Political risk mitigation at MTN

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ABSTRACT

The purpose of this study is to investigate how MTN has mitigated political risk in foreign markets. Firms expanding into foreign markets encounter political risk in host countries, which if poorly managed, may affect a firm's profitability and continued operation in the host country (Schmidt, 1986). It follows therefore, that when a firm chooses to enter a foreign market, its political risk exposure should be proactively assessed and managed (Alon & Herbert, 2009). Nevertheless, in spite of the critical importance of political risk in international business, limited attention has been devoted to literature analysing the subject (Busse & Hefeker, 2007).

The study employed a qualitative exploratory single case study of Mobile Telephone Networks (MTN). MTN is a successful South African based emerging multinational corporation with significant exposure to countries with high political risk (Fitch Research, 2013).

A conceptual framework created from the academic literature review is introduced in figure 3. The framework integrates some of the critical theoretical elements that define the behaviour of a multinational corporation in foreign markets.

The findings emanating from the study indicate that political risk in foreign markets increases considerably for multinational corporations operating in regulated sectors. Furthermore, the study demonstrates that by including local private and public capital as equity shareholders, multinational corporations operating in emerging markets can mitigate political risk.

The study may benefit corporate executives, strategic planners, academics and corporate boards through developing better insights into managing political risk in foreign markets.

DECLARATION

I, Muzi Bhekithemba Siyaya, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Muzi Bhekithemba Siyaya

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2014

DEDICATION

To my supervisor, Dr Thabo Mosala, your support, guidance, professionalism and commitment to your profession is commendable and a shining example of excellence.

To Lindiwe my fiancée: You are my pillar of strength and source of energy - words alone are not sufficient to describe my gratitude. I will forever be indebted to you for supporting and encouraging me through thick and thin.

To my family, especially my bothers Mlungisi and Mxolisi, thank you for the support and understanding.

To my lovely daughter: Chantel, I missed important milestones in your life this year - my studies robbed us of quality time. I thank you for the tolerance.

“Success is not measured by what you accomplish but the opposition you have encountered, and the courage with which you have maintained the struggle against all overwhelming odds” – Orison Swett Marden.

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I wish to extend my profound gratitude to the group executives of MTN for taking time off their busy schedules to participate in the study. In particular, I wish to extend my appreciation to the office of the general manager, MTN group corporate affairs, for the unselfish assistance I received.

To all the other participants in the study, including the personal assistants of the executives that were interviewed for the study, your assistance is by no means a small contribution, thank you for empowering me.

To all the staff and management of the Wits Business School – continue to take pride in your jobs. Thank you for creating an environment conducive for me to pursue my dream.

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1 CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this study is to investigate how Mobile Telephone Networks Group (MTN), a multinational national corporation (MNC) headquartered in Johannesburg, South Africa has mitigated political risk in foreign markets. The context of the study is located within the realm of international business theory.

MNCs generally encounter political risk in the normal course of conducting business in foreign markets (Alon & Herbert, 2009). Schmidt (1986, p. 2) defines political risk as the "application of host country government policies and actions that constrain the business operation of a given firm's foreign investment". Liesch, Steen, Knight, and Czinkota (2006, p. 811) contend that, "for international firms to succeed, they have to create and pursue opportunities in international markets but in doing so, they incur risks and they confront uncertainties''.

Largely, multinational corporations expanding into foreign markets operate within the context of a macro-economic environment. The macro-economic environment of a MNC is within a defined geographical area that consists of various forces that influence organisational behaviour and performance (Osborn & Hunt, 1974). Farmer and Richman (1964) in Osborn and Hunt (1974) group these forces into economic, education, legal, political, social, and cultural categories. Accordingly, the focus of this study is on the political factor in foreign markets which can adversely or positively affect a multinational corporation's strategy and growth (Brune et al., 2003). Consequently, through a single case study of MTN, this study seeks to understand the impact of the political factor on multinational corporations in international business as well as the generic strategies that may be utilised to mitigate political risk in foreign markets.

The motivation to focus on the political factor was influenced by the observation by Busse and Hefeker (2007, p. 399), that "whilst the economic determinants of Foreign Direct Investment (FDI) in international business have been analysed in detail, the importance of changes in political institutions and of other relevant policies in host countries have received limited attention".

The research employed a qualitative exploratory case study approach using MTN group as the unit of analysis. Case study research is a single instance or phenomenon of interest often described as exploratory research used in areas where there are few theories or deficient body of knowledge (Hussey & Hussey, 1997). MTN group provides the appropriate context in which to respond to the research problem because of its unique strategy to invest and successfully operate in countries with high political risk (Fitch Research, 2013).

1.2 Context of the study

1.2.1 Introducing Mobile Telephone Networks (MTN Group)

MTN is an Emerging-Multinational Corporation (EMC) that was formed in 1995 under the name M-Cel. MTN adopted its current name in 2002 (MTN Group, 2013). The company is the biggest mobile operator (by subscriber numbers) in Africa (MTN Group, 2013). An EMC is defined as any domestic enterprise head-quartered in developing countries that controls assets and/or exerts influence in the decision making process of one or more cross-border subsidiaries and/or affiliates (Yeung, 1994). The company is headquartered in Johannesburg, South Africa and operates in 22 countries in Africa and the Middle East region. It is listed on the Johannesburg Securities Exchange (MTN Group, 2013). MTN has grown rapidly in the past 10 years on the strength of acquisitions and organic growth and boasts a total subscriber base of 189.3 million as at the end of December 2012(Appendix H).

The group generated revenues of R135.1 billion and Earnings Before Interest Tax and Amortisation (EBIDTA) of R58,5 billion in 2012 (MTN Group, 2013). The geographical footprint of MTN, as well as the group structure, is attached to this report as appendix H and J respectively.

1.2.2 MTN's expansion into international markets

MTN's success in South Africa, its home market, led to the early recognition of the opportunities offered by the low mobile penetration in Africa and poor fixed line infrastructure (ITU, 2009). MTN's growth into Africa began in 1997 when it successfully bid and obtained licences in Uganda, Rwanda and Swaziland and therefore derived first mover advantage ahead of operators such as Orange, Vodacom, Vodafone and Millicom.(Moneyweb, 2011). This was followed by further expansion into the continent including the establishment of operations in Nigeria, Africa's most populous country in 2001 (Business Day, 2013b). In 2006, the group commenced operations in Iran and acquired Lebanese Holding company Investcom (LCC) bringing the total number of operational countries (OpCos) to 22 (MTN Group, 2013). In the main, MTN's business model between 2003 and 2009 was characterised by a preference for first mover advantage through successfully investing and operating in virgin markets with low teledensity, large youthful markets and growing populations (Business Day, 2013b).

However, many of these countries were classified as weak states with a poor regulatory framework and unstable political environment (Fitch Research, 2013). Out of the 22 countries in which MTN currently operates, 62 per cent are classified as high to very high risk when assessed against the AON Solutions (2013) political risk map, a report which measures political risk, political violence and terrorism in 163 countries and territories (refer to appendix I). Six of the countries (Sudan, Guinea Bissau, Afghanistan, Yemen, Iran and Syria) are classified as very high risk.

An additional seven countries (Nigeria, Ivory Coast, Guinea Conakry, Ethiopia, Liberia and Cyprus) are classified as high risk, bringing the total number of countries with a high, to very high risk, within MTN’s international investment portfolio to 13 out of 21 countries (excluding South Africa which is the home base). Evidently, MTN's business risk profile is heightened through its operational exposure to non-investment grade countries (Fitch Research, 2013). The group therefore presents an appropriate platform to respond to the research problem and an analysis of how it manages political risk may help to illustrate how multinational corporations in general respond to managing political risk in foreign markets.

1.2.3 Globalisation

The rise of multinational corporations such as MTN’s successful expansion into international markets is a distinctive facet of the current globalisation wave (Goldstein, 2009a). Narula and Dunning (2000, p. 141) describe globalisation as the "increasing cross border inter-dependence and integration of production and markets for goods, services and capital”. In addition to institutional reforms, democratisation and liberalisation of many domestic and international markets, the primary drivers for globalisation have been the rapid and widespread adoption of new technologies which has led to a decline in inter-state communication and general organisational costs (Goldstein, 2009b). Accordingly, in order to sufficiently cope with globalisation, firms and governments have adjusted their strategies and policies to compete for Foreign Direct Investment (FDI) in the new global environment (Narula & Dunning, 2000).

1.2.4 MNCs expansion into foreign markets

Due to the opportunities presented by increased liberalisation of international markets, there is a growing number of overseas acquisitions with firms that have in the main been competing in domestic markets such as MTN establishing themselves in global markets (Gammeltoft, Pradhan, & Goldstein, 2010).

When a firm decides to establish operations in a foreign market, it necessitates that it must address issues arising from political turbulence (Schmidt, 1986).However, addressing the challenges arising from political risk is often difficult because political risk is broad and has many facets (Bilson, Brailsford, & Hooper, 2002). Although significant research has been conducted on the internationalisation strategies of multinational corporations (Aggarwal, 1985; Gammeltoft et al., 2010; Goldstein, 2009a; Luo & Tung, 2007; Taleb, 2010), these studies have not sufficiently addressed the role of politics and its impact on multinational corporations (Busse & Hefeker, 2007). In support of this observation, Kobrin (1979, p. 67) agrees that “while there has been an increasing interest in the intersection of politics and international business, it is still a relatively new and loosely defined field”.

However, with the focus of multinational corporations from developed economies shifting to emerging markets, largely because of maturing markets in the developed economies, there is an increased urgency to understand political risk as a determinant for success in foreign markets (Singh & Jun, 1995). The risk of encountering varying types of political risk in traditional emerging market economies, such as those in MTN’s portfolio, is heightened because they suffer from a lack of institutional development, infrastructure and factor market development (Hoskisson, Wright, Filatotchev, & Peng, 2013).

1.2.5 Political risk in international business

According to Khanna and Palepu (1997), host country governments are often the major source of competition, market volatility and regulatory barriers which affect MNCs, particularly in emerging markets. To illustrate the impact of political risk emanating from host governments in foreign markets, Google Incorporated, a United States of America (U.S.) based multinational corporation had to withdraw its operations from China citing political interference (BBC News, 2013).

MTN, the subject of inquiry, also reported in its 2012 annual results, that it could not import critical telecommunications equipment for its operations in Syria and Iran due to the imposition of economic sanctions by the international community and the U.S. respectively (MTN Group, 2013). In the same year (2012), Wal-Mart, a U.S. based multinational retailer was faced with a legal challenge from the South African government and labour unions, who were opposing its application to acquire Massmart, a local general merchandiser listed on the Johannesburg Securities Exchange (Fin24, 2013). In 2013, South African Breweries (SAB) and other alcohol producers in South Africa were a subject of a proposed ban on alcohol advertising by the Department of Health which is likely to have an adverse impact on sales and revenues (Business Day, 2013a). These examples point to the significant role of governments in influencing business strategy in international business and the need for MNCs to develop appropriate political risk management strategies (Hillman & Hitt, 1999).

Against this background of increasing globalisation, competition for FDI, growing government influence in private sector affairs and new markets amongst countries and firms, the findings of this study may assist multinational corporations to enhance their understanding and management of political risk in foreign markets leading to sustainable business, profits and therefore improved returns for stakeholders.

1.3 Problem statement

Firms expanding into foreign markets encounter political risk in host countries, which if poorly managed, may affect a firm's profitability and business operations in the host country to the detriment of stakeholders (Gupta, Madhavan, & Blee, 1998). It follows therefore that when a firm chooses to enter a foreign market, its political risk should be assessed and managed (Alon & Herbert, 2009). However, in spite of the importance of understanding political risk in international business, Busse and Hefeker (2007) observe that limited attention has been devoted to literature analysing political risk.

By analysing the strategies utilised by MTN to mitigate political risk in foreign markets, the study may help to contribute to the limited existing body of knowledge on the subject.

1.3.1 Main Problem

Investigate how MTN has mitigated political risk in foreign markets.

1.4 Significance of the study

Managing risk is one of the primary objectives of firms operating internationally (Ghoshal, 1987). The study seeks to shed light on what Kobrin (1979, p. 67) has described as “one of the more salient issue areas; the political risk associated with foreign direct investment”. To the extent that political risk can constrain business expansion and growth, PwC Advisory & Eurasia group (2006) in a joint report on political risk, recognised that effective management of political risk can assist companies to protect their investments and take advantage of new opportunities leading to increased global trade. Therefore, an analysis of the strategies utilised by MTN, a company that has managed to operate with a high degree of success in countries with high political risk (CBR Africa, 2013), may add to the body of knowledge in international business and competitive strategy theory.

The research will benefit corporate executives, strategic planners, academics, corporate boards and governments. It will help to illustrate how multinational corporations operating or expanding into foreign markets, may better develop insight into managing political risk, shape strategy formulation and implementation in order to retain or create a competitive advantage.

1.5 Delimitations of the study

The study used a qualitative exploratory case study method based on one multinational corporation, the MTN Group as the case site. This implies that comparisons to approaches utilised by other multinational corporations to manage political risk may not be entirely possible. Only one unit of analysis was used; the strategies employed by MTN to manage political risk. A unit of analysis refers to a case to which the variables or phenomena under study refer and about which data is collected and analysed (Hussey & Hussey, 1997). Therefore, the study did not examine any other constructs within MTN.

1.6 Definition of terms

Multinational corporations (MNC) or Multinational Enterprises and/or International firms: A multinational corporation consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries (Ghoshal & Bartlett, 1990).

Emerging Market multinational corporation(EMMC): any domestic enterprise head-quartered in developing countries that controls assets and/or exerts influence in the decision making process of one or more cross-border subsidiaries and/or affiliates (Yeung, 1994).

Emerging Markets/Economies (EM): Emerging economies or markets are low-income, rapid-growth countries using economic liberalisation as their primary engine of growth. They fall into two groups; developing countries in Asia, Latin America, Africa, and the Middle East and transition economies in the former Soviet Union and China (Robert E. Hoskisson, Lorraine Eden, Chung Ming Lau, & Wright, 2000).

Operational Companies (OpCos): The 22 subsidiaries or wholly owned operations in various countries in which MTN Group has equity and operational control.

AON political risk map: Published by AON Plc. The political risk report assesses the risk levels of exchange transfer, legal and regulatory risk, political interference, political violence, sovereign non-payment, and supply chain disruption in 163 countries (AON Solutions, 2013).

In the mid-1980s, Global System for Mobile Communications **(GSM standard)** was introduced and it is currently the most popular mobile radio standard in the world. GSM900 was the original frequency band. To provide additional capacity and enable higher subscriber densities, two other systems were added later: GSM1800 and GSM1900 (ITU, 2001).

1.7 Assumptions

The following assumptions were made at the beginning of the study;

- That access would be granted to MTN Group's former and current group executives. Consequently, access was obtained for former and current MTN group executives through the assistance of the office of MTN Group corporate affairs.

- That the sample of respondents would have the ability to respond to all questions based on their level of seniority and operation within the MTN group and in their respective fields. Consequently, during the interviews conducted with all the respondents, they indeed demonstrated a high level of ability to respond to the questions.

- That all identified respondents would willingly avail themselves for interviews. All identified respondents willingly availed themselves for the interviews except one who could not attend the interview due to business commitments. However, another current MTN group executive who demonstrated the same level of ability to respond replaced this respondent.

- That some respondents could potentially select not to respond to some questions due to confidentiality and sensitivity to company information. However, during the actual interviews, no question(s) were deemed too confidential or too sensitive with regard to company information; the participants formally responded to all questions.

2 CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

MNCs typically adopt different types of strategies to expand into international markets (Wind & Perlmutter, 1977). In order to understand the theoretical framework governing the various strategies employed by MNCs to undertake international expansion, the literature review was conducted to establish the recent dominant philosophies in international business and the mode of entry typically used by MNCs to enter into a host country. The mode of entry was identified to be a relevant construct for analysis because it influences the operating risk profile and competitive advantage of the MNC in foreign markets (Wind & Perlmutter, 1977).

The literature review also briefly analysed the macro-economic factors affecting multinational corporations in foreign markets in order to contextualise the role of the MNC in the macro-economic environment. To the extent that Schmidt (1986), identified political risk as one of the factors affecting MNCs in the macro-economic environment, the literature review was extended to specifically focus on political risk. The literature review on political risk focused on the established theories in political risk, its role in international business and the strategies generally utilised by multinational corporations to mitigate political risk.

Based on the findings generated from the literature review on political risk, a conceptual framework for analysing the research problem as introduced in chapter one was established. Finally, this section concluded by summarising the key theoretical insights derived from the literature review.

2.2 Established international business theory

International business theory is a relatively young field (Bartlett & Ghoshal, 1991). Although it has existed as a distinct field of study for the past three decades, it does not have a widely accepted explanatory theory on which to base its uniqueness as a discipline (Grosse & Behrman, 1992). The characteristics of present theories in international business and their respective functional areas of origin can broadly be classified into the following; Bargaining theory (political science), Monopolistic competition (economics), Transaction costs (economics), Competitive advantages (business strategy), International product cycle (economics and marketing), Internalisation (economics) and Eclectic theory (economics) (Grosse & Behrman, 1992). However, the academic literature on the expansion of companies reflects three recent dominant theories namely; the Uppsala model of internationalisation, the internalisation theory and the eclectic theory.

2.2.1 The Uppsala Model of Internationalisation

The Uppsala model of internationalisation is a theory in international business that describes how firms gradually expand and intensify their activities in foreign markets and was first advanced by two Swedish scholars, Johanson and Jan-Erik Vahlne (Johanson & Vahlne, 1977). However, the Uppsala model of internationalisation has its theoretical grounding in the behavioural theory of the firm. Aharoni (1966); Cyert and March (1963) and Penrose (1959) theory of the growth of the firm contend that firms grow through evolutionary stages in the internationalisation process. In order to validate the theory of the growth of the firm, Johanson and Vahlne (1977) conducted an empirical research of four Swedish companies. The study basically identified four different stages in their process of internationalisation.

The first stage is home based manufacturing activities which lead the firm to the second stage, which is to seek growth opportunities by exporting to countries in close proximity to the home base; upon entering the international markets closer to the home base, the firm proceeds to the third stage, which is to gain experience and accumulate business knowledge in the countries closer to the home base. Finally, using the experience acquired by operating in the countries close to home, the firm proceeds to the fourth stage which is to expand into foreign markets further away from the home base.

In the main, the theory emphasizes the importance of first acquiring knowledge and experience about the key elements in a foreign market, which leads to reduced levels of uncertainty in unfamiliar foreign markets, before making the investment decision (Ahmad & Hashim, 2007).

2.2.2 Internalisation theory

On the contrary, the internalisation theory is derived from Coase (1937) definition of firm theory. The theory of internalisation argues that firms can expedite the incremental stages of growth by utilising key learnings from one market to another (Zahra & George, 2002). Their argument is further supported by Oviatt and McDougall (1994, p. 49) who agreed that a business organisation from inception can seek to derive a competitive advantage from economies of scale by trading in multiple countries due to rapid technological developments and growing economic development, without necessarily following the evolutionary process advanced by the Uppsala researchers.

Oviatt and McDougall (1994) theory has aptly been named “Born Global” by the consultants of McKinsey (1993) in reference to firms that undertake rapid expansion into foreign markets by adopting strategies to expand from inception. Critics of the Uppsala model of internalisation such as Turnbull (1987), argue that the Uppsala model is too focused on the internal resources of a firm such as its market expertise and knowledge. They argue that the model does not take into consideration other external factors such as the market potential of a target country and the competitive conditions induced by globalisation (Ahmad & Hashim, 2007). Kogut and Zander (1993) also criticised the Uppsala model by arguing that some firms, especially those with significant resources, do not necessarily follow the evolutionary growth to expansion as advanced by the theory of the firm model.

However, it could be argued that rapid internationalisation is sometimes desirable and even gaining prominence ahead of the Uppsala model. After all, as Narula and Dunning (2000, p. 13) assert "seeking new markets as an investment strategy requires the ability of the market to support (within a reasonable time frame) the expected demand on which the investment is made".

2.2.3 Eclectic theory

The eclectic theory originates from industrial theory and was developed by (Dunning, 1979, 1980, 1988). The theory suggests that the investment decision of a firm in foreign markets is dependent on three variables; owner specific variables, the attractiveness of the country of destination and the advantages derived from internalisation. Ownership specific variables refer to the competitive advantages that are inherent and specific to the firm seeking to expand into foreign markets and assume that the greater the competitive advantages of the MNC, the more they are likely to engage in foreign expansion. Internalisation advantages otherwise referred to as ownership advantages, refer to the production techniques of the firm and its entrepreneurial orientation as a determinant for foreign expansion (Dunning, 1988). The attractiveness of the country of destination, otherwise referred to as location advantages, refers to the firm's proximity and access to resources in the target foreign country such as raw materials, skills, availability of cheap labour and a favourable tax regime (Dunning, 1998). Dunning simply combines several factors that collectively provide a greater explanation of a firm's behaviour in foreign markets than any single international business theory in itself (Grosse & Behrman, 1992).

2.2.4 Critique of the models

Both the Uppsala and Internalisation theory seem to advance the theory of cultural and physical distance as a key determinant for foreign investment. However, Axinn and Matthyssens (2002) argue that distance as a determinant for FDI is losing its relevance against an increasingly globalising universe, characterised by diminishing cultural barriers and advances in technology. In support, Goldstein (2009b, p. 141) also observed that the "international business environment has changed with shorter production cycles, time to market, regionalism and economic liberalisation processes more widespread". On review of the established international business theories, it appears that the internalisation and eclectic models will gain prominence in future as multinationals seek rapid growth in international markets amidst an increasingly competitive global market (Goldstein, 2009b).

2.2.5 Selection of foreign markets and entry strategies

The market, as well as the mode of entry into international business is significant because they have a direct bearing on the competitive advantage of the firm (Erramilli & Rao, 1993; Hill, Hwang, & Kim, 1990; Wind & Perlmutter, 1977).

Several factors are important in assessing the attractiveness of a foreign market; the market size and market growth are key factors (Stobaugh, 1969), and the host country's political, social and economic development is another important consideration (Root, 1982; Toyne & Walters, 1989). The theory suggests that based on these market factors, a MNC can then conclusively decide on the appropriate mode of entry.

Contrary to what these scholars identified as key determinants for selecting a foreign market, in an overwhelming number of cases, Papadopoulos and Denis (1988) found that multinational corporations use market similarity to the firm's home base as the basis for selecting a foreign market.

In support, (Bilkey, 1978; Reid, 1981) demonstrated that for example, companies in the U.S. were found to have a preference for investing in English speaking countries in spite of the lack of compelling commercial reasons. Similarly, scholars such as (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Wiedersheim-Paul, Olson, & Welch, 1978) came to the same conclusion that a firm's selection of markets is influenced by proximity of the target foreign country and then later, expansion to distant countries incrementally follows as and when the firm acquires experience.

The literature review suggests that the key considerations for selecting a foreign market by multinational corporations are; attractiveness and political stability of the host country, cost advantage to be gained, the organisation's internal capability, as well as its geographical and cultural proximity to the host country.

Once a firm has selected a foreign market, it has to choose a mode of entry which is described by Anderson and Gatignon (1986, p. 2) as the "institutional arrangement for organising and conducting international business transactions". This choice is regarded as a critical business decision because it has a bearing on the business performance of the firm (Anderson & Gatignon, 1986; Terpstra, 2000; Wind & Perlmutter, 1977). Research on the topic of mode of entry has predominantly been approached from the internalisation perspective by researchers such as (Buckley & Casson, 1976; Rugman, 1985). These researchers have advanced the notion that the mode of entry must lead to a transaction cost (TC) advantage for the firm in a foreign market, the TC perspective. On the contrary, researchers in recent years such as (Cantwell & Janne, 1999; Prahalad & Hamel, 1990) have argued that a firm must actually compete on organisational capabilities (OC), and therefore the mode of entry or collaboration must seek to enhance the firm's organisational capabilities. Madhok (1997) submits that this theory is rooted in Cyert and March (1963) theory of the firm.

Firms entering foreign markets can choose a variety of entry modes (Erramilli, 1991). According to Anderson and Gatignon (1986), "firms can either enter a foreign market via contractual arrangements such as licensing and franchising or foreign direct investment (joint ventures or wholly owned subsidiaries)". The vulnerability of the firm to political risk depends on the size of the firm and by implication, the mode of entry selected (Burmester, 2000; Sam, 2001).

Entry modes differ from each other on several dimensions, one of which is the degree of control it offers the foreign firm (Root, 1982). In support of Root's observation, Anderson and Gatignon (1986) recognised that increased levels of firm ownership, lead to greater level of operational control over its international transactions. However, the benefit of increased control derived from using a wholly owned venture such as controlling cash flows and operational strategy has to be balanced against the political risk that wholly owned ventures are subjected to in foreign markets (Sam, 2001). In this respect, Schmidt (1986) observed that wholly owned ventures are generally perceived to foster a culture of dependence by host country governments. Sam (2001) agreed and acknowledged that in wholly owned ventures in foreign markets, the risk of expropriation is increased triple fold more than in the contractual type of entry modes. In order to mitigate political risk arising from ownership, Schmidt (1986) suggested that the MNC should consider selling equity shares to citizens or engage in some form of joint venture with local private or public capital to give the MNC more of a local image. Effectively, Schmidt (1986) argued for the MNC in a foreign market to adapt its ownership strategy to align to the host country environment.

In critique, the position of the researchers who advance the TC perspective appear to ignore the cultural factors advocated by (Sam, 2001; Schmidt, 1986) that are prevalent in a host country and should be considered when deciding on the mode of entry in a foreign market.

2.3 Macro-economic environment

Both domestic and multinational corporations operate within the context of a macro-economic environment which contains those forces recognised to have important influences on organisational characteristics and outputs (Osborn & Hunt, 1974). Farmer and Richman (1964) in Iyer (1997) grouped these forces into economic, education legal, political, social, and cultural categories. However, the macro-economic environment of the multinational corporation is distinct from the domestic firm and is largely determined by inter country business activities, which lead to business opportunities for multinationals (Grosse & Behrman, 1992). Robock (1971) and later Fitzpatrick (1983) noted that in fact, the macro-economic environment of the international firm has two distinct components; macro political risk affecting firms countrywide and micro political risk affecting a single firm or a select group of firms. Alon and Herbert (2009) improved on Robock (1971) findings and noted that;

> “Both the macro and micro political risk emanated from external and internal as well as economic, societal and governmental forces; and that rather than initiating solely from local political actions, political risk has been found to have both external and internal sources (p.129).

Internal factors subject to political risk include the impact of economic and labour conditions such as exchange rate, income distribution, and balance of payments. Meanwhile, external factors originate from outside the host country and could include conflicts between the host country and other countries (Alon & Herbert, 2009). On the basis of their research, Alon and Herbert (2009) proposed a framework which conceptually defines the macro and micro-economic environment of a multinational corporation. Figure 1 below reflects Alon and Herbert (2009) description of the macro-economic environment of the MNC.

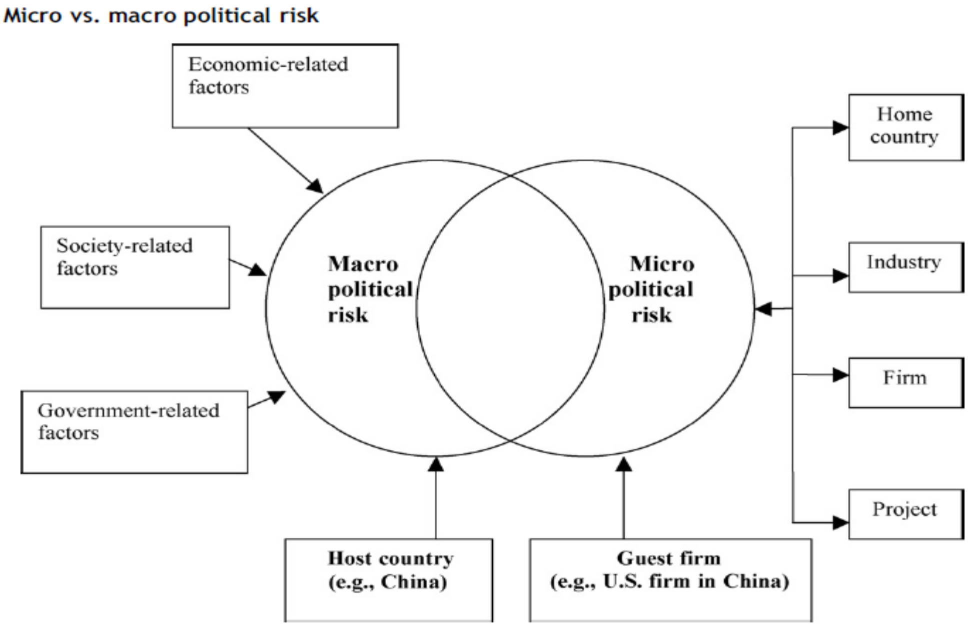

Figure 1: Classification of macro and micro-economic forces in international business

Adapted from I. Alon & T. Herbert (2009 pg. 128). A stranger in a strange land: Micro political risk and the multinational corporation

Alon and Herbert (2009) further observed that to the extent that some multinational corporations have decentralised operations spanning different countries, each with varying degrees and types of political risk such as MTN, which has a presence in 22 countries, their operations can be subject to both macro and micro political risk.

2.4 Political risk

2.4.1 The role of politics in foreign direct investment

Foreign direct investment (FDI) is important to a country's economic growth and is the catalyst for MNCs to make inward investments in foreign markets (Alon & Herbert, 2009). Aharoni (1966) defined FDI as the flow of private capital from a parent firm's domestic market to a foreign country. However, as MNCs engage in inward foreign direct investment, they have to consider the political or economic stability of the host country before making the foreign investment decision (Aharoni, 1966).

To the extent that political stability is a critical factor for FDI and therefore for multinationals investing in foreign countries, Root in Aharoni (1966) defines political risk as;

> The possible occurrence of a political event of any kind (such as war, revolution, coup d'état, expropriation, taxation, devaluation, exchange controls and import restrictions) at home or abroad that can cause a loss of profit potential and/or assets in an international business operation (p.355).

Schmidt (1986, p. 45) agreed and acknowledged that, "political risk is the application of host government policies that may jeopardise the profitability and/or goods of the foreign investment operation". To the extent that political risk may constrain the operations of a MNC in a foreign market, investors are inclined to invest in economies with efficient legal protection and less prone to political risk. (Gupta et al., 1998).

In support of this proposition, Dutta (2012) noted that political risk is increased considerably in autocratic economies, whilst on the contrary, democratic economies provide an environment with secure property rights, lower risks of expropriation, less corruption and overall favourable investment conditions. Given this context, it is not unusual therefore for MNCs planning expansion into foreign markets to discriminate early on between countries that are deemed to be safe and those that not are not so safe (Schmidt, 1986).

In spite of the efforts by the early researchers to understand political risk within the context of FDI, most of the literature has focused on the economic determinants of FDI and not enough attention has been allocated to literature analysing political risk as a single variable affecting FDI (Busse & Hefeker, 2007).

In a bid to further understand the impact of politics on international business, Lee and Mansfield (1996), using data obtained from 100 firms based in the U.S., identified that a country's system of intellectual property protection positively influences the volume and composition of U.S. foreign direct investment.

Brunetti, Kisunko, and Weder (1998), using data from a private sector survey conducted in 73 developing countries and covering more than 3,800 enterprises, found that poor regulatory structures and laws in a host country affect the levels of investment and growth. In support, Wei (2000) found that bad governance and bureaucratic corruption in a country reduce international trade more than domestic trade.

However, Busse (2004) noted that early researchers of political risk (Aharoni, 1966; Robock, 1971; Root, 1972) used international cross-country analysis and therefore did not take into account the importance of changes in political institutions and of other relevant policies in host countries. Consequently, he proposed a time series analysis of political risk to eliminate possible bias in the findings. Some of the early pioneers of the time series methodology included Singh and Jun (1995) who aggregated political risk on a number of sub components based on a data sample of 31 developing countries and found that countries with political risk attract less FDI.

Similarly, Gastanaga, Nugent, and Pashamova (1998) found that lower corruption and nationalisation risk levels led to higher FDI. Henisz (2000) demonstrated that multinationals faced an increasing risk of appropriation if political hazard in a host country increases. However, Busse and Hefeker (2007) found that the degree of risk depends on the strategic behaviour of the MNC and could be mitigated by selecting a partner in good political standing with the host country government. To advance their argument that other non-measured influences affect determinants of multinational FDI, Busse and Hefeker (2007) conducted a study based on a data sample drawn from 83 developing countries covering the period from 1984 to 2003.

The study identified six significant determinants that matter the most to the activities of a multi-national corporation: government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government and the quality of bureaucracy.

In recent years, a third group of scholars (Brune et al., 2003; Busse, 2004; Harms & Ursprung, 2002) have found that multinational corporations are most likely to be attracted to where there is democracy. On review of the literature associated with the determinants of FDI, it is evident that political risk has many facets and in spite of using different methods of analysis, there is no single consensus on the definition of political risk (Al Khattab, Anchor, & Davies, 2007). Notwithstanding the lack of a common definition (Nawaz & Hood, 2005), the early and most recent scholars appear to agree on one common theme, that political stability of the host country influences the level of political risk exposure for the multinational corporation and is therefore a major factor in the multinational's decision to invest abroad (Brune et al., 2003).

2.4.2 Classification of political risks in international business

The challenge of managing political risk lies partly in the diversity of the risks covered by the term (Wilkin & Zonis, 2000). Nawaz and Hood (2005, p. 25) agree and state that, “the concept of political risk, is subjective and hard to quantify leading to lack of uniformity in its definition by international business scholars”. Despite the difficulty faced by scholars of international business to define political risk, some researchers such as (Hill, 2011; Miller, 1992) have made noteworthy attempts to define general political risk affecting multinational corporations. One such attempt was made by Miller (1992) who submitted that multinational firms are exposed to five types of risks; natural, legal, societal, political and governmental. Hill (2011) also identified similar components.

In support, (Brink, 2004; Stosberg, 2005) suggested that political risk arises not only from governmental but also societal sources. As a consequence of (Hill, 2011; Miller, 1992) contribution, Al Khattab et al. (2007) classified general political risks in international business and their sources respectively as reflected in Figure 2 and Table 1 below.

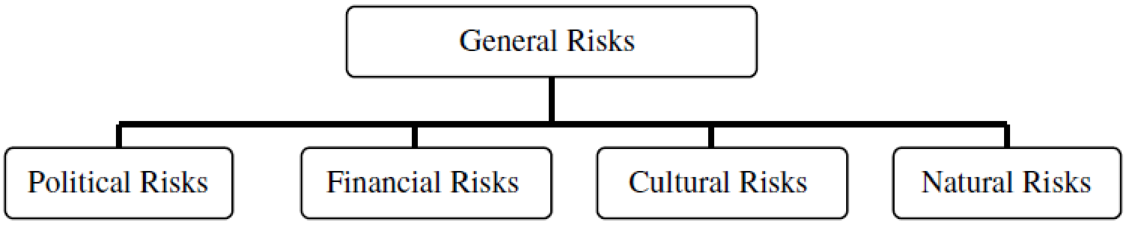

Figure 2: Classification of general political risks in international business

Adapted from A. Khattab, J. Anchor & E Davies: Managerial perceptions of political risks in international projects (2007)

Table 1: Classification of political risks according to source

Source of threat	Threats (source of harm)
Host government	• Expropriation • Contract repudiation • Currency inconvertibility • Ownership and/or personal restrictions • Taxation restrictions • Import and/or export restrictions
Host society	• Terrorism • Demonstrations, riots and insurrection • Revolutions, coup d’état and civil wars
Interstate	• Wars • Economics

Adapted from A. Khattab, J. Anchor & E Davies: Managerial perceptions of political risks in international projects (2007).

Notably, the Al Khattab et al. (2007) categorisation of political risk and its sources is consistent with what (Howell, 1998; Zarkada-Fraser & Fraser, 2002, p. 24&54) define as political risk, “occurrences of political or societal events upon the international investment”. Although not exhaustive, the Al Khattab et al. (2007) categorisation of political risk appears to be representative of the divergent views by various scholars on the definition of political risk.

2.4.3 Political risk mitigation strategies in international business

Keillor, Wilkinson, and Owens (2005), assert that as firms expand into foreign markets, their ability to manage political risk becomes imperative. Luo and Zhao (2009) submit that several researchers (Brouthers & Bamossy, 1997; Hillman, Keim, & Schuler, 2004; Hoskisson, Eden, Lau, & Wright, 2000) have specified that there are various political strategies that can be employed by multinational corporations to effectively deal with political risk within ethical and legitimate boundaries.

The most prominent amongst these strategies is the theoretical framework developed by researchers such as (Boddewyn, 1988; Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Ring, Lenway, & Govekar, 1990). This framework has its grounding in political science theory (Luo & Zhao, 2009). In terms of this framework, political risk management is categorised into two broad strategies relationship political strategy (RPS) and transactional political strategy (TPS). Hillman and Hitt (1999, p. 828) defined RPS as “the process of multinational corporations proactively developing long-term relationships with host government authorities to influence government policy”. TPS was defined as “a multinational corporation’s response to the development of a specific public or policy issue”. To the extent that MTN’s operations are predominantly in emerging markets, it is important to mention that Luo and Zhao (2009) observe that there is a dominant preference to use the RPS approach in emerging market economies by MNCs apparently because relationships at the social, organizational, and individual levels are deemed to be essential to conducting business.

On the contrary, the TPS is reactive and somewhat confrontational. A MNC that relies on TPS may not necessarily have a good relationship with the host country government in the long term, which could affect its business in the host country (Luo & Zhao, 2009).

Another group of researchers (Baysinger & Woodman, 1982; Clawson, Neustadtl, & Scott, 1992; Varadarajan, Clark, & William, 1992) proposed a theoretical framework based on three principles; domain management, domain defence, and domain maintenance. Varadarajan et al. (1992) described domain management as;

> A firm's political behaviour that seeks to pursue the firm's private interests; *domain defence* as the firm's political strategy to manage public policy that might be at odds with its objectives, and *domain maintenance* as the firm's political strategy to influence public policy that might threaten the means of the firm to achieve its goals (p.8).

Within these two theoretical frameworks, a variety of political behaviours can be undertaken by multinational corporations to manage political risk such as lobbying, industry alliances, government alliances, inducements and contributions, depending on the type of political risk (Keillor et al., 2005).

Rehbein and Lenway (1994) also proposed a different strategy which they called the industry legal strategy. This strategy calls for the lobbying and subsequent design of a legal framework to protect the interests of multinational corporations from threats arising from the host country, which may include political risk. Notably, a growing trend to use this type of strategy has been observed in recent years. In this regard, an increasing number of MNCs from the developed economies are resorting to lobbying the World Trade Organisation (WTO) to design legislation that favours their business objectives in foreign markets, particularly in emerging markets. One such law is the contentious investor-state dispute resolution (ISDR) agreement, which allows MNCs to unilaterally bring trade cases against sovereign countries to extra judicial tribunals established by the WTO (Ginsburg, 2005).

Noordin, Harjito, and Hazir (2006) proposed a largely different approach, the counteractive approach. This strategy requires a multinational corporation to use its bargaining power in the host country's economic landscape. Tactics available within the counteractive approach suggested by Noordin et al. (2006), include; leveraging dependency of the host country on critical supplies from its own country, accessing funding for its local operation in the host country's financial institutions and adopting a short-term investment approach.

Schmidt (1986) further recommended the "Going Native" strategy which was briefly discussed in section 2.2.5 of this study. The going native strategy is a tactic that can be used within the RPS domain and is designed to mitigate political risk arising from ownership. In the main, this strategy requires the MNC to sell equity shares to the citizens of the country or engage in some form of joint venture with local private or public capital, in order to align with the host country's government. To the extent that Luo and Zhao (2009) suggested that relationships at the social, organizational, and individual levels are essential to conducting business in emerging markets, Schmidt (1986) going native strategy resonates with the practical realities inherent in emerging market economies.

Overall, the literature review on political risk management strategies suggests that there is a wide range of strategies, tools and methods available to the MNC that may be applied proactively or reactively to mitigate political risk (Keillor et al., 2005).

2.5 Conclusion of literature review

The literature review indicates that globalisation is increasingly driving companies to expand into foreign markets in search of growth (Goldstein, 2009b). However, as MNCs expand into foreign markets, they are confronted by political risk (Liesch et al., 2006). The main sources of political risk for MNCs operating in foreign markets emanate from the actions of host governments and society (Ting, 1988).

After all, international business is a consequence of inter-country trade and relationships between governments (Grosse & Behrman, 1992). Political risk could either be political, cultural, social or environmental (Al Khattab et al., 2007). Although determinants of foreign direct investments are still largely focused on economic and market factors, political risk is assuming increased importance in any MNC's decision to invest in a foreign market (Schmidt, 1986). Considering that MNCs have to manage political risk in foreign markets, not enough attention has been afforded to the subject by international business scholars (Busse & Hefeker, 2007). In particular, on the balance of evidence, the literature reviewed is silent on how MNCs must balance the conflict that may arise from the application of some political risk management strategies with corporate governance.

2.6 Conceptual framework

The conceptual framework was introduced to establish a theoretical framework derived from the literature review for analysing the research problem as introduced in section 1.3. Regardless of the inductive nature of the case study research, the researcher needs to pre-determine the constructs or categories to be studied (Miles & Huberman, 1994). By identifying and prioritising constructs, the researcher is able to measure constructs more accurately (Eisenhardt, 1989).

The conceptual framework integrates the key elements of the international business and political risk theories extracted from the academic literature review. The framework has six main constructs derived from the academic literature that will be used as a basis to conduct, compare and contrast the findings of the study. These constructs are; MTN's internationalisation strategy, its market selection strategies, its mode of entry in foreign markets, its macro-economic environment in foreign markets, the types and sources of political risk it encounters in foreign markets and the types of political risk mitigation strategies it utilises.

These constructs have a causal effect on each other and will ultimately lead the researcher to collect the data required to sufficiently respond to the research question. The research instrument in Appendix A was also designed in advance to generate responses that may be linked back to the pre-determined constructs as outlined in the conceptual framework.

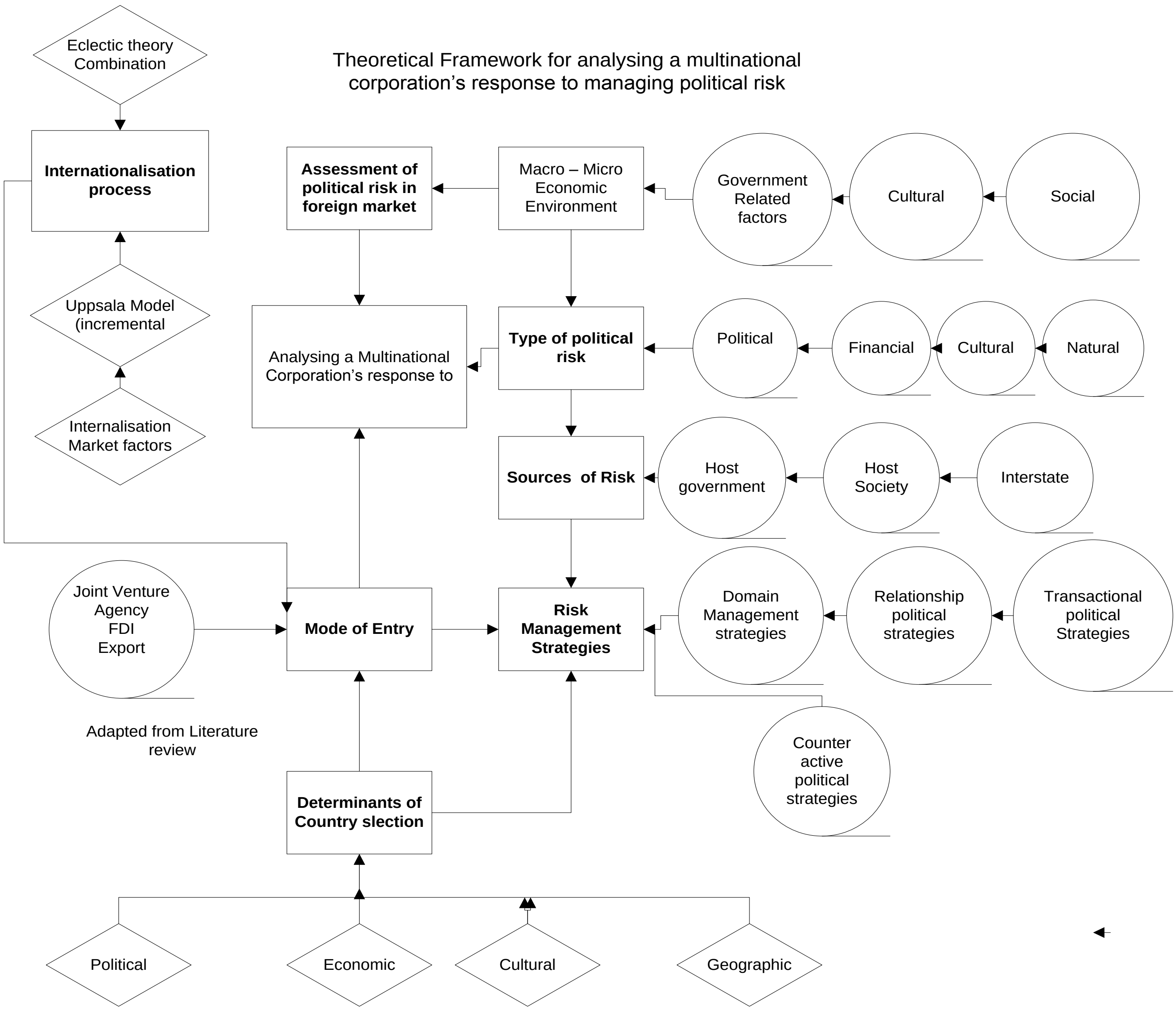

Figure 3: Conceptual framework for analysing research question

Developed from the literature review (Chapter 2)

2.7 Conceptual framework analysis

The conceptual framework integrates various theories in international business that helps to define the MNC's behaviour in a foreign market. On review of the framework, it is evident that MNCs follow a deliberate strategy to internationalise their operations. The MNC can either expand incrementally (Uppsala model), rapidly (Internalisation) or by adopting a strategy which combines the firm's specific ownership advantages, the attractiveness of the foreign country and its location advantages (Eclectic model). In expanding into foreign markets, the firm has to decide and select an appropriate mode of entry. The mode of entry into a foreign market can either be through licencing, a joint venture agreement, using an agent, establishing its own distribution channels or through a wholly or partially owned entity to conduct its operations in the selected foreign market. The MNC operating in a foreign market operates within a macro-economic environment of which political risk is one factor.

Sources of political risk in the foreign country could emanate from the host government's actions, society and from inter-state conflicts. The types of risks emanating from these sources could be cultural, political, financial or natural. The mode of entry selected to enter a foreign market has a direct bearing on the type and degree of risks that the firm is exposed to in the foreign market. Low levels of control by the MNC on its foreign operations could minimise its exposure to risk whilst a fully owned subsidiary may increase its risk exposure. The MNC has a number of strategies at its disposal (domain, relationship, transactional and counter active) which it could employ to mitigate political risk in foreign markets.

3 CHAPTER 3: RESEARCH METHODOLOGY

The research methodology section discusses the methodology that was used to collect, analyse and interpret the research data. This section will cover the research strategy, research design, population and sampling methods, research instruments, data collection, data analysis and data interpretation. This section will conclude with a discussion on the limitations of the study and the methods used to ensure reliability and validity.

3.1 Research strategy

The study adopted a qualitative exploratory strategy defined by Jones (1995) as research that takes an interpretivist and naturalistic approach to its subject matter. This method was identified as suitable for use in this research because the study seeks to analyse and explain a known set of distinct phenomena affecting a specific organisation, MTN. This research strategy has been successfully employed by Lotzkar and Bottorff (2001). However, this method of research has some widely known limitations which include; that the large volume and variety of data collected may be time consuming, subjectivity as a result of researcher bias and lack of reproducibility and generalisability of findings (Mays & Pope, 1995).

3.2 Research Design

The study adopted an exploratory case study method as the research design. This type of case study is used to explore situations in which the intervention being evaluated has no clear, single set of outcomes (Yin, 1994). According to Yin (1994, pp. 38-40) a single case study is appropriate for use where it represents a critical case, an extreme or a unique case or where it is a revelatory case.

MTN fits the criteria proposed by Yin (1994) because it is one of a few emerging market multinational corporations that is predominantly engaged in large scale business activities in many countries with very high political risk (Fitch Research, 2013). By selecting MTN as the single instance or phenomenon, the researcher was able to study all the critical attributes required to respond to the research question. However, there are disadvantages associated with using a case study approach such as researcher bias in data collection and analysing methods (Galliers, 1992).

3.3 Case Site

The unit of analysis constitutes a single case and may be an individual, a group, an organisation or it may be an event or some other phenomenon (Darke, Shanks, & Broadbent, 1998). Darke et al. (1998) further assert that the unit of analysis must provide for sufficient breadth and depth of data to be collected in order to allow the research question to be adequately answered. The unit of analysis used for the study was MTN Group Limited, an emerging multinational corporation (EMC) based in Johannesburg, Republic of South Africa. It is domiciled at the Innovation Centre, 216 14th Avenue, Fairland.

3.4 Population and Sample

3.4.1 Population

A population is a complete group of entities sharing some common set of characteristics (Zikmund, 2003). The population of relevance for the study was all stakeholders that are or were involved in key decision-making, risk management, strategy formulation, and implementation within the MTN group. To ensure diversity of opinion, the population of relevance also included respondents that have no operational involvement with MTN.

Specifically, the target population consisted of current and former MTN group executives, an institutional shareholder of MTN, an independent telecoms analyst covering the information and communications (ICT) sector in Africa and Middle East and a senior official in the department of international relations within the government of South Africa to allow for data triangulation (Yin, 1994).

3.4.2 Sample and sampling method

The non-random sampling method commonly referred to as purposive or judgemental sampling was used for the study. According to Marshall (1996), when using the purposive sampling method, the researcher actively selects the most productive sample to answer the research question. Accordingly, by using newspaper articles, MTN internal publications and investor analysts' reports, the researcher was able to identify eight respondents drawn from the population of relevance based on their level of operation and expertise in relation to the subject matter. To ensure access to different interpretations and viewpoints in relation to the subject matter (Voss, Tsikriktsis, & Frohlich, 2002), the respondents were drawn from different operational functions within MTN covering business risk, mergers and acquisitions, investor relations and operations.

By using the purposive sampling method, the researcher was also able to construct questions in advance that allowed for greater exploration of the phenomenon under study (Marshall, 1996). In addition, this method also allowed the researcher to influence the contribution of the respondents to the open ended questions formulated in advance based on the researcher's practical knowledge of the operations of the MTN group (Marshall, 1996). In respect of the sample size, Morse (1994) recommends that phenomenological qualitative research must include a minimum of six participants. Accordingly, interviews were conducted with eight respondents in order to comply with the minimum requirements for a sample size in case study research as prescribed by Morse (1994). Table 2 below reflects the profile of the respondents that were interviewed for the study.

Table 2: Profile of respondents

Description of respondent	**Number to be sampled**
MTN Group current executives	3
Former MTN Group executive	1
Former MTN OpCo executive	1
Independent telecommunications analyst	1
Senior government official from the Department of International Relations and Trade (South African government)	1
Institutional MTN Shareholder	1
Total number of respondents	**8**

3.5 The Research Instrument

The study utilised a semi structured interview guide as the research instrument. Wengraf (2001) suggests the use of semi structured interviews because the open-ended nature of the questions allows the interviewer the flexibility to pose subsequent questions in an improvised and theoretical way. However, the main disadvantage of this method is that it can generate inconsistencies and a high volume and variety of responses from the respondents (Talja, 1999). To ensure that the study does not generate unnecessarily high volume of irrelevant data, the researcher posed questions within the framework of the questions proposed in the semi structured interview guide. The research instrument was adjusted to contain questions that were contextually relevant to the respondents, such as the shareholder and independent telecommunications analyst.

3.6 Data Collection

Recorded audio interviews of 30 to 60 minutes were the primary method of data collection. Darke et al. (1998, p. 283) suggest the use of tape recordings as a means of providing a complete description of the interviewees' responses and comments. However, when conducting the actual interviews, the average duration of the interviews was longer than the planned duration of 30 to 40 minutes. This was due to the subject matter being complex and therefore required extensive elaboration by the respondents in order to illuminate the context of the issue under investigation. Additionally, it was observed that the respondents were very passionate about the subject matter and willing to elaborate on the questions posed.

After obtaining formal access, each respondent was handed an informed consent and ethics letter to read and sign prior to the interview. The consent and ethics letter outlined the nature, context and research objectives of the study as recommended by Darke et al. (1998). By using interviews as the primary source of data, the researcher was able to access the respondents' views and interpretations of the phenomenon under study (Britten, 1995).

The researcher formally transcribed the audio recordings into formal data almost immediately after each interview. However, there is a disadvantage associated with the use of audio recordings in interviews. According to Darke et al. (1998), tape recording can inhibit the interviewee and over reliance on tape recordings can prevent the researcher from fully participating in the interview. In order to mitigate the risk of interviewee inhibition and distraction, the researcher also used notes, which were immediately transcribed into formal data after each interview (Darke et al., 1998). To achieve data triangulation, internal published MTN reports were analysed. The diversity of the respondents, specifically the inclusion of respondents from outside the formal operational structures of MTN in the population of relevance, also helped to achieve data triangulation.

Data collected from the interviews, which includes the audio recordings of interviews, transcripts, interview notes and case study documents were indexed and organised in a secure case study database for cross-referencing and ease of access, after completion of the study (Yin, 1994).

3.7 Data Analysis and Interpretation

Research data was analysed using a general inductive content data analysis method. Thomas (2003, p. 2) describes the inductive approach as a "systematic procedure for analysing qualitative data where the analysis is guided by specific objectives". Mostly, content analysis is used to summarise vast amount of raw text data (Thomas, 2003).This method is suitable for use in the study because the underlying strategies utilised by MTN to manage political risk were not clearly defined. The researcher applied the following steps recommended by Thomas (2003, p. 3) to analyse the transcribed data;

1. Data from the interviews was formally transcribed to identify themes and categories.
2. A coding frame was developed.
3. The transcripts were then coded to develop categories.
4. The categories were then conceptualised into broad themes.
5. After which the categories were reduced and interpreted within the attributes of the conceptual framework provided in the academic literature review.
6. The credibility of the findings was achieved by contacting some of the respondents to verify the accuracy of the information as well as by comparing the findings to MTN internal publications.

Table 3 below illustrates the coding process that was used to analyse the data.

Table 3: The coding process in inductive content analysis

Initial read through text data	Identified specific segments of information	Labelled the segments of information to create categories	Reduced overlap and redundancy among the categories	Created a model incorporating the most important categories
Many pages of text	Many segments of text	30 – 40 categories	12 -20 categories	3-8 categories

Adopted from Creswell, 2002, Fig 9.4 pg. 266

For ease of analysis, the transcripts were read horizontally, which involved grouping texts by segments until no new themes could emerge (Marshall, 1999).

3.8 Limitations of the study

Two types of limitations to the study were identified, one administrative and the other technical. In terms of the administrative limitation, the volume and variety of data collected was large and time consuming. The result was that there was a possibility that the completion of the study would be delayed. Therefore, interviews with respondents were secured early to allow sufficient time to analyse and interpret the data. This measure assisted in observing the timelines for completion of the research.

The technical limitations of the study are acknowledged as follows:

- The findings are limited to the opinions of the selected people that were sampled for interviews.
- The study employed a qualitative research strategy, which means that the findings cannot be easily reproduced or generalised.
- The study is prone to researcher bias when collecting and analysing data collection, which may compromise the integrity of the findings.
- The study utilised audio recordings as a data collection instrument, which may inhibit the interviewees.

3.9 Reliability and Validity

Reliability is the extent to which a study's operations can be repeated with the same results (Yin, 1994). According to Merriam (1995, p. 59), "the trustworthiness of findings of a study with a small and non-random sampling is dependant upon the internal validity, reliability and external validity of the study".

The study used four criteria that can be applied to ensure the reliability and validity of a study; credibility, transferability, dependability and conformability (Hussey & Hussey, 1997). Within the four criteria, the researcher performed the following tasks;

➢ To conform to the credibility criteria, the researcher used MTN internal published documents. Specifically, the researcher used MTN's annual financial reports, integrated sustainability reports and investment analysts' reports.

➢ The transferability criterion was complied with because the subject of inquiry is an emerging multinational corporation operating in countries with high political risk in emerging market economies. So the findings may be applied to other multinationals operating in a similar context.

- Dependability was achieved by immediately transcribing the data collected from the interviews so that the researcher could recall the information as presented by the respondents therefore limiting researcher bias and misinterpretation. Dependability was further maximised by collecting and documenting all field notes, reports and any ideas or insights that arose during or after an interview (Voss et al., 2002).
- Conformability was achieved by creating and maintaining a secure case study database for cross-referencing, ease of access and retrieving during and after completion of the study.

3.8.1 External Validity

Yin (1994) describes external validity as knowing whether a study's findings can be generalised beyond the immediate case study. The research achieved external validity because the subject of inquiry, MTN, is a multinational corporation operating in emerging market economies so the findings can be generalised within the same context.

3.8.2 Internal Validity

Internal validity is described as the extent to which a causal relationship can be established, whereby certain conditions are shown to lead to other conditions (Yin, 1994). This study met the internal validity criteria defined by (Yin, 1994) because it used the inductive content analysis method to analyse and interpret the data collected from the interviews to explain MTN's framework for managing political risk. The data was analysed by developing a coding framework, which involved coding of the transcripts to develop categories. The categories were then conceptualised into themes and cross-checked against the document analysis and audio recordings.

3.8.3 Reliability

The study achieved reliability by applying the audit trail strategy (Guba & Lincoln, 1981). By employing this strategy, the researcher retained an audit trail describing in detail how the data was collected, how categories were derived and how decisions were made throughout the inquiry. Accordingly, other researchers can use the audit report as an operating manual to replicate the study (Goetz & LeCompte, 1984). To maximise reliability, data triangulation with MTN internal publications and investment analysts' reports was conducted.

4 CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

This chapter will present a summarised version of the results of the data collected from the population of relevance using open ended interviews and from analysing MTN internal publications, newspaper and magazine articles over a two month period. The detailed results presented in table format can be found in **Appendix C to G** of this report. The inductive analysis method proposed by Creswell (2002) was used to analyse the data. The coding framework used to analyse the data has been filed in the case study database for cross-referencing and ease of access. In total, eight audio transcripts were transcribed into text and read horizontally to identify key segments of texts. Key segments of text were then grouped according to questions 1 to 11 on the semi structured interview guide. The semi-structured interview guide was designed to be aligned to the conceptual framework in order to allow the researcher to examine MTN's political risk mitigation strategy according to the constructs contained in the conceptual framework in figure 3.

4.2 Results pertaining to research question

The study only had one research question "to investigate how MTN has mitigated political risk in foreign markets". In order to respond to the research question, 11 different leading questions were posed to the respondents as per outlined in the semi-structured interview guide. The findings were then summarised using Creswell (2002) coding framework and allocated to the relevant question on the semi structured interview guide for presentation.

The semi structure interview guide was designed as follows:

- Questions one to three were designed in order to gather information related to how MTN undertook expansion into foreign markets.
- Question four to six were designed to gather information related to how MTN assesses political risk in its diversified operations.
- Question seven was designed to obtain information related to how MTN measures political risk.
- Question eight and nine were designed to gather information related to the strategies used by MTN manage political risk.
- Question ten was designed to gain an understanding of how an MTN shareholder and an independent Telecommunications analyst perceive the group's strategy to manage political risk.
- Question 11 was designed to understand the South African government's role as it relates to MTN's expansion and subsequent operation in foreign markets.

The aggregated findings were then consolidated into five tables and presented in **Appendix C to G** of this report. In order to maximise the integrity of the findings, efforts have been made, where possible, to capture the essence of the respondents' responses by retaining key segments of texts verbatim.

4.3 Summary of the results

The results can be summarised in the graphical illustration presented in figure 4 below. Figure 4 integrates the key findings of the study with the conceptual framework in figure 3. The constructs that were introduced in figure 3 based on the academic literature review were; the types of strategies followed by MNCs to expand into foreign markets, how MNCs select foreign markets, the types and sources of political risks encountered by MNCs in foreign markets and the strategies utilised to mitigate political risk. Figure 4 therefore explains MTN's behaviour as per the findings in relation to these constructs.

Integration of findings with the conceptual framework in figure 3.

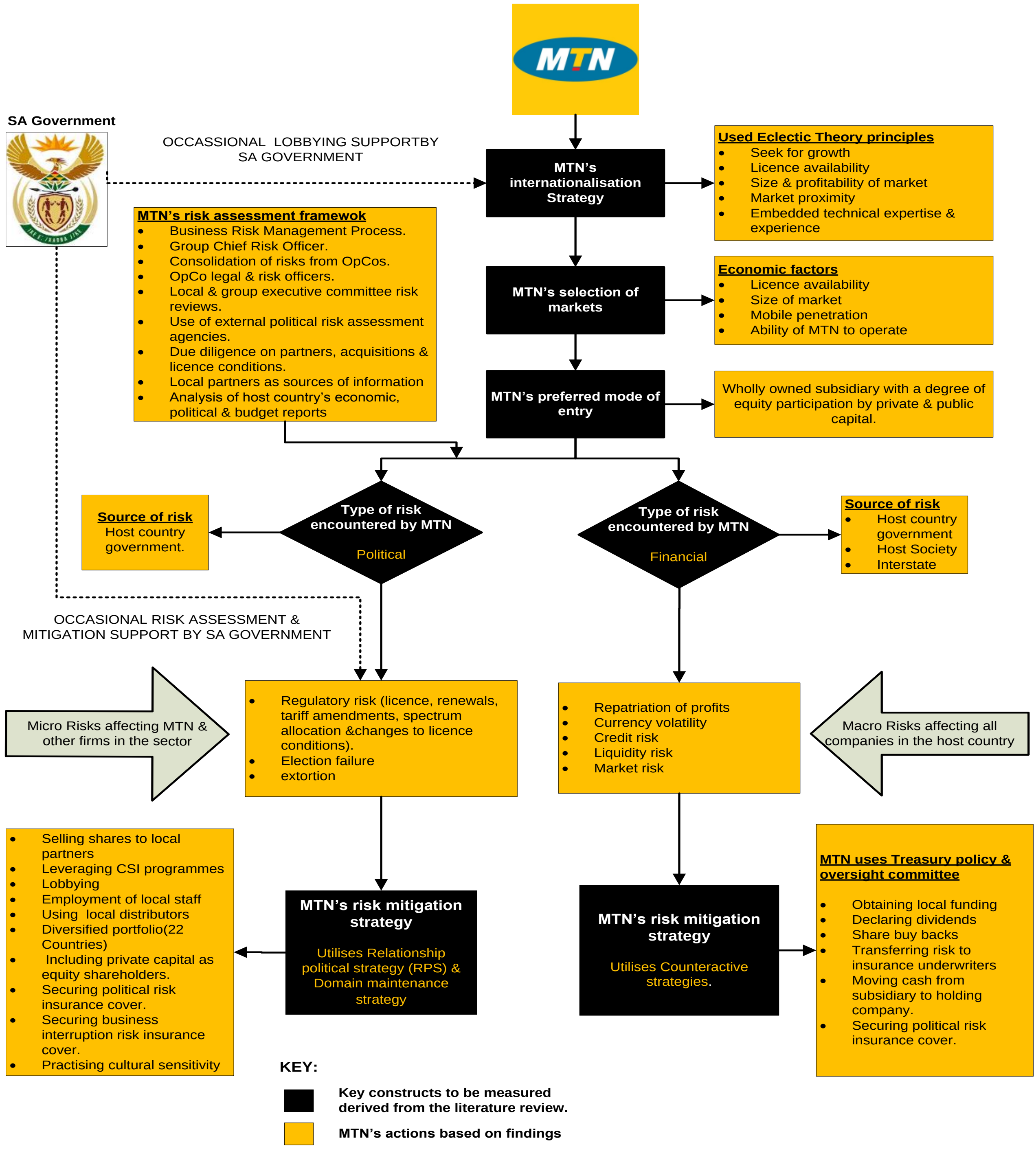

Figure 4: Integration of findings with conceptual framework (Figure 3).

The findings demonstrate that MTN used combined factors within the eclectic theory model to undertake foreign expansion. With respect to selection of foreign markets, the findings indicate that MTN considers licence availability, size of the market, the level of mobile penetration and its ability to operate in the target country. MTN prefers to use wholly owned subsidiaries as the mode of entry and includes private and public capital in the host country as equity shareholders. Upon entering foreign markets, MTN is exposed to two types of risks, political risk and financial risk, both emanating from the host country government.

The findings also reveal that MTN uses a combination of political risk management strategies to mitigate risk. Specifically, the group uses various tactics contained in the relationship political (RPS) and counteractive strategy domain to mitigate political risk. However, the findings also indicate that there are strategies that are effectively and uniquely deployed by MTN in an emerging market context to manage political risk in foreign markets that are not found in the academic literature, and provide valid grounds for further research. The conceptual integration of the findings with the academic literature is discussed in detail in the subsequent section.

5 CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

The discussion of the results will analyse the findings and seek to draw parallels and contrasts between MTN's strategies to manage political risk and the academic literature. At the end of each discussion, conclusive findings are presented. In discussing the findings, the study will attempt to respond to the fundamental objective of the study, which is to investigate how MTN has mitigated political risk. The study will highlight distinct strategies that are unique to MTN but may be adopted by MNCs operating in a similar context whilst adding to the body of knowledge on the management of political risk in foreign markets.

5.2 Demographic profile of the respondents

The respondents interviewed were purposively selected based on the assumption of productivity due to their level of seniority (Marshall, 1996). The vast majority of respondents interviewed were senior current and former group executives of MTN who have comprehensive knowledge of the group's strategies. By using published internal documents and online profiles, the average tenure of the respondents in their current roles was found to be a minimum of five years. On average, all the respondents possess an undergraduate degree with the vast majority possessing a post graduate degree. The respondents have at least 20 years of working experience that span various functional areas such as finance, mergers and acquisitions, business operations, auditing, strategy, investments and general management. In order to provide diverse interpretations and viewpoints as recommended by Marshall (1996), independent opinions were canvassed by including an institutional shareholder of MTN, an independent analyst and a senior government official in the population of relevance.

To augment the authenticity of the findings as recommended by Yin (1994), MTN internal published documents, specifically its annual financial reports and integrated sustainability report were analysed (MTN Group, 2013).

5.3 Discussion pertaining to research question

5.3.1 MTN's Internationalisation process

The findings related to MTN's strategies for expanding into foreign markets will be discussed under this section. In addition, findings pertaining to MTN's strategies for selecting foreign markets and its preferred mode of entry upon selecting a foreign market will be discussed.

5.3.1.1 ***MTN's expansion strategy***

The academic literature reviewed in chapter 3 reflects three dominant strategies that can be used by multinational corporations to undertake expansion into foreign markets. The strategies are; the Uppsala model, the Internalisation theory and the Eclectic theory. The findings indicate that MTN's board made a deliberate decision to expand based on the realisation that growth in South Africa, its domestic market, was slowing down around the year 1995. In order to provide context, it is prudent to mention that the South African mobile market has largely been dominated by two pioneer companies since 1994, MTN and Vodacom respectively (Africa & Middle East Telecoms, 2012a). MTN, although the bigger of the two companies by market capitalisation and total number of mobile subscribers because of its larger geographical footprint, has largely been lagging behind Vodacom in South Africa (Africa & Middle East Telecoms, 2012b). MTN's reasons for expansion therefore derives support from Gammeltoft et al. (2010), who noted that globalisation and increased domestic competition drives firms to expand into foreign markets in search of growth opportunities.

In pursuing expansion, the findings indicate that MTN's selection of markets was mainly influenced by the availability of greenfield mobile licences, which were becoming increasingly available due to the liberalisation of telecommunication markets in most African countries and was therefore opportunistic. The findings reflect that MTN used a multi-pronged approach to pursue growth. The group first focused on acquiring greenfield licences in neighbouring countries. However, within a short space of time, the group started to expand into markets further away from its home base such as its entry into the hugely populous and complex Nigerian market in 2001. The findings indicate that the group's decision to pursue foreign markets was motivated by its desire to generate increased profits for its shareholders through targeting mobile licences in small neighbouring countries with a low mobile penetration. Progressively, the group started to expand into bigger markets buoyed by the realisation that operating in African markets was profitable and encouraged by the operational expertise it had gained from operating in small neighbouring countries such as Uganda, Swaziland and Rwanda.

MTN's expansion strategy has strong aspects of the Uppsala model of incremental growth advanced by Johanson and Vahlne (1977) which is rooted in Aharoni (1966); Cyert and March (1963) and Penrose (1959) theory of the growth of the firm. This theory contends that companies follow incremental growth phases when expanding into international markets by first acquiring knowledge in markets in close proximity to the home base and then expanding into markets further away. MTN's expansion strategy can also be located within Ahmad and Hashim (2007) observation of firms' behaviour in expanding to foreign markets. Ahmad and Hashim (2007) noted that firms expand by first acquiring knowledge and experience about the key elements in a foreign market, which then leads to reduced levels of uncertainty in unfamiliar markets before making the investment decision. Therefore it can be argued that MTN's big leap investment into Nigeria, and later Iran was motivated by the confidence it had gained from operating mobile networks in Uganda, Swaziland and Rwanda.

Notably, all three countries have some degree of cultural and distance proximity to South Africa. Similar to South Africa, all three countries are former British colonies and recognise English as an official language. Rwanda, despite being a former Belgian colony also recognises English as an official language in addition to French. The findings indicate that MTN used its experience acquired in the three countries to understand the dynamics of operating in African countries and then developed a business model for operating in emerging African countries. Consequently, MTN developed the necessary confidence to take on Nigeria, a far bigger market renowned for its complexity of doing business due to the lack of infrastructure and weak institutional framework, and other similar markets.

However, there are also strong aspects of both the internalisation “Born Global” and Eclectic theory in MTN’s expansion strategy. In terms of the former, it can be argued that MTN expanded into Uganda, Swaziland and Rwanda within three years of its existence whilst at the same time growing organically in South Africa. In terms of the latter, its acquisition of Investcom driven by the lack of greenfield opportunities whilst simultaneously pursuing greenfield licences in large populous countries with low mobile penetration such as Iran and Ethiopia appears to have been influenced by the commercial viability and attractiveness of these markets, and therefore informed by eclectic theory principles. It can be argued conclusively therefore, that MTN’s growth strategy combined various aspects of international business theory which is best explained by Dunning’s Eclectic theory.

The findings also indicate that the South African government performed an important role in MTN’s expansion, particularly in the land grab years between 1995 and 2000. The findings indicate that the South African government was instrumental in occasionally lobbying peer governments for mobile licences on behalf of MTN. However, the role of government as an enabler and supporter of MNCs expanding into foreign markets is not sufficiently addressed in the academic literature and may require further research.

5.3.1.2 *MTN's determinants for investing in a foreign country*

The findings demonstrate that in pursuing growth, whether through a greenfield or acquisitive strategy, MTN undertakes a thorough analysis of the target market. The findings also reveal that due to the fact that MTN operates in a regulated sector, its selection of markets is usually a consequence of the availability of mobile licences. Occasionally, MTN selects its markets based on the availability of acquisition opportunities. MTN's criterion for market selection is therefore influenced by commercial imperatives more than political factors.

In relation to the academic literature, MTN's strategy for determining which market to enter is strongly supported by Stobaugh (1969), who argued that market size and market growth is a key determinant for market selection. The observation by scholars such as (Root, 1982; Toyne & Walters, 1989) who suggested that the host country‘s political, social and economic development are important determinants in the choice of markets by MNCs is a secondary but important consideration in MTN's selection of markets. Despite the high political risks prevalent in most of the countries in which the group operates, the findings conclusively indicate that it is often difficult for MTN to discriminate early on between countries that are deemed to be safe for investment, and those that are not so safe as suggested by Schmidt (1986). This is because the availability of mobile licence opportunities often influences the foreign market it should enter and not the political stability of the host country.

5.3.1.3 *MTN's preferred mode of entry into a foreign country*

MTN's preferred mode of entry is a wholly owned foreign operation with some degree of equity participation by local partners. The choice of MTN's preferred mode of entry was also validated against MTN's internal published documents (Appendix J). MTN indeed has a majority or controlling stake in 18 of its foreign operations with the exception of MTN Iran Cell (49 per cent), MTN Swaziland (30 per cent) and to some degree, MTN Cyprus where it holds a 50 per cent stake.

However, even in these three operations, MTN retains management rights due to its strong balance sheet capabilities and embedded operational and technological expertise, which allows it to gain the right to manage the operations ahead of the local equity partners.

The findings further reveal that MTN's preference for wholly owned subsidiaries is influenced by its desire to maintain control of the operation in light of the huge capital investment required to acquire a GSM licence and to build a network in a foreign market. Narula and Dunning (2000) support this finding and noted that the level of FDI required in ICT oriented sectors is significantly high. To contextualise Narula and Dunning (2000) observation in relation to MTN, the group paid an amount of US 285 million dollars to acquire the GSM licence in Nigeria. MTN's strategy of using wholly owned entities or subsidiaries to enter foreign markets is supported by Anderson and Gatignon (1986), who noted that increased levels of firm ownership provides the parent firm with a greater level of operational control over its international transactions.

The findings also disclosed that in selecting local equity partners, MTN places a great deal of emphasis on the business acumen of the partners in addition to the ability to navigate the political environment. The group pays careful attention to ensure that its equity partners are not aligned to any single political party or constituency. This is designed to ensure that the group continues to enjoy good relationships with the host country government authorities beyond any changes in the political landscape of the host country. MTN's local equity partners are sometimes called upon to act as a source of vital political information and will occasionally act as intermediaries between the company, government and regulatory authorities and therefore ostensibly act as a buffer against politically induced risks.

MTN's strategy to include local equity partners is also designed to ensure that the group is easily accepted by customers and government authorities in the host country, but also to optimise its operational effectiveness in the market ahead of its competitors. Busse and Hefeker (2007) support MTN's strategy of using local equity partners and submit that political risk could be mitigated by selecting a partner in good political standing with the host country government.

However, whilst MTN's strategy of using a wholly owned subsidiary as the preferred mode of entry is understandable given the quantum of the capital investment required to operate mobile networks in foreign markets, some scholars (Burmester, 2000; Sam, 2001) disagree and suggest that this strategy exposes a MNC to a considerably higher risk of political interference in the host country. In fact, to emphasise the point, Sam (2001, p. 50) further asserts that "wholly owned ventures in foreign markets are three times more at risk of expropriation than minority joint ventures". The findings reveal that MTN has indeed encountered political action by host country governments that are tantamount to expropriation such as its experiences in Guinea Conakry and Benin. In the former, there was an attempt to solicit higher licence renewal fees and in the latter, operations were suspended for two months following a contract dispute with the regulator related to unwarranted increases on its mobile licence renewal fee.

The findings further reveal that the allocation of shares to local business people is sometimes not a voluntary decision by MTN but a licence condition imposed on the winning bidder. However, it is also implied in the findings that the use of local equity partnerships by MTN is most often a voluntary strategic decision by the group, undertaken with political risk mitigation as a key consideration in accordance with Schmidt (1986) going native political risk mitigation strategy. For example, one respondent cited the group's decision to dilute its shareholding in MTN Nigeria, its biggest market, by including eminent local business people and the government pension fund as equity partners, amidst growing pressure from the Nigerian regulator as an example of strategic shareholding structure.

Conclusively, the findings on MTN's internationalisation process reflect that MTN used a number of strategies to expand; mainly influenced by the availability of mobile licence opportunities, its own internal capabilities such as its embedded technical skills and the attractiveness of the selected market(s). Pointedly, the findings locate MTN's expansion strategy and determinants for the selection of markets within the Eclectic theory domain because it used a combination of factors to expand.

With respect to market selection, the literature review states that investors are most likely to invest in economies with efficient legal protection and less prone to political risks (Gupta et al., 1998). However, MTN's expansion strategy contradicts this view. This is because MTN operates in a regulated sector and therefore expansion opportunities are based on the availability of greenfield mobile licences, the ability to convert those opportunities and market factors such as size, population and level of mobile penetration in a country.

The findings also reveal that MTN prefers to use wholly owned or subsidiaries with a degree of equity participation by local partners. The South African government's support is also highlighted as having been crucial to MTN's growth. To the extent that the South African government adopts a non-aligned and non-confrontational foreign policy and was willing to assist MTN, the group's efforts to expand into the continent were made relatively easier.

5.3.2 MTN's risk assessment framework

The findings related to how MTN assesses political risk, the political risks it considers important and the timing of its assessment of political risk will be discussed in this section.

5.3.2.1 ***MTN's political risk assessment***

The findings reveal that MTN has a defined business management risk (BMR) process. The group retains a group business risk and governance department, which is responsible for managing overall business risks including political risks across the group's 22 operations. A group chief business risk officer who reports directly to the president and group chief executive officer, therefore elevating risk management to a key strategic function, leads the department. Within each OpCo, the respective OpCo executive committees are responsible for identifying and managing relevant political risks.

Each OpCo retains a legal and regulatory function that is operationally responsible for identifying and managing political risk within the host country. The group also has a clear escalation path for political risks that may affect its local operations. The first escalation point from OpCo is to the Vice President (VP) of the region (OpCos are grouped according to geographical location). If the political risk identified is deemed to be of high impact, such as a risk that may affect licence conditions, and cannot be sufficiently resolved at OpCo and VP level, the risk is escalated to the group chief business risk officer. At group level, an enterprise register incorporating all business risks from across the group's 22 operations is maintained and regularly reviewed at group executive and board level.

In cases where the political risk cannot be mitigated, the group usually transfers the risk. Risk transfer involves taking out business interruption and political risk insurance cover. MTN employs the services of established political risk assessment agencies to conduct due diligence on potential acquisition targets and the screening of potential equity partners. Some respondents submitted that MTN’s risk assessment framework was not always effective in the past, partly because the business risk function was not a separate function with the appropriate level of representation at group executive level.

This changed with the introduction of a group chief business risk officer role and subsequent elevation of the function to assume a strategic role at group executive committee level.

MTN’s proactive approach to political risk management is consistent with Alon and Herbert (2009) who asserted that when a firm chooses to enter a foreign market, its political risk exposure should be proactively assessed and managed. Conclusively, the findings reveal that MTN has a well-defined business risk management process (BRM) and an effective political risk assessment framework.

5.3.2.2 *Political risks that are important to MTN*

The findings reveal that MTN operates in highly regulated environments and is therefore prone to political risks. Telecommunications regulators are by extension, an arm of government tasked with managing the telecommunications sector in a host country. This is a global trend observed in both developed and emerging markets.

***Regulatory environment*:** The findings indicate that the main source of political risk to MTN in foreign markets is the regulatory environment. Regulatory risks include adverse decisions by regulators on issues related to licence renewals, tariff amendments, spectrum allocation and changes to licence conditions. Regulatory decisions and by implication government decisions, influence the extent to which MTN is exposed to domestic competition in host countries and therefore the commercial viability of its investment. In this respect, the respondents submitted that regulators largely determine who enters the market and set the tariff structures that MTN is able to charge users of its network services and products. The respondents also noted that the level of maturity of the regulators in the host countries in which MTN operates is low.

The findings reveal that regulators in the main have been cited as prone to making ill-advised decisions influenced by lack of sector expertise, and sometimes motivated by political agendas and corruption. In Guinea Conakry, Benin and Nigeria for example, MTN has been a subject of what the respondents perceive to be unfair treatment by regulators. In Benin, MTN was accused of unilaterally changing shareholders of the local operation shortly after completing the Investcom acquisition in 2006 leading to a suspension of operations for about two months. The regulator demanded capital gains tax from the group, in spite of MTN being the buyer of the operation and not the seller. MTN had to seek the intervention of the South African government to resolve the issues. A similar situation occurred in Guinea Conakry. In Nigeria, the findings reveal that various charges were levelled against MTN, such as being singled out to be a dominant operator and therefore subjected to tariff reviews. Penalties related to network performance have also been regularly imposed, yet the respondents argue that MTN cannot invest in its network capacity amidst a high cost-operating environment and continual pressure to reduce tariffs by the regulator.

The group has also experienced numerous problems related to the collection of interconnect debt. Interconnect fees refer to the amount of money mobile operators pay each other for terminating calls from another network. MTN is a dominant operator in most of its markets, it is therefore a net receiver of interconnect revenues. However, the group indicated that millions of dollars are outstanding in some of its operations and cites that one of the reasons for this problem is the failure of regulatory authorities to enforce stipulated punitive action to defaulters. MTN's exposure to regulatory risks finds support in the academic literature. Due to the fact that MTN operates in traditional emerging markets, which have a high degree of political risk because they typically suffer from lack of institutional development, lack of infrastructure and factor market development (Hoskisson et al., 2013), it is not unusual for the group to be subjected to adverse and inconsistent regulatory decisions.

Repatriation of profits**:** The findings also reveal that MTN considers repatriation of profits and dividends to be an important risk. In this regard, the findings disclose that MTN encountered difficulty in repatriating profits and repayments of shareholder loans from Iran and Syria, because both countries are under international economic sanctions.

Election failure: The third most important risk identified in the findings is the risk of election failure. Respondents submitted that the period leading to general national elections in some of MTN's markets generates potentially harmful political risks. It was noted by the respondents that when a country is approaching elections, political instability tends to increase. An example was made of the disputed elections in Ivory Coast, which led to increased political tensions in the country and business interruptions to MTN’s operations. In fact, the respondents submitted that due to civil strife, foreign banks pulled out of the country resulting in the lack of banking facilities for MTN. This finding is supported by the academic literature, which states that multinational corporations face an increased risk of appropriation if political hazard in a host country increases (Henisz, 2000).

Extortion: Another prominent risk that was unanimously identified by respondents as an important risk to MTN is extortion. Due to the fact that MTN has been overtly successful in these countries, it is regularly prone to extortion disguised as license transgressions by the host country government. The respondents submitted that the group is subjected to extortion in spite of being one of the largest tax contributors in most of its foreign markets. In the main, by virtue of being one of the largest tax contributors in most of its foreign markets, the respondents submitted that MTN should ordinarily be protected against any form of extortion by the host country government. However, this is not the case. In most instances, extortion requests are influenced by host country government's need to fund shortfalls in the national fiscus.

This type of risk is not uncommon in countries with weak democratic institutions in which MTN predominantly operates. (Dutta, 2012) asserts that political risk is increased considerably in autocratic economies, whilst on the contrary; democratic economies provide an environment with favourable investment conditions.

Currency volatility**:** Currency fluctuations and inconvertibility is another prominent political risk facing MTN in host countries. This is because MTN reports in a different currency (South African Rand) yet its OpCos trade in different currencies.

MTN's assessment of important political risks can be linked to the academic literature. To the extent that the literature review states that the macro-economic environment of the MNC has two distinct types of political risk; micro political risks affecting a single firm and macro political risks affecting firms countrywide (Robock, 1971), MTN has experienced both types of political risks in its international activities. Evidently, MTN's political risks emanates from both within and outside the actions of the host country government. Its regulatory problems in Nigeria and Benin for example can be classified within the domain of micro political risks which are induced by the host country governments' policy decisions and may include the impact of economic and labour conditions, exchange rates, income distribution, balance of payments, unionisation and changes to regulation amongst others (Alon & Herbert, 2009). On the contrary, the problems MTN is experiencing in Syria and Iran both of which are under economic sanctions fall within the domain of macro political risks, which usually affect firms countrywide and arise from external factors in the host country such as inter-state disputes (Fitzpatrick, 1983).

Conclusively, MTN's main political risk can be listed as follows; regulatory risks, extortion, currency volatility, repatriation of profits and political instability arising from election failure. The political risks that MTN considers to be important vary and range from political, cultural, financial and societal risks in accordance with Al Khattab et al. (2007) categorisation of the type of political risks faced by MNCs in foreign markets.

5.3.2.3 *MTN's timing of political risk assessment*

The findings indicate that MTN's assessment of political risks is conducted well in advance of any major investment decision that may have strategic and financial implications for the group. MTN conducts stringent due diligence in advance on all potential mergers and acquisition targets in the host country in order to ensure that the investment decision is made with a comprehensive knowledge of the value of the asset, the operating environment and the risks involved. The due diligence is also extended to potential local equity shareholders and distribution partners.

As we have observed under the discussion on political risk and its role in international business in the academic literature review in chapter 3, the mode of entry has implications for the strategic operations of the MNC in a foreign market and depending on the strategic behaviour of the MNC, can be a source of political risk (Anderson & Gatignon, 1986). In the case of MTN, respondents submitted that the group is sometimes required to partner with state owned fixed line operators in host countries. Therefore, conducting a formal and informal due diligence on the host country and the entity involved is important to the success of its business model.

MTN also occasionally engages the South African government before making investment decisions in foreign markets to assess the state of the government's relationship with the potential host country. MTN's regular interaction with the South African government finds support in the literature review, which states that business opportunities for MNCs are determined by inter country business activities between the home and host country (Grosse & Behrman, 1992). Critically important, MTN comprehensively evaluates licence conditions for new licences issued by a host country government before submitting a bid, specifically to analyse conditions related to the repatriation of funds, performance penalties and how tariffs would be managed by the regulator.

As already alluded to, the mobile telecommunications business is capital intensive and because it is also regulated, it is important for MTN to have a thorough understanding of the licence conditions before making the investment decision.

Conclusively, the findings in this section reflect that MTN has a well-developed risk assessment framework characterised by a defined organisational structure to manage political and business risks in general. From the findings, we can also list the main sources of political risks that MTN is exposed to in foreign markets; the regulatory environment, repatriation of profits, extortion and political instability arising from disputed elections. MTN conducts political risk assessment well in advance of undertaking major investment decisions. The group also conducts due diligence on acquisition targets, potential partners and GSM licences issued by host country governments using external and internal resources. MTN's important risks mostly emanate from the actions of host country governments because it operates in a regulated environment. Finally, when assessed against the academic literature review, MTN's most important risks are consistent with Al Khattab et al. (2007) categorisation of political risks into political, financial, social and cultural political threats and also Miller (1992) who argued that multinational firms are exposed to five types of risks; natural, legal, societal, political and governmental.

5.3.3 MTN's political risk measurement framework

This section will discuss the findings related to how MTN measures political risk.

5.3.3.1 ***Methods used by MTN to measure political risk***

The findings reveal that in the main, MTN measures risk within its established organisational business risk management (BRM) process, in a similar manner to how it assesses political risk across its 22 operations. The findings under this section mirror those discussed under section 5.3.2.1 "MTN's risk assessment framework".

During the data analysis, under the risk management construct, there were no new recurring themes identified. To re-iterate the findings discussed in 5.3.2.1, the group has a business risk management process (BRM) to manage overall business. MTN utilises local OpCo specialised resources to assess political risk at the host country level.

The group also relies on information passed on by the local equity shareholders who often have strong existing relationships with government authorities and politicians. Additionally, the group sometimes engages with the South African embassy located in the host country to discuss pertinent political issues that affect its business operations such as the on-going economic sanctions affecting its operations in Iran and Syria. Occasionally, risk management reports issued by established political risk assessment agencies are analysed by MTN to identify and measure political risk impact. In addition to political reports, key economic data as well as budget information issued by the host country government are constantly monitored. However, one respondent in particular submitted that MTN's risk management framework is reactive and they are often appear to be unprepared when handling some key political risk issues. The recent resignation of the Group CFO amid speculation of governance transgressions in relation to the repatriation of funds in Iran was cited as an example.

Conclusively, the findings reflect that MTN's risk measurement framework is effective. This is because to the extent that there are pertinent political risks arising from government actions, cultural and societal sources, the group has a comprehensive understanding of the risks, their timing, and sources and to a high degree, has appropriate mitigation strategies in place to manage them.

5.3.4 MTN's political risk management framework

This section will discuss the findings related to the strategies and the techniques utilised by MTN to mitigate political risks. The findings under this section were augmented by document analysis of MTN's internal published documents, magazines and newspaper articles.

5.3.4.1 *MTN's strategies to mitigate/manage political risk*

MTN uses the following main strategies to manage political risk.

Selection of partners: MTN's biggest aspect to manage political risk is by selecting the right local partners at equity level. MTN selects partners that understand the local environment and are able to help the group manage the political environment. Essentially, partners should be able to act as lobbyists. For example in Nigeria, MTN had a deliberate strategy to have six partners at equity level that all came from different parts of Nigeria. These partners represented a different constituency in Nigeria and that helped to provide insulation against political risk. MTN ensures that its local shareholders have a degree of influence in society and have access to the right political players within the telecoms industry and government.

For example, the findings reveal that as part of its efforts to mitigate political risk in Nigeria, MTN included a global development financial institution, the world's bank International Financial Corporation (IFC) on its equity shareholders in addition to eminent local business people and the pension fund of the Nigerian government employees in order to mitigate political risk more effectively. Notably, the findings indicate that operating a business in Nigeria is complex and fraught with a myriad of risks. In this regard, MTN has regularly experienced problems in Nigeria (its second biggest market by revenues in 2012 - see appendix K).

Problems in the Nigerian operation range from attacks on its equipment by militants, lack of infrastructure, pressure from the regulators to invest in network capacity, pressure to reduce tariffs and growing competition because of regulatory actions.

The findings reveal that by including the IFC and prominent local business people on its equity shareholders, MTN is hoping to make it extremely difficult for the government to act in a hostile manner towards its investment in the country. According to the findings, the logic of the group's executive leadership is that any harmful political action taken by the Nigerian regulatory authorities and by default, the government, would affect ordinary Nigerians and or government employees. Additionally, any harmful action by the host country government would be perceived as an attack on a global financial institution, in this case, the World Bank of which the IFC is a subsidiary. This strategy finds support from Schmidt (1986) Going Native strategy of managing political risk through shareholder diversification to include public and private capital.

Employment of local staff: The second finding under this section disclosed that MTN attaches significant importance to employing local staff in all its OpCos. MTN aims to appoint local candidates (as far as possible) to executive and senior positions in its OpCos, as opposed to appointing from the available groups of expatriates Recently, motivated by its growing problems in Nigeria, MTN appointed a local chief executive officer (CEO) for the first time since 2001 when operations commenced. The emphasis on localisation helps MTN to communicate an implicit message to government, that of being a responsible and long-term investor acting in the best the interests of the host country.

Partnership with local distributors: The use of local distribution partners is another important finding. MTN develops and appoints local distributors in its OpCos. This helps in the development of the small and medium enterprises (SME) sector in the host country and ingratiates the group and its brand to the host country's communities and politicians. Support for this tactic is offered by Busse and Hefeker (2007) who stated that partnerships in foreign markets considerably reduce exposure to political risk.

Diversified investment portfolio: The findings reflect that MTN's exposure to 22 different countries ensures that the group is able to weather the storm of bad financial results arising from adverse political actions that lead to depressed earnings in some markets. MTN has segmented its international operations according to OpCo market size, total number of mobile subscribers and contribution to overall group revenue and EBIDTA earnings. MTN has two very large operations, MTN South Africa and MTN Nigeria, which collectively contributed over 50 per cent to overall group revenue in 2012 (Appendix K). There is also another group of countries consisting of medium sized OpCos referred to as the large OpCo cluster. The balance of the portfolio consists of smaller countries referred to as the small OpCo cluster. This split of investments ensures that the group is able to spread the risk of poor financial performance in some key markets across all the 22 countries in its portfolio. Therefore, in the likely event that the group is exposed to adverse political risk action (such as the economic sanctions in Iran or regulatory enforced tariff reductions in Nigeria, amongst others) the group is able to deliver consistent financial results through optimising contributions from other OpCos. No support for this strategy could be located in the academic literature reviewed.

Observably, FDI investment diversification in foreign markets as a form of political risk mitigation is not sufficiently addressed by the academic literature in international business and will need to be researched further. The reason for this could be partially attributed to the fact that the bulk of the academic literature is analysed from an export oriented MNC perspective, and not necessarily from an FDI oriented MNC perspective.

Corporate Social Investment (CSI): The last finding to emerge under this section reveals that MTN extensively leverages its CSI programmes to manage political risk. MTN’s sponsorship of local sporting activities and a myriad of socio-economic development initiatives across its operations, usually undertaken in partnership with host country governments, is primarily a vehicle for ploughing back to the community. However, the findings indicate that MTN’s CSI initiatives also serve as a strategy to create strong bonds with the community and the host country government, and acts as an important shield against the threat of political risk.

The political risk management strategies used by MTN are varied and pre-dominantly lie within the relationship political strategy (RPS) domain developed by (Boddewyn, 1988; Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Ring et al., 1990). MTN’s political risk management strategy is supported by the academic literature, which states that a MNC can manage political risk by applying different tactics within the RPS and domain maintenance theoretical frameworks(Brouthers & Bamossy, 1997; Hillman et al., 2004; Hoskisson et al., 2000). These tactics include political behaviours such as lobbying, partnerships with public and private capital industry alliances, government alliances, inducements and contributions. As a MNC active in emerging markets, MTN’s preference for using strategies in the RPS domain is consistent with Luo and Zhao (2009) observation, that MNCs in emerging markets prefer to use RPS because relationships at the social, organizational, and individual levels are deemed to be essential to conducting business.

The findings also revealed that MTN sometimes uses the industry alliances tactic contained in the RPS domain. This level of cooperation to develop the sector amongst mobile operators in emerging markets is not common; therefore, this tactic is rarely used. The rivalry amongst active mobile operators across the continent is intense and renders it difficult for MTN to co-operate on issues of common interest in host countries. To manage political risk, the group often uses the counteractive strategy, particularly the tactic to obtain funding for its local operations from the host country's financial institutions (Noordin et al., 2006). However, soliciting funding from local institutions is not always possible, as some of the countries in which MTN operates do not have well developed financial and capital markets.

Conclusively, the findings confirm that MTN predominantly uses the RPS, Counteractive and Domain maintenance strategies to manage political risk. Within these frameworks, the group uses, equity participation by locals in its OpCos, partnership with local distributors, leveraging its CSI programme, predominantly employing local staff in its OpCos and raising funding in host countries to manage political risk.

5.3.4.2 ***MTN's techniques to mitigate/manage political risk***

The findings reflect that one of the techniques used by MTN to manage political risk is transferring risk to insurance underwriters. The group takes out political risk and business interruptions insurance cover if deemed appropriate. However, the decision to transfer risks to underwriters in not taken lightly and is assessed against the nature of the risk, its impact on the business and cost. With respect to political risk insurance, the findings reveal that the group ensures discretion is maintained in order not to aggravate the host country government. Understandably, the host country government is bound to react negatively to news that one of its major investors, of which MTN is in most of its foreign operations, is under political insurance cover for its activities in the country.

To the extent that Root (1972) asserts that transfer restrictions related to flows of capital and payments emanate primarily from the political or economic behaviour of the host country, MTN is exposed to various types of financial risks. Due to the fact that MTN's foreign operations trade in different currencies to its reporting currency, the South African Rand, the group is exposed to financial risks arising from currency volatility such as; liquidity, credit, market and interest rate risk. In order to mitigate these risks, the group has a treasury policy and oversight committee that manages all aspects of currency risks.

The techniques used by the group within its treasury policy framework include obtaining funding of its OpCos from local financial institutions in the host country. This technique allows MTN to match expenditure against local income and helps the group to mitigate the risk of currency fluctuations and credit risk. The group also applies a sustainable dividend pay-out and share buy-back policy. This technique is designed to ensure that should a catastrophic political event occur resulting in drastic currency depreciation, the group would not have substantial funds locked in the host country. According to the findings, MTN has actually experienced this threat in Iran and Syria, where both countries are under economic sanctions resulting in transfer restrictions of dividends and repayment of shareholder loans. The group also practises what it calls “Up streaming”, which is the movement of cash from the OpCos to MTN group, the holding company, through the declaration and payment of dividends.

MTN’s strategy to leverage its CSI programme managed by the MTN foundation is also a valuable technique to manage political risk. Hence, the strategic selection of CSI projects to ensure that they resonate with the needs of the host government and communities. This technique helps to assure stakeholders that MTN is a responsible partner and should not be feared and disliked like most MNCs (Goldstein, 2009b). Typically, the foundation usually in partnership with government fund projects. MTN’s strategy to use CSI as a political risk mitigation technique can be located within Schmidt (1986) going native political risk management strategy.

The findings indicate that MTN also prefers to use local staff and partners in its foreign operations. Although expatriates are also used, this is usually at the commencement of the operation following obtaining a greenfield licence or after concluding an acquisition. MTN ensures transfer of their embedded manner of operation to the new operation or acquired entity by employing expatriate staff.

However, as soon as suitable local staff is identified, trained and skills transfer completed, the expatriates are relocated to other areas within the group.

This technique finds support in the academic literature from Schmidt (1986) going native political risk management strategy.

Most recently, MTN has also adopted a unique technique that is not common among MNCs investing in Africa. The findings reveal that MTN uses global financial institutions such as the World Bank's IFC as equity shareholders. Typically, the IFC's business model in Africa is to fund projects but rarely takes up an equity option. The respondents submitted that MTN has used this strategy in Nigeria because of the myriad of problems it is experiencing in that market. In the main, this technique helps to insulate the group against severe political risk because any adverse action by the host country government will; firstly be considered to be hurting the investment interests of local citizens and secondly invoke the wrath of international global institutions. This technique could not be located in the academic literature. Although scholars such as (Anderson & Gatignon, 1986; Terpstra, 2000; Wind & Perlmutter, 1977) advocate for partnerships with local citizens or entities in order to mitigate political risk, they focus on local individual business people or consortiums, fund managers and entrepreneurs. The study concludes that allocating equity to a global development financial institution, as mitigation against adverse political behaviour by the host government may be unique to MTN.

MTN also pays a lot of attention to cultural sensitivity, in terms of how the group treats its employees, partners and customers. MTN does not impose a social or cultural point of view in all its markets and this has helped to position the group as an afro centric company. This technique also finds support in Schmidt (1986) who contends that the MNC must adapt its behaviour in foreign markets to act in accordance with the requirements of the host environment .

Conclusively, the findings under this section indicate that MTN uses various strategies to manage political risk. Its main strategies include equity participation by locals in its OpCos, partnerships with local distributors, leveraging its CSI programme and by predominantly employing local staff in its OpCos. With respect to its techniques for mitigating political risks, the group transfers some politically induced risks to insurance underwriters and adopts various treasury management policies to manage currency exposure. Currency exposure is managed by using dividend pay-out and share buy-backs, declaring dividends, moving cash from OpCos to the holding company and raising funding from local financial institutions. Additionally, MTN pays special attention to cultural issues in the host country.

5.3.5 Shareholder, Government and independent analyst's perspective

This section discusses the findings that were derived from interviews with an institutional shareholder of MTN, an independent telecommunications analysts and a senior government official in the Department of International Relations and Co-operation within the South African government.

5.3.5.1 *MTN's strategy of expanding into countries with high political risk levels*

The findings reveal that in the main, shareholders are relatively happy with MTN's strategy and their return on investment in the group. An example was made of how the group's share price has grown phenomenally since 1997 resulting in a huge windfall for its shareholders (Appendix L), MTN's wealth distribution between 2010 and 2012. According to Moneyweb (2011), from 2002 to 2008 the period preceding the acquisition of a mobile licence in Iran, MTN shares outperformed the FTSE/JSE all share index by 400 per cent. The findings indicate that shareholders retain high confidence in the ability of MTN's leadership to execute the group's strategy in spite of its exposure to countries with high political risk. Furthermore, there is recognition by the shareholders that in order to generate high returns, the group has had to adopt a high-risk strategy. Shareholders appreciate that MTN operates in a regulated environment, and will therefore be prone to hostile government actions that sometimes force the group to act in conflict with acceptable corporate governance standards. Nevertheless, MTN is sometimes forced to comply with unreasonable host country's government requests that may infringe on fundamental human rights in order to retain its mobile licences in foreign markets. In this regard, the alleged interception of subscriber communication by MTN, deemed a threat to the Iranian government, was cited as an example of a situation. The group's subsidiary in Iran could not avoid this because it would have been perceived to be a transgression of its licence conditions. This observation was also verified against document analysis (Politics web, 2013).

Notwithstanding, concerns were raised regarding the conflict arising from MTN's investment in countries with a low regard for human rights. The findings also reveal that some of the political risks encountered by MTN in some of its markets such as Nigeria, Swaziland, Benin, and Guinea Conakry amongst others emanate from the growing maturity of the telecoms regulators in these countries.

The findings indicate that in the early stages of its growth, MTN was able to influence the regulatory environment in the host countries due to a lack of maturity of the regulators in these markets. Regulator immaturity was attributed to the fact that mobile technology was new in these markets and therefore host country governments were happy to welcome MTN's investment under any conditions. However, regulators have subsequently increased their oversight of the sector and have been increasingly changing licence conditions to suit their local environment. In this regard, Nakata and Sivakumar (1997) have pointed out that pioneer companies in foreign markets can derive immense advantage from being first to market such as benefitting from government incentives and tax concessions. However, on the contrary, Golder and Tellis (1993) argue that being first to market can also lead to the disadvantages of not being fully conversant with the complexities of a market. It could be argued therefore, that the maturing regulatory environment in some host countries favours late entrants who are able to influence the regulatory environment to their advantage more than MTN.

Although MTN's political risk management is considered effective, concerns were raised with respect to the growing issues relating to breach of corporate governance within the group. The controversy surrounding repatriation of profits from Iran was cited as an example. Proactive communication with shareholders regarding important issues arising from political risk in its markets was highlighted as another concern. In this regard, it was stated that shareholders sometimes receive negative news from the press before any prior notification from MTN.

The findings also revealed that shareholders and analysts believe that the group has an effective political risk management strategy but will need to revise its future profits downward to factor in increased competition arising from the changing regulatory environment in the markets in which it operates. Importantly, the findings disclose that MTN may have to balance its investment strategy with sensitivity to human rights although in practice, this is easier said than done, given that the group operates in a highly regulated sector.

5.3.5.2 *Government's role in the growth of MTN*

The findings reveal that MTN has a healthy on-going relationship with the South African government. The South African government actively assisted MTN in lobbying for licences in the early years of its expansion and has continued to do so in subsequent years. The South African government has a deliberate strategy to support all South African companies expanding into foreign markets based on some basic criteria such as the appropriate empowerment credentials of the organisation and its competencies.

In the main, the government asserts that it is mutually beneficial to support South African companies expanding abroad because the increased revenues arising from access to new markets accruing to companies translates to an increased tax benefit for the government. The role of South African companies was also cited as crucial to ensuring socio-economic stability on the continent by proving much needed FDI and essential services. The support of the South African government to MTN was highlighted as even more crucial because MTN is a post 1994 company and therefore reflects the demographics of the new South Africa. Critically, the findings indicate that the South African government's support for MTN and other South African companies expanding into foreign markets is not uncommon in the international community. Examples of aggressive lobbying by foreign governments bidding to secure profitable contracts on behalf of their own MNCs in South Africa were mentioned.

Some support for the role of government in assisting MNCs expanding into foreign markets is offered by Goldstein (2009b) who stated that MNCs from emerging markets retain closer ties with their governments than their peers from developed economies, often because they remain state-owned or state-controlled. However, not enough attention is given in the academic literature to the relationship between the home government and the MNC as it relates to expansion into foreign markets.

The findings also revealed that both government and shareholders believe that MTN performs an important socio-economic development role in the countries in which it operates. This is because of the important nature of the services which it offers, and the huge FDI it injects into the countries in which it operates, some of which are relatively poor. Additionally, the tax paid by MTN to the host country government, mobile licence fees paid to the regulators and job creation all add to the economic sustainability of these countries, a contribution that is well appreciated by the South African government.

Through document analysis, the study was able to confirm that MTN pays significant amounts in the form of tax and license fees to host country governments and regulatory authorities. In the financial year 2012 for example, the group paid out 26 per cent of its profits back to host country governments and regulators in tax and fees (Appendix L).

Conclusively, the findings under in this section reveal that shareholders and analysts are relatively comfortable with the manner in which the MTN business is generally managed. However, concerns were raised regarding reported breaches of corporate governance and the manner in which the group communicates on key issues with shareholders. The role of government has been instrumental in MTN‘s growth, both in terms of helping the group to lobby for opportunities and providing continuous political cover in foreign markets.

6 CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter will discuss the key conclusions derived from the findings and offer a conceptual integration of arguments that may be applicable to MNCs and organisations facing similar challenges to MTN in emerging markets. This chapter will also discuss the strategic implications for MTN against a background of the group's high risk, high reward strategy. This chapter will further provide insights to the stakeholders of interest defined in section 1.4 in terms of how they may use the findings to better understand and manage political risk in foreign markets. This chapter will conclude by providing recommendations for future research on the subject of political risk.

6.2 Conclusions of the study

The primary objective of the study was to investigate the strategies used by MTN to mitigate political risk in foreign markets. In order to locate MTN's political risk mitigation strategies within preceding academic literature, a conceptual framework that explains the behaviour of a MNC expanding into foreign markets was introduced. The conceptual framework explains how MNCs expand into foreign markets, the mode of entry that may be used to enter a foreign country, the types and sources of political risks that a MNC may encounter and the strategies that can be used to mitigate political risk. The findings were then integrated with the conceptual framework and demonstrated that MTN's political risk management strategies are sufficiently supported by the academic literature.

Conclusively, the study demonstrates that MTN used a number of factors to expand into foreign markets, motivated by its desire to seek new markets in recognition of the impending saturation in its domestic market. Although an argument could be advanced that MTN’s expansion strategy resembles characteristics of the Uppsala model of incremental growth and some aspects of the born global theory advocated by Oviatt and McDougall (1994), its expansion strategy is better explained by Dunning’s Eclectic theory of the firm’s growth.

The conceptual framework also introduced a number of mode of entries that may be used by a MNC to enter a foreign market; exporting directly from the home base, licensing, joint ventures, using distribution agencies or wholly owned subsidiaries (Burmester, 2000; Sam, 2001). The findings reflect that MTN prefers to use the wholly owned subsidiary model with some degree of local equity partner participation. This strategy is designed to counter the perception that wholly owned subsidiaries create a culture of dependence amongst the citizens of the host country (Schmidt, 1986) and are therefore prone to increased risk of adverse political behaviour by the host country government and society (Sam, 2001). Support for MTN’s strategy to maintain high levels of control in its foreign operations is found in Narula and Dunning (2000) who assert that the level of capital required to invest in the telecommunications sector is significant and therefore requires a high degree of ownership control by the foreign investor.

The findings also confirmed that MTN's investment is mostly in countries with weak democratic institutions and therefore prone to high political risk (Hoskisson et al., 2013). Ordinarily, according to scholars such as (Brunetti et al., 1998; Dutta, 2012; Gastanaga et al., 1998; Gupta et al., 1998; Schmidt, 1986), investors should discriminate against investing in countries with high political risk. However, the study contradicts these scholars and proves that investing in countries with high political risk can in fact be a commercial success if supported by a well-defined political risk management strategy.

The findings further revealed that as MTN operates in foreign markets, it encounters various forms of political risk which are heightened by the fact that it operates in a regulated industry. MTN is mainly exposed to political and financial risks as described by Al Khattab et al. (2007). In order to mitigate political risk in its foreign operations, the findings demonstrate that MTN utilises strategies that are mainly found within the relationship political strategy (RPS) framework developed by (Boddewyn, 1988; Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Ring et al., 1990). Within this framework, MTN specifically uses the strategy of selling equity shares to private individuals and public institutions in the host country, leveraging CSI activities and employing local staff as recommended by Schmidt (1986) and Alon and Herbert (2009) to mitigate political risk. This tactic gives MTN's local operations more of a local image, which can discourage the host governments from acting in a hostile manner towards the group's investments (Schmidt, 1986).

The group also uses the Noordin et al. (2006) counteractive strategy. The counteractive strategies deployed by MTN include; the transfer of risk to insurance underwriters, moving cash from subsidiaries to the holding company, dividend pay-out, and share buy-backs and mobilising funding from local institutions.

The study demonstrates that the political risk management strategies used by MTN are sufficiently supported by the academic literature. Furthermore, the study proved that it is not always possible for firms operating in highly regulated sectors to discriminate against investing in countries with high political risk and weak institutional frameworks because investment decisions are influenced by the availability of licences. If a firm decides to invest in countries with high political risk, the study reflects that developing and adjusting the business model to suit the local context can be a key political risk mitigation strategy. The study also adds to the existing body of literature on political risk by demonstrating that political risk exposure is increased for MNCs operating in regulated sectors such as MTN.

Additionally the study reflects that equity or funding partnerships with the World Bank's International Finance Corporation (IFC), which is concerned with mobilising funding for private enterprises in developing countries, can help to mitigate adverse political behaviour by the host country government in a foreign market. This is because most developing countries have significant debt exposure to the World Bank and would therefore be wary of indirectly invoking a political battle with a subsidiary of a powerful and major creditor.

Accordingly, a summary of the study's key findings that may be insightful to the stakeholders of interest and applicable to MNCs operating in emerging markets is offered below;

- Political risk is considerably increased for MNCs operating in regulated sectors in foreign markets.
- A MNC operating in emerging markets needs to adapt its business model to suit the local context by proactively including local citizens in its business activities to mitigate political risk.
- Operating in countries with high political risk can be commercially lucrative due to first mover advantages. However, the business and operational strategy has to be supported by a comprehensive and well defined political risk management strategy.
- Including a global development financial institution as an equity shareholder or funder of the foreign operation may act as a unique form of protection against hostile government action in foreign markets.

6.3 Strategic implications for MTN

MTN’s strategies for managing political risk, such as the moving of cash between the holding company and subsidiaries, require strict adherence to corporate governance principles. Therefore, the group has to be conscious of the need to balance some of its political risk mitigation strategies with corporate governance.

Further strategic implications for MTN include its continued operation in markets that have a history of violating human rights. Notwithstanding that the group operates in a highly regulated environment, offers an essential service and contributes to the socio-economic development of the countries in which it operates, there is growing scrutiny directed at MNCs that operate in countries with weak democratic institutions and a lack of regard for human rights. In order to preserve its brand equity and reputation, the group may have to consider growing organically in its existing markets as opposed to pursuing acquisitive growth in countries with questionable democratic credentials.

Although shareholders retain confidence in MTN’s group board and executive team to manage political risk, there are concerns regarding the manner in which the group communicates with shareholders on issues related to political risks encountered by the company. Improved disclosure is required to enhance the group’s relationship with its shareholders.

Due to the fact that FDI is increasingly linked to local participation by the citizens of the host country (Schmidt, 1986), the group must recognise that it might be subjected to political pressure in some countries to relinquish control and operate with a minority stake, both in its existing operations and in new markets.

6.4 Recommendations

The study provides useful insight to corporate boards, executive managers, strategy planners and academics on how to effectively manage political risk in foreign markets. Emerging markets offer significant opportunities for growth, yet they have complex market and political hurdles that require proactive management and understanding by corporate boards and executive managers. MTN's model for political risk mitigation in 22 diverse operations in different countries can serve as an important foundation upon which companies with aspirations to expand into African markets can base their strategies. The study suggests that any MNC pursuing business interests in one or more foreign countries is vulnerable to the consequences of political risk. Therefore, its various decentralised subsidiaries should be proactively monitored for political risk (Alon & Herbert, 2009).

Market knowledge and conducting extensive due diligence, whether the MNC is making an acquisition or greenfield investment, is a critical success factor in foreign markets. MTN's intense focus on risk mitigation through conducting due diligence has protected the company and its shareholders from making poor investment decisions. In this regard, it is worth mentioning that JSE listed companies such as Telkom, ABSA and Altech have experienced significant losses from their initial investment forays into Africa, partly due to lack of market knowledge, but mainly due to conducting poor due diligence on their target acquisition targets (Financial Mail, 2014).The study therefore, recommends that MNCs investing in foreign markets must be consciously awake to the underlying risks inherent in foreign markets. MNCs must conduct multi-pronged risk assessments of markets structures, partners and entities identified for acquisition. Additionally, It may be beneficial for MNCs to leverage home government support to assist with due diligence in foreign markets, in a similar fashion to MTN's model.

In spite of MTN’s significant exposure to high risk countries, the group still has fairly large investments in politically stable countries with strong democratic institutions such as Botswana, Ghana and South Africa. To the extent that companies want to seek new markets for growth in foreign markets, the study recommends that a MNC’s investment portfolio in foreign markets must be diversified across different countries. This will ensure that the company mitigates the impact of political risks in one market affecting the entire company's financial sustainability.

MNCs operating in foreign markets, particularly those with exposure to emerging markets, must perform a far more comprehensive role in the communities they serve beyond mere profit objectives. In this regard, the role of the function of CSI within MNCs must not be restricted to simply enhancing the MNCs brand in the local market, but also to act as a vehicle for promoting meaningful socio-economic development. Additionally, MNCs operating in emerging markets must demonstrate cultural tolerance and be seen to be respectful and sensitive to the diverse cultures prevalent in most emerging markets in Africa and the Middle East.

MTN has aptly demonstrated that a good relationship with the home government is critical to help secure opportunities, provide political cover and to diffuse any political tensions that may confront the company in foreign markets. According to Alon and Herbert (2009), because multinational firms represent their home country, should relations be strained between the host and home countries, the MNC will attract hostility unrelated to performance. Similarly, if relations are good between the host and home countries, the MNC will attract goodwill. Accordingly, the study recommends that the composition of corporate boards and executive committees in companies operating in emerging markets need to reflect a diversity of skills that must include people with the ability to work with governments and politicians at a very high level.

Academics can also benefit from studying the model used by MTN to manage political risk in emerging markets. The bulk of the academic literature on political risk is analysed from the perspective of MNCs from developed economies investing in emerging markets. There is insufficient attention provided to literature focused on MNCs from emerging markets who are often confronted by entirely different challenges in their quest for growth. For example, MNCs from developed economies can sometimes rely on leveraging existing supplies, grants and developmental aid flowing from the home country to the host government to mitigate political risk. The study recommends that academics use the findings of the study and other similar studies, as a basis upon which to develop a better understanding of emerging markets, in order to develop managers that can function effectively in complex emerging market environments.

6.5 Suggestions for further research

The study may benefit from further research into how companies operating in other regulated sectors in emerging markets such as mining, aviation and financial, amongst others, mitigate political risks, in order to improve the generalizability of the findings.

Whilst there is a general acceptance that a high risk investment strategy offers high returns, an empirical study is required to understand the relationship between share price performance of companies operating in countries with high political risk against peer companies operating in less risky countries.

The extent to which bilateral agreements between African countries translate to economic benefit and investment opportunities for MNCs located in Africa needs to be investigated. This is because bilateral agreements determine the opportunities that are available to MNCs in foreign markets.

Finally, to the extent that academic literature reviewed states that the economies of most emerging markets have weak democratic and institutional frameworks, the effectiveness of the existing dispute resolution mechanisms in selected African countries require further research. Disputes arising from adverse political actions by governments of the host country, against MNCs, are usually addressed within the existing legal systems and laws of the host country. However, whether these laws are applied fairly and justly has not been theoretically and empirically tested. It would also be important to understand if there are other dispute resolution mechanisms available outside those in the host country, which could be pursued by MNCs to resolve disputes with host country governments.

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APPENDIX A: ACTUAL RESEARCH INSTRUMENT

Semi structured interview guide

The semi-structured interview has two types of guiding questions: one for current and former MTN Group Executives and another for the selected MTN institutional shareholder, government official and Independent Telecommunications analyst.

<u>Internationalisation process</u>

1. The literature review reflects that expansion by a firm into foreign markets can be undertaken either incrementally, rapidly or by simply exploiting market factors - How would you describe MTN's internalisation /expansion strategy?

2. MTN currently operates in countries that have been categorised as either high or very high risk, have low governance and a weak institutional framework – what are MTN's determinants/conditions for investing in a foreign market?

3. How does MTN determine the mode of entry in a foreign market?

<u>Assessing political risk</u>

4. How is political risk assessed by the MTN Group across its 22 operations?

5. How does MTN determine which political risks are important to the group?

6. How would you describe the timing of political risk assessment by the group

<u>Measurement of political risk</u>

7. How is political risk measured within the MTN group?

<u>Managing political risk</u>

8. How would you explain the strategies used by the group to mitigate/manage political risk?

9. How would describe the methods or techniques used by the group to manage political risk?

<u>Specifically posed to MTN Shareholder, Independent Telecommunications analyst and senior government official.</u>

10. MTN operates in high risk countries, how would you describe the group's strategy of expanding into countries with high political risk levels?

11. How would you describe government's role in the growth of MTN to become the largest mobile operator in emerging markets?

Cover Letter

<u>Re: Case study analysis of MTN in partial fulfilment of the MBA degree, Graduate School of Business Administration, University of the Witwatersrand 2013.</u>

The above matter refers;

My name is Muzi Siyaya, a full-time MBA student at WITS Business School. I would like to interview you for not longer than 45 minutes in partial fulfilment of my MBA research report titled **"Political risk mitigation at MTN"**. Political risk in foreign markets is currently a topical issue in international business particularly in emerging market economies. I hope that by undertaking the study, I may add to the existing body of knowledge in international business theory, particularly as it relates to the management of political risk by multinational corporations.

The study will employ a qualitative exploratory case study approach using MTN as the subject of inquiry. I have selected MTN partly because of my affinity with the company and the industry (former MTN employee from 1999 to 2004), and primarily because the group's successful investments in high risk emerging market countries present me with the appropriate platform to respond to the research problem. In order to appropriately respond to the research question, I have identified a target sample for interviews predominantly made up of former and current MTN Group and OpCo executives, and to a small degree investment analysts and fund managers that hold MTN shares. In this regard, your current role as an executive at MTN Group can provide invaluable insights to the research topic.

In order to comply with Wits University's ethical requirements of conducting research, I have attached a letter outlining your rights, manner of dealing with confidentiality issues and the key tenets of the research project. Importantly, I have attached a list of probable questions that will be posed to you and the other participants. Due to the fact that the questions are open-ended in nature, they are therefore simply a guide to ensure that we stick to the core issues that I would like to explore.

I enrolled fulltime for the programme in January 2013 and have now entered the final stage of completing the degree. The research report is due for submission at the end of February 2014. However, taking into account the length of time required to conducting interviews of the target sample, subsequent transcription, data analysis and writing of the final report, I need to commence with the interviews by mid-October.

Consequently, upon securing your participation, I will be guided by your office regarding scheduling an appropriate time and venue for the interview.

Thanking you in anticipation of your favourable response.

Kind Regards,

Muzi Siyaya
0721068518

APPENDIX B: CONSISTENCY MATRIX

Main Problem	Literature Review	Research question	Source of data	Type of data	Analysis
Explain the strategies adopted by multinational corporations to manage political risk in foreign markets.	• Grosse and Behrman (1992) • Bartlett and Ghoshal (1991) • Aharoni (1966) • Cyert and March (1963) • Penrose's (1959) • Ahmad and Hashim (2007) • Kogut and Zander (1993) • Dunning (1977, 1979, 1988, 1998) • Erramilli and Rao (1993, 1992) • Axinn and Matthyssens (2002) • Prahalad and Hamel (1990) • Luo and Zhao (2009) • Schmidt (1986) • Miles and Huberman (1994) • Kobrin (1979) • Nawaz and Hood (2005, • Alon and Herbert (2009) • Al Khattab et al. (2007) • Hillman and Hitt, (1999) • Brune et al., (2003) • Busse, (2004) • Narula and Dunning (2000)	Investigate how MTN has mitigated political risk in foreign markets.	Actual interviews were conducted with former and current MTN executives, a shareholder representative, an independent telecommunications analyst and a senior government official responsible for international relations using a semi structured interview guide – attached herewith as Appendix A. Other sources of data used include the MTN annual financial reports, newspaper articles and financial magazines.	Raw text data generated from audio interviews.	The researcher used a general inductive content data analysis method: data was analysed and interpreted according to the academic literature review and conceptual framework (see figure 3) in Chapter 2.

APPENDIX C: FINDINGS MTN'S INTERNATIONALISATION PROCESS

How would you describe MTN's expansion strategy?	What are the determinants for investing in a foreign country?	How does MTN determine the mode of entry into a foreign country?
Aggregated responses • The MTN board realised that growth in the South African operation was tailing off. • Then there was a deliberate strategy by the board to expand the business outside SA, but beyond that, it was down to where opportunities were available. • Around 1995-2000, most countries in Africa were moving towards telecomms liberalisation and were therefore issuing out mobile licences to create competition in their markets. • Beyond 2000, greenfield licences started to diminish and MTN's strategy was adapted to acquisitive growth. • The South African government's support was vital in the early days - people wanted or liked the idea of being associated with South Africa under Thabo Mbeki and Mbeki's government was very willing to assist MTN. • MTN started by expanding into small neighbouring countries Swaziland, Rwanda and Uganda and used these operations to gain and acquire experience. • Nigeria was a big investment decision. Almost a year or two after that investment, when they realized the size and the quantum of the success they have achieved in Nigeria, they decided that they would go through, not with the incremental type of growth but really look at major opportunities and expand the footprint in a very short space of time within the African continent. • South Africa had achieved a global first by introducing prepaid technology. The ability to offer affordable prepaid services significantly enhanced MTN's position in its bid for licences ahead of international mobile operators (Orange & Millicom) who had no experience of operating in the African market and prepaid services.	Aggregated responses • The Investcom acquisition exposed MTN to countries with a volatile political environment. • Entry into other countries was based on availability of licences. It was about finding opportunities and successfully converting those opportunities. • MTN undertakes a comprehensive analysis of the market prior to entry whether it is via bidding for a new licence or via an acquisition to determine whether it would be profitable to operate. It has to make commercial sense above everything else. • MTN considers its balance sheet capabilities prior to investing and determines the appropriate levels of risk. • Countries with large population and low mobile penetration are given priority such as Ethiopia with a population of 85 million people and a sub 5% mobile penetration. • Political risk is considered and assessed prior to making any bid.	Aggregated responses • Selection of the right partners is key. Partners are allocated equity and careful analysis is taken to select non-politically aligned partners with a good business acumen, track record and extensive local knowledge. • In Uganda for example, MTN initially went into Rwanda with Tri-Star and Tri-Star was obviously the equivalent to dealing with Luthuli House here in South Africa, so they were able to be a very strong partner in that country. A lot of the Tri-Star shareholders originated from Uganda, so they were able to help MTN get into Uganda. • In Cameroon and Nigeria, there was a bid process and MTN used its bid expertise acquired in other markets to put in a compelling proposal. Sometimes it comes down to; are you the highest bidder? Do you put the best bid together? • MTN prefers to have equity and operational control in its operations but makes it a point to include strong local partners.

APPENDIX D: FINDINGS MTN'S RISK ASSESSMENT FRAMEWORK

How is political risk assessed across the 22 operations in the group?	How does MTN determine which political risks are important to the group?	How would you describe the timing of political risk assessment by MTN?
Aggregated responses • MTN has a business risk management process (BRM). Each OpCo has a legal, regulatory and risk manager that analyse risks in the local operation. • Local operations retain an enterprise risk register that is used to capture, manage and monitor all business risks including political risks. • The CEO and CFO of the local operations attend regular business reviews with MTN group executive management and present enterprise risks in this forum. • Political risks such as those that may affect the licence conditions are escalated to group business risk and at this level, discussions take place to ensure that there is risk mitigation and a monitoring plan in place, particularly for the black swans. • In cases where the risk cannot be mitigated, it is transferred. Risk transfer relates to taking out business interruption and political risk insurance cover. • The Group has a Group Chief Business Risk officer who reports directly to the President and Group CEO and has overall responsibility to manage risks across all the group's 22 operations. • Local partners and established risk management agencies such as "Control risk" are sometimes used to analyse hidden political risks. • Host government political and economic data reports are analysed.	**Aggregated responses** • The biggest source of risk is the regulatory environment. • Financial risks including repatriation of profits and dividends are considered the second most important risk. In this respect, MTN has had difficulty in repatriating profits in Iran and Syria. • Extortion through ambiguous fines imposed by some governments. • Currency fluctuations and inconvertibility is another prominent risk facing MTN in its operations. • MTN is usually on high alert in the period leading to political elections in some host countries. A contested Political election is a key risk because it leads to political and economic instability in the host country. • In the Ivory Coast we did not have facilities to bank vast amounts of cash during the election after the banks left amidst security fears. • MTN has survived coups, elections and civil wars in some of the countries in which it operates.	**Aggregated responses** • MTN conducts stringent due diligence on all M&A acquisitions using internal and external teams. • The due diligence is extended to potential local shareholders and distribution partners. • In some cases, the assistance of the local South African embassy is secured to help with political risk assessment. • MTN comprehensively evaluates licence conditions for new licences issued by a country before submitting a bid to look at things like repatriation of funds, penalties and how tariffs would be managed by the regulator.

APPENDIX E: FINDINGS MTN'S POLITICAL RISK MEASUREMENT FRAMEWORK

How is political risk measured within the MTN Group?
Aggregated responses • MTN has a Business Risk Management process (BRM is a framework for managing business risk within the business). • MTN Group business risk department retains an overall group risk register which is used to manage and monitor all enterprise risks including political risks. • Reviews are held regularly at group and OpCo level to assess whether the risk mitigation strategy is effective. • Management regularly reviews residual risks. • Country legal and regulatory heads update business risks on an on-going basis. • Local partners who have an understanding of the market and sometimes have good relationships with the political authorities will proactively notify MTN of any impending political risks. • External risk assessment agencies such as Control Risk are used particularly with respect to mergers and acquisitions to conduct political risk assessments and due diligence on the acquisition target and/or potential partners in a market. • South African government embassy is sometimes used to assess political risk in country.

APPENDIX F: FINDINGS MTN'S POLITICAL RISK MANAGEMENT FRAMEWORK

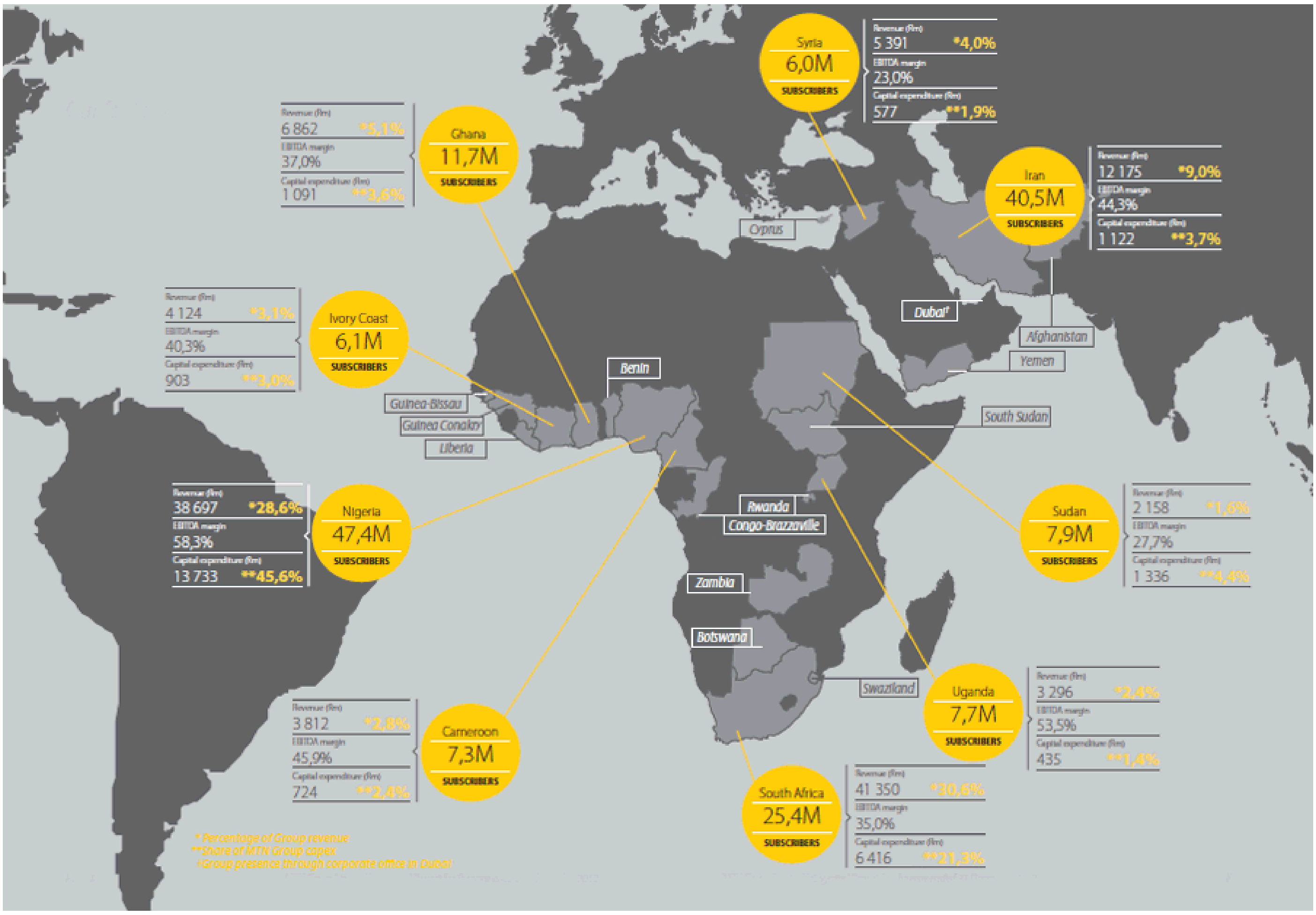
How would you explain the strategies used by the group to mitigate/manage political risk?	How would describe the methods or techniques to mitigate/manage political risk?
Aggregated responses • MTN primarily uses relationship and counteractive strategies for managing risk. In exceptionally rare cases, MTN will utilise the law to enforce its rights such as in Swaziland where the group has taken the local fixed line operator to court. • The biggest aspect to manage political risk is selecting the right partners – MTN selects partners that understand the local environment, that are able to help them manage the political environment. • For example in Nigeria, MTN had a deliberate strategy to have six partners that all came from different parts of Nigeria and represented a different constituency in Nigeria and that helped to almost have some kind of buffer to protect them but also help the group understand the local situation and navigate the local situation. • MTN ensures that local shareholders are very influential people within society and government, have access to the president or to the leaders of that country and have access to the right political players within the telecom industry. • The use of local staff in all its operations is another key political risk management strategy. • The selection of local distribution partners ensures that MTN is perceived in a good light by the locals and the political authorities. • Its sponsorship of local sporting activities and CSI programmes appeals to government and ensures acceptance by the local populace. • MTN has a principles-based approach to managing political risk as opposed to an issues-based approach. • Our portfolio is diversified – if we have problems in one country, we can still generate revenues in others.	**Aggregated responses** • Some of the techniques used by MTN include taking out political risk and business interruptions insurance cover. However this is balanced against the nature of the risk, its impact and the cost of taking out the insurance risk cover. • Funding of operations and capital expenditure is taken out with local institutions. This allows MTN to match expenditure against local income and mitigate against the risk of currency fluctuations. • MTN always declares dividends in its foreign operations – this is a way of taking out the cash. • Our portfolio is diversified across different countries. • MTN's Community Social Investment (CSI) program managed by the MTN foundation is a valuable technique to manage political risk – key projects usually of socio-economic nature are identified in most countries and funded by the foundation usually in partnership with government. • Use of local staff and partners. • We now also include Institutional investors and global financial institutions such as government pension funds and the World Bank's International Finance Corporation as shareholders and funders respectively. We have done that in Nigeria to insulate us against severe political risk because any adverse government action will not only hurt MTN but the World Bank. • MTN is an afro-centric company and respects cultural diversity. MTN does not impose a social or cultural point of view in all its markets.

APPENDIX G: FINDINGS GOVERNMENT AND INDEPENDENT ANALYST'S PERSPECTIVE

MTN operates in high risk countries, how would you describe the group's strategy of expanding into countries with high political risk levels?	How would you describe government's role in the growth of MTN to become the largest mobile operator in emerging markets?
Aggregated responses • MTN had the strategic foresight to recognise the opportunities in Africa, well ahead of Vodacom. • They have managed the situation very well and this is reflected in the phenomenal growth of the share price. If you want higher levels of growth, it follows that you will have a high-risk appetite. • MTN's market selection is driven by market opportunity and the aspect of political risk is only dealt with after they have entered a country. The existence of political risk is not a deterrent to market entry for MTN, as long as they will achieve their commercial objectives. • Political risk is factored into the initial investment and MTN considers firstly, if they would be able to operate profitably amidst the existence of political risk, if they can, they go in. • Our primary concern as a shareholder relates to the issue of human rights in the markets in which MTN operates. We want the assurance that MTN is not complicit in any violation of human rights in the countries in which it operates. However, we recognise that MTN operates in a regulated sector and is therefore subject to the whims of the government of the day in most markets. For example, the Iranian government is a shareholder in MTN Iran Cell. • The mobile licence conditions all over the world impose certain obligations on the operator to government so what is happening to MTN in Iran is not unique and is common in the global telecommunications market. • We constantly monitor and engage with MTN on issues related to corporate governance and political risk. We have for example questioned how the CFO resigned in relation to the repatriation of funds in Iran. The lead independent director would then give us reasons.	**Aggregated responses** • We see our role as a pathfinder. We identify business opportunities not just for MTN, but also for all South African businesses in foreign markets, particularly in Africa – Shoprite, Multichoice etc. • If you look at the U.S. Secretaries of State past and present, they always travel with business people. • We are unapologetic about helping South African companies expand abroad. • Our heads of missions and ambassadors are told directly to assist South African companies. If they cannot deal with the issue, it must be escalated immediately to head office and if we cannot handle it as a department, we then get the executive involved. • I mean if you look at the operations in Iran, there's no way they would have secured that license without the South African government facilitating and lobbying for them. So we've done that and we will continue to do so. • We have helped MTN on many issues, Benin comes to mind, we have also been involved to help them in Iran, we also worked closely with MTN on the Myanmar bid, which they unfortunately lost – we came across information that they will lose the bid and communicated it to them. We also helped with the lobbying. • Lobbying is common practice - the Chinese are very aggressive, the French and the Americans are also aggressive. In fact, with our current unprecedented government infrastructure spending, we had lot of business people through their governments coming to lobby us for deals – so we also do the same for our companies. • In addition, MTN in particular, was a very specific project for us because this is a post-1994 company and we were very forthright in advocating that it has to be assisted to grow.

MTN operates in high risk countries, how would you describe the group's strategy of expanding into countries with high political risk levels?	How would you describe government's role in the growth of MTN to become the largest mobile operator in emerging markets?
Aggregated responses • Our position is that MTN is sometimes not proactive enough; they wait for things to hit them before they react, and we would like to see them take a more proactive stance on issues. • MTN is key facilitator of economic development in Africa – In Nigeria, MTN is the biggest contributor to tax outside the oil companies and in many African countries it is the largest tax contributor. • MTN had it easy in the beginning, regulators in most of their markets were immature - however in recent years, regulators have matured and the political risk has also increased with governments demanding more from the likes of MTN in terms of services, competitive tariffs and an increased role in socio-economic development issues. • The group has the DNA to operate in high risk markets, however we do price in political risk in our investment with MTN.	**Aggregated responses** • We will continue to support MTN because even if you are now in the country, you still need political cover because governments change. The licence could have been signed with another government or party but you find that after elections another party comes to power and wants to change things – that is when we get involved to provide political cover. • We always travel with business delegations on state visits so that we can help to facilitate discussion for business opportunities.

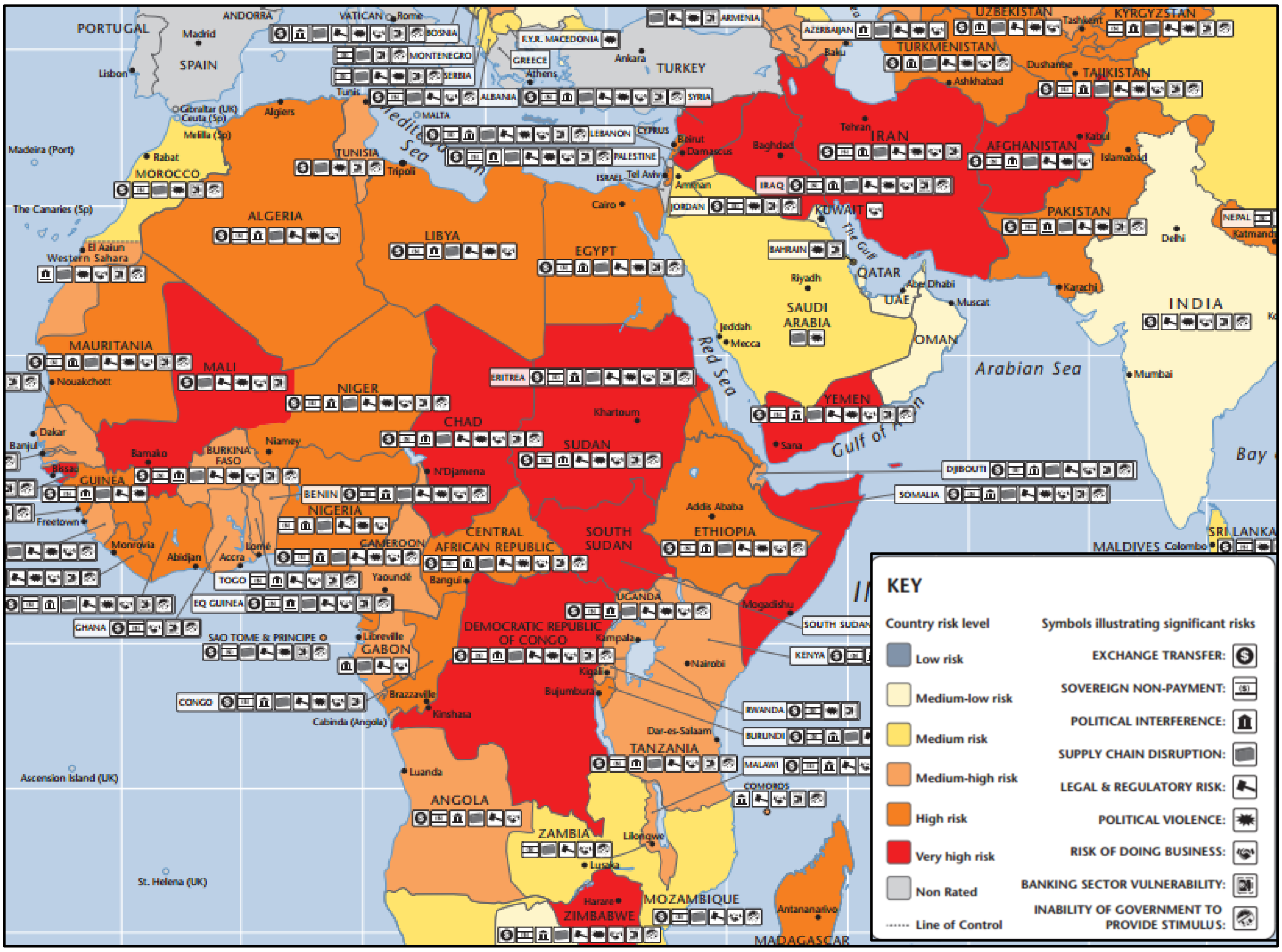
APPENDIX H: MTN GROUP FOOTPRINT



189.3 million Subscribers as at 31 December 2012

Source: https://www.mtn.com/Investors/Financials/Documents/ar_integrated_report2012.pdf

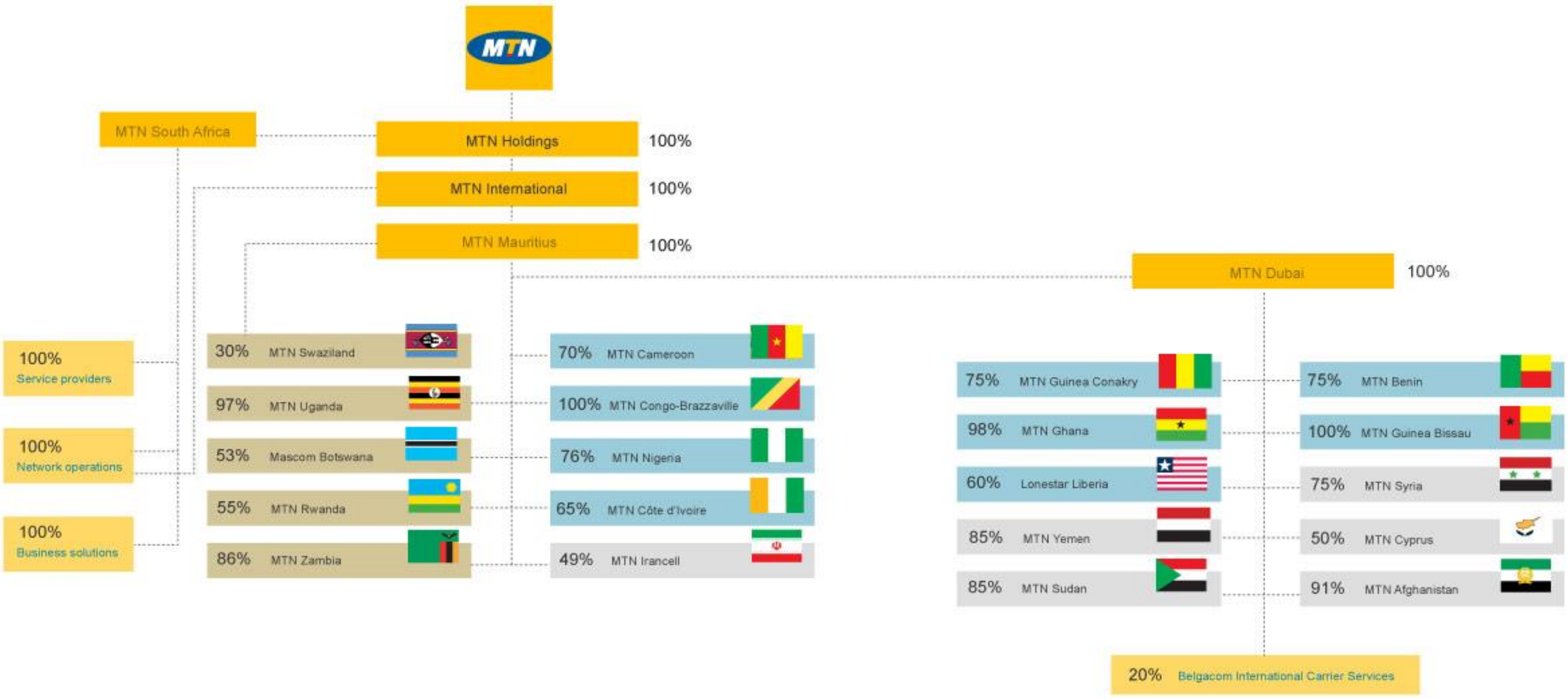
APPENDIX I: AON POLITICAL RISK MAP 2013



Source: http://www.aon.com/2013politicalriskmap/2013-Political-Risk-Map-03-14-13.pdf

MTN predominantly operates in Africa and the Middle East. Six of MTN's operations countries (Sudan, Guinea Bissau, Afghanistan, Yemen, Iran and Syria) are located in the areas highlighted in red on the AON political risk map, which indicates countries with a very high political risk profile. Seven of MTN's operations countries (Nigeria, Ivory Coast, Guinea Conakry, Ethiopia, Liberia and Cyprus) are located in the areas highlighted in dark orange, which indicates countries with a high political risk profile.

APPENDIX J: MTN GROUP STRUCTURE



Source: https://www.mtn.com/Investors/Financials/Documents/ar_integrated_report2012.pdf

APPENDIX K: MTN GROUP REVENUE COUNTRY SPLIT AND CONTRIBUTION (RM)

	2012	2011	% change	Local currency % change
South Africa	41 350	38 597	7,1	7,1
Nigeria	38 697	34 879	10,9	(0,8)
Large OpCo cluster	37 818	34 563	9,4	17,7
Iran	12 175	11 050	10,2	26,1
Ghana	6 862	5 941	15,5	21,3
Cameroon	3 812	3 331	14,4	9,0
Ivory Coast	4 124	3 351	23,1	17,0
Uganda	3 296	2 481	32,8	16,2
Syria	5 391	6 463	(16,6)	2,4
Sudan	2 158	1 946	10,9	28,3
Small OpCo cluster	17 761	14 144	25,6	14,0
Head office companies and eliminations	(514)	(299)	71,9	67,4
Total	135 112	121 884	10,9	8,5

Source: https://www.mtn.com/Investors/Financials/Documents/ar_integrated_report2012.pdf

APPENDIX L: MTN GROUP DISTRIBUTION OF WEALTH 2012

	2012		2011		2010	
	Rm	%	Rm	%	Rm	%
Wealth created						
Revenue and other income	141 792		128 331		116 813	
Other finance costs	(6 035)		(3 279)		(3 107)	
Operating expenses	(78 801)		(69 113)		(68 828)	
	56 956		55 939		44 878	
Wealth applied						
Employees	7 775	14	6 754	12	5 961	13
Debt providers	4 088	7	3 331	6	3 064	7
Governments and regulators	21 025	37	22 067	40	19 026	42
Ordinary shareholders	14 919	26	11 722	21	6 313	14
Non-controlling interests	3 364	6	3 033	5	2 527	6
Reinvestment into MTN	5 785	10	9 032	16	7 987	18
	56 956	100	55 939	100	44 878	100
Capex	30 101		17 717		19 466	

↗ *Distribution of wealth*

Source: https://www.mtn.com/Investors/Financials/Documents/ar_integrated_report2012.pdf

* At the end of the 2012 financial year, MTN paid out 37% of its EBITDA earnings to governments and regulators, 40% in 2011 and 42% in 2010, a testament of its important role in contributing to the fiscus of the governments of the countries in which it operates*