PARATRANSIT OPERATIONS AND INSTITUTIONS IN NAIROBI A CONCEPT PAPER ON PARATRANSIT STRATEGY

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ABSTRACT

The paper outlines the literature review of strategy as an analytical concept. This starts with explaining business policy as the root of strategy as an analytical concept. It then shows the move to industrial organisation viewpoint which places emphasis on external or market view of strategy formulation. Such emphasis in effect treats the firm as an abstract economic entity and often as a black box, not as a social institution with an economic purpose. An alternative approach, suggesting that business strategy should focus on internal resources as the main driver, is proposed. The resource based perspective is used as a basis on which paratransit strategy is formulated to deal with the various institutions both within and outside their operating environment to gain competitive advantage.

In conclusions, the research identified four criteria that the resources should satisfy to be homogenous and therefore provide competitive advantage to the paratransit operators. The dynamic capability, the operators' distinctive competence in utilising such resources was also identified.

1 INTRODUCTION

In an era of deregulation and privatisation, paratransit has become the main form of public transport in many African cities. The public transport system is basically provided by the private operators. The aim of this study is to review and integrate the theoretical bases on formulating paratransit strategy, and to present a conceptual framework which provides a more complete explanation of paratransit strategy.

Strategy as a concept forms the cornerstone of strategic management as a subject. Being derived from business policy as an applied area, meant that it was initially internally based. It then moved to the generally outward looking industrial economic framework as a

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concept basing its main arguments on structure-conduct-performance. Then it moved back again to the inward looking resource-based-view of the firm. It is this resource-based-view that is used as an analytical concept to understand the strategies of paratranasit operators.

Main conclusions drawn is that for the bundle of resources to be strategically valuable, they must be homogenous by fulfilling four criteria of being rare, valuable, hard to imitate and difficult to substitute. The criterions are attained through dynamic capability which represents making better usage of the internal resources to gain competitive advantage.

The first part of the paper looks at the development of strategy as an analytical concept. The second part looks at the implications of resource based view to paratransit operators. The last part gives the conclusions and recommendations for the next stage of the study.

2 DEVELOPMENT OF STRATEGY AS A CONCEPT

2.1 Early theory

Strategy as a concept has its roots on business policy. Learned et al., 1965/1969 considered business policy as "the study of the functions and responsibilities of general management and the problems which affect the character and success of the total enterprise" from the viewpoint "of the chief executive or general manager, whose primary responsibility is the enterprise as a whole" (1965/1969: 3) According to Hoskisson *et al*. (1999), owing to its roots as a more applied area, strategy as a business concept has traditionally focused on issues that affect firm performance.

The early theories on strategy defined it as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals," while structure is "the design of organisation through which the enterprise is administered" Chandler (1962: 13–14). Hoskisson *et al* (1999) contend that implied in this definition are the fact that changes in strategy are mainly responses to opportunities or needs created by changes in the external environment, such as technological innovation. As a consequence of change in strategy, complementary new structures are also devised. Learned *et al.* (1969) also based their views on business policy and defined strategy as "the pattern of objectives, purposes, or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in, or is to be in and the kind of company it is or is to be" (1969: 15).

These two definitions help define a number of critical concepts and propositions in strategy, including how strategy affects performance, the importance of both external opportunities and internal capabilities, the notion that structure follows strategy, the practical distinction between formulation and implementation, and the active role of managers in strategic management. However, from this early emphasis on what Hoskisson *et al*. (1999), termed internal firm characteristics which were predominantly concerned with identifying firms' "best practices" that contribute to firm success, the attention of strategy as a concept shifted externally toward industry structure and competitive position in the industry.

2.2 Industrial Organisation

The industrial organisation viewpoint in strategy formulation has its origin in Bain (1968) work. He stated that industrial organisation or economics in general was concerned with "the economy-wide complex of business enterprises . . . in their function as suppliers, sellers, or buyers, of goods and services of every sort produced by enterprises" and "the environmental settings within which enterprises operate and in how they behave in these settings as producers, sellers, and buyers." He further suggested that his approach was basically "external", and "the primary unit of analysis was the industry or competing groups of firms, rather than either the individual firm or the economy-wide aggregate of enterprises (1968: vii). This led to employing Structure-conduct-performance framework (S-C-P) from industrial economics logic to strategy formulation. Hoskisson *et al*. (1999) concluded that the adoption of the S-C-P paradigm in strategic management naturally shifted the research focus from the firm to market structure.

The central tenet of this S-C-P paradigm, as summarized by Porter (1981), is that a firm's performance is primarily a function of the industry environment in which it competes; and because structure determines conduct, which in turn determines performance, conduct can be ignored and performance can, therefore, be explained by structure. The Industrial Organisation viewpoint places primary emphasis on the external analysis of global competition, as best exemplified by Porter's (1980) "five-force" framework of industry analysis. The five forces model suggests that an industry's profitability is a function of interaction among five forces: suppliers, buyers, competitive rivalry among firms currently in the industry, product substitutes and potential entrants to the industry. The collective effects of the five forces determine the ability of firms in an industry to make profits. To Porter (1980, 1985), the five forces embody the rules of competition that determine industry attractiveness, and help determine a competitive strategy to "cope with and, ideally, to change those rules in the firm's favor" (1985: 4). A firm's performance is dictated by market imperatives, and competitive advantage is derived from implementing a strategy which corresponds to those market imperatives. This is subject to certain assumptions.

According to Seth and Thomas (1994), the industrial organisation model has four underlying assumptions, first, the external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average earnings. Second, most firms competing within a particular industry or within certain segments of it are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources. Third, resources used to implement strategies are highly mobile across firms. Because of resource mobility, any differences that might develop between firms will be short-lived. Four, organisational decision makers are assumed to be rational and committed to acting in the firms best interests, as shown by their profit-maximizing behaviour. Since firms in the same industry face similar external environment, and can access similar resources, the maximisation of profits therefore depends on the industry that a firm chooses to operate in. According to Foss and Ishikawa (2006), implicit in such assumptions is treatment of firms as production function, a black box which transforms inputs (land, labour and capital) into output (consumer goods) instantaneously.

While the Industrial Organisation approach has enriched our understanding of the external market/industry forces which determines business performance, it generally has neglected a business's idiosyncratic internal characteristics (Bartlett and Ghoshal, 1991). This oversight is not trivial as it has been demonstrated repeatedly that businesses competing with a similar strategy in the same industry (thus facing identical external forces) can have different performance outcomes, whereas firms competing with different strategies in the same industry can survive and prosper (for example, Bartlett and Ghoshal, 1988; Collis 1991; Hamel and Prahalad, 1985). It appears that business performance is not solely determined by external strategy and that internal organisational characteristics also play an important role. As a result, domination by the Industrial Organisation perspective can lead to incomplete explanation of competitive strategy and performance. Also the black box view of the firm completely ignores other resources outside the traditional inputs of land, labour and capital.

2.3 Resource Based Theory

Resource based theory basically looks at the firm internally. Grant (1991) states that the resource based view perceives the firm as a unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize value through the optimal development of existing resources and capabilities while developing the firm's resource base for the future. Scholars historically have used 'resources' as a general term to refer to inputs into organisational processes, but within resource based theory, 'strategic resources' are the focus (Amit and Schoemaker, 1993; Barney, 1991).

Penrose (1959) was one of the first scholars to recognize the importance of resources to a firm's competitive position. She began by arguing that a firm consists of 'a collection of productive resources' (Penrose, 1959: 24) and continued by suggesting that these resources may only contribute to a firm's competitive position to the extent that they are exploited in such a manner that their potentially valuable services are made available to the firm. She defined resources as "the physical things a firm buys, leases, or produces for its own use, and the people hired on terms that make them effectively part of the firm" (1959: 67). Penrose argued that it is the heterogeneity, not the homogeneity, of the productive services available or potentially available from its resources that give each firm its unique character.

Resource-based logic began to gain traction in the strategy field when Wernerfelt (1984) similarly asserted that firms can be viewed as collections of resources, and suggested that resources enable effective product market strategies. He argued that 'for the firm, resources and products are two sides of the same coin' (Wernerfelt, 1984: 171). However, it is not only the possession of resources, but their use and the resulting returns as indicated by performance that is important. This was later emphasized by Newbert (2007) who concluded that, while a firm's performance is driven directly by its products; it is indirectly (and ultimately) driven by the resources that go into their production. This point had earlier clarified by Wernerfelt (1984) who proposed that firms may earn above normal returns by identifying and acquiring resources that are critical to the development of demanded products.

Resource based theory assumes that resources are heterogeneously distributed among organisations. Resource heterogeneity is a condition wherein organisations possess different bundles of resources (Peteraf, 1993). Because of resource heterogeneity, some organisations possess more strategic resources than others. Barney (1986, 1991) and others (Amit and Schoemaker, 1993; Collis and Montgomery, 1995; Peteraf, 1993) later developed specific criteria for 'strategic' resources that allow firms to cultivate strategies that help generate competitive advantages. Four criteria were proposed to assess the economic implications of the resources: value, rareness, inimitability, and substitutability. Value refers to the extent to which the firm's combination of resources fits with the external environment so that the firm is able to exploit opportunities and/or neutralize threats in the competitive environment. Rareness refers to the physical or perceived physical rareness of the resources in the factor markets. Inimitability is the continuation of imperfect factor markets via information asymmetry such that resources cannot be obtained or recreated by other firms without a cost disadvantage. Finally, the framework also considers whether the organisations are substitutable by competitors. Imperfect substitutability implies that other resources are not available to craft and implement strategies as effectively or efficiently (Barney, 1991).

The theory addresses the central issue of how superior performance can be attained relative to other firms in the same market and posits that superior performance results from acquiring and exploiting unique resources of the firm.

Figure 1 below is based on the Resource-Based Approach to Strategy Analysis, which treats resources as fundamental to the development of strategy. According to Grant (1991) firms first identify and classify the firm's resources. They appraise strengths and weaknesses relative to competitors, in order to identify opportunities for better utilisation of existing resources. The next step is to identify the limits of the firm's capabilities. This involves assessing what the firm can do more effectively than its rivals and relating each capability to the available resources. The third step is to appraise the rent-generating potential of resources in terms first, of their potential for sustainable competitive advantage, and second, the possibility of appropriating their returns. The fourth step is to select a strategy which best exploits the firm's resources and capabilities relative to external opportunities. The process is not linear, but cyclical. Even as a strategy is developed and tried, the process continues as the firm identifies resource gaps that, if filled, might result in new capabilities, new competitive advantage, and adoption of a higher level strategy (Winter 2003).

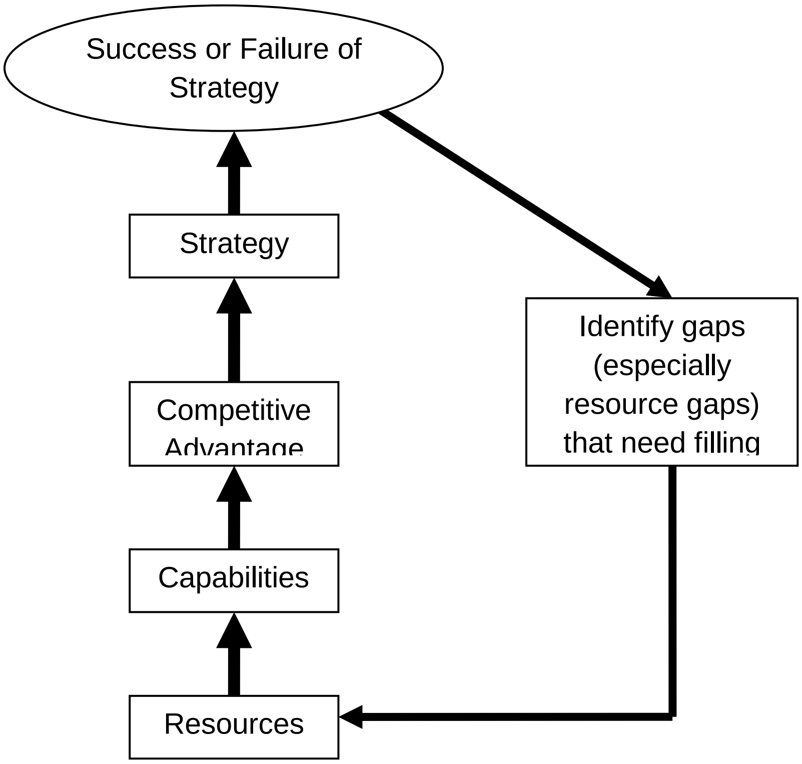

Fig. 1: Resource-Based Approach to Strategy Analysis *Source:* Adapted from Grant, 1991

However, this original view of resource based theory was later criticized to be static in nature. It failed to take into account the dynamic interrelationships among the resources. Johnson and Scholes (2004) contend that strategy should achieve advantages for the organisation through its configuration of resources within a challenging environment to meet the needs of the markets and to fulfill stakeholders' expectations. The emphasis here is on the usage of the resources. This view was pioneered by Mahoney and Pandain who stated that 'a firm may achieve rents not because it has better resources, but rather the firm's distinctive competence involves making better use of its resources' (Mahoney and Pandain, 1992: 365). Later, Teece *et al*. proposed the dynamic capabilities framework 'to explain how combinations of competences and resources can be developed, deployed, and protected' (Teece *et al*., 1997: 510). They defined a dynamic capability as 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environment (Teece *et al*., 1997: 516).

Newbert (2007) systematic assessment of studies which empirically support resource based view suggest that firms that make the best use of their resources are those that allocate them in such a way that their productivity and/or financial yield are maximized. In addition to possessing the resources, firms seeking a competitive advantage must also demonstrate the ability to alter them in such a way that their full potential is realized. This entails the strategy formulation in most cases to be divided into three levels corporate, business and functional.

The collective day-to-day decisions made and actions taken by employees responsible for value activities create functional strategies. Harrison and John (2010) state that functional strategy contains the details of how the functional areas such as marketing, operations, finance and research and development should work together to achieve the business level strategy. The competitive advantage and distinctive competences that are sought by the firms are often embedded in the skills, resources, and capabilities at the functional level. Functional strategies are the plans for matching those skills, resources and capabilities at the functional level.

3. IMPLICATIONS OF RESOURCE BASED THEORY TO PARATRANSIT OPERATORS

Industry structure which is taken to be the sole determinant of competitive strategy in industrial organisation approach is considered not to be appropriate concept for analysing paratransit competitive strategy and performance. Instead, resource based view is seen as the most promising way to address the varied nature of paratransit strategy and performance. While numerous internal resources may influence a business's paratransit strategy and performance, the key resources are those which are rare, hard to imitate, difficult to substitute and more valuable within the business unit than outside. Added to these four criteria on the type of resources is the firms' dynamic capability which determines the usage of these resources. Such conditions results in homogeneity of the resources to the specific operators. The resources to be taken into consideration are the tangible and intangible ones.

The decision to invest on tangible resources such as level of investment and the type of vehicle used may be made once in a while and in all cases, on starting the business. The strategies used to acquire such resources are what Newbert (2007) refers to as business level strategies. Such strategies consider customers' needs and preferences and in some instances, react to competitors strategic moves. The strategies for acquisition and use of these tangible resources may fall under what Harrison and John (2010) refer to as functional strategies.

The collective day-to-day decisions made and actions taken by employees responsible for value activities create functional strategies. The values which are created by these functional strategies form the core of the intangible assets. The functional strategy contains the details of how the functional areas such as operations, marketing, customer relations, finance and business linkages and networking should work together to achieve the business level strategy. Where the operations includes issues such as adherence to routes, trips and scheduling, vehicle maintenance and repair, insurance, labour recruitment, training and management and regulatory compliance.

3.1 Relationship between institutions and firm resources and strategies

Planners and regulators tend to treat the paratransit operators as a homogenous group giving homogeneous services. The individual character of each business is often ignored, and they are treated as undifferentiated "black boxes" offering a uniform service to a uniform population. The planners and regulators form the institutional perspective of the operating environment that the paratransit operators have to deal with. According to the institutional perspective, environment is an embodiment of rules and requirements to which individual organisations must conform if they are to receive legitimacy.

The "black box" treatment basically ignores the fact that paratransit operators are private business owners who as public transport providers must adopt some strategies. The strategies the paratransit operators adopt depends on the internal resources that they have and the external resources they can access using these internal resources. It is important to have some insight in the relationship between the resources that the operators within the matatu industry have and can access and the strategy they adopt to understand the industry behaviour, including their compliance and non compliance with regulations.

The firm's resources are not static, they evolve by usage. To attain competitive advantage, the paratransit operators must be able to alter the resources in such a way that their full potential is realized. The paratransit operators should continuously appraise strengths and weaknesses relative to competitors, in order to identify opportunities for better utilisation of existing resources. As such appraisal is done, there is need to select a strategy which best exploits the firm's resources and capabilities relative to external opportunities and this often leads to continuously changing strategies.

4 CONCLUSIONS AND RECOMENDATIONS

The conceptual framework presented in this study has used resource based view as the basis of paratransit strategy. Important as the external institutional environment is, the resource based theory suggests that internal factors, including resources are equally important. It is important to have some knowledge of the strategies they adopt to understand the industry behaviour, including their compliance and non compliance with the regulations.

For the resource to be of useful to the operators, they must be homogenous. Homogeneity is attained by fulfilling four criteria of being rare, valuable, hard to imitate and difficult to substitute. These criteria are attained through dynamic capability which represents the usage and therefore value creation of the bundle of resources in a firm.

The resource based view was used in a scoping study to get 'bird's eye view' of the paratransit strategy from the external point. The next phase of the research will investigate paratransit strategies from their point of view, their attitudes toward regulation, and the linkages between their strategies and their attitudes. In this way, we hope to gain a more complete understanding of the matatu sector that will enable us to make useful recommendations for the improvement of Nairobi's transport system.

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