

PARATRANSIT BUSINESS STRATEGIES A BIRD'S EYE VIEW OF MATATUS IN NAIROBI

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ABSTRACT

Matatus, as Nairobi's paratransit vehicles are called, are businesses offering a service to the public for a price that their owners hope will yield a profit. This paper investigates the nature and variety of matatu business strategies and their relationship not only to government's stated aim of improving the urban public transport sector but also to the sometimes competing institutions of the public transport industry and the wider society. Drawing on interviews of informed observers of matatu businesses, the paper found that matatus are businesses that vary in structure and modes of operation. Their strategic behaviour covered multiple aspects of their businesses. The research suggests that Nairobi's public transport businesses form a continuum extending from the 'typical' individually owned 14-seat van or mini-bus through larger, more organised firms. One emerging trend appears to be the movement towards higher levels of organisation through franchising, networking, and ownership of multiple vehicles. The paper concludes that matatu businesses render a necessary service to Nairobi's travelling public, but this service is of low quality and generates considerable negative externalities, partly because of erratic enforcement of regulations and endemic corruption. The paper's conclusions will be tested against data to be gathered from the business owners themselves in the second phase of the research.

1 INTRODUCTION

Paratransit is the main form of public transport in many African cities. The vehicles go by various names, for example 'matatus' in Nairobi, 'dala dala' in Dar es Salaam, and taxis in Cape Town. In developed countries, paratransit is, as its name suggests, a mode of transport that operates parallel to an organised, usually large-scale government-run or government-subsidised transport system. In Africa, for a variety of reasons, the parallel system has become the only public transport system available. It is therefore crucial to understand how it operates.

The matatu mode of transport provides most of Nairobi's public transport services (Aligula et al. 2005). The matatus are owned by individuals and private companies, and so form part of Nairobi's private sector. An important characteristic of Nairobi's paratransit is its almost total lack of adherence to traffic rules, prescribed routes, and regulatory

requirements. The resulting chaotic behaviour has long been referred to as 'matatu madness' (see East African Standard, 1998; Daily Nation, 1999). Yet despite what appears to be similar behaviour, matatu businesses differ from each other in important ways. Some of these differences are readily observable. Equipment ranges from shabby vans and buses that have long been battered by encounters with other vehicles, to brightly painted minibuses equipped with hostesses and built-in DVD players. Many have music systems, but the volume and the type of music played vary from one to another. Middle-income youth on their way to schools and colleges form the bulk of the passengers for some, while others carry mainly older commuters and shoppers. Differences in the propensity to break speed limits, vary fares, deviate from approved routes, harass passengers, and/or obstruct traffic are also easy to see.

Less observable are differences in owner characteristics, age and history of the business, forms of internal organisation, linkages with other actors, amount and type of financing, type of vehicle ownership, route assignment, and the number and types of external linkages that businesses form with other actors within and outside their own sector of operation. Theories of institutions and firms' strategic behaviour suggest that these and other differences may not simply be 'matatu madness' but in fact part of market and business development strategies of matatu firms.

The project's overall research question is, therefore: To what extent do firms with different strategies respond differently to actual or proposed regulations, and what are the implications of these differences for government's ability to implement change? The questions driving this paper were, however, somewhat more limited because the paper sought to provide a basic understanding of the main elements of paratransit business strategies in Nairobi as preparation for the more detailed firm-level study to be conducted in 2011-12. The research covers public transport operating in Nairobi City.¹ Matatus are its subjects and its sources of data are informed observers of the matatu sector. The paper aims to provide a basic understanding of the institutional context and the main elements of paratransit business strategies in Nairobi as preparation for a more detailed firm-level study to be conducted in 2011-12.

The paper is organised into five parts. The following section puts the study into a theoretical context and briefly examines empirical findings on urban transport strategies. Part 3 describes the study methodology. Part 4 presents the findings, and Part 5 offers a summary and conclusions.

2 BUSINESS STRATEGIES OF URBAN TRANSPORT FIRMS

2.1 Business Strategies

Understanding a business strategy requires a clear notion of what a business is. This is particularly important in the case of urban public transport, because the experience of industrialised countries is that transport operators are usually public, rather than private, entities. A business is simply a private firm that aims to make a profit.² There is no

¹ The study is part of a larger project funded by the Volvo Research and Educational Foundation (VREF) that covers various aspects of public transport in Nairobi, Dar es Salaam, and Cape Town. The researchers are grateful to VREF for financial support and to the African Centre of Excellence for Studies in Public and Non-motorised Transport (ACET) based at the School of Engineering, University of Cape Town, for the encouragement and administrative assistance that made this work possible.

² We take the classic definition of a firm as 'the system of relationships which comes into existence when the direction of resources is dependent upon an entrepreneur' (Coase, 1937).

universal definition of business strategy (Kelly and Kouzmin, 2009). We adopt a basic definition that can fit large and small firms: A strategy is a plan of action that is intended to move a firm toward the achievement of its shorter-term goals and, ultimately, toward the achievement of its fundamental purposes (Harrison and St. John 2008).

Strategy aims to achieve advantages for the organisation by using available resources to meet the needs of the market and fulfil stakeholders' expectations (Johnson and Scholes 2004). Business level strategy defines an organisation's approach to growth and competition in its chosen business segments (Harrison and St. John, 2010). Business strategies are also sometimes referred to as competitive advantage. The strategies describe how businesses compete in areas they have selected. The strategies may vary widely from business to business because they are shaped by competitive forces as well as the resources possessed by each of the unit of the firm. If an organisation is only involved in one area of business, then business strategy decisions tend to be made by the same people. Such strategies are implemented through day-to-day decisions made at the operating level of a firm (Hrebiniak and Joyce, 1984). The business strategies however, depend on the functions the firm is undertaking.

Business strategies are also shaped by forces external to the firm. The international literature on national business systems has shown how business organisation and behaviour varies from one country to another (Whitley 1992, 2008). Part of this variation can be observed in the type of strategies adopted by businesses in different places. Most of the work on business systems has emanated from industrialised countries and emerging economies in Asia and Eastern Europe, but there is a small, but growing literature on African business systems that points to similar differentiation in African economies (Pedersen and McCormick 1999, McCormick and Kimuyu 2007).

The collective day-to-day decisions made and actions taken by employees responsible for value activities create functional strategies. Harrison and St. 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.

2.2 Strategy as a Framework for Analysis

Functional strategies touch on the details of what will be done in each area of the business. In large businesses, such functional strategies are developed and implemented in functional departments. In smaller firms, the entrepreneur will be the main architect of strategy. In such small firms, neither the overall nor the functional strategies are necessarily written down. Whether written or not, the elements of a strategy can be identified and used as a framework for understanding the variations among firms.

3 METHODOLOGY

The study on which this paper is based was a scoping study that aimed at identifying the main features of strategy development and implementation among Nairobi's paratransit operators as seen by knowledgeable observers. Its purpose was to provide background information for a further study that will gather information directly from the matatu business operators.

Primary and secondary sources of data were used. Secondary data consisted of published and unpublished reports and papers, as well as journal articles and other published materials. Literature on strategic planning provided a preliminary list of the elements of a business strategy.

Primary data was gathered through eighteen interviews of purposively selected key informants and feedback during a stakeholders' workshop. Individual interviewees were chosen on the basis of their institutional affiliation. The institutions covered were Government ministries (3), other Government bodies (4), large-scale bus operators (6), insurance company (1), banks (2), and donor agencies (2). All interviewees were invited to participate in the stakeholders' workshop, together with others who had not been interviewed, but whom researchers thought could contribute to the discussion.

Researchers asked key informants for their impressions of the basic operating strategies of the matatu business and in what ways these strategies differ from one operator to another. Additional questions, which were tailored to each informant's area of operation *vis a vis* the matatu industry, were also asked.

Data analysis was qualitative and thematic. The process involved reading and rereading interview notes and the rapporteurs' report of the stakeholder's workshop to identify the emerging strategic elements. These were then sorted and compared with elements identified in the literature. The resulting draft list was discussed and refined in research team meetings.

4 FINDINGS

The research findings fall into two main categories: Findings concerning the general organisation of the industry and/or industry segments, and findings concerning the business strategies of matatu firms.

4.1 Matatu industry organisation

The term 'organisation' is used its basic dictionary sense of having an orderly structure or being systematised (Concise Oxford Dictionary 1990). It can refer to both the levels and degrees of organisation of individual firms and of the matatu industry as a whole.

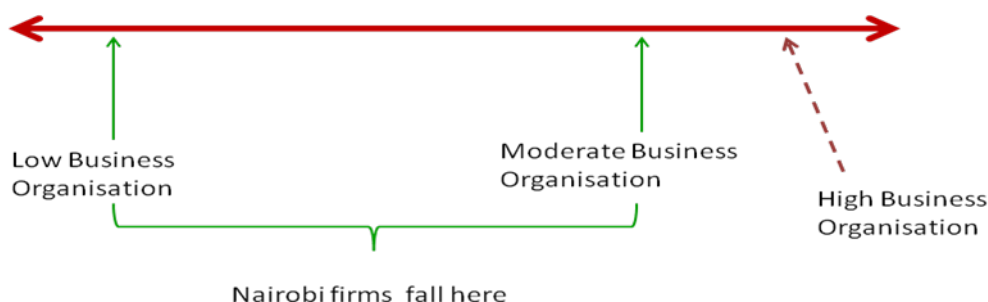


Figure 1: Continuum of public transport business organisation

Analysis of the responses to questions about the strategies of matatu business yielded an overall picture of an industry made up of firms that vary considerably in their levels of organisation. At this early stage of the research, it was possible to identify at least three important points along what is expected to be a continuum of organisation (see Figure 1).

The nature of the structure or system will be investigated in detail in the second phase of this research. In the present phase, we report general perceptions of the degree of

organisation, ranging from very low to moderate levels of organisation, and for the 'typical matatu' our early findings on strategy. Based on our key informant interviews, we identified three main groupings. At the low end of the business organisation scale was the typical matatu, next came the first group in the moderate organisation range: the management companies. Finally, more organised, but still in the moderate range, were Nairobi's larger transport business with multiple vehicles. No Nairobi operators were considered to be highly organised.

4.1.1 *Low business organisation: The typical matatu*

The 'typical' matatu is a 14-seater van owned by an individual who is involved in the transport business as a sole owner/driver or as side venture to employment or other types of business. The vans are bought second-hand in Kenya or directly from Japan, and represent an investment of just over Kshs 1 million.³ In the 'typical' category also -- mainly because they are very common on some routes -- are the larger mini-buses that are usually bought new from Kenyan assemblers, mainly General Motors Kenya. The latest of these to enter the market has 37 seats and carries a price tag of Kshs 3.8 million (Daily Nation, 16 June 2010). Our observations suggest that older large buses are being recycled into use as matatus on some routes, while in some cases the mini buses are converted Lorries. Installing an entertainment system can considerably increase the investment in any type of matatu.

The fare strategy is designed to maximise profits (KI1, KI2)⁴. The common use of a 'target system', however, means that the vehicle owner receives a fixed daily amount while increases or decreases in revenues mostly affect the crew (KI1). The crew is responsible to pay for fuel and other daily expenses except repairs and maintenance from this amount. The target system allows the crew to keep anything above the agreed amount, thus increasing their incentive to do whatever is necessary to maximise their revenues (KI2, KI3). The fare itself is usually a flat zoned fare, which is increased in peak periods, and doubled or more when it rains or the vehicle is caught in heavy traffic jams. The owner's goal of maximising profits is, however, not always realised because the crew actually controls the amount of fares received (KI3).

The typical matatu is poorly managed. Its daily operations are in the hands of the crew with little or no supervision from the owner. Owners lack management skills and the crew lacks basic training. Most of the owners have no real knowledge of the transport sector (KI1). There is little banking or record keeping (KI2).

Vehicles shun timetables in order to travel with a full load. Cutthroat competition results in vehicles over-speeding, picking and dropping passengers anywhere along the route, and deviating from prescribed routes in order to avoid obstacles or traffic jams (KI1, KI5, KI2, and SI). Owners condone over-speeding, in some cases authorising the removal of speed governors (KI1). Profit rather than service is the main concern (KI1, KI3). The typical matatu hires unqualified crew, over which the owner has little control. Respondents say most are dropouts from secondary school (KI1, KI2, and SW).

Many vehicles are uninsured (KI2). Those with insurance mostly have only third-party cover (KI13). This leaves owners vulnerable to damage caused by accidents and, in some cases, penalties for failing to comply with regulations requiring at least third-party cover.

³ At the time of the research the exchange rate was approximately Kshs 78 to the US dollar.

⁴ The references to key informant interviews (KI nn) and the stakeholder workshop (SW) are included to provide the reader with a sense of the sources of the findings.

The typical matatu's frequent accidents are blamed on the carelessness of the drivers (KI1). Vehicles are constantly on the road, because owners are reluctant to rest them. One industry player observed that it is not possible to employ crew on contracts providing for time off because when a vehicle is off the road there is no income to pay the crew (SW). Maintenance costs for the vehicles are high and a vehicle's useful life is fairly short.

Crew members display unruly behaviour and a 'don't care' attitude towards both passengers and the vehicle itself (KI2, KI13). Customer relations are poor. Drivers and conductors rarely see passengers as 'customers'. Although conductors show and/or call out the number and destination to attract passengers into the matatu, once passengers board the vehicle they may be harassed or treated badly. Some 14-seaters have music systems, but the choice of music and control of its volume is at the discretion of the crew. Passengers' occasional complaints are usually disregarded. Many minibuses have more elaborate entertainment systems in an effort to attract the youth market on some routes

The typical matatu operates on its own, with little interaction between its owner and the owners of similar vehicles. Only a small proportion of owners belong to an association and 14-seater matatus are not included in existing franchise arrangements. This may change because the Transport Licensing Board issued a directive requiring public service vehicle (PSV) owners to join an organised group such as a SACCO or company in order to be registered (Daily Nation, 23 December 2010). Since the beginning of 2011 stand-alone matatus are not eligible for registration.

4.1.2 *Moderate business organisation: Matatu management companies*

Three companies presently operating in Nairobi as management companies fit into the moderate business organisation category. All three of these manage buses on behalf of individual investors, providing a range of services.

The basic concept underlying the management companies is franchising. A franchise can be loosely defined as an authorization to sell a company's goods or services in a particular place. The person or entity who owns the business, its trademark and system is the franchisor. The entity authorised to sell is the franchisee. In this case, the management company (franchisor) generally holds a trademark and a set of operating procedures, services, and/or standards which the individual matatu owner (franchisee) buys the right to use.

Two of the franchise companies operate solely as managers of vehicles for individual owners. The third has both franchised vehicles and owned vehicles. The companies differ in their requirements for obtaining a franchise, the services offered, funds management procedures, vehicle specifications, and operating rules. In all cases, the public can easily recognise the franchised buses by their colour and design. One of the management companies originally required that its franchisees have at least five vehicles, but found difficulty in enforcing this rule (KI9). Other industry stakeholders refer to them as examples of what a more organised transport system might look like.

4.1.3 *Moderate business organisations: Bus companies*

A bus company can usually exert more control over its operations than a management company. Bus companies represent a second form of moderate business organisation. Our research identified two companies with fleets of buses. A 'fleet' can be defined as group of buses operating together under the same ownership. These are, therefore, companies that own and operate their own vehicles, including hiring and training their own staff. Both are private companies offering public transport services.

Defining a fleet as a *group* gives considerable latitude for variations in size. One Nairobi bus company has only 15 vehicles, but aspires to have 300 in future; another already has 200. The next stage of the research may yield data that will enable us to estimate the size of fleet necessary for a viable company.

Formulating strategy in a unified company is basically the task of the owners, who can put in place appropriate measures to implement their ideas. Our bus company interviews focused on the respondents' views of matatu operations, and therefore did not yield full information on the companies' own strategies. Further interviews to fill the gaps on company strategy will be conducted in the next phase.

Although the bus companies are better organised than most public transport players in Nairobi, observers do not consider them to be highly organised. Most lack the ticketing and fleet management systems that would be necessary for the highest degree of organisation (SW).

4.2 Matatu strategies

The descriptions of the three points along the matatu organisation continuum together with the literature on strategic planning enabled us to identify, at least tentatively, eight elements of a business strategy that are relevant to matatu businesses (See Box 1): Ownership, financing, routes and vehicle type, operations, promotion and advertising, and linkages and networking.

By way of illustration, we briefly describe the first four of these elements and discuss their variations as observed among Nairobi matatus.

4.2.1 *Business ownership, structure and levels of investment*

One of the first strategic decisions a matatu owner must make concerns the nature of ownership, firm structure, and the level of investment. Although all Nairobi public transport operations are privately owned, there are at least two distinct forms of ownership. On the one hand are individuals who own one or more vehicles. On the other, are varied forms of group ownership (families, partnerships, cooperatives, and limited liability companies).

1. Business ownership, structure and levels of investment;
2. Financing;
3. Routes and vehicle type;
4. Pricing (fares and fare variations);
5. Operations (adherence to routes; trips and scheduling; vehicle maintenance and repair; insurance; labour recruitment, training and management; regulatory compliance);
6. Promotion and advertising;
7. Customer relations,
8. Business linkages and networking.

Box 1. Elements of a business strategy

Levels of investment vary depending on the type of vehicle, its age, and its extra equipment. For example, the most common matatu is the 14-seater Nissan Caravan. An Internet search reveals that a second-hand vehicle, manufactured in 2004, carries a price of Kshs. 476,500, FOB Japan. Freight, import duty, insurance, and Kenyan registration bring the cost of the vehicle to approximately Kshs. 1.1 million (various Internet sources). At the other end of the spectrum, is the large bus, assembled in Kenya, which one informant told us costs Kshs 5-6 million (KI5). We have

not yet investigated the cost of 'extras' such as music and DVD systems, but have been told that they can add significantly to the cost of the vehicle.

4.2.2 Financing

Only one respondent, a bus company, explicitly referred to a financing strategy, but general discussions suggested other strategies related to finance. The most common need for financing is for the purchase and replacement of vehicles. A bus company (KI7) described its strategy for financing its fleet of buses with different banks. Some companies identified themselves as 'family businesses', implying a strategy of sourcing finance from within the family (KI7, KI8) during initial stages of business development. Our findings revealed that some businesses started with family resources but broadened their financial base as the business grew (KI7). It seems that many small operators – those with one or a few vehicles – finance their businesses out of their own savings. There is some bank and SACCO financing, but the extent of this is not known.

Many financiers insist on comprehensive insurance for vehicles that have been purchased on credit, but the high premiums discourage owners from continuing comprehensive cover once the loan has been paid (KI13, KI7). Owners faced with the high cost of comprehensive insurance may approach a bank to finance the premium, allowing them to pay it in ten equal instalments (KI13).

Informants from financial institutions indicated that they had been financing PSV operators to move to higher capacity vehicles (KI14, KI15). One stated that his bank financed up to 80% of a brand new minibus (KI15). According to the informants, investors must have either owned a matatu before they came for a loan, or at least be involved in matatu operations for one year either as a driver, conductor or a transport manager.

4.2.3 Routes and vehicle type

The choice of which route to ply is a critical element of business strategy, but one that is not fully in the control of the vehicle owner. The Nairobi City Council and Transport Licensing Board are formally in charge. Route associations and cartels have considerable informal power. Routes vary on at least four dimensions: length, passenger characteristics, level of competition, and influence of cartels and criminal gangs. One route was described as attractive because it is short and serves a working population that assures that vehicles can make many trips fully loaded (KI5). It was contrasted with another, which is long and passes through an area with few passengers. One bus company chooses not to operate in a particular part of the City that is known for interference by criminal gangs; another has opted to concentrate on routes in those areas, hoping to be a positive force (KI5, KI7).

Vehicle type is related to the choice of route. For example, all vehicles on certain routes are minibuses carrying 25 passengers, while other routes are populated only by 14-seater vans. Some routes, however, accommodate more than one type of vehicle, and in these cases the choice of vehicle type can be an independent element of business strategy.

The 14-seater matatu remains most numerous, accounting for approximately 80% of total vehicles on the road, but this proportion is likely to diminish. The Transport Licensing Board's decision to stop registering new 14-seaters seems to have struck a heavy blow against a vehicle type that was already suffering from lack of bank financing and higher per passenger operating costs.

4.2.4 Pricing

In most businesses, pricing is a key element of business strategy. For the most part in Nairobi, basic fares on a given matatu route are the same and fare changes are agreed among operators on that route. Fares tend to be flat within zones. Only one bus operator uses a computerised technology to establish point-to-point fares (KI5, KI11).

Actual fares paid often differ from the basic fare. The main variations, common throughout the world, are peak and off-peak fares and discounted fares for particular groups of passengers. These are also used in Nairobi, though discounted fares are rare. One bus operator charges higher fares, but then discounts them through monthly coupons (KI8).

In Nairobi, the major sources of fare variations are weather (rain) and traffic jams. It is not unusual for fares to double when it rains or the jam is especially heavy. This is not always the result of the owner's business strategy. Adoption of the target system means that it is often the crew rather than the owner who benefits from the extra revenue collected (KI3).

4.2.5 Other strategies and the strategy as a whole

The remaining elements -- Operations, Promotion and advertising, Customer relations, and Business linkages and networking – are similarly varied (McCormick et al. 2010). Each matatu business, by adopting different combinations of strategic elements can, in theory at least, develop its own unique business strategy. The extent to which this actually happens and which strategies seem to work best in the Nairobi environment are the focus of the remainder of this research.

5 SUMMARY AND CONCLUSIONS

5.1 Summary

The research reported in this paper constitutes the first phase of a research project aimed at understanding how paratransit operators' business strategies affect government's ability to implement change in Nairobi's public transport sector. This phase of the study took a 'bird's eye view' by gathering information about the strategies of matatu businesses from a range of key informants and synthesising their observations.

The study identified eight elements of a business strategy that appear to apply to matatu businesses: i) Business ownership and investment; ii) Financing; iii) Routes and vehicle types; iv) Pricing; v) Operations; vi) Promotion and advertising; vii) Customer relations; and viii) Business linkages and networking. These will be studied in much more depth in the second phase of the research. Preliminary findings, however, are that they are present in varying degrees and combinations, with the result that some firms are more organised than others. To highlight this finding, we proposed a continuum of organisation, with the 'typical' individually owned matatu at one end, and the multi-vehicle bus company near the other end. We noted that no Nairobi bus company could be called 'highly organised' by international standards.

5.2 Conclusions

The study has yielded three main conclusions. First, Nairobi's matatus are businesses that vary in structure, organisation, and modes of operation. They include individual operators with single vehicles, those with multiple vehicles, franchise organisations, and bus companies. The profile of the 'typical matatu' suggests that an environment of unbridled

competition combined with lack of consistent regulatory enforcement has negative effects on business owners, users of public transport, and the governance of the sector.

Second, this 'bird's eye view' demonstrates that keen observers can identify various elements of business strategy in the matatu sector. It is not possible, however, at this level to know all of the variations and commonalities of these strategies, nor to understand the motivation behind their adoption by particular firms.

Finally, the next phase of research, which will involve gathering data from matatu operators themselves, will be crucial for understanding how paratransit operators' business strategies affect both the nature of likely change in Nairobi's transport sector and the probability that it will occur.

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