Article

Realizing Moralized Value Creation: Unravelling Africa's Social Conditions for MNEs Expansion into the Continent

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Africa is a continent that is blessed with varying social conditions, norms, and cultural diversity. However, for multinational enterprises (MNEs) seeking to expand operations to this context, these varying social conditions may prove challenging to MNE subsidiary and integration managers tasked with spearheading expansion into the continent. Consequently, this paper conceptualizes Socialized Moral Hazard (SMH) to provide insights into the inherent social conditions in Africa. To overcome these social conditions, the paper recommends a 5-step Moralized Value Creation (MVC) framework, supported by actionable strategies such as *social conditions reconnaissance* and *moral cost-benefit analysis*, that may allow MNEs to create sustainable socio-economic value.

"*Nous n'héritons pas de la terre de nos parents, nous l'empruntons à nos enfants.*"
["We do not inherit the land from our parents, we borrow it from our children."]
—The Late Léopold Sédar Senghor, Former President of Senegal (1960–1980)
Source: UN, 2008: 4

INTRODUCTION

With many MNEs seeking to expand operations into the African market, it is important that they are aware of the social conditions that exist in the African context. This is particularly relevant for subsidiary managers in the case of greenfield investments, and integration managers for brownfield investments, who are tasked with overseeing their respective expansions. Social conditions are the "potentially modifiable characteristics of social, economic and physical environments at the individual, household, and community levels – that is, features of homes, schools, workplaces, and neighborhoods that could be shaped by policies" (Braveman, 2010: 32). These social conditions vary greatly in Africa, as Africa boasts a multi-cultural background with salient social identities, varying languages, and dialects, and varying social norms (Evans Netshivhambe, 2023).

These social conditions may especially affect MNEs seeking greenfield and brownfield investments in Africa through agency relationships. This paper specifically focuses on the agency relationship between a parent (principal), and a subsidiary (agent) and the agency relationship problems that arise, such as moral hazard (Kostova, Nell, & Hoenen, 2018). Moral Hazard manifests when agents with superior information, undermine the interests of the principal, a well-established phenomenon in management literature (Eisenhardt, 1989). Agency theorists have posited that moral hazard problems arise when agents act against

the interest of the principal because they are rational value-maximizers (Heath, 2009). Efforts have been made at explaining an agents' motive for acting against the principal due to self-interest (Cropanzano, Goldman, & Folger, 2005), but these merely predict the agents' actions (Donaldson, 2012), and do not also explain why the act is committed.

In recent times, increased disclosure through Environmental Social Governance (ESG) reporting has become a fashionable trend globally, and indeed in Africa, with these remedies partly aimed at mitigating moral hazard. There have also been standards that are voluntarily adopted by organizations such as the Global Reporting Initiative (GRI), and United Nations Global Compact (UNGC) that seek to promote impact reporting on issues around climate change and corruption, and to promote and adopt sustainable, responsible investments and good corporate governance respectively. In some African countries, there are also laws that have been enacted to promote good governance, and inclusivity such as those found in the progressive Kenyan Constitution.

However, despite these attempted remedies to moral hazard, irresponsible investments and misgovernance persist, especially in the African context (Mlambo, 2023), where the rule of law is often ignored, especially by the arms of government, however, legal redress is often costly and slow (Schultes, 2020). This paper adds that misgovernance may also arise due to the social conditions inherent in this context.

Therefore, to explain why agents act against the interests of the principal, this paper conceptualizes Socialized Moral Hazard (SMH), as an addendum to conventional moral hazard. SMH arises when an agent with superior knowledge of a situation, acts against not only the interest of their principal, but also that of the society and natural environment, due to pressures arising from their socializa-

tion within, and around organizations, causing them to act immorally. Within the confines of this paper, moral behavior is defined as not only doing what is right at one's workplace, or doing right according to legal frameworks, but also doing what is right for the society and environment to ensure maintenance of social and environmental welfare.

This conceptualization of SMH is important to overcome agency problems, which may affect MNEs with (or seeking) operations in Africa, even with standards and laws in place to mitigate these problems. It is therefore paramount for subsidiary managers and integration managers to have increased awareness of the social conditions that may affect agency relationships to enable them to make decisions that are grounded in doing what is right for the natural environment as well as the society at large in the African context. Such a perspective aids in the establishment of a value creation framework described later that is anchored on the respective social and environmental conditions in each context.

Consequently, to guide subsidiary managers and integration mangers, this article offers three key insights at the crux of MNEs extending operations into contexts such as Africa. First, this article gives insights into some social conditions that may hamper MNE expansion in Africa. Second, the paper offers insights as to how SMH may be overcome through a 5-step model that involves a social conditions reconnaissance where inherent social conditions are mapped out. Third, the article offers insights into actionable strategies that may be implemented by MNEs at various management levels, to realize moralized value creation given the social conditions in Africa.

SOCIALIZED MORAL HAZARD OUTCOMES PLAGUING AFRICA'S POTENTIAL

SMH is considered as occurring when the following 3 parameters are met: First, superior knowledge by the agent compared to their principal during commission of action that is against their interest; Second, when an immoral act is committed against environmental and/or social welfare; and Third, the behaviour can be attributed to social conditions surrounding an organization or operating context as a function of social identity theory (SIT) behaviour of an actor's preference for in-group over out-group members (Hartwell & Lupina-Wegener, 2024).

SOCIAL (MIS)GOVERNANCE

The socio-cultural norms that exist in Africa may paradoxically result in the reproduction of social issues such as the prominence of tribalism that has plagued countries such as Kenya. In Kenya, it was found that 9 out of their 45 tribes have been locked out of State Jobs since independence (Public Service Commission [PSC] Kenya, 2023). Further, in South Africa, cultural practices have resulted in social norms that infringe on female property ownership rights (Mubangizi & Tlale, 2023).

Misgovernance may also take place by allowing social issues to transpire in the public service or in private sector,

as seen in Kenya where Tribalism and Nepotism has led to misgovernance of opportunities, recruitment practices where four of the 45 tribes account for nearly 60% of top management positions in civil service (PSC Kenya, 2023). There has also been misgovernance where social conditions such as those associated with ownership rights results in the reproduction of social inequalities, especially around female ownership rights (Lazarte, 2017).

These situations arise especially during recruitment, where the recruiters, as agents of subsidiary managers, have superior knowledge of the candidates, and use this superior information to act the principal by picking candidates that may not necessarily be the best, but instead selected due to affiliation to the in-group. Such selection problems in the African context are made possible, as the population is often named along tribal lines, giving rise to high tribal salience through nomenclature (Arthur, 2016), which may result in such SMH situations arising during selection processes.

Moreover, there have also been instances of unfair distribution of resources such as land, minerals, roads, hospitals, and education facilities, with the best of these being highly skewed towards the regions where those in power come from due to "centralized authority" (Murombedzi, 2016: 2). These governance consequences can be attributed to SMH, as those in power, are privy to superior information on budgetary allocations, act against the interests of the society by allocating these resources in a skewed manner, inhibiting social welfare through diminishing social access to equality, thereby acting immorally.

From these examples, it highlights the importance of understanding the social conditions in the African context such as that of tribalism and the centralization of political authority, which may provide for a breeding ground for immoral behavior. It is therefore important that such outcomes of SMH be overcome or at least, highlighted, for moralized value creation to occur.

OVERCOMING SOCIALIZED AND (IM)MORAL CHALLENGES

For MNEs seeking to overcome SMH and create value through a moral approach, this paper proposes a framework of Moralized Value Creation (MVC) as outlined in Figure 1. The model proposes 5 steps that could enable organizations to stay clear of SMH consequences such as those outlined above. The framework emphasizes organizations learning from the local communities on the social and environmental conditions that exist in each context as part of an investment appraisal. The framework strives for the operationalization of morality which ensures value creation is sustainable for the society, the natural environment, and ultimately, the organization. This process may be carried out by a team led by the integration or subsidiary managers before setting up of operations.

First, determining what is beneficial for the social context in which an MNE, or its subsidiary operates, will require a *'social conditions reconnaissance'* that primarily explores societal logics (Ocasio, Mauskapf, & Steele, 2016) in
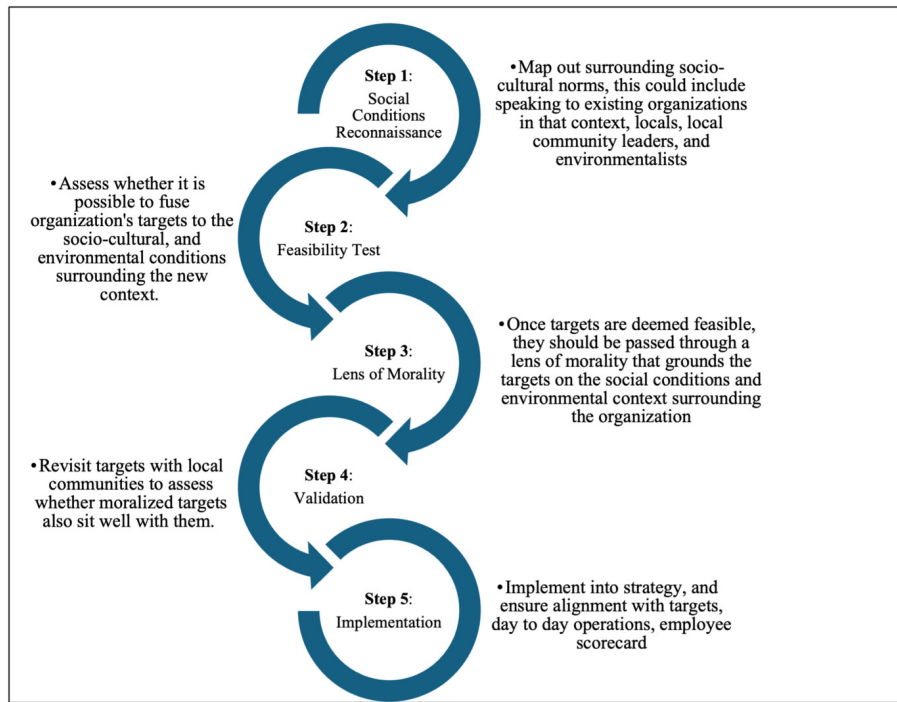
FIGURE 1. FRAMEWORK FOR MORALIZED VALUE CREATION (MVC)

contexts that MNEs would desire their subsidiaries to expand into, or are already in. A social conditions reconnaissance is an exploration into the historical and current social conditions, social norms, and social identities surrounding a given social context. Such an exploration would ideally provide a platform for learning and mapping the social and environmental conditions in a context. This reconnaissance will elicit insights as to how to align or combat with the social conditions, such as in recruitment, which may be convoluted by social conditions.

Second, the integration or subsidiary managers can inform their principals of findings from the reconnaissance, to share the information gained. This step is crucial in limiting SMH by determining whether, after the mapping, the interests of the principal are still aligned with the findings of the agent, and whether the targets of the organization, fit in with the social and environmental context.

Third, once feasibility of the parents' targets to the social and environmental conditions has been approved, it is important to pass these targets through a lens of morality. This is done by putting an organizations' targets through a weighted arrangement where environmental and social considerations take primacy. Doing this ensures that pertinent issues surrounding the society and the environment are prioritized. For example, if all the organizational targets add to 100%, social and environmental considerations would each have weightings of 35%, and financial considerations having 30%. This weighting creates moralized targets that give greater consideration to environmental and social considerations.

Fourth, it would be essential to seek validation with local communities, environmentalists, and other pertinent stakeholders to ensure that these targets serve not only the interests of the MNEs, but also serve the social and envi-

ronmental welfare. This may help ensure that the moralized targets truly echo: (a) a society-based people agenda that upholds fundamental labor rights of workers in organizations, ensuring equality in opportunity, meritocracy, fair competition, safe working conditions, no discrimination, and abiding by minimum age, and abolition of forced labor conventions (Lazarte, 2017); and (b) the interest of the natural environment.

Fifth, MNEs can implement and align these moralized and validated targets into the strategy of the subsidiary, by ensuring the moralized targets resonate across the organization. This is done through ensuring the placement of moralized targets in the day-to-day objectives, as well as in the annual review processes, including in Balanced Scorecards (BSC) of members of the organizations. Balanced Scorecards could have similar weightings as those used in setting moralized targets in step 3. This step ensures that the local strategy of a subsidiary is tailor-made to their respective social and environmental context.

ENABLERS OF THE MVC FRAMEWORK

For MNEs to fully achieve Africa's potential, and for the sustainability of the African dream for humanity beyond our lifetime; we propose enablers of the MVC framework that serve as recommendations for MNEs willing to overcome SMH that arises in multi-socio-cultural contexts such as Africa.

First, the paper recommends that MNEs must appreciate the impact of varying social conditions in varying social contexts, especially in the diverse continent of Africa. Such diversity in social conditions gives a breeding ground to SMH which may exasperate agency problems through the behaviour of rogue agents. Rogue agents are those that act

TABLE 1. ACTIONABLE STRATEGIES

ENABLER	STRATEGIES	IMPLEMENTATION LEVEL
Social Conditions Reconnaissance	Local community representative in Board	Board
	Tribe-neutral recruitment team	Mid-Senior Management
	Have a political affiliate	Independent
Moral Cost-Benefit Analysis	Inclusion of social and environmental measurements in BSC	All
	Annual review of targets to align with changing social and environmental conditions	Board & Senior Management

against the interest of the society and the natural environment, either due to self-interested nature or the social conditions surrounding them. Therefore, it may be useful to consider, acknowledge and adapt to those aspects of social conditions and norms surrounding each subsidary, that tend to be "sticky" (Bicchieri & Mercier, 2014: 66).

This can be done through the 'social conditions reconnaissance' proposed earlier. This reconnaissance can inform actionable strategies such as having a local community representative who is versed on socio-environmental matters in that context, or a tribe-neutral recruitment team to combat tribal situations such as those highlighted in the Kenyan case above. Moreover, MNEs may benefit from hiring a political affiliate who may assist in gathering insights and reporting on the existing political climate, the agendas in place with existing governments, the distribution of resources, natural or otherwise, and how these may affect the business operations.

Second, MNEs may also make use of a 'moral cost-benefit analysis', to ensure that each action being undertaken has an overall benefit to both the society and the environment. This can be done at Manager-Level where there is constant oversight and is respective to the social context of subsidary operation. The moral cost-benefit analysis should be seen as a continuous and dynamic process whereby any decisions undertaken during the day-to-day operations of an organization should be subjected to such a moral trade-off. This will ensure that no short-term, self-interested decisions are undertaken by rogue agents.

CONCLUSION

Given the expansive internationalization of MNEs, overcoming (im)moral and socialized issues in multi socio-cultural contexts, such as Africa, becomes an urgent calling if Africa's potential is to be realized through MNEs value creation. As much as practical challenges such as abandoning long standing methods of aligning interests of agents and principals through incentives like bonuses and social sanctioning may persist, the proposed long-term benefits of a thriving social and environmental welfare are hoped to supersede these. Paradoxically, without social and environmental sustainability, there may be no organizations to create value for shareholders and stakeholders alike.

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ABOUT THE AUTHOR

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