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Changing HRM systems in two Russian oil companies: Western hegemony or Russian *spetsifika*?

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ABSTRACT

We contrast attempts to introduce what were seen as sophisticated Western-style HRM systems into two Russian oil companies – a joint venture with a Western multinational corporation (TNK-BP) and a wholly Russian-owned company (Yukos). The drivers for Western hegemony within the joint venture, heavily influenced by expatriates and the established HRM processes introduced by the Western parent, were counteracted to a degree by the Russian *spetsifika* – the peculiarly Russian way of thinking and doing things. In contrast, developments were absorbed faster in the more authoritarian Yukos. The research adds detailed empirical data to our understanding of the importance of context to HRM strategies in firms undergoing strategic renewal, by detailing the specific knowledge-transfer mechanisms through which multinationals seek to adopt effective HRM policies and practices. This elucidates some of the microfoundations of HRM dynamic capabilities. As the analysis is based on the perspective of senior local nationals, we also address a methodological shortcoming in the international HRM literature which generally relies on empirical data collected from expatriates and those based solely in multinational headquarters.

Key words: strategic renewal; dynamic capabilities; knowledge transfer; national context; HRM; Russia

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1 Introduction

This paper explores the under-researched role of HRM (human resource management) in the strategic renewal of organizations. In line with the suggestion made by Kimberly and Bouchikhi (1995) to better understand organizational development and change, we adopt qualitative, in-depth, longitudinal, field-based research to assess the role of HRM practices in two contrasting organizations – Yukos (a domestic Russian oil major) and TNK/BP (a 50/50 joint venture between a Russian and Western oil major). We assess the extent to which the development, training and motivation of managers led to changes in mindsets, and how new approaches to doing business changed operational capabilities and impacted survival in a transitional environment.

The dynamic capabilities perspective, widely adopted within strategic management, is yet to be properly explored in the field of HRM. An early conceptual framework specifying the nature of HRM dynamic capabilities identifies a key role for ‘balancing capabilities’ which are enacted to address the global standardization/local adaptation dilemma (Festing and Eidems 2011). The framework does not detail the specific HRM practices acting dynamically to change the nature of a firm’s resource base. Put simply, we seek to explain what role human capital plays in strategic renewal (Chadwick and Dabu 2009, Felin and Foss 2005, Kor and Leblebici 2005, Teece 2007). In engaging with the development of capabilities which secure competitive advantage for the company we are concerned with strategic HRM (SHRM): the attempt to link HRM policies and practices with strategic management processes of the firm (Taylor et al. 1996, Wright and McMahan 1992).

At the broadest level we seek to assess if common systems of thinking and ways through which knowledge transfer takes place, exist within MNCs (multinational corporations). We detail the microfoundations of dynamic capabilities by elucidating whether introducing specific HRM practices brings about organizational transformation in host organizations. Additionally, adopting a contextual approach to HRM, we develop theories explaining the most important contextual enablers and constraints affecting MNC transfer of HRM policies and practices in Russia. In doing so we adopt the same perspective as Gavetti et al. (2007), who argue that the firm is best conceptualized as a complex system that adapts over time, embedded in a particular organizational and institutional context.

We introduce next the key theoretical background for the paper and explain the linkages between HRM capabilities and the development of operational capabilities related to knowledge transfer and organizational change for survival. We then highlight the importance of the national and industrial context for the cases and describe the methodology. We present the key findings individually for the two cases, and then as a cross-case analysis, focus on company characteristics, management approach, HRM practices, and capability development. Finally we provide conclusions both for theory and practice.

2 Theoretical background

2.1 HRM, dynamic capabilities and domestic/multinational contexts

According to Eisenhardt and Martin (2000:1117) long-term competitive advantage is achieved by firms developing and applying capabilities ‘sooner, more astutely, and more fortuitously’ than competitors. Dynamic capabilities are the firm’s capacity to integrate, build and re-configure internal and external resources using organizational processes in a purposeful way, taking into account the firm’s competitive milieu (Eisenhardt and Martin 2000, Teece et al. 1997). Dynamic capabilities enable more than simple incremental adjustments to routines, as they break the rigidities generated by path dependence at lower organizational levels (Vergne and Durand 2011). Although conceptualized as idiosyncratic in nature (Barney 1991, Teece et al. 1997) empirical evidence suggests some dynamic capabilities might exhibit common patterns (Eisenhardt and Martin 2000), although this is not yet confirmed empirically with respect to SHRM.

The dynamic capabilities perspective is useful for drawing together the resource-based view (RBV) and a contextual perspective of SHRM because of the equal weight given to the content and process of strategic renewal (Mäkelä et al. 2009, Taylor et al. 1996). This transformative focus is summed up by Lado and Wilson (1994: 699) who suggest that 'HRM systems can contribute to sustained competitive advantage through facilitating the development of competences that are firm specific, produce complex social relationships, are embedded in a firm's history and culture, and generate tacit organizational knowledge.' Furthermore, Wright et al. (2001) argue that integrating strategic HRM and the RBV demonstrates the importance of ensuring the right stock of intellectual capital is ready to use at critical strategic junctures.

Contextual views of HRM (Brewster 1999a, Paauwe and Boselie 2003) take into account the differences between organizations and, inter alia, variations in national institutional environments. Clearly, organizational practices vary across countries (Amable 2003, Deeg and Jackson 2008, Halland Soskice 2001, Whitley 1999), and both the cultural and institutional literature on comparative capitalisms offer human resource management as a key exemplar of that. There are now both theoretical arguments and empirical research pointing out the importance of local context (Brewster and Mayrhofer 2012, Delbridge et al. 2011, Gooderham et al. 1999, Rosenzweig and Nohria 1994).

However, the role of MNCs in these contextual analyses is not well theorized. It seems MNCs have scope to act as catalysts for the development of dynamic capabilities in host firms, albeit they will be working within the laws, norms and culture of the local society (Brewster et al. 2008, Farndale et al. 2008, Luo 2002). This implies there are barriers for an MNC (and for the local company) introducing radical change (Kostova and Roth 2002). Given an important source of competitive advantage for MNCs is the spread and leveraging of well-founded organizational capabilities worldwide (Bartlett and Ghoshal 1989, Kostova and Roth 2002, Rugman and Collinson 2008), it may be necessary to strike a contextually sensitive balance between global integration and local adaptation (Birkinshaw and Morrison 1995, Evans et al. 2002, Rosenzweig and Singh 1991).

2.2 Knowledge transfer in MNCs

Knowledge stocks form the foundation of organizational capabilities, and knowledge flows are necessary for organizational learning which enables a firm to expand and refine its knowledge stocks (Kang et al. 2007). The transfer of best practice is conceived as replication of organizational routines (Winter 1995), but transferring capabilities between firms is not easy because of the internal 'stickiness' of knowledge. Research suggests three important barriers: a lack of absorptive capacity of the recipient, causal ambiguity and arduous (i.e. laborious and distant) relationships between source and recipient (Szulanski 1996), and cultural or institutional differences (House et al. 2004, Lee et al. 2008, Peng et al. 2008).

MNCs, in contrast to indigenous firms, will be more able to exchange and exploit knowledge internationally, spreading their use of effective policies and procedures through a variety of mechanisms: from IT systems (reports, messages, emails, telephone, and video-links) or through face-to-face contact. Although the latter are the most effective mechanisms (Mäkelä and Brewster 2009) it is clear that there are many cultural and linguistic difficulties, and it is not always obvious that expatriates are good at transferring their knowledge, nor host locations able to accept it.

2.3 Dynamic capabilities, SHRM and change

A key temporal consideration in the dynamic capabilities perspective conceptualizes organizational change as an ongoing path-dependent process following a multidimensional trajectory (Stensaker and Langley 2010). In the context of SHRM it is important to take into account the role of middle managers as competent agents enabled and constrained by their situational context but empowered to influence the way in which change initiatives are managed within their unit (Balogun and Johnson 2004, Huy 2002).

In terms of the structural features of change, Stensaker and Langley (2010) suggest that divisional change agents adopt approaches based on subjective assessments of the need for change (substantive concerns), the need for keeping corporate colleagues placated (political concerns), and the need to maintain productive relations with employees (relational concerns). Kostova and Roth (2002) suggest that subsidiaries vary their response to new practices being introduced by the parent according to the balance between behavioral (actual implementation) and attitudinal (internalized belief in the value of the practice) facets. Implementation is the external and objective behavior and actions, whilst internalization concerns the degree of commitment and value-adoption. Together implementation and internalization reflect the depth of embedding of the practice within the sub-divisions of the business (Kostova and Roth 2002: 217).

When considering the nature of the strategic renewal process, Tolbert and Zucker (1996) suggest three stages that encapsulate the adoption of new processes – pre-institutionalization, semi-institutionalization, and full institutionalization of a practice. Organizational practices must therefore be accepted and approved of by organizational members and have social meaning shaped by the institutional context (Kostova and Roth 2002), reflecting a cognitive dimension of change. Process adoption is also influenced by coercive (powerful authority) mimetic (response to uncertainty by adopting practices of other organizations) and normative (considered appropriate in the environment) functions (DiMaggio and Powell 1983). Social capital, the resources embedded in the network of relationships possessed by a unit (Nahapiet and Ghoshal 1998: 243) such as trust and shared vision (relational and cognitive dimensions of social capital), along with the degree to which subsidiaries trust headquarters, influence resource exchange and are mediated by personal relationships (Rees and Edwards 2009). These facets are expected to be positively related to the transfer of organizational practices (Kostova and Roth 2002).

3 HRM and the Russian context

Given the importance of context in the study of HRM (Brewster 1999b, Paauwe and Boselie 2003, von Glinowet al. 2002), we must be careful when assuming the universal nature of practices; failure to do so results in marginal understandings of meaningful cross-cultural differences or overly simplified explanations of similarities and differences in imposed HRM practices.

Applying this to Russia, we have to repeat Lane's question (Lane 2000) – how does capitalism operate in Russia? A variety of terms are used: 'Kremlin capitalism' (Blasi et al. 1997), 'chaotic capitalism' (Lane 2000: 245), 'capitalism from above' (King 2007: 322), 'patrimonial capitalism' (King 2007: 314), and 'state-managed, network capitalism' (Puffer and McCarthy 2007:1). Clearly, the complex and frequently opaque interplay between the state and business shapes developments in Russia (Pappe and Galukhina

2009). Most studies to date were conducted during the processes of privatization (Åslund 2007, Åslund1999, Blasi et al. 1997, Randall 2001, Schleifer and Treisman 1998) – and many of the authors were involved in the process, had an 'axe to grind', and appeared to lose interest in the subsequent re- (or part-re-) nationalizations. Nevertheless, it remains a fact that the 'dominant discourse in both the Russian academia and politics is modernization and innovation' (Vaslieva 2011). This is the subject of our study.

There is clear evidence that since the original privatization boom in 1994, after which 'it is correct to speak of Russian capitalism' (Vaslieva 2011), the willingness of Russian workers to make non-contractual 'contributions to organizational capacities' (Whitley 1999) or, in a common analogy, to 'go the extra mile' has decreased markedly (Croucher and Rizov 2011). This decline has occurred in particular amongst the critical, skilled manual workers and in both locally and foreign-owned firms. There are therefore empirical questions about the modernization of HRM in Russia: How are firms going about it and what are the results?

Russian organizations face acute HRM problems – there are high levels of mistrust between managers and employees (Blasi et al. 1997, Domsch and Lidokhover 2007, Frydman et al. 1996, Morrison 2007). Russia is a very hierarchical society where people do not expect to be consulted or given responsibility (Lewis 2005). During Putin's rule the consolidation of ownership in the hands of oligarchs through the '*nomenklatura* privatizations' alienated and disillusioned workers (Freeland 2000, Sonin 2003), and although a new Russian Labor Code was introduced (Bronstein 2005) it reduced union power in dismissal situations and has to be viewed against the background of widespread non-observance of all laws and enforcement agencies relating to the employment relationship (Ashwin 2003, Royle 2005). Across both the private and public sectors there were persistent wage arrears (Domsch and Lidokhover 2007). Unsurprisingly, a number of studies document workers' disillusionment with working life as transition proceeded (Clarke 2009, Linz and Semykina 2008, Morrison 2007, Siegelbaum 2004). This included lower-level managers, who became increasingly resistant to owners' and more senior managers' initiatives (Johnson 1997). Companies had to deal with employee demoralization (Croucher and Rizov 2011). Modernizing HRM was seen as a crucial step forward.

It is argued that investments in HRM in Russia will have a direct relationship with improving firm performance (Fey and Björkman 2001). How this might work has been described as a 'black box' by Fey et al. (2009). There were expectations that foreign firms would bring with them Western-style HRM practices but, although there are claims to the contrary (Shekshnia 1999), it has been argued that these hardly exist in Russia, even at the rhetorical level (Domsch and Lidokhover 2007). Theoretically, these companies interact with host countries' institutional frameworks to produce 'hybrid' sets of practices and to transpose Western companies' management models to 'transition economies' offering both progress for the foreign firm and exemplars for the local environment (Meardi and Toth 2006). How far they do so remains a matter for empirical investigation.

The research setting of the Russian oil industry is particularly interesting for the study of HRM practices and organizational change precisely because of the speed of the changes initiated – these firms are less constrained than others by pressures on profitability and have the resources necessary to invest heavily in new practices. They provide an ideal opportunity to examine radical change processes in a longitudinal study taking account of context (Pettigrew et al. 2001) in a quasi-experimental setting (Meyer and Peng 2005). Our research expands the narrow focus of HRM research in the Russian context. Existing studies of HRM indicate Russian leaders having a 'command-and-control' approach utilizing a rigid hierarchy with centralized decision-making (Kets de Vries 2001, McCarthy et al. 2005), whilst outsider managers are shown to be important in bringing about organizational change (Dixon and Day 2007, Filatotchev et al. 2003).

Pfeffer's (2005:127) argument that HRM should above all be concerned with the mental models and mindsets of the people in the company is highly relevant for the Russian context: 'Because what we do comes from what and how we think, intervening to uncover and affect mental models may be the most important high-leverage activity HRM can perform.' Recognizing the constraints of the Soviet administrative heritage, Judge et al. (2009), in a wide-ranging study of Russian organizations, identify organizational capacity to change as a dynamic capability required for organizational success. Any study of HRM in Russia therefore needs to assess the *spetsifika* (or peculiarities) of the Russian heritage and context, and how these affect the implementation of SHRM practices.

4 Methodology

The research takes the form of two in-depth qualitative case studies of privatized Russian oil companies – Yukos and TNK-BP. The first case, Yukos, provides an example of a 100% Russian-owned company which brings in Western consultants and expatriate managers to help transform its organization. The second case company, TNK-BP, is a Russian/foreign 50/50 joint venture aiming to leverage the foreign MNC's resources to bring about change. We compare MNC inputs and non-MNC inputs in bringing about organizational transformation.

Twelve Yukos managers were interviewed, two of whom were HRM professionals. Three of the Yukos interviewees were expatriates whilst nine were Russian. Twenty-six TNK-BP managers were interviewed, of whom five had worked previously for Yukos (including one expatriate) and were therefore able to provide valuable comparative insight into the two company's approaches to HRM. Nine of the TNK-BP respondents were HRM professionals. Nine TNK-BP interviewees were expatriates and the remainder (seventeen) were locals. The cases thus provide novel insights from the local perspective as well as the expatriate view. In addition respondents external to the two case companies were interviewed, such as investment bankers, consultants, journalists, and other oil company managers, adding a valuable critically reflective perspective to the study. Table 1 summarizes the respondents involved in the study.

Table 1 Interviewee details

	Seniority	Company	Location/Heritage	Provenance	Date
TNK/TNK-BP					
1	Top Manager	TNK	Head Office	Expat	2001
2	Top Manager	BP	Regional	Expat	2001
3	Senior Manager*	TNK-BP	Regional	Local	2005
4	Senior Manager	TNK-BP	Regional	Local	2005
5	Middle Manager*	TNK-BP	Regional	Local	2005
6	Senior Manager	TNK-BP	Head Office, ex Lukoil	Expat	2004
7	Top Manager	TNK-BP	Head Office, BP	Expat	2004
8	Top Manager	TNK-BP	Head Office, BP	Expat	2004
9	Top Manager	TNK-BP	Head Office, BP	Expat	2004
10	Middle Manager	TNK-BP	Head Office, BP	Local	2004
11	Middle Manager*	TNK-BP	Head Office, Yukos	Local	2005
12	Top Manager	TNK-BP	Head Office, TNK	Local	2004
13	Top Manager*	TNK-BP	Head Office, Yukos	Expat	2005
14	Top Manager	TNK-BP	Regional, BP	Expat	2005
15	Middle Manager	TNK-BP	Regional, TNK	Local	2005
16	Middle Manager*	TNK-BP	Head Office, BP	Local	2005
17	Senior Manager	TNK-BP	Head Office	Local	2004
18	Middle Manager*	TNK-BP	Head Office	Local	2004
19	Middle Manager*	TNK-BP	Head Office, Yukos	Local	2004
20	Middle Manager*	TNK-BP	Head Office, Yukos	Local	2005
21	Senior Manager	TNK-BP	Regional, TNK	Local	2005
22	Senior Manager	TNK-BP	Regional, TNK	Local	2005
23	Middle Manager*	TNK-BP	Regional, TNK	Local	2005
24	Middle Manager	TNK-BP	Regional, TNK, Yukos	Local	2005
25	Middle Manager	TNK-BP	Regional, TNK	Local	2005
26	Top Manager	TNK-BP	Head Office	Expat	2005
Yukos					
1	Senior Manager	Yukos	Head Office	Local	2001
2	Top Manager	Yukos	Head Office	Expat	2001
3	Top Manager*	Yukos	Head Office	Local	2004
4	Middle Manager	Yukos	Head Office, Sidanco	Local	2004
5	Senior Manager	Yukos	Head Office	Local	2004
6	Top Manager*	Yukos	Head Office	Local	2004
7	Top Manager	Yukos	Head Office	Expat	2004
8	Senior Manager	Yukos	Head Office	Local	2004
9	Top Manager	Yukos	Head Office	Expat	2004
10	Middle Manager	Yukos	Head Office	Local	2004
11	Middle Manager	Yukos	Head Office	Local	2004
12	Senior Manager	Yukos	Regional	Local	2004

*HRM Managers

Interviews were conducted over a period from 2001 to 2005 in Russian or in English, as the respondents felt most appropriate. Respondents were asked to talk about organizational change since privatization in 1995, thus providing a longitudinal perspective over a 10-year period. HRM emerged from the respondents themselves as a major theme structuring and underpinning their understanding of organizational change.

Data analysis was initially exploratory, broadly using the approach of Strauss and Corbin (1998). First an open coding approach was used and then as patterns began to emerge the codes were sorted into emerging themes and clustered into groups, for example Russian *spetsifika*, company context, external context, transformation. Further analysis identified the HRM practices representing the microfoundations of the dynamic capabilities that enabled organizational change. Next a cross-case comparison was conducted (Eisenhardt 1989) by examining the similarities and differences between the emerging themes in the two companies. The final stage involved iteration between the grounded data analysis and extant literature, thereby enfolding the literature to aid the rigor and completeness of the analysis (Eisenhardt 1989, Hallier and Forbes 2004).

5 Russian oil industry context

The Soviet oil industry was production- rather than profit-driven. Freedom from responsibility for costs at the field level led to wasteful operating decisions. Requirements to fulfill the central plan resulted in distortions of reality and conservative estimates. Privatizing the oil industry commenced in 1991 but the state retained a significant shareholding until the Yeltsin 'loans for shares' scheme in 1995, when ownership transferred to industrial groups (Grace 2005) in exchange for their financial support for the Yeltsin regime. Five integrated oil majors were created in this process. Three of these – Yukos, TNK, and Sibneft – were controlled by financial entrepreneurs who were oil industry outsiders motivated by profitability and shareholder value. In contrast, the existing managers of Lukoil and Surgutneftegaz, who were professional oilmen, retained control themselves as 'insiders' (Lane and Seifulmulukov 1999). The resultant highly concentrated industry was divided between oligarchs and Soviet- era managers (Grace 2005: 161). This study focuses on two of the companies taken over by financial managers because they transformed most rapidly to a Western business model.

Yukos was established in 1993 by a young entrepreneur, Mikhail Khodorkovsky. As a financial manager, rather than a professional oilman, Khodorkovsky introduced Western financial management techniques to the conservative, ex-Soviet, production-oriented Russian oil industry. He accessed Western expertise via a strategic alliance with a Western oil services company, then later by employing a number of expatriates on its board and in senior management positions. Yukos' oil production doubled between 1996 and 2002, and at the end of 2002 Yukos was the top oil company in Russia by market value ($21 billion) and the fifteenth largest independent oil company in the world (PFC Energy 2003). It had reduced its oil production cost to $1.76/barrel, lower than that of ExxonMobil ($3.38/barrel), the leading Western multinational oil major.

However, the CEO, Khodorkovsky, was arrested in 2003 for alleged tax crimes and Yukos was effectively re-nationalized in 2004, bringing this case study of success to an abrupt end. In 2003 Yukos had around 100,000 employees, headquartered in Moscow and at oilfields, oil refineries, and petrochemical production sites in Siberia and European Russia.

TNK came later to the privatization process in 1995, and in 1998 at an auction of its shares control passed to the financial investors Alfa Group and Access/Renovo. TNK was thus also owned by financial managers who had made their fortunes in banking. A Western-educated oil industry manager of Russian background was appointed as CEO. Similarly to Yukos, but not to the same extent, Western expatriates were employed to introduce Western business practices.

BP first acquired an interest in TNK in 1997, via a 10% shareholding in Sidanco, a TNK subsidiary. In February 2003 a 50/50 joint venture (TNK-BP) was set up involving BP, TNK, and Sidanco. BP brought in a large number of expatriates and secondees to intensify the transfer of Western management practices. In 2003 TNK-BP had around 60,000 employees, headquartered in Moscow and with oilfields, oil refineries, and petrochemical production spread across Siberia and European Russia. The company had 80 seconded employees from BP and 45 BP expatriates who became full-time TNK-BP employees.

6 Findings

For each case study we outline the company characteristics and management approach as well as describing the HRM practices and capability development, thus helping to clarify the microfoundations of the HRM dynamic capabilities and how these contributed to strategic renewal. This is followed by a cross-case evaluation.

6.1 Case 1 – Yukos

6.1.1 Company characteristics and management approach

At the time of the study Yukos was a 100% Russian company, with strong leadership from the CEO, Khodorkovsky:

> Khodorkovsky was a puppet master … he has strings attached to every part, every little manager there … keeping things very tight … It's like Stalin, big father and all ... that. It's also intrinsic in the Russian oil industry because it's very macho, it's army style. You have to obey the commands ... you must show you like the general. (*Russian Manager, Head Office, Oil Exploration and Production*)

However, Khodorkovsky had recognized the importance of accessing Western know-how to assist the transformation of the company and had therefore used a number of consultants and recruited a small number of expatriates. These expatriates also conformed to the prevailing management style. At the middle management level too it was recognized that a strong hand was needed to bring about change – aggression was needed to counteract aggression:

> It was a culture of force – it had to be to change things … because there is immediately opposition which has to be overcome. (*Russian HR Manager, Head Office TNK-BP, ex Yukos*)

The 'Western approach' of empowerment and involvement of employees in decision making was not seen as appropriate, at least at the early stages of transforming the organization. The top–down approach helped to ensure rapid decision making and implementation throughout the organization:

> It is not acceptable if a decision is delayed by more than 24 hours by any part of the organization. (*Russian Manager, Region, Oil Exploration and Production*)

This did not mean that everything happened smoothly. In any system there are means of delaying or subverting decisions, and the heritage of 70 years of Soviet central planning presented a major obstacle to the introduction of new ways of working:

> You had this huge inertia from the senior and middle management who didn't necessarily share Khodorkovsky's vision and who didn't really appreciate people like Joe Mach [Expatriate Vice President of Exploration and Production] and who had their own ideas about how things should be done. So there was a struggle and getting things done was sometimes very difficult. (*Expatriate Manager, Head Office TNK-BP, ex Yukos*)

Overall, the company context for organizational change in Yukos was defined by three major characteristics: an organization with a heritage of 70 years of Soviet central planning; a strong CEO with an entrepreneurial and financial background; and a recognition that, in the Russian context, a command-and-control approach would be the most efficient way of bringing about change since it fitted the Russian culture (Lewis 2005). In terms of knowledge transfer there was an acknowledgement that Western knowledge was important (hence the consultants and expatriates), but the only way to break through the barrier of the Soviet administrative heritage was to use a culturally comfortable 'Russian' top–down management approach by introducing change forcibly.

6.1.2 HRM practices and capability development

The introduction of Western HRM practices was considered top priority in Yukos:

> Khodorkovsky had given priority to HRM, so all the new processes were introduced within two years 'at a gallop'. (*Russian HR Manager, Head Office, TNK-BP, ex Yukos*)

This perspective positioned HRM practices as of equal importance to other aspects of Western management practice, such as financial or production management.

As little was known in Russia about Western approaches to HRM, the first task was to conduct a comprehensive review of Western practices and to select the most important. What helped in this process was using consultants with knowledge of working in Russia and the recruitment of Russians with experience of working abroad or of working for Western companies in Russia, as well as Westerners who had worked for other companies in Russia. Khodorkovsky, the CEO, did everything to encourage learning and the adoption of Western management practices, and a methodical approach was taken to address shortfalls in the current systems, for instance:

> We understood that we needed to take a serious look at recruitment – before that we hadn't had recruitment, and we began to develop recruitment standards. I mean things like campus recruitment, young specialists. In other words, how we could fill the regions with new staff who would be needed by the company in five years' time, as Khodorkovsky put it. And of course then what to do with those people when we have recruited them. So we developed a policy. (*Russian HR Manager, TNK-BP Head Office, ex Yukos*)

The development of new capabilities required a comprehensive training and development program throughout the company:

> In Yukos, right from the beginning, Khodorkovsky set the target – 100% training … That meant that every company employee, including manual workers, had to undertake some study at least once a year somewhere. Of course he understood that as such this was not realistic, but even if the individual undertook some testing, or took part in some group work targeted at personal development, which provided some additional understanding of something … Management thus set the task: first quantity – and once people have got into the mode of learning – then – well it's impossible to go for quantity and quality at the same time with the resources we had – then afterwards go for quality. (*Russian HR Manager, TNK-BP, ex Yukos*)

All employees initially had a chance to have some training and to demonstrate their potential. Everyone had an individual development plan. There were comprehensive evaluations of competences, and evaluation of employees, in order to develop these plans.

By 2003, 65,000 of the total 100,000 employees in Yukos were undergoing training. Yukos had ten training centers and had relationships with leading Western business schools. A leadership program was developed in alliance with IMD and Yukos became the first Russian company to join the IMD Learning Network as a full partner. From 2003 the focus for training was on those employees demonstrating two competencies: 'openness to new ideas' and 'determination to achieve'. Employees were divided up into categories and each category had its own training modules.

Engineers were sent on training courses in Russian and Western universities and technical training programs for hundreds of regional specialists were run by Joe Mach and his team. Because of the scale of the skills deficit Yukos created a one-year Master's program in petroleum engineering in Russia, rather than sending small groups abroad to study. The new program was established in Tomsk in collaboration with Heriot-Watt University. The 'Heriot-Watters', as they became known, went on to further training in the Yukos Field Development Planning Center in Moscow and then out to senior positions in the field.

Yukos was particularly concerned to develop the intellectual capital within the regions from which it might draw its future employees, and introduced a system of subsidies for star students in the regions. In every higher education institution relevant to the oil sector Yukos set up a student club, with the scheme later developing into a three-year structured program for young specialists.

Much of the knowledge internalization was a result of learning by doing:

> In Yukos we divided personal development into five areas: development on the job, development through business projects, development through learning from others, etc. So development was a broad process. And training courses they are the least important … The most developmental are business projects. (*Russian HR Manager, TNK-BP Head Office, ex Yukos*)

Out in the field Yukos engineers were experienced, highly educated Russians and the last thing they wanted to hear was:

> … a redneck from Oklahoma telling them how to do their business. They would argue with him using their own technical arguments and he would systematically shoot down their own technical arguments in a way which was undeniable. (*Expatriate HR Manager, Head Office TNK-BP, ex Yukos*)

Learning from mistakes was another way to internalize knowledge. A senior Russian manager in a regional oil production subsidiary explained that Khodorkovsky encouraged innovation, and mistakes were allowable if learning derived from them. Knowledge internalization was thus a function of learning by doing, project work, job rotation, and learning from mistakes. There was always money available for new projects to improve business processes.

However, sometimes the systems that were established were not accepted, for instance both local and expatriate managers recognized that the Hay grading system was not fully embedded:

> It's not accepted by most people, it was just another administrative process in the minds of most. (*Expatriate Manager, Head Office, Oil Refining*)

The focus on training and development provided the knowledge base and adjusted managerial mindsets to enable the development of organizational capabilities – the dynamic capabilities of strategic renewal and the creation of resultant operational capabilities for survival in the market economy. There were differing views as to the efficacy of the new systems, not all of which had been completely embedded in such short time periods. The performance management system in particular was criticized by expatriates and locals alike. The elaborate computerized system was a mere formality. A Russian top manager explained as follows:

> There are a lot of rules and regulations, but process management, as a business process, has not been achieved. (*Russian HR Manager*)

However, a more positive view came from one of the 'Heriot-Watters' working in a regional subsidiary:

> Everyone now knows what is expected of him, where he should turn to, what he should say, how he should represent his company … It is already in his consciousness, his corporate mentality, that this is the way things are and the way they should be. From this point of view I think that Yukos is closer to its Western analogues than any other Russian company. (*Russian Manager, Region, Oil Production*)

The comprehensive approach to training and development and the embedding of new knowledge systematically across the organization enabled Yukos in a short period of time to establish fundamental HRM practices, including job evaluation, performance management, training and development, recruitment processes, personal development, and high-flier programs. The dynamic capabilities in question (adaptation to the market economy) in this case were facilitated by the top-down management style which ensured efficient knowledge transfer and rapid implementation of new processes and procedures. Although all the practices were not yet completely embedded across the organization, Yukos was still considered to be well ahead of its peers:

> I think what strikes me is the fact that they were able to change so quickly and adapt so quickly. Everything from bringing in foreigners at very senior levels to their close relationship with Schlumberger [Oil Services Company brought in as consultant], really trying to bring those management styles and that knowledge inside of the company, but doing that within a more or less Russian structure. And then I think after doing that, trying to change and adjust the structure to a more Western style of management. (*Expatriate Headhunter*)

The development of HRM capabilities was just one aspect of the changes in management practices. However, they had a fundamental impact on strategic change and the adoption of Western practices in other functional areas.

Notwithstanding all the positive change and the quantitative evidence of improved performance provided by the market capitalization, income, and production cost figures, there was inevitably still some evidence of the old Soviet administrative heritage:

> This is an old Russian company with all the old Russian stuff, but we've got this veneer of Western management. (*Expatriate Manager, Head Office, Oil Refining*)

New business processes coexisted with bureaucratic remnants of the Soviet past:

> The more enlightened organizational development issues are cohabiting with some of the old Soviet bureaucratic processes that deal with the command-and-control mentality and the need to have passes and permission for rather trivial administrative activities. (*Expatriate Consultant*)

In summary, within a Russian context it was evident that leveraging a command-and-control management style was critical in implementing new HRM practices. The support of the CEO and his understanding of the need for change was vital. The normal barriers to knowledge transfer, such as the 'not invented here' syndrome, were overcome by a combination of coercive power, logical argumentation, and demonstrable improvements.

6.2 Case 2 – TNK/BP

6.2.1 Company characteristics and management approach

The joint venture between BP and TNK potentially provided a powerful combination of Russians' local knowledge with the expatriates' international knowhow – a major advantage for an MNC (in this case BP) operating in a new institutional environment:

> In international oil companies … they tend to make all the key decisions within a very limited circle of people that come from far away. That takes away a big chunk of the picture, the understanding of how it may turn the next day. (*Russian Manager, Head Office*)

However, in reality there was a fundamental cultural difference which caused difficulties in realizing the envisaged synergies. It is therefore critical to understand the different characteristics of the two sides in the joint venture.

Like Yukos, TNK was a company driven by the very strong personalities of the top managers – in particular German Khan was described as extremely aggressive and tightly controlling:

> He has too much of the wrong kind of charisma. He inherited his brutality not from the Soviet era of aggressive Red Directors, but from the asset-grabbing days of the 90s. (*Russian Manager, Yukos, Oil Refining and Petrochemicals*)
>
> It was very centralized. If someone knew the right people, the right routes to get to Khan himself, he could solve a problem quickly. You had to quickly get access, quickly explain the problem to him, he said 'yes', and everything was sorted just like that. You only had to say 'German said …' and everyone's mouths opened. (*Russian HR Manager*)

Managers in the regions, comfortable within a command-and-control approach, viewed Khan's management style positively. He was regarded as capable and hard-working:

> It is practically impossible to have such a working capability. He was a workaholic, who worked for 15–18 hours a day. A computer. We didn't regard him as an oligarch. He was a very clever manager. (*Russian Manager, Region, Oil Production*)

Similarly to Yukos, the new financial managers in TNK had no oil company or Western management experience, so they brought in managers from the West such as Simon Kukes, who was Russian by origin, but had a US education and had worked for US oil companies. His role was to provide Western gloss and PR to impress the capital markets. TNK was less focused on introducing Western management practices with the objective of creating a leading Russian oil company, but was totally focused on short-term profitability:

> These are all financial investors ... They are looking at assets and then will sell them to somebody also. (*Expatriate Investment Banker*)

To this end managers utilized a harsh top–down approach with little or no utilization of softer management skills:

> [The bosses] were used to just calling up and telling people what to do. (*Expatriate Manager, Head Office*).
>
> The respect for human beings was very low. It was: 'If you don't like it, **** you, get the **** out of here, now', that type of an attitude. (*Russian Manager, Head Office*)

The joint venture with BP introduced a completely different style. Conciliatory, consensus-based and inclusive:

> BP – well first of all I think that it is respect for employees, that people are one of most important assets. This is beginning to become a reality due to consistent communication within the company, the possibility for people to express their own opinions, the possibility not only to receive commands and carry them out but also to express one's opinion, in other words more active involvement of employees in decision making. (*Russian HR Manager, Head Office*)

Such approaches took much longer than the traditional Russian-style decision-making and local managers found this a great source of frustration:

> TNK was a very dynamic company. Decisions were taken very quickly. People got used to decisions being taken in a matter of hours, not days. (*Russian HR Manager, Region, Oil Refining and Petrochemicals*)
>
> For [BP] it was the process that was important … endless discussions about how everything should be. (*Russian Manager, Region, Oil Production*)

BP tried controlling the organization by shadowing TNK managers with BP or independent managers:

> Lots of 'span-breakers', you know Russian and BP heritage, or independent expatriates, or just independent Russians, all through the structure, so it's designed to create lots of checks and balances. (*Expatriate Manager, Head Office*)

The span-breakers were placed in key positions throughout the organization to break the span of control of the TNK managers. However, given the limited number of such span-breakers it was impossible to extend this system into the regions.

Overall, the company context for organizational change in TNK-BP was defined by significant cultural differences between the Russian and Western owners. In terms of knowledge transfer there was an acknowledgement on the TNK side that specific aspects of Western knowledge were important in terms of adding value to the company; however, at the outset this did not include the transfer of HRM practices and there were differences of opinion as to the mechanisms and content of knowledge transfer.

6.2.2 HRM practices and capability development

The starting point for BP was overcoming some entrenched Russian attitudes that were slowing knowledge transfer considerably. In contrast to Yukos, which had been one of the first companies in Russia to introduce Western-style HRM practices, TNK was much slower:

> [After Yukos] it took five more years for other companies, including TNK … they hardly did anything with respect to HRM, never mind introduce the latest Western practice. (*Russian HR Manager, Head Office, ex Yukos*)

Traditionally in Soviet organizations any investment in people was considered a waste of resource:

> The biggest problem is in the heads of managers who cannot adapt ... [They think the] most important thing is production, the most important people are the oilmen producing the oil. Any work with people, work with the heads of people is secondary and doesn't merit any outlay. (*Russian HR Manager, Head Office, ex Yukos*)

BP expatriates agreed it was necessary to challenge the organization across all regions to perform to Western standards, transferring know-how to build the necessary capability to compete:

> It's a very distinctive thing to have BP because BP could take somebody for a year in Sunbury [BP Head Office in UK] and really give them a different way of thinking, give them a different way of doing things and train them in a modern world-respected oil company. Maybe it's too ambitious, but my vision is that this little JV – not really little JV – but one day could … be as powerful or better than BP. (*Expatriate Manager, Head Office, Technology*)

A key aspect of introducing new systems was to demonstrate success and help managers to understand how the systems would help them:

> We had some early successes, we had things that worked and they saw behaviors change and they saw people perform, given the right set of circumstances and processes. (*Expatriate HR Manager, Head Office).*

It was also understood that attitudes and practices would be the most difficult to change in the remotest regions:

> I personally believe that it doesn't matter how long you talk about the regions you know, unless you go there and live there you can't understand the regions. And the way people live … we've been talking recently more and more about some coordinated effort by our HR function, PR functions, others, but … I know that HR for example will get more and more what is called the Russian face. (*Russian Manager, Head Office*)

Overcoming this barrier of Russian *spetsifika* was an important aspect of the change process and the development of new capabilities. To assist in this a consultant from INSEAD was brought in:

> He had a track record as an executive of being successful … And he was able to bring the connection to what I was trying to say to my Soviet heritage executives: 'wait a minute, this isn't from the moon, this actually works in Russia, and I've done it'. He, as a Russian, had a credibility of, 'yeah, it does work, you guys, it will work'. (*Expatriate Manager, Head Office*)

A significant amount of progress in a short period of time (18 months) was made in building operational capabilities in HRM. This included the development of incentive schemes, the introduction of Hay grading schemes, training and development opportunities, mechanisms for transferring best practice such as working groups, and masterclasses in centers of excellence. In addition some progress was made with encouraging creativity and the delegation of authority within established boundaries. However, the new systems were not easy to embed:

> Probably because everything being introduced is new, there is a rejection of it, because – well they have taken away the old practices – there was an iron horse, they melted it down, and promised to cast a cockerel, but the cockerel is not yet in the kiln. There is this feeling that the old has been taken away, and in exchange they haven't been given something new, which works properly. (*Russian HR Manager, Head Office, ex Yukos*)

Capability development in TNK-BP had the great advantage of a large influx of BP secondees and permanent employees. Detailed training programs were developed for high-fliers in the regions and formalized in a dual-language booklet. An important emphasis was on project management training which was delivered by Western specialists using interpreters. BP had begun to introduce job evaluations, job descriptions, performance contracts, and reward systems and was also trying to introduce the Hay grading system across all the regional organizations. BP raised the reputation of HRM from its traditional low standing in Soviet organizations and re-conceptualized the role of manager:

> No one understands what a 'manager' is. No one understands that it is a complex of knowledge of HR in the management of human resources, and of concepts of corporate culture, and corporate governance. All of this we – I personally – began to understand only when they [BP] arrived. (*Russian Top Manager, Head Office*)

One key difference was the role of line managers in HRM:

> The most important thing is an understanding of the importance of the role of line managers in HR and not just the HR department, because it is the understanding of Russian managers that only the HR department is responsible for work connected with personnel issues, and this puts a huge brake on things. (*Russian HR Manager, Head Office*)

There was a gradual move by the new Western managers to encourage decision making lower down in the organization. However, empowering employees was not easy, because people were used to carrying out orders, and being punished for stepping out of line, rather than showing initiative:

> Many of these people have incredibly good educations, but … they were turning off their brains the day they walked in here ... So we're going to give them the opportunity to turn it back on. Now that's another problem because in the Soviet period every initiative was punished, so … Don't take the initiative … Stay invisible if possible. (*Expatriate Top Manager, Head Office*)

The same manager indicated that asking people to make suggestions about what to do 'terrified them.' Initially the attempt to involve Russian managers in defining a project met with incredulity and silence:

> X [expatriate in charge] told me he had the worse headache he'd ever had that night when he went home. He lay in bed almost in tears because he just couldn't fathom ... what was happening. This barrier between Westerner and Russian was trying to be closed at a lightning pace. (*Expatriate Top Manager, Head Office*)

The rapid introduction of new HRM processes was partly responsible for the failure to embed these, especially in the regions. The new job evaluation system was received with skepticism, and a system of job rotation, introduced to facilitate knowledge transfer, was also doubted:

> I think that the company resolves the problem [of transfer of best practice] by transferring top managers … from time to time, from one main sector to another (*laughter*). He goes from one division to another. He is just about being recognized there, when he has to start learning things here. (*Russian Manager, Region, Oil Production*)

The regions resisted change. In one of the refineries there appeared to be little training and transfer of best practice except for project management for new plant construction. Nevertheless TNK-BP had shown some significant progress in developing organizational capabilities, with a 14% growth in oil production. But it was apparent that a step-change expected from the large influx of expertise from a Western partner did not get realized. Some progress had been made at Head Office but the regions remained largely intractable.

The embedding of the microfoundations for dynamic capabilities (specifically training, the grading system, and personal development planning) in the context of two conflicting cultures – Russian *spetsifika* and MNC hegemony with, crucially, neither being dominant – slowed down organizational change rather than speeding it up.

6.3 Cross-case evaluation

In theory at least TNK-BP represents a powerful combination of the TNK managers' entrepreneurial approach and knowledge of how to manage Russian reality with the experience BP has of operating in many different countries across the world and of adapting to political and social change. Furthermore, BP's encouragement of decision making at all levels should have increased the flexibility of the organization as it could react more quickly to change. However, evidence from the interviews indicates that the speed of change within TNK-BP was slower than Yukos.

Knowledge transfer was not just about the absorptive capacity of the local organization. Both Yukos and TNK had their origins in a system alien to Western business practices, but there were marked differences between them in their ability to change. The key factor was the preparedness to break with the former administrative heritage and embrace new paradigms. Yukos facilitated this with harsh top-down management. If managers were not prepared to change their way of thinking they were removed or demoted. Radical action was undertaken if managers persisted in their old behaviors, for example, the entire management team of Samaraneftegaz, a subsidiary in European Russia seen to be dragging its heels, was replaced. TNK-BP's negotiated and inclusive approach to change under the influence of its Western partner was less effective. Consultation in the context of a Soviet heritage of a blame culture and a legacy of top–down management was arduous:

> I think that working groups are not very effective. A direct line of command … is always more effective … in management, direct commands are best – they go through without distortion and are implemented. (*Russian HR Manager, Yukos Head Office*)

These differences were reflected in people's pragmatic approaches to individual HRM practices such as performance appraisal. In Yukos:

> In no way is it linked to the real results of your work; everyone understands that their boss will allocate it in accordance with whether he likes you or not. No one discusses the results of your appraisal – this is not customary here. *(Russian Planning Manager, Yukos Head Office)*

Whereas in TNK-BP people really did believe that the process was part of changing the culture:

> And I suppose we have a unique management culture and … several things that make us stand out from our peers. For example the performance management system is rather unique to TNK-BP in the Russian industry. And that aligns goals, objectives, performance, remuneration, personnel policy, in one big cycle … This is something probably that we are pioneering in the Russian industry. *(Russian Manager, Investor Relations, TNK-BP Head Office)*

A key contributory reason for the development of 'Western style' HRM more readily in the wholly Russian-owned Yukos than in the Western joint venture TNK-BP was that the Yukos approach fitted better with the cultural make-up of Russian business. Hierarchy, lack of challenge to the powerful and expecting clear leads from the top was precisely what happened in the Yukos case. The culture clash in TNK-BP was both that between a Russian and a Western company and that between an oligarchy and a shareholder-controlled company:

> Most people would assume that this is a big cross-border merger and it's Russian culture and international cultures together. That's actually not the biggest challenge … The biggest challenge … is the combination of an entrepreneurial owner/founder set who basically self-managed and directed the company on all matters [and a] large public corporation that has many, many reporting requirements and transparency requirements and financial assurances and enterprise-wide risk assurance processes and all the Sarbanes Oxley direction. (*Expatriate Top Manager, Head Office*)

7 Summary and conclusions: MNC hegemony versus Russian *spetsifika*

We use cases of two oil companies in Russia to shed light on three main issues. A central question in international management is the extent to which foreign subsidiaries act and behave as local firms or adopt practices that resemble those of the parent (Rosenzweig and Nohria 1994, Schuler et al. 1993, Tregaskis et al. 2001). In both these cases there was a clearly expressed intention to bring in foreign (Western) HRM practices. However, the different experiences of the two companies emphasize the difficulty in moving from implementation (Rosenzweig and Nohria 1994), through implementation and internalization (Kostova and Roth 2002) to implementation, internalization, and integration (Björkman and Lervik 2007).

First, comparing both cases demonstrates Yukos was more efficient in converting the ostensive aspects of the new Western HRM routines into performative aspects demonstrating managerial flexibility compared to the received wisdom of the Soviet era. There is greater evidence of dynamic capabilities to implement and internalize new operational capabilities. Nevertheless, although Yukos had implemented new HRM routines, there was still some patchiness across the organization in terms of their internalization. In the case of TNK-BP, organizational change was constrained by four conflicting sets of routines – the Soviet heritage (Russian *spetsifika* and the heritage of central planning), the TNK heritage (aggressive, entrepreneurial, fast moving, and financially focused), the BP heritage (conservative, inclusive, bureaucratic, slow moving), and the envisioned future routines which were perhaps ideally a combination of the best features of all. However, as each partner sought to shift the emphasis it resulted in contradictory messages to an organization struggling to change from Soviet ways of working. The knowledge transfer from BP relating to the ostensive HRM routines was thus blunted by weak performative HRM routines. It is clear from the evidence that when the processes of introduction of new routines are more culturally embedded, then foreign practices may be more easily adopted. In the case of Yukos the familiarity of an aggressive top–down management style facilitated the rapid adoption of HRM practices.

Second, at an organizational level the microfoundations pivotal in HRM dynamic capabilities involved job evaluation, systematic training and development, high-flier programs, performance management, and talent identification and nurturing. Each group of practices supported the strategic renewal of both organizations, and their transformation from a Soviet model to organizations able to compete in a market economy. This provides empirical evidence to support Teece's (2007) theoretical category of microfoundations of dynamic capabilities, namely the enhancement and reconfiguration of the organization's intangible and tangible assets.

However, it is perhaps at the level of the individual that we gain a clearer understanding of exactly why organizational transformation proceeded more rapidly and successfully in Yukos than in TNK-BP. Felin and Foss (2005) point to human capital and the individual actors as forming the microfoundations of dynamic capabilities, rather than routines at an organizational level. Strong top-down management leveraged the Russian *spetsifika* of obedience within a command-and-control structure (Dixon and Day 2007) and the Russian collective enabled a more coherent implementation of change. In the case of TNK-BP the confused messages from multiple top management actors perhaps allowed for greater heterogeneity in individual responses and hence a slower pace of change and a constraint on dynamic capabilities. This perhaps provides evidence of a failure of the organization to enact the balancing capabilities to address global standardization/local adaptation as identified by Festing and Eidems (2011).

Third, drawing on the contextual approach to HRM, the paper sheds light on the factors impacting MNC transfer of HRM policies and practices in the Russian context. Foreign managements moving into Russia need to be aware of the need for due diligence on the cultural problems of introducing new HRM practices to Russian firms (May et al. 1998). This matters because, as with Yukos, in the Russian context investment in human resource management practices can substantially assist a firm in improving performance (Fey and Björkman 2001). The differences in the motivations of the Russian and Western partners undoubtedly constrained the implementation of HRM practices at TNK-BP. The difficulties for the partners to find a modus operandi is evidenced in the ongoing public disputes between TNK and BP, culminating in the recent decision of BP to try to withdraw from the partnership.

Finally, organizational transformation and the implementation of HRM practices in Yukos was driven strongly by the CEO Khodorkovsky. He was the epitome of what Augier and Teece (2009) describe as the ‘manager/entrepreneur’ function within the dynamic capabilities framework, namely the introduction of novelty and new combinations, and the promotion and shaping of learning. Ardichvili et al. (1998) also note that Russian CEOs in general tend to see many aspects of HRM (selection, promotion, etc) as part of their power base and their responsibilities, and take a very active approach. Hence increasing our understanding of the role and focus of the CEO in these situations becomes central to understanding the speed and integration of foreign practices into local business.

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Supermarkets, local shopping and food deserts

Simon Rudkin*

ABSTRACT

A novel model of local shopping is presented in which consumers have access to a continuum of stores on their "doorstep" and contrasted with provision of a single monopolist retailer. Aggregate consumer surplus is higher from the monopolist, who offers lower prices and higher levels of variety than is created in the free entry of local stores. Behind that conclusion there will be individuals who get lower utility, and while total consumption increases it may not for everyone. Specifically it is found that if preferences for variety, or transport costs, are high enough, or willingness to pay is low enough, then irrespective of market coverage this result emerges. Applying the model to the stylized facts from Asian and Western food retail markets it is shown that policymakers should consider whether the headline claims of supermarkets on consumption, variety and price do represent a welfare improvement for the market.

JEL Classification: L10 D40

Keywords: market expansion effects, differentiated goods, socially desirable monopoly, market coverage.

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1 Introduction

Theoretical modelling of retail formats usually focuses on single location shopping centres and ignores more traditional provision methods where small specialist retailers are located much closer to peoples' homes. In such models it is found that monopolists can offer lower price, more variety and a higher aggregate surplus than single product. This result is found in the multi-product purchase of the type modeled here (Smith and Hay, 2005; Nocke et al, 2007; Madden and Rudkin, 2012) and in search theoretic settings (Schulz and Stahl, 1996; Schulz, 1995). Where retailers have influence over market size, typically assumed to be true for oligopolies, then the incentives to reduce price, or increase variety, result in a welfare improving outcome compared to monopolistic competition, and these 'market size effects' are a common feature in all of the papers mentioned. Similar effects are present for the supermarket here, but the possibility that the monopolist cannot geographically expand their market any further and still produce welfare dominance is also considered.

In this paper a new model, in a simple form, that provides access to a continuum of single variety stores for all consumers is introduced and contrasted with a spatial monopolist supermarket to which consumers must travel to shop. Following Smith and Hay (2005) the independence of goods is assumed to focus on the effects of market size and the changing of the location assumptions about the small stores. In the case where not all households gain positive utility, a negative consequence which is masked by the aggregate conclusions of lower supermarket prices, higher variety and increased welfare. First, section 2 outlines the theoretical model, then section 3 presents the equilibrium when the supermarket does not cover the market and discusses the comparison between modes. In section 4 the assumption that some consumers are uncovered by the supermarket is relaxed and the comparison updated. An application of the results to food retail in developed, and developing, countries is provided in section 5. Section 6 concludes.

2 Model

For both shopping modes, supermarkets (S) and local shopping (L) a Salop (1979) circle of perimeter 1, around which there is a uniform distribution of consumers with mass 1 is modelled. Consumer utility, $V^X, X = S, L$ from purchasing N^X varieties follows Fujita and Thisse (2002) and is quadratic in quantity. In equation (1) $\alpha > 0$ denotes the willingness to pay for the differentiated product, $\beta > 0$ determines the preference for variety and $m > 0$ is the amount of money spent on a numeraire good that has price 1. $T(X)$ represents the cost of shopping, and is defined as the product of arc distance travelled and the number of products purchased.

$$V^L = \alpha \int_0^{N^X} q_i^X \, di - \frac{\beta}{2} \int_0^{N^X} {q_i^X}^2 \, di - \int_0^{N^X} p_i^X q_i^X \, di - \; T(X) + m \qquad (1)$$

This utility function has the advantage of being strictly concave in quantity, $\frac{\partial^2 V^L}{\partial {q_i^L}^2} = -\beta < 0$, and so has a unique utility maximising quantity demanded by consumers of $q_i^L = \frac{\alpha - p_i^L}{\beta}$.

In local shopping retailers are represented by a continuous uniform distribution of local stores with density n^L around the circles perimeter. Each local store sells a single variety, i, at price p_i^L, facing per unit cost $c, c \in (0, \alpha)$, and fixed costs of fn^L to open a shop[1]. A two stage model is used, with stage two profits π_i^L given market size[2] M_i^L from selling quantity q_i^L being given by (2).

$$\pi_i^L = M_i^L q_i^L (p_i^L - c) \tag{2}$$

Firm i will maximise (2) through its' choice of p_i^L under the correct belief that it is too small to influence the market share via its choice[3]. Stage one sees n^L generated under freedom of entry and exit, ensuring long run local profits, Π^L, are zero. M_i^L is determined by consumers maximizing (1) through their choice of d^L, with $T(X) = tn^L {d^L}^2$. This gives the transport cost of visiting stores on an arc distance d^L around the circle when all shoppers follow the same pattern deciding which $n^L d^L$ stores to visit[4]. Transport costs are thus proportional to the product of the arc distance travelled and the number of stores visited[5]. To avoid any ambiguity about how consumers return to their location it is assumed that no individual shopper travels more than half of the way around the circle. Choice of d^L is made once the firm distribution and prices are known.

The supermarket model is analogous to that of Smith and Hay (2005). A single supermarket enters the market and locates, without loss of generality at point 0 on a circle around which there is a uniform distribution of consumers with mass 1. To simplify the exposition it is assumed that there is insufficient demand, α is too low, to support two supermarkets[6]. A continuum $[0, n^S]$ of goods are offered, with the supermarket choosing n^S at stage one and the prices of goods p_i^S at stage two. Equilibrium is computed by backward induction with profits at stage two being given by (3). Due to the symmetry of the model a single price is selected for every good and total profits at stage two become (4). The unit cost c is identical to that of the local stores for analytical simplicity.

$$\pi^S = \int_0^{n^S} M_i^S q_i^S \left(p_i^S - c\right) di \tag{3}$$

$$\pi^S = n^S M^S q^S \left(p^S - c\right) \tag{4}$$

$M^S, M^S \in \left(\frac{1}{2}, 1\right]$, is the mass of consumers who visit the store, and is under the control of the supermarket. Long run profits are now (5), while given the identical price of all products consumer utility can be updated to (6).

$$\Pi^S = \pi^S - \frac{1}{2} f {n^S}^2 \tag{5}$$

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[1] The circle could be thought of as having infinite number of side streets on which to locate, with the cost of opening becoming increasingly high as each street fills up with stores.

[2] In the symmetric equilibrium this will be identical for all stores.

[3] This is because the store is small relative to the total number of firms in the market.

[4] One assumption is that all residents travel clockwise around the circle to shop. Alternatively it could be imagined that shoppers travel the same distance in each direction from their residence.

[5] This could be thought of as being a set of d^L side streets, each of which needs a distance of n^L to be covered.

[6] The precise condition for this to hold is $t < \frac{9(\alpha - c)^2}{8\beta}$. This is derived in section 3.

$$V^S(d^S) = n^S q^S\left(\alpha - \frac{\beta}{2}q^S - p^S\right) - tn^S d^S + m \tag{6}$$

The total cost of providing n^S varieties is simply the cost to an individual firm integrated over the number of varieties. Total transport costs in (6) remain the number of varieties multiplied by the distance travelled and the parameter t[7].

3 Partial Coverage

That some consumers are not served by the supermarket renders the market partially covered. This is the solution with most similarities to the existing literature on market size effects, and hence a sensible start point for the exposition. First the equilibrium under the two shopping types is found, with proposition 2 formulated under this assumption of partial coverage.

Proposition 1: There exists a unique symmetric local shopping Nash Equilibrium in prices and varieties with:

$$\boldsymbol{p_i^L = p^L = \frac{\alpha + c}{2}, \pi_i^L = \pi^L = \frac{(\alpha - c)^4}{64\beta^2 t}, n^L = \frac{(\alpha - c)^4}{64\beta^2 f t}}$$

Proof: Substituting for q_i^L in (2), $\pi_i^L = \frac{M_i^L}{\beta}(\alpha - p_i^L)(p_i^L - c)$, the strict concavity of which readily yields $p_i^L = \frac{\alpha+c}{2}$ as the unique maximum. By symmetry this gives $p_i^L = p^L = \frac{\alpha+c}{2}$, and now $V^L = \frac{n^L d^L (\alpha-c)^2}{8\beta} - tn^L {d^L}^2$, which has a unique utility maximising choice of d^L, at $d^L = \frac{(\alpha-c)^2}{16\beta t}$, since $\frac{\partial^2 V^L}{\partial {d^L}^2} = -2tn^L < 0$. Short run profits follow by substitution. Finally the number of varieties at stage one is found using $\Pi^L = \pi^L - fn^L = 0 \leftrightarrow n^L = \frac{\pi^L}{f} = \frac{(\alpha-c)^4}{64\beta^2 f t}$. ■

In the equilibrium described consumers travel a distance $d^L = \frac{(\alpha-c)^2}{16\beta t}$ and hence it is assumed that $t > \frac{(\alpha-c)^2}{8\beta}$ to ensure that no consumers travel half way around the circle.

Proposition 2: There exists a unique supermarket Nash Equilibrium in prices and varieties with:

$$\boldsymbol{p^S = \frac{\alpha + 3c}{4}, \Pi^S = \frac{3^6(\alpha - c)^8}{2^{18}\beta^4 f t^2}, n^S = \frac{3^3(\alpha - c)^4}{2^6\beta^2 f t}}$$

Proof: If, d^S, is the location of the consumer for whom $V^S(d^S) = 0$, then from (6), with $q^S = \frac{\alpha - p^S}{\beta}$ $d^S = \frac{(\alpha - p^S)^2}{2\beta t}$ and so the market size of the supermarket will be $M^S = 2d^S = \frac{(\alpha-p^S)^2}{\beta t}$. Hence $\pi^S = \frac{(\alpha-P^S)^3(p^S-c)n^S}{\beta^2 t}$. This is strictly concave in prices, with a unique maximum at $p^S = \frac{\alpha+3c}{4}$, if $p^S < \frac{\alpha+c}{2}$. As this condition is met the equilibrium price will be that given in the proposition. Aggregate profits, (5) are strictly concave in variety and so the unique profit maximising n^S is derived as that given in the

[7] Here we could think of travelling round a store to find all n^S varieties.

proposition. Finally substitution back into (5) will give the profits stated.

■

Through these two propositions it is quickly found that the assumption that the supermarket covers more than half, but less than all, of the consumers is the same as requiring that $t \in \left(\frac{9(\alpha-c)^2}{16\beta}, \frac{9(\alpha-c)^2}{8\beta}\right)$. This range of t assumed now in the remainder of this section.

In order to compare the supermarket and local shopping equilibria we define CS^X, $X = L, S$, as being the aggregate consumer surplus. Proposition 3 summarises the overall comparison that results.

Proposition 3: Under partial coverage: (i) $\boldsymbol{p^L > p^S}$, (ii) $\boldsymbol{n^L < n^S}$ and (iii) $\boldsymbol{CS^L < CS^S}$.

Proof: (i) and (ii) can be seen by inspection since $\alpha > c$ by assumption. Finally for (iii) substitute prices, varieties and distances travelled into the utility functions (2) and (6), finding $CS^L = \frac{(\alpha-c)^8}{2^{14}\beta^4 ft^2} < \frac{3^7(\alpha-c)^8}{2^{18}\beta^4 ft^2} = CS^S$. This is true by inspection. ■

Corollary 1: Aggregate surplus is higher from the supermarket

Corollary 2: $\boldsymbol{n^L q^L < n^S q^S}$

Corollary 1 follows immediately since as well as offering higher consumer surplus the supermarket also makes positive profits leading to further aggregate surplus. Corollary 2 can also be seen immediately since lower prices mean higher quantities consumed.

Utility is increasing in variety and decreasing in price so (i) and (ii) do suggest (iii), however, in this model there is not full coverage and some people get 0 utility from the supermarket. Hence, there are some areas in which the residents would prefer local shopping. It is helpful to define three intervals, $D_1 \equiv [0, \hat{d}), D_2 \equiv \left[\hat{d}, d^S\right]$ and $D_3 \equiv \left(d^S, \frac{1}{2}\right]$, to describe the distances from the supermarket in which people gain higher utility from shopping at the supermarket, gain lower utility shopping at the supermarket, and are not covered by the supermarket, respectively. $\hat{d}$ is defined such that $V^L = V^S(\hat{d})$.

Corollary 3: The sets of individuals gaining higher utility under supermarket shopping, $\boldsymbol{D_1}$, gaining lower utility, $\boldsymbol{D_2}$, and left uncovered by the supermarket $\boldsymbol{D_3}$ are non empty.

Proof: For the individual living at point 0, supermarket shopping provides a higher utility as prices are lower, product range higher and transport costs are zero. At d^S $V^S(d^S) = 0 < V^L$ and since $\frac{dV^S}{dt} < 0$ there exists some $\hat{d}$ such that $V^S(\hat{d}) = V^L$. This produces the three intervals defined ■

Corollary 3 ensures that there will always be people who suffer lower utility under supermarket provision despite the overall aggregate consumer surplus being higher. This result highlights the importance of looking beyond the market level conclusion when comparing retail provision.

4 Endogenising Coverage

Dropping the assumption that the supermarket can not sell to all potential shoppers creates the potential for the market size effects to disappear. Full coverage by the monopolist is defined such that the person furthest from the store gains weakly positive utility from shopping, that is $V^S\left(\frac{1}{2}\right) \geq 0$. To ease the exposition $\theta \equiv \frac{(\alpha-c)^2}{16\beta}$ and $\varphi \equiv \frac{t}{\theta}$ are defined. The assumption that no one travels more than half way around the circle for local shopping is maintained, and hence $\varphi \geq 2$[8].

Proposition 4: There exists a unique supermarket Nash equilibrium in prices and varieties with:

Region A:	$\boldsymbol{t \in [2\theta, 4\theta)}$	**and**	$\boldsymbol{p^S = \frac{\alpha+c}{2}, n^S = \frac{(\alpha-c)^2}{4\beta f}, \Pi^S = \frac{(\alpha-c)^4}{2^4\beta^2 f}}$
Region B:	$\boldsymbol{t \in [4\theta, 9\theta]}$	**and**	$\boldsymbol{p^S = \alpha - \sqrt{\beta t}, n^S = \frac{\sqrt{\beta t}(\alpha-c-\sqrt{\beta t})}{\beta f}, \Pi^S = \frac{(\alpha-c-\sqrt{\beta t})t}{\beta f}}$
Region C:	$\boldsymbol{t \in (9\theta, 18\theta)}$	**and**	$\boldsymbol{p^S = \frac{\alpha+3c}{4}, n^S = \frac{3^5(\alpha-c)^4}{2^8\beta^2 ft}, \Pi^S = \frac{3^6(\alpha-c)^8}{2^{18}\beta^4 ft^2}}$

Proof: In this proof hats will be used to denote full coverage for clarity. From (6) $d^S = \frac{(\alpha-p^S)^2}{2\beta t}$ and this satisfies partial coverage if $p^S > \alpha - \sqrt{\beta t}$. Proposition 2 gave the partial coverage equilibrium of region C, and this satisfies the requirement if $t > 9\varphi$ by rearrangement. When the market is partially covered profits can be written as $\Pi^S = \frac{n^S(\alpha-p^S)^3(p^S-c)}{\beta^2 t} - \frac{1}{2}fn^{S2}$, which has a unique maximum at $n^S = \frac{(\alpha-p^S)^3(p^S-c)}{\beta^2 ft}$ such that $\Pi^S = \frac{(\alpha-p^S)^6(p^S-c)^2}{2\beta^4 ft^2}$. When the market is fully covered $\widehat{M}^S = 1$ and so $\Pi^S = \frac{\hat{n}^S(\alpha-\hat{p}^S)(\hat{p}^S-c)}{\beta} - \frac{1}{2}f\hat{n}^{S2}$. In turn this is strictly concave in $\hat{n}^S$ with a unique maximum at $\hat{n}^S = \frac{(\alpha-\hat{p}^S)(\hat{p}^S-c)}{\beta f}$ meaning that $\widehat{\Pi}^S = \frac{(\alpha-\hat{p}^S)^2(\hat{p}^S-c)^2}{\beta^2 f}$. A unique maximum occurs at $p^S = \frac{\alpha+c}{2}$. This satisfies the full coverage requirement if $\varphi < 4$. Comparing the two profit functions $\Pi^S > \widehat{\Pi}^S$ if $p^S > \alpha - \sqrt{\beta t}$. Hence in cases where neither unconstrained optimum is possible the monopolist will set $p^S = \alpha - \sqrt{\beta t}$. Varieties and profits follow by substitution. ∎

Intuitively the supermarket will want to sell to as many consumers as possible at the highest possible price, and so the existence of region B, in which it charges the maximum price that will attract the furthest customer, is reasonable. When transport costs are very low then the whole market is covered and the monopolist charges that price which maximizes profits accordingly. The local shopping equilibrium remains as that defined in proposition 1, and using this the comparison can now be completed.

Proposition 5: (i) $\boldsymbol{p^S \leq p^L}$, (ii) $\boldsymbol{n^S > n^L}$ and (iii) $\boldsymbol{CS^S > CS^L}$

Proof: (i) In region A, $t \in (2\theta, 4\theta)$ then $p^S = p^L$. In region B, $p^S = \alpha - \sqrt{\beta t} \leq \frac{\alpha+c}{2} = p^L$ if $t \geq 4\theta$, true by assumption. Finally proposition 3 tells us this is true in region C. (ii) In region A $n^S > n^L$ requires $t \geq \theta$ by rearrangement, which is true. In region B the requirement is that $\frac{\sqrt{\beta t}(\alpha-c-\sqrt{\beta t})}{\beta f} > \frac{(\alpha-c)^4}{64\beta^2 ft}$. This rearranges to give $\theta\sqrt{\theta}(16-\sqrt{\theta}) > 16$, which holds for all $\theta > 1$ and hence throughout region B. In region C proposition 3 continues to apply. (iii)In region A the consumer living furthest from the

[8] $d^L = \frac{(\alpha-c)^2}{16\beta t} = \frac{\theta}{t}$ and so $\frac{\theta}{t} \leq \frac{1}{2}$ if $\frac{t}{\theta} \geq 2$.

supermarket gains positive utility and hence lowest possible value for CS^S occurs when $V^S\left(\frac{1}{2}\right) = 0$.In this case $CS^S = \frac{V^S(0)}{2} = \frac{(\alpha-c)^4}{2^6\beta^2 f}$. Comparing with CS^L from section 4, $CS^S > CS^L$ if $t^2 > \frac{(\alpha-c)^4}{2^8\beta^2}$. Substituting $t = \varphi\frac{(\alpha-c)^2}{16\beta}$ simplifies the requirement to $\varphi > 1$ which is true by assumption. For region B, $CS^S > CS^L$ if $(4-\sqrt{\varphi})\varphi^{\frac{7}{2}} - 16 > 0$, a relationship which holds for all $\varphi \in [4,9]$[9].$\blacksquare$

From proposition 5 the headline figures of higher variety and lower price continue to hold. Further the consumer surplus from supermarket provision continues to be higher than that gained from local competition. Corollaries 1 and 2 are updated to describe the full equilibrium.

Corollary 4: **Aggregate surplus is higher from the supermarket**
Corollary 5: $\boldsymbol{n^S q^S > n^L q^L}$

Once again these proofs are immediate and the results lend support to the idea that the monopoly provision of goods is more socially desirable than the local shopping model. However, as with the basic model there is the potential for a group of consumers to be made worse off by a change in provision. Inevitably the person living at location 0 will gain greater utility than under local shopping as prices are at least as low and varieties at least as high. With transport costs being linear focus turns instead to the consumer furthest from the supermarket and note there will be a group getting lower utility if and only if $V^S\left(\frac{1}{2}\right) < V^L$. In cases where the market is not fully covered, region C, there is a set of consumers made worse off as they would not shop under supermarket provision. Hence focus is on the more interesting full coverage parameter regions, A and B.

Proposition 6: **There exists non empty set of consumers for whom $\boldsymbol{V^S(d^S) < V^L}$ if $\boldsymbol{\varphi}$ is sufficiently large.**

Proof: In regions B and C $V^S(0) > V^L$ and $V^S\left(\frac{1}{2}\right) = 0$ so when $\varphi > 4$ the proposition holds. In region A there exists $\hat{d}^S$ satisfying $V^S(\hat{d}^S) = n^S(A - t\hat{d}^S) = n^L\left(Ad^L - t{d^L}^2\right) = V^L$. This makes use of the fact that in region A $p^S = p^L = \frac{\alpha+c}{2}$ to define $A \equiv \frac{(\alpha-c)^2}{8\beta}$. Solving for d^L as a function of A, noting that $n^S = \varphi n^L$, and substituting $t = \varphi\theta$, yields $\hat{d}^S = \frac{2\varphi^2-1}{\varphi^3}$. This satisfies $\hat{d}^S < \frac{1}{2}$, such that there exists a region with $V^S(d^S) < V^L$ if $\varphi^3 > 4\varphi^2 - 2$. This condition holds in region A for $\varphi \in (3.95,4)$. Hence for $\varphi = (2,3.95)$ no such set of consumers exists$\blacksquare$

Following proposition 6, there will be a group of consumers who are worse off under supermarket provision if φ is high. This happens when transport costs are high, when there is a strong preference for variety, or when costs are high relative to the willingness to pay. Hence even if the supermarket covers the whole market, it remains possible that there will be a group of consumers who will gain lower utility from monopoly provision despite the aggregate conclusion that welfare is higher.

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[9] The function $(4-\sqrt{\varphi})\varphi^{\frac{7}{2}} - 16$ has two real roots, and is positive between them. These roots lie outside the assumed parameter interval for region B.

6 Application to Food Deserts

One application of this paper is to the debate about the provision of healthy foodstuffs by various retail formats. This discussion is illustrated with examples from the United Kingdom and China, but can be applied all around the world[10]. In the UK many studies chart the changes in the retail landscape, Sainsbury (1972) going back to pre 1800 when one in four houses was a shop. While there were changes with the coming of the supermarkets (Competition Commission, 2003) there were still areas reliant on the old small stores (Fitch, 2006). More worryingly from a policy perspective the coming of the supermarkets had also left large areas without adequate access[11] to a sufficient variety of healthy food stuffs[12]. These areas were termed “food deserts” and became a real policy concern in the 1990s. As land for new supermarkets in out of town locations became scarce, supermarkets turned their attention to the poorer areas left behind in the first wave of development, those areas where traditional local shopping still dominated. The argument was that with a higher level of variety, and lower prices, the coming of the new stores would increase consumption of fruit and vegetables and so improve the health of the residents of those markets[13]. However, as Gill and Rudkin (2013) show this impact is limited to certain groups within the population.

Asian markets have seen a much more recent introduction of supermarkets and many countries still maintain their traditional shopping styles. China for example, has a strong local shopping culture with fresh fruit and vegetables available in neighbourhood centres and street markets within many apartment developments[14]. More recently larger retailers have entered the market with overseas giants such as Wal-Mart, Tesco, Carrefour, Auchan joined by Chinese firms like Wu-Mart in opening large format outlets[15]. Chinese consumers typically do not have the ability to store in bulk and so even the largest stores focus on freshness, for example providing an in store butcher or fishmonger (Hingley et al, 2009). Consequently big stores maintain more direct similarities with the traditional local offerings. While the transition is very much in its’ infancy compared to the UK example the conclusions on welfare apply equally. Indeed with the lack of storage and bulk purchase it can be argued that difficulty of access becomes a more acute problem. Results on pricing are more complex however, because considerations of food safety see the supermarket product being seen as superior and therefore often higher priced (Hingley et al, 2009)

In this paper, we have indeed shown that a supermarket will offer a price, and variety level, that are preferable to consumers irrespective of market coverage. We can imagine, therefore, that an area with local shopping is a food desert, as that possesses the characteristics of the deserts described in the

[10] See Powell et al (2007) for the USA and Shaw (2012) for France amongst others.

[11] Often this is defined in terms of access to a motor vehicle, as purchases of a large number of products at a single store are difficult to carry and most practicing this type of shopping will use cars. The definition of access however is more ambiguous in the literature, and can be seen as analogous to coverage in the model presented.

[12] See Clarke et al (2012) for a good review of the UK literature.

[13] See Wrigley et al (2003) for a summary of this effect following such a supermarket opening in Leeds, West Yorkshire, UK.

[14] For a discussion of the development of Chinese retail see Hingley et al (2009)

[15] Hingley et al (2009) considers Wal-Mart, Wu-Mart and Carrefour, while other companies can be found local to the authors university.

literature[16]. Corollary 5 confirmed that consumption, measured simply as the product of variety and quantity purchased, would increase from monopoly provision. However, from proposition 6, there often remains a group of individuals who do not benefit from the change of provision, even in cases where the supermarket does attract them to shop. Formally it was shown the set exists when transport costs are sufficiently high, preference for variety is high or demand is low. For those without access to motor vehicles, common in poorer areas, high transport costs seem reasonable. For the UK the preference for healthy foodstuffs relative to others is low, while in China income is more limited, factors that point to α being low. Preferences for variety are noted to be high in China but lower in the UK. For both conditions for the existence of consumers with lower utility appear present. Consequently, while the claim of the supermarkets on aggregate figures is supported, the suggestion to policy makers is to think carefully about this subset of consumers who do not benefit from provision change irrespective of the development of the supermarket sector.

7 Conclusions

In a simple model of the comparison between small local stores and monopoly retail provision it has been shown that incentives for monopolists to increase market share with lower prices and higher product ranges will lead to their offering greater aggregate consumer surplus, a result analogous to the existing literature on market size effects. This paper goes further though in its' exploration of a novel model of local shopping, to show the pitfalls of accepting this aggregate improvement as justification to adopt monopoly retailing. While the model does maintain many features of Smith and Hay's(2005) high street it fundamentally alters the comparison, as local shopping yields uniform utility, while the monopolist only improves utility and consumption for some. Moving further from the existing literature cases where the market is fully covered, where market size effects are weaker, were considered. In such cases monopoly provision remains optimal at an aggregate level.

Useful conclusions for the current debate on supermarket provision as a means to increase consumption of healthy foodstuffs were found. Aggregate conclusions match those of the empirical literature around the world, but the spatial analysis points to a role for further research on the distribution of the increased consumption effect. Extending the study to explore further retail modes, introduce competition for the supermarket, or to allow the possibility of local stores remaining in the lower utility areas, would all provide interesting future extensions. To truly capture the Chinese picture the effects of the lack of storage and preferences for quality could be considered. As is, there are interesting recommendations for policy that would be expected to be robust to all suggested extensions.

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In search for failed enterprise – business failure and recovery among self-employed African migrants

Dieu Hack-Polay*

ABSTRACT

This article examines the experiences of African entrepreneurs who set up small businesses as a way of self-employment in the United Kingdom. It evaluates evidence of their actual or perceived disadvantage in the struggle for survival in the severe economic environment of this decade. The paper is based on qualitative research involving interviews with 10 leaders of 'dead' businesses and the experience of 10 'deceased' known to the participants. The paper attempts to provide some causal explanations with regards to the disproportionate failure rate among small black African businesses in comparison with other ethnic groups. A key finding relates to the insufficiency of the traditional reasons advocated to explain the failure of African businesses in the UK: lack of information, lack of finance, recentness of entry to the market, etc. While these still present some validity, an often unexplored variable, culture, has been found to be critical in understanding the plight of African small entrepreneurs. Any recovery solution can be limited if it is formulated outside of a journey into the cultural sphere.

Key words: *SME, culture, recession, disadvantage, recovery, African*

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1 Introduction and backgrounds

The arena of African small businesses is a maze of complexities that surpass traditional rational comprehension. As Fairlie and Robb (2008: 3) argue “Racial inequality in education, income, and wealth are well known. Less understood are the large and persistent racial disparities in business ownership and performance”. To understand the fabric of the nature of African small businesses necessitates a cultural journey into the mosaic of cultures Africans live with in diaspora. These complexities are often exacerbated by the impact of cultural interactions with host countries’ own diversities. For example, Africans in the United Kingdom do not only come from a multiplicity of backgrounds but face cultural competition with other equally foreign ethnic groups, e.g. Asians, Latin Americans, Eastern Europeans, etc. (Hack-Polay, 2008). They equally face the challenge of survival under the aggressiveness and often opacity of the host culture. The foresaid complexities are compounded by forces linked to the cultural make-up of the host country, though not necessarily purely cultural. In this respect, technology, financial arrangements, and legal regulations can be viewed as associated forces whose impact cannot be ignored.

In the past five years since the end of 2007, the economic climate has been generally unfavourable to small businesses. As the giant, large and powerful fall, that has resounding and domino effects on small businesses. Familiar business faces such Northern Rock, Lehman Brothers and Woolworths, etc. have been among the casualties of the current economic turmoil. As a result, access to credit has been tightened, markets traditionally targeted by small companies are also being heavily exploited by established large companies, higher unemployment also means more candidates to set up small businesses are coming forward (The Guardian, 2009). In the UK, it is estimated that over two million people have lost their jobs since the start of the recession. The trend towards self-employment is not necessarily unavoidably linked to the current recession since Lindsay and Macauley (2004) reported an increase in self-employment about four years before the economic downturn of 2007-2008. However, as noted by the Guardian the trend has been exacerbated by the hardship caused by the most recent tumult.

Small and medium enterprises are significant part of national economic landscapes. Both in the developed world and the developing countries, SMEs play a crucial role in generating national revenue, enhancing employment and providing access to commodities for remote communities (World Bank, 2004). While in the UK, ethnic minority small businesses represent around 7% of all small businesses (HM Treasury, 2008). However, it is often quoted that they make up in excess of 55% of national Gross Domestic Product (GDP) in advanced economies and 60% of GDP in less wealthy countries (Keskin and Senturk, 2010). It can therefore be extrapolated that the life of the national entity depends as much on the vitality of its SMEs as on the vivacity of large companies. Small enterprises bear more significance among ethnic minority communities in many countries. The proliferation of SMEs among minority communities is well documented and is historically linked to disadvantage, whether actual or perceived. This disadvantage centres on several points, including disadvantage in employment, education and general status in society.

In employment, it is well documented that minorities suffer serious disadvantage accessing jobs. Unemployment, underemployment and ill-adapted skills are among difficulties African minorities have to overcome. This is perceptible from employment figures which show ethnic minorities consistently underperforming their majority counterparts (ONS, 2005). It not peculiar to a specific country; the United Kingdom, the United States, France, Germany, Canada, to mention just a few, all present similar employment landscapes. In the UK, for example, employment figures have been consistent for decades with regards to the position of non-whites. While unemployment rate stood at around 5% for whites, for minorities this was over 10%. The worst positioned in this structure are Pakistani women (nearly 20%) and Black Caribbean males (nearly 15%) – See Figure 1 below. More recent research by The Work Foundation (2009) has largely confirmed this historical trend and the traditional disadvantage experienced by minority groups. It expresses the view that this trend has been unchanged for the past decade but the unemployment rate of people of 'mixed ethnicity' has deteriorated.

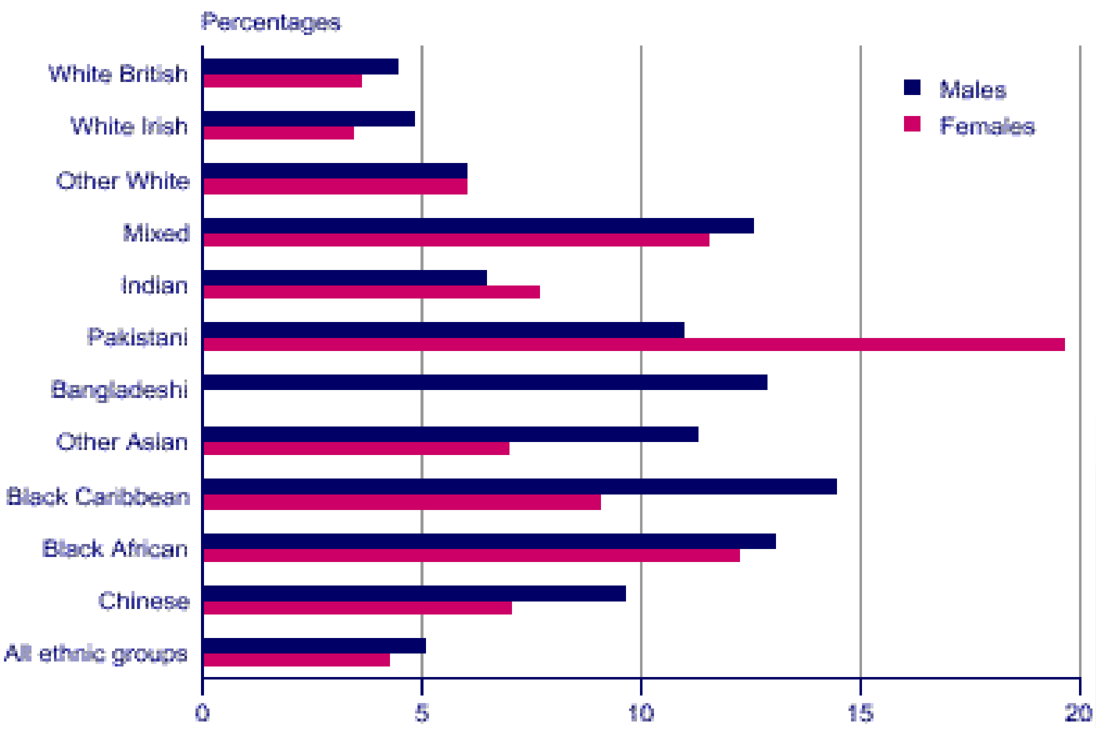

Fig. 1: Non-white unemployment rates, ONS, 2004.

These employment figures partly elucidate the fact that more minorities seek possibilities for self employment. In fact, as Balwin-Edwards (2009) argues "Ethnic entrepreneurship has evolved as a significant survival tactic for economic gain" (quoted by Halkias *et al.*, 2009: 4). In the UK, there are around 275,000 black and minority ethnic (BME) businesses contributing £20 billion to the economy. The growth of ethnic enterprise was rapid, from 5.6% in 2002 to 7.1% in 2007. These ethnic businesses are usually smaller in size compared to non-ethnic ones; the latter are more likely to have £250,000 or more in turnover (HM Treasury, 2008).

Despite the high spirit of enterprise, ethnic minority businesses are credited with a phenomenal failure rate. Evidence from Britain and the United States support this claim. In the US, Black entrepreneurs set up more businesses but they fail at a higher rate. According to Maki (2004), Black people are 50% more likely to set up a business. Over a four-year period, among 1.7 million businesses that survive only 3200 grow to reach over 100 employees but just 1% of Black businesses achieve this. Trends in the United Kingdom are not dissimilar. Ethnic SMEs make up 6% of all UK SMEs. However, among ethnic minorities Black people are least likely to set up SMEs (5%). Large numbers of small businesses fail every year. In the UK, Whitehead, Purdy and Mascarenhas-Keyes (2006) found that Black businesses specifically trade for a shorter time than other businesses - less than three years - compared to well over four years for others. This is all the more interesting that Mosli (2011) argues, in the Malaysian context, that age of the business and access to finance are critical determinants of success in SMEs. Ferguson (1993) formulated the S-C-P (Structure-Conduct-Performance) model that saw firms' performance as dependent on the structure of the market and the conduct of the firm itself. In this model, a company performs well if the structure of market is favourable and if its internal organisational framework is adequate. Though useful, the model can only partly be used to explain the high failure of small businesses because the notion of 'conduct' may simply refer to organisational structure which is a limited parameter in connection with the realities facing small enterprises.

Investigations into the generally high failure rate of small businesses have recorded multiple reasons (Holland, 1998; Rosli, 2011): lack of experience, lack of capital, unplanned growth, slack management, credit problems, wrong location, too much spent on assets, paying the entrepreneur too much, staff problems and red tape. However, little research has attempted to uncover specific reasons for the failure of minority businesses, particularly Black African businesses. Interestingly, Daley (1998) argues that the Black African population as a whole is understudied. An interesting study by Smallbone *et al.* (2003) emphasised that among ethnic minorities, Afro-Caribbeans appear to be more disadvantaged with regards to access to finance. The little empirical evidence available is research carried out on new migrants and refugees (Hack-Polay, 2009; Marshall, 1996). These studies largely emphasize informational, financial and educational disadvantage as negative forces affecting the success of minority and African small enterprises. However, few studies have acknowledged the cultural underpinning of minorities' disadvantage but this has been mostly with regards to the employment context (Hack-Polay, 2009; Marshall, 1996). A recent study by Altinay and Wang (2011) found some limited impacts of the cultural backgrounds of the entrepreneurs on business success of failure. The authors found that religion affected only 'personal values' but not business practices. However, this finding is limited since only religion as a cultural item has been used and other significant cultural variables such as values and belief systems were not tested. Altinay and Wang (2011) could be credited with an attempt to theorise about the impact of culture on small business.

When highlighting the reasons for difficulties faced by African entrepreneurs, the literature often over-emphasises non-typical cultural forces such as lack of finance and information, and the complexity of the legal framework. However, the journey of African small businesses in the UK has far reaching and deeper ramifications. Often the reasons for the failure of African businesses is narrated from the perspectives of researchers who have attempted theorisations based on statistical data and other quantitative data available (Nwankwo, 2005). In so doing, the voices of the 'dead' (businesses that collapsed) and those of survivors have been little heard. The usual and common understanding of the premature failure of black businesses is situated in a framework of blame, which seeks to vilify black entrepreneurs in an often intellectual or mental caricature as incompetent. This is removed from the daily realities facing the black entrepreneur, which are both internally and externally engineered. Externality even tends to condition the former, i.e. internality. In fact, in black narratives, it seems that the message conveyed is counter-accusation of the external environment which is framed in race relations, ethnicity and cultural stigmatisation, which led Garner and Bhattacharyya (2011) to connect place, people and poverty. Within this context, silent ideological struggle and attempt of dialogue between 'invisible' antagonistic forces should assert themselves as the natural avenue for intercultural learning on both sides; self-discovery on the black entrepreneur's side and re-invented perceptual discourses on the host society's side. However, in reality such a forum is rarely established on the one hand because the politico-administrative authorities do not steer it but on the other hand historically constructed prejudices on either side contribute to maintain the status quo.

This piece of empirical research is about getting black business to speak about its experience and having the wider community of would-be black business people as well as the hosts to listen. The research situates itself in the framework of handing narrative back to the people it belongs to, i.e. the research participants. In so doing, the researcher invites the reader to participate in data analysis through the intellectual challenge of making sense of the voices of the participants. The researcher does not seek to infer meaning from the narratives but create a framework for the participants and the reader to meet and dialogue. This is about enabling dialogue between a community of African small businesses and an audience of researchers and the wider society who need answers in order to re-interpret issues faced by the former.

2 Methodology

The researcher is reluctant to term this research one that falls in the traditional interpretivist paradigm. Interpretivism is researcher-led through sense-making. This entails that the researcher attaches meaning to the participants' actions and narratives. Interpretivism is a process of theorisation, though legitimately based on the data. This research could simply be seen as a piece of empirical investigation embedded in the broader qualitative approach. It seeks to generate data whose intelligibility will predominantly depend on the reader's own assessment. The use of interviews was the foundation of the data generation. However, as opposed to tradition semi-structured or in-depth interviews, in this research questions were framed in a way to invite the participant to talk directly to those who would read the findings. For instance, major questions were formulated as follows: how would you explain to those reading this document the reasons why your business failed? Why would they accept this as a key cause? As your interlocutors finish reading or listening, what is the one thing you think they should retain? If you were to change people's perception of your business's experience what would you say? Such questions are live questions similar to documentary makers but they create a sense of interactive dialogue between the message sender and the receiver.

The interviews involved 10 entrepreneurs of different 'dead' businesses. They had to talk about their own failed ventures but also refer to the experiences of at least one other dead business they knew well. The interviews took place in the spring of 2010 and were conducted on the premises of another African small business, i.e. a restaurant, shop and nightclub. The participants were asked if they knew a good place for the interview and were encouraged to select venues relating to African small businesses, if they wanted. The purpose of encouraging such a choice of venue was to help them recover memories of their own business ventures. The interviews lasted on average one and a half hour each, with two going beyond sixty minutes. The five participants were selected through snow ball sampling. The researcher originally contacted a former colleague involved with small business start-up who led to a participant who met the selection criteria: 1. be of African origin (migrant or first generation descendant of African migrant); 2. be over 25 years of age; 3. have run a small business that ceased in the last two years; 4. know at least another ‘dead’ African small business; 5. be willing to participate in the interview. Criterion four was to ensure a variety of experiences. Data analysis was through a simple coding and categorisation process which was participant-led whereby they were asked to provide cues.

3 Findings

3.1 The emergence of Africans businesses

The reasons evoked by the participants for setting up businesses are largely congruent with the literature. These can be segregated into two main categories, push factors and pull factors. The participants’ own experiences combined with the experiences of people they know that have set up small businesses highlight four causal explanations denoting push factors: (1) protracted unemployment, (2) underemployment, (3) ill-adaptation in the workplace, (4) language barriers. While the first two reasons are common to Black Africans in general, the last two reasons are specific to newcomers whose first language is not English. Colette’s story below translates reasons 1 and 2 as push factors. This supports evidence by Whitehead *et al.* (2006) that ethnic minorities are more likely to set up business as a reaction to unemployment (15.9%) compared to non-ethnic minorities (9.3%). Colette’s story of year-long unemployment leading her to set up a small business is an example of push factor. Colette completed her degree in drama in 1999. But a year later she was still looking for a job. Most of her friends were in reasonable employment and a couple had substantial jobs. She recalls that “the drama tuition centre I set up was a reaction to the lengthy unemployment period. I needed to gain experience and occupy myself. The business is not the most successful but I’ve hung on since 2001. I now do it part time and the other half of my time I work part time for a larger drama academy. One thing I want people to know is that it is not easy for black people to find jobs. It is not just me”. Colette knows many other friends who struggled to find suitable jobs or to find employment altogether.

Besides the push factors, four other key factors were highlighted by the participants, which can be categorised as pull factors. These factors are related to (1) inspiration from other successful minority businesses, (2) desire for independence, (3) cultural legacy and (4) desire to get wealthy quickly. Dote’s account translates factors 1 and 3 as pull factors. Dote was invigorated by others’ success and the cultural legacy. She came from Northern Nigeria where people are very enterprising and accustomed to running small businesses, some of which are very successful, for example shops. Before coming to UK, Dote worked in her aunt’s. It was a busy shop that she had been running for over fifteen years. To illustrate cultural legacy as a pull factor, Dote argues that “What I want people to understand mainly, is that for some of us setting up a business is like in our blood. I’m not used to working for someone. In fact, I have never worked for a company except in the family business with my aunt”. When the participant came to the UK, she came in close encounter with two interesting African shops in Peckham (south London), and that gave her confidence that she could draw on the long experience she had doing business in Nigeria. However, this participant’s reason for setting up an enterprise is also intertwined with a critical push factor discussed earlier, the fear or reality of unemployment. Dote explains that “I thought that will save me the headache of looking for a job for too long like some of my countrymen”.

The participants' accounts support Balwin-Edwards's view that "Ethnic entrepreneurship has evolved as a significant survival tactic for economic gain" (quoted by Halkias *et al*., 2009: 4). The findings at this level correlate with widely expressed literature evidence (Lindsay and Macauley, 2004; The Guardian, 2009), which links self-employment with unemployment.

3.2 Types of African small businesses and location

The participants' experiences helped to identify three main sectors of activities of black African small businesses. The main and dominant area in which African small businesses proliferate is the ethnic shop, bar and restaurant sector. This is followed by the technology and motor services which include computer networking, mobile phone accessories and car repairs. The third sector of activities of African small businesses is what we categorised as other services are which includes cleaning services, distribution, money transfer and entertainment. McEvoy & Hafeez (2009) argue that "minority businesses are concentrated in specific economic sectors, particularly the service industry". This statement has taken its full meaning in the research into African small businesses. These areas experienced varying degree of success and failure. Because the participants operated in discrete sectors, they were unable to provide an assessment of the extent of failure or success across sectors. The analysis below is therefore a limited intellectual exercise on the part of the researcher in order to bring together the data from different areas of small business activities. Figure 2 below summarises the main sectors and their relative degree of success or failure.

Main sector of activities of African SMEs	**Description**	**Extent of failure**
Ethnic shops, bars and restaurant sector	Grocery shops, black hairdressing salons, bars and restaurants	Low
Technology and motor services	Mobile phone accessories, computer networking and car repair	High
Other service sector	Domestic and industrial cleaning, distribution, money transfer and car wash	Medium

Fig. 2 Main sectors of Black African SME activities

The failure rate among African small businesses can be assessed as generally high, which is congruent with the literature. In the absence of statistical evidence from this research and in general term lack of statistics available on Black African small businesses this conclusion has been reached from the accounts of the participants. Three key parameters lead to infer the high failure among Black African small businesses: (1) all ten participants knew of at least a failed business, (2) all participants knew and mentioned at least one other business that failed, (3) this conclusion is congruent with general literature on small business failure. The shortest life among the ten businesses was five months (one business) and the longest life was recorded as two years and six months for eight businesses, with the remaining nine surviving less than two years. This finding strongly reflects the SME literature (Holland, 1998).

There were naturally high numbers African small businesses in geographical areas with strong Black African presence. In the case on London where this research was conducted there seems to emerge a clear corridor of African businesses. This geo-ethnic corridor stretches from Lambeth, Lewisham, Southwark and Greenwich in south London to Tower Hamlets and Newham in east London, and Hackney and Haringey in north London. These London boroughs have the highest concentrations of Black Africans in the city according to national statistics (Daley, 1998; Owen, 2001). Figure 3 below indicates the nature and spread of the geographical corridor with a high presence of African businesses in London.

The participants' accounts indicate some pockets of African business presence in other boroughs such as Croydon and Brent. Participants knew people in those areas who had experience of business failure. However, the 10 respondents were found and interviewed in the area represented by the corridor shown in figure 3. The finding is aligned with statistical evidence depicting more Black African settlement and active communities in the said London areas. This supports the claim of a link between place, people and poverty (Garner and Bhattacharyya, 2011).

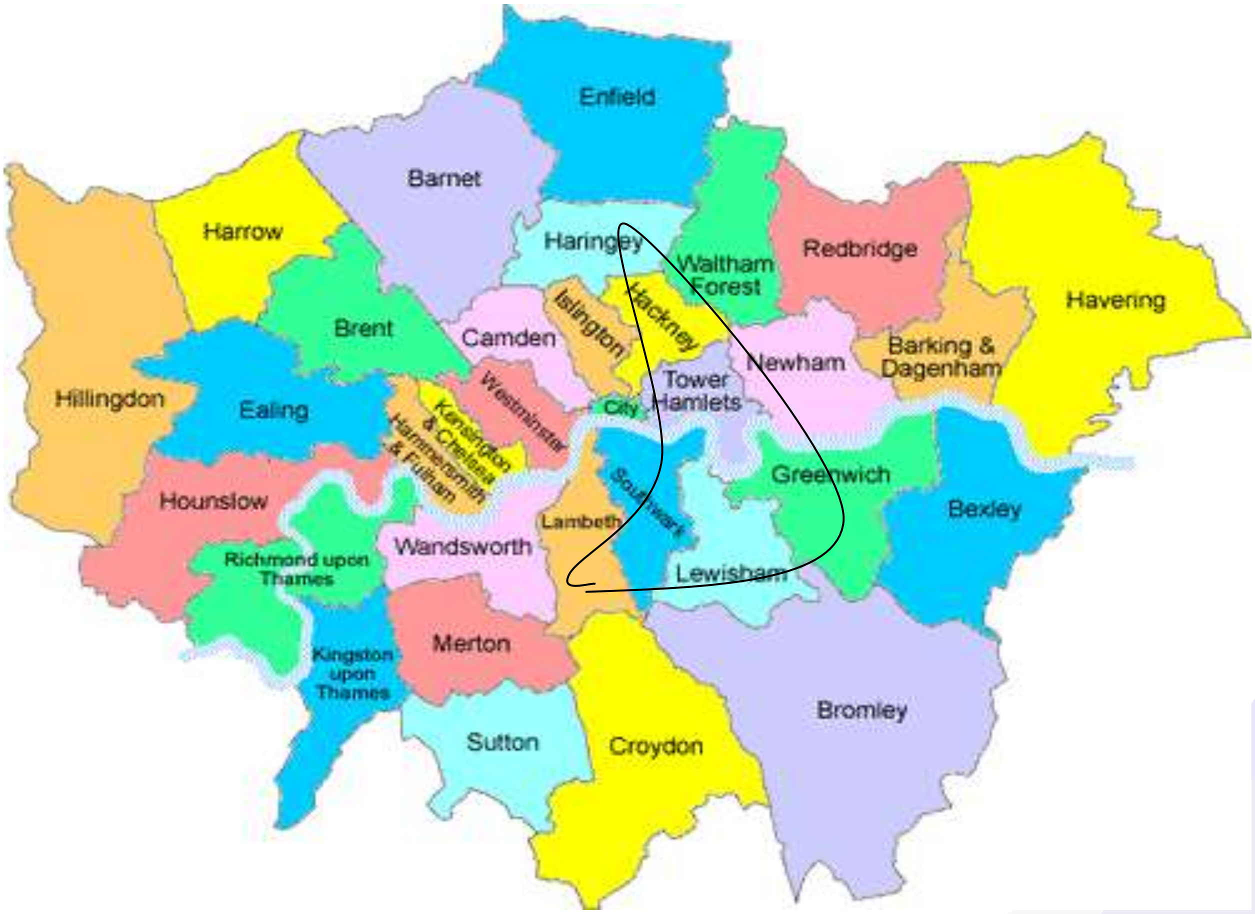

Fig. 3 Geo-ethnic corridor in London with strong Black African small businesses

3.3 Causes of African small business failure

There were two broad categories of reasons the participants gave to explain why they believed failure rate may be particularly high among African small businesses (Whitehead, Purdy and Mascarenhas-Keyes, 2006). These causes can be categorised as exogenous factors (racial bias, lack of finance) and endogenous factors (Particularistic practices, strategic awareness, and diversification issues). Exogenous factors are those that are outside the participants' control while endogenous reasons for failure could be identified as some that the entrepreneurs have reasonable capacity to influence.

3.3.1 Host country attitude

In the eyes of the participants some factors such as host attitude to race and ethnicity earnestly contribute to impair the development of the African enterprise. It was a recurrent theme in many narratives that Black African small businesses suffer disadvantage because of the racial backgrounds of the entrepreneur, which was perceived as reflecting generally the social isolation experienced by some minority groups in the host country. Justine's account of the failure of his computer networking business reflects this feeling of segregation of the African small enterprise. Justine had a computer networking business that collapsed. He claimed that he was hopeful of capturing a good share of the market in Brent, west London. He approached a number of organisations who were interested in his product. However, of the 20 or so companies approached, only four contacted him to offer him work. He argued that the successful contacts were all small black businesses. Justine concluded that "the larger businesses headed by 'white bosses' did not make an offer because they saw my company as a 'black' business".

3.3.2 Credit issues

Credit became very rare to small businesses in general during the recession. However, the participants believe that African small businesses suffered more the effects of the credit crisis as a result of multiple issues. For instance, length of residence, immigration status and generally lack of information in combination or individually affect the degree of access to finance for African entrepreneurs. Linked to the credit problem is the issue of business premises; African small entrepreneurs cannot always afford adequate premises particularly in the London area. Two interesting narratives translate to a large extent many of these concerns. Peter's friends' car wash business is an illustration. Peter and three friends set up a car wash business as a way of filling their time and earning some money following protracted unemployment after graduating. They located a piece of disused land near a railway line. They cleared and put up a 'car wash' banner and started operating, using a hose connected to the flat of one of the business partners. After a timid start, they were soon flooded with customers. Thirteen months later, the rail company that owned the land told them they had no permission to be there and they had to evacuate the place. Despite pleas, the company relentlessly pursued them out of the premises. Peter explained that they did their utmost to secure resource in order to continue but failed. "The group approached a bank for a quick loan so that we could move in nearby premises but we were turned down. We lost our customers and business".

Colette, a research participant, told of her friend Matt's story which similarly reflects the challenge facing African small entrepreneurs in obtaining credit. She narrated that "My friend Matt has a restaurant. It has remained small because he did not get finance to expand. When he wanted a business loan, the bank asked him for a business plan. He said that, overnight he wrote a two-page summary of what he wanted to do. But the bank rejected his application saying that it was not a viable business". Matt was keen to continue because he had a good customer base within the African community. He's still operating but as a very small unit that perpetually struggles for survival

3.3.3 Particularistic practices

The testimonies of the research participants denote that African small businesses do not always run following conventional business models. Practices employed in the management of African SMEs have strong cultural underpinnings that echo deeply seated values often inherited or directly imported from the country of origin. These particularistic values are inherent to the way the African entrepreneurs handled staffing, deal with misconduct in the workplace and grant credit to customers. The stories of Cilia and Mario epitomize many of the endogenous influences in question. Cilia's story of particularism is enlightening. This participant set up a hairdressing salon a few years ago in Peckham, southeast London. Within a few months, the business was thriving. She therefore invited her unemployed sister to work with her so as to cope better with the influx of business. However, the sister started doing her friends' hair free of charge using the material of the business. Despite the growing number of customers, the till was often empty. When confronted Cilia's sister became very upset and left taking some important assets. Due to cultural reason, Cilia could not take any action as she explained: "I could not sue her because you don't want to see your sister in prison; this will be badly perceived in my community. The business collapsed due lack of funds. I'm now looking for a job".

3.3.4 Strategic awareness

An important finding of the research is associated with planning issues among African SMEs. It was generally noted that most of the participants did not have elaborate business plan, both at the start-up and further expansion stages. There was evidence that strategic planning was perceived as less important than immersing themselves in the opportunities. Such an approach exposed the African small enterprise as a business entity that is largely reactive. This perspective is closely tied up to cultural issues whereby some entrepreneurs go in business because it is perceived as a 'normal' activity in their particular ethnic group as opposed to first assessing personal capabilities and actual business opportunities. Often, the small African enterprise springs up quickly on the assumption that the business will succeed. Mario's story of strategic awareness can be used to illustrate this standpoint. Mario set up a delivery business with friends. They enjoyed a good start. Things were very good until Bertin, a business partner, decided that they should sell more alcohol and drinks on credit to some of their countrymen's nightclub. Bertin genuinely believed in the viability of this approach because he thought it was a cultural and moral duty to help his 'brothers' from the same country at the same time as increasing our sales. Mario explained that "Bertin believed the clients would pay back without a problem and we sold over £15000 worth of drink on credit. That was almost all our capital invested. As debtors were not paying, we could not pay our suppliers and had no money to change suppliers. So we ceased trading".

3.3.5 Issues of diversification

A key area of investigation the research explored was related to the nature of the participants' failed business. In other terms, the participants were asked about their range of products. All 10 participants asserted the strong, and sometimes exclusive, focus on culture-specific product. Cilia, the hairdressing salon owner, explained that she did only black women's hair care, which meant that most of her customers were from the black African community. Such a lack of diversity atrophies the business, since there are other people around the community that could be potential customer, should Cilia open up a bit. Despite awareness among the participants that the size of the black African market is small in and often crowded, there was reluctance to other products suited to other ethnicities because of perceived issues of race and of untested business territories. Mario, the delivery business owner, contended that he and his partners where not confident that "White businesses and Indian shops would hire them for delivery because they tend to use their own people". The diversification ties in with other complex causes such as culture and race relations earlier discussed.

In total, the participants exhibited awareness that the exteriority of the reasons for failure cannot be used as justification for the failures of all business ventures within the Black African community. They acknowledged generally that there are variables that were within their accountability. Some of these variables are poor business planning and market analysis, inadequacy of networks, burden of home culture, strategy issues, predominance of culture or race-specific products (issues of diversification). Poor business planning is exemplified in an old adage used by Holland (1998): that is “People don’t plan to fail, they fail to plan” and this holds true for small African businesses.

4 Psychological effects of business failure

The research sought to describe the psychological impact of the failure of business venture on the Black African entrepreneurs. A question was asked that required the participants to explain ‘how they felt as a result of the collapse of the businesses’. Several symptoms of ill-psychological health and wellbeing were described by all participants. Among those symptoms, the most commons were the sense of bitterness, loss of self-esteem, family break downs, stress and depression, burnout. These resulted from the accumulated debt as well as personal sense of failure and shame. Business failure can potentially have far-reaching consequences on the entrepreneur’s current and future life.

Justice’s account of the impact of business failure:

> “The pressure kept building up. There was no money in the bank; so there were more and more arguments between my wife and me. Also there were bitter arguments between our business partners as well as with clients and creditors. It was not bearable. When the business finally died and wound down, there was very little left of myself mentally. I was withdrawn, did not have the strength to go out, to look for a job; I had energy to do nothing. Credit recovery agency letters kept coming in and those increased the stress level. I am fortunate that I am still with my wife but some other people I know, particularly my good friend CB had a family breakdown and lost his flat. It took me two years to recover, mostly with my wife’s help. What people must know is that to start and run a business is financially and mentally draining and can sometimes ruin your life”.

5 Recovery solutions

A critical objective of the research was to get the participants to formulate recommendations of possible solutions that could help would-be entrepreneurs among the African community. These solutions had to come from self-reflection and self-criticism. In other terms the participants were to look at what ‘they would do differently’. Several suggestions were formulated and centred on the need for training of the African entrepreneur, solidarity among new entrepreneurs and between experienced and starters, diversification, community partnership and social responsibility, and intercultural learning.

5.1 Basic training

Many African entrepreneurs were highly qualified academically. However, as Claire, one of the participants pointed out, “to run a small shop does not require an MBA in the first instance”. The majority of the entrepreneurs in the accounts obtained through the data collection lacked basic training in business start-up and essential practical kits. Participants acknowledged that a number of their fellow would rush to do master’s qualifications which did not help in the early period of the business. There were several issues linked to this. The first is that the qualifications were very expensive and consumed much of the money that the business owner would have used as start-up funds. Secondly, the courses focused a lot more on strategy that would be used in big companies and in an employment context. A number of participants later realised that some short and basic courses in colleges on business start-up would have been much more beneficial and practical. Claire recalls her first experience of business failure: "My first business ended in failure, I am now doing one of these courses at the local adult education centre. It's really good and I'd advise any small entrepreneur to start there".

5.2 Intra-group solidarity

A marginal but important theme that emerged from some participants is the lack of support within the African business community itself. There is a perception that those involved in business display strong reluctance to collaborate with new comers and novices. Intra-group solidarity which is perceived as a significant success factor in other competing communities such as Indian or Jewish is neither visible nor contemplated in the African community of business people. Mario believes that "Between Africans (entrepreneurs), there is no solidarity. Everyone does their own things and don't care about others". Grace advocates intra-group solidary when she argues: "If we could help each other more to settle in this country and set up businesses that will work. But presently those who are doing well don't even want to help or talk to those who are starting. If this could change, I'm sure we'll do better". Clearly, intra-ethnic networks seem to bear some importance in people's opinion but there are issues around how these could be more effectively exploited.

5.3 Diversification

One of the perceived causes of the failure of African small businesses is the ethnocentrism surrounding their operations and strategy. It was accepted by the participants they products were often exclusively culture and ethnic-specific. However, in Ugbe's experience his "business came back from the 'dead' due to embracing different products and business opportunities which became the essential survival and recovery kit for me". Introducing common products such as sweets, popular fizzy drinks, crisps and snacks, ensured that local kids of all backgrounds, not only black kids, could come to the shop. As the diverse customers came, some were attracted to 'exotic' African goods and asked what they were. Some people wanted to try them and bought them for curiosity. Some morning passer-by popped in for drinks and travel cards. Ugbe added that "Occasional photocopying is not great business but it does attract customers". It therefore appears that diversification represents a critical ingredient on the road to recovery for some ailing African small businesses.

5.4 Community partnerships and social responsibility

Ugbe's explained that "Frankly, we were dying. We could no longer wait for the customers to discover our existence". This participant felt that more vigorous action was required to get the community to acknowledge the existence of his business. Creating opportunities for partnering with the local community emerged on the mind of the entrepreneur. Ugbe continued and explained that "I heard some customer say that they did not know what to do with their Tesco supermarket vouchers for schools". He decided that his business could become a collection point for two local schools. The business owner put up a notice on the premises inviting parents to drop vouchers if they did not know what to do with them. Shoppers without children were also encouraged to collect supermarket school vouchers and drop at the shop. The shop made links with two schools and let them have thousands of vouchers for school equipment. Ugbe concluded that "The next thing I saw was the name of my business in the 'thank you' section of the schools' newspaper and head teachers praising my business's involvement in school life. I can assure you that it was great for the sale of sweets". Involvement in social and community action has emerged as survival tactics. However many African small business operated outside this novel business strategy.

5.5 Inter-cultural learning

Business is situated in the context of competition. As argued at the start of the paper, Black Africans face cultural completion and the SMEs leaders had awareness of the competition. The desire to do better, compared to other juxtaposing groups led some participants to suggest that, perhaps, intercultural learning could be an avenue to explore. Kwaku's, a participant with experiences of two failed businesses, believes that Africans ought to learn from the Indian and Chinese businesses and emulate them. "In every corner you find a successful Indian shop; many Chinese restaurants and small businesses are also enduring", the participant argued. It is important to learn about the mechanisms that make those cultures successful in business here in the UK. There must be some cultural things that we can be learnt and integrated to African business ventures. The Africans being relatively newcomers in contrast with some established communities such as the Asians, is not perceived as a sufficient justification for the failure of small businesses. It was accepted by at least half of the participants that if African businesses could penetrate the world of successful entrepreneurs from other cultures, they can succeed on a similar scale.

6 Discussion and Conclusion

Ethnic minorities, in the eyes of the participants, have experienced genuine disadvantages, which is also well-documented in the literature (Garner and Bhattacharyya, 2011). The road to recovery is a long way away since the underperformance of black businesses as a result of intricate factors stems from deeply rooted real or perceived historical prejudice and disadvantage (Maki, 2004). These could be explained from compound angles and contexts, e.g. race, ethnicity, and a colonial legacy that undermine the very validity of African creativity. However, African small entrepreneurs feel that the struggle for business success is a battle to be thought and ultimately won since it is a *sine qua non* prerequisite for asserting their membership within the national identity and contribution to wealth creation. The voices of the participants in this research demonstrate that there is a certain consciousness of the gargantuan task since slavery and the colonial legacy that disempower the dominated remain active.

In envisaging better prospects, would-be business people among African communities seem to perceive only too well the task as involving dramatic psychological and cultural transformations that only they, with will, can arrive at. These transformations are summarised in the participants' views at four levels:

(1) Changes in the particularistic approach to business ventures. As well as the counter-accusation of systematic exclusion from business opportunities, African entrepreneurs showed awareness of the need to be inclusive themselves.

(2) Diversification as an axiomatic strategy. This stems from the first suggestion that African entrepreneurs ought to seek inclusiveness. A reality in the participants' eyes is that African small enterprises are often locked into restricted products and space catering for a very small African market.

(3) Necessary engagement with social responsibility. The participants accepted that often African small businesses have set themselves at the margin of this new approach to business, which seeks connections through social action. Being charitable can help recovery.

(4) Realistic personal development and growth strategy. The participants saw room for improvement in terms of preparing themselves to embrace and manage business. Through self-assessment, they perceived the need to start from the basics, i.e. basic business education and professional advice.

From a business perspective, as one of the informants put, there is awareness that "there aren't only blacks out there". This entails that otherness has to be accounted for in small business strategy. For every person of a different cultural heritage that comes through the doors of a small business is a potential significant customer with the potential to nourish the desire for discovery and may give their custom for the 'peculiar' product; such a customer may be an ambassador with an invitation for others to visit. Openness brings about business growth and growth is situated in the context of the success that black small businesses long for.

At the same time as self-questioning, the African small business community extends an invitation to the community of listeners to visualise some concerns long silently felt in their midst. For example the traditional SME management brochures and more substantial publications do not capture the African experiences of enterprise development. These are seen as marginal and insignificant in economic weight. However, the perspective of the participants and this paper is that the value of business cannot always be monetised and the cultural value needs ascertaining. The ability of business success to rehabilitate social groups must equally be underscored. When small entrepreneurs feel valued, successful and enthusiastic, such positives are contagious; they are likely to raise the confidence level, aspirations among traditionally disadvantaged groups, thus helping to cure some social ills that have long been decried but not remedied. The construction of the nation, particularly in a global context, entails that opportunities are provided to all to unleash their creative energies. Such perspectives enable social groups to collectively make valuable contributions by serving both 'selves' and the national collectivity. In this context, as The Work Foundation (2009) contends, skills are the key determinant of how well local areas have performed in the recession: the lower the skills profile of an area, the worse it has been affected by the recession. To achieve effectiveness in this area dual action is required (Hack-Polay, 2008): community pro-activeness in self-appraisal and government action to ensure availability of resources that will create skills enabling greater participation of the African community in business. This is what Kitching *et al.* (2011) recognize when they argue that "small business adaptation and performance are contingent upon SME agents (owners, managers, employees) and other stakeholders".

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