

# Africa Rising: Doing business in Africa

By Authors from Regent Business School <sup>23 Jun 2014</sup>

As mentioned in [part 1 of this series](#), just as Africa offers enormous opportunities for business, there are also risks of doing business. The key economic risks range from fragile fiscal and monetary policies, high inflation, currency volatility, high tax rates, issues of nationalisation, skills shortages, inadequate infrastructure and red tape.



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There is no 'one size fits all' strategy for doing business in Africa. Even though the continent is the common denominator, each country has its own unique history, socio-economic and political system and culture. There is very little that can be considered definitive when doing business on the continent. Moreover, through hindsight, anecdotal stories, observation and experience it is possible to arrive at some fundamental critical principles which could possibly assist in formulating insights that support doing business in Africa.

With reference to the risks involved in doing business in Africa, there are those who assert that an investor should initiate the business process and deal with the risks as they arise. In sharp contrast, there are some who recommended that potential risks are dealt with upfront, noting that in the end, due diligence could very well determine the success or failure of a business.

## A good starting point

A good starting point to any business venture in Africa is to refer to the World Bank's Ease of [doing business index](#). Ease of doing business ranks economies from 1 to 189, with first place being the best. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operation. The index averages the country's percentile rankings on ten topics covered in the World Bank's Doing Business. The ranking on each topic is the simple average of the percentile rankings on its component indicators.



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Another worthwhile investment one can make prior to commencing any business venture in Africa is to undertake a market study on the country of location. In this respect, it is recommended that advice of a

reliable business intelligence agency is sought. Many of these agencies have a good track record in terms of guiding business through 'unchartered waters' within the continent.

A 'SWOT' analysis of the various factors involved in doing business in Africa, together with a correct assessment of investment opportunities is an absolute essential. It can be likened to undertaking a research exercise - you need to pose the correct questions and have the 'bigger picture' in mind. Initial work at the outset will pay the necessary dividends later, especially in terms of capitalising on the myriad business opportunities that Africa has to offer.

## **Business Advocacy**

Despite the abundance of economic data, there is very little qualitative information available on the challenges experienced in doing business in Africa.

For example, the population of most African countries is heterogeneous, especially in terms of ethnicity, culture, language and religion. Each ethnic group exhibits differing religious, cultural and linguistic traits. National identity is complex and difficult to generalise. It is important to have a working knowledge of the official language of the country of business location. A basic knowledge of the local customs is a necessity. The business environments are generally quite informal and bargaining is part of the business psyche of most entrepreneurs. Local people are generally personable and have deeply rooted traditions. Building a social rapport for sustainability of business is an imperative. Patience is always a virtue when trading in Africa. Investors repeatedly note that nowhere else is there such a direct correlation between careful planning and a successful outcome.

It is important to maintain awareness of noteworthy events such as elections and understand their potential effect on a venture. Investors need to have an understanding of the political association of the major stakeholders involved in the transaction, both business partners and regulators that may need to approve the transaction. Networking is crucial to business success in Africa. This can include targeting politicians, business leaders and key members of the civil service.

Investors need to identify the decision-makers and implementers and establish a network of indirect contacts. As far as possible, though, a new business venture should use local networks that already exist rather than those imposed from the outside. Most importantly, it is necessary to choose wisely when it comes to local agents, as this decision will probably be the most important business decision one can make. These local agents have a good local working knowledge of local business environments.

## **Political dispensation**

In terms of political dispensation, many countries in Africa are 'one party' states and a lack of effective opposition is widespread. The primary political challenge of doing business in Africa is the prevalence of undemocratic or ineffective governance structures. In recent years, though, there is a gradual move towards more transparent and accountable governments. There are now fewer armed conflicts and political instability has become less frequent, especially when compared to a few decades ago.

Elections have now become the norm in Africa, and there are increasingly more examples of peaceful transfers of power. Within this context, government decisions on almost every business transaction often takes long, which may affect investment decisions or marketing strategies. Policies and tender procedures are also not always consistently executed. Long delays in payment by parts of government, likewise, may

cause difficulties in particular for business development.

There is a skills deficit in most African countries. The legacy of colonialism and the problems and challenges of development in the post democratic dispensation has led to the majority of the labour force being unskilled and therefore unemployment is rife. Skilled labour is available, but comes at a price due to shortage of especially technical and managerial skills. Governments of many African countries place great emphasis on the creation of job opportunities. In this respect, labour regulations are well defined and compliance is essential. This may contribute to some problems, especially in dealing with an inflexible labour market and cumbersome procedures.

Recent government policies which are investment friendly are making a positive difference, in this respect. Many African governments are sensitive when dealing with health issues such as HIV/Aids. This must be factored to any anticipated business venture in Africa.

### **Various other factors**

In addition to the above, there are various other factors which impinge on the success of doing business in Africa. They range from issues such as the length of establishing and registering a new venture, dealing with construction permits, registering property, acquiring credit, and procuring electricity, tax implications, enforcing contracts, procuring suitable labour and corruption. Indeed, there are many more and a detailed market survey will assist in unraveling them.

Finally, understanding the various challenges of doing business in 21st century Africa can greatly enhance the likelihood of success, especially in terms of capitalising on the wealth of opportunities offered by the continent.

Africa is definitely emerging. The recent global financial crisis caused little damage and may even prove beneficial for Africa, in the sense that investors are more favourably inclined towards emerging markets given the weak outlook in most western countries. Factors such as favourable demographics, a steady flow of investments, abundant resources and political and economic reforms can only contribute to a stronger rate of economic development in Africa.

### **Seeing the opportunity in every difficulty**

Africa offers all the opportunities of doing successful business. In response, the future business venture in Africa needs to chart and steer a cautious but courageous entrepreneurial path. As Winston Churchill mentioned "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

It is in this context that Regent Business School operates in Africa. We believe that the success of African business schools is dependent on the extent to which their teaching and learning and research addresses some of the issues above and the extent to which they prepare their graduates to understand and provide ethical leadership, specifically with the view to enabling them to discover the entrepreneurial opportunities in African social and economic development. For after all, we are Africa.

### **For more:**

- [Africa Rising: Doing business in Africa \[part 1\]](#)

## ABOUT THE AUTHOR

Ahmed Shaikh (Managing Director), Professor Anis Karodia (Senior Faculty and Researcher), Professor Mark Hay (Acting Dean) and Professor Dhiru Soni (Director for Research and Innovation). All authors are from Regent Business School and can be contacted at [[www.regent.ac.za](http://www.regent.ac.za)].

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