Institutional Pressures and Organizational Response
Evidence from Sub-Saharan Africa

Bachelor's thesis in Business Administration
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Abstract

By investigating the business environment in Sub-Saharan Africa from an institutional theory perspective, the purpose of this thesis is to explain organizational response to the forces of this particular institutional environment. Coercive, normative and mimetic pressures serve as the basis for explaining the institutional environment. The organizations respond to these pressures by seeking legitimacy from the environment.

The study is based on a qualitative research method relying on qualitative secondary data. Additionally a questionnaire was sent out to a limited number of experts to validate the findings.

The main conclusion of this thesis is that networks are formed on the basis of norms and cultural processes working upon organizations in order to counter balance malfunctioning regulatory institutions. It has been revealed that organizations cannot rely solely on their response to coercive pressures for legitimacy. Normative aspects in networks are formed through repeated transactions that create trust and reputation between business partners that lead to legitimacy. Moreover, it is difficult for organizations to construct a proper response to cultural pressures since they stem primarily from heritage and ethnicity.
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1 Introduction

The formula for succeeding in a market varies over time and place, that is, a society’s institutions change over time and so do the rules of the game (Whitley, 1999). Consequently, for organizations to exist, prosper and prevail there will always be a need to understand the requirements shaped by local market dynamics and respond to these.

Throughout history, scholars have viewed organizations from many, sometimes opposing, perspectives. The classic school looked at organizations from a closed perspective where an organization’s aim was to create profits through efficiency. Both Taylor’s scientific management with its emphasis on specialization and Weber’s bureaucratic rationality are important contributions to this school of thought. A modern school of thought was introduced by the creation of the general systems theory. The theory proposes that everything can be explained by the use of systems. A focal point of the general systems theory is interconnectivity; that every part of a system contains inputs and outputs made visible through their respective connections to other parts of the very same system. It follows that an organization can be understood as a part of an open system where its relationships with inputs and outputs, the system, must be understood in order to understand the organization (Hatch, 1997).

Organizations can be seen as hierarchies developed as tools for clustering agents together. Thereby, interaction and some sort of interdependence between the agents will be created. It has also come to attention that interdependencies exist between the organization and its environment, that is, both can affect each other (Scott, 2003a). In order to analyze the external environment, Whitley (1999) proposed the framework of business systems. He argues that no general business system exists, and as a result, business systems vary with respect to their particular society. The different business systems can be seen as different rules of the game, determined by the local society’s institutions (Whitley, 1999).

1.1 Problem Discussion

Lack of infrastructure, heavy administrative bureaucracy and poor human capital development contribute to the fragile environment of Sub-Saharan Africa (SSA) (Oyelaran-Oyeyinka, 2006). This closely resembles what Whitley (1999) denotes as a fragmented environment, characterized by low trust in formal institutions, often in terms of a large perceived distance between the state and firms. The typical firm in such an environment is trading or manufacturing products that have a value as commodities. Little customization or other more sophisticated value adding activities are pursued, integration and coordination between organizations is limited (Whitley, 1999).

Organizations in SSA cannot rely on governmental support and other legal safety as guiding rules of the game. This is exemplified by Oyelaran-Oyeyinka (2006, p.1), who notes that “Large number of countries in Africa have neither succeeded in acquiring technology effectively, nor built effective institutions to support technical change”. Hence, in the absence of institutional guidance, the whole region has “suffered the loss of competitiveness not only in manufacturers but also in traditional commodity exports” (Oyelaran-Oyeyinka, 2006, p.1).

1 A list of the 45 of Sub-Saharan African countries is provided in appendix 1.
Institutions can be seen as compositions of regulative, normative and cultural-cognitive mechanisms working upon an organization with the aim of influencing it, its position and direction in relation to its environment (Scott, 2003a). Therefore, organizations rely on institutions to overcome their cognitive limitations. These structures provide organizations with solutions accumulated over time where organizations do not have to focus on the ‘obvious’ but rather on their core activities. This leads to a perceived stability from the organizations’ perspective (Loasby, 1999). Institutions are thus essential determinants of economic performance and are of principal importance for growth (North, 1990).

To compensate for malfunctioning formal institutions, alternatives develop, such as informal institutions where trust is an important element (Fafchamps & Minten, 2001). In such environments, social mechanisms motivate agents to keep an eye on each other. Moreover, allocation and distribution of resources are made through interpersonal relationships (Stiglitz, 2000). Being unable to rely on formal market supporting institutions, organizations have to adhere to different sources of influence to succeed in the market. Accordingly, organizational behavior is dependent on the institutional environment where the organization exists. Behavior, in this sense, is organizational response to institutional forces working upon the organization.

Succeeding in “Africa can be no harder than other emerging markets, but […] requires good local knowledge” (The Economist, 2006). Thus, understanding the local institutional environment is essential to success in Africa. Fafchamps and Minten (2002) adopts a local perspective by investigating the importance of social capital on trade in Madagascar, and find that social networks have a positive effect on trade. In another study Fafchamps and Minten (2001) find that low levels of theft and crime in Madagascar is not the result of strong formal institutions but rather the result of alternative measures taken by traders to compensate for the weak protection offered by formal institutions. Consequently, it is necessary to investigate the institutional environment to attain an insight into the dynamics which enable successful business operations in SSA.

So far, research in international business (e.g. Prahalad & Hammond, 2002; London & Hart, 2004 and Ricart, Enright, Ghemawat, Hart & Khanna, 2004) and marketing (e.g. Cavusgil, Ghauri & Argawal, 2002 and Dawar & Chattopadhyay, 2002) has spent a generous amount of time and effort to investigate and identify market entry opportunities in developing economies to access potential consumers. Karnani (2006) looks at the situation from another angle, where not producing for, but producing in developing economies is the key to reducing poverty and earning profits. Both perspectives however, look at the issue from an external perspective and fail to fully assess the importance of the local environment. In order to enter a market successfully and prosper, it is important to understand what underlying factors are governing and shaping the market. The authors argue that an understanding of the market from the perspective of institutional theory will bring insights and explain organizational behavior. Finally, it should be pointed out that the terms business and firm are used interchangeably, representing a form of which an organization can take.

1.2 Purpose

The purpose of this thesis is to explain organizational response to the institutional environment in Sub-Saharan Africa.
2 Theoretical Framework

In the first section of this chapter, the reader is introduced to the relationship between the firm and its environment from different perspectives. Moreover, it also provides the reader with a useful background to institutional theory by discussing organizations’ perception of uncertainty, interorganizational networks and resource dependence theory. The second section gives a thorough presentation of institutional theory. The third section concludes the chapter by a model constructed by the authors that will serve as an analytical framework in the subsequent chapters.

2.1 The Firm and the Environment

In 1937, Coase proposed that a firm is the result of shortcomings of the market. In other words, the firm emerges when the contractual arrangements exchanged at a market substitute an inefficient mode of organizing. The primary advantage is the ability to create long term contractual arrangements and thereby lower transaction costs while coordinating resources outside of the market (Coase, 1937). The organization exists not isolated from everything else but within a system (Scott, 2003a) and therefore, it is possible to view the firm from different perspectives according to different positions within this system.

The internal perspective looks at the firm as a collection of resources of different kinds (Barney, 1991). This perspective tries to identify and solve internal problems while assuming the context where the firm operates as given (Pfeffer & Salanick, 2003). The external perspective emphasizes the importance of external forces on the organization. Porter (1980) proposed a framework for analyzing industries by the use of five forces which drive competition. Porter argued that by understanding the forces one will be able to identify strengths and weaknesses which are critical for firm survival.

Moving beyond the industry-level one arrives at the society at a regional or national level. Porter (1998) offers a framework to assess the competitiveness of a nation or a region and he argues that competition is to be understood as dynamic and that there are four determinants of a nation’s competitiveness: factor conditions, demand conditions, related and supporting industries and firm strategy. The framework seeks to show the success of certain industries from a regional or national level perspective.

The two frameworks by Porter presented firstly provide a possibility to analyze the external environment from an industry perspective with the aim of finding opportunities or threats in the market (Porter, 1980) and secondly, to analyze why some industries prosper and others do not in a certain setting (Porter, 1998). This implies a hierarchical view of different layers in the environment. The field-of-force metaphor proposed by Melin (1989) contradicts the perspective of hierarchical levels and states that the environment is better seen as different dimensions constituting the same reality. Three dimensions are presented to look at the reality of a firm: internal, strategic and external forces.

2.1.1 The Perception of Uncertainty

Due to the presence of external forces on the organization, uncertainty is present whether one looks at the environment from a hierarchical or a dimensional perspective. There are two opposing views of assessing environmental uncertainty. On the one hand, environmental uncertainty can be objectively measured but on the other hand, only perceived (Miliken, 1987). The concept of environmental uncertainty has been used by scholars “both as
a descriptor of the state of organizational environments and as a descriptor of the state of a person who perceives him- or herself to be lacking critical information about the environment” (Milliken, 1987, p. 134).

The external environment in which a firm operates can be characterized alongside two dimensions (Duncan, 1972). The first being simple-complex and the second being static-dynamic. Combining these dimensions, one is able to characterize the perceived environmental uncertainty and adopt suitable strategies accordingly. The external environment is defined as perceived from within the organization. In addition, the perception of uncertainty has been showed to be affected by both the nature and amount of available information (Huber, O’Connel & Cummings, 1975). Moreover, since structure has been found to be a determinant of perceived uncertainty, uncertainty is to some extent controllable (Huber, et al., 1975) and in this sense, it would be possible to attain a structure that minimizes perceived uncertainty of the external environment. Dess and Beard (1984) extended the two dimensions presented by Duncan (1972) by including a third one, munificence. A munificent environment is defined as an environment where there are resources available for growth and buffering which also fosters innovation (Dess & Beard, 1984). The focus is on the availability or scarcity of resources. In an environment with scarce resources competition will be intense (Kreiser & Marino, 2002) and consequently, uncertainty will be high due to rivalry among firms.

Milliken (1987) recognizes that Duncan’s two dimensions capture many aspects of uncertainty, but he proposes that that there are three types of uncertainty that one needs to distinguish between. Firstly, state uncertainty, which is experienced when the environment is perceived to be unpredictable. Secondly, effect uncertainty, in terms of not knowing what impact environmental change has on an organization. Lastly, response uncertainty, that deals with the inability to fully comprehend the available response options and their respective value when coping with uncertainty.

Similar to Milliken’s (1987) three types of uncertainty is Makhija’s and Stewart’s (2002) work on the effect that the national context exerts on the perception on risk. They argue the total perception of riskiness is a combination of the characteristics of existing information and the perceived outcome of an uncertainty response. Makhija and Stewart’s (2002) results show that how information and the outcomes of decisions are perceived and influenced by national context, what is perceived as uncertainty in one context is not necessarily uncertainty in another context. Furthermore, Makhija and Stewart (2002) argue that decision-makers in different contexts, though perceiving the information similarly, might end up responding differently to uncertainty. This is because perceived response outcomes should also be viewed with respect to a national context (Makhija & Stewart, 2002). The evidence presented by Makhija and Stewart (2002) is further supported by Elenkov (1997) who draws similar conclusions on how context affects perception of uncertainty both in terms of the environment and how to respond to uncertainty.

2.1.2 Interorganizational Networks

By creating alliances between different organizations interorganizational networks evolve (Gulati & Gargiulo, 1999). Such networks need not be joint ventures but can also consist of arrangements with less commitment. Alliances arise to cope with the ever increased uncertainty of the business environment (Gulati & Gargiulo, 1999).

The formation of networks can be viewed from either an exogenous or an endogenous perspective (Gulati & Gargiulo, 1999). The exogenous perspective emphasizes that alli-
Theoretical Framework

Alliances are built to attain resources to cope with uncertainty in the environment. The focus is on alliance formation as a solution to environmental instability and thereby, it answers whether to form an alliance or not. Interdependence serves as a main facilitator, assuming that the exchange of resources serves the purpose of the alliance. The endogenous perspective assumes that alliances are needed and looks at whom to form an alliance with. This perspective emphasizes the embeddedness of organizations in networks and that the decision to enter an alliance will be affected by what the current network the firm consists of. Alliances thus serve the purpose of expanding networks and embed more information into them. Embeddedness is argued to make previously unavailable information accessible and to ensure that the information will be available on time and from trustworthy sources (Gulati & Gargiulo, 1999).

2.1.3 Resource Dependence Theory

Recognizing differences in the positions of organizations in the environment leads to a related concept: resource dependence. According to this view, resources are identified as scarce and thus, a dependence on the external environment exists. Pfeffer and Salanick (2003) argue that it is essential to resource dependence theory to look at organizational interdependencies and networks. This result in a dynamic view of the environment where it co-evolves with the organizations it consists of. Essential to the resource dependence theory is its focus not on efficiency as proposed by Coase (1937) but on relationships and the power associated with them due to the scarcity of resources (Pfeffer & Salanick, 2003).

The focus of resource dependence theory has to a large extent been on the formal relationships among organizations forming a network and not so much on the normative and cultural-cognitive aspects which are of central importance to institutional theory (Pfeffer & Salanick, 2003). From a resource dependence theory perspective, the one controlling scarce resources is the one which can assert power over others (Oliver, 1991). Thus, resource dependence theory tries to deal with uncertainty by choosing to adapt the organization to it. Oliver (1991) states that, in contrast to the resource dependence perspective, institutional theory puts emphasizes the influences of institutional beliefs rather than achieving power by owning scarce resources. Moreover, it looks at the adaptation and convergence not only as a choice by the organization but also as a non-choice resulting from different contextual pressures (Oliver, 1991).

2.2 Institutional Theory

Organizations are embedded in environments built up as networks (Pfeffer & Salanick, 2003). The nodes of these networks are seen as interdependent to other nodes. This demands an understanding of the environment to understand the firm itself. Institutional theory deals with how organizations are affected by forces which lie beyond its own control (Hoffman, 1999). Rather than assuming rationality, institutional theory contributes to a broader perspective of homo economicus. It enables one to look beyond market pressures to analyze behavior and introduces institutional pressures as a tool of behavioral analysis (Greenwood & Hinnings, 1996). From a sociological perspective, cognitive theory and cultural theory have been significant in developing an institutional perspective (Scott, 2001).

Hoffman (1999, p.351), defines institutions with respect to organizations as “rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot”. Institutions work as forces upon individuals and organizations by creating social pressures and restrictions, they set boundaries for what is
accepted and not. Institutions, formal or informal, provide stability, foster empowerment and reduce ambiguity (Scott, 2001).

### 2.2.1 The Three Pillars of Institutional Theory

Institutions consist of three pillars, which are categorized as regulative, normative and cultural-cognitive (Scott, 2003b). The regulative pillar deals with aspects of institutions defined by regulations or laws applicable to the environment where the organization operates. The legitimacy of this pillar is justified through imposing regulations or laws that limit behavior (Scott, 2001). According to North (1990) behavior is enforced as a result of the costs associated with violating regulations, that is, regulatory institutions define the rules by which individuals and organizations operate. Authority serves as a main actor imposing rules and regulations on individual actors and the authority is in most cases controlled by the state (Scott, 2001). The state has to act from a neutral position to not unbalance the situation between other actors of the environment. At the same time, the state has to be given tools that allow it to exert the power it is given (North, 1990). There are two different ways for the state to use its power, either by imposing or by inducing agents towards compliance. Imposition is exercised with the use of fear while inducements are based on incentives (Scott, 2001).

The normative pillar deals with social patterns limiting behavior, examples are values and norms. Norms form expectations which work as forces on the organization to act in a certain way. Norms can affect actors of the institutional environment in different ways; some norms are applicable to a wide range of actors whereas others only apply to some individuals in specific roles (Scott, 2001). Norms do not only constrain behavior as described above, they can also give specific responsibilities and privileges to certain actors. As Scott (2001) argues, this enables actors to act without seeking direct mandate from other organizational members; instead, their mandate is inherited in their social position. Normative theorists believe that shared norms and values form the basis for a social order (Scott, 2001).

The third pillar is the cultural-cognitive pillar. It focuses on subjective beliefs and on symbolic systems and emphasizes the nature of the social reality which results in a system of shared beliefs that create meaning to actions. Meanings are created to cope with sense making of the reality, and actions are interpreted as functions of the perceived environment (Scott, 2001). Sense making of events is a process where events are categorized according to stereotypes and other known events which are bundled together (Yiu & Makino, 2002). Thus, sense-making is a social construction of meaning through the categorization of events into a common framework (Scott, 2001).

Scott (2001) states, that according to cultural-cognitive theorists, social roles are the result of associating certain actions to specific actors. This is in conflict with the view of normative theorists who state that social roles result out of obligations instead of associations. The association of roles can be seen as a process of objectification, where associations form a common cultural belief (Scott, 2001).

### 2.2.2 Institutional Pressures

Institutional pillars constitute the elements of which institutions are built (Scott, 2001). The institutions put pressure on organizations in the form of normative, coercive and mimetic pressures (Davidsson, Hunter & Klofsten, 2006). The pressures represent the mechanism
by which the pillars exert their influence (Scott, 2001) and can therefore be seen as comparable to them (Mignerat & Rivard, 2005).

Table 2-1 Institutional Pillars and Pressures (adapted from Scott, 2001, p. 52).

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Regulative</th>
<th>Normative</th>
<th>Cultural-Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corresponding Pressure</td>
<td>Coercive</td>
<td>Normative</td>
<td>Mimetic</td>
</tr>
<tr>
<td>(mechanism)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Normative pressures consist of social pressures on organizations and its members to conform to certain norms. They are closely related to the concept of professionalization where professional norms are transmitted to an organization as a source of legitimacy (DiMaggio & Powell, 1991).

Coercive pressures are often thought of as formal institutions of regulations or laws but can also be informal expectations on organizations. Informal coercive pressures are e.g. technical standards or certain standards imposed by someone exerting power over another actor (e.g. a parent-subsidiary relationship) (DiMaggio & Powell, 1991).

Mimetic pressures represent demands towards imitation of other organizations to cope with uncertainty (Davdisson et al., 2006). The mimetic pressures represent the mechanism by which the cultural-cognitive pillar exerts its power (Mignerat & Rivard, 2005). The pressures put on the organization lead to an isomorphic behavior towards convergence with the institutional environment. As a result the uniqueness of an organization is thought to disappear in favor of isomorphism with the surrounding institutional environment. This reduces the possibility for radical change due to the pressures being present on organizational behavior (Greenwood & Hinnings, 1996) at the same time as it reduces uncertainty (DiMaggio & Powell, 1991).

Having identified the mechanisms by which organizational behavior can be explained, it is important to highlight why a certain behavior arises. DiMaggio and Powell (1991, p.66) argue that there is more to competition than usually thought, namely a battle for “political power and institutional legitimacy, for social as well as economic fitness”. Hence, achieving fitness stimulates organizational behavior through the search for legitimacy (DiMaggio & Powell, 1991).

2.2.3 Legitimacy

From an institutional perspective, legitimacy is not only a resource from which an organization benefits but rather a state where the organization is aligned and accepted by the different institutional pillars (Scott, 2001). As a result legitimacy penetrates the organization at all times (Suchman, 1995). It differs in a number of ways from many other resources. First, it cannot be considered as an input or output which is possessed and transformed by the organization (Scott, 2001). Second, it is of an intangible nature perceived subjectively by outsiders while held by the organization as an objective resource (Suchman, 1995). Accordingly, legitimacy gives validity to the meaning of the institutional order (Scott, 2001).

By building institutions, e.g. the state, with authority through a coercive process, one will create institutions that can forward legitimacy to other organizations. The power to legitimate from a regulative perspective has to be accepted from normative and/or cultural-cognitive perspective to gain legitimacy from the society as a whole (Stinchcombe, 1968 cited in Scott, 2001). Hence, as Scott (2001, p.60) argues “power is not the absolute arbi-
ter”. As a consequence, the regulative perspective of legitimacy does not exist alone. From a normative perspective legitimacy is considered to be based on moral considerations and other value or norm based factors. Attaining legitimacy is to respond to the pressures put on an organization by its institutional environment. Responding to pressures highlights the importance of social fitness; that is, attaining a structure which is legitimate in its environment. As a result, imitation plays a great role in the pressure towards isomorphism (Scott, 2001).

Conflicts between the pillars are expected to, and do, arise due to the differences in the foundation of determining legitimacy (Scott, 2001). Even if a conflict between the different pressures exists, the aim of an organization is the same: attaining legitimacy. This process is synonymous to the process of institutionalization (Suchman, 1995). A problem is that an organization has to respond to different environments pushing it in differing directions towards diverse norms and expectations (Scott, 2001).

Conforming to institutional pressures is not an exclusive option, even if it might be tempting in order to gain legitimacy. The possibility of gains through resistance is also argued to exist. Often, efficiency and resistance are argued to be positively related. This means that the most efficient mode of organizing is often not the one promoted by institutional pressures (Oliver, 1991). Oliver (1991) argues that resisting pressures might influence the standards by which a pressure is evaluated and strengthen the longevity of an organization. Thus, an organization makes an active response to institutional pressures where it either conforms to or resists the pressures.

2.2.4 Carriers of Institutional Elements

Institutional elements of the three pillars are embedded and transmitted in different ways. There are four main categories of carriers: symbolic systems, relational systems, routines and artifacts (Scott, 2001). These elements “act to produce meaning, stability and order” (Scott, 2003b, p. 879).

Symbolic systems carry different elements depending on the perspective taken. From a regulative perspective rules and norms form symbolic systems whereas from a normative view the symbolic carriers will carry elements of norms and expectations. The cultural-cognitive view emphasizes different types of classifications as symbolic systems. Standards arise as a combination of normative and cultural-cognitive symbolic systems. Standards are not part of the regulative pillar due to the voluntary creation and adoption by actors (Scott, 2001).

Relational systems refer to the structures by which the symbolic systems are governed. On the one hand, the regulative and normative views underline the importance of governance systems with clearly defined power and authority relationships. On the other hand, the cultural-cognitive view emphasizes the significance of isomorphism as carrying institutional elements (Scott, 2001).

Routines are also frequent transmitters of institutional elements. The three pillars all transmit institutional elements by repetitive actions forming e.g. procedures or roles for different actors (Scott, 2001). The last category of carriers is artifacts. The three perspectives share the notion of artifacts being objects but differ in the way of defining these artifacts. The regulative view looks at artifacts as being “objects complying with mandated standards” (Scott, 2001, p.77). The normative view is satisfied with objects meeting standards and the cultural-cognitive view highlights that an object must possess a symbolic value to
be an artifact (Scott, 2001). The carriers of institutional elements are interdependent in the
sense that they supply different types of information which together shape an organiza-
tional context. Tacit knowledge might require a different mode of transmission than e.g.
codified knowledge which is more easily transmitted without personal interaction (Scott,
2003b).

2.2.5 Organizational Fields

Scott (2001) argues that institutional theory can be applied to many different levels of
analysis, stretching from a world-system perspective to an organizational subsystem per-
spective. These levels are seen as connected through a hierarchy.

DiMaggio (1986) introduces the concept of organizational fields to analyze the context of
an organization. An organizational field can be seen to resemble the notion of an industry
but with a few modifications. A field, unlike an industry, does include closely related sup-
pliers, customers or other important inter-organizational links which are important deter-
ninants of performance. Further, the field is limited by normative and cultural-cognitive
factors (Scott, 2001). DiMaggio (1986) further emphasizes that the impact of environ-
mental forces is dependent on the position of a particular organization within an organiza-
tional field. Certain field positions might protect and other might harm the organization,
something largely unnoticed by the literature on perceived uncertainty.

Organizational fields are found to be developed not “around common technologies or
common industries, but around issues that bring together various field constituents with
disparate purposes” (Hoffman, 1999, p. 352). This makes it clear that a field cannot be
defined as a homogenous population of firms but rather as a network of interdependent
firms. As a result, a field should not be seen as a “tangible pattern of organizational coalitions” (Hoffman, 1999, p.352). Instead it is suggested that a field is defined by patterns of
interactions (DiMaggio, 1986). Hence, as Hoffman (1999) argues, a field should be defined
by common issues rather than products, markets or industries. Hoffman (1999) further
states that the membership of a field should be seen as a life-cycle and not as a binary situa-
tion where one either is in or out.

The boundaries of an organizational field are shaped both through a top-down approach
and a bottom-up approach (Scott, 2001). A top-down approach emphasizes the importance
of, for instance, cultural and regulative institutions at a national level shaping the bounda-
ries of organizational fields. A bottom-up approach looks at normative and cultural percep-
tions beginning at an organizational subsystem, such as the perceptions of an actor or a
special group of actors within an organization. Scott (2001) further states that a field must
possess a logic; that is it must possess some sort of general principles of organizing. It must
have content in the form of norms, expectations or other motives justifying the dominant
logic of the field.

Closely related to logic is the governance structure of a field, which consists of the power
relationships that are formed within the field. One can organize these relationships in dif-
ferent ways. In some fields an internal market is the dominating force of exchange whereas
in others strict contractual arrangements are developed. The scope of the arrangements is
regulated through normative and cultural-cognitive forces within the field, but can also be
altered by regulative pressures from the outside (Scott, 2001).

Over time, organizational fields are subject to change (Reay & Hinings, 2005). This means
that the pressures of the field, which work as stabilizing forces, are challenged by dynamics
often means that the dominant logic of the field is challenged by a new or formerly subordinate logic. At this stage the field can be looked upon through the battlefield metaphor, where a new logic is not naturally accepted by all members but forced upon non-complying members. The battlefield illustrates competition within the field when the logic is challenged. Now, power relationships play a vital role in the restabilization of the field where weaker actors will have to conform to the wills of the stronger actors. Hence, the power relationships between actors are important for the recomposition of the field. As a result a new dominant logic will emerge (Reay & Hinings, 2005).

![Figure 2-1 The Organization in an Institutional Environment (own model).](image)

Summing up, from an institutional perspective, the firm is a part of a wider institutional environment pressuring the organization towards convergence with dominant structures and methods of organizing. This relationship is depicted in figure 2-1.

### 2.3 Institutional Pressures and Organizational Response

This section concludes the theoretical framework by presenting the authors’ interpretation. A model serving as the analytical framework for the analysis is presented in figure 2-2. It defines the three institutional pressures as influencing the organization towards a certain behavior. The organization responds to these pressures as it seeks to attain legitimacy from the sources of pressures and to reduce ambiguity. Thus, the institutional environment will be investigated according to these pressures.

Attaining legitimacy is a primary task of an organization as it guarantees the appropriate-ness of an organization in relation to its environment (Suchman, 1995). Accordingly, the aim of complying with institutional pressures is to obtain legitimacy by responding to pressures as indicated by the broken lines showing the organizational response in figure 2-2. Organizational responses can be of different kinds, for example they could be simple measures to comply with regulations or be of a more symbolic nature, exerting influence through for example signs.

As stated earlier, institutional pressures are the mechanisms of influence by the institutional pillars that explain institutional influence on organizations. The authors consider the concept of institutional pressures to be more tangible than institutional pillars and thus, the concept of pressures is used in the model and throughout the analysis of the institutional environment. The model does not highlight power relationships and the effect of them directly, but implies them through the institutional pressures. Furthermore, the existence of
organizational fields, which rely on power relationships for their existence, is also implied by the pressures in the model.

One can see that from an organization’s perspective, no matter where it exists in terms of its environment, the three sources of pressures will act upon the organization. The difference that comes with environmental positioning only affects the contents of the pressures themselves. Hence, independent of the organizational field or network, the sources of pressures are the same: coercive, normative and mimetic; but the content differs.

For clarification purposes, the authors wish to present their view of what each source may comprise. In this thesis, the coercive sources of pressure have been identified as governments or states and federations that can exert pressures on organizations in terms of laws, regulations and policies. When responding properly to these pressures, organizations gain legitimacy. Moreover, normative sources can entail expectations, standards, social obligations and other norms among actors. These sources make organizations comply with normative pressures that arise from the sources in exchange for legitimacy. Finally, the mimetic sources of pressures are culturally rooted where it is important for organizations to consider associations and traditions in order to achieve legitimacy.

Exemplifying the discussion above, if a state demands registration of firms to be legitimate in the eyes of potential partners, a firm would most likely respond to the pressure by registering its existence at the proper governmental agency. However, the response of the firm depends on the legitimacy it can attain from the sources available. This means that, if it is normatively accepted, or even preferred, not to register to attain normative rather than coercive legitimacy, the firm would be likely to respond to the normative source instead. This
is because the incentives, in this case, would be higher to conform to the normative source than the coercive one.

By investigating the institutional pressures put on organizations in SSA, the authors will be able to explain how these shape organizational behavior. Put simply, organizational behavior is the outcome of the institutional pressures and the organizational response.
3 Method

Given the purpose of this thesis, it is not the aim to explore an empirical phenomenon, but, to explain an empirical situation from a theoretical perspective. This chapter explains the authors’ rationale for choosing a qualitative research method to fulfill the purpose and outlines the research approach. Furthermore, the method for collecting, analyzing and presenting the empirical findings is described. A short presentation of the research constituting the empirical foundation of this thesis is also given and the quality of the study is discussed.

3.1 Research Method

The authors wish to explain how organizations respond to the institutional environment through the lens of institutional theory. To be able to fulfill the purpose, the authors argue that a deep and rich understanding of the SSA business environment is needed. Such an understanding, according to the authors, relies on interpretations that capture the dynamics and relationships of the business environment’s characteristics.

Organizational response from an institutional perspective deals with forces that are external to the organization itself. Hence, external forces are used to explain firm behavior in this study. No similar studies on SSA including institutional theory could be found and as a result, an already developed statistical model could not be identified. Thus, a confirmatory statistical test on the influence of institutional pressures on organizations is impossible to conduct. A quantitative alternative is to develop a model using an exploratory statistical method, determining significant variables in a model according to certain criteria. However, since institutional theory is an analytical concept where the pressures cannot always be empirically distinguished (DiMaggio & Powell, 1991), constructing a model with a good fit was considered out of scope by the authors. Therefore, the authors have decided to use a qualitative method, which is in line with what Hussey and Hussey (1997) and Amaratunga, Baldry and Sarshar (2002) suggest for achieving a deep understanding of a phenomenon.

In respect to the purpose of the thesis and as a consequence of the method chosen the authors regard a deductive approach suitable. A deductive approach involves testing theory against empirical findings and thereby propose adjustments if necessary (Saunders, Lewis & Thornhill, 2003). By being deductive, the authors can depart from an analytical framework and apply it to the empirical findings and thereby reach a conclusion. An inductive approach on the other hand, would involve building theory from observations (Saunders et al., 2003).

3.2 Data Discussion

Fundamentally there are two approaches towards data collection. On the one hand there is primary data collection and on the other there is the possibility of using secondary data (Hussey & Hussey, 1997; Saunders et al., 2003). Since the geographical area being investigated in this thesis is at a large distance from the authors the costs of collecting primary data representative for the region or any single country would be very high. Thus, primary data collection is out of the scope of this thesis both in terms of time and financial burden. Secondary data provides the possibility of investigating the subject without incurring the costs of collecting primary data as well as lowering the time needed to collect this data (Cowton, 1998; Saunders et al., 2003). Moreover, when using secondary data, the empirical
findings in this thesis can more easily be controlled and scrutinized by the reader who can then assess the trustworthiness of the authors’ conclusions (Saunders et al., 2003). It is therefore a natural choice to choose secondary data as a basis for the empirical findings.

The data has been collected from written sources, such as research reports and journal articles. Saunders et al. (2003) denotes this type as multiple-source secondary data, such data can as an example consist of different country or region reports from governments or journals. The most severe drawback has to do with the loss of control that is associated with secondary data (Cowton, 1998). A further drawback is that definitions might differ slightly between different research reports and might pose a problem when using secondary data (Saunders et al., 2003).

3.3 Data Search and Search Criteria

Using written secondary data as a source of empirical findings, one has to systematically search and sort out relevant sources. The authors decided to rely on secondary data from large international not-for-profit organizations as well as researchers.

The collection process can be divided into two parts, search criteria and relevance evaluation. Search criteria are criteria entered into search engines to find reports of interest which are returned as a list of publications. Relevance evaluation is the evaluation by the authors to sort out publications not covering the subject matter. This was needed due to the fact that there is a vast amount of publications on the SSA geographical area, covering everything from epidemiology to anthropology. Important to note is that the term ‘institutions’, from an empirical perspective was found not to represent the notion of institutions from an institutional theory perspective, which the authors took into account when assessing publications. Defining search criteria is an important step towards gathering the necessary data of the thesis. The criteria were defined through the insights gathered from the purpose, institutional theory, the theoretical framework and the analytical model presented at the end of the theoretical framework.

The search engine of choice was Google Scholar due to the vast size of its indexed material and because its search algorithm is not built on metasearch principles but on peer-review and academic citations. This search engine allows one to further specify subjects of interest. The authors decided that a relevant time period for secondary data publication was 10 years and thus specified publications to have been published at no earlier than 1996, further the subject of the publications was defined to be ‘Business, Administration, Finance, and Economics’ which is provided as an option by Google Scholar. This helped the authors to overcome some of the problems associated with the diverse population of results found when the series of searchers were made.

In order to find the relevant data, the following search words were combined in different ways:

- Sub-Saharan Africa
- Network(s)

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Method

- Business Environment
- Institutional Environment
- Institution(s)
- Business
- Environment
- Organization(s)

Aside from Google Scholar, it should be noted that the authors also assessed JULIA, which is provided by the Jönköping University Library. The same search words were used but the categorization used in Google Scholar could not be used due to technical limitations in the search engine. The search in JULIA generated no further results deemed appropriate.

3.4 Sources of Data

The data search discussed previously generated three papers that the authors considered relevant. Therefore, these were chosen to constitute the empirical findings of the thesis. To further evaluate these in order to achieve a match to this thesis’ purpose, the three papers are discussed in the three separate sub-sections that follow.

3.4.1 Source 1: Institutional Obstacles for Doing Business – Data Description and Methodology of a Worldwide Private Sector Survey

The paper *Institutional Obstacles for Doing Business – Data Description and Methodology of a Worldwide Private Sector Survey*, written By Brunetti, Kisunko and Weder (1997). The paper was conducted on command of the World Bank and it is based on more than 3,600 returned questionnaires (8,685 sent out questionnaires in 1996-1997), of which roughly one third came from the SSA region. Apart from the SSA region, the surveyed regions were: Commonwealth of Independent States, Central and Eastern Europe, Developed Countries, Middle East and North Africa, Latin America and Caribbean, and, South and South-East Asia. However, these will not be further discussed in this thesis. In total, 22 countries3 in SSA were surveyed and the average number of firm respondents in each country was 59. However, the spread was fairly large with the smallest number of surveyed firms in one of the SSA countries was 13 and the maximum 124.

One of the aims with the survey was to achieve a rich span among responding firms. In SSA, 43% of the respondent firms had less than 50 employees, 31% more than 50 but less than 200 and, 24% had more than 200 employees. Moreover, 46% of SSA respondents were situated in the manufacturing industry, 39% in the service industry and 11% in agriculture. The location of management in SSA varied from 58% in capital city to 26% in large city to 13% in a small city or the countryside. Foreign participation was measured both in terms of foreign capital and access to export markets. 42% of SSA respondents did

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3 Benin, Cameroon, Chad, Congo, Côte d’Ivoire, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mauritius, Mozambique, Nigeria, Senegal, South Africa, Tanzania, Togo, Uganda, Zambia and Zimbabwe
have foreign capital whereas 56% did not. The figures for export market access were similar with 42% yes and 54% no.

Brunetti, Kisunko and Weder’s (1997) questionnaire deals with five different aspects of doing business, predictability of laws and policies; political instability and security of property; government-business interface; law enforcement and bureaucratic red tape and; uncertainty created by state action and the efficiency of government in providing services. Moreover, the aim of the paper was to survey private businesses and attain information on perceives obstacles for doing business in order to advice governments on policy matters. It should be noted that the responses are provided in the form of region-by-region results, that is, the 22 SSA countries that have been surveyed have been put together as a whole under the heading SSA. Similarly, the same has been done for the other regions even when only 3 countries is part of the sample the in Middle East and North Africa and South and South-East Asia regions. Hence, the authors of this thesis have not been able to look at the figures for any specific SSA country but have to rely on the judgment of Brunetti et al. (1997) that it is possible to generalize to the whole SSA region based on the surveyed 22 countries.

When relying on the Institutional Obstacles for Doing Business paper as secondary data, the authors of this thesis regard the fact that the findings have not been analyzed by Brunetti et al., (1997) as important to highlight. Therefore, it can be argued that the risk of misinterpretation, or even misuse, is lesser than in already analyzed secondary data. Furthermore, the paper deals with the relationship between private firms and their respective governments and therefore, the authors of this thesis consider it an excellent source on the formal aspects of the business environment in SSA. Again it should be pointed out that the paper is empirically focused and does not entail an analysis of the results.

3.4.2 Source 2: African Small and Medium Enterprises, Networks, and Manufacturing Performance

The second data source judged relevant is the African Small and Medium Enterprises, Networks, and Manufacturing Performance, a paper written by Biggs and Shah (2006). The paper is empirically based on the research results from the Regional Program for Enterprise Development (RPED) carried out by the World Bank during the 1990s. The RPED, is a worldwide survey series where the Africa RPED is represented by 37 SSA countries. Bigsten and Söderbom (2005) note that the data generated in surveys like those of the RPED, where firms are followed over time is powerful. However, they also point out that most SSA firms have not been followed for a long time yet, in fact, for most firms in the region, only three observations exist. Hence, it should be acknowledged that when using RPED data as the foundation for research, the risk of making inaccurate generalizations is potentially high.

It should be brought to attention that one of the authors of the African Small and Medium Enterprises, Networks, and Manufacturing Performance (2006), Tyler Biggs, has formerly held the position of manager of RPED at the World Bank. Moreover, one purpose of the World Bank’s Policy Research Working Paper Series is “to encourage the exchange of ideas about development issues” (Biggs & Shah, 2006, p.1)

Since the paper is published in 2006 and constitutes findings from RPED surveys in SSA in the 1990s, a certain time lag exists. Therefore, results currency can be somewhat question-

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4 For further information about RPED, see http://www.worldbank.org/rped
able. However, within the paper, research conducted more recently is included and therefore, this problem is compensated for to some extent.

Although Biggs and Shah (2006) make regressions on determinants of startup size; determinants of productivity; determinants of firm growth; probability of receiving supplier credit; probability of receiving supplier credit for indigenous-African firms, and; probability of receiving credit for networked SMEs on figures from Kenya, Zambia, Zimbabwe and Tanzania, a large part of the paper is devoted to present empirical evidence, sometimes generalized, from the whole region. However, the nature of the paper is analytical and the reader is presented a thorough chapter on implications for policy constructors.

3.4.3 Source 3: Networks, Communities and Markets in Sub-Saharan Africa

The third publication used in this thesis is *Networks, Communities and Markets in Sub-Saharan Africa* by Fafchamps (2001), who utilizes an economist’s perspective. The paper stems from research carried out at the Centre for the Study of African Economies at Oxford University. The paper is qualitative in its nature and secondary data is used in the form of previously published research results.

The paper of Fafchamps (2001) presents insights on how networks and other long term relationships shape the market dynamics in the SSA. Fafchamps (2001) guides the reader through different forms of allocation mechanisms, the market, gift exchange and command and control and thereby explains why the market place a more important role in SSA than it does in countries with more advanced economies. Fafchamps (2001) paper on SSA is analytically focused with extensive referencing to other research being made.

3.5 Reliability, Validity and Generalization

To conduct a study that is on the one hand highly reliable and on the other, valid, must be considered desirable. In line with this is Bonoma’s (1985) claim, that all researchers aim to achieve data integrity as well as results currency and that a trade-off between the two is often needed. Commonly, a study is said to be reliable if the results can be replicated. The related concept of validity though concerns the accuracy of the study, if it fulfils the intentions. (Hussey & Hussey, 1997)

The authors recognize that reliability and validity of this study is threatened by the use of secondary data because of the inherent loss of control in such a usage. The lack of control over the secondary data will be compensated by including expert opinion that will validate the empirical findings.

In reviewing the literature on method, the authors find that there is little consensus on the applicability of reliability and validity as quality measures in a qualitative study (See e.g. Golafshani, 2003; Stenbacka, 2001). Indeed, “the credibility of a qualitative research depends on the ability and effort of the researcher” (Golafshani, 2003, p. 600). The purpose of this thesis however, is not to immerse in the discussion of quality measures. Nevertheless, some measure of quality is always needed; otherwise results would become rather dubious. The authors consider that the trustworthiness of this thesis is assured by the discussion of the data sources and their purposes. In addition, expert opinion will further increase the trustworthiness in the sense that the empirical findings will be scrutinized and validated by these experts.
The authors will keep a skeptical mind throughout the whole process when reviewing theory, previous research and empirical findings and not draw far fetched conclusions. Moreover, throughout the process, the authors have been given continuous peer review on the thesis. The authors find it highly important to make some remarks on the generalizations that affect this thesis. Firstly, concerning the secondary data sources, generalizations across the SSA region have been carried out, not by the authors of this thesis, but by the authors of the specific source. Hence, even though not all the countries in SSA have been studied in these documentary sources, the results have been generalized on the whole region.

Relying on published sources of data, poses a problem of ensuring validity. To compensate for this, a number of experts were contacted to comment on the main findings extracted from the empirical findings. The authors define an expert as a person who has first hand experience of SSA.

The primary benefit of including expert opinion is the ability to strengthening the validity of the findings of this report as well as discussing the generalization over SSA as a homogenous region which has been done in the secondary data. The questionnaire was designed to serve as a tool for confirmation or rejection of the main empirical findings used in this thesis and not as tool to extract further empirical material. The questionnaire was developed as what Saunders et al. (2003) denotes to be a self administered one, which was delivered by e-mail. All respondents were confronted with identical questionnaires, beginning with a few questions where the expert was supposed to enter information about him or herself. The three questions constituting the main part of the study were in the form of open questions, which dealt with the experts’ experience of Sub-Saharan Africa and their stance on our statements. The questionnaire was sent to six persons and returned by five. The questionnaire (see appendix 2) was responded by the following experts:

**Expert A** has research experience from South Africa. A is a Swedish researcher in business administration (answer retrieved: 2006-12-04).

**Expert B** has worked and lived in both Kenya and Guinea-Bissau. Moreover, B holds a senior position at a Swedish governmental agency (answer retrieved: 2006-12-04).

**Expert C** works with international trade issues in Nigeria but has experience from South Africa as well (answer retrieved: 2006-12-05).

**Expert D** has lived and worked in Eastern and Southern Africa for the last 20 years. D is working for an international non-profit organization and has extensive experience from Kenya, Malawi, Somalia, Zambia, Zimbabwe, but has also been in and assisted in Angola, Botswana, Ethiopia, Mozambique, Namibia, Seychelles, South Africa, Sudan, Swaziland and Uganda (answer retrieved: 2006-12-08).

**Expert E** is a university student in Sweden from Ghana (answer retrieved: 2006-12-12).
4 Empirical Findings and Analysis

This chapter comprises both the empirical findings and the analysis. It should be noted that the empirical findings have been separated according to the three different sources of pressure: coercive, normative and mimetic. The analysis is presented respectively for each source. Because the pressure sources should not be seen as distinct, an integrative analysis will be given to account for the interdependencies that exist.

4.1 Coercive Sources

The first sub-section presents findings on the coercive source of pressure. The analysis of coercive source follows in the second sub-section.

4.1.1 Empirical Findings

Businesses active in the SSA region have to comply with inefficient tax systems, which present a problem for operations (Fafchamps, 2001). It has been observed that taxes, in general, are hard to collect which results in insufficient funds and this puts governments in bad positions when it comes to infrastructure improvements that facilitate business operations (Fafchamps, 2001). Consequently, local markets are very important for allocation purposes in SSA and numerous transactions, often small, are needed to transfer a product from producer to consumer (Fafchamps, 2001).

As can be seen from the survey conducted by Brunetti, Kisunko and Weder (1997), many SSA businesses fear that unconstitutional government changes will result in new rules, laws or policies and, that such changes will have a big impact on continuous operations. In effect, 60% of SSA businesses see it as a part of operations to deal with such changes; 68% of the surveyed businesses in SSA consider the predictability of these to have decreased between 1987 and 1997 (Brunetti et al., 1997).

Another issue that has been raised by businesses in SSA is that of government policy construction. It has been shown that around 80% of SSA businesses are of the opinion that governments take insufficient notice of their thoughts on policies and how these should be constructed to support business operations. Furthermore, when new policies and alike are being constructed, businesses are generally not informed before these policies turn into practice (Brunetti et al., 1997). Moreover, top management of businesses active in SSA spend more than 25% of their time on dealing with government officials in order to understand the nature of changes in policies and other rules. In addition, Brunetti et al. (1997) point out that top management in the SSA region has among highest number of all surveyed regions of hours spent on this matter.

Poor procedures for business and personal identification registration in SSA further increase the risk of low quality in the sense that the risk of engaging in bad relationships where a business might be swindled and end up with worthless products increases (Fafchamps, 2001). Therefore, the chance of illegal behavior or breach of contracts being subject to courts settlements is low, even though the chance increases with firm size (Biggs & Shah, 2006; Fafchamps, 2001). Biggs and Shah (2006) state that the legal systems within SSA often practice outdated laws, material and human resources are lacking and corruption is prevailing; altogether with the effect of distrust in the system itself. Fafchamps (2001) points out that organizations in the SSA region enter long term relationships that, over
time, turn into network structures. This is seen as a response to transaction costs that increase due to inefficient formal institutions (Fafchamps, 2001).

In fact, during the period of 1987 to 1997, the percentage of businesses that consider state authorities unable of protecting them against criminal actions have increased from around 50% to almost 80% (Brunetti et al., 1997). Additionally, the same increase can be found in businesses that consider criminal actions to have severe impact on operations. Uncertainty also exists in the outcome of legal disputes where in 1997, 70% of businesses find that such unpredictability is a serious concern (Brunetti et al, 1997).

4.1.2 Analysis

From the empirical findings, it is evident that a typical organization in SSA does not consider the government as one of the more reliable actors in its environment. Hence, sources of coercive pressures are perceived as unclear by organizations. This creates a blurry situation for them in the sense that the cost of not responding to coercive pressures is, to a large extent, unknown. Thus, to attain legitimacy, organizations cannot rely on their responses to the source of coercive pressures.

When the costs or gains of responding to coercive pressures are unknown, transaction costs for businesses increase and contribute to putting them on disadvantage relative to businesses where costs are smaller. The typical response to vague sources of coercive pressures among organizations in SSA is to engage in long term relationships. These relationships, in turn, form network structures comprised by organizations in both upstream and downstream activities. This can be interpreted as an organizational field in which a dominant logic evolves (see Reay & Hinings, 2005). The dominant logic will help the members of the field top overcome obstacles that are shared among them all, that is, they all have, at least, one common problem. The issue that brings organizations together in SSA is, naturally, weak sources of coercive pressures. By network formation, organizations have been able to overcome the insecurity that the sources of coercive pressures have been putting on them.

As a result of sources being unclear about coercive pressures, for example in terms of legal systems and the outcome of legal disputes, trust on an inter-organizational level has been harmed. Networks act as a substitute for the more formal sources of pressures in these cases where mechanisms within the network punish those that violate network regulations. However, to utilize a network as a substitute does come at a prize. Unpredictability of how the source of coercive pressures may alter or impose new pressures on an organization is seen as a major obstacle for doing business. It can be interpreted as discomfort with change, where the dominant logic of the field is being challenged (see Reay & Hinings, 2005). When large changes occur in the composition of coercive pressures, the structure of a network should change as well. In other words, a network is either negatively or positively affected by government changes in laws, regulations and policies. In some cases the network might even become obsolete if the logic currently applied within the network cannot be easily altered in order to reflect the new context. It follows that what was once an accurate response to the ambiguity of coercive pressure might become an obstacle for doing business in itself. Therefore, a network can be said to suffer both from changes in either direction of the dominant logic and it must consequently be prepared of such changes. When the context of the network changes, then, it is not able to sustain on the same underlying principles, but need to renew itself in terms of members. To simply approve members that fit the current logic would not be sufficient.
Empirical Findings and Analysis

When a state cannot exercise its power and make organizations comply with rules, laws or other regulatory aspects, organizations will seek legitimacy from other sources. Organizations can substitute the legitimacy that would have been gained by responding to the source of coercive pressures, and obtain it instead from the network. The network is now the primary source of legitimacy for organizations, and this might help to explain why organizations that are not connected to a network perform worse than the connected ones. Without legitimacy, the path of prosperity cannot be taken.

4.2 Normative Sources

The first sub-section presents findings on the normative source of pressure. The analysis of normative source follows in the second sub-section.

4.2.1 Empirical Findings

The lack of production standards in SSA is a common attribute for the manufacturing, service and agricultural industries. Effectively, lacking standards on the market negatively affect production in the sense that a consistent quality both of inputs and outputs is difficult to ensure (Biggs & Shah, 2006; Fafchamps, 2001). Additionally, purchasing costs are increased in the sense that buyers have to examine a product carefully in order to achieve a consistent quality (Biggs & Shah, 2006) and exports are also negatively influenced by this problem (Fafchamps, 2001). Since market-supporting-institutions are not present in the form of production standards, proper infrastructure or an efficient legal system; buyers and sellers in this region find it hard to achieve a sufficient level of trust in each other to engage in more complex forms of contracting such as invoicing, supplier credit and ordering in advance. Thus, complex contracting is often reserved for larger, well known businesses (Biggs & Shah, 2006). The growth of smaller businesses in the SSA region is also hampered by these local conditions because businesses, or credit institutions, do not provide the necessary forms of contracting to businesses that are perceived to carry a high risk of resulting in bad debt for the creditor (Biggs & Shah, 2006). Practice among firms in SSA has been to overcome weaknesses in the market by focusing on long term trading relationships and networks that increase trust (Fafchamps, 2001).

Biggs and Shah (2006) present a slightly different, yet supporting, angle of how market failure is tackled - through the practice of creating networks that are governed by a general notion of reputation. The incentive for trust and cooperation in such a system is created by successful sequential actions and thereby, information sharing within the network makes it possible to exclude members for instance because they are known not to pay their bills, not delivering as promised or, in fact are in default (Biggs & Shah, 2006).

In the SSA setting, screening costs for businesses and individuals are high because of lacking authentication systems and transportation infrastructure that can help a business with finding reliable partners (Biggs & Shah, 2006; Fafchamps, 2001). In fact, it has been shown that only around 30% of businesses in SSA find the roads that they use to be in good shape (Brunetti et al., 1997). In addition, the mail delivery system is seen as inefficient by almost 40% of SSA respondent and only 10% can connect to a public telephone line in less than a month (Brunetti et al., 1997).

Long term trading relationships have been found to prosper in the SSA context because they represent a practice that substitute for failing formal institutions and thereby constrain firms from breaching contracts or engaging in other contractually illegal behavior (Faf-
Empirical Findings and Analysis

champs, 2001). The problem of high screening costs is compensated for by network formation because the prevalence of choices made for collective benefits increases (Biggs & Shah, 2006). Businesses operating in the SSA region that are a part of a network have advantages over less well connected firms. In fact, not being part of a network might restrict businesses to enter the markets controlled by networks due to their inability to fulfill membership criteria (Fafchamps, 2001). Furthermore, trading across network borders can be difficult (Biggs & Shah, 2006).

Because of network mechanisms that exclude those found to be unfit for cooperation, networks in SSA raise performance of businesses inside the network in terms of increased productivity and growth at the same time as outsiders are affected negatively. Thus, SSA networks have been able to create a structure, rather stable over time that keeps outsiders from profitable transactions (Biggs & Shah, 2006). Competition in the SSA region is therefore inhibited by the fact that networks can exclude non network members from large, profitable operations and at the same time increase the positive forces within the own network (Fafchamps, 2001; Biggs & Shah, 2006).

4.2.2 Analysis

As has been identified in the empirical findings, production standards are lacking in the SSA business environment and considerable costs associated with purchasing exist. The lack of standards can be interpreted as competing normative standards between the buyer and seller. Hence, conflicting norms hamper trade. To overcome the constraints that the market puts on the organization when it comes to trading goods and services, organizations in SSA have been found to develop networks. The networks ensure that there are entry barriers in the sense that a network set normative standards to be followed for organizations to become members. The standards are enforced through the inducement of the benefits by being a member. By utilizing such a lock-in strategy, the network will develop norms and expectations on their members. Consequently, the network will develop normative pressures that members will have to adhere to, which will turn organizational uncertainty into trust.

Normative pressures create a possibility for the network to assist its members to overcome the limitations associated with the business environment. As a result, the network has to create a selection procedure, to exclude non-complying organizations while accepting complying ones. From a normative perspective this selection is based upon expectations and standards of other members of the network.

So far, the discussion has focused on organizational entry into networks from a normative perspective. However, not only entry is important, keeping membership is vital to benefit from the investments organizations do in order to enter networks and develop trust. Reputation within networks is a mechanism by which organizations can improve the sustainability of their membership; by adhering to the norms within a network an organization will develop reputation. When comparing the organizations that cooperate frequently with other members in a network to those that cooperate on a less frequent basis, one can observe that power relationships emerge within network boundaries. Hence, stronger and weaker members will develop within networks. Comparing the network to an organizational field it is observable that such power relationships will evolve into a hierarchical structure where some members have more power than others. Hence, not only normative pressures within the network that arise because of common expectations are important but, eventually, power will also play a vital part.
The discussion has now touched upon the role of networks compensating for competing norms in trade, attaining network membership and sustaining network membership. The reason why networks evolve as solutions to malfunctioning markets has, however, not been discussed. As pointed out in the analytical framework, the primary goal of an organization is to attain legitimacy. From a normative perspective, this is done through responding to normative pressures. These have been identified above to be the compliance with expectations and norms that develop within networks. As a result, an organization being non-compliant to network standards will be isolated and not let into the network which would have provided access to both trustworthy suppliers and customers. Hence, it is in the primary interest of an organization to respond to normative pressures in order to gain legitimacy. However, it should be noted that the legitimacy gained within one network might only be recognized within that network. This is due to the very network specific developments in terms of standards and expectations that will differ from one network to another.

4.3 Mimetic Sources

The first sub-section presents findings on the mimetic source of pressure. The analysis of mimetic source follows in the second sub-section.

4.3.1 Empirical Findings

Network structures in SSA have been found to be determined by ethnicity to some extent, that is, one might not be accepted into a network if one is from another ethnicity than the core of the network (Biggs & Shah, 2006). A common misunderstanding is that trading mainly occurs within family boundaries. Transactions are not made primarily within the family itself but rather with the connections that arise through family activities (Fafchamps, 2001). Moreover, a crucial point is that one is not excluded based on ethnicity per se, but rather because members of a certain ethnic group tend to socialize with people from the same ethnic and cultural background. It is a general perception that people with similar background can be trusted, and these are, therefore, preferable as business acquaintances. It follows that when a particular ethnic group is involved in a specific mode of business, a business might be excluded from the same market if it is not connected to the ethnic group that dominates the network (Fafchamps, 2001).

Fafchamps (2001) point out that the screening process utilized by ethnically concentrated networks might be fatal. The fact that new members are chosen from a narrow group of the total population resembling the already existing members of the network reduces the chance of finding suitable and desirable partners that can be utilized to further strengthen the network’s capabilities (Fafchamps, 2001).

When the traded products are standardized in their manner, e.g. commodities, profits can usually be derived steadily over time and this is the case in many of the SSA networks that are composed purely by Africans. Then, no real renewal of the networks is required. Instead, the network composition is rather stable in such an environment where many organizations enjoy a lifetime membership (Fafchamps, 2001). However, not all the networks in SSA are involved in such activities (Biggs & Shah, 2006; Fafchamps, 2001). Most upstream activities in SSA are performed by homogenous minority networks. Examples of this are numerous, European networks control such activities in the Southern parts of Africa, Lebanese networks control manufacturing, imports and exports in Western Africa. On the other hand, the networks that are purely composed by African businesses are involved
in activities of lower value adding nature. (Biggs & Shah, 2006) Fafchamps (2001) state that colonial policies clearly were biased toward firms of non-African and therefore gave minority networks such as the European advantages. Further, it is noted that the current position of minority networks cannot be fully explained by cultural history of the SSA countries (Fafchamps, 2001).

4.3.2 Analysis

The empirical findings show that organizations in the SSA setting interact with each other in networks because it helps them to overcome limitations in the market. The networks they enter are sometimes ethnically concentrated in the sense that organizations with similar ethnic and cultural background have a common platform for socialization. Organizations that are not similar to existing members of a network are often indirectly excluded because of their cultural heritage.

Isomorphic organizational behavior can be interpreted as a result of the fact that a network’s platform of socialization is built on cultural similarities between organizations. Networks, then, renew themselves through sending mimetic pressures, where future members will be pressured to mirror the current ones. Therefore, networks are sources of mimetic pressures put on both its members and organizations that seek access to the network.

It follows from the discussion that an organization that tries to obtain approval as a network member needs to adopt a response strategy that answers to the mimetic pressure enforced by the network. Consequently, to mirror the existing members in this situation becomes a focal point for such organizations since they otherwise would be too different from the core of the network. Organizations may or may not be aware of the fact that they need to mirror the network in order to be approved. However, since the reflection they can make is inherently determined by cultural origin, ethnicity is an obstacle that is hard to overcome. In other words, networks become important sources of mimetic pressures since organizations that are not similar to the network are unlikely to be granted access to the network.

As apparent from the empirical findings, one can see that different networks control different activities. A low degree of interaction between these networks exists, which results in networks that closely resemble organizational fields. The logic of the field is ethnically determined and it is complicated to enter if one is not culturally accepted. When the logic of a field is based on cultural factors, it will be difficult to alter the logic and hence, renewal of the field is hampered. Accordingly, the possibility of attaining legitimacy within a field is limited by deeply rooted cultural factors. This makes the structure of the field remain solid over time and assures a stability to which organizations are able to align. Hence, mimetic pressures force organization to culturally choose their networks in order to gain legitimacy.

It can be concluded that organizations cannot always respond to mimetic pressures and thereby gain legitimacy. Ethnicity and culture can be interpreted as a barrier for membership and legitimacy that is difficult to overcome. Hence, organizations should sometimes choose not to respond to mimetic pressures but solely coercive or normative pressures when seeking legitimacy. When trying to construct a response to mimetic pressures when it is impossible to achieve any gain because of background dissimilarities, an organization might even be expected to incur greater costs than when not responding to the mimetic pressures at all.
4.4 Integrative Analysis

The separate analyses on the sources of the institutional pressures have revealed that legitimacy is the primary aim that organizations strive towards. It has been shown that legitimacy originating from coercive sources of pressures is difficult to attain, and even if attained not valuable in cases where this legitimacy in itself is not legitimate because of conflicting norms. Accordingly, it is apparent that not only coercive sources of legitimacy but also normative and mimetic sources are of importance.

The organization acts to simultaneously respond to sources of all three pressures when it seeks legitimacy. Hence, it aims to establish a mutual exchange between responses and legitimacy. When this occurs, it can be seen as a state of balance for the organization. As apparent from the earlier discussion of the pressures, balance has to be found with each of these pressures for the organization to be able to prosper. Hence from the perspective of the organization, the interdependence between the pressures is clear, in the terms of a ‘social fit’.

From the perspective of an organization positioned outside an ethnic minority network it wishes to enter, as long as the organization is not ethnically similar to the network, access will be hard to achieve. For such an organization it makes little sense trying to respond to mimetic pressures because no matter the response, access will most probably not be granted. On the other hand, from inside the network, mimetic pressures do not have to be responded to since one can assume that the members already have been granted access at one point in time. Therefore it would not be necessary to take any specific actions in terms of mimetic responses to keep that membership since these are culturally based.

Ironically, then, it can be seen that both members and potential members of ethnic minority networks will inevitably put less emphasis on responding to mimetic pressures. This is because such a response would be inherently difficult to construct unless the individual organization’s endowments are corresponding to the mimetic pressures from the network. Hence, the role of mimetic pressure can be interpreted as mainly a mechanism that restricts organizations to enter in certain business operations. Once such an exclusion has been enforced, organizations both inside and outside the ethnic minority network will have to respond to other pressures. Legitimacy in this situation seems to stem primarily from coercive and normative sources.

Mimetic pressures are, as seen so far, not easy to adapt to due to their nature of being culturally as well as ethnically based. It can thus be assumed that being able to respond to such pressures is more or less of a binary nature, either one is accepted or rejected. Hence, organizations themselves have little opportunity to affect the situation. This does not mean that mimetic pressures are unimportant. Being of a certain ethnicity or having a certain cultural background will help an organization to establish them, however, when one does not fit into one of these groups one will not have the opportunity to affect the situation from a mimetic perspective. In such a situation where an organization is mimetically excluded, it will still have the possibility to respond to coercive and normative pressures.

In SSA coercive pressures have been found to be unclear. Through the analysis of these pressures, it has become clear that legitimacy cannot always be derived by responding to them. Hence, normative pressures in the form of standards and expectations, will then serve as a primary source of legitimacy. This can as has been seen in the analysis of the normative pressures primarily be obtained by trust and reputation in long term relationships and networks. The difference between those who fit into mimetically based networks...
and those who do not is dependent on what basis the networks are formed. For ‘mimetically fit’ organizations it is natural to turn to culturally similar organizations due to the many cultural similarities which ease the process of doing business. For organizations that do not fit into mimetically based networks, trust and reputation will serve as the main platform of creating networks.

4.5 Expert Opinion on Empirical Findings

The views of the experts, who were asked to comment on the empirical statements, are not fully congruent. Hence, in some cases, the experts consider the empirical information to be somewhat contradictory to their experience or that it is not current enough since large political changes have occurred in certain regions.

Generally, Expert B and D are more positive towards the statements than A and C. This may be explained by the experience of A and C, which is limited to Nigeria and South Africa. South Africa is generally acknowledged to be well developed and identified to be a strategic market by Beraho (1997). In the same paper, Nigeria was identified as a problematic market, it means that it is a market with potential but currently unattractive. However, as expert C states: “Nigeria returned to democracy in 1999 with President Obasanjo as leader and the war on corruption has yielded fruit”. This may explain the why A and C are less positive towards the statements than B and D, who generally tend to agree to a large extent with the statements they were presented with. Expert E acknowledges both sides and argues that many countries in SSA fit the statements of the questionnaire well. Furthermore, E argues that the countries, which do not fit the statements, are the more stable ones like Ghana, Nigeria and other West African countries.

The most obvious implication of the expert comments is that it may not be possible to generalize over the SSA region fully to the extent that Brunetti et al. (1997); Biggs and Shah (2006) and Fafchamps (2001) have done. The comments from the experts indicate that there exist different categories of countries. From the responses of all the experts, the authors conclude that the secondary data utilized in this thesis may not be representative for Ghana, South Africa or Nigeria, but still representative to a large extent for the other countries in SSA.
5 Conclusion

By investigating the business environment of Sub-Saharan Africa, the authors have been able to explain the interacting dynamics of the institutional pressures: coercive, normative and mimetic. It has been shown that legitimacy can be derived from an organization’s response to these institutional pressures.

From the analysis, a set of responses to institutional pressures have emerged as common among organizations in SSA. Organizations respond to institutional pressures by formations of long term relationships and networks. The networks are either reputation or culturally driven, where organizations are forced to conform to the norm and other shared beliefs within their respective network. In practice, ethnicity is enforced as a fundamental platform for membership in these structures, and, thus, the available response options to mimetic pressures have been found to be limited.

Organizations in SSA cannot fully rely on responses to the sources of coercive pressures to gain legitimacy, and, therefore, legitimacy is obtained once organizations enter networks. Here, legitimacy stems primarily from responses to the normative pressures that arise within the network. However, some organizations can attain legitimacy simply by being present, which is illustrated by the case of coping with mimetic pressures within ethnic minority networks. Furthermore, networked organizations tend to fear changes in government policies, laws and regulations because they expect such changes to make the network logic obsolete. In this situation, the organizations within a network will incur large costs since they have previously committed various resources to their network. Thus, changes in the source of coercive pressures, or a change in the coercive pressures themselves naturally requires a new set of responses to coercive, normative and mimetic pressures if legitimacy is to be obtained.

The institutional pressures interact to create the reality of an organization. This demands a joint response to all pressures simultaneously. In addition, no matter if an individual pressure is weak or strong, all pressures are important in shaping organizational behavior. Hence, what may be perceived as a weak pressure is not less important than a pressure perceived to be strong; it is only the response that differs. In conclusion, the pressures should not be seen as independent or dependent on each other, rather as interdependent: no response is isolated towards one pressure at a time, but towards all pressures simultaneously.
6 Discussion

The formation of networks and long term relationships as discussed in the analysis enhances prospects and decreases uncertainty from the perspective of an organization. Thus, a network can be seen as constituting an “artificial world” for organizations, small enough to be controllable yet large enough to be profitable. Arguably, within the economy, a number of closed sub-economies operating in parallel can be observed between which trade and financial flows are rare. Competitive behavior, then, should not be seen as an inter-organizational matter but rather an inter-network one.

From the institutional perspective, coercive sources of institutional pressures, whether guiding behavior or not, are always important in order to explain organizational behavior. It has so far been concluded that in a society where coercive sources do not guide behavior, normative and mimetic forces are more likely to influence the course of an organization’s actions. In this sense, normative expectations on coercive pressures provide legitimacy to current and future coercive sources. If there is incongruence between expected and perceived coercive pressures, organizations, or networks, will not perceive the coercive source as legitimate and consequently, uncertainty increases in terms of what responses are proper. In a situation where expected pressures differ from real pressures, such as when coercive pressures that are not legitimate from a normative and/or mimetic perspective, the outcome is bound to be confusing and negative. From the perspective of a policy maker, imposing policies which have been successful in other regions is not a viable option when repairing malfunctioning institutions unless these are legitimate from a normative and/or mimetic perspective.

Moreover, normative standards can arise within a group where mimetic sources of institutional pressures are culturally rooted. In the sense that culture is hard to change, normative sources of institutional pressures can therefore be said to emerge out of culture. Over time, such normative sources would be expected to influence, perhaps even transform into, coercive sources of institutional pressures. Hence, the feasible option for a policy maker in such a case would be to influence the course of normative pressures, and thereby change the mindset about how an economy should be operated. If an economy characterized by economic stability and growth is to be achieved, it would be wise to rethink how policies should address the current structure of networks.

One may intuitively think of networks as primarily sources of normative pressures. However, as implied by the discussion above, networks that are found in a context characterized by blurry coercive sources of institutional pressures might very well turn into a source of coercive pressures itself. To draw the line between sources of coercive and normative pressures though, is not a straightforward task. Arguably, normative sources are expectations on behavior that are implied by the specific context and that they become coercive when formalized, for example in the form of a written network code of ethics.

For organizations entering Sub-Saharan Africa, the findings of this thesis highlights the importance of adhering to the local institutional environment and not necessarily rely on a global formula for successful entry. It is in particular the composition of coercive, normative and mimetic pressures, unique to every environment that has to be carefully considered in beforehand.

During the process of writing this thesis, the authors have identified numerous opportunities for further research. A study in line with the institutional theory presented in this the-
sis, preferably based on primary data, would provide a more updated picture of the current situation in SSA.

To further explore how organizations cope with their institutional environment, it would be interesting and beneficial to conduct case studies on a few organizations in some SSA countries. If one explores the same problem with this approach, a more in-depth knowledge in the matter can be gained which will, possibly, reveal insights that cannot be covered by questionnaires and alike. In this sense, in depth case studies form the very foundation of a model accounting for differences between expected and real pressures and possible outcomes of such discrepancies. Such a model could enhance understanding of both business behavior in SSA and institutional theory. Furthermore, such a model, if developed properly, can provide policy makers with a strong tool when they construct policies, since it would be possible to consider how pressures interact to create the reality. Hence, organizational behavior can be influenced more efficiently.

From a business research perspective a framework of internationalization accounting for the institutional nature of the host economy would be beneficial. In many of the SSA countries there are opportunities in the form of commodities and potential customers, and thus, developing a framework for entering these countries would decrease the risk from an external perspective.
References


References


Appendix 1

The World Bank (2006) defines Sub-Saharan African countries to be:

Table A1-1 List of Sub-Saharan African countries (World Bank, 2006).

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<td>Sierra Leone</td>
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<td>Seychelles</td>
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Appendix 2

This appendix contains the questionnaire, which was sent out to 6 experts.

Dear Sir or Madam:

We are a group of three students writing a bachelors’ thesis in business administration at Jönköping International Business School, Sweden. The thesis, deals with general characteristics of the Sub-Saharan African business environment.

Our thesis relies on secondary information in describing the business environment in Sub-Saharan Africa. It is therefore in our interest to assess how well the description resembles what people experience. As a result, we are interested in your opinion on a short summary of the thesis’ findings. The questions take approximately 15-25 minutes to complete.

Thank you for helping us out by answering our questions. Please answer the questions in a separate document.

Sincerely,

Magnus Grimhed        Anders Storm        Leonard Wolk
Questions

Question 1
Are we allowed to use your name in our thesis? (If you answer no, a fictional name will be used).

Question 2
Please following facts about yourself:
1. Your Name
2. Your title and occupation
3. Your company and location

Question 3
What is your relationship to Sub-Saharan Africa and/or any of its countries?

Question 4
Please comment on the 14 statements, on the following two pages, according to your experience in/of Sub-Saharan Africa.

Please state whether you agree, disagree, or partly agree to the statements, please also discuss why.

Question 5
Do you have any comments or additional information you want to add?
Summary of key findings on Sub-Saharan Africa

1. Insufficient governmental funds put governments in bad positions when it comes to infrastructure improvements which facilitate business operations. As a result numerous small transactions are often needed to transfer products from producer to consumer.

2. Firms in Sub-Saharan Africa (SSA) generally fear changes in rules, laws or policies and, that such changes will have a big impact on continuous operations.

3. Firms in SSA fear unconstitutional government changes. Hence, applicable rules, laws and policies do change significantly when unconstitutional change occurs.

4. Poor procedures for business and personal identification registration in SSA increase the risk of low quality in the sense that the risk of engaging in bad relationships where a business might be swindled and end up with worthless products increases.

5. Legal systems within SSA often practice outdated laws, material and human resources are lacking and corruption is prevailing; altogether with the effect of distrust in the system itself.

6. Inefficient public institutions, difficulties in finding reliable business partners and the inadequate level of infrastructure complicate financial matters for businesses that are active in the SSA region. More generous contract arrangements are difficult to attain if trust between trading parties does not exist and thus, such kind of contracts are often reserved for larger, well known businesses.

7. Lack of production standards is a common attribute for the manufacturing, service and agricultural industries. Effectively, lacking standards on the market negatively affect production in the sense that a consistent quality both in inputs and outputs is difficult to ensure. Additionally, it increases purchasing costs in the sense that buyers have to examine a product carefully in order to achieve a consistent quality.

8. Market-supporting-institutions are not present in the form of proper infrastructure, production standards, or an efficient legal system. As a result, buyers and sellers in this region cannot achieve a sufficient level of trust in each other to engage in more complex forms of contracting such as invoicing, supplier credit and ordering in advance. The growth of smaller businesses in the SSA region are hampered by these local conditions because businesses, or credit institutions, do not provide the necessary forms of contracting to businesses that are perceived to carry a high risk of resulting in bad debt for the creditor.

9. Business networks are created in order to deal with external uncertainties felt by firms in SSA. The incentive for trust and cooperation in such a system is
created by successful sequential actions and thereby, information sharing within the network makes it possible to exclude members for instance because they are known not to pay their bills, not delivering as promised or, in fact are in default.

10. Businesses which are part of a network have advantages over less well connected firms. In fact, businesses that are not part of a network might be restricted from entering the market in the first place because they do not fulfill the criteria for being part of a particular network.

11. Performances of businesses inside networks in terms of increased productivity and growth increase at the same time as outsiders are affected negatively.

12. Network structure in SSA has been found to be determined by ethnicity to some extent, that is, one might not be allowed to participate in a network if one is from another ethnicity than the core of the network. An important point is that one is not excluded based on ethnicity per se, but rather because members of a certain ethnic group tend to socialize with people from the same ethnic and cultural background. It is a general perception that people with similar background can be trusted, and these are, therefore, preferable as business acquaintances.

13. Most upstream activities in SSA are performed by homogenous minority networks, e.g. European networks control such activities in the Southern parts of Africa, Lebanese networks control manufacturing, imports and exports in Western Africa. On the other hand, the networks that are purely composed by African businesses are involved in activities of lower value adding nature. This is in part a consequence of colonial policies which were biased towards non-Africans.

14. Networks are of a rather closed nature and new network members are primarily selected from a culturally narrow group of the total population resembling the already existing members of the network. This reduces the chance of finding new members that are different form the already existing ones.

Thank you for taking time to read the statements!

Now please complete question 4 which can be found on the second page.