Lessem (1989) vividly describes the implications of these transitions for management behaviour. In his view, an individual manager undergoes phases of managerial development. Managers in their twenties are usually characterized by the desire for exploration, experimentation, enthusiasm and enterprise. In their thirties, managers generally tend to emphasize consolidation, responsibility, clarity and structure in their behaviour. The midlife periods (forties and thereabouts) are characterized by reflection

and self-discovery, while maturity (fifties and beyond) focuses on stability and/or transformation of the individual and his organization.

Whether or not an individual's behaviour manifests an invigorating (positive) or weakening (negative) energy in an organisation or a group will depend on four sets of factors: (1) the *basic life tendencies* of the individual, (2) the events in his/her *life story*, (3) the *manifested collective energy* within the ambient environment (e.g. organisation) and (4) the *socialisation process* or culture that has shaped his/her life. The diversity of individuals' life tendencies provides each organisation with unique potentials for transmission of energy. It is this feature that defines the degree of organisational agility, as well as the non-immitability and non-substituability of organisational resources (Barney, 1991). That is, the ability of one organization to exhibit superior competitive capabilities over other organizations within a given industry and to manage linkages (local and international) may be understood through the psychic energy construct.

Summary

In sum, organizational cultures (just like macrocultures) shift and change and a range of subcultures may exist, both reflecting and exercising power relations within an organization. Organizations tend to be effective because they have "strong" cultures that are highly consistent, well coordinated, and well integrated. Organizations that have greater internal consistency in goals and behaviours are described in the literature as having strong cultures. Such organizations have high levels of integration in terms of their values and norms. But an organization that exhibits

behavioural consistency across individuals is less likely to challenge existing assumptions and rather accept the dominant rules of behaviour. As such, some of them are less likely to respond effectively to changes in their environments.

It is important to stress that organizations mould the individuals' perception over time, providing them with the accepted rules of behaviour that they require in order to interact meaningfully with other members. Furthermore, efficient and impartial institutions provide a stable and predictable normative and organizational context for individuals' formal and informal interactions with fellow citizens and with the institutions themselves.

Individual life tendencies are shaped by events of history. Each individual's journey through life is laced with challenges from birth to death. During this span of life, the cumulative experiences (i.e. ways in which individuals tackle the complex set of events in their lives) provide the foundations of their basic life tendencies.

CHAPTER 8

AFRICAN CULTURE AND ECONOMIC DEVELOPMENT

Introduction

The discussions in chapters 5, 6 and 7 provide theoretical arguments in support of the assertion that economic growth takes more than an infusion of investment capital, the import of the latest technology, and dependable political and economic institutions. A constellation of cultural values suited for modern business seems to be a critical ingredient as well. Two additional interrelated conclusions have emerged from the discussions. First, capitalist economic growth processes demand certain individual and collective mindsets and behavioural characteristics that emanate from the socialization processes of individuals in these societies. Cultural attributes such as belief in the importance of individual effort, trust, commitment (i.e. outside close family relations), autonomy, ethic of hard work, and thrift have been frequently cited in the literature as important for enterprise development and economic growth. These attributes provide a collective motivation for the members of a given society to do things better, faster and more efficiently and to suspend immediate pleasures in order to invest their resources in economic growth-enhancing activities. The natural question to ask is whether the dominant cultural attributes in SSA have these inherent economic growth-enhancing characteristics.

Answering this question is a daring task because, as noted earlier, the theme of culture-economic growth nexus has not received any significant academic attention in economics. As such, it has neither been theoretically

nor empirically explored in any systematic manner in SSA economic development studies. But there are fragments of thoughts and perspectives that originate from sociological and philosophical reflections on ways of living in SSA. The aim of this chapter is to lace these reflections and perspectives together in an attempt to provide an overview of the dominant cultural traits that may positively and/or negatively impact the manner in which economic activities are organised in Africa.

The chapter begins with a discussion of some dominant characteristics of African culture, touching on constructs such as familism, kinship, and social capital. It then discusses the relationship between religion and economic growth within the African context. Some of Hofstede's cultural dimensions such as time orientation and indulgence are also discussed within the African context. In the final section of the chapter, I present what I consider to be emerging features of a new African culture and provide some evidence to illustrate the role of the youth in constructing a new growth-oriented culture.

Some Dominant Characteristics of African Culture

Familism

The term familism aptly describes the family structures in Africa. In African societies, the family is the primary social unit in relation to individuals. Individual members of the family are bound to one another by the collective moral rules and obligations of the family. The family therefore limits, influences and, in some situations, determines the individual's activities in society. Said differently, the individual's identity is inextricably linked with that of the family. It is a necessary condition for survival in many situations; it decides on the framework of division of labour that ensures livelihood and social advancement for its members and, through that, holds the unit together

as an organic whole. The division of labour and distribution of power within the family are determined by age (seniority), the size of financial contribution, genealogical placement and gender. Poverty and inequalities in income distribution in the African societies further accentuate the need for relying on the traditional family structures and the acceptance of the moral obligations to help the less advantaged family members.

Familism, as explained above, influences cultural transmission, attitudes to knowledge acquisition and personality development. It therefore has indirect influences on entrepreneurship and human capability development. Children reared within such family structures are hardly encouraged to take initiatives over and above those required for doing daily routine chores. Major decisions in life, including the choice of mates and childbearing, are all collectively discussed and agreed upon. Most often the views of the elders in the family carry the greatest weight. The risk of making wrong decisions is shifted from the individual to the family, which collectively shoulders much of the negative consequences of that decision. Those who go against the collective decisions are likely to receive only a reluctant and minimal assistance in case of trouble resulting from their own choices.

Familism and ethnic relations have been shown to be a major source of economic resources for newly established small scale businesses. For example, Beuving (2004:515) found in his study that "social contacts in the Cotonou car business are typically structured along ethnic lines, and day-to-day business is commonly enacted in the context of kin ties. Common culture and dense socio-cultural bonds therefore abound."

But some scholars argue that communitarian and familistic cultures that are found in Africa are more favourable to the development of corruption than societies where individualism and self-reliance prevail (Lipset and Lenz,

2000; Branco, 2007). Others suggest that the extended family system in Africa constitutes a drag on economic efforts in as much as it discourages key economic decisions including saving. The argument is that since family members are most likely to have access to funds accumulated by the relatively more industrious among them, any effort to save, with productive investment in mind, would be in vain (Lewis, 1954). It is not unusual for accumulated funds to go into fulfilling kinship obligations such as as financing the studies of brothers, cousins, nephews and nieces, lodge newcomers (from rural areas arriving in the major towns to escape poverty), and finance the multitude of ceremonies that fill African social life (Moore, 1997; Etounga-Manguelle, 2000). Many of the younger generation of African managers excel to the heights of their academic achievements through the collective financial contribution of their extended families and, in some cases, from the whole clan. Since these contributions are seen as investments to yield dividends in folds, they impose huge social obligations on the benefactors. In a nutshell, family relations are characterized by individual benefits matched with moral responsibilities.

Moral obligation to support poor relatives (even at the expense of individual and organizational goal fulfilment) has influenced public policy since the independence of many African countries. The state machinery in most of the countries has been allowed to over-expand into institutions and enterprises having a quiet objective of giving employment to relatives of the loyal subordinates of their bosses.

The moral obligations that characterize African family members' relation to the family as a unit have also found their way into private enterprises. Since individuals' relations to their work organizations do not carry the same moral obligations as the family relations, organizational commitment is frequently low. In fact most Africans have simple instrumental relations to their work

organizations - placing an overriding priority on wages and job security and less organizational goal fulfilment.

Non-kin Relations

Apart from the family ties, non-kin relations such as membership of religious organizations and community groups tend to provide means of leveraging economic resources in most African societies. For example, religion in Africa is generally seen as a collective and social undertaking with solidarity undertones rather than as a private personal phenomenon (Assimeng, 1981, 1989). Collective worship provides an important instrument of socialization, mutual concern and trust. It brings together persons from the entire status spectrum of African societies. The relative importance that people attach to their friendship among parish members permits them to discuss their business ambitions, ideas, experiences and problems with them. The affinity that membership of a parish carries tends to create a sense of obligation and an inclination to help. This has manifested itself in the form of friends intervening to facilitate contract negotiation and award, patronizing products and services of entrepreneurial parish members and providing other kinds of moral support (Kuada and Buame, 2000). Thus, there is some evidence of emergent non-kin ties that contain rich sources of social capital that entrepreneurial members can tap into. Similarly, Noland (2003:2) argues that membership of a "good" religious sect in African societies could convey a reduction in risk associated with the particular individual and ultimately improve the efficient allocation of resources. Religious sects could also provide for extra-legal means of establishing trust and sanctioning miscreants in intra-group transactions, again reducing uncertainty and improving efficiency, especially where civil remedies for failure to uphold contracts were weak." This is the social capital dimension of religion.

But unlike the Asian economies analysed by Hamilton and Biggart (1988) as well as Whitley (1991), long-term horizontal linkages are hitherto very limited among African societies and businesses. Local businesses remain rather fragmentary, and there is a strong aversion to engage in joint ownership arrangements with other Africans, even when entrepreneurs judge such arrangements to be of extreme importance to the growth of their enterprises. Business contacts between suppliers and their customers are mainly transactional rather than relational.

Seen in terms of social network theories and their derivative concepts of social capital and trust, I submit that one of the major impediments to economic integration in Africa is the preponderance of distrust at all levels of social and economic interaction. Distrust is the flip side of trust and it has severe negative implications for enterprise development. While trust encourages mutual suspension of self-interest of the interacting partners and thereby reduces monitoring and other similar costs of transactions, distrust produces the opposite effect and frustrates joint business development.

In trust deficient business cultures, there is a short-term temptation to deviate from agreements and to engage in opportunistic behaviour. This creates a self-perpetuating distrustful relationship among people. Thus, Fafchamps (1996) found in his empirical investigation of the operational environment of manufacturing firms in different African countries that most business relationships were characterised by distrust. The nature of the business environment compels firms to engage in arm's-length, spot-market types of transactions rather than entering into long-lasting contractual relationships.

Institutional Capability and Trust

We have earlier noted that institutional capability is one of the critical factor conditions for enterprise development and economic growth. But the ability of institutions to facilitate growth depends on the degree of trust that key actors within the society (including businesses) repose in these institutions. The available evidence suggests that there is a high degree of distrust between public institutions and the private business sector in most African countries. African public instititutions in general are perceived by private businesspeople as excessively bureaucratic and manned by corrupt and poorly motivated officials who calculately impede rather than facilitate business activities. In other words, the public institutions and administrative systems in Africa have not been able to maintain sufficient control over their own officials to ensure reliable enforcement of rules aimed at facilitating economic transactions at local level, let alone regional economic activities.

The low level of trust between public institutions and the business communities in Africa has its roots in the post-independence economic policies pursued in many African countries. The adoption of neo-marxist policies in countries such as Ghana (under Nkrumah), Tanzania (under Nyerere) and Zambia (under Kaunda) meant an unflinching reliance on the state machinery for resource generation and distribution and a glearing political mistrust of private capitalism (Hug, 1989; Hutchful, 2002). In practical terms this policy made individuals of the societies passively dependent on the state as a major employer and dispenser of social goods and services. Thus, current efforts by African governments to build a closer partnership relationship with private business have been greeted with suspicion and reservations by some private investors. African bureaucracy is itself quite uncomfortable with the new political changes since the dominant mindset has hitherto been anti-business.

Paradoxically, the weak trust and high uncertainty necessitates the adoption of dependency coping behaviour among African businesspeople. This means entrepreneurs are compelled to seek protection from highly placed public officers against the atrocities of their juniour officers. Thus, Lewis (1994) and Gibbon (1996) see private business development in Africa to be tied closely to various kinds of clientelistic networks that enable businesspeople to seek individual favours and patronage from state officials.

Religion and Economic Activities

Religious historians inform that human beings are generally influenced by what we choose to believe in and religions provide a fundamental teaching that can offer not only a way of thought, but also a foundation for culture and society. Thus, religious affiliation could serve as the base for group cohesion necessary to successfully challenge established institutions and practices.

Religion in Africa is a way of life and not merely a relationship between the individual worshipper and his deity. Through it, people define what is right and proper and how to relate to each other as well as to the natural and spiritual environment. It serves as an agency that creates social cohesion and the feeling of togetherness within a community. It is usual for Africans to invoke the name of God "to seek help and to offer thanks for both their successes and failures, and they invoke it to wish others well or to pile up curses on them" (Tuma, 1988, p. 1189). We have seen above that membership of a religious group in an African community provides vital social capital that can be transformed into economic resources for a start-up enterprise. This section of the chapter discusses the general role of religion in economic activities in Africa.

On a philosophical score, it must be remembered that before the advent of Christianity and Islam, the dominant belief system in Africa held that the material and spiritual worlds were inextricably linked. All entities on earth (both living and non-living) possess a spirit. Spirits inhabited trees, rocks, rivers as well as human beings. But all spirits were believed to owe their existence to God, the Grand Creator and to act as intermediaries between Him and human beings. This belief system still dominates the rural communities, particularly among people with limited formal education. Although it has become fashionable for the educated people in Africa to present themselves as avowed Christians or Moslems, many of them accept, in private, the impact of the traditional belief systems on their behaviour, and these belief systems shape their fears and hopes in life. This implies that African peoples' modes of apprehending reality differ widely from those of the West. It is therefore justifiable to take a brief look at some of the underlying philosophies of the traditional belief system and to examine their implications for organization of economic activities.

As the traditional religion sees it, the role of spirits within the mundane social system is to help men live in harmony with (1) nature, (2) the spiritual world in general, and (3) with each other. To live in this three-fold harmony, the limited human minds must be guided by the divine wisdom of the gods. Consequently, the gods sanction the rules of harmony and give warning signals when these are violated in the form of hardships befalling the individual or a group that has caught the displeasure of the gods. Good health, progress in life and in all other aspects of human endeavour count as the inevitable rewards of harmonious relations with the spiritual world. There are also malevolent spirits alongside the godly ones. It is believed that through the machinations of these malevolent spirits, actions taken by people may backfire and the intended results may never be achieved.

An African's attitude to spirits can therefore be characterized as a mixture of fear and respect. When an unhappy incident occurs to a person, it could either be a warning signal from the gods for a violation that has been unwittingly committed or the destructive machinations of a malevolent spirit. There is therefore a tendency among those who subscribe to the traditional beliefs to blame the spiritual world for their failures. Thus, despite the Westernised character of everyday life in most African cities and towns, traditional beliefs and standards continue to exert a powerful influence on the behaviour of many educated Africans. There is a growing awareness among the older generation in particular that a rejection of the customs of their forebears amounts to a spiritual sterilisation or a rootless life.

Managers do not live outside this firm religious grip. It is therefore fair to presume that religious considerations have significant influence on managerial decision-making and on managers' relations with workers and colleagues. Career prospects are likely to be seen as depending more on "the Will of God" than on individuals' personal efforts through capability development and growth. Similarly, the intellectual appeal of managerial principles of planning, organizing, directing, coordinating and controlling are not seen as guarantees for excellent managerial performance. When plans fail due, for example, to what a Westerner may consider to be "unforseeable factors", African managers may quietly contemplate the "hidden hands" of evil forces or the displeasure of the family gods. The dual allegiance to mystical forces and the "rationality" of management principles can result in divided attention and lukewarm implementation of corrective proposals.

Short-termism, Past-orientation and Indulgence

We discussed time orientation as one of the dominant cultural characteristics of societies in chapter 5. The prevalent understanding is that Africans have a past and present oriented mindset – they are hardly future-oriented. This orientation has serious implications for economic growth. It encourages consumption but discourages savings. The past orientation is frequently exemplified by Africans' attitude to their ancestors. Thus, Gyekye (1996:161) suggests that, "Africans are people whose ancestors are ever present in their consciousness." Ancestorship connotes the "sanctity of the eternal yesterday", as Assimeng (1989:48) puts it. Said differently, although people have been dead and gone for ages, they are believed by their descendants to be dwelling in a world of spirits, from where they constantly communicate with the living and thereby shape their lifeworld. They are believed to be in a position to guide, help and bestow honours on their descendants. They are also perceived as the powerful unseen guardians of tradition since "they have the power to punish those of their earthly kinsmen who break the traditionally sanctioned code or fail to fulfil their moral obligations to their relatives, while rewarding those who conform their lives to the traditional code" (Gyekye, 1996:162). The preponderant power accorded ancestors over the living creates a social system that assigns similar powers to those groups within the societies that act as a medium of communication between the dead and the living – i.e. the "medicinemen" or the "elders". Acting as spokespersons of the ancestors, they can resist changes that in any way deprive them of part of the status, prestige and resources that their positions allow them.

Attachment to the spiritual world makes funerals are therefore major social events which are frequently characterised by ostentation. It has been argued that funerals seek to reaffirm the social ties between the living and the dead, between the past and the present. They also symbolise the limits

of emphasis on the future. Some recent social anthropological studies have provided some insight into this phenomenon and its implications for consumption, identity creation and economic development. They have shown that African funerals are relatively expensive. For example, the price tag for the average South African funeral is estimated at 40% of average annual household expenditure (Nyambura-Mwaura and Blair, 2014). Thus, funeral expenses may some times compel families to temporarily withdraw their children from schools. This naturally influences human capability development in African societies.

Funerals also serve other purposes including hedonic consumption objectives. Bonsu and Belk (2003:42) argue that "death-ritual consumption choices may facilitate mobility toward consumer identity aspirations as they provide evidence for self and others that the mourner is caring, sentimental, or from an illustrious family. As material possessions have become markers of identity and social status, consumption has become an effective vehicle for refining identities through social symbolic dialogue in Africa".

Past-oriented cultures, such as those in Africa, encourage their citizens to go through life focusing 90 or more percent of their activities on what is familiar, obvious and endorsed by tradition. Future-oriented cultures, on the other hand, encourage their citizens to do the opposite – spend 10 or less per cent on tradition-endorsed activities and 90 or more percent on experimentation and exploration, venturing into unchartered terrains in life. This observation underscores the impact of time orientation on the capability development process of individuals in Africa.

Furthermore, African attitude to time in the present is characterized by what culture scholars refer to as polychromic (Hall, 1959) and short-term-oriented.

It is not unusual for a top executive or state official to keep a client waiting for several hours, justifying the delay by saying that that client is the most important visitor of the day and he had to make adequate time for him/her by dealing with the numerous other visitors quickly first. Since many of these visitors never book an appointment before arriving and the top executive gratifies his ego by seeing them, the client can never be sure of how many persons he would see before you. The delays also have other symbolic values. The longer the client is able to wait, the more important the issue he/she intends to discuss, and the more important the executive feels.

Enjoyment in the present has been considered by some culture scholars to be a dominant characteristic of African culture. For example, Hofstede, Hofestede and Minkov (2010) describe African societies today as being moderately indulgent-seeking. To many ordinary Africans, life is too short to postpone one's enjoyment. The payback period of their investments must therefore be short. If they engage in businesses, and the returns will take five years to accrue, the investment will be supported by other secondary investments with immediate benefits. Thus, the Ghanaian cocoa farmer of the early 20th century had other farming activities alongside the cash crops. In more recent years, African entrepreneurs have been found to engage in several businesses simultaneously. These practices make substantial economic sense in poor communities. They ensure immediate survival and spread economic risks to some extent. But they do not make rational economic sense in small businesses. For example, having substantial liquid assets as a businessman is a symbol of success within the society. It also fulfils the expectations of the family and community and enables one to fulfil attendant family obligations. Businesspeople who are unable to withstand the temptations of seeking the approval of their communities and thereby enhance their status will run the danger of perennial liquidity shortage. In situations where the entrepreneur has always used money from his business

freely, i.e. without any structural constraints, may feel extremely hampered in his life by the financial control systems in a formal organisation that a joint venture with a foreign partner is likely to create.

The Emerging African Culture

I have argued earlier that culture is dynamic, changing with time and within the collective social space of communities and countries. Interactions within the social space and the changes in the economic fortune of societies contribute significantly to the nature and tempo of change within societies. I have also argued that people of new generations exhibit a natural tendency to question some of the central cultural values transmitted to them by earlier generations and to define themselves in opposition to these values. This opposition is suppressed by the older generations. It appears African culture has hitherto been astonishingly successful in this suppression. But as Africa opens up to the rest of the world, this openness itself is helping re-shape aspects of the culture.

We have noted in chapters 1 and 2 that there is substantial evidence to suggest positive changes in Africa at different levels of society. Until a few years ago, any good news from SSA has been regarded to be an anomaly. Many believe that a pessimistic portrayal will forever be the most persistent theme in any discourse on sub-continent. But there are emerging changes that require some serious attention.

(Najam and Kariuki (2010:5) summarise recent developments in SSA in the following words:

"The military coups of the 1970s and 1980s are now aberrations rather than norms. Elected democracies, even if imperfect ones, have begun to take root across the continent. The media is also freer. Public outcry against corruption is louder and efforts to curb it are becoming more common, even though not always

successful. Overall, the trend in governance moves towards improvement, although slowly and with many pockets of serious concern within and across countries on the continent"

Najam and Kariuki's reflections suggest that the changes in SSA cultures are indicative of the adoption of distinctive growth-enhancing and inclusive attributes. The first evidence of change is the growing awareness that current and past accepted rules of behaviour can no longer help SSA countries to address the existential challenges of the world today. As scholars of socio-cognitivism inform, awareness is a powerful tool in any social change process because it is difficult to reverse. That is, once one becomes aware, it is difficult to return to a state of unawareness. Furthermore, properly nurtured awareness can lead to deeper cognition, skills, and attitudes, which in turn further enhance awareness.

We have presented theoretical perspectives on cultural change processes earlier (see chapter 5). We have noted that cultural changes can be initiated either through exogenous or endogenous triggers. African culture is also changing through varying combinations of endogenous and exogenous triggers. But the concept of subcultures introduced in chapter 6 suggests that we must not expect all aspects of the culture in any given African country to change at the same rate. It makes sense to expect organizational cultures (especially cultures of business organizations) to change more rapidly than the values and norms that regulate peoples' lives within the broader social space. It is also conceivable that these changes will be more rapid in some countries than others due to differences in the degree to which the change-initiating and change-determining factors are allowed to exert their influences in the different countries.

There is a growing middle income group in nearly all African countries whose numbers and needs have hitherto been underestimated. Household spending in Africa is projected to increase from $860 billion in 2008 to $1.4 trillion in 2020 (McKinsey, 2010). This market segment has hitherto remained underserved and underserviced. Some African businesses are beginning to take these consumers seriously (Tesar and Kuada, 2013).

In terms of business, it has been noted that the service and construction sectors have recorded significant growth in several countries, partly as a result of the growing middle classes and the resultant changes in their patterns of consumption and housing needs. Cultural changes have also been triggered by factors such as technology (including rural electrification that is facilitating knowledge dissemination through radio and television transmission). Internet access is increasing in public domains; mobile telephones are reaching out and family members outside SSA speak with their relatives in remote parts of Africa on frequent basis and convey new perspectives to them. In Kenya, the mobile phone has become a preferred mode of money transfer competing effectively with traditional banks. Furthermore, as noted in chapter 2, economic windfalls from oil and other mineral explorations are raising the living standards of few Africans.

Each country has also produced its entrepreneurial heroes and heroines. Women entrepreneurs with global presence are emerging. Names such as Yolanda Cuba (who was appointed CEO of Mvelaphanda Group, a conglomerate listed on the Johannesburg Stock Exchange at the age of 29), or Khanyi Ndhlomo (the South African Media Mogul) resonate well in the South African business landscape. Women economists such as Dambisa Moyo of Zambia who won international accolade with her book *Dead Aid: Why Aid Is Not Working* reflects results of changes in Africa's attitude to women education. Other recent examples include Ola Orekunrin, a

London-trained young female Nigerian medical officer, who set up *Flying Doctors Nigeria*, the first air ambulance service in West Africa in 2009. Three years later she had airlifted about 500 patients from remote areas to hospitals, using a fleet of planes and helicopters. There are also increasing numbers of young brilliant male entrepreneurs on the subcontinent. An example is Roland Agambire of Ghana who has slated a $10 billion high-tech hub aiming to foster technological growth and has attracted major players in the global ICT industry.

There are also many initiatives that retain talent within Africa and attract talented African expatriates. One example of such an initiative is the Digital Diaspora Network Africa, which is an online resource and network for Africans abroad interested in and committed to contributing to Africa's development. Other initiatives cater to specific African nations, such as the South African non-profit organisation, the Homecoming Revolution, that aims to facilitate the return of South African professionals living abroad. International organisations such as the World Bank have also launched their own programmes aimed at utilising African professionals abroad. The World Bank's African Diaspora Programme launched in 2007 is one of these initiatives. It seeks to further enable and enhance the human and financial capital contributions of African Diasporas to the economic development of their home countries. The programme is launching its Database of Professional Skills in the African Diaspora.

The changes in the surface level of these cultures are gradually sieving into the deeper cultural layers. Values and norms are being reshuffled. The dreams and expectations of the younger generation are under constant revision. As Najam and Karuiki (2010) note, increasing number of countries are embracing democratic principles, albeit grudgingly; new political alliances are created to replace old ones, the responsibilities of different age

groups and relationships between genders are being redefined; inter-tribal marriages are being accepted and non-kin associations are being formed. Economic changes also produce new roles and status mobility and thereby alter the constitution of the social institutions that preserve and protect the culture of the society experiencing the change. The days, when having several children was considered an indication of achievement, are gradually fading out; new values of upbringing and expectations are emerging and children are aiming at new heights in life.

The cognitive process that the creation of a new culture initiates compels citizens to reorganize their worldviews in fundamental ways. It is this change in individuals' world views that opens up new windows for creativity in their thinking and actions and thereby extends their comfort zones. But since it is always painful for people to sacrifice routinized behaviours that seem to be functioning quite well and replace them with unknown patterns of behaviour, there is evidence of emerging tensions between traditional values and new value systems encouraged by these changes. For example, the increasing freedom of speech that democratization of the political systems and the civil societies has produced, has also nursed openness about minority sexual orientation such as homosexuality. Societies such as those in Uganda are struggling to manage these tensions without derailing the process of development and their place within the global community of nations.

Summary

In sum, the discussions above indicate that characteristics such as high family expectations and pressures to redistribute resources even before they are generated, weak non-kinship relationships and networks, and high incidence of institutional, inter-firm and personal mistrust remain dominant is SSA.

This cocktail of factors raises the overall cost of establishing and managing new businesses and therefore constrains their growth.

It has also been noted that African culture is currently at a cross-road in many countries. There are manifest tensions between the leading and the mainstream subcultures. But most societies are rewarding individual economic and social achievements and innovative individuals have emerged as heroes and heroines in their countries. They constitute the new pride of Africa and are hailed as a new breed of courageous leaders of Africa in their respective fields of endeavour. They are willing to adopt innovative approaches to the mundane African problems that capture their attention; building what they can in the present with the available resources, but with an eye toward the future. They tend to think out-of-the-box; sometimes even rejecting the presence of a box. They are mindful of tension and conflicts between the older generation's wish to maintain failing traditional systems and the zeal of the newer generation of Africans to adopt new strategies that promise a way out of the doldrums. They exhbit inner strengths and tact in navigating and negotiating the conflicts they experience in their endeavours and serve as bridges between the past, present and the future of Africa. In a word, they are building the Africa of tomorrow.

PART 3

LEADERSHIP, GOVERNANCE AND MANAGEMENT

Introduction to Part 3

The Sudanese cell phone entrepreneur Mo Ibrahim is reported to have made two important contributions to leadership development in Africa during the past two decades. He established the *Mo Ibrahim prize for accomplished African leadership*, and funded *The Ibrahim Index of African Governance* which consists of fifty-seven variables and was created at the Harvard's Kennedy School of Government. Reflecting on the importance of these two initiatives for Africa's growth and poverty alleviation, Rotberg (2009:125) writes "the very existence of this prize along with the index draws attention, almost for the first time, to the importance of leadership and governance in Africa's future. By analyzing Africa's situation in that manner by suggesting that Africa – not colonial rule or the paucity of foreign assistance is largely responsible for its own destiny – the Ibrahim initiative and the Index project may in time help to transform Africa beneficially".

Previous studies of leadership in Africa have portrayed Africans as passive and subservient to their leaders, behaving collectively just like the obedient African child who dutifully fetches a cane to his father to beat him for an offence he is not too sure about. This attitude, according to Haruna (2009:941) "seems to contribute to a hero worship syndrome in which sub-Saharan Africa awaits 'great men' to lead it to the proverbial promised-land". This part of the dissertation explores these claims by examining the anatomy of dominant African management and leadership preferences as well as the governance arrangements that help regulate behaviours within societies, organizations and firms. It revisits the arguments that justify the inclusion of leadership and governance as one of the four sets of factor conditions for human capability development in

SSA. It also seeks to uncover the emergent positive changes in African management and outline the factors that encourage these changes.

There are two chapters in this part. Chapter 9 discusses contemporary theories of leadership, noting their paradigmatic differences and how the different perspectives inform human capability development. Chapter 10 examines the manner in which African culture influences leadership and governance practices, drawing attention to the different strategies for leadership development found in the literature. Both chapters provide additional insights into the theoretical framework presented in chapter 4.

CHAPTER 9
LEADERSHIP AND THE MANAGEMENT OF HUMAN CAPABILITY DEVELOPMENT PROCESSES

Introduction

Students of economics see human beings as resources, focusing attention on their ability to contribute their labour and knowledge to the production of goods and services. I am uncomfortable with this conceptualization. Managed as resources people do what other resources do: they become depleted – they burn out easily and become less motivated to develop their capabilities. The concept of "human assets" has, therefore, been introduced into the literature to emphasize the inherent positive characteristics of employees. Managed as "assets" human beings nurse their intrinsic motivation to flourish, growing in value for themselves and adding value to their societies. It has been suggested in the management literature that this human development process is facilitated by specific types of leadership qualities in societies. This chapter therefore explores the link between leadership styles and human capability development processes. It does so by providing an overview of dominant leadership theories and their implications for the behaviours of followers.

Leadership Theories and Perspectives

A review of the leadership studies in the management literature shows that the concept and its theoretical underpinnings have matured through an intellectual journey starting with an emphasis on personality traits (Yukl, 2010) and specific behaviour types (Nahavandi, 2009) to emotional manifestations (Kuada, 2010). Some scholars have presented leadership as an inter-subjective phenomenon which evolves through a social process in

which the leader and the led interact and develop meaning and construct different forms of leadership over time (Ford and Lawler, 2006).

A review of the leadership literature reveals an evolving series of 'schools of thought' from “Great Man” and “Trait” theories to “Transformational” leadership (see Table 9.1). Whilst early theories tend to focus upon the characteristics and behaviours of successful leaders, later theories begin to consider the role of followers and the contextual nature of leadership.

Table 9.1: A Summary of Contemporary Leadership Theories

Great Man Theories	Based on the belief that leaders are exceptional people, born with innate qualities, destined to lead. The use of the term 'man' was intentional since until the latter part of the twentieth century leadership was thought of as a concept which is primarily male, military and Western. This led to the next school of Trait Theories
Trait Theories	The lists of traits or qualities associated with leadership exist in abundance and continue to be produced. They draw on virtually all the adjectives in the dictionary which describe some positive or virtuous human attribute, from ambition to zest for life
Behaviourist Theories	These concentrate on what leaders actually do rather than on their qualities. Different patterns of behaviour are observed and categorised as 'styles of leadership'. This area has probably attracted most attention from practising managers
Situational Leadership	This approach sees leadership as specific to the situation in which it is being exercised. For example, whilst some situations may require an autocratic style, others may need a more participative approach. It also proposes that there may be differences in required leadership styles at different levels in the same organisation
Contingency Theory	This is a refinement of the situational viewpoint and focuses on identifying the situational variables which best predict the most appropriate or effective leadership style to fit the particular circumstances
Transactional Theory	This approach emphasises the importance of the relationship between leader and followers, focusing on the mutual benefits derived from a form of 'contract' through which the leader delivers such things as rewards or recognition in return for the commitment or loyalty of the followers
Transformational Theory	The central concept here is change and the role of leadership in envisioning and implementing the transformation of organisational performance

Competing Meta-theoretical Perspectives on Leadership

Academic discourses on leadership and leaders' functions and behaviour in organizations and societies have been guided by a variety of meta-theoretical assumptions. These assumptions produce four main categories of theory; (1) *essentialist theories*, (2) *relational theories*, (3) *critical theories*, and (4) *constructionist theories* (Bolden and Kirk, 2009). Essentialism assumes that people and/or phenomenon have an underlying *and* unchanging 'essence'. Thus, scholars subscribing to an essentialist perspective on leadership seek to find universal leadership attributes that remain unchanging in different contextual settings. These scholars usually rely on objectivist paradigm in their quest to find predictable leadership traits and behaviours. The works of leadership scholars such as Blake and Mouton (1964), Fiedler (1967), Stogdill (1963, 1974), Hersey and Blanchard (1977), and Bass (1985) are examples of this theoretical perspective.

Relational theorists, on the other hand, argue that leadership resides not within leaders themselves but in their relationship with others. To these scholars leadership is local to a given place, context, set of processes etc. These theorists therefore call for recognition of the emergent nature of leadership processes and the distributed nature of expertise and influence (Kuada, 2010).

Critical theory in social science is usually defined as a self-conscious social critique of a social phenomenon that is aimed at change and emancipation through enlightenment. Scholars adopting this perspective do not subscribe to any dogmatic position but draws on social sciences to analyse the interplay of social actors in a power relationship. Scholars positioning their leadership studies in a critical theoretical domain provoke the academic community and practitioners to reflect on the power issues underpinning the relationships between followers and leaders. The constructionist theorists

draw attention to the manner in which the notion of 'leadership' is utilized to construct shared meanings that enable people to make sense of their predicaments (Bolden and Kirk, 2009).

Together, these studies have greatly enhanced academic and practitioner understanding of leadership during the last century. Ford and Lawler (2007) suggest an approach that combines constructionist and existentialist perspectives. This, they argue, provide a challenge to traditional views of leadership and invite an awareness of relationship and inter-relationship as central to both knowledge and human wellbeing. Karp and Helgø (2009) argue that leadership is intentionality exhibited through direction and facilitation. That is, the act of leadership is created simultaneously between leaders and followers. Leadership is linked to both what followers accept as legitimate and what leaders see as possible acts of leadership in given circumstances and his sense of the kind of future that followers and other key stakeholders aspire for. In the same vein, Jacobs and Jacques (1990) suggest that leadership is the process of giving meaningful direction. That is, the direction provided by leaders must be seen by followers to be meaningful in terms of their own goals and ambitions in life.

Essentialist Leadership Theories

One of the influential leadership theories of the 1920's and 1930's was the *trait theory* which posits that successful leaders combine such personality attributes as drive, desire to lead, integrity, self-confidence, intelligence, adaptability, assertiveness and emotional stability, with social attributes such as being educated at the "right" schools and being socially prominent or upwardly mobile to shape their leadership roles in organizations (Yukl, 2010). Extensive empirical studies have, however, failed to establish the generalizability of these traits. Thus, the traits theory came into quick competition with a wide range of other leadership theories during the mid 1950s (Nahavandi, 2009). I argue in concert with Karp and Helgø (2009:881) that "it is often not possible to identify the preferred leadership

attributes of the 'ideal leader' and then conclude that a person with the requisite attributes will perform effectively as a leader and move an organization forward".

Later studies that build on previous essentialist discourses focus attention on the identification of special traits that distinguish leaders from non-leaders, the functions that leaders perform, the behaviour they exhibit and the contingencies that guide their choice of action. Two sets of functions have been considered to be of primary concern for successful leaders; *task-related* or problem solving functions, and *group-maintenance* or social functions such as mediating disputes and ensuring that individuals feel appreciated by other group members and the group as such. The two leadership functions reflect two different leadership orientations or styles. Managers are either seen as having a predominantly task-oriented leadership style or a predominantly employee-oriented style. A task-oriented leader is more concerned with getting the job done than seeking his subordinates' growth and personal satisfaction. He therefore supervises his subordinates very closely. The employee-oriented leader, on the other hand, is presumed to encourage friendly, trusting and mutually respectful relationship with his subordinates, allowing them to participate in the organizational decision-making process and through such behaviour motivate them to contribute their utmost to the attainment of stipulated organizational goals. It is important to note, however, that task-centred and employee-centred leadership styles are not always alternatives. Most effective leaders practise some combination of both, depending on the leadership situations in which they find themselves.

The choice of leadership style is said to be contingent on an individual leader's maturity as well as the maturity of his/her subordinates. Maturity is defined in this body of literature as the willingness and ability of a person to take responsibility for directing his or her own behaviour. People tend to exhibit varying degrees of maturity, depending on the specific task, function, or objectives that are to be fulfilled (Lord *et al*., 1999).

Considering maturity of subordinates, Hersey and Blanchard (1977) argue that a mature subordinate is one who demonstrates a strong desire for achievement and willingness to accept responsibility. Newly appointed subordinates may initially show evidence of low maturity and must therefore be closely supervised. But as they become more mature, it is more appropriate for their superiors to become more supportive than instructive, giving them free hand to handle tasks assigned them. This, by implication, means that leaders must constantly assess the level of motivation, ability and task knowledge of their subordinates to determine which leadership style combination can be successfully employed. An effective leader is therefore expected to treat his subordinates as individuals, tailoring his leadership styles to fit the requirements of each individual subordinate.

Considering the third factor, a leader's position power within an organization, Fiedler (1963) argues that some positions such as the directorship of a company carry a greater power and authority than that of a chairperson of a fund-raising society. The same observation holds true at other levels of organizations. Thus, people holding stronger position power have the temptation of being authoritative while those holding a weaker position power tend to encourage participatory leadership out of necessity. This observation must, however, be seen in relation to the personality of the incumbent. As argued earlier, some people are more disposed to exhibition of power and authority or are suspicious of people they relate to than others and will find it exceedingly difficult to adapt their leadership to different situations.

Relational Leadership Theories

The task and relationship perspectives of leadership have evolved in the 1980s into two new perspectives – transactional and transformational perspectives of leadership. *Transactional leadership* scholars focus their studies on exchanges of favours that occur between leaders and followers

and on reward or punishment for good or poor performance. Fiedler's path-goal model (Fiedler, 1967) is an earlier development of the transactional leadership perspective. He argued that leaders motivate their subordinates in the direction of established goals by clarifying the role and task requirements and by dispensing rewards and punishments as appropriate. The model takes its roots in the *expectancy theory* which holds that an individual employee's motivation to achieve success is a product of the individual's perceived probability of success and the incentive value (reward) of that success (Atkinson, 1957). Similarly, his motivation to avoid failure would be a product of perceived probability of failure and the negative incentive value (punishment) of failure. A manager can therefore present rewards as *goals* which his subordinates should aim at. He then specifies what subordinates should do (i.e. show the *path*) to earn the rewards.

The transformational leader is presented in the leadership literature as exhibiting the capacity and skills to forge a positive relationship with followers and attempts to bring an induced change in the follower's beliefs and values to accomplish organization's purpose. Seen from this perspective, the leader's task is to present followers with the organization's vision and then encourage them to incorporate this vision into their value systems and to put the organization before their own self-interest. Thus, Burns (1978) defines transformational leadership as a collective endeavour of mutual stimulation and inspiration that is jointly pursued by leaders and followers toward attaining organizational change. Similarly, Oke *et al*., (2009) argue that transformational leaders act as role models and are able to motivate and inspire their followers by identifying new opportunities, providing meaning and challenge, and articulating a strong vision for the future. They are also enthusiastic and optimistic, communicate clear and realistic expectations and demonstrate commitment to shared visions. Subordinates are encouraged by such leaders to share in the organizational vision, seeing deeper purpose in their work and exceeding their own self-interests for the good of the organisation. They also consider the needs of others over their

own, share risks with others, and conduct themselves ethically. Transformational leaders also provide their followers with individualized consideration – i.e. they focus on followers' individual needs for achievement, development, growth and support. They therefore adopt coaching or mentoring strategies in their relationships with subordinates.

The prevalent understanding is that transformational leaders inspire and challenge their followers to reflect over their traditional ways of doing things and adopt innovative and novel approaches to solving problems (Zhu et al., 2009). Put together the literature on transformational leadership invites organizations and societies to pay a greater attention to training their members to become more transformational at all levels of organizations and societies for them to be able to lead groups, units and communities. The discussions above suggest that transformational leaders must possess extraordinary traits, psychological and intellectual capital and be able to acquire extraordinary abilities more quickly than most other people. They are portrayed as biblical messiahs of organizations and societies.

There have been a number of studies during the beginning of the 21st century that examined variables moderating the impact of transformational leadership on followers' behaviour and performance (see Zhu *et al*, 2009). Variables such as physical and structural distance between leaders and followers (Avolio *et al*., 2009), as well as individualist cultural characteristics (Walumbwa and Lawler, 2003) have been presented in the literature as significant moderators. Similarly, Ehrhart and Klein, (2001) found that followers who were higher on achievement orientation, self-esteem and risk taking were more likely to be drawn to the influence of transformational leaders. But followers have expectations that they would like their leaders to help them fulfill. Zhu *et al* (2009:593) argue that "employees will have higher levels of work engagement when their basic and especially higher order needs are taken care of by their leaders and organizations".

Another important factor in understanding Africans' leadership behaviour is the manner in which leaders build their relationships with their followers. There is widespread agreement among leadership researchers that leadership is a relationship (Lord *et al*., 1999; Nahavandi, 2000; McLaurin, 2006; Maak, 2007). Leaders must have followers and the nature of their relationship with their followers is a key determinant of their performance as leaders and the performance of their organizations.

Leader-follower relationships have in-built psychological contracts. That is, they imply promises of future behaviour from leaders, contingent on some reciprocal actions of followers (Rousseau, 1990). The promises need not be made explicitly. They may be based on inferences and observations of past behaviours in leader-follower interactive processes. Thus, Rousseau (1990) argues that when followers believe that they are obligated to behave or perform in a certain way and also believe that their leaders have certain obligations towards them, these beliefs constitute a psychological contract. The dominant leadership style in an organization defines the nature of this psychological contract between leaders and followers. For example while organizations characterized by transactional leadership emphasise task performance, organizations in which transformational leadership forms dominate find leaders actively engaging themselves not only in creating an environment in which followers grow, but also emphasise the inner feelings of the followers. In the latter types of organizations followers are seen as human beings that they are rather than sheer resources whose talents and physical capacities should be exploited by the organizations.

Although the virtues of transformational leadership are extolled in the contemporary leadership literature there has been an astonishing silence on how societies can foster such types of leaders. This silence has provided rooms for theoretical and policy-based speculations. Projecting this argument on a societal level, one cannot expect societies in which basic needs of citizens are not fulfilled to have highly work-engaged citizens. But

without work engagement, economic goals would not be met and the society's capacity to meet basic needs would be further reduced. This sets in motion a negative spiral. The argument here is that citizens who have positive feelings that their societies are moving in a positive (developmental) direction are more likely to exhibit a greater sense of responsibility and commitment to their work. They respond more easily to the transformational leader's call to duty. Thus, the capacity of transformational leaders to move a society forward will depend on the context (including culture) and the level of development of the focal society of their engagement.

The preceding discussions inform three important observations in relation to the transformational leadership literature. First, a transformational leader must, at best, be regarded as an ideal type of leader that is scarcely found in real life. Very few people have the requisite personality traits and psychological capabilities to be able to consistently behave in a manner prescribed in the transformational leadership literature in their interactions with followers. Second, and as a follow up to the first point, it is erroneous to perceive transformational leadership as a binary construct. It makes more sense to assess leaders as having more or less transformational leadership attributes in different situations and organizations. This means that leaders can strive to become more transformational and can be trained to become so. This observation opens up a new range of leadership training opportunities. Third, drawing on studies by Zhu et al (2009) it can be argued that the beliefs that followers hold about themselves, have a significant impact on the extent to which leaders can shape their behaviour. For example, followers whose life experiences endow them with higher levels of psychological, intellectual and social capital would respond more positively to the visions of a transformational leader and resist the negative influences of despotic leaders. Building on this argument even further, it makes sense to suggest that societies that develop structures, systems and cultural values that enhance the psychological capital of their members are

more likely to have a greater number of their citizens assuming greater challenges and responsibilities in nation building.

Two other leadership theories have emerged in the 1980s: – *complexity theory of leadership* and *authentic theory of leadership*. Complexity theory of leadership focuses on the idea that leadership is part of a dynamic and evolving pattern of behaviours and complex interactions among various organizational players, producing power structures and networks of relationships (Schneider and Somers, 2006). In effect, no single leader can shape the trajectory of organizations; the power of each leader depends on his/her position within the complex network of relationships within the focal organization and ability to distribute resources and emotional support (Ardichvili and Manderscheid, 2008). Authentic leadership theory draws from both positive psychology and organizational theories. It focuses attention on self-awareness and self-regulated positive behaviours of leaders. It argues that authentic leaders tend to exhibit transparent and ethical behaviours (Avolio *et al*., 2009). Such behaviours encourage openness and employees' desire to share information with each other and with their leaders. A derivative of the authentic leadership is the *servant and coach leadership theory*. Servant leadership is based on the devolution of power to follower. That is, leaders see themselves as stewards, serving their followers in a manner that allows them to contribute their very best to fulfilling organizational objectives.

Towards a Re-conceptualization of Leadership Theories

I have argued elsewhere that a robust theory of leadership that can interrogate leadership challenges in Africa must build on the notion that individual personality traits, context, power, relationships between followers and leaders are important in constructing leadership approaches that are appropriate under given situations (Kuada, 2010). That is, an integrated leadership theory promises a richer insight into how Africans can build

structures, institutions and organizations to promote growth and development.

Paré *et al* (2008) use the term co-leadership to describe such an integrated theory of leadership. Co-leadership basically involves sharing of leadership responsibilities between leaders and followers to achieve joint success. In the same vein, Haruna (2009:941) argues that previous leadership studies in Africa subscribe to "a leadership model that marginalizes communal efforts and underrates significant followership roles on which much development depends. It hardly takes into account contributions of families, communities, and networks in forming social capital to facilitate the pursuit of common purposes." He argues that leader-follower studies have not adequately taken cognizance of the lived realities in societies such as those found in sub-Saharan Africa. Leaning on Gardner's (1990) notion of "dispersed leadership" – i.e. leadership spread through all levels of society, he suggests that African societies must develop mechanisms that groom leaders in families, groups, organizations, communities and nation states. This entails helping individuals and groups in all African societies to acquire cognitive knowledge, develop behavioural and interpersonal skills as well as psychological grounding to be able to play the role of transformational leaders at all levels of society. Such leadership must be rooted in the lived world of ordinary people and in their historical, social cultural and moral experiences. Although the model is morally appealing Haruna fails to provide clear guidelines for how it can be established and how it would work in practice. He described the local governance system in Ghana as a possible illustration of the model in practice. But he admits that empirical evidence regarding the performance of the proposed leadership model is "scarce or almost non-existent" (Haruna, 2009: 947). The leadership view endorsed in this dissertation is therefore one of co-leadership in which both leaders and followers share a compelling vision and maintain oversight over governance mechanisms that ensure collective engagement and inner drive to attain agreed goals.

Building on the above arguments, leadership that is based on citizenery empowerment is a prerequisite for growth and development in Africa. Barroso *et al.* (2008) argue that psychological empowerment is a potential mediator of transformational leadership effects, since transformational leadership acts through empowerment in influencing work outcomes. Affective commitment to an organization is the degree to which an individual identifies with that organization. Such commitment reflects an employee's emotional attachment to the organization and involves: i) acceptance of the organization's objectives and values; ii) willingness to make an extraordinary effort for the organization; and iii) a desire to remain with the organization (Mowday Steers and Porter, 1979). The emotional attachment that exists between a transformational leader and his or her followers increases affiliation with the leader and enhances affective commitment to the organization.

The leadership literature distinguishes between empowerment from a structural and motivational perspective (Barroso *et al.,* 2008). In the structural perspective the term "empowerment" implies the granting of power and decision-making authority to subordinates. This has been the traditional approach to empowerment and it focuses on the actions of the holders of power who transfer some degree of autonomy to the less powerful. In the motivational perspective empowerment focuses on the cognitions of the individual who are empowered. Thus, Conger and Kanungo (1988) define empowerment as a process of enhancing feelings of self-efficacy among organizational members.

Leadership and Human Capability Development

I have defined capabilities in this dissertation to include not only what people can do, but also what they want to do. Thus considered, capabilities embrace the concept of competencies, commitment and character. Everyone builds these capabilities by relating to other – i.e. through interactive psychological relationships. It starts from childhood. From infancy, children

are active participates in a complex world. The development of positive social skills in the early formative years of childhood has been found to be at the foundation of human capability development. At the core of this capability development is character. Character shapes thoughts, words, actions, and so on. Character is said to be developed at an early age. This starts with healthy exchanges between children and their parents which then create a bond or attachment. These early bonds of attachment create a sense of trust that supports an infant's exploration of the world and serves as a base for future development (Wardle, 2003).

The first important group of leaders that children meet in their social skill development process is their teachers. It is the teacher's role to facilitate and encourage prosocial behaviours, provide activities that foster appropriate skills, and develop a social network that supports children in their efforts (Johnson et al., 2000).

The teacher-child relationship is an extension of the primary parent-child relationship, and teachers invest in building supportive relationships with families around their common interest, the child. Children are active learners, drawing on direct physical and social experiences as well as culturally transmitted knowledge to construct their own understandings of the world around them. Children develop and learn best in the context of a community where they are safe and valued, their physical needs are met, and they feel psychologically secure.

Peer mediation is one of the main approaches used in schools to negotiate conflicts and help children develop social capabilities. Peer leaders are seen by other children as being credible and serve as role models. This method is used most effectively in elementary schools because of the skills required to implement the process. Through these mechanisms children learn to control their impulses; suspend action; tolerate frustration; postpone immediate gratification, and 4) pursue goal-oriented ambitions (Marion, 2003).

Summary

I share the view that leaders develop, shape and negotiate the contents of the "interpretive schemes" of their followers and thereby help shape their followers' values and aspirations. Transformational leaders, in particular, activate the higher-order needs of their followers and arouse them to transcend their own self-interests for the sake of their societies. I have also argued that leadership is not limited to formal organizations, but is found at all levels in the organization of community and societal activities as well. Good community leaders are those who enable members of the civil society to organize themselves and to collaborate with each other and achieve synergy. They advocate for fair, open, and inclusive procedures to accomplish societal goals. They act as facilitators – i.e. supporting everyone to do their best in their respective social space. To do this, they encourage full participation, promote mutual understanding and cultivate shared responsibility.

In this regard, human capability development process relies on leadership to succeed and help move societies forward in their development ambitions. Individuals living within a social space where leaders encourage people to share their personal experiences are likely to develop shared values and mindsets that encourage them to succeed together. Furthermorer, good leaders human beings are able to learn effectively – developing into critical thinkers, who challenge assumptions, understand the context of a problem, imagine and explore alternatives, and reflect critically on these alternatives. With this type of knowledge and orientation people are willing to work with "unproven assumptions, practice in different but related scenarios, using known tools in an unknown area" (Palus and Horth 2002: 161-162).

CHAPTER 10

CULTURAL INFLUENCES ON LEADERSHIP AND HUMAN RESOURCE MANAGEMENT IN AFRICA

Introduction

A central argument in chapter 9 is that leaders crystalize the compelling vision of members of their societies and organizations and invite them to buy into the vision and use it to guide their actions. Leaders also help followers to interprete the frequently fuzzy signals from their environments and maintain faith and courage that societal and organizational goals will be attained as long as they work hard enough. This understanding must be juxtaposed with the re-current theme in this dissertation – i.e. no human action is context-free and culture has a determined influence on the decisions and behaviour of people in every context. This implies that cultural variables also impact leadership, governance as well as the management, creation and delivery of economic value. Thus, in order for a leader to lead effectively she or he must comprehend the nature of the society in which the leadership role is to be performed (Udogu, 2008).

How are these leadership functions performed within the SSA cultural context? This is the subject taken up in the present chapter. We start the discussions with an overview of the dominant perspectives on management in Africa and continue with the impact of African culture on management practices.

Dominant perspectives on management in Africa

Until the beginning of this century, management scholars have assumed that management practices found in Western industrialized countries were of universal validity and can therefore serve as a benchmark in assessing the nature and quality of management in Africa. Building on this understanding, it has been generally argued that African managers must learn from their Western counterparts. That is, the more African management practices approximate the Western practices the more efficient and effective their organizations would be. However, there is ample evidence indicating that African managers tend to defy the foundational principles that guide management in Western organizations. For example, they fail to treat organizational goals as dominant objectives in their work and are frequently engaged in the search for personal privileges (Montgomery, 1987). Their leadership styles are reported to be characterized by centralization, close supervision of staff and authoritarianism (Kuada, 1994). Their personnel policies are influenced by patronage, resulting in limited organizational commitment by their employees. Many employees therefore treat public and organizational properties with indifference and irresponsibility.

Management trainers and consultants have, therefore, considered the African continent as a fertile market for their services – i.e. to Westernize African management practices. Such a transformation is gnerally expected to improve governance and management practices in African societies and organizations and improve economic, political and social performance. I term this approach to management development a *catching up approach* (Kuada, 2006).

Several scholars have vigorously challenged the intellectual validity of the "catching up" approach. They reject the notion of universal management practices (Whitley, 1994; Sørensen and Kuada, 2001). They argue that the fact that many African managers have the intellectual capacity to understand the logic underlying Western management principles and practices but

revert to their pre-training behaviour after participating in several training programmes may as well reflect fundamental weaknesses in the Western management-inspired training programmes themselves. Others have argued that the notion of catching-up itself assumes that Western societies and management practices remain unchanging. The reality is, however, far from this. The challenges that Western managers encounter in their daily operations suggest that their management practices are under unceasing process of change. Catching up is therefore an illusion for African countries, even if they choose to do so.

In contrast to the "catching up" approach, there is a growing stream of research that takes its point of reference in the distinctive characteristics of African culture and argues in favour of the development of African management practices that are consistent with African values, norms and accepted rules of behaviour. I label this "cultural uniqueness" approach. It has its theoretical roots in studies on the impact of culture on management practices in general (see Peters and Waterman, 1982; Gagliardi, 1986; Adler, 1991; Gordon and DiTomaso, 1992). It has been argued on the basis of evidence from Western economies as well as the economies of selected Asian countries that there exists a wide diversity of successful business strategies and economic development "recipes" throughout the world. These national recipes of successful economic development emerge on the basis of local cultures combined with a chain of fortuitous local circumstances. Each recipe is therefore unique and non-transferable across socio-cultural boundaries (Whitley, 1994). It is therefore erroneous to conceive of universal "best practices" in management.

In the light of this understanding, some scholars of African management argue that transferring Western management practices to Africa would amount to adopting management practices that would never generate firm roots within the society. Thus, Leonard (1987: 901) argued that "many of the differences in organisational behaviour between Africa on the one hand,

and the United States and Europe, on the other, are not due to managerial failures but to fundamental dissimilarities in the value priorities of the societies that encapsulate them".

The notion that African culture must inform leadership practices is intuitively and politically appealing. It accords with the hopes and expectations of some African intellectuals and politicians. But it has also provided excuses for gross inefficiency in some African organizations. Since the beginning of the 1980s, empirical investigations have been published on the negative impacts of African culture on management practices within African organizations. One area in which the constraints of culture on work behaviour are most felt is in its impact on employees' personal goals and resource management. The impacts are particularly reflected in studies of reciprocity, commitment, work attitude, and learning in African organizations.

In theory, reciprocity may be conceived as a social principle that guides resource allocation in most societies. It defines the perceived rights and obligations of parties engaged in a relationship. Relationships occur because each party is concerned with his rights and the rights of his partner. The fulfilment of the rights of the interacting parties may be simultaneous or sequential with or without any definite time interval for reciprocation. If the time interval is indefinite or if there is no clear definition of the obligations of the parties, a reciprocal relationship may assume the character of alter centrism, whereby one party has obligations towards another person without the beneficiary having any obligations in return (Kuada, 1994). The manner in which reciprocity is practiced in Africa and the influence this exerts on management practices is explored in details in subsequent sections of this chapter.

Some Major Considerations of Management Practices in Africa

Goals and Expectations

The relevance of reciprocity to management is best understood by examining the relationships between the goals and expectations of employees as individuals on the one hand, and the goals and expectations of their organizations on the other. The degree of alignment of these goals and expectations define the nature of reciprocal behavior of workers. Management scholars have argued that goal-alignment strategies are necessary for the promotion of employee commitment and motivation (Okpara and Wynn, 2007). This is because employees' goals have been found to have direct and strong impact on their behaviour and performance in work organizations (Ashford and Cummings, 1983).

Aryee and Heng (1990:229) define organizational commitment as "an affective response that results from an evaluation of the work situation which links the individual to the organization". Commitment motivates employees to remain with the organization and to show a willingness to go beyond their basic job descriptions to improve organizational performance (Maxham Netemeyer, and Lichtenstein, 2008). According to Modway, Porter and Steers (1982) commitment is characterized by (a) a strong belief in and acceptance of organization's goals and values; (b) a willingness to exert considerable effort on behalf of the organization; and (c) a strong desire to maintain membership in the organization.

Drawing on the empirical evidence from studies on African management (Jones, 1986; Montgomery, 1987; Kuada, 1994; Jackson, 2004), it is justifiable to argue that African leaders and their followers would tend to derive their personal goals from a complex set of sources. For the sake of conceptual brevity, the sources may be collapsed into two main ones and the goals classified as follows:

1. *Self-induced* goals which are derived from the individual's personality, ambitions and expectations in life with regard to his welfare, social mobility and achievement.

2. *Culture-induced* goals which derive from the demands and expectations from institutions such as the family (immediate and distant), clan, ethnic communities, associations and colleagues.

The two goal-sets feed on each other and are therefore mutually reinforcing. For example, an African managers' initial career success normally elevates his status within the family and clan. This, in turn, raises the expectations of the near and distant family members. Empirical studies have shown that altercentrism (in contrast to reciprocity) is a dominant defining characteristic of African family relationships and this has impacts on personal goal definition and identity (Kuada, 1994). As discussed earlier see chapter 8), those who are in need have the right to demand assistance from those they perceive to have the means to assist. Paying for the education of family members, hospital bills and providing initial working capital for small business formation are popular examples of what is classified in African societies as "needy" situations in which family members may demand and expect support from the richer members of the family (Blunt and Jones, 1997; Sørensen 2003; Kuada, 2003). Feelings of obligations are at times so great that family enterprises tend to serve as "relief organizations" for family members and friends. That is, owner-managers use their resources to support the weaker members of their families at a rate that outpaces their capacity to recoup them for organizational goal attainment (Sørensen, 2003). In worst cases, this behaviour may lead to the collapse of the businesses. All stakeholders become losers in this form of resource transfer; the benefactor, the beneficiary, other members of the kinship and the economy as a whole.

Seen from this perspective, it is not unusual that the individual manager has a dual responsibility to discharge; one the personal or family related obligations and the other the collective and formal goals of his organization. Excellence in discharging one is often achieved at the expense of the other, and most frequently the personal goals assume the overriding priority in the decision-making process. This is particularly seen in employment practices that are influenced more by personal considerations than by qualification. Employees tend to owe allegiance mainly to those who found them the jobs rather than the institutions for which they work. For such people the impersonality that is such a virtue in western bureaucratic ethic may sound like a fairy tale or plain immoral if they are required to practice it. In order to honour culture-based obligations without showing naked nepotism, managers are linked to each other within informal social networks, finding jobs for each others' relatives in their establishments.

As noted earlier, many African workers and managers tend to show low commitment to organizational goals and resources. Jones (1986), for example, showed that Malawian workers basically have instrumental orientation towards work; they expect their jobs to bring substantial benefits to themselves but show very little (if any) loyalty and commitment to the organization. Similarly, Montgomery (1987) observed in his analysis of the management practices of African executives in Southern African countries that they typically see their positions in their organizations as personal fiefdoms. They are more concerned about personal matters than about organizational goals.

"Even arguments and negotiations over public vehicles, housing and equipment centered about the convenience of the individual user more than about the mission of the organization to which they were assigned" (Montgomery, 1987:917). Kuada (1994) also showed that employees in Ghana and Kenya tended to act with extreme caution while at work in order not to invite the anger of their superiors for any mistakes that they may

make in the course of their work. In his view, the principal function of the loyal employee in Africa is to serve as a buffer for the immediate superior. If anything goes wrong, the loyal subordinate must do anything to blame all others, including himself, in order to protect his boss. A variation of this kind of behaviour plays up in situations where several employees are aware of a problem of mutual concern but they choose to act as if they do not know of it and therefore cover up the errors. This means that employees become very reluctant to question existing practices in their organizations even if this would help rectify operational inefficiencies. This kind of superior-subordinate relationship further implies that most employees are reluctance to embark upon experimentation as a method of learning. Their general attitude is that acting and failing is more risky than failing to act. The fear of failure fosters immobilization and the use of dysfunctional performance routines. We label this behaviour as "socialized incompetence".

An aspect of this low commitment is that an African worker may say "yes" to an assignment without any real intention to produce the results expected, or if he does so, not on time. Such false commitments can be made consciously or unconsciously, with or without malice. In the mind of the person making the commitment and not following through, the false commitment may be attributed to a lapse in memory, an excusable detour, or a sheer change of mind. In the same vein, Tuma (1988) described management in Egypt as being characterized by indecision, procrastination and indifference, a reflection of the low value that the society attaches to decisiveness, punctuality and caring. He further argued that leadership in Egyptian organizations is impinged by traditional and confessional (religious) institutions as well as beliefs that are not easy to reconcile with rational economic behaviour.

The available empirical literature suggests that the behaviours of African leaders are far from those attributed to transformational leadership described

in chapter 9. They appear to adopt relationship management strategies that patronise their followers rather than encourage their inner motivation to show commitment to organizational goal attainment. Elsewhere, I coined the term *autocratic-benevolence* to describe this form of relationship (Kuada, 1994). My study of management practices in Ghana and Kenya showed that although most African leaders exhibited autocratic attitudes towards their followers, they tended to provide those closest and subservient to their interests with special opportunities and privileges. These privileges included selecting them to attend overseas training programmes, advancing their promotion, and providing them with other services that partially cushion them from the rough edges of life. It is this reciprocity of support and benefit that sustained superior-subordinate relationships, organizational performance being of secondary importance. Jackson (2004) labels this as "humanistic" leadership styles or patronage-based leadership.

The dependency relationship between leaders and their followers in African organizations may lead some people to think that followers will be honest in their relationship with their leaders for fear of reprisals if any dishonest behaviour on their part is subsequently brought to light. Ironically, the fear of the repercussions for mistakes as well as the strong desire to be in the "good books" of the leaders tends to create the opposite effect. Followers hide their true feelings on matters they are displeased about or distort information for the sake of maintaining harmonious relationships with their leaders. That is, the primary concern of followers is to be seen by their leaders as being "honest" without necessarily being so. These observations legitimize the view that the leader-follower relationship in Africa serves more to constrain than to advance organizational performance. (See volume 2 of the dissertation for illustrative evidence from Ghana).

It is important to note that authoritarianism within African work organizations invokes resentment rather than respect among subordinates. But since subordinates in general expect their superiors to be authoritarian, they only

grumble quietly and privately about excesses. What is perhaps even more striking is subordinates' response to non-authoritarian leadership. Again, my study in Ghana and Kenya showed that managers who have experimented with participative and consensus styles of leadership in predominantly authoritarian organizational cultures have found their efforts ridiculed.

Leadership and Resource Allocation

Scholars of leadership generally agree that resource allocation decisions in organizations are predominantly made by leaders. Furthermore, people generally expect leaders to be fair, effective and responsible, also in their allocation of organizational resources. But De Cremer and Dijk (2008) argue that leaders do not always act in an organizationally or socially responsible manner when allocating resources. Some of them behave in egocentric ways, allocating more resources to themselves than to followers. Again, the available literature suggests that the only types of leaders that may be expected to display self-sacrifice in their resource allocation decisions are transformational leaders (Blanchard, 2007). Thus, leader selection decisions of management are critical to the manner in which resources are allocated at various levels (and in different departments) of an organization. These observations are consistent with the Montgomery's views on the manner in which African leaders allocate resources, giving priority to their personal (or culturally-induced) goals rather than overall organizational goals. When leaders' resource allocation decisions disregard organizational needs and goals inefficiencies become rampant, thereby creating a de-motivated workforce in the organizations.

As noted above, the African employee knows that it is necessary to cultivate the "right" people, particularly his immediate superior, in order to have a successful career. And the subordinate tends to be aware that the typical African executive values personal loyalty and goodwill over and above competence. The principal function of the loyal employee is to serve as a buffer for the immediate superior. If anything goes wrong, the loyal

subordinate will do anything to blame all others, including himself, in order to protect his boss.

It is against such backgrounds that the contents of management educational programmes and the selection of learning events must be examined. Performance appraisal techniques taught in the West for example assume individualism to be at the core of societal values and that superiors must guarantee the confidentiality of appraisal report forms. Such assumptions hardly reflect the realities of African management environment. Confidential reports are scarcely confidential to those with the right connections; transfers and promotions are far more likely to be influenced through personal connections than through meritorious performance (O'Reily, 1989). Similarly, recruitment policies are based on criteria different from those described in Western management literature. Job rotation and placement practices are guided not so much by the concern for performance or job-related goal achievement but by the need to advance the career prospects of specific subordinates (Montgomery, 1987).

Summary

The discussions in this chapter suggest that macro culture in which African leaders are raised impact their individual goals as well as their choices of leadership styles and relationships with their followers. It also influences their resource allocation decisions in organizations. These in turn determine their overall leadership behaviours and thereby their contributions to organizational performance. Thus, effective leadership in Africa requires an initiation of change in certain aspects of African culture.

Culture is, however, a dynamic social construct. As such, African management culture is capable of changing. I have argued earlier that human beings are not blank sheets on which culture writes its scripts. People draw on their cognitive endowments to develop their own internal rules of behaviour that mediate the cultural prescriptions, modifying them where

exigencies demand it. In other words, cultures provide individuals with frames of reference and opportunity sets within which they can act. Their creativity, courage and emotions influence the actions that they take in any given situation. This means, as individuals, African leaders are capable of shaping the evolution and dynamism of national cultures on the continent, producing new set of rules for managerial behaviour.

PART 4

ENTREPRENEURIAL ORIENTATION, INNOVATION AND ECONOMIC GROWTH

Introduction to Part 4

There has been tremendous academic interest in studying entrepreneurial activities during the last four decades and many journals have emerged to provide rich and diverse perspectives on entrepreneurship as a construct and the strategies and processes of managing small businesses. Many of these studies have challenged the view that entrepreneurship is the outcome of isolated and discontinuous innovative efforts made by individuals with Calvinistic attitudes to work and life. Dominant considerations in the entrepreneurial research now include impacts of the social contexts of entrepreneurs on their business activities (Sanders and Nee,1996; Kupferberg, 1998; Unger, 1998; Barr, 2000), effects of gender on enterprise development (Brush, 1992; Rosa and Hamilton, 1994), and the existence of non-market resource leveraging mechanisms in small business development process (Kuada and Buame, 2000).

This dissertation endorses the view that entrepreneurship is a key determinant of economic growth and development. The theoretical framework presented in chapter 4 also suggests a link between the four factor conditions and enterprise development. Thus, part four of the dissertation is devoted to the discussion of these issues and explores their contribution to an understanding of the link between entrepreneurial activities and economic development in Africa. It consists of three chapters. Chapter 11 provides a discussion of the dominant perspectives on entrepreneurship. It also links entrepreneurship to creativity, leadership and economic growth in general. Chapter 12 discusses the concepts of innovation, learning and creativity and their links to enterprise development. Chapter 13 relates the discussions in the first two chapters to the African context and draws on the contemporary perspectives to interrogate the challenges of enterprise formation and management on the continent.

CHAPTER 11

THEORIES AND PERSPECTIVES ON ENTREPRENEURSHIP

Introduction

Until recently, entrepreneurship was perceived in the academic literature as limited to a few people with traits that encourage innovation and creativity. These people were presumed not to have social links of any significance. The discussions have also tended to concentrate on the nature of the entrepreneurial function, neglecting consideration of the personal factors that might characterise the entrepreneurial type in a particular setting and instead emphasise the external causes of entrepreneurial activity (Harper, 2003). The sources of individual differences in alertness to economic opportunities are therefore left largely unexplained in economic models of entrepreneurship (Kirzner, 1983). Some studies have, however, shown that different people in various contexts possess vastly different degrees of entrepreneurial alertness and they exhibit different abilities to learn (Harper, 2003).

Davidsson (2005) has identified three dominant traditions in the development of entrepreneurial research: (1) the German tradition developed by Schumpeter and Von Thuenen, (2) the Chicago tradition by Knight and Schultz, and (3) the Austrian tradition, based on Von Mises, Kirzner and Shackle. In brief, the German perspective views entrepreneurship as a disequilibrating phenomenon, rather than an equilibrating force, reflecting a process where new firms with entrepreneurial characteristics displace less innovative incumbents thus leading to a higher degree of economic growth. The Chicago perspective emphasizes “traits” and “risk taking” as central in understanding entrepreneurial activities, while the Austrian view directs attention to the role of opportunities within entrepreneurship. The contemporary literature,

however, shows that there are no longer sharp distinctions between these traditions, and researchers tend to borrow ideas from each other. For this reason Sørensen (2007) has found it purposeful to classify the literature in terms of the following five perspectives: (1) the traits and gender perspective, (2) the identity perspective, (3) the process perspective, (4) the behavioural perspective, and (5) the contextual perspective. This chapter builds on these observations and leans on Sørensen's classifications to discuss the contemporary theories of entrepreneurship. The aim is to explore the extent to which these theories can help explain the opportunities and challenges of entrepreneurship and enterprise management in Africa.

The Traits Perspective

The traits perspective draws on the Chicago tradition of research. Scholars subscribing to this perspective argue that some personality traits strengthen individuals' entrepreneurial dispositions and actions more than others. I have earlier introduced David McClelland's (1961) work in discussing the link between culture and economic growth. We can also draw on his arguments in discussing entrepreneurial traits. As noted earlier, McClelland argues that all individuals have three fundamental needs – needs for achievement, affiliation, or power. These needs shape each person's motivation and effectiveness in certain job functions. An individual that exhibits high achievement need orientation (the *n-ach* person) tends to avoid both low-risk and high-risk situations, engaging in tasks that have realistic chances of success based on hard work rather than chance. They also need regular feedback in order to monitor the progress of their achievements. Those who are affiliation oriented (i.e. *n-affil* individuals) tend to be good team players due to their strong need for friendly and harmonious relationships with others and the need to feel accepted by other people. They tend to conform to the norms of their work group. Those who are highly power-oriented (i.e. the *n-pow* individuals) are motivated by opportunities to direct others. Power can be of two types, (1) personal, and (2) institutional,

and can be used either for individual benefits or for the benefit of groups of individuals (organizations) and/or societies. He argues further that most people tend to possess and exhibit a combination of these traits and the relative dominance of the traits in individuals' behaviours depends on personality and situations. From McClelland's perspective, an entrepreneur has high levels of need achievement. He demonstrates the following attributes in all his endeavours:

1. Achievement is more important than material or financial reward.
2. Achieving the aim or task gives greater personal satisfaction than receiving praise or recognition.
3. Financial reward is regarded as a measurement of success, not an end in itself.
4. Security is not a prime motivator, nor is status.
5. Feedback is essential, because it enables measurement of success, not for reasons of praise or recognition.

Several scholars have built on and/or extended McClelland's perspectives on entrepreneurship during the past half century. They include Brockhaus (1980), Sexton and Bowman (1985), and Shane (2003). For them, entrepreneurs are people with moderately high dispositions to risk taking, may have a strong desire for autonomy, creativity, and tolerance of ambiguity, and an internal locus of control (Carland *et al*., 1984). Sexton and Bowman (1985) emphasise the need for autonomy, independence, and dominance as important traits that stimulate entrepreneurial initiatives. Brockhaus (1982), on the other hand, identifies the need for achievement, internal locus of control, and a risk-taking propensity as important traits. Cromie (2000) also describes entrepreneurs as being opportunistic, innovative, creative, imaginative, restless, and proactive. Thus, from these perspectives, I will describe an entrepreneur as one who serves as an agent of the conventional economic system; constrained by it most of the time, but he struggles to reach beyond it. When employed in organizations, people with such personality traits continually challenge the status quo, they are

usually difficult to manage since they tend to be unfocused – bubbling over with ideas; they dislike details, rigid structures and agendas. But when properly directed, they can create new breakthrough processes (Stevens and Swogger, 2009). McCarthy (2003) used the traits dimensions to identify two main types of entrepreneurs – the *pragmatist* and the *charismatic* entrepreneur – and showed a link between patterns of strategic behaviour and type of entrepreneur. Chen and Yang (2009) also extended the traits approach (including opportunity recognition and entrepreneurial creativity) to construct a typology of Taiwanese entrepreneurs.

Stevens and Swogger (2009) identified two main personality types in R&D teams: *Starters* and *Finishers*. They use the *starter* personality types to describe those individuals who are creative, intuitive, visionary, and curious. These people continually challenge the status-quo and are usually difficult to manage as well as difficult to follow when in leadership roles. They also tend to be unfocused, bubbling over with ideas, with a dislike for details, rigid structures and agendas. But when properly directed, they can create new breakthrough processes. In contrast, *finisher* personality types are far more pragmatic, better focused, more respectful of authority and more task-oriented. They like details, agendas, and are far steadier, consistent workers. Enterprises are typically established by innovative starters. But as they grow beyond the chaos of the start-up phase, other personality types and skills are required to guide them through their growth process. Therefore, the top management of most small businesses typically shifts over a period of 20-30 years toward becoming a culture of finishers.

Gender Perspective

The gender factor entered the literature in the late 1970s as a spin-off of trait theories and after the publication of Eleanor Schwartz's (1976) influential study. A number of studies have since then compared the psychological profile of female entrepreneurs with their male counterparts in terms of their risk-taking propensity and achievement motivation (Brush, 1992), as well as

their personal value system.

Watkins and Watkins (1986) found that the backgrounds and experiences of women differ substantially from those of men. Men entering self-employment were more likely to have prior work experience that was related to their present venture. Women, on the other hand, were found to have no relevant experience to enable them to enter self-employment, particularly in non-traditional business sectors. In addition to these, many women entrepreneurs have also demonstrated: (1) sharp communication skills, (2) intuitive people skills, (3) consensus-building competencies, and (4) nurturing, integrating abilities. Women need to use all these skills as they strive to make appropriate decisions in developing and expanding their businesses. But other researchers see no significant differences between male and female entrepreneurs and argue against overemphasizing the gender factor in entrepreneurial studies. For example, Schwartz (1976) found the characteristics of male and female entrepreneurs to be highly similar. Brockhaus (1980) as well as Master and Meieir (1988) also found no significant difference between female and male entrepreneurs' attitude to risk. In a study of technology-based companies in the U.K., Westhead and Cowling (1995) found no impact of any gender-based effects of individual or business characteristics on the firm's potential to achieve significant growth. In Sweden, Holmquist and Sundin (1988) found many similarities among men and women entrepreneurs, but showed that there could be variations in the emphasis that both sexes place on economic goals compared with goals of customer satisfaction and personal flexibility.

Leaning on Hofstede's cultural dimensions, García-Cabrera and García-Soto (2008) also suggest that masculine cultures are likely to demonstrate more entrepreneurial behaviour, since these cultures encourage assertiveness and consider it a failure to be just average. In other words, masculinity intensifies the need for achievement. Conversely, feminine cultures will nurse smaller number of entrepreneurs relative to the total population.

The Identity Perspective

The identity perspective draws on the Austrian tradition of research. It encourages researchers to get a lot closer to the individual and to understand the manner in which he or she reflects on the impulses within the environment and acts in response to them. Identity is normally presented as a dynamic construct intimately linked to emergence processes such as socialization. The central argument for many of these scholars is that all individuals create anchors in life, and their upbringing, cultural context and personality provide them with identity anchors. In other words, individuals derive their identities from reflections on feedbacks they receive from their immediate environment that constitutes their life-world - i.e. their family members and significant others (Markus and Nurius, 1986). Their reflections on these feedbacks help them construct their identities.

Witnessing other people successfully completing a task is another important source of self-efficacy. According to Bandura (1986), seeing people similar to oneself succeed by sustained effort raises observers' beliefs that they too possess the capabilities required to succeed in comparable activities. Thus, from an identity theoretic perspective, the process of transition from non-entrepreneurial life to an entrepreneurial one depends on feedbacks individuals get from their environments and the impact of these feedbacks on their identity creation. Where the individual encounters positive environmental feedback, this may reinforce his identity and strengthen his determination to succeed in his entrepreneurial endeavours. Conversely, lack of positive feedback will weaken individuals' determination to create an entrepreneurial identity. Thus, the overall parental relationship to a child, whether or not the parents are entrepreneurs, is a critical factor in shaping the entrepreneurial mind of the young person.

Entrepreneurial identity scholars are convinced that formal education may not be necessary for starting a new business. They argue that many high school and college dropouts have become successful entrepreneurs

throughout history. For them, the desire to be a winner, to be self-reliant rather than dependent in life, combined with the ability to identify opportunities, to take risks and assume responsibility for one's actions are key attributes of successful entrepreneurs. Societies that emphasise these attributes in the upbringing of their children will have many young people turn out to be entrepreneurs (Hynes and Richardson, 2007). It is in this sense that culture and civil society characteristics as well as institutional capabilities produce significant impact on entrepreneurship and enterprise development.

The Process Perspective

The process perspective on entrepreneurship is a variant of the Austrian research tradition. The central argument is that entrepreneurship is not typically characterized by logical, systematic and planned processes. Most writers suggest that the entrepreneurial process starts with the "discovery" of opportunities (Shane and Venkataraman, 2000; Gaglio and Katz, 2001). That is, it does not require any form of systematization. The discovery is usually done by alert individuals who are at all times scanning the horizon, as it were, ready to make discoveries. In contrast, others argue that opportunities can be identified through systematic search and that search is a natural activity of entrepreneurs (e.g. Busenitz, 1996). The discovery is followed by an evaluation process, which proceeds through the processes of symbolic selectivity, vicarious learning, forethought, self-regulation, and self-reflection. Symbolic selectivity refers to cognitive processes where the entrepreneur would internalize visual experiences (symbols) into cognitive models that serve as guides or motivators of future actions (Steyaert and Hjorth, 2006). Through forethought, entrepreneurs would cognitively examine the likely consequences of their future actions, plan courses of actions for the future, and set goals for themselves (Steyaert, 2007). Reynolds (2007), for example, argues that the new firm creation process is a two-step process: initial entry into the start-up process through the

conception of an entrepreneurial opportunity followed by the actual creation of a new business. Sørensen (2007) identifies five types of entrepreneurial processes: (1) the mechanised, (2) the evolutionary, (3) the contingent, (4) the behavioural/cognitive, and (5) the socially constructed processes.

Another strand of the process perspective borrows ideas from socio-cognitive theory. This stream of research in entrepreneurship emphasises the trajectory and critical events in entrepreneurs' lives rather than the traits that they are presumed to possess. Some of these scholars lean on creativity theory, arguing that the entrepreneurial process starts with creative new ideas stemming from the entrepreneurs' foundational knowledge and creativity skills. The creativity skills are said to include cognitive style, heuristics, and ideation techniques (Amabile, 1983). Cognitive style is defined as individual preferences toward certain modes of thinking, perceiving, remembering information, and problem solving.

One strand of the socio-cognitive research has been concerned with the actions and interactions that the individuals engage in as part of their entrepreneurial journeys and actions. This line of research also explores how social relations impact the resource leveraging processes of nascent enterprises. Research into the resource configurations of firms has shown that factors such as social ties and networks of relationships tend to influence the nature and amount of resources that owners of small and nascent firms are able to leverage. For example, Mambula's (2008:94) study of Senegalese entrepreneurs show that they have "preference for group work and creating networks amongst themselves to support one another, rather than doing it alone. Group members of family and close friends can also be loyal to the business and can even work without pay or sacrifice longer working hours without compensation, because of loyalty that is based upon the strength of shared relationship ties".

The notion that entrepreneurial activities are socially embedded is

increasingly acknowledged in contemporary research (Sanders and Nee, 1996; Buame, 1996; Moore, 1997). The understanding is that mutual obligations and trust that are embedded in the social structures allow some individuals to gain greater access to resources within the civil society than others, depending on the roles that the societies assign them and their positions within the social network. Social relations, however, carry some obligations. As noted above, studies have shown that in some African societies, social obligations tend to outweigh the benefits for some groups of people, including business owners (Kuada, 1994). For example, entrepreneurial activities may be constrained by excessive demands made on the resources of their owners by family members (Moore, 1997).

Scholars such as Lavoie (1991) contribute to the processual perspective of entrepreneurship by extending Kirzner's (1979) theory with some inspiration from Gadamer's philosophy of hermeneutics. Taking Weick's understanding of enactment as a backdrop, Gartner *et al*. (1992:17) see emerging organizations as thoroughly equivocal realities "that tend towards non-equivocality through entrepreneurial action". This means entrepreneurs must be seen as sensing opportunities and reconstructing new meanings of things and events against a continuously evolving cultural background. This means entrepreneurs can therefore only shift the customary ways of doing things if they gain a thorough contextual sensibility (Steyaert, 2007).

The Behavioural and Contextual Perspective

The behavioural perspective is grounded on Schumpeterian thoughts on entrepreneurship. Following Knudsen and Swedberg (2009) one of Schumpter's great contributions to the theory of entrepreneurship can be summed up in the statement that the entrepreneur's function is to *combine.* To Schumpeter the entrepreneur is one who engages in creative destruction by assembling new combinations, overcoming resistance and substituting a new recipe for action.

Schumpeter's model of economic development involve separate stages: invention (technical discovery of new things or new ways of doing things), innovation (successful commercialization of a new product or service stemming from technical discoveries or novel combinations of knowledge), and imitation (more general adoption and diffusion of new products or processes). He therefore linked entrepreneurship with innovation and focused on the entrepreneur as one who drives the dynamics of economic disequilibrium. He saw the entrepreneur as creating new combinations of production, and entrepreneurship as a destabilizing force that starts the process of "creative destruction".

Schumpeter was also aware of the importance of contextual variables to entprenreneurial behaviour. He argues that entrepreneurial actions and behaviours are frequently met with three types of resistance. There is the resistance associated with "*the task*"; resistance associated with "*the psyche of the businessman*"; and resistance from "*the social environment*" (Schumpeter, 1934:86). By resistance to a new task, Schumpeter means that the economic actor will have to do something that he or she has never done before. People generally have an inborn tendency to avoid what is new (Knudsen and Swedberg, 2009). Once an individual settles into a routine, competence trap takes over one's cognitive capacity and discourages the desire to do something new.

Familism and Entrepreneurship

A more recent stream of research into entrepreneurship has introduced the family construct as an important variable in the development and management of entrepreneurial ventures. A distinction is usually drawn between family-owned entrepreneurial firms and nonfamily businesses and the concept of *familiness* is used in literature as a summary characteristic (Allouche *et al*, 2008; Abdellatif *et al*., 2010). Zellweger, et al. (2010) argue that familiness is a multi-dimensional construct that needs to be better understood, as it can affect the competitive advantage of family businesses.

Habbershon and Williams (1999:11) define familiness as "the unique bundle of resources a particular business has because of the interactions between the family, its individual members and the business". In practical terms, family owners and employees tend to cultivate a strong sense of duty towards their businesses and place a greater emphasis on the survival of the business than on their private well being (Astrachan, 2010). This encourages such businesses to adopt non-traditional growth-enhancing strategies (Abdellatif, Amann and Jaussaud, 2010; Okoroafo and Koh, 2010) Thus, Kontinen and Ojala, (2011) suggest that familiness may encourage the development of "hard-to-duplicate capabilities" that allow family businesses to survive and grow in adverse economic environments. This attribute embraces what Sirmon and Hitt (2003) call "human capital" – i.e. the extraordinary commitment, warm, friendly and intimate relationships, and the potential for deep business-specific tacit knowledge that fosters long-term relationships with customers (Zellweger et al., 2010). Business partners feel as if belonging to an extended family. This personal approach to doing business facilitates the development of strong networks of relationships with both internal and external stakeholders.

These characteristics create some challenges as well. Examples include hanging on to staff out of loyalty rather than because they are right for the business at any given time in the history of the business. Thus, family businesses may become too dependent on too few key members of staff and may find it more difficult than other businesses to introduce and assimilate new talents (Habbershon and Williams, 1999). Owner-managers also tend to exhibit reluctance to delegate control to professional managers, in part, due to insufficient knowledge of management techniques (Kotey and Folker, 2007).

Entrepreneurial Intentions and Triggers of Entrepreneurship

Another noteworthy contribution to the entrepreneurship discourse comes from scholars who have forwarded the view that the possession of entrepreneurial traits in individuals does not necessarily translate into enterprise formation. It is therefore important to study the entrepreneurial intentions of individuals. Following Krueger (1993) entrepreneurial intentions are central to the process of enterprise formation and growth. Similarly, Erikson (2001) argues that entrepreneurial intentions may provide a theoretical framework for analysing the emergence of new business organizations. Ajzen (1991) suggests that intentions are determined by three factors: (1) the attitude toward the behaviour – referring to the degree to which individuals perceive the attractiveness of the behaviour in question; (2) the subjective norms within the ambient environment of the actor – i.e. the perceived social pressure to behave in a particular way; and (3) the perceived behavioural control – i.e. self-evaluation of one's own competencies with regard to the task or behaviour. In the same vein, Shapero (1984) suggests that people's decision to engage in entrepreneurial activities depend on the extent to which they perceive these activities to be desirable and feasible. The desirability may be reinforced by demands within the external environment – e.g. the cultural expectations that entrepreneurship is a good thing on its own or it is necessary due to the limited availability of sources of stable income. Feasibility relates to the individual's assessment of his/her competencies, resources and opportunities.

Entrepreneurship and Enterprise Formation in Developing Countries

Many people in developing countries are forced into entrepreneurship not by choice but by necessity (García-Cabrera and García-Soto, 2008). As such they may not have the entrepreneurial traits or skills suggested in theory or the support offered by the environment. This explains the high incidence of start-ups in these countries. Businesses are established with low initial

capital and low initial starting costs. They are also described in the entrepreneurship literature as *necessity entrepreneurs* (Maritz, 2004; La Pira, 2010). These people may be unable to grow their businesses due to competing demands on the entrepreneurs' resources. That is, earnings from the enterprises hardly cover the unavoidable household expenses of the business owners. Illness, school fees, funeral expenses are examples of expenses that eat into the working capital, leading over a short time span to the enterprises folding up until another generous family member comes up with a fresh working capital for the process only to repeat itself once again.

There are, however, some individuals who decide to establish businesses because they have identified viable opportunities and are determined to make sacrifices necessary to grow their businesses. The literature describes this type of entrepreneurship as growth-oriented/opportunity-based entrepreneurship (Reynolds et al., 2002). This understanding suggests that economic conditions determine whether necessity or opportunity entrepreneurs are most prevalent in any given country. Growth-oriented entrepreneurs are more prevalent in high income countries, while necessity entrepreneurs are more common in the low-income countries. As richer countries are more likely to offer greater job opportunities and access to social welfare, there is a lesser need to start a business to survive and therefore these countries exhibit lower necessity-based entrepreneurial activity rates (Reynolds et al., 2002).

Summary

The existing literature on entrepreneurship provides a long list of characteristics that may be used to describe entrepreneurs and entrepreneurial processes. This includes personality traits, social identity and response mechanisms, as well as family characteristics. But these factors must always be analysed within a social framework in order to provide a richer understanding of enterprise formation and management

processes in a given society. For example, it is true that personality traits and economic circumstances condition the entrepreneurial intentions of individuals. But social ties and networks of relationships contribute immensely to the entrepreneurial initiatives that people take. There is, however, some evidence indicating that some social relationships and cultural characteristics may weaken the allocative efficiency of their resources and act as a barrier to the growth of small businesses.

A distinction has also been drawn between necessity-driven entrepreneurship and growth-oriented or opportunity-based entrepreneurship. Necessity-driven entrepreneurs are said to be pushed by negative economic circumstances to establish businesses while growth-oriented entrepreneurs are pulled by opportunities into business.

CHAPTER 12
LEARNING, INNOVATION AND ENTREPRENEURSHIP

Introduction

The discussions in chapter 11 ended with a distinction between necessity-driven and growth-oriented entrepreneurship. Growth-oriented entrepreneurs are described as people having innovative capabilities in the Schumpeterian sense. At a national level it makes sense to argue that the development of innovation-oriented cultures in a society will greatly enhance the chances of growth-oriented entrepreneurship and enterprise formation in that nation. It will also be an indicator of the level of a nation's collective human capability development. As noted in chapter 4, human capability development hinges on individuals' ability to learn and engage in knowledge sharing processes within a social network. In this light, scholars of national systems of innovation argue that a key contributing factor to entrepreneurship and economic growth of nations is knowledge – i.e. the sum of what firms, institutions and people know (Johnson and Lundvall, 2003). This drives innovation and the collective efficiency of a nation. Writers on national competitiveness and industrial clusters present similar arguments. For example, Porter (1990) argues that close linkages between the various sectors of a national economy, the formation of industry clusters, and the systemic coherence in the relationships between government and firms would enhance learning and knowledge generation as well as innovation. This would, in turn, improve the overall efficiency and competitiveness of the key economic actors and can, therefore, strengthen the competitive advantage of a nation within a global economic system. Similar perspectives can also be found in the writings of organisational learning scholars (Cohen and Levinthal, 1990; Crossan and Inkpen, 1995; Huber, 1996).

The three bodies of literature – national systems of innovation, industrial cluster studies, and studies in organizational learning – have also shown that changes in the knowledge stock of nations, institutions and firms could be exogenously or endogenously engendered, or by a combination of both exogenous and endogenous triggering cues. For example, linkages between foreign and local firms could result in transfer of knowledge and/or stimulate internal learning processes that could then upgrade the operational capacities of local firms.

The linkage argument has been empirically substantiated for firms in a number of studies during the beginning of the 21st century (Hansen and Schamburg-Müller, 2006; Lundvall, 2011). The central argument in these studies is that linkages between some foreign firms and firms located in developing countries promote upgrading at three principal levels: (1) 'process upgrading' (producing more effectively), (2) 'product upgrading' (moving into more advanced product lines), and (3) 'functional upgrading' (moving into new functions in the value chain - e.g. design and marketing). All three levels of upgrading require knowledge generation as well as the sharing and/or transfer of knowledge, particularly through relations with foreign firms.

The present chapter complements the discussions in chapter 11. It extends the discussions on the entrepreneurship and innovation by reviewing existing understanding of how institutional mechanisms and collaborative arrangements facilitate the creation of national innovation cultures and collective entrepreneurial orientations.

Institutional Context of Knowledge Management and Innovation

Scholars adopting knowledge management and innovation perspectives for studying economic growth processes have presented persuasive policy guidelines for the development of enabling context for innovative actions of firms and institutions in different countries (Johnson and Lundvall, 2000). Most of these scholars see innovation as a process of technological and organisational change, triggered, in part, by international knowledge inflows through interfirm relations and development assistance as well as other forms of network effects. The interfirm relationships are usually nursed within context-specific enabling policies and socio-culturally prescribed behaviours and mindset. These triggers combine to produce different successful business systems capable of creating, storing and transferring skills and knowledge. Some of the best known formulations of this perspective are found in studies by Whitley (1990, 1992, and 1994) and by Lundvall (1992, 2005, and 2011). The literature lists several advantages of collaborative arrangements between firms. Contributions to the literature draw on theoretical traditions such as the resource-based perspective on firms (Barney, 1991 and 2001), competence-based perspectives (Prahalad and Hamel, 1990) and knowledge-based perspective (Nelson and Winter, 1982; Inkpen and Crossan, 1995; Grant, 1996; Gulati, 1995). These scholars argue that collaborations do not only provide access to tangible resources. They also enable partners to access the embedded knowledge of co-partners and/or facilitate new knowledge generation (Inkpen and Crossan, 1995). These perspectives are discussed in details in the following sections of this chapter.

The National Systems of Innovation Perspective

The "national systems of innovation" perspective (NSI) moves the focus of analysis of economic growth processes toward the combination of innovation and learning. They argue that most of the new knowledge needed for innovation comes from other sources like production engineers,

customers, marketing, etc. rather than from universities and technical research or even from research and experimental development. But basic research at the universities and applied experiments in laboratories provide the groundwork on which firm-level innovations are built. Thus, innovations in firms, industries, nations and the global economy as a whole may be said to emerge through a complex set of relationships among actors generating, sharing and applying a wide variety of knowledge. For this reason, insights into the learning processes of national institutions, industrial clusters as well as firms are crucial for an understanding of how on-going economic activities may result in innovation and business formation. To most proponents of this perspective, the key actors in the learning and innovation processes are described as agents and organizations. The assumption is that these organizations and agents have a capability to enhance their competence through searching and learning and that they do so in interaction with other agents and that this is reflected in innovation processes and outcomes in the form of innovations and new competences. To them, globalization has brought about an increased openness of national innovation systems with regard to many forms of knowledge flows, including technology acquired from abroad in capital and intermediate goods, purchases of foreign patents and licenses, technical alliances between firms of different countries, trade in services such as technical consultancies, and foreign direct investment.

The NSI scholars also draw attention to the possibilities of *systemic failures* in the national and global innovation-enabling mechanisms, thereby impeding the innovative performance of industries and nations. Examples of such systemic failures may include weak interactions between the actors in the system, mismatches between basic research in the public sector and more applied research in industry, malfunctioning of technology transfer institutions, and information and absorptive deficiencies on the part of nascent enterprises (OECD, 1997). The advice is that policies must therefore be crafted at national, regional and multilateral levels of societies and

economies to reduce the incidence of such failures in order to galvanize national systems of innovation and economic growth (Metcalfe, 1995).

National Business Systems Perspective

The discussions in chapter 3 have drawn attention to national systems perspective to economic theory. I presented Whitley's theory which describes the systems of co-ordination that link the various actors (individuals and organisations) together in a sort of a framework. To Whitley, business systems can be sufficiently defined in terms of three main components: firms as economic actors, modes of organising economic activities, and the nature of the dominant authoritative co-ordination and control system within the economy. Based on these characteristics, he identifies six archetypes of business systems: (i) fragmented systems, (ii) co-ordinated industrial districts, (iii) compartmentalised systems, (iv) state organised systems, (v) collaborative systems, and (vi) highly co-ordinated systems. This section of the chapter builds on the earlier discussions and relates the national business systems perspective to learning and innovation.

Whitley acknowledges that business systems are historically contingent. That is, within each national boundary, a set of social, cultural, political and economic institutions interact to shape the uniqueness of the system. This institutional context is in turn divided into two broad categories: (1) the proximate social institutions, and (2) the background social institutions. The former comprise those institutions directly involved in the economic system and constitute the more immediate business environment (e.g. bureaucratic institutions and legal systems), while the latter cover those elements in the civil society that structure patterns of trust, cooperation, identity and maintain social order – i.e. the sociocultural background.

The fact that business systems are historically conditioned and institutionally embedded means that they change rather slowly. Thus, no

individual firm behaviour can be expected to produce a dramatic change in the system as a whole. But some firm-level changes can, over time, produce significant impacts. Major changes entail considerable institutional reforms that produce restructuring of economic relationships. This also implies that these characteristics can be identified and studied by researchers from historical as well as current perspectives. Such investigations will identify the actors within the business system, the dominant characteristics within the system (including ownership and non-ownership co-ordination and authority structures), the institutional profiles and, if possible, provide an insight into the historicity of the evolution of the institutions and systems (Pedersen and McCormick, 1999).

In sum, while business systems framework is concerned with describing and explaining variations in economic organization regardless of whether they become established in geographical regions or countries, the national systems of innovation perspective explains how national and regional systems can be designed to stimulate innovation and economic growth. The former perspective is predicated on sociological logic while the latter is based on traditional economic logic supplemented with political and organizational perspectives. They however supplement each other to the extent that both perspectives emphasize coordination and relationships between major actors within firms and institutions. The overarching argument is that the distinctiveness and cohesion of particular forms of economic organization at different levels of analysis reflect the strength and mutual reinforcement of associated institutions at those levels.

The Organizational Learning Perspective

The learning literature informs that learning may occur when people give new meaning to (i.e. reinterpret) the information they receive. The more varied the interpretations given to the information the greater the probability that they will result in organisational innovation. Re-interpretation entails the process of unlearning.

Some writers argue that organisations learn only through their members. They do so either by benefiting from the knowledge acquired by the existing members or by recruiting new members who bring with them knowledge that the organisation did not previously have. The motivation for individual learning comes from the detection of a mismatch between the individual's current behaviour and his expected outcomes. The desire to improve an individual's outcomes may be either intrinsically generated (i.e. self-awareness) or extrinsically triggered (e.g. by information and comments from superiors, peers and other stakeholders such as customers). Following Hedberg (1981) it can be argued that the first step in the learning process is *unlearning*, i.e. a process by which organisational members accept the failure of existing ways of doing things and willingly discard the obsolete and misleading knowledge, replacing it, as it were, with new knowledge.

The concept of unlearning can be further explained with reference to Argyris and Schön's (1978) distinction between *single loop learning* and *double loop learning*. Single loop learning refers to the conscious, intentional and rational activity undertaken by employees to detect and correct discrepancies that appear between their expectations and the results produced by their actions. Correcting errors provides a learning experience that ensures that similar problems can be effectively addressed in the future. Single loop learning is therefore based on negative feedback systems and are, as such, self-regulating (Morgan, 1998; Stacey, 2003). That is, the corrective actions initiated move the firms in directions opposite to the situation in which they currently find themselves. Thus when a firm is experiencing lower sales performance due to poor quality control at factory level, new control mechanisms will be instituted by managers to correct the error and improve customer satisfaction. Such operational improvements enhance efficiency but do not challenge the fundamental assumptions underlying production in the firm and therefore cannot produce sustainable competitive advantages. *Double-loop learning* occurs when individuals subject errors that they detect to rigorous scrutiny and question the reasons

that these errors occur. Doing so enables them to correct the error in ways that involve the modification of an organization's underlying norms, policies and objectives and thus produce a shift in the way in which strategies and consequences are framed.

Knowledge research has indicated that human behaviour is guided by a variety of knowledge, some of which cannot be easily codified and communicated to others. Building on the seminal work on knowledge by Polanyi (1966), knowledge scholars draw a distinction between *explicit* and *tacit* knowledge. Explicit knowledge describes the type of knowledge that can be codified, stored and transmitted in formal, systematic forms to a broad audience. Knowledge stored in books, instruments and the like and communicated through classroom lectures and other conventional teaching methods are examples of explicit knowledge. Tacit knowledge is the opposite. It is generally "sticky", - i.e., it is not easily amenable to codification since it is deeply embedded in organisations' institutionalised collective practices (Spender, 1994; Holden, 2002). This characteristic protects such kinds of knowledge from imitation by other companies and organisations.

Two dimensions of tacit knowledge have been identified in literature. The first is the cognitive dimension, which covers people's "mental models", beliefs and viewpoints that guide their action but are difficult to present in a logical manner and language. The second is the "technical" dimension, covering the individual's concrete know-how, skills and dexterity that enable him to perform a specific task in a unique manner. It is a summary construct explaining his capability as a worker. Some writers also refer to tacit knowledge as intuitive knowledge, while others consider it as an aspect of a person's wisdom or holistic knowledge.

Spender (1994) argues that explicit knowledge is usually market-based and therefore potentially appropriable by definition. As such it does not fulfil the requirements of inimitability and therefore not rent generating. But firms can develop mobility barriers to prevent its transfer. For example, if explicit knowledge is embodied in a piece of technology or product formula, it may be selectively transferred only to firms that fulfil requirements specified by the producer of the technology or formula. The mobility barrier so created separates the "favoured" firms from the "feared" users of the knowledge. On the other hand, tacit knowledge that is embedded in the collaborative practices of firms (e.g. strategic alliances) is expected to be situation-specific and therefore unique. It therefore has the characteristics of generating rent to firms deploying it. Hence it is tacit knowledge (more than any other kind of resource) that defines the core competence or dynamic capabilities of firms and thereby provides them with competitive advantages. This, by implication, means that the ability to absorb knowledge and integrate it into the mindset of firms is a prerequisite for sustaining competitive advantages of firms.

Following the discussions above, it is evident that an understanding of the pattern of knowledge conversion processes of firms is essential to any analysis of competitive advantages. Previous writings have perceived knowledge conversion in organisations in a unidirectional mode i.e. from tacit to explicit forms of knowledge. Nonaka and Takeuchi (1995) argue in favour of bi-directional transformation and identify four different patterns of interaction between tacit and explicit knowledge. These are *internalisation* (transformation from explicit to tacit), *externalisation* (from tacit to explicit), *socialisation* (from tacit to tacit), and *combination* (from explicit to explicit),

Internalisation involves the conversion of explicit knowledge to tacit knowledge. This provides an indication of the extent to which knowledge that is transferred will actually be applied in the concrete actions of specific

knowledge users. In simple terms, it is a process of learning by doing. For example, if the knowledge provided through off-the-job training courses is effectively internalised, employees will integrate the ideas into their daily behaviour. If not, the training courses may produce limited impact on the organisation. Such forms of knowledge conversion are context-dependent. That is, they are dependent on intimate knowledge of situations in which they apply rather than an understanding of abstract rules. Tacit knowledge obtained through the internalisation of explicit knowledge may, over time, develop into routines and take-for-granted actions if it is not frequently reflected on. Such a development can hold the danger of constraining organisational capabilities to perceive operational situations critically and act differently.

Externalisation involves making the tacit knowledge explicit. As Nonaka and Takeuchi (1994) explain it, this can take the form of using metaphors, analogies, concepts and models. It also involves dialogue or "collective reflections". The reflections enable people to conceptualise and codify ideas that may initially be hazy to them.

Role modelling is what Nonaka and Takeuchi (1995) term "socialisation". It involves conversion from tacit to tacit knowledge. When the tacit knowledge in question is limited to physical or behavioural type of knowledge, it can be communicated or shared through observing and applying the behavioural attributes of the role model. Socialisation therefore constitutes an important vehicle of leveraging internal competencies. Business scholars argue that firms that have good mechanisms for facilitating socialisation across hierarchical and functional levels are more capable of building internal and inmitable competencies. Finally, it is argued that the three forms of knowledge conversion presented above jointly strengthen an entrepreneur's capacity to undertake learning through knowledge combinations (i.e. explicit to explicit conversions). That is,

entrepreneurs are more capable of pulling fragments of explicit knowledge together into new combinations with strong innovative potentials.

Learning, Capability Development and Entrepreneurship

Going back to the discussions in chapter 11, we noted that entrepreneurship is usually undertaken by individuals with specific personality traits. Furthermore, the entrepreneurship literature suggests that the degree of alertness of people defines their success as entrepreneurs. In my view, individual capabilities direct "alertness" in entrepreneurial settings and structure the action path and intensity with which entrepreneurs pursue their business ambitions. Following Harper (2003:35) "entrepreneurs are those persons whose alertness is the most acute, most highly developed and most sustained". Similarly, Kirzner (1983: 67) reminds us that "some individuals are quick to spot as yet unnoticed opportunities; others notice only the opportunities revealed by the discoveries of others". That is, a robust sense of personal efficacy in the economic sphere generates more acute and sustained alertness to profit opportunities.

Thus, the concept of "creative capability" has emerged as one of the decisive sources of entrepreneurial advantage in today's dynamic, knowledge-based economies. Capability is obviously influenced by learning but also current capability influences the ability to learn. We have argued that individuals learn in the community of others. In other words, individuals' ability to perceive, interpret and evaluate phenomena is enhanced by the sustained and intensive interactions that they have with other people in a given community or context. Knowledge may, therefore, be viewed as a '*situated action'*. This implies that knowledge and the meaning of words are not independent of context. Furthermore, these intensive interactions help us create shared mental models of schemata (Weick, 1979) and enable us to make sense of our environment and to learn.

The argument that knowledge and learning are contextually embedded led these scholars to coin the term “communities of practice” to describe the locus of knowledge stock and learning processes. Community in this regard may refer to members of an organisation or a group that interact on a continuous basis in the execution of an assigned task. Practitioners are immersed in dynamic practices, which are socially, culturally and politically located. Their studies have produced useful insights into how innovative teams in Silicon Valley have generated and shared knowledge through interactions in the course of their daily work processes.

We have argued in chapter 4 that individuals learn through the day-to-day actions and interactions. But it is not the specific actions *per se*, but the ability to reflect on the actions (i.e. interpret the experiences) that produces learning at both individual and organizational levels. In order to reflect effectively, employees must mentally "step back" from their actions and consciously observe the actions – thinking them through individually or with others. An important tool for reflection is dialogue – i.e. articulating and making tacit understanding explicit to self and to others.

Building on the “communities of practice” perspective on learning, it can be argued that cultural differences in the degree of people’s autonomy and social embeddedness affect the *character* of alertness to opportunities. Societies that encourage people to believe in the *internal control* of their actions and the outcomes of these actions tend to be more willing to take risks and pursue growth-oriented entrepreneurial endeavours. Thus, Kirzner (1983: 67) informs that, “in some societies, in some climates, among some groups, it appears that entrepreneurial alertness is keener than in others”. Similarly, Harper (2003) argues that in individualist cultural groups, independent selves are alert to opportunities that are relevant to *direct*, *personal gain*. Their alertness is *solely self-referential*.

Summary

The above discussions suggest that learning and innovation are central to the growth and establishment of growth-oriented entreprises. Furthermore, innovative capacity of nations depends in part on the learning mindset and absorptive capacity of the citizens. Innovation also implies the openness towards new experiences. Previous research suggests that such openness varies in different cultures. Thus, I have argued earlier that culture may impact national, industry and firm-level innovation capabilities – either negatively or positively.

It has also been suggested that firms create and sustain their competitive advantages by engaging in double loop learning. The process of knowledge conversion reinforces the learning tradition in firms. It enables them to build a vibrant learning culture with an unceasing flow of new knowledge.

A firm may rely on its internal capacity to generate new knowledge. But new knowledge may also derive from external sources. Most firms actually use a combination of external and internal sources to support their learning activities.

CHAPTER 13

ENTREPRENEURIAL ACTIVITIES IN AFRICA: OPPORTUNITIES AND CHALLENGES

Scholars such as McCormick (1999) remind us that African development is closely tied to entrepreneurship and small business development. This assertion is consistent with the central theme of this dissertation. It is therefore important to understand the nature of entrepreneurial activities in Africa, focusing especially on their development potentials in order to gain an insight into opportunities and constraints to economic development on the sub-continent.

Chapters 11 and 12 provide an overview of general theories of entrepreneurship, learning and innovation and discuss their impact on economic growth and development. It also provides an understanding of the profile of people having the potentials to start on an entrepreneurial journey. The preceding theoretical discussions suggest that entrepreneurs are motivated by independence and self-fulfillment more than income to establish their businesses. Thus, some argue that entrepreneurship is triggered a lot more by passion than personality. In which ways do these discussions apply to African entrepreneurship studies?

An attempt to provide a meaningful insight into African entrepreneurship must necessarily take the discussions through the following related issues:

1. The entrepreneurial intentions of African start-ups and business owners. This issue is premised on the understanding that the formation of an enterprise does not necessarily qualify a person as entrepreneur.
2. The innovative and growth capabilities of start-ups in Africa
3. The nature of the institutional environment in which start-ups operate (with specific emphasis on their enabling and constraining characteristics).

4. The cultural context in which entrepreneurial ventures operate (again emphasizing their enabling and contraining attributes)
5. The impact of management styles on the innovative and entrepreneurial behaviours of individuals in African organizations (i.e. in terms of individual employees' risk orientation and propensity to help grow businesses through creative endeavours).

The chapter starts with a presentation of a typology of entrepreneurs that can serve as an analytical framework in studying the challenges of enterprise formation and management in Africa.

Typologies of Entrepreneurship in Developing Countries

I have earlier discussed the distinction between necessity and growth-oriented entrepreneurs. Building on this distinction, I argued that many self-employed individuals in Africa are forced into entrepreneurship not by choice but by necessity (García-Cabrera and García-Soto, 2008). As such they may not have the entrepreneurial traits or skills suggested in theory or support offered by the environment.

Reviews of previous empirical investigations and conceptualizations of enterprise formation in Africa find this distinction useful in classifying the types of small businesses found in most countries on the sub-continent (Alderman and Paxson, 1992; Dercon and Krishnan, 1996). This awareness has motivated Babatunde and Qaim (2009) to place the business owners in the following main categories:

1. *Absolute necessity-driven businessowners* who see their businesses as "survival workshops"
2. *Supplementary income-seekers* who see their businesses as a "pass-time" or "life-style"
3. *Social capital and political network exploiters* who see their businesses as a "social or political testimony"

4. *Opportunity-identifiers* who exhibit special capabilities in finding new business opportunities in their environments
5. *Innovators* who exhibit special creativity in finding new solutions to existing problems.

Building on this typology, let me suggest that those who run their businesses as "survival workshops" are necessity entrepreneurs – i.e. pushed into enterprise formation by negative economic circumstances. They tend to establish several small businesses that they run concurrently. The objective is to diversify their income base and presumably reduce their risks of total economic ruin. But spreading their capital and managerial time over many small activities means that none of these businesses receives the attention and resources it deserves in order to grow or survive during difficult times. Previous studies have shown that such enterprises end up as perpetually "no-growth" businesses (see McCormick, Kinyanju and Ongilem, 1997). Their owners have low levels of expectations and ambitions and are therefore inattentive to opportunities for growth.

It can be justifiably argued that the largest group of enterprises formed in Africa is necessity-based. Many entrepreneurs in this category have limited formal education but have substantial operational experience. Their fundamental business motive is to make enough money for their daily up-keep. They can hardly be described as entrepreneurs in the true sense of the concept as presented in chapter 12.

It is, however, possible that someone high in entrepreneurial traits may be pushed by circumstances to start a business. But his experiences with that venture are likely to encourage him/her to continue along this line and help them become successful. These people are able to study sources of opportunities, discover, evaluate and exploit them (Shane and Venkataraman, 2000).

Most self-employed and "lifestyle" business owners are satisfied if they can make a decent living for themselves, and maybe hire a few other people. Others may place a cap on their business growth by their desire to maintain a preferred lifestyle. These local lifestyle businesses and entrepreneurial ventures may be very important to a community. In addition to creating a modest number of jobs, they contribute to the quality of life and place, providing amenities that make the community a good place to live, work and play.

Opportunities may emerge for some entrepreneurs as a result of their positions in political and social networks. These people are more capable of leveraging resources within the business and social environment – i.e. converting social capital from their networks of relationships to economic capital. They are driven by prestige, social status or political influence (Upadhya and Rutten, 1997).

Studies have shown that there are growing numbers of professionals and university graduates who have decided to enter private business as a means of consolidating their financial resources through the use of the social networks that they have built during their student years as well as their professional careers. The choice of what business they establish is usually fortuitous; it may be based on a friend's suggestion that there was good money to make in a particular business or they may happen to be at the right spot when a business opportunity emerges. The formal planning processes and methods found in the business literature are therefore hardly used (Kuada, 2009).

Opportunity identifiers and innovators are usually growth-oriented entrepreneurs. Most of them are imbued with entrepreneuring traits found in literature. The general understanding presented in entrepreneurship literature is that the growth-oriented entrepreneurs are cognitively and behaviourally less concerned with resources in their pursuit of their entrepreneurial ambitions. They combine a strong desire for growth with the potential

capacity to realize it. Thus, Stevenson and Jarillo (1990) argue that growth-oriented entrepreneurs focus on opportunities within the market without regard to resources they currently control. Similarly, Chen and Yang (2009:400) have shown that growth-oriented entrepreneurs in Taiwan "creatively use the least resources at each stage of venture growth".

Discussions in the preceding chapters have also suggested that the degree of creativity/innovativeness of businesses is important in their growth process. Creative actions of entrepreneurs begin with imagination, which is often beyond existing knowledge.

I have argued earlier that innovativeness is an organization's tendency to engage in and support new ideas, experimentation, and creative processes that may result in new products, services or technological processes, as well as the pursuit of creative, unusual, or new solutions to problems and needs (Lumpkin and Dess, 1996; Certo *et al*., 2009).

My Typology

I have pulled the above considerations into a 2 X 2-matrix with (1) entrepreneurial motives, and (2) the degree of creativity and innovation as the two dimensions to describe the types of entrepreneurial activities found in Africa. This classification groups the business motives of African entrepreneurs into either *necessity-oriented* or *growth-oriented* entrepreneurs. The creativity/innovation dimension groups the entrepreneurs into either *imitation-oriented* or *innovation-oriented* entrepreneurs. This produces four quadrants as shown in Figure 12.1. Entrepreneurs in Quadrant 1 (necessity-triggered and imitation-oriented) are labelled "*surviors"* or *"stagnators"*. Entrepreneurs in Quadrant 2 (imitation and growth-oriented) are labelled *opportunists* or *lifestyle businessowners*. Entrepreneurs in Quadrant 3 (growth and innovation-oriented) are labelled *"eye-catchers"*. Entrepreneurs in Quadrant 4 (necessity-triggered and innovation-oriented) are labelled *orphan stars*.

Degree of Creativity & Innovation			
		Necessity-triggered	**Growth-oriented**
	Imitation-oriented businesses	*"Survivors"* • Crowded low-end business segments • Low profitability • Limited organic growth	*"Opportunists / Lifestyle Business Owners"* • **Type 1:** "The connected" • Good positions in social and political networks • Dependent on social capital to leverage resources • **Type 2:** "Donor support hunters"
	Innovation-oriented businesses	*"Orphan stars"/"lonely entrepreneurs"* • May go unnoticed • High entry barriers • Success difficult to achieve • Requires support & mentoring	*"Eye – catchers"* • Persons with unusual talent • Receive venture capitalist support • Attract public/journalistic attention

As repeatedly stated in the previous discussions, most private businesses in Africa are established by survivors and opportunists. Unsurprisingly, these businesses are characterized by being imitation oriented since most Africans have been found to be good at imitations. Once news goes around that there is good money to be made by providing a particular type of goods or services and without a huge investment, many people will quickly flock into this line of business out of sheer necessity or to fulfil their lifestyle ambitions. The survivors tend to enter businesses that may be said to lie at the low-end market segments – i.e. serving the bottom of the pyramid consumers. The custom tailors, described in McCormick, Kinyanju and Ongilem's (1997) study, are good examples of such businesses. The potential profitability of these businesses is low and this reduces their organic growth potentials.

The opportunists and lifestyle business owners may be grouped into two. I have described one group as "connected" within the political and social networks in their communities who are ready to use these positions to their economic advantage. They are likely to be mindful of their social responsibilities and act as social entrepreneurs – i.e. they are guided by "profit for purpose" motive in their economic decisions. The second group is those who rely heavily on financial resources from donor organizations and develop skills in positioning themselves as eligible candidates for such support. They may also be referred to as "aid mongers".

The third and fourth groups of African business owners fit the usual descriptions of entrepreneurship in economics literature. They are innovation-oriented, seeking novel solutions to existing or emerging needs in specific communities. One group may be necessity-oriented and may decide to enter business because their personal economic circumstances compel them to turn their hobby-type innovations into income generating

enterprises. Initially, they are unknown and therefore receive limited support from their operational environments. But if they operate in business fields with high entry barriers (e.g. in fields where success depends on the possession of creative talents), they will eventually become successful and enjoy some economic windfalls that can improve their conditions for growth. I label the second group "eye catchers", the fruits of the creative talents of this group are distinctively evident and this may capture the attention of business journalists. Their communities know about them rather quickly. They receive the support of venture capitalists that may help speed up their growth.

The results of previous studies of urban entrepreneurs in Africa support the idea that entrepreneurs in developing countries are "pushed" into entrepreneurship by the need to eke out for bare subsistence, supplement their personal (or household) income and/or create jobs for themselves.

Building on earlier studies in entrepreneurship in Africa, it can be argued that although personality traits of individuals are important in creating and/or identifying opportunities and bringing resources together to take advantage of these opportunities, the broader social and cultural context and the network of relationships within and outside the enterprises are equally important in shaping the trajectory of new enterprises.

Two Illustrative Cases[26]

Case 1

Moussa – The Lifestyle Businessman

Musa a civil servant in Bobo-Dioulasso, Burkina, was considered to be one of the local horticultural experts, given his education and employment, Moussa had served as a 'consultant' to the *Union Rigionale des Coopiratives Agricoles et Maraicheres de Bolo-Dioulasso* (**Urcabo**) and other groups attempting to form gardener co-operatives. He began devoting his weekends to gardening from 1982 at the age of 40, when he acquired 25 hectares of riverside land in a village 45 kilometres north of Bobo-Dioulasso. After selling only his own products for several years, Moussa began looking into bigger and more lucrative markets. He arranged with gardeners he knew through his job to form an informal cooperative to supply him with their produce. He positioned his business as a wholesaler within the vegetable value chain in 1990. By 1993 he was able to sell 30 tons of tomatoes produced by the gardeners.

Familiar with the stringent aesthetic standards of city supermarkets, he developed a business model that placed high priority on attractive packaging. Success from the gardening encouraged him to diversify into other agricultural products including rice and maize, as well as raising sheep and chicken on another site closer to town.

Being a civil servant and a farmer, Moussa had a monthly salary, easy access to credit, and plenty of opportunities to make rural contacts. His background in agronomy helped too – he knows how to cultivate. He also keeps abreast of new trends in vegetable production and marketing by reading seed catalogues and farm journals.

At the time of writing the case, Moussa was contemplating entering horticultural export business. His job at the Ministry gave him opportunities to travel to Europe and he planned to use these opportunities to explore the markets.

[26] These illustrative examples have been drawn from Freidberg's (1997) investigation of entrepreneurial activities of some well-connected individuals in Burkina Faso.

Case 2

The Ex-Politician Businessowner in Bobo-Dioulasso

Lionel came to the Bobo-Dioulasso in 1968 as a young military officer assigned to a regional army post. Shortly after settling in Bobo he borrowed a piece of land from local villagers and recruited some brothers to grow rainy-season maize. But since the land was located near enough to a river to be arable the year- round, he decided to put them to work producing dry-season vegetables for the local market. At first, market-gardening simply helped him fulfil the responsibilities of a young educated salary-man, expected to support the many family members back home. During the I970s he was promoted first to Secretary of Rural Development, then to Minister of Finances. On the side, he built his commercial gardening

He helped the most serious farmers in the area to form a cooperative and to draw up a farming project that could attract donor funding. The CIDA (the Canadian Aid Agency) agreed to sponsor the project - providing funds for 20 hectares of mechanised irrigation, a warehouse, shipping crates etc. to enable the farmers to produce export-quality vegetables. By the early I990s Lionel had organised and obtained foreign aid for two other village co-operatives, and was shipping a variety of vegetables to Abidjan, including cauliflowers, beets, and carrots. He used his social and political networks to open up market opportunities for the cooperatives – enabling them to sell high-value produce to other wholesalers (who sought out speciality crops), as well as to retail outlets in downtown Bobo-Dioulasso. He had been looking for new buyers when one of Europe's biggest green bean importers, whom he had met while at the Ministry of Agriculture in the 1970s, proposed a new product: fresh herbs. Lionel liked the idea and arranged for a village to grow basil, rosemary, and a number of other varieties for the European winter market. He participated little in the on-site activities (a French herb specialist was flown in to supervise training, production, and transport), but did spend a great deal of time negotiating finance with the Parisian importer. The latter's unwillingness to pay for necessary equipment made it difficult for the cooperative to meet the specifications of the contract, and Lionel vowed to find a new European partner, again using his professional and social networks.

These two short cases provide clear illustrations of how the professional backgrounds of the agro-entrepreneurs have endowed them with various means of tapping the resources of the state and the foreign donor community. In part, their advantages derive from their 'expert' status in, for example, agronomy. Employed as experts, they exercise some influence over the decisions and practices of gardeners, funders, and policy-makers. Their salaries or pensions also have enabled them to spend far more on transport, labour, machines, and business related services than ordinary local farmers and traders. Their careers have also provided them with opportunities to acquire information, contacts, and experience, which in turn have bolstered their expertise, and expanded their influence. The ex-politician, for example, began his career as a military officer, but acquired competencies in management and bureaucratic procedures when he became a minister. This enabled him to manage the rural co-operatives he helped form, draw up project dossiers, and apply for funds from donor organizations. Regular vacations and business trips abroad provided time to investigate potential markets and identify prospective buyers. Their jobs also introduced them to "experts" in related fields, to the media and helped them establish useful network of social and business relations.

Familism and African Family Businesses

The discussions in chapter 11 drew attention to the roles that family members can play in enterprise formation and growth. The African experiences with family businesses have been mixed. Previous studies have shown that family relationships have played major roles in resource acquisition and management during the formative stages of small businesses in Africa (Garlick, 1971; Beveridge and Oberschall, 1979; Moore, 1997; Barr, 2000). The reluctance of local financial institutions to offer loans and credit facilities to small incipient entrepreneurs makes reliance on their own savings and their family sources even more pronounced. Thus, McCormick, Kinyanju and Ongilem, (1997:1099) inform that the initial capital for the custom tailors in their sample "comes overwhelmingly from the

entrepreneur's own savings sometimes combined with gifts and loans from the spouse or relatives" . Furthermore, family members serve as a reliable and flexible pool of cheap labour and this may result in windfall gains during the start of an enterprise and thereby help to lay an economic foundation for growth.

The extended family system in Africa is, however, seen by many as a handicap to individual economic achievement (Neshamba, 2006; Okpara, 2006; Okpara, 2007). The understanding is that many family members tend to consume more and contribute less in terms of efforts and personal commitment to family businesses. Poverty and inequalities in income distribution in African societies further accentuate the need for relying on the traditional family structures and the acceptance of the moral obligations to help the less advantaged family members. That is, owner-managers use their resources to support the weaker members of their families at a rate that outpaces their capacity to recoup them for organisational goal attainment (Sørensen, 2003). In worst cases, this behaviour may lead to the collapse of the businesses. All stakeholders become losers in this form of resource transfer; the benefactor, the beneficiary, other members of the kinship, and the economy as a whole.

Thus, several observers of the African economic development scene argue that the sense of reciprocal obligations is not as strong as one would desire in many African communities. An example of the weak civility is the free-rider mentality in some communities and this combines with other factors to produce pervasive collective inefficiency and failures of growth initiatives. The free-rider mentality is evidently demonstrated in family members' low commitment to the family businesses in which they are employed. This is in sharp contrast to the mentality exhibited by family members employed in Asian family-owned companies in East Africa, in which family employees are reported to show a high sense of discipline and diligence and are willing to build on the efforts of their parents and grand parents (Himbara, 1994).

Pedersen and McCormick (1999:131) inform that the Asian migrants in Kenya and Zimbabwe controlled the wholesale and retail businesses in these countries. They appeared to be successful entrepreneurs partly due to these attributes as well as the collective efficiency and entrepreneurial zeal that their communities provide. A survey of 100 large-scale manufacturing firms in Kenya in 1990 showed that 75% were owned by Kenyan Indians. They also owned 86% of the firms valued over Ksh. 100 million (Himbara, 1994). Another report showed that Asians constituted 0.3% of the Kenyan economy in 1998, but controlled over 70% of the monetized economy (Janjuha and Woods, 2002).

In terms of staff recruitment and placement, the literature has shown that employment of family members may turn out to have devastating consequences for small businesses (Himbara, 1993; Kuada, 1993; Buame, 1996; Okpara and Wynn, 2007). For example, entrepreneurs may employ family members even when there is no job for them. By so doing they may relieve themselves of the immediate stresses produced by family pressures, but they in turn undermine the growth and viability of their businesses. Since family members employed in the businesses come easily to the jobs and take their job security for granted, they scarcely feel obliged to improve their skills and do a good job. Furthermore, personnel development policies are usually lacking in such enterprises, partly due to the lack of long-term goals and resources, but also because the proprietor is unable to decide on whom among the numerous relatives to support for development without jeopardizing his relationship with the other family members. The net effect is that productivity is low and business opportunities go unnoticed because no one (apart from the proprietor) is seriously concerned about the survival of the business. In case of collapse, the distant relatives join businesses of other relatives that appear to be doing well or return to subsistence life on the family land.

An earlier empirical investigation I have conducted in Ghana (Kuada and Buame, 2000) showed that some of the country's most successful entrepreneurs were either the only children of their parents (and have therefore escaped the burden of caring for their siblings during the formative stages of their businesses) or decided to "de-link" themselves with the family while their businesses were young. Those entrepreneurs who deliberately disconnected themselves from their families came back to the family fold when their businesses had gained a stronger economic foundation and could withstand the predatory tendencies of their families.

In terms of strategy, African entrepreneurs tend to be engaged in several unrelated businesses at the same time, many of them not formed on the basis of specialized skills or core competences of their owners/managers. The rationale for such unrelated diversifications (even when the investments in each are relatively meager) is one of hedging against an unwelcome turn of events in each business sector and an attempt to stay outside the reach and control of public agencies. The cultural obligation of finding jobs for relatives and friends also justifies the creation of new enterprises. An entrepreneur who would like to maintain a disciplined (professional) management in his key firm may establish a couple of other secondary firms in which family members are employed, the key firm is thereby kept free from family interference.

These discussions legitimise the introduction of the concept of "*soft liabilities*" in contrast to soft assets. That is, social interactions result not only in the creation of soft assets or social capital, but can also create rules of behaviour that produce *soft liabilities*. Examples of soft liabilities noted above include the uncompromising expectations of extended families and ethnic communities on the initial profits that nascent entrepreneurs make. They also include the requirements of employing uncommitted family members in the businesses. All these expectations exert pressures on African entrepreneurial activities and must be balanced with the soft assets

that are inherent in the social networks. A major challenge for the growth of entrepreneurship in Africa is to navigate through these demands without jeopardising the prospects of business success.

Nascent entrepreneurs must also address the problems that unbalanced expectations from the extended family and ethnic communities pose at stages of enterprise formation where their resources are not enough to meet these expectations and at the same time finance the growth of their enterprises. A possible solution that Ghanaian entrepreneurs have adopted is to de-link themselves from their families during the initial stages of their entrepreneurial activities and to re-link with the family at a later stage when their financials positions are strong enough to accommodate the demands of the extended family (Kuada and Buame, 2000). Ghanaian entrepreneurs have also delegated the functions of recruitment in their companies to non-family employees (preferably foreigners) who would recruit on the basis of qualification rather than ethnicity. Again, in a study of recruitment practices in Algeria, Mellahi and Wood, (2003) found that managers relied significantly on personal, non-family-based networks to identify and recruit their employees as a defence mechanism against threats resulting from leaking information about the performance of the business, the business partners and the political affiliations of managers.

Summary

Previous studies of entrepreneurship in Africa have suggested classificatory categories for African businesses. Leaning on these past discussions, I submit that it is purposeful to see African entrepreneurs as either *necessity-oriented* or *growth-oriented*. Furthermore, I have argued that some entrepreneurial activities are based on creativity/innovation while others are based on sheer imitation. I have also discussed the impact of the social and cultural context within which African businesspeople operate on their growth capabilities. The general understanding provided in the discussions is that the extended family acts more as a drag on nascent enterprises and

therefore constrains growth than as a source of resources. New business owners therefore need to adopt strategies that improve their growth opportunities, even if this may mean ignoring the expectations of the extended family members during the initial stages of their operations.

PART 5

GLOBAL ORIENTATION AND INTEGRATION

Introduction to Part 5

The past 50 years have witnessed a rapid growth in the literature on globalization of economic activities and the integration of national economies into global economic systems. Scholars such as Dicken (2007) provide elaborate accounts of decisive changes in economic structures worldwide, and how these changes connect people from diverse sociocultural backgrounds and economic experiences. Other writers including Buckley and Casson (1976) as well as Rugman (1981) draw attention to the internationalization processes of firms and how their integration into the world market provides them with opportunities for growth and job creation that enhances a nation's ability to attract foreign resources. Much of the literature has identified Transnational Corporations (TNCs) as primary movers and shapers of this global economy with the power to easily control or coordinate production networks across the world. On the whole, the available evidence suggests that successful global participants have achieved higher than average rates of economic growth whereby they have increased the economic well-being of their citizens. As argued in chapter 4, these developments provide both theoretical and empirical justification for making global integration one of the pillars of Africa's economic growth and development in the 21st century.

Unfortunately, the dramatic shifts in the global economies seem to have escaped many SSA countries. Africa's share of world trade has declined continuously since the 1960's. What is more, much of the trade done is in a few commodities, leaving African countries vulnerable to market fluctuations and commodity price shocks, while offering little in terms of value-added production. Thus, diversification of the export base remains critical to Africa's long-term economic growth. Intra-African trade has fared even more poorly, accounting for only 10% of Africa's international trade in 2004, growing only to 12% in 2009 (McKinsey, 2010). In comparison, intra- EU trade in the same period was about 70%.

Thus, Fafchamps *et al.* (2001:24) argue that "focusing on international exports is not only the best policy; it is the only policy that has the slightest chance of working. … In the long run, helping Africa export to the rest of the world would eventually raise intra- African trade, albeit through the back door, so to speak". I share this observation.

Thus, in line with the theoretical framework presented in chapter 4, this part of the dissertation (i.e. part 5) provides an overview of the contemporary theories of internationalization, and how these theories can help chart SSA countries' path towards becoming significant players on the global economic arena. It consists of two chapters – chapters 14 and 15. Chapter 14 focuses attention on firm level internationalization and export strategies. Chapter 15 discusses issues of regionalization and intra-African trade.

CHAPTER 14

INTERNATIONALIZATION THEORIES AND AFRICA'S ECONOMIC GROWTH PROSPECTS

Introduction

The economic growth literature provides several sound theoretical arguments suggesting a strong and positive link between trade openness and economic growth. Openness facilitates technology transfer, knowledge generation and diffusion. It also increases scale economies and operational efficiency through the exposure of firms to competition within domestic and foreign markets. Available empirical evidence suggests that economies that are more open to trade and capital flows have higher GDP per capita and grow faster (Dollar and Kraay, 2000). Studies in the internationalization process of SSA firms are therefore extremely relevant for an understanding of the economic growth and development prospects of African countries.

Starting on a positive note, Spring and Rolfe (2011) investigated the business environment of the 20 largest Sub-Sahara African (SSA) countries and showed that most of the countries have experienced significant positive changes in their integration into the global economy. Exports have increased in many of the countries in 2009 with the most significant increases registered in Uganda (147%), Ghana (55%), Cameroon (43%), Ethiopia (43%), Sudan (37%), Namibia (36%), and Senegal (28%). A UNCTAD study (2013) also showed that in the period from 2007 to 2011, African exports grew annually on average faster than those in other developing countries. African imports from the world are characterized by the same scenario, growing nominally faster than those in the developing and developed worlds.

A subsequent study by Spring, Rolfe and Odera (2013) also showed significant increases in Foreign Direct Investment (FDI) flows in some of these countries in 2011. Examples included Nigeria's FDI inflows of US$ 8.9 billion in 2011 (as against US$ 2.1billion in 2004). Similarly, FDI flows into South Africa was US$ 5.8 billion in 2011 (as against US$ 0.799 billion in 2004), Angola received US$ 5.5 billion in 2011 (as against US$ 1.45 billion in 2004), while Ghana received US$ 3.2 billion in 2011 (as against US$ 139 million in 2004). However, some of the countries have experienced increases in their external debt burdens (possibly, as a planned external capital inflow to boost investments that would otherwise not take place). These included South Africa (US$ 113.5 billion), Sudan (US$ 21.1 billion), and Angola (US$ 21.1 billion). These internationally-related economic activities have contributed to the overall GDP growth in SSA of about 6% in 2009, with East Africa recording a growth of 8.2%, Southern Africa 6.7%, West Africa 5.5%, and Central Africa 4.9%. The McKinsey Global Institute report provides a similar overview and concludes that global business can no longer afford to ignore the business potential provided by these growth trends (McKinsey, 2010).

This chapter therefore provides an overview of the dominant theories of internationalization and discusses their relevance in understanding the process of integrating African economies into the global economic system.

An Overview of Internationalization Theories

The existing literature on internationalization reflects three dominant streams of research. One group of scholars have focused attention on understanding the processes that relate to firms' initial entry into foreign markets, including their motives for internationalization, their choice of entry modes, as well as the strategies that they adopt to chart the path of their onward process of internationalization and improve their performance (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977, 2009; Cavusgil and

Nevin, 1981; Leonidou and Katsikeas, 1996; Morschett, *et al.,* 2010; Leonidou *et al.,* 2010). These scholars have been inspired mainly by the theories of firm growth and of innovation-diffusion processes, treating internationalization as an innovation that is based on the acquisition of new market knowledge. To them, the internationalization process of firms is path-dependent, proceeding in stages and at a tempo that the innovation and learning process of firms allows. Firms acquire knowledge experientially, i.e. through reflections on individuals' actions as well as through their collective actions. They, therefore, initiate their internationalization processes by entering countries with little psychological distance where the perceived market unfamiliarity is lowest and therefore require minimum new knowledge to operate in. They then move incrementally into more distant countries, using experiences gained in each cycle of international operational events as knowledge base for subsequent market entry decisions. This explanation of the internationalization process of firms is referred to as the *stages process of internationalization*.

Following Eriksson *et al* (1997), international firms require three kinds of knowledge: (1) foreign business knowledge, (2) foreign institutional knowledge, and (3) internationalization knowledge. They define the foreign business knowledge component to cover knowledge about suppliers, clients, competitors and the market. Foreign institutional knowledge covers knowledge about government policies, bureaucratic regulations, and culture (broadly defined to include business practices, as well as societal values, norms and accepted rules of behaviour). Internationalization knowledge describes the firm's general understanding of how to do business outside its home country and include an insight into the procedures that can facilitate its international operations.

The second stream of research comes from scholars who see the internationalization process of firms in terms of exchanges and relationships and their related governing mechanisms. They describe business systems as

networks of firms engaged in value adding processes of production, distribution and use of goods and services. This perspective is generally described in literature as a *network approach to internationalization*.

The theoretical logic of the network approach is that no single firm possesses all resources and capabilities needed for creating value for customers in a rapidly changing economic environment. If a firm were to generate its entire added-value using domestic resources, its export success would depend exclusively on the quality of the home-based resources. This may limit its competitiveness in key export markets that are served by firms with more superior local resource bases. It is therefore important for local firms to seek resources from a wide variety of external sources. Thus, for network scholars, successful international firms must have a network orientation. Having such an orientation encourages firms to identify the roles, strengths and resource configurations of other actors within the network, and leverage resources that they lack from other business actors within the network.

Over the years, network scholars have drawn on the works of economic sociologists (Granovetter, 1985) and on resource-based studies (Barney, 1991, 2001) to broaden their perspective of the strategic opportunities inherent in networking. Building on sociological concepts of embeddedness and social ties, it has been argued that business networks are embedded in the socio-cultural contexts of the nations in which firms operate. A firm's position within a socioeconomic network provides it with access to social capital and knowledge. With social knowledge, firms may be able to reduce their reliance on ownership as a means of control over their foreign operations. Put differently, firms placed centrally in a network receive more, better, and earlier knowledge than their competitors (Burt, 1992).

The third stream of research focuses attention on the later stages in the internationalization process of firms where many of them decide to locate

parts of their production abroad or to internationally outsource some of their value creation activities. The theoretical foundations of these studies are found partly in Dunning's eclectic theory (Dunning, 1988), and studies of international value chains and production networks (Gereffi, 1994; Gereffi, Humphrey and Sturgeon, 2005). This stream of research focuses mainly on the production processes of international firms and their relationships with local production units.

Most of these studies have endorsed the value chain conceptualisation popularised in Michael Porter's work (Porter, 1985) and highlight deliberate strategies of Trans-national Corporations (TNCs) to select firms in different parts of the world to participate in the global value chains. The result of this internationalization strategy is that production is increasingly fragmented across geographic space (Arndt and Kierzkowski, 2001). As such, a value chain is perceived as being composed of a discrete set of activities performed by independent and potentially rival groups of firms, each group pursuing its individual goals. Collaboration is seen as a necessity rather than a desire. The primary concern in the value chain management is therefore to ensure optimal performance of each member of the chain in terms of cost effectiveness. Stated differently, the optimisation task within a value chain means that the appropriate inputs are found in the right place, at the right time, and that the flow of products and processes are facilitated through the chain. Gereffi (1994) introduced the concept of *Global Commodity Chains* (GCC) to describe the coordination systems in value chains dominated by TNCs. He argued that value chains found in capital-intensive sectors such as the automotive and aircraft industry are driven by major producers and are therefore referred to as *producer-driven commodity chains*. There is a relatively high degree of centralisation within these chains and across nations. He contrasts such chains to those found in industries where transactions and labour costs are important to competitive positioning. The key drivers in such industries are the major retail chains. He referred to these chains as *buyer-driven commodity chains.* Prominent among such

chains are those found in garment, footwear, toys, and consumer electronics. In buyer-driven chains, dominant buyers demand that their merchandise producers should lower prices, and this reinforces the pressure on their contractors down the chain to lower prices of inputs and components supplied. This may necessitate the adoption of cost-cutting (and other efficiency-enhancing) strategies within the chain.

The African Growth Opportunity Act (AGOA) passed in the USA in 2000 derives its theoretical inspiration from the GCC perspective on internationalization. The Act has been designed to stimulate trade with the US by encouraging innovation and upgrading of Africa's industries through linkages with American firms. The underpinning logic is that the rigorous supervision of the production and shipment processes that American importers practice will compel African producers to become more conscious about product quality and production efficiency and thereby strengthen their overall competitiveness in other markets. For example, suppliers of garments are expected to undertake a wider set of value added activities. They source fabrics and inputs themselves, while producing to design. American garment retailers are normally very elaborate in their supervision of the production and shipment process covering such activities as supplier certification, product specification, agreements on quality assurance procedures, procedures for reporting on work in progress as well as compliance with customers' garment safety and labour standards. Agents of the buyer located close to the supplier closely monitor each stage of the process. It has been argued, however, that due to their sheer size and market power, the American retailers tend to dominate the relationships. This power asymmetry therefore limits the gains from relationships with African firms (Gibbon, 2001).

In sum, the first - two strands of research assume that the internationalization process of firms is initiated at the sales and marketing end of the value chain. Thus, these types of research are labelled

downstream internationalization (Kuada and Sørensen, 2000). The third stream of research, on the other hand, focuses attention on the strategic decisions of firms to obtain parts or all of their inputs (including technology, knowledge and human resources) from foreign sources. It is therefore captured in the concept of *upstream internationalization* (Welch and Luostarinen, 1993; Kuada and Sørensen, 1999). However, all three strands of research subscribe to the view that successful internationalization of SSA firms derives from a variety of organisational development strategies, knowledge flows, and institutional arrangements among many stakeholders. International firms must therefore continuously re-assess and re-design their competencies and relationships in order to keep their value-creating systems flexible and responsive to the demands of the markets in which they operate.

Downstream Internationalization

Starting with the stages perspective on internationalization, some scholars have suggested that the sizes, ownership structures, resource disadvantages and limited managerial capabilities of SSA firms seriously constrain their ability to pursue a gradual path-dependent process of internationalization (Kuada and Sørensen, 2000; Ibeh, 2003). Following Porter (1990) domestic demand plays a critical role in shaping national competitive advantages. Where domestic demand for a particular product is high and buyers are sophisticated, local firms are pressured to innovate faster and achieve more sophisticated competitive advantages. Furthermore, serving large domestic markets allows local firms to reap economies of scale and learning. It also spurs them on to invest and upgrade their production technologies since they are relatively certain about recouping their investments within a reasonable time frame. For example, firms in bigger emerging market countries such as China, India and Brazil benefit immensely from serving their domestic markets. Since their volumes of production are high, the unit costs of their products become relatively low. This allows them to sell at lower prices without incurring losses. Conversely, firms that operate in markets where

demands for their products are relatively small will be reluctant to embrace new technologies since the possible increase in production resulting from such investments cannot be absorbed by their local markets. Thus, with the generally weak domestic demand in most SSA countries, firms in these countries are unable to enjoy economies of scale and opportunity to grow through the accumulation and use of domestic resources. Furthermore, the non-competitive nature of the domestic markets for certain products (e.g. agro-industrial products) do not offer the firms the challenges necessary to develop product characteristics suitable for the highly competitive markets.

The network and global value chain perspectives hold promising contributions to internationalization policies and strategies for SSA firms. Leaning on the earlier discussions of the value chain, it can be argued that firms that are privileged to be included in the network of value creating activities of foreign (lead) firms can leverage key external resources and thereby bridge their resource gaps. Research work on the electronics industry and contract manufacturing in Asian countries (Sturgeon, 2002), and the apparel as well as the horticultural sectors in some African countries (Dolan *et al*., 1999; Gibbon, 2001) provide empirical evidence of these forms of internationalization through chain inclusion. Furthermore, producers of ethnic products that have differential advantages due to unique design can position themselves within the value chains of key retailers in Europe and North America, serving their niche market segments. Examples of such market opportunities include *kente* from Ghana (Kuada and Sørensen, 2000), and utilitarian handicrafts from different African countries (Malcolm, 2011).

There are, however, some drawbacks to the inclusion of SSA firms in already established international networks and value chains. As noted earlier, a major drawback derives from the power asymmetries within the networks and the issue of how new-comers can manage their dependence on internationally-established actors. In business, just as in many other social

spheres of human endeavour, power is exercised through the possession of resources on which other actors depend for the attainment of their own objectives. Sociological studies suggest that power is not a static quantity but varies according to context and resource ownership (Granovetter, 1985). The existing non-African network members clearly have resource and market position advantages over the African firms that are late-comers on the international scene and are therefore likely to find themselves dependent on others for services required in attaining their business objectives.

In addition to the dependency problem, business literature has identified supply-side constraints (e.g. the limited capacity of African suppliers to fulfil pre-shipment value-adding requirements of distributors abroad) to severely reduce the attractiveness of SSA firms to retailers in Europe and North America. For example, Dolan *et al* (1999) reported from their study of the supply-chain management of UK horticultural markets that the major super-markets and importers in the UK require their suppliers to possess a broad range of post-harvest competencies, such as the management of cooling and cold storage systems, on-site packaging and capabilities to ensure high quality and reliable deliveries if they are to have any chance of being listed as regular suppliers. Many African suppliers have been found to fail to fulfil their delivery obligations due to limited capacity as well as weak technical and managerial capabilities therefore they have consequently been judged unqualified for inclusion in existing international value chains.

It has been argued that African managers and employees have not as yet developed the business mindset required for effective operation on the international business scene and this contributes to their limited attractiveness as business partners (Kuada, 2007). For example, product qualities in SSA are generally unreliable and contractual obligations, most often, are not taken seriously by African managers (Fafchamps, 1996). These lapses in business practices have produced a general atmosphere of

mistrust among businesspeople, compelling them to engage in arm's-length, spot-market types of transactions, even within the domestic markets.

Finally, several SSA firms lack innovative orientation and capabilities to make themselves attractive as outsourcing candidates. The GVC literature has hitherto seen upgrading exclusively in terms of improvement processes of firms that are initially at the lower end of the value chain – i.e. a movement along an existing value chain. This is referred to as *functional upgrading*. It has been noted that functional upgrading is not automatic; partly because it requires deliberate strategic initiatives from top management to accept extra value-adding responsibilities from its lead customers/outsourcers. But the literature has, however, been silent on the specific mechanisms that facilitate the upgrading.

Upstream Internationalization

As hinted above, the concept of upstream internationalization covers the strategic decision of firms to source parts or all of their inputs (including technology, knowledge and human resources) from foreign sources in order to raise or sustain their competitive positions in target markets (Welch and Luostarinen, 1993; Kuada and Sørensen, 1999). The literature has treated such activities under supply chain management, outsourcing and international strategic alliances (Borys and Jemison, 1989).

Some strands of the upstream internationalization research have leaned on the resource-based perspective of the firm to argue that where the resources required by a firm to generate its value-adding activities are of a general character, easily identifiable or substitutable, the firm may depend on the market to acquire them and may use them in-house to perform the value-added activities that form the core of its business. But if they are of an intangible nature (e.g. tacit knowledge and firm capabilities), the attributes of such resources will render them nearly impossible to buy directly.

Therefore, the firm enters into collaborative arrangements with other firms to supply it with the required resources.

Thus, most upstream international arrangements are distinctively different from downstream approaches in the sense that they involve fairly long-term inter-firm relationship rather than episodic (and perhaps, opportunistic) transactions. The literature lists several advantages of upstream collaborative arrangements. Contributions to the literature draw on theoretical traditions such as the resource-based perspectives on firms (Barney, 1991 and 2001), competence-based perspectives (Prahalad and Hamel, 1990) and knowledge-based perspectives (Nelson and Winter, 1982; Inkpen and Crossan, 1995; Grant, 1996; Gulati, 1998). These scholars argue that collaborations do not only provide access to tangible resources. They also enable partners to access the embedded knowledge of co-partners and/or facilitate new knowledge generation (Inkpen and Crossan, 1995).

It is also appropriate in this section to revisit the concept of dynamic capabilities introduced in chapter 4. Cross-border interfirm linkages allow firm to tap into other firms' "capabilities" to complement theirs. As Teece (2011:3) puts it "the dynamic capabilities perspective goes beyond a financial-statement view of assets to emphasize the "soft assets" that management needs to orchestrate resources both inside and outside the firm. This includes the external linkages that have gained in importance, as the expansion of trade has led to greater specialization. It recognizes that to make the global system of vertical specialization and co-specialization work, there is an enhanced need for the business enterprise to develop and maintain asset alignment capabilities that enable collaborating firms to develop and deliver a joint "solution" to business problems that customers will value."

The wisdom in upstream internationalization has also informed discussions in the international supply chain management literature where the focus has been on the management of relations with suppliers in foreign countries, and the coordination of an integrated network of business processes. In brief, international supply chain management partly entails making sure that all firms and activities, which are associated with the flow and transformation of goods from the raw materials stage to the final consumer stage, are well synchronized. That is, production scheduling at suppliers' end of the chain are combined with elaborate logistics arrangements to make this function.

Thus, from an upstream perspective, a firm must be concerned about the selection of a supplier that possesses the best bundle of resources that would deliver the inputs, components and/or resources that it requires under optimal conditions for it to maintain or enhance its competitive position as required by its strategic objectives. The key question is how can we be sure that the supplier does not misrepresent its resources and capabilities?

Building on agency analytical frameworks, it has been argued that firms in upstream relationships face two types of vulnerability in their operations. The first is *adverse selection*, which describes the condition under which the firm cannot be certain that competencies the supplier claims to have are also those required to provide the inputs and resources that it needs for the optimal performance of its own value-adding activities. The second is what is referred to in agency theory as *moral hazards*. Moral hazard is the condition under which the firm contracting for the inputs or resources cannot be sure if the supplier has put forth maximal effort (Eisenhardt, 1989). Addressing these two issues require careful partner selection and monitoring of the collaborative process.

Scholars of inter-firm collaboration have shown that partners enter their relationships with a set of initial conditions that define the tasks, interface structure and expectations (Doz 1996). They then cycle through a sequence

of learning, re-evaluation and re-adjustment stages during the period of their collaboration. Each event in this cycle provides additional knowledge of the preparedness of the co-partners to make the necessary efforts and contribute the required resources to fulfil the objectives of the collaboration. Where partners experience the initial stages of the relationship as rewarding, they increase their commitment and efforts to progressively develop the relationship.

Following Kumar and Nti (1998) an effective management of the collaborative process requires an awareness of the differences between factors relating to contributions made by the partners and factors concerning their psychological attachment to the relationship. The contributions here refer to the resources and efforts that partners make to build the relationship. The psychological dimensions of the relationships are evaluated in terms of *process discrepancies* in the relationship (i.e. differences between what is anticipated and what actually happens within any given time period). The contributions and the processes lead to the concrete outcomes of the relationship. Favourable process and outcome discrepancies engender further commitment to the relationship. Unfavourable discrepancies produce a reverse impact, i.e. low motivation of the partners to make the relationship work.

In sum, the discussions above indicate that the works of international network scholars and writers on international value chains provide theoretical legitimacy for an integration of upstream and downstream routes of internationalisation. But these scholars have not explicitly attempted to build an integrated conceptual and analytical framework. In my view, an explicit conceptual integration carries both practical and academic gains. For companies, it emphasises the strategic importance of discussing both marketing and purchasing activities jointly and encourages the development of organisational structures that would facilitate joint actions in the two key functional areas in business. As it were, the existing conceptual separation

produces a situation in which tools developed to strengthen relationships with customers (e.g. customer-relationship management tools) do not find relevance in purchasing departments. The next section of the chapter provides such a conceptual and theoretical integration.

Four Routes of Internationalisation

The integration of upstream and downstream processes of internationalisation re-defines our conceptualisation of internationalisation of firms as such, particularly with respect to the routes and strategies of internationalisation, as well as resources required to support the internationalisation process. We suggest that an integrated framework produces four distinct routes of internationalisation for every firm. These are:

1. Internationalisation by upstream activities only
2. Internationalisation by downstream activities only
3. Sequential upstream-downstream internationalisation
4. Concurrent upstream-downstream internationalisation

Internationalization by Upstream Activities Only

As argued earlier, upstream internationalisation has its theoretical legitimacy in the resource-based literature. To recapitulate, the resource-based perspective holds that each firm consists of a bundle of resources. But those components of the resources that are valuable, rare, inimitable and non-substitutable enable the firm to bundle other resources together and to implement value-creating strategies that cannot be readily duplicated by other firms (Barney 1991, 2001). Such resources combine to form firms' dynamic capabilities, which enable their managers to demonstrate exceptional alertness in identifying changes within the operational environment and to take actions sooner than their competitors in order to

take advantages of the opportunities and avert threats within their operational environments. Such resources include the knowledge management capabilities of the firm, i.e. abilities to learn continuously, to disseminate the knowledge to all organisational members and to ensure that the available stock of knowledge within the firm is effectively deployed to inform strategies and behaviour (Prahalad and Hamel 1990). Continuous learning is to forestall situations where firms are managed by a dominant logic that is out of tune with the environmental changes.

To the extent that upstream activities help channel resources (including knowledge) to developing-country firms, they have a critical role to play in defining the overall strategies as well as tempo and direction of the internationalisation process of the firms that use them. But the decision of firms to base their internationalisation process on upstream activities will depend on their overall motives of internationalisation and the prospects of finding suitable partners abroad.

Internationalization by Downstream Activities Only

Our earlier discussions justify the promotion of downstream internationalisation in all market economies. At the macroeconomic level, exporting contributes to foreign exchange reserves of nations, provides employment and foments forward and backward linkages within an economy. At the micro level, export marketing provides firms with new market opportunities and thereby raises their capacity utilisation, improves their financial as well as overall competitive positions. The small size of local demand of most SSA countries further justifies their reliance on export-led growth strategies.

Following Bloch and Tang (2004: 247), the success of the high-performing Asian economies (Hong Kong, Korea, Singapore and Taiwan) in the past

three decades provides a strong argument for export-led growth. There appears to be a consensus in the development economics literature that the success achieved by these economies is largely due to their unusual export performance, especially manufactured exports. Following Pack and Page (1994), these economies achieved their extraordinary growths through international business relations that allowed their firms to have access to the following resources: (1) new equipment, (2) direct foreign investment, (3) proprietary and nonproprietary technology, (4) as well as information provided by purchasers.

But due to a multiple set of reasons, SSA firms' downstream internationalisation processes are severely constrained and can be extremely slow at best. The export literature contains a long list of factors – both external and internal - that inhibit developing country firms' downstream internationalisation. The external factors include high relative cost of financing exports (Bilkey, 1978; Czinkota and Ricks, 1983), dealing with bureaucracy within public agencies (Rabino 1980, Cavusgil 1984), export documentation (Rabino, 1980; Czinkota and Ricks, 1983), lack of market information (Katsikeas and Morgan, 1994), logistical constraints and high cost of transportation (Rabino, 1980). The internal constraints include difficulties in meeting importers' quality standards (Rabino, 1980), export packaging (Czinkota and Ricks, 1983), lack of competent staff (Kaynak and Kothari, 1984) and inability to self-finance exports (Bilkey, 1978). Foreign distributors may hesitate to buy from SSA firms due to the constraints listed above. In addition to these, the literature has identified supply side constraints such as limited capacity of suppliers to fulfil pre-shipment value-adding requirements of distributors abroad as severely reducing the attractiveness of these firms as exporters to Europe and North America.

Firms may need to adopt proactive strategies in order to speed up their downstream internationalization processes. Proactive strategies describe managerial behaviours that seek to understand and create future

development paths of businesses through internal innovative actions as well as active search and moulding of opportunities. As Puhakka (2007:25) explains, "it is behaviour that tries to create a vision of the future and establishes a business before others see the trend." Proactive strategizing both has external and internal dimensions. When managers strategize proactively, they create firms that are able to 'feel' what changes are happening in a market and sense opportunities that these changes create. Said differently, opportunity discovery may be conceived as being intuitive interpretation of the dynamics of market structure, competition, customer needs, timing and synergy. It also implies acting based on incomplete information (Ardichvili *et al*., 2003).

Sequential Upstream-Downstream Internationalization

Sequential upstream-downstream internationalisation implies that upstream activities and relations precede the initiation of downstream transactions. The former relations are, however, not terminated when downstream internationalisation begins. They may, in fact, increase in range and complexity in response to changing needs of the firm.

The downstream internationalisation may either be deliberately planned to succeed the upstream internationalisation process or it may be unintended, - but seen as a logical consequence of successful upstream activities. In the first case, firms that engage in the upstream relationship do so intentionally to support their downstream internationalisation process. The strategic goal of the upstream activities, in this regard, is to raise the competitive capacity of the focal firm in its chosen export markets. Therefore, the success of the upstream internationalisation is measured by the success of the downstream internationalisation. In the second case, the downstream internationalisation becomes an emergent rather than a deliberate strategy. For one thing, doing business with international suppliers gives managers an international exposure. Information about market opportunities abroad may be generated

through these contacts. Having a position within an international business network as a buyer, management finds it relatively easier to explore opportunities in these markets for its products. Thus, market selection flows naturally from these initial contacts.

Where the focal firm aims at being a major player on the international scene, i.e. using upstream internationalisation as a springboard for downstream internationalisation, an incremental approach to change may not prove effective. Firms with very low levels of technological capacity compaed to the major players in the target markets may require dramatic changes in their profile, i.e. in terms of technology, financial resources, technical skill and managerial competencies for them to compete successfully in the target markets. For similar reasons, technological and financial resources may also be sought outside the home country for similar reasons.

A debatable question is whether SSA firms should engage in upstream relations with a single foreign firm or with several firms. The decision on the number of foreign firms with which to cooperate would depend on the firm's internal capacity to coordinate, absorb, and transform varieties of ideas and resources from different foreign partners as well as its ability to honour the obligations that the various relationships impose. But above all, the number of foreign firms interested in engaging in relationships with the firm would depend on the latter's comparative attractiveness.

Concurrent Upstream-Downstream Internationalisation

Firms with substantial resources and government support may engage in upstream and downstream internationalisation simultaneously. The downstream international activities may be triggered by those conditions listed earlier, i.e. the production of uniquely designed ethnic products, inclusion in global production networks by lead firms, or an advantage of government export development policies. Again, as noted above, for most

SSA firms, upstream internationalisation requires linkages with foreign firms. On their own, most firms in developing countries are generally not attractive candidates for international firms in search of partners abroad, except for the production of specific product categories where resource location provides a significant competitive advantage. Governments' support may therefore facilitate their links to foreign firms through bilateral business-support agreements.

I have earlier forwarded the view that firms that intend to engage in upstream and downstream internationalisation processes simultaneously must have the capacity to absorb external resources from the upstream relations and at the same time be able to meet the needs of downstream customers. The main argument here is that external resources require internally available resources for them to be effectively transformed and applied for value creation purposes. This is why only very few SSA firms can follow this route without some form of institutional support.

The implications of an integrated perspective on internationalisation can be discussed in terms of its impact on overall strategy formulation and performance of firms as well as the various decisions that managers make in relation to the internationalisation processes themselves.

Institutional Capability and Internationalization of Firms

As noted above, governments and public institutions must make a determined effort to establish a business-friendly environment in order to facilitate the growth of small nascent developing-country firms' entry into new export markets. The export marketing literature has suggested that export business-support services will have the greatest beneficial effect if targeted at firms at their early stages of internationalization (Seringhaus and Botshen, 1991). The reason is partly that export activities produce lower levels of profit than domestic business during the initial stages of internationalization (Kotabe and Czinkota, 1992). For example, institutional

support may be provided in identifying trends and issues in foreign markets that offer robust opportunities for growth, and analyzing options for addressing policy and transaction cost barriers to increased participation in high-value business sectors.

One of the instruments that have proved useful in both developed and emerging market economies is providing export assistance through well thought-out export-promotion programmes (EPP). Such programmes have been found to reduce in firms' export risks and raise their preparedness to enter new markets (Lederman *et al.,* 2006). In this way they increase export effectiveness (growth in export sales or share) and/or lower new export firms' cost of exporting and thereby save firm level resources (Shamsuddoha and Ali, 2006).

But hitherto, export-promotion initiatives in most SSA countries have been characterized by the provision of standardized incentive packages that do not take cognizance of the differences in the stages of internationalization or the degrees of export involvement of the target users of the assistance. To remedy the situation, new and more varied assistances are required institutions in SSA to support exporters at different levels of their export involvement. The export marketing literature suggests that in the early stages firms can use assistance to be aware of export opportunities and benefits and hence become motivated to export. Later, they require information about the marketing strategy requirements of different export markets as well as extra assistance to solve logistic and legal procedural problems. As their level of involvement becomes higher assistance would be needed to conduct more elaborate market analysis and to penetrate new and distant markets.

The establishment of bilateral business-support agreements with governments in major industrial countries and the emerging market economies such as China and India has proven to be a viable and sustainable approach to facilitating upstream internationalization processes for African

firms (Kuada, 2002). For example, donor organizations such as the Danish International Development Agency (Danida) have designed assistance programmes that support collaborations between firms in the donor countries and those in Africa. These bilateral policies have made significant contributions to the internationalization processes of firms in the selected African countries (See Hansen and Schamburg-Muller, 2006).

Summary

Despite the recent impressive economic growth records in SSA, the sub-continent's economy still has severe structural problems and is weakly integrated into the global economy. For this reason much of the benefits of globalization elude most of the countries. For example, the export sectors of most of the countries remain undiversified in terms of products and destination, many of them depending on single commodities including oil. Countries such as Nigeria, Equatorial Guinea and Gabon derive over 90% of their export earnings from oil. Naturally, many of the countries that have registered high GDP growth rates are among the major oil-producing countries (Spring and Rolfe, 2011, 2013).

The main thrust of the discussion in this chapter is that upstream and downstream internationalisation processes are of equal importance in the integration of SSA economies into the global economy. That is, firms strengthen their competitive positions in the global market, not only through downstream processes of internationalisation but also through links with their foreign suppliers. Upstream arrangements strengthen firms' technological and organisational capabilities and enable them to raise their product and marketing effort to international standards.

Building on the discussions above, it is clear that a new set of policies and strategies are necessary to speed up the pace of internationalization of SSA firms. I submit that these policies and strategies must seek to pursue *upstream* and *downstream* internationalization ambitions concurrently.

Downstream internationalization may require governments to adopt business-support policies that reduce the barriers to exports. Upstream strategies must help African firms leverage outside resources and upgrade their technological and managerial capabilities so that they can become competitive in existing markets and enter new high-growth markets within and outside Africa.

CHAPTER15

REGIONALIZATION AND ECONOMIC INTEGRATION

Introduction

As argued in chapter 15, regionalisation and free trade arrangements have enormous potential for creating employment, facilitating investment and fostering growth in Africa. Regionalization can expand the market space of individual SSA firms and grant them the opportunity to reap the economic benefits of scale. African governments have therefore considered it an important item on the political agenda since the 1950s. The contribution of regionalization to intra-African trade has, however, been rather modest. UNCTAD (2013:2) reports that the average share of intra-African exports in total merchandise exports in Africa was barely 11 per cent between 2007 and 2011, (compared with 50 per cent in developing Asian countries, 21 per cent in Latin America and the Caribbean and 70 per cent in Europe).

The reasons for weak intra-African trade are many. They include the generally low level of economic activities on the continent, poorly designed and implemented intra-African trade arrangements, persistent conflicts, limited political commitment, poor regional infrastructure, poor economic governance and lack of trust among prospective business partners (see Gupta and Yang, 2006). With regard to internal and cross-border conflicts, some estimates suggest that about 20 per cent of Africa's people now live in countries formally at war or severely disrupted by conflict. For each year these conflicts last, the countries lose more than two percentage points of economic growth (Ajayi, 2001).

This chapter draws on the available literature to discuss African countries' regionalization experiments, challenges and outcomes and draws policy implications from them. The discussions also revisit the central tenets of

neoclassical economics and their relevances to understanding foreign trading processes.

Theoretical Rationale for Regionalization

In broad terms, regionalization is a process by which different types of actors (including states, regional institutions, societal organizations and other nonstate actors) develop formal and informal arrangements that build networks of economic, social, cultural and political relationships within a defined geographical region[27]. As an economic arrangement, emphasis may be placed initially on liberalization of trade relations through the removal of tariff and non-tariff trade barriers. The literature on economic integration suggests that there are potential static and dynamic gains resulting from tariff liberalization within the context of regional trade agreements (Gupta and Yang, 2006). The static gains are due to better and more efficient allocation of resources which occur when the elimination of trade barriers among members of a trading bloc creates trade by shifting production from high to low-cost producers within the bloc. However, liberalization within trade blocs can also divert trade by inducing a shift from low-cost producers outside the bloc to high-cost producers within the bloc. The net welfare impact will be positive if the trade-creation effect dominates the trade-diversion effect, and this is more likely if bloc members are competitive and production structures differ across economies.

The dynamic-growth effects of regional trade blocs are due to the general enlargement of the markets for goods and services for competitive firms. The scale economies that the larger market creates lead to efficiency of firms in general and the emergence of markets for goods and services that

[27] The term "region" in economic literature has two broad meanings. It may mean the area (city, urban) in the same country or a composite part of a larger economic social space, which differs from other surrounding territories in economic, social, demographic, cultural, natural, and infrastructural systems connected by material and informational relations. It may also mean a group of nations that create a specific social, economic, and technological space.

these companies demand. It also provides economic justification for investments in infrastructures that may serve companies in several countries within the region. Regional trade blocs can also have growth effects by facilitating technology transfer from more technologically advanced members to other members of the bloc. In addition, they can reduce duplication of research and development activities in different countries and generate scale effects in such activities.

Another channel through which regional trade blocs affect growth is intensified competition, forcing domestic firms to use resources more efficiently and become more productive. Better access to a large market through regional trade arrangements can also boost growth by reducing risk and uncertainty for firms and spurring entrepreneurship, thereby having a positive impact on employment, investment and growth in the economy (Schiff and Winters, 2003).

The literature on economic integration also provides interesting insights into the distribution of benefits in a trade bloc. More specifically, it suggests that the distribution of benefits depends on country characteristics, and that the formation of a trade bloc is likely to affect members in a different manner. For example, the benefits of bloc membership are likely to be high for landlocked countries, particularly if some members of the bloc have access to the sea and the formation of the bloc results in the development of regional infrastructure. Furthermore, the larger a bloc member country's economy, the better position it will have in exploiting opportunities created in trade blocs.

There are also learning and resource leveraging effects of regional economic arrangements. Building on Mathews' (2006) LLL – "Linkage-Leverage-Learning" – theoretical model, it can be argued that some developing-country firms can reduce their resource disadvantages through cross-border interfirm collaborations that allow them to leverage both tangible and

intangible resources, and to learn from each other through interaction. Although his original focus is on Transnational Corporations (TNCs) from emerging market economies, the same line of thinking can be extended to smaller developing-country firms with international strategic orientations. This perspective is consistent with the upstream internationalization arguments presented in chapter 15. We have noted earlier that previous research in Africa has also shown that partners who are able to coordinate their actions and manage their interdependence realize the best benefits of their relationships, including the ability to generate and/or transfer innovation-inducing knowledge (Kuada, 2002, 2006). [28]

Clusters and Regional Industrial Districts

A related concept that reinforces the resource leveraging potentials of firms through collaboration is the "cluster" or "industrial district" concept. The concept of clusters has been used in the development economics literature to describe the spatial agglomeration of enterprises and related suppliers and service industries. Porter (1998:199) defines a cluster as "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities". Management scholars therefore conceive clusters as extended supply chains. This perception is predicated on the understanding that clustering enables firms to deliver better quality goods, and do so relatively faster and cheaper than competitors. The linkages among the firms in the cluster provide a measure of mutual support, especially if the firms in the cluster offer goods and services that have different business and product cycles.

Rugman and Verbeke (1993) suggest that a cluster may be built around either one, or a few, "core" firms (i.e. a cluster champion) or it may consist of several, more equal partners, with no particular firm performing a dominant role. They describe the first type of cluster as "asymmetrical". The

[28] Learning in this sense refers to the building of new competencies and the acquisition of new skills, not just gaining access to information.

core firms in an asymetrical cluster tend to take on a leadership role in developing and sustaining the cluster, thereby intentionally fostering the co-evolution of the organizations involved and the creation of spill-over effects arising from this co-evolution. They call the second type of cluster "symmetrical" – i.e informally managed by firms with shared responsibilities. The type of cluster that evolves will determine the dynamic nature of its properties and its capacity to enhance the growth potentials of individual firms and draw other firms into the industry.

Thus, regional cluster formation carries several potential benefits for SSA firms. It can create an industry environment that enhances the attractiveness of individual firms as potential subcontracting candidates. On their own, the individual firms may suffer liabilities of attractiveness due to their limited track records. That is, foreign firms may not consider them attractive partners individually. But the collective image of a dynamic industrial district will have an indirect positive image impact on the individual firms and enhance their attractiveness as candidates for collaboration (see Rugman and Verbeke, 2001 for similar arguments).

It has also been argued that proximity encourages intense competition among rival firms, leading to technological advances within the industry (Lundvall, 2011). But the firms are not only competitors; they may collaborate on certain issues and in certain situations while competing in other situations. The concept of *co-optition* captures these operational relationships. Furthermore, as economic activity agglomerates, a tendency toward *geographical specialization* may also develop. Firms within the cluster serve as bridges between the networks of firms and therefore act as conduits of valuable knowledge and ideas for improvement of business practices (Madsen, 2013). All these characteristics further enhance the dynamics within the industrial districts. Thus, some economists see clusters as a new way of organizing economic growth activities.

When industrial clusters are purposefully engineered as cross-border economic growth poles, they tend to reinforce growth initiatives of individual countries through their multiplier impacts. Their contribution to growth may be likened to Rugman and Verbeke's (1993) double diamond concept. That is, they are no longer localized knowledge clusters, but rather produce cross-border spill-overs. There are two related reasons for regional clusters' growth-enhancing impacts. First, routines related to daily operations within the cluster may migrate across borders to firms that provide related services to the cluster-based firms. Second, the exogenously imposed requirement of the cluster-based firms may compel the supplier firms to make new investments or acquire new knowledge that upgrades their operations.

Clusters may also include institutions such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations. The formation of supportive relationships between firms and the institutions may result in the generation of industry-related information about everything from markets to industrial processes. The constellation of institutions at the regional level that contribute to the innovation process is labeled the *regional innovation system* (Braczyk, *et al.* 1998). This set of institutions, both public and private, produce pervasive and systemic effects which encourage firms within the region to adopt common norms, expectations, values, attitudes and practices.

The above arguments suggest that regional clusters can serve as important tools for promoting enterprise development in individual African countries. Söderbaum, (2004) argues that the great majority of present-day regionalist schemes in Africa are founded on the notion that the regional economic integration project should be market driven and outward looking and should remove obstacles to the free movement of goods, services, capital, and investment within the regions as well as to the rest of the world. The overall intention is to ensure a closer integration into the world economy.

Lundquist and Trippl (2009) suggest a three-stage framework for analyzing trans-border cluster formation process, each stage representing different degrees of integration. The stages are: stage I "weakly integrated", stage II "semi-integrated", and stage III "strongly integrated". Stage 1 is characterized by a low level of cross-border economic relations, in general, and a lack of knowledge interactions and innovation linkages, in particular. There might be potential benefits for collaboration but several kinds of borders and distances (e.g. spatial distance or institutional incompatibilities) might prevent firms from capitalizing on the potential synergies. For example, spatial distance due to infrastructural weaknesses might prohibit frequent face-to-face contacts (often containing a large proportion of tacit knowledge). They argue that "the combination of institutional thinness, strong path dependence, and institutional lock-in, on the one hand, and a very low social acceptance among firms and citizen, on the other hand, will not only be a barrier for many forms of integration, it will also shape a very weak cross-border identity, internally and externally." (ibid. page 11).

Institutional initiatives are required to address these weaknesses and move the cluster development process to stage 2 whereby knowledge-driven system emerges. But at this stage, the asymmetrical cross-border links and flows are still important and the most dominant feature in the pattern of interaction. However, the asymmetry will be decreasing and opening up for new and more mutual beneficial linkages on both sides of the border. This can produce windows of opportunities leading to economies of scope and increased cross-border learning processes in a few selective parts of the economy.

Stage three represents the most advanced and final form of innovation-driven integration. The emergent linkages at this stage are characterized by considerable flow of knowledge, expertise and skills across the border, brought about by a high intensity of mobility of students and labour, innovation related networking among firms, as well as university-industry partnerships which provide a stronger and more dynamic context of innovation. This, however, presupposes that institutions and governments in the region are willing to

collaborate and make the investments required for the emergence and growth of clusters.

The African Experience with Regionalization

Following Geda and Kebret, (2008) Regional integration initiatives in Africa have a long history, dating back to the establishment of the South African Customs Union (SACU) in 1910 and the East African Community (EAC) in 1919. The formation of regional economic communities (RECs) in Africa intensified particularly since the 1970s. Today, there is no country in Africa that is not a member of at least one regional economic group, and there are about 18 functioning regional trading agreements (RTAs) - 8 of them are officially recognized by the African Union.

The UNCTAD (2013) report showed that, with the exception of the Economic Community of Central African States (ECCAS), for each African regional economic community, a significant part of its trade with Africa takes place within its own regional trade bloc.

The approach to regional integration on the continent has so far focused more on the elimination of trade barriers and less on the development of the productive capacities necessary for trade. Scholars of regionalization have argued that while the elimination of trade barriers is certainly important, it will not have the desired effect if it is not complemented with policy measures to boost supply capacities (Gupta and Yang, 2006). The limited role of the private sector in regional integration initiatives has also contributed to the weak trade performance of the continent. The understanding is that although trade agreements are signed by Governments, it is the private sector that has a good feeling of the constraints facing enterprises and is in a position to take advantage of the opportunities created by regional trade initiatives.

An OAU study to understand problems of country participation in regional economic arrangement shows that countries face problems such as human and financial costs associated with multiple membership of regional groups, lack of harmonisation of policies especially in the areas of rules of origin and customs procedures, a large information gap at policy making and implementation levels, and finally changing political positions of member countries of different regional groupings contribute to the hitherto limited impact of regionalization on SSA's economy.

Numerous non-tariff barriers remain in place despite good policy intentions. Following Geda (1998) the most common non-tariff barriers include (i) the time-consuming process of getting information at customs, (ii) lack of information at border posts about regional economic collaborative agreements, (iii) pre-shipment inspection requirements in some countries, (iv) bureaucratic problems in administering rules of origin, and (v) technical and standardisation requirements.

Generally unfavourable operational environments have also made their contributions. These have manifested themselves in the form of low levels of infrastructural facilities such as energy supply, poor telecommunication and transport systems, as well as weak legal and regulatory systems (Gupta and Yang, 2006). Thus, some estimates have suggested that transport cost incidence for exports from one African country to another (the share of international shipping costs in the value of trade) is five times higher than tariff cost incidence (World Bank, 2005).

One of the most frequently cited evidence of anti-business attitudes in Africa is the mounting of roadblocks on the highways that link various trading centres in Africa. Gupta and Yang (2006) report that on the 1,000 kilometre highway between Lomé, Togo and Ouagadougou, Burkina Faso, there are some 34 checkpoints – close to one every 25 kilometres. Also, an article from *the Economist*, "the road to hell is unpaved" (2002) reports 47 checkpoints between Douala and Bertoua in Cameroon, a distance of barely

500kms. Similar checkpoints are found in nearly all other African countries. The numerous checkpoints provide opportunities for unscrupulous officials to extort sums of money from businesspeople for goods to be delivered. Apart from the money demanded, the roadblocks result in considerable delays and raise overall vehicle operating cost in intra-African transactions (World Bank, 2005).

Policy Implications

These discussions carry many useful policy implications. To start with, it is important for national governments and policy makers to be very well informed about structural changes within their neighbouring countries and the economic opportunities that they hold (see Friedrichs and Boter, 2009). With this knowledge as a background government policy interventions must aim at creating business environments in which firms can adopt integrative upstream-downstream internationalisation strategies to stimulate rapid growth. Interventions must address constraints in both upstream and downstream dimensions of internationalisation. Furthermore, national export-promotion policies must be replaced by international business-promotion policies embracing both upstream and downstream aspects of internationalisation. As argued earlier, upstream internationalising firms produce technological and managerial learning and thereby improve the quality of their products. These products may become inputs to downstream internationalising firms and help raise the added value of the export products. In addition to this, one can expect inter-firm spill-over of knowledge and skills where upstream internationalising firms collaborate with other firms to create a seedbed for the emergence of exporting firms with higher competitive advantages. While intra-African trade remains constrained by internal problems, the new business relations between Asia and SSA countries (both upstream and downstream) offer new growth possibilities that African firms and governments must explore.

Furthermore, it is important to remember that African countries are dissimilar in terms of economic histories, technological trajectories, institutional set-ups as well as different social dynamics, political visions, governance structures, modes of regulation and cultural identities. This poses serious challenges for trans-border collaborative arrangements in the sense that they form barriers that obstruct successful integration, especially when it comes to generating, transmiting and sharing innovation-relevant knowledge (Koschatzky, 2000).

But studies elsewhere suggest that these dissimilarities create the foundation for cross-border growth, i.e. the potentials to reap the benefits of new and unexploited complementarities and synergies. These spatial variations in terms of differences in economic and occupational structures, entrepreneurial culture, and economic factors with respect both to demand and the supply of factors of production affect the rate of growth-oriented enterprise creation. Institutional arrangements and policies are therefore necessary to allow nations to build on their potential positive synergies that their differences provide. Efforts must be made to facilitate collaborative networks by bringing members of industry clusters to the table to discuss mutual interests and to promote a "culture of innovation," characterized by support for new ideas and openness to change. Especially for regions with weak or weakening industrial identities, investments can be targeted to increase the intensity of interactions among residents, for example, through the creation of local industry associations, and to stimulate interactions with outsiders through participation in national trade shows. This will increase the perceptual focus of outside investors on the cluster.

Summary

Clusters represent a new way of thinking about national, state, and local economies, and they necessitate new roles for companies, government, and other institutions in enhancing competitiveness. Resources, capital,

technology, and other inputs can be efficiently sourced in global markets. The driving forces for cross-border integration processes, e.g. the differences in economic structure, innovation capabilities, and cost structure give rise to new complementarities and synergies, but often also generate the barriers that exist between the different parts of a cross-border region.

Moving forward requires the development of a new set of personal and collective mindset and capabilities at all levels of society – individual, group, organizational/institutional, national/civil society and continental levels. It also enjoins SSA leaders at all these levels of society to contribute to a seismic shift not just in behavior, but in the fundamental core belief of the collective – i.e. a change in our collective mental inclination or disposition.

CHAPTER 16
REFLECTIONS, CONCLUSIONS AND THE WAY FORWARD

"No great improvements in the lot of mankind are possible until a great change takes place in the fundamental constitution of their modes of thought"
– John Stuart Mill

Introduction

I initiated the discussions in this dissertation by drawing attention to the economic gains, mainly through favourable externalities. From 2001-2010, six of the world's ten fastest-growing economies were in Sub-Saharan Africa. However, the recent economic gains have failed to translate into development and poverty reduction. Sub-Sahara Africa is also reported to be the second most inequitable region in the world[29]. There are therefore genuine concerns that in the impressive gains in the few high-growth economies may fizzle out and the experiences of these countries will go into the already long chain of economic miracles that turn into mirages. The challenge that Africa faces now is to design appropriate mechanisms for ensuring sustained and inclusive economic development. I have argued that most contemporary national economic development strategies in SSA have been guided by neoclassical economic models and root assumptions. These strategies have failed to nurture growth-oriented enterprises that can create jobs necessary for poverty reduction. Thus, a way out of the endemic poverty in Africa is to redefine these ground rules and to socialise people to embrace growth-oriented entrepreneurial mindsets in both economic and noneconomic spheres of life.

[29] In 2010, six out of the 10 most unequal countries worldwide were in Sub-Saharan Africa. (See Briefing Notes for AfDB's Long-Term Strategy Available at http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/

Accessed on 5 May 2014

As a population increases the total level of demand for basic necessities increases and the expansions in the mobility space experienced by societies due to an overall economic growth provides some opportunity for economic initiative for entrepreneurs. That is, if we see growth as a dynamic process in which some sectors surge ahead and others fall behind as part of a continuous transformation of production structures, the changes offer different opportunities for the emergence of different types of enterprises in a process of creative destruction. In this regard, I endorse Friedrichs and Boter's (2009) view that empowering local initiatives in stimulating local entrepreneurial and innovative activities, in order to meet radical changes within their societies and the changing demands of a globalized economy are essential ingredients in a successful economic growth policies in all countries.

I have introduced the concept of soft economics as a construct that challenges the prevalent neoclassical economic logic. Discourses on economic integration in Africa have hitherto focused attention on the economic, political arguments found in the mainstream economic and/or political economic literature. The view that economic actions and outcomes are politically embedded within inter-institutional networks of power makes sense in social science. But focusing on the politics and economics of integration tends to exclude an important variable in all economic activities – i.e. the socio-cultural context of decision making and action. As Granovetter (1985) argues, neoclassical economics is generally devoid of social and cultural considerations. To a neoclassical economist, the actions of individuals (as economic entities) are constrained by tastes and by the scarcity of resources. Once these are known, it is, in principle, possible to predict an actor's behavior, since s/he will always try to maximize utility or profit in an economic setting. Economic sociologists have expressed a dissenting opinion on this issue.

Soft economics seeks to puts the whole human being at the centre stage of its analysis and to move people along their own authentic developmental path. In my view, the way poverty thought about, plays a role in its perpetuation. Poverty is not just something that happens to people, people are collectively engaged in the creation of a mindset that perpetuates poverty. Scholars such as Lindsay (2000) argue that a nation's development orientation is a mental constructions or "patterns of thought" – a collective mindset, if you like. The central argument is that without development-oriented values and mindsets, nations will find it difficult if not impossible to develop efficiently, and that some sort of cultural change will be needed in these nations in order to reduce poverty (Grondona, 2000; Harrison, 2000).

Furthermore, soft economics does not reject the role of private enterprises in poverty alleviation. It only rejects an unguided capitalism. The reasoning is that, left entirely to its own devices, capitalism can produce great inequalities. Thus, policy interventions are necessary to create enabling conditions for the development of human capabilities that can guide the development of inclusive private enterprises that can help build sustainable livelihoods for citizens in societies in which they are located.

The recurrent theme in all the chapters has been the impact of African culture and mindset (i.e. the accepted rules of behaviour in the various SSA countries) in influencing the development and usage of African human capabilities in the management of the enterprises established. This chapter pulls the discussions in the previous chapters together in order to highlight the main arguments, discuss their limitations and offer a way forward in this line of research.

Summary and Highlights

A recurrent theme and main thread weaved through the discussions is the role of culture and collective mindsets in shaping the factor conditions for human capability development that creates the foundations for enterprise development and economic growth in SSA. All along, my interest has been to focus on the person (the individual) and his/her role in the general economic system, arguing that previous economic discourses have not been sufficiently concerned with this perspective. The focus on the individual's role in the transformation of Africa from a poor continent to one of an inclusive and sustainable welfare orientation is predicated on the understanding that individual mindsets and actions construct, transmit and transform cultures. Thus, a change in the capabilities and mindsets of individuals will eventually lead to changes within entire societies. Following Arjun Appadurai, an individual's capacity to aspire depends to a large extent on the value system within which he is brought up. Human capability development expands the poor's aspiration horizon.

I leaned on scholars such as Alvesson (2013) to see culture not simply as a homogenous social phenomenon, but as an "emergent, dynamic, situationally adaptive" mechanism of socialization and change. Through the use of shared cognitive symbols, culture provides the distinctive way in which each societal system orders the world. It tells people what to expect from others in their society and why, thereby furnishing them with a degree of mastery and confidence in most social situations. Seen from this perspective culture addresses the "lived experiences" of people and is therefore a bridge between individuals and their lived worlds. Cultural dynamism allows differences and dissensions between and among individuals and groups to flourish within societies and thereby nurture creativity without threatening the core fabrics of the societies.

Lightfoot and Valsiner (1992:395) see culture as a repository of socio-cognitive resources "from which active persons construct their own

(personal) belief structures". Similarly, Zerubavel (1997:15) contends that "it is the process of cognitive socialization that allows us to enter the social, intersubjective world. As we become socialized and learn to see the world through the mental lenses of particular thought communities, we come to assign to objects the same meaning that they have for others around us... Only then do we actually enter the social world."

In the light of this I have forwarded the view that traditional and historically approved ways of behaviour must not always define the patterns of behaviour in new generations in societies, if these traditions constrain more than they enhance welfare of the citizens. But I do not suggest a radical break away from existing ways of life. Instead I argue for an evolutionary change in which individuals' capability development in every society helps shape the transformation process.

In recent years, high-growth societies in Asia have demonstrated what nations can do when they reach deep into their cultural roots, and use the positive elements in their cultures as springbords for growth by transforming ther thoughts on how to grow (Kahn, 2003). My view is that positive and development-friendly social changes do not necessarily require a total replacement of existing values and a loss of a society's original identity. It rather requires insightful reflection over existing rules of accepted behaviour in societies and encouraging modifications of the less positive elements of behaviour without a radical transformation of the core values. What is needed is a society's desire and willingness to embrace change.

Seen from this perspective, culture may be conceived as the outcome of a negotiated interaction between an individual and others within the context of institutions and civil societal space. Actions, counteractions, reflections and thoughts in turn combine to influence the on-going socio-cultural construction. In other words, individuals' ability to perceive, interpret and evaluate phenomena depends on the sustained and intensive interactions that

they have with other people in a given community or context. These interactions help create shared mental models and enable people to make sense of their environments.

I have also argued that the integration of SSA countries into the global economy will stimulate domestic competition, encourage modern technology upgrading, increase the demand for high-skilled labor and promotes learning by doing. This provides additional impetus for overall improvement in the productivity within economic systems. Thus, export-led competitiveness is often associated with growth-orientation in the domestic economy.

Capability Development and Economic Growth

I have argued that a society's overall development depends on individual capabilities that are collectively institutionalized through their engagement in the society as individuals and groups. It is this dynamic interaction that shapes the value systems and behaviours that we find at all levels of the society.

Productivity depends on the overall capability of people, not only in a technical sense of having required work competencies and applying them efficiently. It also depends on work attitude, behaviours that produce inter-human trust and collaboration that reduced the cost of transactions within and across organization (locally and internationally). Thus country differences in competitiveness can be explained partly by attributes of the civil society and the human development capabilities of its citizens.

I have argued that my concept of human capability development relates partly to the process of increasing the knowledge, the skills, and the capacities of all the people in a society. But it goes beyond that and is broader than similar concepts in the literature (including human capital and human development). Seen from a political perspective, it prepares people

for adult participation in political processes, particularly as citizens in a democracy. In sum, my view of human capability provides noneconomic and non-technical explanations for country differences in competitiveness.

At a micro level, I submit that African employees tend to view their work organisations in the same manner of asymmetric dependence in which the employer is expected to act paternalistically and benevolently towards the employees without the latter having any obligation to reciprocate. The same sense of dependence tends to influence superior-subordinate relations in most work organisations. A subordinate tends to believe that his superior is likely to value personal loyalty over and above competence. His commitment is therefore to the boss rather than the organisation.

The discussions also legitimise the introduction of the concept of "*soft liabilities*" in contrast to soft assets. That is, social interactions result not only in the creation of soft assets or social capital, but can also create rules of behaviour that produce *soft liabilities*. Examples of soft liabilities noted above include the uncompromising expectations of extended families and ethnic communities on the initial profits that nascent entrepreneurs make. They also include the requirements of employing uncommitted family members in the businesses. All these expectations exert pressures on African entrepreneurial activities and must be balanced with the soft assets that are inherent in the social networks.

A major challenge for the growth of entrepreneurship in Africa is to navigate through these demands without jeopardising the prospects of business success. Furthermore, African entrepreneurs must institute mechanisms that help dismantle the climate of mistrust within the business environment and inject confidence into the network of relationships with the business community, the public institutions and the broader civil society. As noted above, the low level of trust has severe cost implications for smaller

firms and constrains their competitiveness and integration into the economic value creation systems of their societies.

Policy and Strategy Implications

The discussions have important implications for development policy. If we see development process as a dynamic, ever-changing, nonlinear, multidimensional process that is characterized by varying interactions over time, policy interventions may have to be multipronged. Following Boter et al., (1999) entrepreneurial support policies must be conceived and built up as meeting places or strategic arenas – a kind of creative social space where entrepreneurs can learn from each other and from experts. Such a creative space allows for the development of varieties of successful approaches to the development of social and economic entrepreneurial ventures. It is not rigidly controlled by institutional actors.

Furthermore, since cultural differences influence the successful absorptive mechanisms in different societies, the modalities of creating and managing such creative spaces require good knowledge of culture at both national and community levels. This means policy makers must bear in mind that what is good for one phase of the development process may be bad for the next phase; that there are certain irreversibilities in the development process which create path-dependence. Hence policy prescriptions for a given country at a given point in time must be anchored in an understanding of its situation at that point in time as well as how it got there, not only recently but on a historical time scale.

Nascent entrepreneurs must also address the problems unbalanced expectations from the extended family and ethnic communities at stages of enterprise formation where their resources are not enough to meet these

expectations and at the same time finance the growth of their enterprises. In a study of recruitment practices in Algeria, Mellahi and Wood, (2003) found that managers relied significantly on personal, non-family-based networks to identify and recruit their employees as a defence mechanism against threats resulting from leaking information about the performance of the business, the business partners and the political affiliations of managers.

I do not expect all SSA countries to follow one simple development recipe. Since they are faced with different challenges, they need to adopt different policies and strategies at different stages in their developmental trajectory; there may be elements of market regulation, private enterprise development, export promotion, industrial cluster formation as well as technological adaptations (standing on the shoulders of others, as it were). Government may intervene to nurture industries that would not otherwise emerge on the basis of liberal market logic. They may also ignite economic growth in rural communities through infrastructural investments. As they do these they must be mindful of the risk of nursing rent-seeking and political cronyism among their ranks. But the guiding principle of their policies and strategies must be, in the words of the authors of the UNDP Human Development Report (2013:5) "people-centred, promoting opportunities while protecting people against downside risks."

Future Research

Good governance is epitomized by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law (World Bank, 1994).

A deeper understanding of the institutional framework within which entrepreneurial processes can thrive is central to designing institutions and policies that are more conducive to economic growth and development.

The analysis is subject to several limitations. In the first instance, no empirical tests have been conducted to test the predicted relationships among institutions, businesses and the civil society. The question that has received limited conceptual and empirical investigation is the extent to which the many of the poor in Africa are willing to make the sacrifices necessary to pull them out of poverty through hard work (12- 18 hours of work per day), invest in trust building relationships and suffer the psychological pains of anxiety associated with abortive entrepreneurial ventures. Thus, context matters in understanding the calibre of entrepreneurs that emerge in any given society. Societies with deficit entrepreneurial values in their cultures can design policies to increase the number of active entrepreneurs from its pool of potential entrepreneurs. Societies with the 'right' cultural orientation and support systems can nurture a large pool of individuals with the inner motivation to go beyond the usual call of duty and exert energy and initiative to the best of their abilities and assume ownership of the value innovation processes that constitute one of the key pillars of entrepreneurship.

The discussions in this dissertation invoke important research implications. First, few studies have so far been done in African countries to establish the link between the soft assets embedded in the networks of relationships on the one hand and enterprise development and economic growth on the other. These including the pioneering work by Barr (2000). We need more comprehensive empirical investigations in order to provide policy makers with full intellectual legitimacy to pursue policies along these lines. Second, we also need empirical investigations on the link between enterprise growth and poverty reduction. Third, the differences in the response patterns of necessity-based and opportunity-based entrepreneurs to social and

culturally-based expectations require empirical investigation. The results of such studies should guide governments and policy makers on how to design private enterprise promotional instruments in Africa.

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Concluding Remarks

A key message from the discussions above is that economic logic does not give room for people and societies that seat passively and watch other people and societies scramble for the worlds resources. Passive onlookers are economically and socially punished within contemporary economic systems. This has hitherto been the fate of African people and societies.

Thus, a key argument and conclusion in the dissertation is that the cultural and institutional environment in which enterprises are embedded can confer comparative cultural advantage (or disadvantage) on these enterprises. Managers may develop strategies that align their enterprises with the opportunities available or cope with the disadvantages or remain underperformers. When citizens and organizational members have become socialized for endless generations to perceive themselves as helpless and dependent they are (as it were) mentally programmed to behave in a dependent manner. My position also builds on the view that people do not mechanically follow the moral norms or rules enjoined by the community to which they belong. Rather, they interpret these rules and norms in ways that

are most likely to fulfil their personal goals in life. The emphasis here is that actions are just as embedded in the social world as the people who act.

This change does not require breaking entirely with the past. It entails building on the past in a logical and incremental fashion while changing the course of direction and the value systems that guide human actions. History has taught us that economic growth experiments that attempt to break with the past in response to a radical ideological orientation are unable to bring their members of society along with them and ensure their sustained and unreserved commitment. Any attempt to chart a new direction for Africa's economic growth must therefore respect the free will of individuals and groups to get involved based on their trust of the value-enhancing characteristics of the new direction. It must also acknowledge Africa's integration into the global fellowship of economic and political structures and be willing to leverage the resources contained in the networks of relationships that this fellowship provides.

I have consistently argued that a developmental state must have the institutional capabilities that enable it to direct and support economic development through building a strong public service, creating an investor friendly environment, supporting small business development, using state owned enterprises effectively and driving strategic investment initiatives. These state institutions also help to shape the socially undesirable consequences of unguarded market systems, leveling the playing field for all stakeholders, expanding the circle of opportunity and promoting an inclusive developmental and welfare-oriented economic growth processes.

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