Managers' Business Knowledge in a Transition Economy

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Abstract
This paper reports on research into the business knowledge of top-level managers in Ethiopia. It explores the knowledge bases which underpin and inform the thinking and decisions of senior managers on issues of organizational strategy and organizational capability. The setting of the research is a highly turbulent, transitional, economy; the empirical focus of the study is on the knowledge of Ethiopian senior managers as they experience this unfolding dynamic. What knowledge of strategizing do they have? What do managers think are the required organizational capabilities (resources and capabilities) to deliver their strategy and how they acquire or develop these? These were the guiding research questions. Through these, we investigated how managers' interpretations and 'knowing' are situated, mediated and subject to variations, reinterpretations and change. The study found that the way Ethiopian managers struggled to come to terms with the extreme forms of uncertainty they faced can shed new light on the process of uncertainty-handling in other, less demanding, settings. Thus, it offers insight into how managers in general – within Ethiopia and beyond it - cope with highly tentative and contingent knowledge.

1. Introduction

This paper reports on research into the business knowledge of top-level managers in Ethiopia. It explores the strategic-level knowledge bases which underpin and inform the thinking and decisions of senior managers on issues of organisational strategy and organisational capability. The setting of the research is a highly turbulent, transitional, economy.

Transition from a planned socialist economic system to a market oriented one is a complex political, economic and social phenomenon. The changing and turbulent environment affects dramatically the organizations' core activities and business models including strategizing, developing organisational resources and competence, and market orientation. Moreover, it poses insurmountable challenges for firms' managers in transition economies due to several reasons. First, many incumbent firms are short of the required resources and managers with required skills and experience to operate in competitive market environments (Filatotchev et al., 1996; Peng and Heath, 1996). Second, the legal and institutional framework and the factor markets necessary to support organizational transformation have been slow to develop (Swaan, 1997; Spicer et al., 2000). Third, the magnitude of the required change may exceed many managers' and employees' cognitive abilities (Newman, 2000).

Ethiopia is one of the ancient civilizations. It is widely known for its physical and ethnic diversity and for over-dependence on a volatile agricultural economy that is susceptible to recurrent severe droughts, an unstable political situation, a disruption caused by a long term civil war of varying degrees of intensity. The country has been undergoing a transition from a planned socialist economic system to a more market orientated one since 1992. This transitional economy environment is perceived as dynamic, unstable and even frightening. The manager's immediate task in the new market-oriented environment includes not only production and human resource issues but also strategic issues regarding market orientation, competition, strategy setting and broader organisational awareness issues to make their firms competitive in a dynamic transition environment.

The empirical focus of the study is on the knowledge of Ethiopian senior managers as they experience this unfolding situation. Ethiopia is an unusual country and context but it offers a fruitful setting for this study. First, the last thirty five years has seen the transition from the feudalist monarchy (with land owned by the Emperor, the nobility and the Church), through a socialist command and control economy (where private property was banned) to a quasi-market economy. Second, the recent economic transformation and associated environmental changes in Ethiopia presents a distinct business environment for firms that are different from that which a typical western firm would encounter. The environmental changes are complicated and their sources are multifaceted. While the types and sources of the environmental changes could be somewhat similar to as anywhere else, their dynamism and level of uncertainty, and the ways these are interpreted and responded to in the Ethiopian context are different given its specific historical and cultural context. The senor managers are embedded in ambiguity, complexity, and information overload. There are far more stimuli that can be attended to, stimuli that are often vague and contradictory. Information and knowledge typically have important interconnections which are hard to discern. Ethiopia thus supplies an extraordinarily fruitful context within which to explore issues of business knowledge and its use. Many of the features of the business environment which normally supply the assumed context for explorations of managers' knowledge and which, even in the West, are often unrealistic expectations are doubly problematical in this context. Thus, Ethiopia presents a fascinating setting in which to explore *in extremis* the ways in which executive directors have to form strategic responses to stimuli about which they have limited real knowledge.

Against this backcloth, the paper seeks to achieve three objectives. First, it aims to explore how Ethiopian top level managers conceive and interpret changes in the transition environment and its implications for their business organizations. Second, it seeks to investigate how these managers engage in strategizing (including market positioning and capability development). Third, it attempts to account for the situatedness and context specificity of managers' knowledge and thereby to provide an opportunity to explore the cultural and historical specificity of many elements of received thinking. Although the research focuses on managers, organisation and the business environment in Ethiopia and how managers understand and make sense of the environment and their organisations, the real interest is not primarily in Ethiopia *per se* but in Ethiopia as a context in which to explore ideas which have wider application.

2. Theoretical Backdrop

This paper draws upon literatures from the cognitive, institutional theory and organisational knowledge strands. According to Elenkov (1997), the environment can be conceptualised as consisting of several factors that exist in two layers: the 'closest to organization' and the 'outer' layers. The closest to the organization layer is the task environment, which directly impacts business strategy and with which the organisation has direct contacts. These elements are commonly defined to include competitors, suppliers, customers and regulatory bodies. The outer layer is the general environment that affects organisations indirectly. The general environment often includes economic, political and social sectors.

It is assumed that the environment at both layers is a major source of uncertainty for managers. Other theorists also suggest that strategic action is dependent upon perceptions and interpretations of the environment (Schneider and De Mayer, 1991); and Miles et al., (1974) theorise that managers respond primarily to what they perceive. When managers misinterpret changes in their environment or fail to notice changes that turn out to be important, they may fail to make needed adjustments to an organization's strategy or structure (Pfeffer & Salancik, 1978). The ensuing lack of fit between the environment and the organization's strategy or structure may result in performance decline and other types of crises (Dunbar & Goldberg, 1978; Nystrom & Starbuck, 1984; Weick., 1987). Empirical evidence has suggested that decision makers have access to far more environmental information than they can possibly process (Mintzberg, 1973; Hambrick, 1982). Perceived environmental uncertainty exists when decision makers do not feel confident that they understand what the major events or trends in an environment are, or when they feel unable to accurately assign possibilities to the likelihood that particular events and /or changes will occur (Milliken, 1987).

Literatures on transition and developing countries suggest that in the politically dominated environment, “the decisions of the top business executives usually require the approval of the crucially important political and economic power networks” (Elenkov, 1997:294). Hence, managerial scanning activities in those countries essentially amount to making assessment of future political expectations regarding managerial roles. Recent research evidence points to the prevalence of environmental difficulties and firms’ weak managerial and technological ability as two main explanations for the low export involvement of firms from developing countries (Ibeh, 2004). Environmental difficulties include the lack of relevant infrastructure and institutions, political turmoil and uncertainty, and unstable macro-economic policy situation (Grenier *et al*., 1999). It has been observed that “African governments have created a high transaction costs environment in which export growth generally has been retarded” (Teal, 1999: 981).

However, strategic management concepts and frameworks developed in the West have tended to ignore the factors that are so influential in the less developed countries (Austin 1990). Western frameworks are based on the assumptions of relative stability; developing countries are in the midst of great change and constant instability requiring frameworks dynamic enough to investigate issues. Although the recent writings of the resource-based view emphasize environmental change, the change is a result of technological changes and global competition. By contrast, environmental dynamism in the developing country is often due to large societal and economic upheavals (e.g., the overthrow of governments, ethnic clashes, and natural disasters) that are rather difficult to shape by even the most foresighted executives. This renders many administrative theories to have a poor fit to the developing countries because of differing cultural expectations and values (e.g., corruption, extended family ties), differing economics (lack of competition, immobility in factor markets, lack of skilled labor and professionals), and differing institutional practices (e.g., political motives supersede economic motives (Jarvenpaa and Leidner, 1998). Moreover, most of the studies on strategic adaptation of firms to environment have been conducted in the contexts of market driven economies where firms are traditionally free from government's direct intervention and control.

The aim of this paper is to seek to investigate the managers' knowing in such environments and to consider the implications for strategic management frameworks in general. In a transitional economy we would expect that most of the decisions would be made with fragmented and incomplete information and on piecemeal basis. Moreover, events such as globalization, domestic and international competition, changing government policies, the political management of the transition process, business process reengineering, and organisational restructuring could be seen as threats or opportunities. Therefore, the world view of the managers – how they see their business organisation, its environment and other organizational members could form a basic premise from which managers seek to develop appropriate strategic responses.

Institutional theory also informs this research. The empirical results of Hitt et al's (2004) study suggest that strategic decisions of firms in transition economies are influenced by the institutional environments in these economies. The institutional frameworks impact on managers' decision making by signaling which choice is acceptable and determining which norms and behaviors are socialized into individuals in a given society. Dacin et al (2002:45) acknowledge that although "institutions serve both to powerfully drive change and to shape the nature of the change across levels and contexts, they also themselves change in character and potency over time". Firms operate within a social network of norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behaviours (Oliver, 1991). Such institutional environments are comprised of regulatory, cognitive, and normative components (Kostova, 1999; Scott, 1995). These become deeply ingrained over time, and therefore resistant to change. As a consequence of the politically administered resource allocation mechanisms that typified the central planning era, transition economies inherited institutional environments characterized by heavy regulation. In such environments, accumulation of political power is likely to be a key managerial goal, as this assures access to resources (Holti, et al. 1994). Conversely, in established market economies, the institutions of free market and price signaling are more likely to focus managerial attention on performance.

Although institutional environments are resistant to change, a key goal for most transition economies has been to replace dysfunctional institutions with new ones that are appropriate for a market economy. The dismantling of long-standing societal, political, and economic institutions creates considerable uncertainties. The transition is associated with 'deinstitutionalization' – that is, 'the erosion or discontinuity of an institutionalized organisational practice' (Peng, 2003:277). Previously established institutional practices lose their legitimacy (Oliver, 1992:564). Furthermore, in virtually all transition economies, the changeover from plan to market has been accompanied by external economic shocks and subsequent sharp drops in GDP growth (World Development Report, 1996). In such an environment one might hypothesize that managerial values, practices and systems would reflect short-term concerns.

State owned organisations are likely to enjoy better state support from the institutional environment as they can leverage their relationships with influential actors in the environment (Roth and Kostova, 2003). Peng and Luo (2000:489) note "while state firms may have lost a lot of privileges during the upheaval, they still have preferential access to government officials". In contrast, formerly state owned and emergent firms will use more informal substitutes because they have less ability to use to utilise state-based networks and, as argued by Peng (2000:285), "… they have to rapidly build ties to establish legitimacy, thus necessitating an intense networking strategy". Our research in Ethiopia was informed by these insights.

Our research was also shaped by that part of the knowledge literature which emphasizes 'knowing' rather than knowledge (Cook and Brown, 1999, Blackler, 1995). This re-frames knowledge as an active and applied process (Contu and Willmott 2000; Law 2000). Knowledge is addressed through and by its application in practice (Atherton, 2005). In our research the ways managers create and maintain ways of knowing and associated ways of acting form a point of enquiry. That is, the way managers 'establish patterns, identify key issues and features and create connections between identified elements of the known objects' (Salaman and Storey, 2005:9). The key aspect of our approach lies in recognizing that managers' action does not necessarily follow logically from their assumptions and knowledge. Instead the approach investigates the complex, reciprocal and subtle ways in which managers use ideas and knowledge to make sense of changes in their organisational environment. A primary factor in considering knowledge-as-knowing within an organisational context is its relationship with, and contextualisation in, decision and action. We were mindful of Gibb's (1997) observation that 'the processes whereby knowledge is generated, applied and transferred, relate to the immediate managerial context and task environment'. This knowing of managers in turn helps us to identifying the evolving forms of business knowledge and capabilities - as interpreted by managers - in their organisational and environment context.

In summary, the above three literatures inform our research approach. Each is relevant in exploring and investigating the managers' interpretations of the changing environment, their response development and the required resources and capabilities. By using the cognitive literature we explore how Ethiopian managers enact with and give meaning to the changing environment. The institutional theory is also useful to explore what influences the trajectory of deinstitutionalization process have in interpreting the most important aspects of the environment, strategic response development and development of the required organisational capabilities. We draw upon the organisational knowledge literature to disentangle the way knowledge-based assumptions underpin the managers' thinking and interpretations.

3. Research Methods

This paper is based on 58 semi-structured interviews. The participants were purposefully sampled. Forty (40) top level managers (directors, general and senior managers) were drawn from five commercial organisations and 18 interviewees were conducted with officers from business associations, government departments and a research institute.

The commercial organizations the 40 managers belong to were: two banks (incumbent state-owned and newly emerged private) and three manufacturing and exporting businesses. Two of these were state owned and one private. Two were tanneries and one was a garment-making enterprise. Each of the businesses apart from the private bank had over thirty years experience. They were each of medium to a large size.

Table 1. The Profile of the Business Organizations

Organisations Profile	Company A	Company B	Company C	Company D	Company E
Sector	Financial	Financial	Manufacturing	Manufacturing	Manufacturing
Industry	Banking	Banking	Leather	Garment/textile	Leather
Ownership	State	Private	State	State	Private
Year of establishment	1963	1995	1975	1971	1972
Number of bank branches	171	30	NA	NA	NA
Capital (Million Eth Birr)	1,368	140	135	N/A	------
Number of employees	7478	1006	989	579	225
Market focus	Commercial and retail banking	Commercial & retail banking	Export & domestic	Domestic export	Export & domestic
Major customers	Government public enterprises Private enterprises, individuals	Private enterprises Individual customers	Overseas and domestic leather and leather goods and shoe manufacturers	State enterprises and agencies Individuals (less), few overseas clients	Overseas and domestic leather and leather goods and shoe manufacturers

Source: Fieldwork, 2004

The fieldwork was conducted in Ethiopia in two separate phases in 2004 and in 2005. Two semi- semi structured interviews (one for business organisations managers and the other for research context interviewees) were used to guide the interviews (Denzin, 1989, Patton, 1990). The interview on average took slightly more than an hour, the longest being 103 minutes and the shortest 32 minutes.

The interviews were recorded and transcribed; they were analysed qualitatively and triangulated with internal documents and reports. The inductive analytic approach was used to understand the executive managers' interpretation of the external environment, strategic response development and of the required business knowledge and capabilities. Various verification strategies, such as concurrent data collection and analysis, constant comparative analysis and iterative analysis, triangulation with internal documents and reports were used to locate the findings within the framework of the existing body of knowledge and to provide broader picture as well as to open to the new questioning.

4. Key Findings and Interpretations

This section reports on interpretations of environmental factors, strategizing and interpretations of organizational capabilities.

4.1 The Most Important Aspect of the Environment

One of the key research questions investigated was how the Ethiopian managers' interpret the most important aspects of their environment. We found that directors and senior managers made multiple interpretations and selective perceptions of the external environment that are shaped by their experience, historical and cultural context. We present below some of the key aspects of the environment as seen by the top level managers.

4.1.1 The Political Management of the Transition Process- - Political and Policy Environment

The impacts of political management of the transition process as seen and analysed by the managers revealed the aspects of power and temporality. Despite the fact that almost all interviewed directors and managers agree that the transition to a market-orientation is characterized by gradualism, there were disagreements why this is so and its likely impacts on business organisations. For the majority of informants, the socialist experiences and precepts embodied into Ethiopians, be it policy makers, businessmen or civil servants, were not fully dissipated. Many informants from the research and private business organisations criticized the way the transition process was being managed and implemented. Emerging evidence from the fieldwork suggests that the tendency of policy makers and government officials to bring in a 'controlled change' and their ambivalence or reluctance to fully commit to the market-orientation brew suspicion on the continuity of the other market-oriented policies, despite the government's evident success to adapting to some of the stabilization and liberalization policies. According to some of the informants, 'Ethiopia is not yet in a market orientation; there is a long way to go' (Vice President, 2004). This stems from the fact they suggest that policy makers have deeply held Marxist precepts, which continue to inform their behaviours across a range of policies including land, urban housing, and agricultural development. Therefore, even though some organisational fields, including the private sector and some informed sections of the society, recognise the need for change, or transition to the new value such as the right to own land as a private property, they were not successful. One of the informant's highlighted the deep concerns of private business managers:

> "One issue seriously besetting the private sector but not officially accorded recognition is that of trust between the business community and the government. The business community suspects that the government does not see the private sector as a partner in the national economic development despite its claim thereto" (Ex-Director of a Research Institute, 2004).

The interviews revealed that many top level managers were very circumspect and cautious about the future. They pointed out that the frequent changes in policy made it difficult for them to plan ahead and to invest. For example, one head of a manufacturing firm argued:

> “Rules and regulations change over time affect current project decisions or the implementation of approved ones. For instance, the investment code has been modified at least seven times in the last twelve years yet no significant investment, especially FDI, has come into the country. That is an indication for me there is something wrong. [In such circumstances] I would like to make sure every thing in this country will be as good as it is now or even better before committing myself to a project of five years pay back period. But who can guarantee what would happen next” (Managing Director, Leather Manufacturing Co.)

Managers also worried about the socialist precepts implanted in the key actors (politicians and policy makers) of the environment and their tendency to swim against a tide. These interpretations heightened the contested nature of the market-oriented policies. They cited examples of the government keeping under its control confiscated private houses, continued aggression in establishing party affiliated business organisations, and the way the prime resource in the country (land) remains under government ownership.

Some managers questioned the sources of state policies. They saw Ethiopia as under restructuring and transition processes dictated by the Breton Woods institutional agreement. They suggested, for example, that the trade, tariff and financial liberalisation policies have differential impacts on different types of business organisations disadvantaging some operations, while others enjoyed government incentives. They wanted phased liberalization with a clear time table so that financial institutions in Ethiopia could help their organizations to acquire and develop the required knowledge and capabilities. On the other hand, many officials and some commercial managers perceived that the Ethiopian macro economic and policy environment is very conducive, predictable and stable for the operation of business organisations despite some implementation problems at the lower administrative levels. Thus one director questioned:

> “How would I get licenses from the ministries, how would I pay my taxes, how would I go to the court and get judgment, how do I get justice in this country, how could I get police intervention if one breaks into my property? These are things to be desired; and a lot remains to be done in that direction. When things come down to the grass roots

> level, there are still institutional settings which are not in place. So these are challenges" (President of Ethiopian Manufacturing Industries Association, 2004).

4.1.2 The Economic and Competitive Environment

The Ethiopian economy environment was seen as very volatile and unpredictable. Most of the managers characterized the economy as essentially 'agrarian', lacking essential infrastructure for industry development and susceptible to external shocks. The analysis of one senior manager reflects this perception:

> "The Ethiopian economy is extremely susceptible to external shocks such as adverse international events, falling prices of traditional exports, natural hazards (recurring draught) and even to bumper agricultural harvests" (Vice President, Personnel Planning and Development, Financial Banking Co.)

Managers' analyses of the task (competitive) environment involved the competitive structure, the maintenance of the buyer-supplier relationship, and their customers. The most challenging from the competitive environment perspective are the trends towards globalisation, entering in to international markets and for some managers simply making their companies competitive locally. These managers were anxious about their competitive capability that they thought were limited due to their lack of previous experience and knowledge in operating in a market system, 'unfair' international trading requirements and cheap imports. For example, competition, both local and foreign, has a more pronounced effect on buyer-driven chains of three manufacturing and exporting companies. Managers of the Financial Bank and the manufacturing and exporting tanneries also emphasized that local competition is getting fierce. Almost all managers interviewed regarded globalisation as a challenge for the Ethiopian business organisations but with differential impacts on different business/ sector organisations:

> "Globalisation is becoming a greatest challenge of all times even for highly endowed, capital rich manufacturing firms with centuries of experience in Europe and the United States. These firms are now having very serious difficulties in competing with the manufacturing giants coming from Asia and particularly from China. Given this, you

> can imagine how it would difficult and if not impossible to very poorly endowed financially weak, technologically backward firms with a very low level of skills to compete and survive in international market (Economic Researcher, 2004).

According to some managers, unfair competition is prevalent in local markets be it in banking or manufacturing businesses. This is due to some private banks making unnecessary and detrimental promises in their bids to attract more borrowers and snatch from the others- the practices that would affect the financial soundness of the banking industry as a whole. In addition, the private bank managers were not comfortable with the market monopoly position of the government banks that limited fair competition. In production firms, the story was different. These managers were worried about cheap imports and the alleged preferential treatment given to the party affiliated business organisations:

> "In this country you have also party affiliated business organisations. If things continue the way they are today, many business organisations are complaining about the party affiliated companies are being given preferential treatments. This is a crucial aspect whether the democratic system is flourishing in this country or not and it has its own implications on the business environment" (Director, 2004).

Many directors and senior managers reported that cheap imports from Asia, dumping and under-invoicing activities threaten survival and, in some cases have led to the closure of domestic manufacturing enterprises.

4.1.3 Legal and Regulatory Environment

Legal and regulatory systems of the institutional environment were given more emphasis by the banks' senior managers when compared with the manufacturing and exporting firms. Some of the two banks' executive managers voiced their concern over a recently introduced directive by the central bank which they regarded as impacting on their organisations' core operation - credit extension and financial management. Some managers pronounced that there are variations in rules and regulations being enacted in different regional states that have a negative bearing on their business operations.

Manufacturing and exporting, and agro- based firms' managers also emphasized the need to comply with international quality standards and environmental protection standards.

4.1.4 Social and Cultural Environment

The narratives also revealed how social and cultural factors unique to Ethiopia have an impact on the way business was being done. Two important insights are noteworthy. The first relates to the fact that Ethiopians were in a closed system that blocked interaction with the outside world. The second is a culture that does not embrace and admire business success, innovation and openness. The accounts of these managers revealed that

- Historically, engagement in business was seen as only fit for those who were not born or married to the nobility or could not be warriors or priests;
- The dominant religion of the past advocated and continues to advocate what might one may consider as anti-success attitude: " it is easier for the camel to go through the eyes of needle rather than the rich man to enter heaven" (Vice President, Addis Ababa Chamber of Commerce, 2004);
- During the defunct socialist regime, the private entrepreneur was portrayed as the exploiter whose gains could only come from the disadvantage of his/her fellow persons.
- Lack of culture that fosters innovation and openness and paves the way for the unique way of doing things;
- The people are not yet ready with their perception that they can work together.

The plea of one director encapsulates some of the concerns of the socio-cultural environment:

> "Let's open ourselves to the rest of the world. You cannot be competitive in the global market if you don't change the way you do things. The way your organization functions has to be changed; you have to be the learning type of an organization, you have to be responsive type of an organization. For this you need to have a fundamental change of company culture starting from an individual employee attitude. This is crucial". (Director, Public Enterprises Supervisory Authority, 2004).

In summary, the external environment is seen as frightening, uncertain, and unpredictable by most managers. For a minority it was understood as improving in relation to the success of their business. However, these interpretations - certain/predictable, uncertain/ unstable/frightening - varied across different elements/levels of the environment and are based on managers' repositories of assumptions, theories and knowledge drawn from their past and present experiences. Managers were able to describe and analyse more the narrow environment that they perceived as affecting their line of the business operation while leaving aside the big picture.

4.2. Strategic Response Development

The fieldwork revealed how political, historical and cultural factors shaped directors and managers' interpretations of the strategy making process. The taken-for-granted assumptions of the rationalist, normative stance, that managers can and should strategically respond to the changing environment, are questioned by the Ethiopian managers. Managers in state own enterprises lacked complete discretion and autonomy in their strategic planning process. They felt compelled to comply with the guidelines from designated government authorities. The strategy development process itself is evolving and is not yet fully comprehended by the managers. In government organizations there is a politically induced strategic planning process. In the more private sector organizations, managers question the value of strategy-making where their companies lack the necessary resources and capabilities, and don't know where and how to find markets.

There were also marked differences in the strategic planning process. While Companies A, C & D - all state owned enterprises - claim to have strategic plans of four to five years, there were striking differences in the process or the ways these were initiated, developed and implemented. Company A's (a government owned bank) strategic planning process and to some extent implementation was driven by high involvement with foreign consultancies services and the pressure and suggestions from the World Bank and IMF. In case of Company C and Company D, the initiation was from the government agency responsible for supervising the state owned enterprises while the top managers were key actors in its preparation and implementation. The study found variations in strategy initiation and formulation process, the key actors involved and the values and significance attached to it.

The findings suggested that it is difficult to categorize types of strategies described by these managers in terms of the standard western models. However, managers were very adept in identifying business strategy in line with the functional areas or line of responsibilities. In addition, these managers, especially from the state-owned enterprises, saw the government resources as a natural and important part of strategy development reinforcing resource dependency theory, but in sharp contrast to the Anglo Saxon notion of a strategy. Strategizing practices were stifled by lack of previous experience and knowledge, incomplete information and knowledge about customers, competitors and the business environment. The business strategies typologies of the organisations these managers belong to are presented below in table 2.

Table 2. Business Strategy Typologies Identified by Managers

Organizations' Business Strategy	Remark
Company A: State Bank **Business strategies** ▪ Product differentiation and diversification ▪ Business process reengineering ▪ Customer segmentation(corporate customers) ▪ Differential Pricing for valued customers ▪ Cost containment and rationalisation (focuses on HR) ▪ Use of people-friendly technology ▪ Prudent credit extension and recovery ▪ Control strategy	Now the Bank has a five-year strategic plan. There has been a shift on emphasis from market penetration by branch expansion to new product development or product diversification strategy; have empowered branches and become customer-oriented. With the exception of a few, the implementations of most of the described strategies were started.
Company B: Private Bank **Business strategies** ▪ Expanding branch network	Aims at organic growth. The planned move to the long term financing will bring in a marginal variation in their business model
Company C: State -owned Tannery **Business strategies:** ▪ Marketing strategy ➢ New products to existing markets ➢ New products to new markets + (Diversification?) ➢ existing products to existing and new markets ➢ Relationship management – suppliers ▪ Production strategy ➢ R& D strategy -Least cost approach by reducing wastage and reworks ➢ Upgrading the lower grades ➢ higher stage processing ▪ Profit maximisation ▪ Partnership formation	Failed to enter in to the new market with the finished leather at lower price due to buyers' lack of confidence on their product quality. The organisation needs to acquire processing technology, know-how, skilled HR to move to the higher stage of processing. The recent partnership formation with highly reputed British leather manufacturing company may help the acquisition and development of capabilities and entering the foreign markets with quality finished leather.
Company D: State-owned Garment **Business strategy**: work –order based	The management failed to articulate their business strategy. Entered the USA market at break-even point in 2004
Company E: Private Tannery Business strategies: Product diversification; Marketing ; Plant improvement	The management saw themselves as capable to implement the strategies

Source: Fieldwork 2004 and 2005

4.3 Evolving Forms of Business Knowledge and Capabilities

The research with Ethiopian top-level managers reveals the difficulties they faced in identifying and developing resources (including business knowledge) and capabilities. There were no mechanisms and systems in place that would help identifying the core competence (capabilities) of the organisations. With the exception of a few, most managers were unable to articulate what core competences their organizations have or need. They could of course list generic capabilities such as managerial, marketing, technological and communication skills.

Managers' interpretation of the required business knowledge was incomplete exhibiting variations across sectors and managers' line of functional responsibilities. In addition, the managers' interpretations were also revelatory in terms of exposing the differences in level of emphasis to different levels of business knowledge - operational/ functional and strategic level knowledge that was considered being useful for their organisations to acquire, develop and use. Most managers were unable to describe the knowledge thought as necessary except in relation to specific operational areas. Sector-wise, managers' interpretations of the required business knowledge are as follows.

The managers of the two banks thought as crucial business knowledge:

- Operational knowledge: banking business, the bank's products, processes and systems
- Knowledge about changes in the business environment (regulatory requirements, financial market, national & international economy, competitors, international trade rules, domestic and international politics)
- The changing need of the customers, the market being served and to be served including different business activities the bank financing.

Managers in manufacturing and exporting firms considered the following as important business knowledge:

- Technology related knowledge: process technology, technology know-how, designing, environment friendly products; knowledge of the administrative, quality, and technical standard requirements;
- Marketing knowledge: marketing know-how, knowing about customers, potential market, product quality, pricing; fashion;
- Strategic level: business management, strategic management and planning, leadership, ability to scan the environment.

According to a number of directors and presidents, the strategic level business knowledge required include skills to scan the environment and the identification of threats and opportunities; the knowledge of change and direction of change in the business environment; organisational awareness (knowing their business) including directions and goal setting, strategic planning and management knowledge. The description by the president of the state owned bank represents such viewpoints:

> "The key business knowledge we need to have in place include the knowledge of changes and directions of changes in the business environment; how banking industry behave in Ethiopia and elsewhere, and the changing customer needs- the market being served and to be served" (President of State Bank, 2004).

The managers' identification of types of useful knowledge that are seen by them as required comfortably fit into a pragmatist approach to classifying knowledge. In addition, the field work data suggest that the required skills and knowledge varies according to the hierarchy of management. The case of a state-owned bank illustrates this as described by the senior manager:

> "The Bank has started identifying the type of managerial skills we require at all levels with support of the consultants. Some of the skills and competencies that were identified for executive managers include: leading organisation (vision setting, understanding internal and external environment); change management; dealing with ambiguities; political awareness (both international and domestic politics); entrepreneurship skills; decision making; skill to manage conflict; negotiation skills, persuasiveness- persuading others, etc.(Vice President, Personnel Planning & Development, 2004)

For the Ethiopian managers, the perturbing situation is the widening gap that they perceived as to exist between the theoretical/abstract knowledge of the employees and the practical/applied knowledge or know-how. In their interpretation, what is more important is not what the employees know what but how they use what they know in practice for the organizational advantage. The implication is that ability of employees to use what they know to make sense of the changing environmental situations and their ability to use these emerging environmental situations to make sense of what they already know is seen as crucially important.

The preliminary attempt to see the status of knowledge exploration and exploitation based on managers' interpretation has provided fascinating initial insights. From the knowledge exploration dimension, companies these managers lead are active in recruitment and training but at varying levels of emphasis. Both in training and recruitment the banking organisations are at forefront of all other organisations. Even though it is at a nascent stage, it appears that company A, Company B and Company C were attempting to create knowledge by the research and development activities. From knowledge use / exploitation dimension, the knowledge sharing processes appear relatively in place but taking different form- not supported by the information and communication technology - as compared to developed countries firms. New product development process seems almost insignificant, indicating that the companies are not yet able to integrate knowledge. Knowledge identification process is ongoing in both banks but not yet in other organisations. In addition, we found also that observational learning is a predominant mode of learning in these organisations. Managers including those in a wider research context are worry about the widening gap between the theoretical (conceptual knowledge) and practical knowledge of the staff (including managers) in some critical professional areas such as engineering, technical and management.

The identification of the required core competence/capabilities was a challenge for most of the managers. Based on their reconstruction in terms of business operations, processes and resources they are good at, these managers were able to describe the required resource and capabilities for their organisation. These described competences/ capabilities to deliver the strategy of the organisations could fall into strategic, functional and operational levels. There were differences and similarities of mentioned strategic capabilities between the organisations. Business management, strategic management (planning), strategic marketing, environment scanning (changes in and the direction of change) and change management capabilities are commonly cited as the required capabilities in both sectors organizations. On the other hand, while banks' managers emphasized capabilities such as risk identification and management, maintaining good relationship management, reputation and public confidence, modern information and communication technology using capabilities; knowledge of quality standards, environmental safety and health; knowledge of international trade rules, communication capability, and technological capability are mentioned as critical capabilities for manufacturing enterprises.

There were different conceptualisations of competence and capabilities. Core competences were seen as their key organisational strengths; only a few managers thought in terms of the ways, the processes, and routines that are unique to their organizations. According to the latter types of informants, core competence lies in effective *use of the business knowledge itself* and should not be mistaken for the kinds of assets and structures in place. But the perception of most managers is akin to identifying core competence with organizational strengths as the following quote reveals.

> "Our organization's resources and capabilities involve a comfortable capital base, long years of experience in the banking business, strong public confidence, strong financial resources, relatively better skilled human resources, and wide branch network" (Manager, Banking Systems, 2005).

In addition, the context interviewees suggest that business clustering, ability to form partnership with foreign firms; entrepreneurial competence and business management are key required capabilities. These context interviewees also singled out finance (including the long term) as critical resource required by the Ethiopian business organisations. While the top level managers perceptions of capabilities are likely to drive their decision-making and actions (Day and Nedungadi, 1994) it will be recognized that perceived capabilities and actual capabilities may be different (Hooley et al, 1999).

4.4 Acquisition and Development Organisational Capabilities

We investigated how managers were able or unable to acquire and develop the required resources and capabilities. There were many interplaying factors that facilitated and/or constrained the acquisition and development of resources and capabilities. The dominant mode of developing employees competence was through employee training and development programmes. Training is provided merely to enhance the technical competence and skills of operational and some lower-level management and was not based on systematic identification of the required core competence that could be a base for gaining competitive advantage. The recent effort by the state bank, however, saw it undertaking business process reengineering, and producing new job specifications and associated required skills and competences (Vice president, Credit and Risk Management, 2005). In most cases, the training provision tended to be conventional, formal and classroom based. The on-the-job- training, job rotations, mentoring and coaching as exercised in some of the organisations, especially in banks, have, to a certain extent, the role of transferring tacit knowledge but currently it is limited to operational employees.

Beyond formal employee training and development programmes, the managers reported that the major ways of acquisition of relevant information, knowledge and competence are through purchase of new technologies (process, manufacturing or banking), exposure visits, hiring consultants, informal networks and capacity building programmes of the government. In addition, several managers were considering partnership or alliance formation with foreign companies as a possibility to develop organisational capabilities. Prior organisational knowledge and capabilities also were useful to acquiring new knowledge and capabilities. This is the case where the state owned bank managers used the bank's financial resources and government ties to hire consultants and the state owned tannery to use long term supply-buyer relationship and certification of ISO 14000 to get into partnership with foreign company in March 2005.

Managers reported that 'mindset' and shortage of finance were the two critical constraints that deter the acquisition of the relevant knowledge and capabilities in case of private firms. In contrast, the state owned enterprises identified the inability to develop the necessary competence and skill deriving from their connection with the government. The state-owned enterprises are in a better position to have a government support that help the search for their products market, develop their organisational capacity and develop strategic plans. Paradoxically, however, most of the state-owned enterprises' managers especially those in manufacturing sector lack discretion to acquire and allocate resources, with little experience and confidence to compete in a market based economy.

The barriers to knowledge and skills acquisitions as interpreted by managers and wider research context informants were diverse and complex. These barriers related to the lack of prior experience in operating and exposures to market oriented business environment, backward information and communication technology infrastructure, poor business culture, a mismatch between what the educational system produces and the required skills and knowledge on the ground, weakness in intermediary institutions, lack of finance, traditional managers' ambivalence to use existing training institutions and marginal interest of business community to form associations or clusters.

5. Discussion and Conclusions

How do managers interpret the most important aspects of the transition economy environment? How do they interpret the implications of aspects of the environment to their business organizations? What knowledge of strategizing do they have? What do managers think are the required organisational capabilities (resources and capabilities) to deliver their strategy and how they acquire or develop these? These were the guiding research questions. Through these we investigated how managers' interpretations and 'knowing' are situated and mediated and subject to variations, reinterpretations and change. In doing so, we explicated how much of what is taken-for-granted by managers in the West – for example, relative predictability of government policies, political certainty, and the role of the state – simply cannot be assumed to anywhere near the same extent in Ethiopia. As a result this setting offers insight into how managers cope with highly tentative and contingent knowledge.

Ethiopia's transition from a planned economic system to a market oriented one has been gradual and this might have helped in ameliorating the social hazards that other transition economies have experienced. However, this gradualism did not bring with it a stable and predictable business environment that many private business managers were longing for. Instead, the most important aspects of the environment – the political and policy, competitive, socio cultural and the economic environments were found to be the cause of significant uncertainty for the Ethiopian business organisations as it was the case in Russia (Puffer and McCarthy 2001, Stoner-Weiss 1997). Thus, managers, mainly from the private sector, were suspicious about the trajectory of deinstitutionalization. Arguably, the uncertainty of the environment can strongly influenced these managers strategizing practice and making strategic decisions (Henisz and Delios, 2002) because of the political and economic costs of operating in such environment. Managers are likely to focus on short-term decisions because of the inability to value long-term investments as is documented in this study. Long-term investments are less likely, and actions to obtain needed resources in the short term are emphasized, as managers seek to mitigate the potential hazards (Henisz and Delios, 2002). The process of deinstitutionalization, thus, is mixed and incomplete resulting in managers having less confidence in the trajectory of deinstitutionalization.

The need for Ethiopian managers to engage with strategizing in the face of an uncertain and dynamic transitional environment is evident. However, we found that these managers did not, in the main, follow the western conventional categories of the business concepts and frameworks. The idea of 'strategy making' is a recent phenomenon and is problematical to these managers. This poses a challenge as the organisational and managerial capabilities, and decision-making processes are often not fully developed which supports recent findings of other studies in emerging-market firms (Lyles and Baird, 1994: Luo and Peng 1999). In this regard, Filatotchev et al (1996) argue, "Russian managers lack the appropriate mindset and market-oriented skills to successfully compete in free markets" (Hitt, et al. 2004:176). Moreover, managers' decision-making discretions are also constrained by 'fear of committing mistakes', because, according to some informants, 'the system penalizes mistakes but not inactivity'. On the other hand, the strategic response development capacities of the private firm managers are said to be incapacitated by the lack critical resources (mainly financial), weaknesses in social capital (networking or clustering), and the perceived political and policy uncertainties.

We analyzed how the Ethiopian managers 'know' their own organisations in terms of the required resources and capabilities, structures and process and what constrains the acquisition and development of these. Managers knowing about their organisational capabilities is informed by and varied across their experiences, positions and line of responsibilities. Their interpretation is also mediated by the contextual factors – institutional and task environment that served in constraining or facilitating the development of the required organisational capabilities. These managers' interpretations also reveal the needs for nurturing their own absorptive capacity. Employees training and development programmes, purchase of new technology, exposures, and hiring consultancies were major ways these mangers used and intended to develop organizational capabilities. Overall, the managers' interpretations revealed that developing management and market capability followed by the technological and clustering (networking) capability were most important. This finding supports the previous research in transition economies. In a comparative study, Kogut and Zander (2000) found that socialism does not necessarily reduce technical capabilities of firms, but its tendency to separate a firm from its customers severely impedes their ability to adapt to market needs. Investments in marketing may thus be critical for the performance of the firm (Hooley et al. 1996; Uhlenbruck et al., 2003). In particular, the acquisition of complementary managerial and marketing resources is a necessary condition to achieve sustained higher strategic flexibility and performance (Hamel and Prahalad, 1994; Hitt et al., 1999).

Our study's main conclusions can be summarized thus:

- The very unstable political and economic environment, a presence of compelling political and ideological influence on business operations, and a national culture that does not embrace business success and innovation were all factors which accentuated the uncertain status of knowledge accessible to, and used by, these senior managers.
- In such an environment, managerial environmental scanning behaviours and decision making were highly constrained and subject to various political, economic, and cultural forces. The framing of strategy takes place in an organizational, social and political context and the art of strategizing is seen inherently as a political process (Mintzberg, 1983; Pettigrew, 1987). Thus, under uncertain and constraining political, policy and socio-cultural environment, it would be difficult for majority of the Ethiopian managers to think and lead their business organizations strategically and thus they tend to be short termist in their views and their strategizing practices survival- oriented.

- Thus managers' business knowledge about their organisations, as mediated by the above environmental factors and internal organizational limitations, would help open up new questions about the taken-for-grantedness of conventional western business model and conceptual frameworks. Thus, the taken-for-granted assumptions such as the 'manageability' of change; the notion that managers have the necessary capabilities and resources and hence can acquire relevant information and knowledge on the external environment and act up on them in order to achieve organisational goals – were found not to valid in this setting. In many western settings too there would be qualifications to add to these assumptions; but in Ethiopia we found that the qualifications were of an especially challenging order. Consequently, the way Ethiopian managers struggled to come to terms with the extreme forms of uncertainty they faced can shed new light on the process of uncertainty handling in other, less demanding, settings.

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