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A case study of corporate diversification and vertical integration in Africa

Jorge Fernández-Vidal, Reyes González, Jose Gasco and Juan Llopis

Department of Business Organisation, University of Alicante, Alicante, Spain

ABSTRACT

Africa is home to some of the world's most original, resilient, and remarkable companies. The singular challenges and opportunities of the continent's economic environment have given rise to idiosyncratic strategies and business models. However, there is a notable absence of studies on African companies. While there are numerous noteworthy companies in Africa, there are few as relevant, successful, and influential as the Dangote Group. This paper aims to add to the limited literature in the area by analyzing the business model and strategic choices of Dangote Cement, the Group's flagship business and one of Africa's industrial giants. In particular, it explores its corporate diversification and vertical integration strategies, which are at the core of its success. This article is based on 7 interviews with internal and external Dangote stakeholders and a detailed questionnaire completed by the Strategy Department of the firm, together with public data of the company. While the topics of diversification and integration have been studied in multiple contexts, this article provides an original perspective by applying existing research and management thinking to the specific business environment of Africa. This paper explores how and why Dangote Cement diversifies and how it identifies and integrates the advantages and disadvantages of its strategic choices. We believe it provides an original perspective that furthers our limited collective understanding of and research on strategic practices in Africa, the world's last business academic frontier.

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1. Introduction

Africa is one of the most underexplored and understudied regions in the strategic management and international business fields. There are a number of reasons for this, such as the challenges of data access, the very limited funding for universities to support research, and the underdevelopment of most African economies (Mol et al., 2017).

CONTACT Reyes González mr.gonzalez@ua.es

However, there are reasons to be optimistic. Firstly, this represents an interesting opportunity for scholars, and many are rising to the challenge by exploring different aspects of African businesses, such as their internationalization (Boso et al., 2019), or growth strategies (Wood, 2015). Secondly, Africa is growing very rapidly and was home to five of the top ten fastest growing economies in the world in 2019, the last pre-pandemic year (International Monetary Fund, 2020). As with other emerging markets, like China and India, as countries or regions grow and develop, scholars start to pay them more attention (Kolk & Rivera-Santos, 2018).

As a result of the growth of African economies, local African firms are emerging across the continent and are challenging many of the Western multinationals that have dominated the market since colonial times (Adeleye & Esposito, 2018). African giants hold leading positions in sectors like Finance (Attijariwafa Bank, Ecobank, Firstrand, Standard Bank), Construction Materials (Dangote Cement), Insurance (Sanlam), Metals & Mining (Anglo American, AngloGold Ashanti), Retail (Shoprite), or Telecom (MTN, Safaricom) (Minney, 2020).

One of the open research questions posed by a number of scholars (Boso et al., 2019; Luiz et al., 2017) is whether African firms exhibit certain unique behaviors or adopt different strategies than other multinational firms. While the existing body of literature related to African corporations is rather scarce, it seems to point towards a somewhat unique business environment that requires firms operating in the continent to adopt localized business practices (Behuria, 2022).

Given the lack of reliable data and the need to analyze specific business strategies in detail, several scholars have opted to approach the specificity of African firms' strategies through the use of case studies of individual multinational firms (Bowen et al., 2016; Iheanachor & Ogbechie, 2016; Holm et. al., 2017; Ogbechie & Iheanachor, 2016; Luiz et al., 2017; White & Games, 2016), focusing on several competitive and corporate strategies, such as market entry or internationalization.

However, one of the aspects that has not been sufficiently is that of corporate diversification and integration in Africa (Behuria, 2022). The continent is home to many portfolio entrepreneurs who run a collection of diversified and loosely connected businesses simultaneously, a practice alien to most of the rest of the world (Mol et al., 2017). While certain studies that look at the practices of African companies highlight the importance of diversification and business integration in the strategies of successful African multinationals (Leke et al., 2018), there is an absence of specific studies about this topic.

Part of the reason could be that many of the academic studies that focus on African businesses tend to explore the role of SMEs (Omenguélé & Mbouolang, 2022), ignoring larger organizations, despite their economic importance (Leke et al., 2018).

This paper aims to contribute to the limited business literature on corporate diversification and integration strategies in Africa by focusing on the case study of one of Africa's leading firms, Dangote Cement. The company's highly integrated business model offers interesting business lessons and insights into some strategic practices specific to Africa.

After this introduction, the article is structured as follows: a brief review of the main literature around corporate diversification, an explanation of the methodology used in the study, an overview of Dangote Cement's diversification and business integration strategy, and a conclusion of the case study.

2. Theoretical framework

Corporate Diversification has been widely studied since the 1950s (e.g., Penrose, 1959; Rumelt, 1982; Thompson, 1984). The literature on corporate diversification is very extensive and varied, which makes it challenging to summarize the multiple findings around this topic. Therefore, this review will focus on the most relevant aspects for this article, namely, why firms diversify and the impact of diversification on firm performance. We will also discuss two specific diversification strategies, i.e., Vertical Integration and Alliances. Finally, a brief reference will be made to the study of diversification in Africa.

2.1. The rationale for corporate diversification

The motivations, rationale, advantages, or disadvantages of diversification and vertical integration have been widely studied (e.g., Goold & Luchs, 1993; Penrose, 1959; Porter, 1980).

Firms diversify for multiple reasons and there are endless specific circumstances that may justify such a strategy. However, they can be combined into three broad views: the market-power view, the resource view, and the agency view (Montgomery, 1994).

The market-power view argues that firms diversify not to be potentially more efficient, but rather, to yield more market power - also termed *conglomerate power* (Hill, 1985; Shiva, 1999). According to proponents of this theory, the scope and size of a firm across markets gives diversified firms a clear competitive advantage (Edwards, 1955).

The resource view argues that firms diversify to leverage excess capacity in productive factors (Penrose, 1959). According to this view, if firms can find a profitable way to utilize their underused resources, they will have an effective incentive to expand.

The agency view derives from the notion of agency theory. This theory argues that an agency problem occurs because of the separation of the shareholders (principals) and the managers (agents) of firms (Ross, 1973). Managers make decisions to benefit themselves rather than shareholders. As a result, managers pursue suboptimal or value destroying strategies through self-interest, at the expense of shareholders (Jensen, 1986; Mueller, 1969).

The diversification of a firm's operations across different phases of a value chain gives rise to vertical integration. Stigler (1951) argued that firms' vertical integration choices depended on the stage of industry evolution in which they find themselves. He claimed that businesses need to vertically integrate early in the life cycle of a market (as companies need to develop that market). Likewise, as the industry declines, weaker independent firms exit, and core players may need to integrate to fill the gaps or prevent exploitation by increasingly concentrated suppliers or customers (Stuckey & White, 1993).

Alliances are another common diversification mechanism. Firms usually rely on alliances to gain capabilities they lack (Harrigan, 1984). Alliances give firms access to value-added assets and capabilities that are required to create, store, and commercialize knowledge to generate new products (Rothaermel et al., 2006). Furthermore, alliances are a critical source of competitive advantage for firms and serve as stocks that may not be easily imitated by others (Eisenhardt & Schoonhoven, 1996; Van den Steen, 2014).

Firms increasingly use alliances to obtain market-leading capabilities (Zollo et al., 2002). In emerging markets, alliances are common and are a suitable market-entry strategy for foreign firms and a capability-building strategy for local firms (Ren et al., 2009).

2.2. The impact of corporate diversification

The impact of Corporate Diversification on firm performance, through vertical integration, alliances, or in any other way, has been widely studied and continues to attract the attention of scholars all over the world (Espinosa et al., 2018; Gu at al., 2018). However, the results are not very conclusive (Palich et al., 2000, The Economist, 2019). Certain scholars, like Lang and Stulz (1994), or Servaes (1996), argue that diversification destroys shareholder value, while other studies consider that it provides financial, strategic, and organizational benefits (Villalonga, 2004).

Firms diversify via product or geographical diversification (Penrose, 1959; Teece, 1982), and both forms of diversification have been studied to understand if one is more successful than the other. Again, the literature shows very conflicting results. On the one hand, some authors argue that firms that pursue product diversification strategies enjoy certain benefits, such as preferential access to valuable and rare resources (Markides & Williamson, 1996). On the other hand, several scholars hold that product diversification leads to a decline in productivity and, therefore, performance (Scharfstein & Stein, 2000; Schoar, 2002).

When it comes to geographical diversification, the results also differ. Some studies show that geographical diversification benefits firms, via economies of scale, scope, and learning (Ghoshal, 1987; Kim et al., 1993; Kogut, 1985) and by sharing core competences across markets (Hamel, 1991). Other studies argue that geographical diversification negatively affects performance, by substantially increasing operating costs (Hitt et al., 1997) and managerial complexity (Sundaram & Black, 1992).

However, there seems to be some consistency in the conclusion that firms that simultaneously pursue both product and geographic diversification achieve subpar performance (Delios & Beamish, 1999; Geringer et al., 2000;Wiersema & Bowen, 2008).

The topic of corporate diversification continues to attract the interest of scholars, with studies focusing on the interdependencies of different integration strategies (Brahm et al., 2020), the value-adding strategies of multi-business groups (Leavy, 2022), or the nature of business relatedness in the context of corporate diversification (Lüthge et al., 2021), signaling the pervasive appeal of this topic.

Although most studies on corporate diversification focus on developed markets (Purkayastha et al., 2012), diversification strategies are common in emerging markets, where conglomerates are typical, and this has attracted the attention of certain scholars in the last few decades (King et al., 2015; Wei-Kang Wang et al., 2018).

The limited research in this area for emerging economies provides the same conflicting results as for developed markets. Some studies show a positive relationship between diversification and firm performance (Khanna & Palepu, 2000; Mishra & Akbar, 2007; Nachum, 2004), others, a negative one (Li et al., 2016) and yet others find no relationship at all (Chu, 2004; Saple, 2000).

2.3. The study of corporate diversification in Africa

Parallel to the limited research about the impact of corporate diversification for emerging economies, there is a serious scarcity of studies on corporate diversification in Africa. Some scholars have analyzed the impact of corporate diversification on firm valuation in country-specific studies (for instance, in Tunisia: Boubaker et al., 2008; or South Africa: Luqman et al., 2013) or in emerging markets in the broader sense but incorporating South Africa in the study (Akben Selçuk, 2015). As with the broader literature on corporate diversification, these studies offer conflicting results. Boubaker et al. (2008) concluded that diversified firms sell at a valuation discount; Luqman et al. (2013) found no statistically significant differences in the performance and, therefore, valuation of diversified and undiversified firms; and Akben Selçuk (2015) found that diversified firms in emerging markets are valued higher than undiversified ones.

There are some studies that address the related topic of economic diversification and, while they offer some interesting insights, they are not very applicable to firm-specific issues (Ben Hammouda et al., 2010; Clark et al., 2016). Other studies look at firm diversification in certain sectors from a revenue perspective (i.e., diversifying the sources of revenue) and, while firm-specific, the approach is somewhat disconnected from the topic of corporate diversification (Nguyen et al., 2016). Lastly, other studies focus on tangential issues, such as growth strategies (Alemayehu & Van Vuuren, 2017) and offer some perspectives on corporate diversification in Africa, but without analyzing the topic in-depth.

The lack of research contrasts with the importance and economic might of pan-African conglomerates. This article therefore aims to address a relevant gap in the existing literature on corporate diversification in Africa and responds to the challenge raised by scholars who called for the study of diversified business groups in Africa (Behuria, 2022). As we stated in the introduction, we analyze corporate diversification in Africa through the study of Dangote Cement.

2.4. Dangote Cement: a brief history and overview

In 1976, Aliko Dangote, who came from a family of entrepreneurs, established his own trading business in his home region of Kano and moved to Lagos when he was only 20-years old to continue growing his business. During the next decade, Dangote built the largest trading business in Nigeria, importing basic commodities into the country (sugar, salt, cashew nuts, cotton, cement, etc.), encouraged by the liberalized commodity import regime of the then Government of Nigeria (Akinyoade & Uche, 2018).

Dangote benefited from Nigeria's demand and import growth and, by the late 1990s, his trading business was well-established and quite profitable (Akinyoade & Uche, 2018). The company took advantage of the rapid increase in cement imports; but Dangote was aware of the changing tides in Nigeria and knew that the growth of cement imports needed to be curtailed and that local cement manufacturing had to happen sooner rather than later. Cement is a relatively affordable and bulky product, it made tremendous sense to manufacture it locally, given that Nigeria had ample access to raw materials, most importantly, limestone (Hay, 1971).

In 2002, the Government of Nigeria introduced the Backward Integration Policy in the cement industry, which sought to make Nigeria self-sufficient in cement production by incentivizing the development of local production and restricting the importation of cement into the country (Oji et al., 2014). Dangote is credited with encouraging the then President of Nigeria, General Olusegun Obasanjo, to adopt this policy to solve Nigeria's chronic dependence on cement imports (Wallis, 2013).

As part of the Backward Integration Policy, the government banned firms from importing cement unless they also set up production plants in Nigeria and it offered a range of fiscal incentives under the Pioneer Industry Scheme. The government also privatized the publicly owned cement companies in Nigeria; as part of this program, the Dangote group acquired a controlling interest in the Benue Cement Company, which was subsequently merged with Dangote Cement in 2010. While other cement firms, like BUA, Ibeto, or Lafarge acquired larger plants in the privatization process, Dangote Cement was, by far, the most aggressive investor in the post-privatization period (Ohimain, 2014).

This was the genesis of Dangote's manufacturing expansion. Dangote's massive investments in Nigeria have made the country self-sufficient and a net exporter of cement (Odijie, 2020). As of 2020, Dangote Cement has a total production capacity of 48.6 million tonnes and a leading share in all of the ten markets where it operates, from Senegal to Ethiopia, and from Nigeria to South Africa. With the completion of new projects in Ivory Coast, Togo, Gabon, Niger, and Liberia, its footprint will grow to 15 countries across Africa (Dangote, n.d.a.).

3. Methodology

3.1. The selection of the African context

This paper focuses on the African context and there are several reasons for selecting Africa as the research context. First, as discussed, despite the commendable efforts of multiple scholars, there is still a general lack of studies focusing on African firms, particularly large companies (Omenguélé & Mbouolang, 2022). Second, Africa is home to numerous diversified business groups that have received very little academic attention, despite their substantial and increasing economic importance (Behuria, 2022). Third, the unique strategies of successful African firms could offer insights and blueprints that could be of use to academics and scholars in Africa and other emerging markets; perhaps there is an 'African way of doing business' waiting to be discovered.

3.2. Case selection

The business context in Africa is quite complex and presents specific challenges to researchers. Therefore, many business and management scholars have opted for case study research methodologies to examine different aspects of African firms' strategies and business practices (e.g., Bowen et al., 2016; Gao et al., 2022; Iheanachor & Ogbechie, 2016; Holm et. al., 2017; Luiz et al., 2017; Ogbechie & Iheanachor, 2016; White & Games, 2016).

This research approach is particularly useful when studying complex situations and events that have occurred over periods of time (Snape & Spencer, 2013); and it is specifically suited to exploring multifaceted issues in emerging markets (Zhao et al., 2014). Case studies are also an ideal approach when a complete, in-depth investigation is needed, such as in this case (Feagin et al., 1991). Furthermore, opting for a case study methodology is of particular relevance when studying causal links in real-life (Yin, 1994), which is required when analyzing strategic decisions in specific business environments, when these decisions cannot be disassociated from the business context.

While acknowledging the limitations of case studies as a research methodology, such as the difficulty of generalizing its conclusions to other firms (Gummesson, 1991), the authors consider that firm-specific case studies, particularly in a complex context such as that of Africa, offer relevant and interesting insights that further our understanding and contribute by enriching the limited body of business and strategy research in Africa.

Single case studies are not unusual and have several key advantages (Gao et al., 2022). A single case study design allows researchers to extract a large amount of detailed and context-specific information from multiple sources and is particularly suited to explaining contemporary phenomena in a real-life environment (Zhang et al., 2019). It also allows scholars to analyze in depth the decisions and causal factors linked to the company's internal operations, while taking into consideration the external environment (Tokatli, 2015). Furthermore, single cases studies, particularly when studying emerging market multinationals that operate in complex environments, offer a degree of controllability that enables scholars to make up for their inherent defects of limited generalization (Bandeira-de-Mello et al., 2016), while providing researchers with an opportunity to obtain more knowledge and a better understanding of complex situations through in-depth research (Mair & Marti, 2009). Naturally, the purposeful selection of the case gains particular importance (Fu et al., 2018).

As mentioned above, this paper focuses on the case study of one of Africa's most prominent and profitable industrial firms, Dangote Cement. The company's unusual integration and diversification strategy represents an interesting case of indigenous strategic practices that provide a glimpse into 'winning strategies' in Africa.

3.3. Research design

The article aims to explain Dangote's diversification strategy through in-depth interviews and empirical observations, as well as interpreting and analyzing multiple data sets. The data was collected from a range of public sources, such as newspapers, video interviews, business magazines, analyst reports, and from public information from Dangote Cement, such as annual and financial reports, company presentations, regulatory filings, and company announcements and news.

More importantly, we carried out 7 interviews (see details in Table 1), with internal and external experts. The internal interviews with 4 senior executives were semi-structured and were held over several days, covering 22 detailed questions. In addition, Dangote Group's Corporate Strategy Team answered a detailed questionnaire covering another 30 questions.

The external experts were a specialist in the Cement industry (not connected to Dangote Cement but with extensive experience in developed and emerging markets), a partner at a leading consulting firm in Africa, and a financier at a major multilateral development institution providing extensive funding in Africa. These experts were interviewed to provide a perspective of the cement industry, of the operating environment in Africa and to validate some of the conclusions of this study.

All interviews were requested via email or telephone and were conducted via video or telephone calls. An iterative process followed, as recommended by Morse et al. (2002), to ensure a correct understanding and interpretation of the topics discussed and to ask follow-up questions.

We used the Glaser and Strauss (1967) model to design the study's sampling strategy and we finished our interview process when we considered that we had reached theoretical saturation. We acknowledge the small sample size of our study -albeit within the sample size recommendations of qualitative research methodologies (Hennink & Kaiser, 2022). While a small sample size could be regarded as a limitation, we are confident we were able to reach saturation due to the seniority and knowledge of the interviewees, the in-depth nature of the interviews and the firm-specific nature of the research questions of this study. Furthermore, the detailed questionnaire completed by the firm greatly assisted us, thus limiting the need for further interviews.

During this data-gathering process, the company may have shared confidential or commercially sensitive information with the authors, for the purpose of explaining in detail the company's business strategy and results. This information sharing was duly regulated by a Non-Disclosure-Agreement signed by the parties. We sent a draft of this paper's findings to the company to ensure that no confidential or commercially

Table 1. Details of interviews.

Interview	Company	Role	Nationality
Interview #1	Dangote Group	Senior Executive	Nigerian
Interview #2	Dangote Group	Senior Executive	Nigerian
Interview #3	Dangote Group	Senior Executive	Nigerian
Interview #4	Dangote Group	Senior Executive	Nigerian
Interview #5	Ex-CEMEX	Senior Executive	Mexican
Interview #6	Consulting Firm	Partner	Portuguese
Interview #7	Multilateral Development Bank	Financier	Spanish

sensitive information was published without their authorization and to guarantee that the paper did not contain any factual errors or errors of interpretation, so as to ensure a correct understanding of the company's strategy.

4. Corporate diversification and vertical integration at Dangote Cement

Dangote Cement presents an unusual case in the industry due to its high degree of diversification and integration. The company has made a number of strategic choices that are fairly unique and contrast with the traditional decisions in the industry.

The decision to diversify and integrate outside of the core business is a difficult one. Vertical integration is seen as a particularly risky strategy—complex, expensive, and hard to reverse (Stuckey & White, 1993). Conventional management thinking argues that companies should not vertically integrate unless it is absolutely necessary to create or protect value. Yet, for Dangote, it is at the core of its strategy.

4.1. A brief rationale of Dangote Cement's business integration strategy

Dangote Cement has developed and implemented a strategy of aggressive business integration. This was a radical departure from the origins of cement manufacturing in Nigeria. The first Nigerian cement plants, located in Lagos and Port Harcourt, were 'nonintegrated' plants, as they imported all raw materials, such as clinker and gypsum (Hay, 1971).

While there is a certain element of natural integration in the industry, as most players tend to locate their cement plants close to the source of the main raw material –(limestone) and also partially or fully operate or own the limestone mine, there is little integration beyond that.

However, Dangote Cement has opted for a strong business integration strategy (see Figure 1). For instance, in many countries Dangote Cement mines its own limestone, directly imports other necessary raw materials, uses company-owned trucks to transport it to its own cement plants, that are in turn run using energy from its own power plants; the cement is then packed in bags produced by the company, which are then delivered to customers using the company's trucks.

This degree of vertical integration is unusual; and one could argue that such a strategy goes against conventional management thinking. However, there are strategic and firm-specific reasons that justify such an uncommon strategy.

Clearly, the cement manufacturing industry in Africa continues to be at an early stage of development, which justifies and validates Dangote Cement's decision to vertically integrate, as per Stigler's (1951) view that vertical integration tends to occur in infant industries. Moreover, Dangote Cement's stated goals are consistent with Harris' (1983) framework, which argues that a firm vertically integrates if it cannot find a third party to perform the jobs it requires, if it requires secrecy to protect the uniqueness of its products, or if it requires complete control of its products from raw materials to consumers for quality assurance purposes. All these reasons, as well as the large market-share targets that Dangote aims to capture have driven the firm to vertically integrate. Lastly, the main reason why Dangote vertically integrates is market failure, which has also been considered as a key justification for vertical

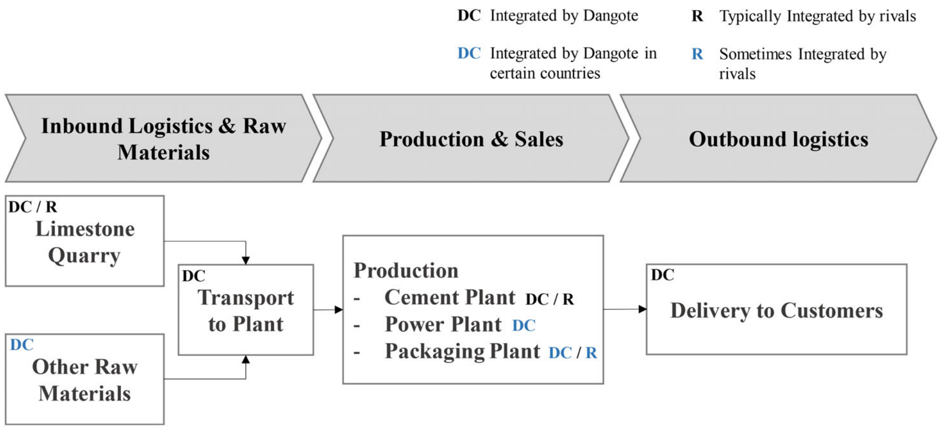

Figure 1. Business integration in the cement industry value chain- dangote vs typical industry players.
Source: Own Elaboration.

integration in other environments (Stuckey & White, 1993). For instance, it does not build power plants in countries where there is a reliable source of power; and does so only when the market 'fails' and there are no stable power suppliers or when third party costs are unsustainably high.

4.2. Advantages and disadvantages of Dangote Cement's business integration strategy

Undoubtedly, Dangote Cement has developed and implemented a very successful business model. The company's revenues have grown by 4.4 times in the last decade, at an annual compound rate of 17.9% per annum (Dangote Cement, 2012 & 2020). It also has the lowest leverage levels (measured as net debt/EBITDA) and the highest EBITDA margins among the world's top cement companies (see Figure 2 for a comparison of financial ratios among the world's largest cement companies). In fact, its EBITDA margin has consistently been ∼45%+, 2–3 times that of the world's top competitors. These numbers alone may serve to validate Dangote Cement's strategy.

Multiple scholars have analyzed the potential benefits and drawbacks of vertical integration (e.g., Harris, 1983; Porter, 1980; Puranam & Vanneste, 2016; Stigler, 1951; Stuckey & White, 1993). Building on these theories, our interviews, and our empirical observations, we have identified 17 key advantages and disadvantages of Dangote's strategic choices, which we have categorized across four distinct perspectives: financial, strategic, organizational, and commercial (see Table 2).

In Table 3, we provide a brief explanation of these advantages and disadvantages and present a glimpse of our evidence in the form of sample quotes. As discussed, we followed an iterative process, as recommended by Morse et al. (2002), to ensure a correct interpretation of the facts and test our findings. In addition, we had access to certain confidential internal financial information that allowed us to further validate our findings- which we cannot reproduce in this study.

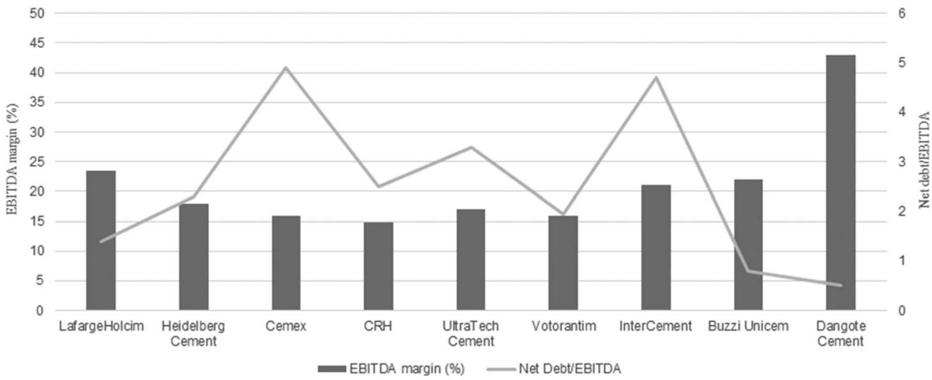

Figure 2. Net debt/EBITDA and EBITDA margin for selected multinational cement companies in 2019.
Source: Company financial reports and investor presentations.

Table 2. Key advantages and disadvantages.

Perspectives	Advantages	Disadvantages
Financial Perspective	(A) Internalize margins (B) Offset input costs (C) Limit transaction costs (D) Share corporate costs (E) Improve access to finance	(N) Consume substantial capital resources
Strategic Perspective	(F) Strengthen strategic control (G) Improve information (H) Assure supply (I) Increase entry barriers (J) Improve negotiation power	(O) Limit strategic flexibility (P) Increase coordination costs
Organizational Perspective	(K) Attract better talent (L) Limit complexity	(Q) Slow decision-making process
Commercial Perspective	(M) Improve customer value	

Source: Own Elaboration.

4.3. Strategic alternatives to vertical integration

As discussed previously, while vertical integration is the preferred integration strategy of Dangote, the firm uses other strategic alternatives when it is considered appropriate. In particular, alliances are a common diversification approach used by the organization.

The Dangote Group has established two alliances that complement and strengthen its business integration strategy (see Figure 3). It formed a joint venture with Sinotruck- China's largest truck supplier- (65%-35% respectively) to set up a US$100 million truck plant in Nigeria (Ohuocha, 2017). This factory allows the Group to save crucial foreign exchange costs and even taxes, by saving on import duties. The availability of trucks helps the Group meet its ever-growing vehicle needs without supply constraints and delays; and the lower cost of trucks also allows them to be more cost competitive in the market.

Dangote also established a joint venture with Andrade Gutierrez, one of Brazil's construction firms, for the construction of cement roads in Nigeria (Rogers, 2016). Most of the roads in Nigeria are bituminous and even though bitumen is a by-product of crude oil, and Nigeria is one of the world's leading oil producers, all bitumen is imported (Ezeoha et al., 2020). Concrete roads are much more durable and have

Table 3. Details of key findings.

Advantages & Disadvantages	Observation	Sample quotes
(A) Internalize margins	Dangote achieves substantial cost savings (i.e., margin internalization) by jointly owning mining, production, packaging, and distribution of cement.	*"I worked with some of the leading cement companies in the world … and let me tell you, in a good year we achieved half the margins that Dangote achieves on a consistent basis … it is just simply unbelievable"* Interview #5
(B) Offset input costs	Input cappsts can increase substantially in Africa, particularly since many inputs are imported and foreign exchange fluctuations can have a substantial impact on the firm's profitability. By integrating certain parts of the value chain (e.g., energy production), Dangote can offset, or at least mitigate, input cost distortions.	*"Having control over relevant parts of the value chain enables us to mitigate country specific risks and thereby improve viability of investments"* Interview #3
(C) Limit transaction costs	By integrating, Dangote saves on some of the selling, price shopping, negotiating, and transaction costs of market dealings. This can be particularly relevant with regards to sourcing raw materials and energy.	*"Transaction costs can be really onerous in Africa … this hinders trade in the continent. By integrating, firms like Dangote save a substantial amount of money"* Interview #6 *"Energy costs in cement represent around 40% of total costs and negotiating contracts with suppliers can be difficult, expensive and hard to structure and negotiate"* Interview #5
(D) Share Corporate Costs	Dangote is able to "utilize" or pool certain assets in an efficient way and share corporate costs across multiple sub-businesses within the Cement value chain, as well as other non-Cement companies (e.g., Agriculture, Food)	*"We often move trucks and people between operations to manage peaks and troughs in supply/demand. For example, the Cement business experiences low demand during the rainy season while the Fertilizer business experiences peak demand"* Interview #3 *"Mr. Dangote has entrenched a culture of cost efficiency. We are relentlessly looking for how to cut costs. This contributes to our higher margins"* Interview #3
(E) Improve access to finance	Dangote's integrated and diversified operations, which limit risks and improve profits through synergies, allow the company to access finance with ease and at competitive terms.	*"Undeniably, a company like Dangote can access finance easily and in much more favorable terms than most African companies. This is worth a lot in a continent where access to finance remains a huge problem for most companies"* Interview #7 *"Because Dangote has a relatively low cost of capital, they can enter other areas of the value chain that some of their competitors, with much costlier financing, cannot do profitably"* Interview #6
(F) Strengthen strategic control	Dangote has an exceptional degree of strategic control across the entire value chain, allowing the firm to deliver its products to market without having to rely on third-parties in many cases, or with very limited dependence (when those suppliers are regarded as competitive, economic, and reliable).	*"To me the beauty of Dangote's business model is its ability to control … in a continent where risk management is a daily need this control gives them a clear edge"* Interview #6 *"The government once instituted a power rationing regime in Ethiopia where companies were asked to alternate between running for two weeks, then shutting down for two weeks. Similarly, our operations in South Africa are affected by power rationing. Having control of our power supply would have mitigated this"* Interview #3
(G) Improve information	Dangote does not need to collect certain types of information about the market, such as, the development of energy or distribution costs, and can operate more effectively independently.	*"I have experience entering new underdeveloped markets and just getting a good understanding of the lay of the land, of who the good suppliers are, of whether they are offering you a competitive price or they are actually selling you good quality inputs or services is a huge headache. I can clearly see the benefits of not having to do that!"* Interview #5

(*continued*)

Table 3. Continued.

Advantages & Disadvantages	Observation	Sample quotes
(H) Assure supply	Vertical integration assures that Dangote will rarely suffer supply constraints. Its strategy prevents delays and supply disruptions from critical suppliers in the value chain (e.g., power suppliers, third party transporters, etc.) in undeveloped markets that could significantly affect Dangote's cement production and distribution.	"*Across Africa electricity supply is very expensive and unstable. Many cement plants in the continent have very low utilization rates due to high energy costs or power outages, which are so frequent that they are not really news. Dangote's energy plants shield them from this very unreliable market*" Interview #6 "*Often, there isn't sufficient transport capacity to handle the new production we bring to the market and the latent demand that this unlocks. So, we typically invest in a large fleet of trucks whenever we launch new manufacturing operations*" Interview #3 "*Owning our trucks protects us against hold up risks and confers a competitive advantage as we take away the headache of arranging delivery from the customer*" Interview #3
(I) Increase entry barriers	Through its highly efficient and integrated strategy, Dangote creates effective entry barriers. Other players cannot compete with Dangote, as they are unable to offer such high-quality products at competitive prices. Thus, a competitor that wishes to compete effectively with Dangote would be forced to enter as an integrated firm (or survive with very low margins). The strategic use of vertical integration to raise entry barriers has been studied and documented by several scholars (Harrigan, 1983; Montgomery, 1994, Stuckey & White, 1993).	"*As a competitor, I would think twice before entering a market where Dangote is present. They offer great products at a cheap price; and their scale is such that they can easily flood the market with product and drive away any new entrants. It is such a credible threat that most players in the industry do not even try to compete with Dangote in its home turf*" Interview #5 "*As an integrated player they can "solve internally" all the inefficiencies of African markets … I just do not see how others can compete with Dangote unless they also replicate their integrated strategy. And I would bet it is not easy to do what Dangote does! I have a lot of respect for them*" Interview #6
(J) Improve negotiation power	The relative size of the conglomerate allows Dangote to negotiate better terms with suppliers or governments. Even matching Dangote in size, competitors may not be able to achieve the same success as Dangote (for instance, due to their limited government relationships, their lack of local knowledge or their inability or lack of leverage to negotiate adequate investment incentives- critical for such an infant industry).	"*Most governments are extremely happy to have a Dangote plant in their country. They know we create jobs, build state-of-the-art manufacturing facilities, reduce imports and supply the market with high-quality cement, which is in high demand across Africa … we do get some fiscal incentives, of course, but just like any other large foreign investor in Africa*" Interview #4 "*There are many out there that criticize Mr. Aliko Dangote's political connections. I just think that like any big industrial company they are close to governments … I believe there is a lot of jealousy because Dangote is able to negotiate good investment incentives. But the company brings multimillion dollar investments to poor countries and creates thousands of direct and indirect jobs … so it is normal that governments want to attract a company like Dangote*" Interview #6
(K) Attract better talent	The scale and scope of the firm allows it to attract better talent- because they are allured by the size of the company, the wide scope of its operations and/or the potential financial rewards to be obtained in a highly profitable company.	"*The size of our business and the richness of our operations allow us to attract top senior executives from countries like France, Norway, India, or Colombia, which is rare in Africa; our competitors are not able to match this*" Interview #2

(*continued*)

Table 3. Continued.

Advantages & Disadvantages	Observation	Sample quotes
(L) Limit complexity	The complexity of doing business in Sub-Saharan Africa -due to geographical complexity, infrastructure gaps, unreliable suppliers, etc., is very substantial. Dangote is able to limit this complexity through a fully integrated approach.	*"It is just easier to do things in-house"* Interview #1 *"Of course, producing cement is easy- it is a very mature technology … but doing so in emerging markets is a logistic challenge … the fact that Dangote does not depend on others helps a lot"* Interview #5 *"Anything that reduces risks in Africa is worth a lot, there is enough business risk as it is … "* Interview #7
(M) Improve customer value	Dangote's margin internalization as a result of its vertical integration strategy allows the company to offer a much better product for the same price as inferior ones, substantially generating value to its customers.	"*Dangote offers a higher-quality grade of cement (42.5 R) than most incumbents (32.5 R) across its markets and charges the same price. Customers get real value for money and Dangote has the scale and integration to leave money on the table while making millions*" Interview #6 *"Owning our trucks […] confers a competitive advantage as we take away the headache of arranging delivery from the customer"* Interview #3s
(N) Consume substantial capital resources	Dangote needs to make very substantial capital investments any time it decides to expand and build a new factory- as more often than not, it needs to commit resources across the entire value chain.	*"Dangote's business choices means that the company is tying up enormous resources across the entire value chain"* Interview #6 *"Our business model is not cheap … we spent over $1 billion in building a new cement plant in Nigeria, bought new vehicles to strengthen our fleet for $150 million and spent hundreds of millions on power plants across Africa"* Interview #1
(O) Increase coordination costs	Bringing all different business units and stakeholders together across such a long and complex value chain can be very challenging. To do so, decisions are often taken centrally, so the different business units may have little incentive to take initiatives or appropriate business risks, thus limiting the potential of their operations, with the risk of bureaucracy potentially killing entrepreneurial drive at some point.	"*Mr. Dangote is very much into every big decision, he is very involved across all of our businesses …* ". Interview #1 *"I understand that we impose some costs in all our businesses, because we centralize a lot of decisions … but I am convinced that our corporate center adds a lot of value to our different businesses. That could change one day but it is definitely not a problem now"* Interview #2
(P) Limit strategic flexibility	Dangote's substantial capital investment along the cement value chain limits its strategic flexibility, given the large percentage of investments that are fixed. It potentially leaves the business more exposed to cyclical swings in earnings, thus increasing its business risk (Porter, 1980).	*"Dangote's business choices mean that the company is tying up enormous resources across the entire value chain. Other companies with asset-lighter models have much more flexibility. This is a key potential disadvantage should Dangote's performance weaken in the future"* Interview #6
(Q) Slow decision-making process	The complexity and level of integration of the business results in a potentially slower decision-making process than a nimbler organization would have.	"*Our founder signs off operating cash requirements on a monthly basis … so some could argue that this could slow our business down*" Interview #1 *"Any relevant purchases have to be endorsed by a number of executives at the corporate center and ultimately approved by Mr. Dangote"* Interview #1

Source: Own Elaboration.

lower maintenance costs than bituminous roads; however, with some notable exceptions -such as a 3 km concrete road built in 1986, leading to the defunct Nigerian Cement Company factory in Nkalagu- there was little interest in concrete road construction in Nigeria (Ogba et al., 2005; The Guardian, 2018). Dangote was interested

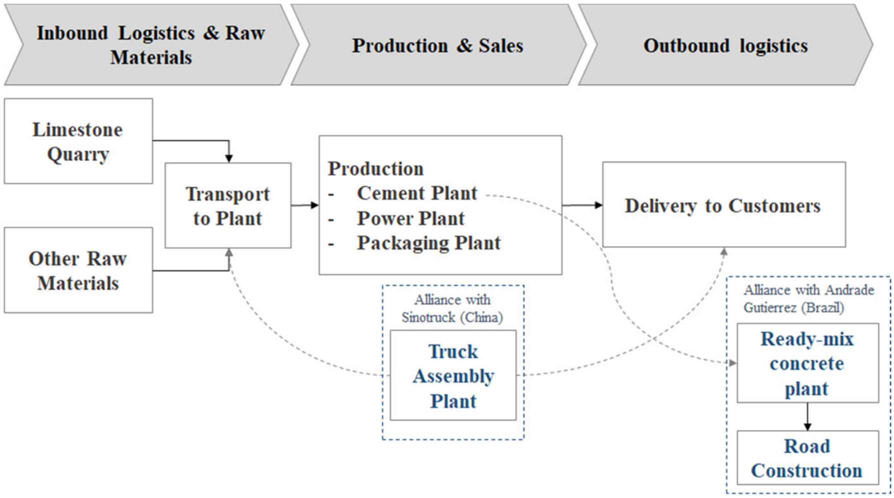

Figure 3. Dangote group's alliances linked to the cement value chain.
Source: Own Elaboration.

in improving the infrastructure of the country, as the poor physical infrastructure in Nigeria hindered its operations, particularly considering the heavy nature of its industrial products (Ezeoha et al., 2020).

Dangote Group did not have expertise for the construction of concrete roads (which were rarely found in Africa at the time) and so it decided to partner with Andrade Gutierrez to establish AG Dangote Construction Limited. Naturally, the company buys any cement it uses from Dangote Cement (Dangote Cement, 2017). As of 2020, this partnership has been discontinued and Andrade Gutierrez has exited the business, due to certain concerns about personnel safety in Nigeria. However, Dangote has managed to gain and retain critical knowledge and skills from its partner and benefited substantially from this joint venture.

These joint ventures further Dangote Cement's integration strategy, by leveraging the know-how, capabilities, and resources of partners. Specifically, these two joint ventures provide an ample and cost-effective supply of trucks for its plants and distribution, and a strong forward integration opportunity for its cement business, while improving the physical infrastructure of Nigeria (and potentially other countries), which benefits all firms doing business in these areas.

5. Discussion

Dangote Cement is one of the most successful industrial firms in Africa. It is also, as we have seen, one of the most efficient and profitable operators in the industry (Akinyoade & Uche, 2016). The company has followed a very distinct strategy, particularly with regards to its business integration choices, which complements existing strategic theories and validates some of the generic theories that explain why firms vertically integrate.

The company's financial and operating success is undeniable. One may be tempted to attribute this to the emerging market nature of Dangote Cement, where returns should arguably be higher than in developed markets- to compensate for the higher business risk. However, Chacar and Vissa (2005) dispelled the myth that superior performance may be easier to sustain in an emerging economy. In fact, they argued that the forces eroding firm performance and driving it toward the mean were just as strong in an emerging economy as in a developed market. They also pointed out that sustaining a strong performance was harder for business groups, due to market governance failures, which is consistent with the views of proponents of the agency theory (Jensen, 1986; Mueller, 1969; Ross, 1973).

Therefore, one could conjecture that the strong and consistent performance of Dangote Cement may be connected to the stewardship of its management team (led by its founder and main shareholder, Mr. Aliko Dangote) and the strong governance of the firm. While many may agree with this statement, unfortunately, it can only be inferred and presumed, but not proved.

Building on the theories of Mueller (1969), Ross (1973), and Jensen (1986), one could argue that the agency problem is stronger in environments with greater institutional weaknesses. Africa, home of notably weak institutions (Miranda, 2013), probably does suffer from a particularly strong agency problem among its businesses; therefore, one could infer that founder-led businesses (such as the Dangote Group) have a competitive and performance advantage by eliminating this problem.

This paper has tried to shed some light on the unique business model of Dangote Cement. While the advantages identified by this study are numerous- driven by a collection of tangible and intangible benefits- this model is not without its disadvantages. As discussed, governance costs and a heavily centralized decision-making process can limit the creativity and responsiveness of individual business units, giving them inadequate incentives to make decisions or take appropriate business risks. Also, vertical integration increases the proportion of fixed costs -limiting the firm's strategic flexibility- and consumes substantial capital resources, which have an opportunity cost.

Alliances with other firms can complement and strengthen a firm's strategy and offer very tangible corporate benefits. Alliances can help improve financial performance (e.g., by offering the firm a chance to save on import duties) and can help transfer critical knowledge and skills that can be retained by the firm even after the alliance is discontinued (as in the case of AG Dangote).

Lastly, in Dangote's case, the founder's diversification strategy has resulted in the creation of a successful business conglomerate. This conglomerate strategy provides the Group with valuable financial, management, and operational synergies, through the consolidation, customization, combination, and connection of resources (Puranam & Vanneste, 2016).

5.1. Theoretical implications

The topics of corporate diversification and vertical integration have been widely studied, although arguably a lot of the studies are quite dated. The scarcity of more recent studies could be linked to the perceived unattractiveness of corporate diversification and business integration, following a wave of corporate specialization in the late 1970s (Anjos & Fracassi, 2018).

While multiple studies focus on the relationship between diversification and performance (e.g., Akben Selçuk, 2015; Schoar, 2002; Wiersema & Bowen, 2008), few of them dissect in detail the potential advantages and disadvantages of these strategies. Those available are mostly of a theoretical nature (e.g., Porter, 1980; Stigler, 1951), so this more practical case study can serve as a complement to those studies.

Furthermore, as mentioned, there is a lack of studies focusing on African firms, particularly large and diversified firms (Omenguélé & Mbouolang, 2022). This article adds to this short list of studies by investigating the strategy of Dangote Cement (the first study of this nature on one of Africa's most prominent industrial firms).

This paper intends to provide a glimpse of the strategy of a successful and diversified business group, which could serve as a starting point for future studies, particularly focusing on emerging markets—which have different characteristics than developed ones (Wu & Pan, 2021) and where diversified business groups represent a substantial share of their economies (Behuria, 2022).

5.2. Managerial implications

As discussed, Dangote Cement is one of Africa's most successful companies. Naturally, practitioners would be intrigued and keen to understand the reasons behind and nature of its success.

At a time when most companies have opted for in-depth specialization instead of corporate diversification and vertical integration (Anjos & Fracassi, 2018), practitioners can benefit from learning from alternative business models. Furthermore, the severe supply chain crisis resulting from the Covid-19 pandemic has put into question the weak levels of integration across most value chains (Butt, 2021). Therefore, many companies may be forced to reconsider their degree of vertical integration. This paper can modestly contribute to the understanding of the potential advantages and disadvantages of pursuing such strategies, leveraging the case of Dangote Cement.

In addition, Africa is home to some of the world's fastest growing economies (Bekana, 2021). Given the renewed interest in Africa as an investment destination (Wako, 2021), practitioners thinking of investing in the continent should learn from local best-practices. Dangote, being one of Africa's most successful firms, offers multiple lessons that others can learn from.

6. Conclusions

Dangote is one of the most successful multinationals to emerge from Africa and it has achieved this success by relying on a unique business model specifically suited to Sub-Saharan Africa. This paper has explained and rationalized Dangote Cement's unique business model and highlighted its financial, strategic, organizational, and commercial advantages and disadvantages.

6.1. Limitations

Our study is subject to several limitations. First, our analysis is based on a relatively small sample of interviews, a questionnaire, and public data. While we are confident our sampling methodology was robust and our interviews and questionnaire were detailed and exhaustive, we note that this could be a limitation of our study.

Second, our analysis is based on a single company case study. Therefore, the generalization of our findings to other operating environments or circumstances is potentially restricted. We note this limitation; however, we believe the study of indigenous business models can be a valuable contribution to the limited literature on business in Africa and to the understanding of diversified business groups—both being gaps in the existing literature as repeatedly noted.

Lastly, this paper is context specific and therefore needs to be understood in the context of the present economic conditions in Africa. When economic conditions in Africa change and the market matures, it is likely that the justifications for Dangote Cement's vertical integration will disappear or diminish. In a large market, specialized firms can pursue economies of scale in specific value chain segments; so, one can expect to see a specialization trend in Dangote Cement if and when the African market grows and develops. Nonetheless, we do not think that this affects the relevance of our findings.

6.2. Future research avenues

We believe this study can be complemented with quantitative research into the performance impact of diversification and integration strategies in Africa, given the importance of conglomerates in the continent and the constant supply chain challenges and disruptions affecting the region.

Furthermore, there is a need for further research to understand how firms operate in Africa, what attributes and behaviors explain their performance and what strategic and business practices are found in Africa, which may be unique to the continent. This is of particular interest for undeveloped markets such as those of Africa, given that lessons can be applied and scaled across businesses and sectors to contribute to the effective development of the continent.

Disclosure statement

No potential conflict of interest was reported by the authors.

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