**INSTITUTIONAL VOIDS AND BUSINESS MODEL INNOVATION IN AFRICA: THE ROLE OF NONMARKET STRATEGY**

**AUGUSTINE AWUAH PEPRAH**

Southampton Business School

University of Southampton

Highfield, Southampton SO17 1BJ, UK

**TAHIRU AZAAVIELE LIEDONG**

School of Management

University of Bath, UK

**ABSTRACT**

In this study, we investigate how multinational firms leverage nonmarket strategy to innovate their business models in institutionally challenging contexts. Using data from Jumia, Africa’s largest e-commerce multinational firm, we identify the institutional voids that constrain e-commerce and unpack the process through which the firm innovated its business model accordingly. Importantly, we also show that nonmarket strategy complements and paves the way for model innovation, especially in underdeveloped contexts where formal and informal institutional support is required to guarantee the viability of business models that are incompatible with existing institutional conditions.

**INTRODUCTION**

Developing countries present not only growth prospects for an entrant firm but also operational challenges. In fact, unlike developed economies, which are characterized by well-developed market supporting institutions, developing countries are exemplified by weak institutional environments, creating what is termed *institutional voids* (Khanna and Palepu, 2010). These institutional voids include the absence of contract-enforcing mechanisms, specialized intermediaries, and efficient communication networks and transportation— all these hamper the ease with which buyers and sellers interact. Moreover, because of these voids, the needs and purchasing patterns of customers in developing countries are more often different from those of developed economies (George, Corbishley, Khayesi, Haas, & Tihanyi, 2016). This means that a product and profit formula that are successful in developed countries may not necessarily work in developing markets (Gao, Zuzul, Jones, & Khanna, 2017; Marquis and Raynard, 2015). In fact, various authors have recently noted that several firms entering developing countries “have struggled not because they can’t create viable offerings but because they get their business models wrong” (Eyring, Johnson, & Nair, 2011: 89). As a result, “being able to adapt [and innovate] business models to different institutional settings and customer preferences are key capabilities required for firms seeking to benefit from doing business in emerging markets” (Landau, Karna, & Sailer, 2016: 481).

*Business model innovation* —i.e., “the search for new logics of the firm and new ways to create and capture value for its stakeholders” (Casadesus-Masanell and Zhu, 2013: 464) has received much research attention in the strategy literature. However, little is known about business model design in contexts characterized by institutional voids (Peprah et al. 2021; Sanchez and Ricart 2010; Mair et al. 2012, Manikandan and Ramachandran 2015, and Doh et al. 2017). This is evidenced by the pressing calls for authors to extend the analysis of business model innovation in different institutional environments (Demil et al., 2015; Foss and Saebi, 2017), and increase research on adaptation of business models in different geographic countries (Jonsson and Foss, 2011).

Within the broader context of innovation, previous studies have highlighted the importance of nonmarket political and social strategies in new product development, access to seed capital or innovation grants, and innovation propensity (Cumming et al., 2016; Gao et al., 2017; Li et al., 2018; Shu et al., 2012). Nonmarket strategy (hereafter, NMS) refers to the concerted plans used by firms to manage the political and social dimensions of economic competition (Liedong et al., 2017; Mellahi et al., 2016). There are two types of NMS, namely corporate social responsibility (CSR) and corporate political activity (CPA). The former involves corporate actions that advance societal welfare (McWilliams et al., 2006; McWilliams and Siegel, 2001) while the latter entails corporate actions intended to favourably influence political institutions and government policy (Hillman et al., 2004; Rajwani and Liedong, 2015). NMS research has received considerable scholarly attention, with the majority of studies focusing on its antecedents and outcomes (Hadani et al., 2016; Lawton et al., 2013; Lux et al., 2011; Rajwani and Liedong, 2015) and how it positively impacts firm performance and competitive advantage through its ability to draw institutional support, enhance opportunity recognition, and avail critical resources for innovation (D. Guo et al., 2016; H. Guo et al., 2014; Xin and Pearce, 1996). However, the current nexus of NMS and innovation is limited to only product innovation, as there is a lack of research about the role of NMS in business model innovation.

Essentially, while it is true that the institutional environment can shape a firm’s decision about how to set its business model (Dahan, Doh, Oetzel, & Yaziji, 2010; Dunford, Palmer, & Benveniste, 2010; Eyring, Johnson, & Nair, 2011; Khanna and Palepu, 2010; Landau et al., 2016), it is also true that innovating a business model may require nonmarket capabilities. This is because firms may upset the status quo or push institutional boundaries with new or adapted business models and may therefore require legitimacy and institutional support from political and social stakeholders if they are to succeed. Surprisingly, within the literature of business models, little is known about how newly established firms in developing countries surmount the challenges in their local markets to create new business logics and models by leveraging political and social strategies.

In this study, we integrate three streams of literature — i.e., business model innovation, institutional voids, and NMS to answer the question of how firms in developing countries employ NMS to shape and innovate their business models amidst a myriad of institutional voids in the business environment. We address this question using the case of Jumia in Africa.

**METHODS**

To address our research questions, we adopted a qualitative approach in the form of a single case study (Eisenhardt, 1989; Yin, 1994). The empirical context of the study is Jumia, an e-commerce startup headquartered in Lagos, Nigeria, with an aim to emulate Amazon’s success by delivering a wide range of items across many African countries, from furniture, clothes, electronics, and books to alcohol. Jumia is a start-up internal to Africa Internet Group (AIG), a leading e-commerce group in Africa with Rocket Internet, MTN Telecommunications, Millicom, Orange, Axa, and Goldman Sachs as investors. Shortly after its incorporation in Nigeria in 2012 by two African Harvard Business School graduates (one from Nigeria and the other one from Ghana) with seed capital and technical support from Berlin-based incubator Rocket Internet (Kay, Spillane, & Kew, 2013; Troianovski, 2014), as of the beginning of 2017, had a revenue of nearly €250 million and operated in 11 different countries in Africa, creating a sustainable ecosystem of digital services and infrastructure through online and mobile marketplace after combating the initial challenges of trust, acceptability, and infrastructural gap relating to e-commerce in Africa.

In conducting our study, we relied on multiple means for collecting our data: (1) participant observation, (2) semi-structured, one-on-one interviews, and (3) written documentation. We relied on the interviews as the prime source of information on the business model adaptation process, with the participant observation and documentation data serving as vital triangulation and supplementary sources for discerning and understanding events and processes, and as a means of gaining additional perspectives on key issues.

Our data analysis proceeded in three phases - The first phase aimed at identifying the institutional voids encountered by Jumia in Africa, especially Ghana and Nigeria, since its inception in 2012. The second phase was aimed at understanding Jumia’s business model innovation process in response to the voids. Finally, the third phase was aimed at understanding the nonmarket political and social strategies pursued by Jumia to ensure that its business model innovation was successful. All these phases consisted multiple rounds of coding to search for macro-categories of institutional voids and nonmarket political and social strategies that our informants gave through accounts of the events they described (Stake, 1995).

**FINDINGS**

Our analysis indicates that the business environment of Jumia across Africa in the first half of the 2010s was flooded with various institutional challenges, ranging from a significant deficit in infrastructure and regulatory inefficiencies to cultural challenges. We classified these institutional challenges as *infrastructural voids*, emanating from the lack or absence of effective infrastructural support to establish market transaction (e.g. buildings with no addresses, poor internet connectivity, unstable electricity supply, underdeveloped payment systems); *legal and regulatory voids*, emanating from the absence of an effective regulatory system on which firms depend to establish market transactions (e.g. high level of internet fraud, high corruption, fake currency, ambiguous and/or inefficient legal system, fake and imitation products); and *cognitive cultural voids*, emanating from the belief systems of the people and referring to a set of negative perceptions the people in a country have about online transactions (e.g. customers’ lack of trust in e-commerce in Africa, and in African brands in general (as opposed to global brands), low acceptance rate of the culture of online shopping). These voids required a fitted business model.

We identified four sequential phases of business model innovation process – *clarification, legitimacy, localization*, and *consolidation*. The clarification phase was aimed at establishing the core business model elements to ascertain their viability in the local context while responding to the dominant infrastructural voids. The legitimacy phase was also aimed at establishing the firm’s presence among customers and sellers, in order to gain recognition and legitimacy that the firm and its offerings are authentic. This phase primarily responded to cognitive cultural voids. At the localization phase, the firm has gained some level of legitimacy and now aims at meeting different local requirements as it begins to expand its operation. The major voids filled at this phase are infrastructural, and legal and regulatory voids. At the consolidating phase, the firm begins operation on a larger scale and therefore, continue to refine the established business model. The firm at this phase, responds to any of the three types of voids it encounters.

In each of the business model innovation phases, a different NMS perspective informs how Jumia deals with its political and social stakeholders. In the clarification phase, a *pioneering NMS perspective* enabled the firm to support the testing and roll out of the new model. In the legitimacy phase, a *validating NMS perspective* was adopted to increase the appeal of the firm among customers as well as boost public confidence in e-commerce. During the localization phase, the emphasis was on fulfilling local requirements, which evoked an *accommodating NMS perspective* aimed at satisfying, convincing or placating political and social institutional actors. Finally in the consolidating phase, an *anchoring NMS perspective* was wielded to institutionalize and support the long-term viability of the new business model.

In the process of adapting and innovating the business model to fit the institutional voids in Nigeria, Jumia deployed NMS tactics to ensure that the components of the business model innovation were successfully orchestrated – i.e., value proposition, value creation and delivery, and value capture. The firm’s value proposition centered around availing a wide selection of quality products at low prices. To achieve this, it had to import merchandize from other countries. To smoothen the importation process, the firm leveraged its political capabilities to lobby government officials to reduce bureaucratic procedures and obstacles during the clearance of goods from the ports. This ensured a steady and an uninterrupted flow of merchandize to fill customers’ orders.

During value creation and delivery, a mix of social and political strategies were used. To address payment system voids, Jumia accepted cash-on-delivery and mobile money as an alternative. To make the latter successful, Jumia lobbied the government to implement interoperability between banks and mobile payment platforms to enable customers load their mobile wallets from their bank accounts. Due to the existence of poor physical address systems in Nigeria, the firm also lobbied the government to implement a digital address system to enhance delivery to exact locations, with the intention of upscaling from the use of landmarks, hubs, and pick-up stations. Moreover, despite investing in generator plants to overcome unstable power supply, Jumia still lobbied the government and its agencies, especially NEPA, to supply uninterrupted electricity to areas where its offices and warehouses were located. This was because the national grid was a more sustainable option to generator plants. Further, the firm employed indigenous people to enhance its reputation as a corporate citizen and gain legitimacy from society. This prevents any acts of sabotage against the company in local communities.

To capture value, Jumia used its political capabilities to keep the cost structure low. It lobbied for lower duties on its imports and lower taxes on its profits. It also used its political connections to facilitate the acquisition of warehouses, which did not only reduce the bureaucratic hurdles in the purchase transactions, but also helped it to get cheaper deals. To win the support of the government for its business model, Jumia used arguments that it will: 1) create jobs and reduce unemployment in Nigeria; 2) contribute to tax revenues if it succeeds; and 3) increase the international reputation and visibility of Nigeria as the headquarters of the largest e-commerce business in Africa.

**CONTRIBUTIONS**

This paper makes significant contributions to the literature. First, we contribute to the growing literature on institutional voids in developing countries (e.g. Gao et al., 2017; Khanna, Palepu & Sinha, 2005; Khanna and Palepu, 2010) and business model innovation (e.g. Aspara et al., 2010; Casadesus-Masanell and Zhu, 2013; Foss and Saebi, 2017), and in particular to those studies that have examined how firms adapt and innovate their business model when entering an unfamiliar environment (e.g. Dahan et al., 2010; Dunford et al., 2010; Landau et al., 2016). We do this from an African perspective, which does not only respond to calls to bring Africa into management literature (George et al., 2016), but it also allows us to show how business model innovation and NMS are complementary business domains.

Second, we reconcile three streams of literature - business model innovation, institutional voids and nonmarket strategies to shed light on ‘business innovation process’ by taking an unexplored perspective, namely the one of a developing country-based firm (a Nigerian e-commerce new venture in our case) innovating and adapting its business model to both its home country context, normally characterized by voids in market supporting institutions, and other (African) developing countries with similar voids. Our results show that Jumia’s in responding to the institutional voids, relied on a set of nonmarket, political and social strategies and consequently shape its business model innovation process which went through four distinct phases, each phase aimed at filling specific voids in the environment while employing a particular NMS. In this way, we respond to recent calls for the strategy and business model literature on “how are business models created in different contexts [and] what institutional factors favor or impede the emergence and success of business models?” (Demil, Lecocq, Ricart, & Zott, 2015: 8-9).

Finally, we contribute to literature on nonmarket strategy by showing how political and social strategies are leveraged to make business model innovation successful. This is an important contribution because despite a plethora of research about the use, value, and outcome of NMS (Cheng et al., 2014; Peloza, 2006; Wang et al., 2016; Ye and Zhang, 2011), little is known about the role of political and social tactics in business remodeling. Our study extends existing knowledge beyond NMS and product innovation by shedding light on how NMS can be used to advance, support, and institutionalize innovation of the core logic of a firm – i.e., its business model.

**REFERENCES AVAILABLE FROM THE AUTHOR(S)**