# Success strategies for business development of Multinational Enterprises in sub-Saharan Africa

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**A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration**

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# ABSTRACT

The African continent still holds large reserves of raw materials and the continent as a whole is largely under-developed. The real GDP growth in the last decade has been 5.7% and it is forecasted that countries such as Angola, Ethiopia, Chad, Mozambique and Rwanda will have GDP growth of 7.0% over the next five years. The population of sub-Saharan Africa is roughly 860 million with an average GDP per capita of over USD 2,200. The current infrastructure deficits coupled with recession in other parts of the world is driving massive investments from Multinational Enterprises (MNEs) into sub-Saharan Africa (SSA). It is foreseen that SSA will be a significant growth area for businesses for many years to come.

This research was undertaken to investigate the challenges facing MNEs and to find out key strategies for success in SSA. The research was qualitative in nature and data were gathered from literature reviews and validated through in- depth semi-structured interviews with business executives who are experienced in doing business in SSA.

The following are the key findings of the research.

> The main business challenges are: infrastructure deficit; poor governance; high levels of corruption; inefficient bureaucracy; weak financial institutions; culture differences and skill shortages.
>
> The success strategies are: market entry through turnkey projects; exports and acquisitions; choosing partnership with due diligence; localisation strategy; establish dialogues with authorities; prioritise using a few countries first; and to pay attention to culture amongst others.

Entry into SSA is no easy feat; however, MNEs cannot afford to miss this opportunity and now is the time to invest.

# DECLARATION

I, Deva Rajen Soobben, 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.

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Deva Rajen Soobben

Signed at Kyalami

On the 22nd day of March 2012

## DEDICATION

To my wife Nalen, daughters Kamini and Marushka. I am grateful for your patience and understanding during these long months and for providing me with the space and time to fulfil this endeavour.

# ACKNOWLEDGEMENTS

Special thank you goes to the following persons:

- My supervisor Mark Peters. Thank you for your valuable guidance, support and encouragement;
- The business executives who put time aside in their busy schedule for the interviews;
- Friends and colleagues who made this challenge exciting and memorable;
- My employer for the financial assistance and time off to complete this task;
- Every lecturer at the school. Thank you for sacrificing your Saturdays and sometimes your afternoons as well to provide the part time students with the opportunity to study.

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# CHAPTER 1: INTRODUCTION

## 1.1 Purpose of the study

The purpose of this research was to identify the current challenges facing Multinational Enterprises (MNEs) in sub-Saharan Africa (SSA) and to propose success strategies for the development of a sustainable business.

## 1.2 Context of the study

Net Foreign Direct Investment (FDI) into SSA has steadily increased since the 1990's to reach a peak of 36 Billion USD in 2008. In comparison only 9 Billion USD was invested in 1998, showing that in the space of ten years SSA has quadrupled its FDI (World Bank, 2011c). Similarly, the GDP for SSA in 2008 was 956 Billion USD compared to only 332 Billion USD in 1998 indicating a threefold increase over a period of ten years.

In contrast, China had an FDI of 147 Billion USD in 2008 whereas in 1998 its FDI was only 43 Billion USD. This shows that China had an FDI growth of only 3.4 times in the space of ten years. Although the growth rate of FDI in SSA has been substantial, Africa as a whole receives only about 5% of the total world FDI (United Nations, 2010).

According to World Bank forecasts, although the world's growth rate was expected to fall in 2011, that of SSA was expected to rise (World Bank, 2011b). In 2009 Southern Africa and central Africa alone accounted for 31 Billion USD of FDI (United Nations, 2010).

The fact that the African continent still holds large reserves of raw materials and that the SSA region has started to attract significant FDI, one can expect that foreign companies will show more interest in the region from now on. Furthermore, Africa is considered the last frontier and this explains the enthusiasm shown by investors for the region (Christy, 2008). Many foreign firms are already established in South Africa and it is sensible for these enterprises to use their South African offices to pursue growth in the region (Borchardt, 2009).

MNEs are known to have experience in entering and developing markets in emerging economies. However these markets have been in Eastern Europe, Latin America and Asian countries. Since success strategies are dependent on many factors such as culture, infrastructure, regulations and government, Africa is virtually virgin territory for MNEs. Therefore guidelines for expansion and growth strategies which consider the uniqueness of the SSA region will be of significant value for executives.

For the purpose of this research report, the focus will be on a few countries in Southern, Eastern and central Africa.

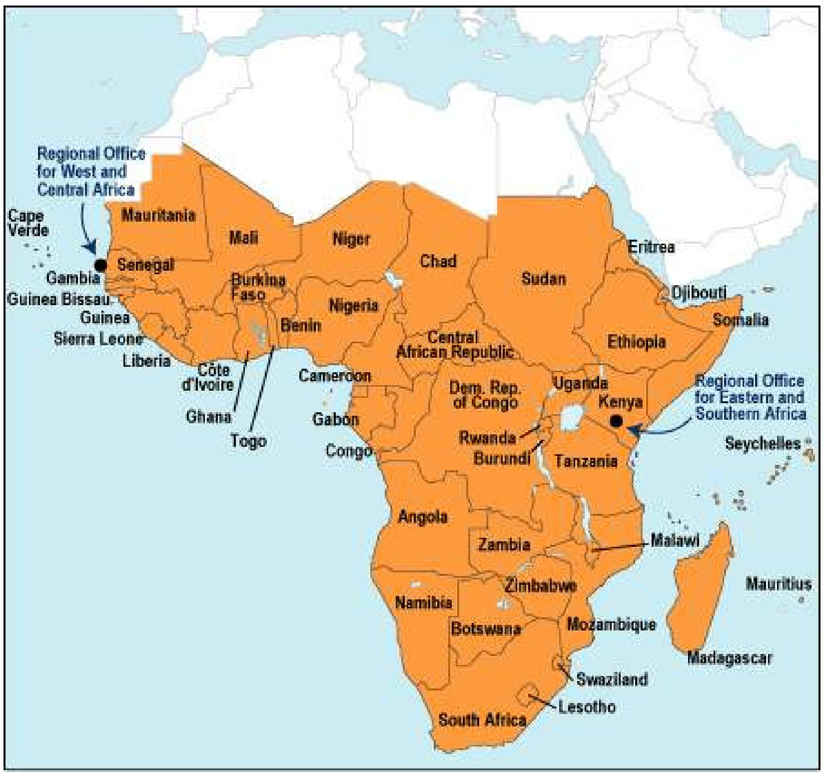


**Figure 1: Map showing countries of Sub-Saharan Africa**

Source: http://web.idrc.ca/en/ev-82005-201-1-DO_TOPIC.html

## 1.3 Problem statement

### *1.3.1 Main problem*

To identify the current challenges facing MNEs in SSA and to propose the success strategies for a sustainable business development.

### *1.3.2 Sub-problems*

1. To determine the current business climate in SSA.
2. To identify the problems and challenges facing business executives in SSA.
3. To identify the success strategies for sustainable business development in SSA.

## 1.4 Significance of the study

This study fills a gap in our understanding of doing business in SSA. The region differs from other emerging economies from the point of view of culture, language, infrastructure, politics, economy, social background, environment, technology and resources. Investors are showing an interest in Africa and are looking for ways to diversify their portfolio since they are now facing the prospect of lower returns in more mature markets (Nwankwo, 2000). The population of SSA is estimated at around 860 million individuals, each with an average GDP per capita of approximately USD 2,223 making SSA an attractive market. Hence a guideline on the strategies to adopt will assist businesses to achieve and maintain successful investments in the region.

The study provides guidance to MNEs in the form of a roadmap detailing the pre-requisites, actions and obstacles to overcome for successful investment into SSA. The recommendations from this study provide business development managers with a set of tools to improve their chances of success in developing sustainable business in this part of the world.

## 1.5 Delimitations of the study

This study was restricted to MNEs that operate in SSA using their South African operations as a springboard. The term multinational enterprise is defined as a firm which operates in more than one country (Hill, 2011).

## 1.6 Definition of abbreviations

| | |
|---|---|
| AGOA | Africa Growth and Opportunity Act |
| ALA | Africa Leadership Academy |
| CIA | Central Intelligence Agency |
| DRC | Democratic Republic of Congo |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| HIV | Human Immuno-deficiency Virus |
| IMF | International Monetary Fund |
| M&A | Mergers and Acquisitions |
| MDG | Millennium Development Goals |
| MNEs | Multinational Enterprises |
| NEPAD | New Partnership for Africa's Development |
| SSA | sub Saharan Africa |
| TIA | Trend Impact Analysis |
| USD | United States Dollar |

## 1.7 Assumptions

The following assumptions are made:

Firstly, it is assumed that data obtained from interviews with executives who have ventured into Africa are given without bias and that no useful information has been deliberately omitted.

Secondly, it is assumed that the number of respondents interviewed will be sufficient to obtain adequate data for analysis.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

This section contains a literature review on the key themes of relevance to the study. The first topic is the business environment in SSA and includes the political history, economic history, current economic prospects and the factors which are driving growth in the region. The second topic relates to the problems facing managers in doing business in SSA. The third topic looks at the strategy theory and the specific key strategies for success in SSA.

## 2.2 Background discussion

Before we explore the business environment in SSA, it is useful to explore how the region evolved from a political and an economic perspective. The political history for example explains why there is a mismatch between culture and language demarcation with the geographical boundaries. Furthermore it is important for MNE's to understand that Africa is still a very young continent and that many of the current challenges stem from the fact that it is only a few decades since African countries are self governed and therefore do not have much experience in governance.

### *2.2.1 Political History*

African countries, with the exception of Liberia and Ethiopia, have all been colonised by Western nations since the late nineteenth century. Libya in 1951 became the first African country to gain independence. Ever since, African countries have fought to gain their independence and in 1993 Eritrea became the last country on the continent to access independence. There is a belief that colonialism is partly responsible for Africa's difficulties today, for example boundaries were cut across cultural, indigenous and territorial divisions, thus, adversely affecting the livelihood of the local population (Cultural Survival, 2010) .

After the colonial powers departed the continent, many African countries were left with poor infrastructure and very few trained personnel with ability to rise to the challenges of the continent (Cultural Survival, 2010). After many years of political instability and poor governance, many African countries have at the turn of the century shown significant transformation in their political system (Transparency International, 2010). Democracy is slowly but surely anchoring in. For example, the Democratic Republic of Congo, plagued by several coups in its history, is now finally on the path to democracy (Marshall and Cole, 2009). In 2010, thirteen African countries held peaceful elections showing the move of the continent towards democratisation (African Economic Outlook, 2011b).

Figure 2 shows the disappearance of autocracy in Africa. The recent uprisings in the Arab countries such as Libya, Syria and Tunisia show that the people of Africa are keen to achieve full democracy.

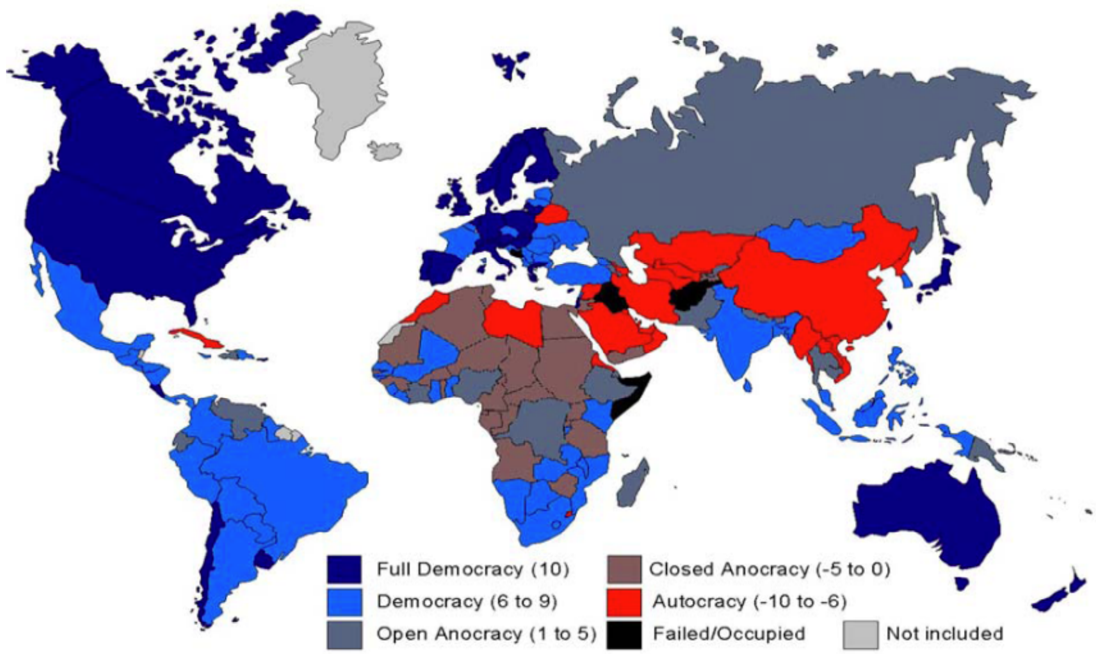


**Figure 2: Distribution of Governance regimes in 2009**

Source: (Marshall and Cole, 2009)

### 2.2.2 Economic History

"Africa's development has been less than optimal causing it to lag behind the rest of the world. The New Partnership for Africa's Development (NEPAD) was created to overcome these challenges and to focus on regional pooling of resources towards capacity building in view of achieving growth and development" (Akinboade and Lalthapersad-Pillay, 2009: 131). NEPAD has strived towards the betterment of relations between African countries and the international community. Economic growth in SSA has been less than 2.5% of GDP in the 1990's and the income per capita was negligible. Africa's trade counted less than 1.6 % of world trade at the time.

Foreign investors were not particularly interested in the SSA region due to the small market size and the high perceived risks. Deichmann, Lall, Redding and Venebles (2008) observed that firms prefer to locate their industrial activities in areas with good infrastructure and SSA is not reputed for having good infrastructure. Transport costs, including delays at port due to late arrivals of documentary credits, within SSA and for export also add significantly to the cost of doing business (de Castro, 1996).

Intra-Africa trade has however progressed since 2005 especially through the implementation of agreements to phase out border tariffs and physical trade barriers such as complex customs procedures (Commission for Africa, 2010). Similarly the majority of FDI in the SSA region were in mineral rich countries and in the agricultural and textile sectors where Africa's abundance of low skill and cheap labour provided competitive advantage. The Africa Growth and Opportunity Act (AGOA) provided some incentives for investors to produce textiles in Africa in order to access the US market.

Some of the obstacles to economic prosperity identified by Akinboade and Lalthapersad-Pillay (2009) are listed below:

- The production of identical primary agricultural goods rather than processed value added products
- Documentation and procedural constraints especially custom formalities
- Low level of skilled labour
- High incidence of (Human immuno-deficiency Virus) HIV

- Lack of support industries to assist manufacturing

Furthermore, the low level of information technology is preventing easy business practices and favouring corruption (African Economic Outlook, 2011b).

## 2.3 Business environment in SSA

### *2.3.1 Current Economic Prospects*

According to an analysis by the Economist in 2011, at least six of the world's ten fastest-growing economies from 2000 to 2010 were in SSA. Over the past decade SSA's real GDP growth rate jumped to an annual average of 5.7%, up from 2.4% twenty years ago (The Economist, 2011). Figure 3 shows the GDP growth for the SSA region for the last ten years.

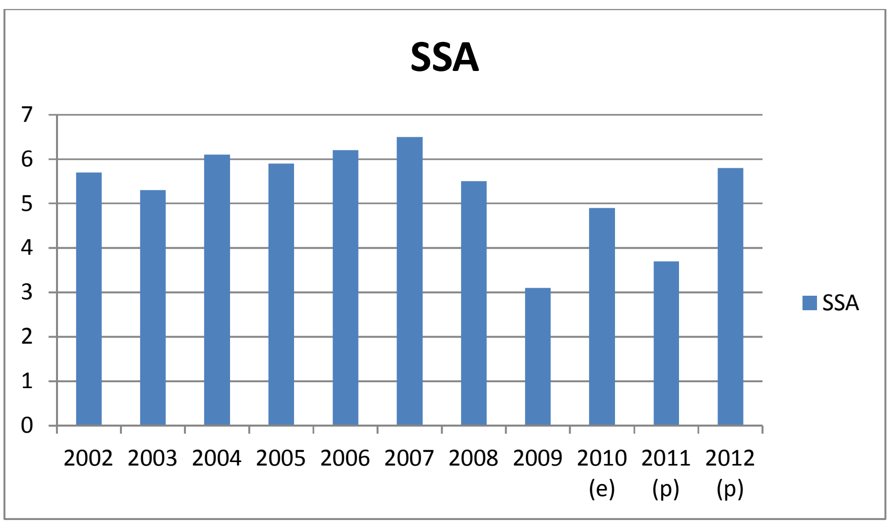


**Figure 3: Chart showing real GDP growth % for SSA for last 10 years**

Source: Adapted from (African Economic Outlook, 2011a)

According to the World Bank, SSA has an unprecedented opportunity for transformation and sustained growth (World Bank, 2011a). This can be seen in Figure 4 where the FDI has constantly, except for the 2009 crisis, increased year on year.

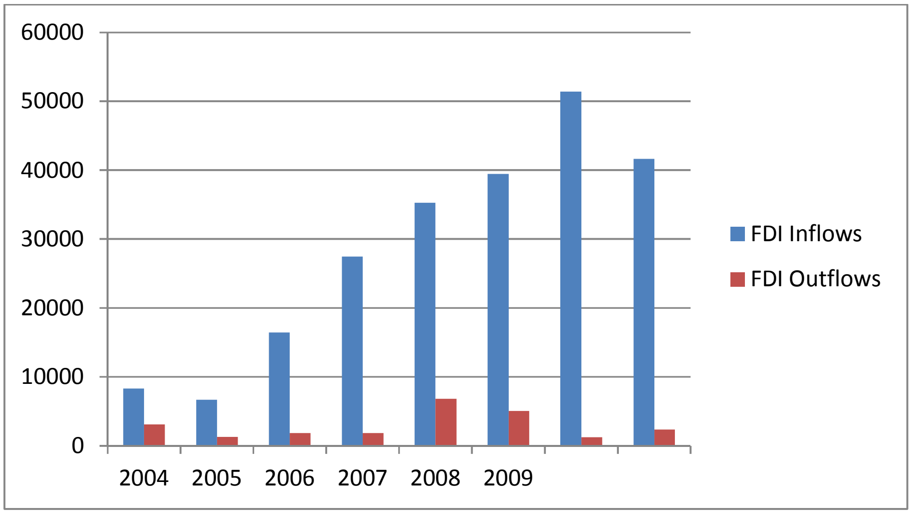


**Figure 4: Chart showing FDI (USD Million) in SSA 1997-2009**

Source: Adapted from (African Economic Outlook, 2011a)

Furthermore, countries such as Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda, are the six SSA countries that have been ranked amongst the top ten fastest growing economies in the world. Over the next five years, Africa's "Lion Kings" are likely to take the lead over the "Asian Tigers" in terms of GDP growth at a forecasted rate of 7% (The Economist, 2011).

### *2.3.2 What is driving the economic growth in SSA?*

In a paper on the prospects of business opportunities in the rest of Africa, Akinboade and Lalthapersad-Pillay (2009) mentioned the following factors as contributing to the increase in business confidence in SSA:

- Political reforms
- Cooperation between businesses and African governments
- Measures against corruption
- Reform to trade and investment regulations
- Tax and other incentives
- Improved infrastructure

- Favourable human resources
- Profitability of investment
- Current South African economic involvement in Africa

In addition Kaberula (2011) states that Africa's infrastructure faces a critical deficit and lags far behind other regions. The lack of infrastructure in Africa suggests that there is untapped productive potential on the continent for infrastructure projects and development. The African Development Bank is playing multiple roles, including the financing and facilitation, to ensure appropriate responses to the infrastructure challenge (Kaberuka, 2011).

Moreover, expatriate Africans are now returning to the continent with technical know-how and private capital. This new pool of talent combined with available finance will contribute towards the growth of African entrepreneurs (Krilla, 2010). There has been an increasing focus on technology innovation in Africa, especially with mobile telecommunications which has enabled entrepreneurs to create new products and open new markets (Krilla, 2010). The case of mobile phone for banking is a classical example.

Gatune and Najam (2011) have identified seven factors which will drive growth in Africa. These are:

- Perception – How African people perceive themselves
- Governance
- Knowledge and education
- Technology
- Entrepreneurship
- Globalisation
- Society – Especially women & youth

All the parameters identified by Gatune and Najam (2011) are progressing in SSA and align with the predictions that growth in SSA is likely to be substantial in the next few years. Looking at the statistics for SSA, the potential for growth becomes evident considering the vast amount of natural and human resources available. Prahalad (1997) was the first to suggest that businesses can still create wealth in poor countries.

The GDP per capita of USD 2,223 is not a large amount, but, by the same token with a population of 860 million individuals, the overall market size becomes enormous.

| **Statistics** | **Unit** | **SSA** |
|---|---|---|
| Total Land Area | Thousand $Km^2$ | 24,275 |
| Population | Thousand | 860,626 |
| Average population density | Inhabitant per $Km^2$ | 35 |
| Population growth rate | % | 2,5 |
| GDP per Capita | USD | 2,223 |
| Average GDP growth | % 2008 | 5,3 |
| Inflation | % of GDP | 7% |
| FDI Inflows - 2008 | Million USD | 51,438 |
| Adult literacy rate | % | 64 |
| Youth literacy rate | % | 74 |
| Public expenditure on education | % of GDP | 4,7 |
| Corruption rank | Best (Algeria) | 33 |
| | Worst (Zimbabwe) | 178 |
| Telephone lines -2009 | Per 100 inhabitants | 3.19 |
| Cell phones 2009 | Per 100 inhabitants | 42,12 |
| Internet Users 2009 | Per 100 inhabitants | 5,96 |
| Electricity Consumption | Million KWH | 374,790 |
| Water coverage | % | 67.25 |

## Figure 5: Basic statistics for SSA in 2010

Source: Adapted from (African Economic Outlook, 2011a)

Although statistics suggest that SSA will have decent growth figures it does not mean that managers of MNEs will have an easy task. Instead there are numerous challenges and obstacles which still need to be overcome in order for MNEs to capitalise on the potential of growth in SSA.

## 2.4 Problems and challenges facing business executives in doing business in SSA

The growth opportunities and significant FDI predicted to flow into SSA for the next few years are likely to attract many foreign firms and MNEs to operate in SSA. The region is vast and poses many logistic and administrative challenges to new businesses. Many of the business opportunities for MNEs are also at the same time the challenges. The severe lack of developed infrastructure in terms of roads, electricity and water, whilst on the one hand is an opportunity for infrastructure and building contractors are on the other hand, the challenges which must be overcome for business development. Similarly, the abundant number of unemployed youth in SSA has been identified as opportunities (Gatune and Najam, 2011). Yet the same unemployed youths are the very challenge for the authorities in terms of job creation. The resource rich continent suffers from resource curse whereby due to an abundance of natural resources, the currency becomes overvalued resulting in other exports becoming uncompetitive (Collier, 2007). Whilst the potential revenue earnings from the abundance of minerals is great, the very same mineral abundance has kept the Democratic Republic of Congo for example in a war situation for many decades (Central Intelligence Agency, 2011).

### *2.4.1 Infrastructure*

“Africa’s infrastructure faces a critical deficit and lags far behind other regions with the situation being more pronounced in low-income and fragile states” (Kaberuka, 2011: 7). It has been estimated that power outages in Africa account for 12.5% of lost production time whilst in East Asia this figure is only 7%. The cost of electricity is at an average of 14 US cents per KWh compared to between 5 and10 US cents in other developing countries (Kaberuka, 2011).

Road freight is about four times more expensive than in other developing countries. The road infrastructure density is less than 25% of the world average with an average of 204 km per 1,000 km$^2$ of land area. Of the existing road network only 25% are paved. Similarly, the rail networks are the least developed of all modes of transport in Africa. Thirteen SSA countries have no operational rail networks (Kaberuka, 2011).

Africa operates 64 ports with poor capacity and high handling costs. Over the quay container handling performance is below 20 moves per hour compared to 25-30 in modern terminals around the world (Kaberuka, 2011).

Whilst only 65% of Africans have access to clean water, significant progress has been made in recent years. Many countries have met their Millennium Development Goal (MDG) in this area (Kaberuka, 2011).

Access to fixed-line telephony is below 3% in SSA compared to 19% in Latin America. However, this is compensated by mobile telephony where the penetration rate is 40%. Investment in information and computer technology sectors totalled USD 21 billion in 2007-2009 and is expected to top USD 70 billion by 2012 (Kaberuka, 2011).

Whilst the poor infrastructure in Africa is a challenge, the fact that Chinese MNEs, with the support of their government, continue to invest in acquisitions of energy assets in Africa provides the much needed confidence that the problem is being addressed (Alden and Davies, 2006).

### *2.4.2 Government*

According to a survey done in 2009 by McKinsey, government has a crucial and expanding effect on companies, industries and economic value (McKinsey Global Survey Results, 2010). It was found in the same survey (83% of respondents) that providing infrastructure, services and public goods is the government action that will have the most effect on their enterprise in the Middle East and Africa.

Vedpuriswar (2003) states that elections are important events which business leaders normally monitor closely and that leftist moves are normally bad for business. Despite the signs of an increasingly attractive environment for business investment and expansion, poor governance and public corruption pose a continuing challenge to achieving sustainable economic development (Krilla, 2010).

### 2.4.3 Corruption and bureaucracy

Corrupt economies tend to lose out on the world market and governments who tolerate corruption create obstructions to economic growth and development (Hartman and Desjardins, 2011). However, it has been argued that corruption can be growth enhancing if it helps circumvent heavy and unnecessary regulations in bureaucratic processes (Blackburn, Bose and Haque, 2006).

Corruption is prone in Africa and since 1996 an international effort has been underway to rid Africa of corruption (William, 2010). On the corruption perception index, SSA countries do not fare well. The best performer was Algeria at a rank of 33 whilst the worst was Zimbabwe at position 178. Managers of MNEs will have to be careful in their dealings with government officials and to avoid falling into the trap of unethical behaviour.

It has been argued that the fortunes of countries do not lie with factor endowment but rather on their economic policies and institutions (Olson, 1996). The classical example to support this theory has been South Korea which has escaped poverty ,despite their low level of natural resources, due to good economic policies and institutions (Kim, 1995). An indicator to the efficiencies of institutions in Africa is the World Bank ratings of doing business. On a ranking of 183 countries, the first SSA country in the ease of doing business is South Africa at position 34, followed by Botswana at position 52, then Ghana at position 67, with many other SSA countries at the bottom of the list (World Bank, 2010).

### 2.4.4 Taxes, financial institution and capital

Executives of MNEs investing in Africa will have to understand the tax structures of the country where investment is being made. For example, in the Democratic Republic of Congo (DRC) the following taxes apply as shown in Figure 6.

| |
|---|
| Withholding taxes – Dividends: 20% (10% in Mining Sector) |
| Withholding taxes – Interests: 20% (0% in Mining Sector) |
| Withholding taxes – Royalties: 14% |
| Social Security Contributions: 5% |
| Corporate tax: 40% |
| Income Tax : 50% |

**Figure 6: Taxes applicable in the DRC**

Source: http//www.taxrates.cc

The banking system in the DRC for example is not very developed and there is substantial use of the Dollar in the economy. The prime lending rate of commercial banks in 2009 was 65.42%. Investment in the DRC is simply not possible using local funds at such a high interest rate. The lack of a well established financial institution together with rampant corruption leaves the banks vulnerable to money laundering from drugs and human trafficking syndicates (Central Intelligence Agency, 2011).

### *2.4.5 Culture and ethnicity*

Business executives will be faced with the challenges of deciphering the multitude of behaviours that can be encountered during negotiations as a result of cultural differences (Manrai and Manrai, 2010). The African continent consists of a number of countries with inherent differences in geography, ethnicity, culture and income (Collier, 2007).

### *2.4.6 Human capital*

“While African countries have abundant labour, much of it is unskilled. Highly educated resources are available but they tend to lack the practical management skills” (Borchardt, 2009: 4). Managers will have to decide whether to use expatriates or provide training to locals or both.

## 2.5 Key success strategies for sustainable business ventures in SSA

### *2.5.1 Strategy theory*

#### *2.5.1.1 Definition*

What is Strategy? “Strategy is the creation of a unique and valuable position, involving a different set of activities” (Porter, 1996: 68). “Strategy is about figuring out how to win, whatever the game, whatever the rules, whatever the stakes” (Ross, 1999: 13). It is argued that the need for strategy is to set direction for organisations and to outsmart competitors or to manoeuvre through threatening environment (Mintzberg, 1987).

#### *2.5.1.2 Strategy of thefirm and entry strategy*

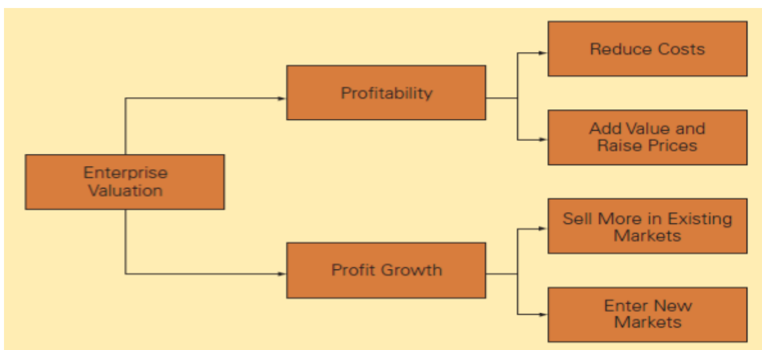


**Figure 7: Determinants of enterprise value**

Source: (Hill, 2011: 403)

Maximizing the value of the firm requires managers to pursue strategies that increase the profitability of the enterprise and its rate of profit growth over time (Hill, 2011). As shown in Figure 7, one of the mechanisms whereby firms can maximise value is through profit growth from developing new markets. The next obvious questions which arise are: where to locate; when to venture; and how to proceed into new markets?

**Where:** Dependent on the balance of benefits, costs and risk which in turn are functions of market size, income per capita, GDP growth, factor endowment, political and legal factors and culture differences.

**When:** Dependent on risk appetites since the first-mover obtains the advantage of raising the barrier to entry but has to bear the costs of learning.

**How:** ***International strategy*:** Aim at increasing profitability through common offerings in home and foreign markets.

***Localisation strategy*:** Aim at increasing profitability through differentiation of the offering to local preferences.

***Global standardisation strategy:*** Aim at achieving low costs on a global scale through economies of scale, learning effects and location economies.

***Transnational strategy:*** Aim at simultaneously achieving low costs and product differentiation strategies.

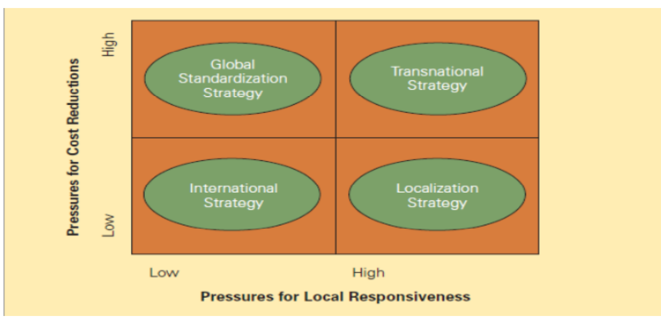


**Figure 8: Four basic strategies**

Source: (Hill, 2011: 419)

Figure 8 shows the four strategies which firms can adopt in their expansion program. However, as competition emerges some strategies become less viable as shown in Figure 9.

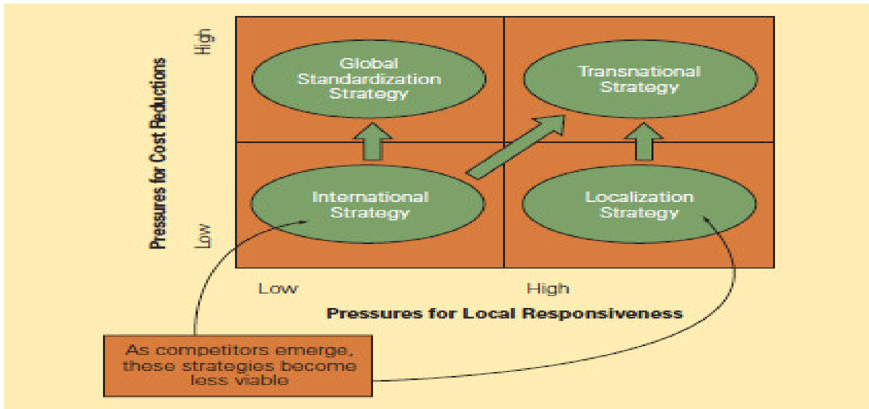


**Figure 9: Changes in strategy over time**

Source: (Hill, 2011: 424)

In order to pursue any of the four strategies, firms can adopt any of the following entry modes as shown in Figure 10.

| Entry Mode | Advantages | Disadvantages |
|---|---|---|
| Exporting | Ability to realize location and experience curve economies | High transport costs<br>Trade barriers<br>Problems with local marketing agents |
| Turnkey contracts | Ability to earn returns from process technology skills in countries where FDI is restricted | Creating efficient competitors<br>Lack of long-term market presence |
| Licensing | Low development costs and risks | Lack of control over technology<br>Inability to realize location and experience curve economies<br>Inability to engage in global strategic coordination |
| Franchising | Low development costs and risks | Lack of control over quality<br>Inability to engage in global strategic coordination |
| Joint ventures | Access to local partner's knowledge<br>Sharing development costs and risks<br>Politically acceptable | Lack of control over technology<br>Inability to engage in global strategic coordination<br>Inability to realize location and experience economies |
| Wholly owned subsidiaries | Protection of technology<br>Ability to engage in global strategic coordination<br>Ability to realize location and experience economies | High costs and risks |

**Figure 10: Advantages and disadvantages of entry modes**

Source:(Hill, 2011: 483)

### *2.5.1.3 Gateway to entry*

Porter (1979) identified barriers to entry as one of the factors which provides a competitive advantage to the first entrant and offers some protection to the first mover from further competitors. Yip (1982) on the other hand argues that first mover is not a guarantee for success particularly if the first mover is not well qualified to achieve success. Furthermore Yip (1982) claims that the very barriers to entry can be converted to gateways to entry. One method is the use of clone strategy using fewer resources than the first mover to provide the follower with competitive advantage. A second method is the use of a different strategy to challenge the first mover especially in technological environment whereby the follower can use the latest technology to lure customers away from earlier competitors who might still be adhering to past technology. Acquisition is one mechanism identified by Yip (1982) which helps organisations avoid the barriers to entry altogether, although this method may raise integration and cultural difficulties.

#### *2.5.1.4 Strategies to achieve competitive advantage*

##### 2.5.1.4.1 Porters generic strategies

Competitive advantage provides firms with long term sustainable performance. Three basic types of competitive advantage have been proposed, namely Cost leadership, Differentiation strategy or a Focus strategy (Porter, 1985). Porter (1985) also suggests that firms need to adopt only one strategy and need to avoid getting stuck in the middle while trying to be everything at the same time. Porter's (1985) generic strategy framework is shown in Figure 11.

**COMPETITIVE ADVANTAGE**

| | | Lower cost | Perceived Uniqueness |
|---|---|---|---|
| **COMPETITIVE SCOPE** | Broad Target | 1. Overall Cost Leadership | 2. Differentiation |
| | Narrow Target | 3A. Cost Focus | 3B. Differentiation Focus |

**Figure 11: Porter's Generic Strategies**

Source: (Porter, 1985)

#### 2.5.1.4.2 Porters diamond

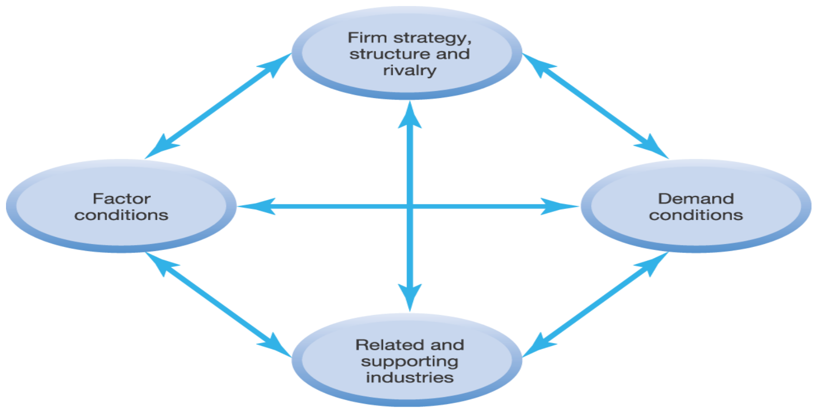


**Figure 12: Porter's diamond - The determinants of national advantage**

*Source:(Porter, 1990)*.

Porter (1990) argues that there are four factors which contribute towards a nation's competitive advantage. These factors are represented in Figure 12 as a diamond, since according to the author they are inter-related to one another. The reasoning behind each factor is crucial for managers to understand the competitive advantage of the country they operate in. It is to be noted that companies obtain competitive advantage through innovation and when the competition is slow to respond. Innovation means improvements in technology, methodology or both. Furthermore, innovation always involves investments in skills and knowledge (Porter, 1990).

**Factor conditions**

The factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry contributes to competitive advantage. Porter (1990) also argues that natural resources on its own do not necessarily lead to competitive advantage and states that a nation does not inherit but rather creates the factors of production.

**Demand conditions**

Sophisticated and demanding buyers in the domestic market can pressure companies to innovate faster by acting as a predictor of customer needs. This pressure forces companies to innovate and thus convert factor disadvantage to competitive advantage (Porter, 1990).

**Related and supporting industries**

The presence of international competitive home-based suppliers creates advantages in downstream industries in many ways (Porter, 1990). This may explain the successes of the economic hubs in China for example.

**Firm strategy, structure and rivalry**

Government policies that succeed are those that create the environment in which companies gain competitive advantage. Furthermore, Porter (1990) indicates that the goals of a nation's institutions and policies guide the flow of financial and human capital. These in turn, directly affect the competitive performance of certain industries.

These national circumstances and context create strong tendencies on how companies are created, organized, and managed as well as the nature of the domestic rivalry. Managers need to select the country and industry carefully to benefit from the competitive advantage the nation can provide.

#### 2.5.1.4.3 Resource based strategy

Resource based theory advocates that firms can obtain competitive advantage based on their resource capital. Three basic types of resources are proposed in Barney and Wright (1997). These are:

**Physical capital resources**: These include plant, equipment, machinery and finances.

**Organisational capital resources**: These include firm's structure, planning, controlling, coordinating and human resource systems.

**Human capital resources**: They include knowledge, experience, skills, commitment, judgement and intelligence of the firm's employees.

Although resource based theory has been around for a long time, it has been found to still be of value to enterprises (Barney, Ketchen Jr and Wright, 2011).

Furthermore, questions are raised to identify whether human capital resources of firms can provide competitive advantage or not (Barney and Wright, 1997). These questions make up the framework commonly known as the VRIO (**V**alue, **R**areness, **I**mitability and **O**rganisation) framework (Barney, 1995).

**Value:** Firms create value either through cost reduction or differentiation allowing premium charge or both.

**Rareness:** The firm's human capital contributes to competitive advantage if the characteristics are rare such as specialised skills rather than generalised skills, although generalised skills are also a necessity.

**Imitability:** The valuable and rare skills which a firm possesses will cease to provide competitive advantage once other firms are able to replicate these characteristics. Hence firms whose employee skills are difficult to imitate gain competitive advantage.

**Organisation:** Firms who are able to exploit their human resource characteristics through systems and practices are able to capture the fruits of these advantages.

**Is a Resource**

| 3 Valuable? | Rare? | 5 Difficult to Imitate? | 6 Supported by the organisation? | Competitive | 8 9 Performance |
|---|---|---|---|---|---|
| No | | | | Competitive disadvantage | Below Normal |
| Yes | No | | | Competitive Parity | Normal |
| Yes | Yes | No | | Temporary Competitive Advantage | Above Normal |
| Yes | Yes | Yes | | Sustained Competitive Advantage | Above Normal |

**Figure 13: The VRIO Framework**

Source: (Barney and Wright, 1997)

#### *9.1.1.1 Culture and strategy*

"Collective programming of the mind which distinguishes the members of one group or society from those of another" is how Hoftede (1984: 82) defines culture. "Management within a society is very much constrained by its cultural context" (Hofstede, 1984: 82). In his study aimed at detecting some elements of structure in their cultural systems, in particular those that most strongly affect behaviour in work situations, Hofstede (1984) identified four underlying value dimensions along which countries could be positioned. These values, later found to be universal, are of fundamental importance for business managers to understand in order to avoid cultural blunders when operating outside their own boundaries.

**Individualism versus collectivism:** The degree of interdependence a society maintains amongst individuals.

**Large versus small power distance:** People in Large Power Distance societies accept a hierarchical order in which everybody has his place whereas in Small Power Distance societies, people strive for power equalisation.

**Strong versus weak uncertainty avoidance:** The degree to which the members of a society feel uncomfortable with uncertainty and ambiguity and how society reacts on the fact that the future is unknown.

**Masculinity versus feminity:** Masculinity stands for a preference in society for achievement, heroism, assertiveness and material success while Feminity stands for a preference in relationships, modesty, caring for the weak and the quality of life.

Hoftede (1984) has published the indices for 50 countries. A few are replicated in Figure 18 for comparison. The indices vary from 0 (Low) to 100 (High). For MNEs, it is interesting to note that South Africa is very different from the rest of Africa in terms of the four value dimensions. In fact South Africa is almost halfway between the Western societies and African societies. This could qualify South Africa as the entry point to Africa for Western MNEs.

| Country | Individualism | Power distance | Uncertainty avoidance | Masculinity |
|---|---|---|---|---|
| France | 71 | 68 | 86 | 43 |
| UK | 89 | 35 | 35 | 66 |
| USA | 91 | 40 | 46 | 62 |
| South Africa | 65 | 49 | 49 | 63 |
| East Africa | 27 | 64 | 52 | 41 |
| West Africa | 20 | 77 | 54 | 46 |

**Note:** East Africa – Ethiopia, Kenya, Tanzania & Zambia

West Africa – Ghana, Nigeria, Sierra Leone

**Figure 14: Value of Hofstede four culture indices**

Source: Adapted from (Hofstede, 1984)

Analysing the values in Figure 14, a lot of cultural homogeneity exists in SSA. This implies that SSA, in cultural terms, is a collective society with high power distance, moderate uncertainty avoidance and fairly low masculinity. Managers of MNEs will need to understand these dynamics when operating in the SSA's environment. Hofstede (1984) study took place prior to the 1980's when electronic communications and media were not very well developed compared to today's world. It is not known whether the results of the cultural dimensions would have changed due to a n interconnected world nor whether culture gaps between countries could have narrowed down.

Following up on Hoftede's (1984) and Porter's (1990) work, Ross (1999) developed a framework for assessing fit between a country's culture and generic strategy. Accordingly, SSA with its high collective score will depend to a great extent on connections to establish and maintain relations in business. Furthermore , SSA, through its culture, is biased towards bureaucratic, hierarchical organisations which are more supportive of cost leadership (Ross, 1999).

The culture predominant in SSA indicates that respect for the elderly; non-verbal communication and long term perspective are essential. The same culture promotes the principle of reciprocity and policies which are consistent with the value system will receive least resistance. In buyer-seller interaction, a high cultural sensitivity can facilitate trust and attention (Darley and Blankson, 2008). It is to be noted that although there is a basic common underlying SSA culture, there are enormous variations between countries. Eight principles have been formulated to help managers achieve effective leadership in Africa (Amoako-Agyei, 2009). These are:

**Collective solidarity:** Africans are team workers and loyal to the group;

**Group significance *(Ubuntu)*:** Principle of sharing;

**Harmony and social cohesion:** Emphasis on keeping peace;

**Consensus:** Collective decision making;

**Consultation:** Group participation;

**Local time (African time):** Flexible time concept with low importance to deadlines;

**Paternal / maternal leadership:** Leaders are expected to play parental roles;

**Age and authority:** Respect for the elderly is of importance.

The African culture is very different to the Western culture. "An African manager will typically not resort to firing an employee for non performance and the team members may go as far as protecting the non-performer" (Amoako-Agyei, 2009: 335).

#### *9.1.1.2 Exit strategy*

There is no guarantee that a well planned entry in a new market will result in success. In the case that success is not visible immediately or in the medium term, managers can either continue to support the venture in the hope that positive returns will eventually be reaped to make the effort worthwhile or could chose to exit and cut further losses. At the time of entry, there should be an equally well planned exit procedure, and that key warning signals should automatically trigger efforts to evaluate the future of the venture so that the decision to exit is exercised (Matthews and Boucher, 1977).

The approach proposed by Matthews and Boucher (1977) is the **Trend Impact Analysis** (TIA). This method consists of three simple steps to activate the exit policy.

**Step 1**: Set up agreed–upon metrics to evaluate the venture performance and for each metric set the criteria of future performance which will trigger the danger warnings.

**Step 2:** Improve the process of trend extrapolation so as to gain deeper insight into whether any deviation from projected value is significant.

**Step 3:** Accomplish steps 1 and 2 in such a way that communication among the principal actors is enhanced, assumptions are shared and a consensus can be defined.

### *9.1.2 Success strategies specific for MNEs in SSA*

#### *9.1.2.1 Mergers and acquisition*

Acquisition is the most basic form of expansion and can be the simplest, if the acquired business is treated purely as a portfolio investment. However, acquisition also implies integration of a foreign company with existing business. This raises many complex legal, economic and cultural issues. When doing acquisition, it is recommended that time for due diligence and for negotiation is allocated in order to seek out markets with stable and transparent licensing systems where cash moves freely and also to be conscious of cultural differences (Initiative for Global

Development and Dalberg Global Development Advisors, 2011). In order to achieve successful Mergers and Acquisitions (M&A), the negotiations have to focus on communication, trust-building, cross cultural perceptions, personalities, bargaining styles, and tactics (Weber, Belkin and Tarba, 2011).

#### *9.1.2.2 Joint ventures*

Leverage partnership and be patient in selecting the right partner. Use partner's local knowledge as well as their operational capacity. Secure long-term commitments to mitigate legal and political risk. Diversify partnerships used for expansion (Initiative for Global Development and Dalberg Global Development Advisors, 2011).

#### *9.1.2.3 Responding to latent demand*

Plan longer time horizons for investments in environments with higher risks. Seek out anchor clients early in the expansion process. Avoid being seen as a foreign interloper. Use analogous trends to forecast the growth of new markets (Initiative for Global Development and Dalberg Global Development Advisors, 2011).

#### *9.1.2.4 Localisation*

"Use beachheads to integrate supply chains vertically" (Initiative for Global Development and Dalberg Global Development Advisors, 2011: 7). Improved efficiency and greater profits can be achieved through basing additional lines of business on the products that MNEs established as beachheads. Local productions can circumvent difficulties in trade. Choose location based on ease of doing business as well as market size. Create long term partnerships with local investors and operators and build team skills (Initiative for Global Development and Dalberg Global Development Advisors, 2011).

#### *9.1.2.5 Adapt offering to local needs*

In line with the recommendation from the book "Fortunes at the bottom of the Pyramid", the emerging consumers need to be offered products designed for their lifestyles and circumstances (Prahalad, 1997). Companies need to take time to understand the values, needs and behaviour patterns of local consumers. For example, African consumers are cash strapped and therefore procure in small quantities thereby affecting the packaging strategy (Borchardt, 2009).

#### *9.1.2.6 Expansion strategies*

Participate in regulatory reforms by working with government to update licensing and taxes, lobby government to sign regional treaties, advocate for the sponsoring of continuing education programs and training institutes, partner with government and civil society to develop long term strategies for improving competitiveness, improve access to public information by serving as strategic advisors for development of national government strategies. (Initiative for Global Development and Dalberg Global Development Advisors, 2011)

#### *9.1.2.7 Effects of business groups*

Business groups are defined as a set of firms which though legally independent are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated actions. One study has found that business groups are important in emerging markets and that they mould patterns of economic performance (Khanna and Rivkin, 2001). Sharing of ideas and skills across the continent between headquarters and subsidiaries in a two way flow has helped a South African financial services company in using lessons learned in other African nations to improve its previously unsuccessful micro-finance operations back home (Borchardt, 2009).

#### *9.1.2.8 Business associations*

It has been argued that in authoritarian regimes, business associations have little influence in government policy making and vice versa (Kraus, 2002). An effective relationship between the state and the business sector has been shown to significantly contribute to economic growth in SSA (Sen and Velde, 2009)

#### *9.1.2.9 Establishing priorities*

It is simply not possible for executives to throw resources at the whole continent at once; hence an investment priority is useful. It has been suggested in a McKinsey report that most African countries fall into one of four clusters based on two proxies:

the level of economic diversification and exports per capita (Chironga, Lund and Roxburg, 2010). The authors propose different strategies for each cluster as shown below.

**Diversified economies:** *(Egypt, Morocco, South Africa, Tunisia).* These countries have the highest GDP. Investors are recommended to move in higher value industries due to higher labour cost than China or India.

**Oil exporters**: *(Algeria, Angola, Chad, Equatorial Guinea, Gabon, Libya, Nigeria, Republic of Congo).* These countries are the least diversified. Invest in basic infrastructure and education and maintain political momentum for reform.

**Transition economies:** *(Cameroon, Ghana, Kenya, Mozambique, Senegal, Tanzania, Uganda, Zambia)*. These countries are rapidly growing, albeit from a lower base than those of diversified economies. Agriculture is still the major source of revenue. With better infrastructure and regulations these economies could compete with low cost emerging economies and pre-transition economies.

**Poor countries:** (*Democratic Republic of Congo, Ethiopia, Mali, Sierra Leone).* These economies are just emerging from political conflict. The common problem is the lack of strong and stable government, institutions and good economic policies. With improved economic stability, a number of them could begin to tap their vast natural resources to finance growth.

## 9.2 SWOT Analysis for SSA

| Strength | Weaknesses |
|---|---|
| • Abundance of natural resources<br>• Abundant young population<br>• Support by international institutions (World Bank & IMF)<br>• Cancellation of foreign debt in some African countries | • High level of poverty<br>• Lack of accountable institutions<br>• Low level of infrastructure<br>• Inefficient bureaucracy<br>• Low level of internal capital |
| **Opportunities** | **Threats** |
| • Improvement in political stability<br>• Achieving economic stability<br>• Low labour costs<br>• Strong demand for available natural resources<br>• Move towards privatisation<br>• Strong partnership with other emerging countries | • Volatile political situation, election manipulation risks and faction fights<br>• Corruption and trafficking<br>• Fractionalised population<br>• Risk of spill over from troubled neighbours |

**Figure 15: SWOT analysis**

Although poverty and development are still major issues in SSA, the availability of both natural resources and an abundant youth population provide a fertile ground for development. The rise in political stability together with strong world demand for resources makes SSA a very attractive destination for FDI.

## 9.3 Conclusion of literature review

Although SSA is still considered the poor continent with a low per capita GDP, the recent economic growth rate of 7%, fuelled by demand in natural resources, active political reforms and interest from foreign firms hold great promises for the region. There is no reason why SSA will not develop into a significant player in the world economy in the years to come.

The main problems facing MNEs remain infrastructure, government, bureaucracy, legislation, culture differences and low skills. However, all these challenges are surmountable and as growth dwindles in other markets foreign MNEs will pursue their penetration strategies into SSA. There is abundant literature on entry and growth strategies to achieve successful business ventures in SSA. However, the strategies which have been successful in other emerging markets may not provide similar results in SSA.

### *9.3.1 Research proposition 1:*

**The challenges facing business executives in SSA are:**

1. Poor infrastructure (Transport, Energy, Water and Communication).
2. Poor Governance.
3. High level of corruption.
4. Heavy bureaucratic institutions..
5. Weak financial institutions
6. Multitude and specific cultural inclinations.
7. Unskilled and abundant labour force.

### *9.3.2 Research proposition 2:*

**The important criteria for successful business development in SSA are:**

1. Select timing and appropriate entry mode based on risk appetite and adapt over time if necessary.

2. Select one amongst “low cost, differentiation or focus” strategy to achieve competitive advantage.
3. Start with a few countries first based on factor conditions, market demand, availability of supporting industries and competitor’s rivalry.
4. Select organisational structure in order to harmonise with country specific cultural traits.
5. Plan an exit strategy prior to entry.

### *9.3.3 Research proposition 3:*

**The strategies which MNEs are taking to develop markets in SSA are:**

1. Market entry through mergers and acquisitions.
2. Choosing joint venture partners carefully and allowing sufficient time for relationship to mature.
3. Localisation strategy when local market is sufficiently large for economies of scale.
4. Influencing government and policy makers through industry lobby groups.
5. Prioritising countries according to the level of diversification of the economy.

# CHAPTER 3: RESEARCH METHODOLOGY

This section describes the methodology that was followed to conduct the proposed research. Firstly, the literature on qualitative research is discussed, followed by a review of the research design and the research instrument used. The mechanism of data collection and the analysis thereof in relation to this study are explored, followed by a discussion on the validity and reliability of this study.

## 10.1 Research methodology / paradigm

A qualitative methodology was proposed in order to collect the data necessary to answer the research questions. Qualitative research methodologies capture the richness of the data, allow for meticulous attention to be paid to detail and enable the researcher to study the phenomenon in its context (Harrigan, 1983). The data collection was done through a series of in-depth semi-structured interviews. This method is very effective for motivationally oriented research from the two points of view. Firstly, it puts the respondent in a situation that is conducive to self-disclosure, and therefore evokes more personal, honest, and emotionally charged information. Secondly, the interviewer operates within a relationship of closeness and great flexibility, allowing for more thorough exploration of the subject (Sokolow, 1985).

There is no neutrality in any research endeavour, there is only variation in the extent to which researchers recognize and document their subjectivity and bias (Buckle, Dwyer and Jackson, 2010). The research design must therefore have integrity and consistency in order to minimise any subjectivity of the researcher.

It has been assumed that the respondents have been truthful and sincere in the interviews and have not omitted any elements which could affect the outcome of the findings. Since many participants are being interviewed independently the likelihood of this occurring was lessened.

## 10.2 Research design

The research design was a simple interpretive study in the constructivist paradigm. This research paradigm emphasises qualitative research methods, which are flexible, context sensitive and largely concerned with understanding complex issues (Carcary, 2009). Interpretive research articles are now generally accepted in business journals (Myers, 2009).

Qualitative is holistic and begins with the search for understanding of the whole and thus enables the researcher to uncover new elements (Denzin and Lincoln, 2003).

The design incorporates room for the description of the role of the researcher as well as description of the researcher's own biases and ideological preference population and sample.

### *10.2.1 Population*

The selected population included business executives of MNEs operating in SSA who have offices or representations in South Africa.

### *10.2.2 Sample and sampling method*

Qualitative research usually works with small samples of people, especially in their context and when studied in-depth (Miles and Huberman, 1994). Thus a convenient sample of twelve business executives was selected from firms known to have operations in SSA. The firms have been chosen amongst the following industries: Consulting; Engineering and construction; Services; Retail and Petrochemical sectors.

Interviews with business executives from the pre-selected firms were sought through email and telephone requests.

## 10.3 The research instrument

Semi-structured in-depth interviews were used to gather the data. This method is useful since the collected data can be analysed in various ways, such as grounded theory and interpretive phenomenology (Willig, 2008). The in-depth interview is a technique designed to elicit a vivid picture of the participant's perspective on the research topic (Milena, Dainora and Alin, 2008). Furthermore, "this type of interview provides consistency across interviews" (Myers, 2009 : 124)

"However there may be concerns from the respondents about issues of confidentiality and hence feel restricted to reveal sensitive information. Other issues such as lack of time, elite bias, artificiality of the interview and ambiguity of language can create problems" (Myers, 2009 :127).

## 10.4 Procedure for data collection

Interviews were set up with business executives directly involved with the business in SSA. Interviews were also sought from foreign business executives visiting Johannesburg. Interviews were done at the respondent's preferred location since this provided comfort to the respondent and improved the probability of the respondent accepting the request.

Successful interviews include obtaining background information, listening attentively and use of multiple questions to approach a subject in different ways. The interview pace is important and brief silences from the respondent are normal attributes of the interview process (Dilley, 2000).

A recording of the interviews was done since it left the interviewer free to concentrate on the interview and eliminated the problems of memory failure or sketchy notes. It has been found that the accuracy of the interview is not materially impacted through the use of a recording medium (Belson, 1967).

An interview summary sheet was produced after each interview to capture the salient points from the interview to allow for easier data analysis (Miles and Huberman, 1994).

## 10.5 Data analysis and interpretation

The volume of data expected from in-depth interviews with twelve respondents is too large to include in the thesis. Hence, the data collected was "condensed and summarised to extract the essence of the data into meaningful information" (Myers, 2009 :167). Miles and Huberman (1994) defined data analysis as consisting of the three flows of activities shown below.

**Data reduction:** Summaries, coding, clustering and partitioning.

**Data display:** Organised and compressed assembly of information that permits the drawing of conclusion and action such as matrices, graphs, charts and networks rather than extended text.

**Conclusion drawing and verification:** The meanings emerging from the data have to be tested for plausibility and confirmability (validity).

Cresswell (1998) proposed a contour as the data analysis procedure as shown in Figure 16. The researcher engages in the process of moving in analytical circles rather than using a fixed linear approach. Data management, the first loop in the spiral begins the process. The researcher touches on several facets of the analysis and circles around and around eventually exiting with an account.

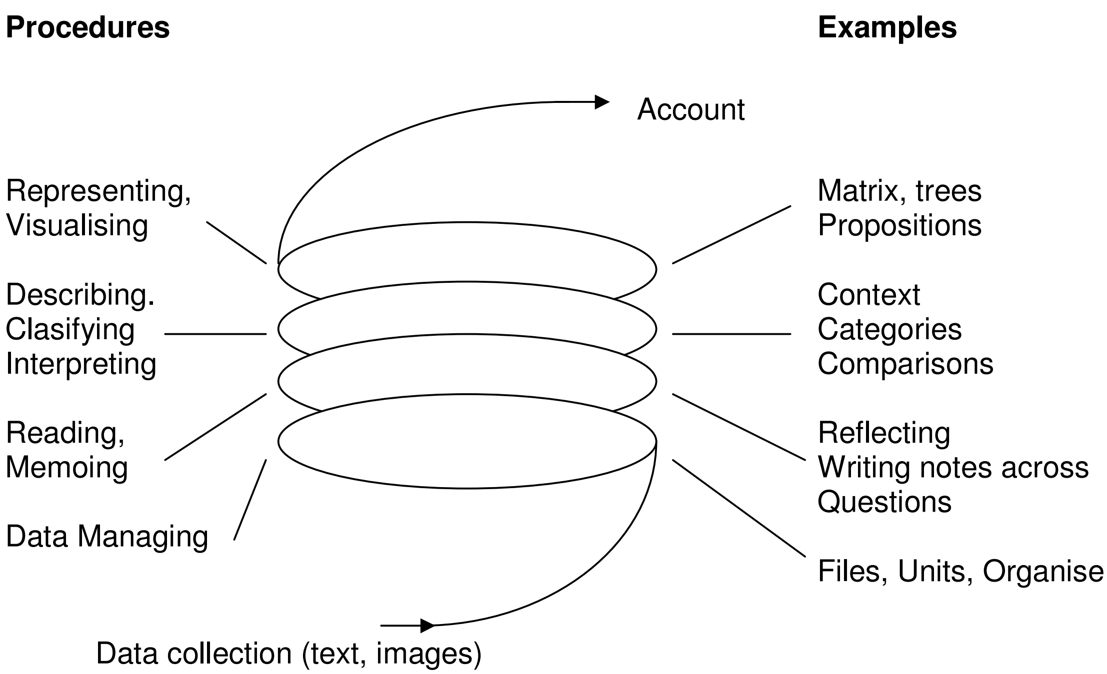


**Figure 16: The Data analysis contour**

Source: (Cresswell ,1998 : 143)

## 10.6 Limitations of the study

The semi-structured interview method required the researcher to improvise as the interview went along. The improvisation will create inconsistencies across interviews (Wengraf, 2001). Time and data analysis constraints did not allow for a larger sample which could otherwise have minimised the inconsistencies of the interview method.

## 10.7 Validity and reliability

Validity is concerned with congruence between the details of the research, the evidence, and the conclusion drawn by the researchers, whilst reliability is concerned with consistency (Kalof, Dan and Dietz, 2008). Other authors have coined the terms transferability, credibility and dependability to replace external validity, internal validity and reliability in qualitative research (Creswell, 1998). In order to improve the validity and reliability an audit trail is recommended (Carcary, 2009). In this process the researcher maintained a log of all data collection and analysis procedures throughout the study.

### *10.7.1 External validity (transferability)*

External validity is the ability to generalise from a study to a larger population. The selected sample cuts across a spectrum of industries and together with other external sources of data thus improving the transferability of the findings. The limitation is however restricted to the SSA region only since this the focus of the research.

### *10.7.2 Internal validity (credibility)*

Internal validity means that the study is drawing appropriate conclusion with the data and that another researcher will arrive at the same conclusion. A triangulation technique of the data from interviews with information available in the public domain such as company reports, newspaper articles and other research was done to establish credibility (Creswell, 1998).

### *10.7.3 Reliability (dependability)*

In qualitative research, reliability can be estimated through the coding of the original data. The evaluation of the reliability of the research, thus consists in ensuring and verifying that the different coding operations will be able to be repeated with the same results by different researchers (Delattre, Ocler, Moulette and Rymeyko, 2009). From an interpretivist point of view, reliability consists of demonstrating that the researcher has not fabricated nor misrepresented or been careless in data recording or analysis (Carcary, 2009). Recordings of the interviews are available and ethical behaviour of the researcher will ensure reliability.

# CHAPTER 4: PRESENTATION OF RESULTS

## 11.1 Introduction

The results of this study are presented through the elaboration of the findings on each of the research propositions. The topics of each research proposition are presented one by one to show the range of views obtained during the research. The interviews were conducted with business executives from diverse industries in order to gather data so that when analysed will provide insights applicable to a wide range of MNEs.

Each interview was recorded, with permission of the interviewee, and transcripts were made from the recordings. The results were then analysed and compiled using content analysis method.

## 11.2 Demographic profile of respondents

The initial intention was to interview fifteen business executives covering the five industries: Mining; Engineering and Construction; Retail; Services and Petrochemical.

Availability of business executives with experience in dealing in Africa forced a change of plan and the research was eventually conducted with only twelve business executives as shown in Table 1. The mining industry was not covered and therefore the view of business executives in the mining industry has not been directly explored in this research.

The respondents interviewed were all senior business executives with many years of business experience and in dealing both in South Africa and SSA. The youngest business executive interviewed was in his late thirties.

**Table 1: Profile of respondents interviewed**

| Industry | Enterprise type | Position |
|---|---|---|
| Engineering & Construction | Multinational Electrical Engineering | Country Manager for East Africa |
| | Multinational Electrical Engineering | CEO of local branch |
| | Multinational Electrical Engineering | Market Development Executive for SSA |
| | Multinational Electrical Engineering- German Branch | Sales Manager: Africa & Middle East |
| Capital Equipment supplier | Major international organisation | Chairman of the Board |
| Retail | Major Automotive parts supplier | Marketing Manager |
| Telecommunications | Supplier of telecoms equipment | General Manager |
| | Supplier of telecoms equipment | Tender Manager |
| Consultancy | International Consultants | Senior Professional Associate |
| | International Consultants | Director: Business Development for Africa |
| Services | Major bank in Africa | Senior Manager: Markets and Customers: Africa |
| Petrochemical | Major international organisation | CEO of local branch |

## 11.3 Research proposition 1: the challenges facing business executives in SSA:

### *11.3.1 General business climate*

There is consensus from all participants in this research about the current business climate in SSA. The market potential is huge and the growth expectations, especially in infrastructure development, exceed that of the rest of the world. There are good opportunities for value adding enterprises to set up operations in the region.

Democracy is coming to SSA as seen through the many peaceful elections in the last few years. Governments have changed from the last decade and now are realising the need to address the poor ratings of doing business in SSA. Expansion of communication technologies, such as the internet and cellular telephony, has educated the population to an extent that they are expecting accountability from their governments. Whilst some countries are business friendly, others are less so, though this is likely to evolve as regime changes occur and the population becomes more demanding.

SSA is a multitude of countries within one continent with no homogeneity between the countries and one cannot look at SSA as one single region, nor can one single strategy be implemented successfully. However, there are blocks such as Southern Africa, Eastern Africa and Western Africa which share similarities. Only when compared to other regions of the world such as Asia, Europe, Latin America and the USA, can we then consider SSA as one common market.

### *11.3.2 Poor infrastructure (transport, energy, water and communication)*

In general, the infrastructure in SSA is a very poor. The further South one goes the better the infrastructure. There is a lack of roads and those that exist are in a terrible state of disrepair. Regular power failures are common. Water quality is always suspicious. Cellular network on the other hand is very good and the use of cellular telephones is constantly on the rise. While the poor infrastructure is a business obstacle, it is at the same time one of the great opportunities for MNEs involved in infrastructure development.

### ***11.3.3 Poor governance***

Historically, the liberation movements from colonisation have been socialist based , thus today we see essentially socialist governments operating in SSA. Governments have short term visions and tend to act according to the people's short term interests without worrying too much about the long term effects of policies. Many believe that governments are not using the funds generated from business to further grow the economy but rather for short term objectives and sometimes for personal gains.

Political instability is a cause for concern but not always a severe deterrent for business, provided the business opportunities exceed the threats. Governments are also seen as being slow in decision making and this pace of doing business with government is adding to the costs of operating in SSA.

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The major political threats which worry business executives are those of legislation changes such as Zimbabwe's Indigenisation law or South Africa's possible nationalisation of mines. Furthermore, many business executives are concerned about the poor application of the law meaning that the courts could not be relied upon for fair arbitration in cases of industrial disputes.

### ***11.3.4 High level of corruption***

Corruption is not unique to Africa. Governments in many countries of East Africa are actively working towards the reduction of corruption. However, one cannot expect corruption to disappear overnight. The population is seeing the value of a non-corrupt society as in Rwanda. Some believe corruption is petty and is propagated more by opportunity seeking agents and not necessarily by government officials. Nonetheless, there are changes happening and individuals are now becoming more cautious on the practice of asking for bribes.

Experience has shown that one needs to avoid local agents although some point out that it is a good idea to create one's own network and to approach bureaucrats with confidence as this eliminates the chance of being abused. Petty corruption seems to be endemic and accepted as a way of life. Even officials such as policeman do not hesitate to ask for favours. These however are not necessarily coercive or bullying but nevertheless puts the foreign businessman in an uncomfortable position.

Some business executives see most state enterprises as being generally corrupt and this makes doing business difficult. It is however commonly agreed that it is up to companies to maintain their ethical standards.

### *11.3.5 Heavy bureaucratic institutions*

Bureaucracy is seen as an obstacle to doing business and is linked to government friendliness to business. Heavy bureaucracy does not deter large MNEs but certainly hinders smaller enterprises as it is always slow and painful.

Regulations and formalities are constantly changing and MNEs have a hard time in keeping track and for planning the future. Institutions are sometimes slow to act although there is a belief that the officials are competent but nevertheless have no sense of urgency when doing business. It is important to note that most officials are friendly and not arrogant but the bureaucratic system is cumbersome.

Others argue that bureaucracy is needed as it ensures checks and balances and promotes transparency. The problems occur when the system becomes inefficient and inaccurate.

### *11.3.6 Weak financial institutions*

The banking culture is not yet entrenched in SSA. South African banks that are operating in SSA are having difficulty to lure customers and to grow their businesses. Financing of projects and infrastructure developments remain a challenge and most of the financing are from World Bank and other external sources.

Foreign exchange control is another problem which SSA will have to solve to facilitate the ease of doing business. Payment guarantees have also been indicated as a problem when executing contracts in SSA. The normal mechanisms of contract payment security such as bank bonds, bills of exchange or letter of credits are difficult to set up and manage.

### *11.3.7 Multitude and specific cultural inclinations*

There is no unique African culture instead there is a multitude of cultures and tribes. Africans generally do not like confrontation and will not argue their points in discussions with outsiders. Locals and expatriates have diverse cultural differences and trust takes long to build. For example, Africans live a very relaxed way of life without much business pressure and do not feel the need to do things fast in total contrast to a Western culture.

Companies generally overcome the cultural differences through localisation strategies and the employment of local staff. When using local labour, one has to pay attention to tribal factors in order to constitute teams that are not heterogeneous.

Language is not a major issue since English is widely used in Southern and East Africa whilst French is common in West Africa. Most business executives have not found the language barrier to be of concern. The culture differences though, are reported in varying degrees of importance. Experienced business executives who have worked in SSA over a long period of time put culture as a determining factor for success. Less experienced business executives believe they can blend in the African culture by being attentive to their counterparts.

### *11.3.8 Unskilled and abundant labour force*

Many business executives believe that there are skilled individuals available in SSA but not in sufficient numbers to meet the needs of the region. Africa has skilled individuals but most of them are active outside the continent. Due to future growth in SSA many outsiders including the Diaspora will be lured into Africa especially as job prospects dwindle in Europe and in the Unites States of America.

Others on the other hand believe that the skills problem is blown out of proportion and claim that there are many graduates in SSA who are still job seekers. It is accepted though that the general skill level is lower than in other parts of the world.

### *11.3.9 Conclusion*

Doing business in SSA is not easy. There are many hurdles to overcome. However, the fact that opportunities for growth in mature markets are small and that the SSA region is expecting significantly higher growth, many MNEs are turning to SSA for investments. Despite the difficulties in doing business, the interest in the region is rising. Consequently countries are also actively working towards making business easier. MNEs that plan to invest in the region are advised to use due-diligence and to understand their markets prior to venturing into SSA. There are still huge opportunities for business in SSA which MNEs cannot afford to miss.

## 11.4 Research proposition 2: the important criteria for successful business development in SSA:

### *11.4.1 Select timing and appropriate entry mode based on risk appetite and adapt over time if necessary.*

The ideal time to have entered the SSA market was ten years ago according to the most experienced business executives. However, it is still not late yet and MNEs who intend to invest in SSA must do so now. It is to be noted though that the investments needed when entering the market today will be more than what it would have been a few years ago. Early movers have the advantage over late comers in line with Porter's (1979) theory.

The ideal mode of entry is business specific. Infrastructure companies prefer turnkey projects whilst consumer companies prefer acquisitions and to some extent franchising. Many business executives conceded that they started out with export and gradually looked for growth through other entry modes. None of the business executives interviewed saw any benefit in mergers with local businesses since they felt the risks, especially of unethical behaviour, too great to expose the whole organisation to. Whenever acquisition was effected, the local company was rebranded and converted almost completely into the MNEs subsidiary.

### *11.4.2 Select one amongst "low cost, differentiation or focus" strategy to achieve competitive advantage.*

The one strategy which MNEs are exploiting in SSA seems to be a low cost one. Price is said to be the major determinant in the buying decision.

A small number of business executives believe that a differentiation strategy will be suitable only for high value goods or where export is the main entry mode.

### *11.4.3 Start with a few countries first based on factor conditions, market demands, availability of supporting industries and competitor's rivalry.*

MNEs accept that one cannot enter all forty-six SSA countries at the same time. A phased in approach is practised. The choice of countries varies between businesses and industry.

Infrastructure companies establish business, firstly, in countries where their major international customers operate and secondly, in countries where the market potential is the highest. Expansion into other countries is done on two principles. One group indicated that the next set of countries they would venture would be based on the market potential whilst another group indicated that the first set of countries would be turned into hubs to allow further expansion into the closest countries to the hubs and to gradually penetrate the whole region.

Factor conditions such as natural resources are not seen as a major condition for entry. The lack of supporting industries is also not considered an obstacle nor has it been a driver for interest in a particular country.

The most promising countries cited are those with high growth rate and large market potential. Nigeria, Uganda, DRC, Ghana and Kenya are the favourites.

The least promising countries are those with political uncertainty such as Somalia and Sudan where terrorist threats are of concern. Angola, Lesotho and Swaziland were also not favourites due to the small market sizes.

### *11.4.4 Select organisational structure in order to harmonise with country specific cultural traits.*

Organisational structure is not of concern to MNEs. All business executives have indicated that the organisational structure have not been altered for operation in SSA. However, there is recognition that local units require more autonomy on policy and decision making. Initially MNEs did not understand this dynamic but as they gathered experience, it became clear that Western methods cannot guarantee success in SSA.

### *11.4.5 Plan an exit strategy prior to entry.*

There is unanimity amongst business executives that one does not plan for failure and therefore no one has made prior plans for exit at entry time. Everyone agreed that careful planning prior to entry is necessary. However, contingency plans are made in case of problems affecting personnel safety and security. In case of market downturn, scaling down is considered rather than total exit. The exiting from a country is considered as the very last resort.

### *11.4.6 Conclusion*

Foreign MNEs have come to realise that investing in SSA is a must and that one cannot afford to be left behind. Utilising the lessons learnt from earlier investors, business executives are spending time and effort to plan their entry into the SSA region carefully. MNEs have acquired enough knowledge on the success factors and are confident in their actions even when these contradict earlier beliefs.

## 11.5 Research proposition 3: the strategies which MNE are taking to develop markets in SSA:

### *11.5.1 Market entry through mergers and acquisitions*

MNEs are entering the markets in SSA using several modes depending on their industry and on the country. Sometimes multiple modes are used by the same enterprise.

**Export** is considered a very good way to enter the market since it presents minimum risks and is a useful platform to set up anchors in the region.

**Turnkey projects** are the most favoured means of entry for infrastructure companies. In most cases projects originate from international tenders with government backing. MNEs gather experience in the country during project execution and later set up base permanently using the project experience to facilitate entry.

Business executives are not ready for **licensing** as yet since they are not comfortable with intellectual property rights legislations and are not convinced that SSA can produce goods or services to their standards under licence.

**Franchising** is a mode used by retailers where branding is important. A significant number of operators are already active in SSA.

**Joint venture** is considered an acceptable mode but business executives are unanimous that the MNEs need to have majority control.

**Mergers and acquisitions** are after all not that popular. Mergers have been out of the question, but acquisition is favourably considered. As one business executive pointed out, there are not many acquisitions available in SSA. MNEs are also wary of the history of acquired firms especially in areas of unethical behaviours. Acquisitions allow MNE to enter the market fast and at lower costs than opening their own subsidiaries.

**Wholly owned subsidiary** is considered when acquisitions are either not available or are risky. However, the time to achieve satisfactory results is long and the costs of setting up can be significant.

### *11.5.2 Choosing joint venture partners carefully and allowing sufficient time for relationships to mature.*

The following criteria are the important ones which business executives consider when selecting local partnership.

- Customer base and market knowledge.
- Stakeholder relationships.
- Past experience in the business.
- Value system and past behaviour especially in areas of ethics. Business executives do not want exposure or embarrassment to their companies.
- Competence.

### *11.5.3 Localisation strategy when local market is sufficiently large for economies of scale.*

Localisation strategies are implemented independently of the market size. MNEs have realised the complexity of doing business in SSA and are seeing value in using both local partners and local employees. The fact that bureaucracy and culture make business activities slower than in western countries, having locals to cultivate the business makes good sense. It is also believed that locals will reach a level of relationship and trust which foreigners only rarely achieve.

### *11.5.4 Influencing government and policy makers through industry lobby groups*

It is recognised by all that lobbying governments and authorities is an essential part of doing business. There is agreement that both the MNEs national government and the destination country government must be lobbied. However, one needs to be careful to avoid anti-trust issues and to keep the influencing of government within ethical boundaries. China is one good example where the Chinese diplomacy is constantly used to facilitate business for Chinese enterprises.

There are however, diverging views whether one needs to lobby government as an enterprise or as an industry or both. Most business executives propose to do both and select the mode based on the circumstance.

#### *11.5.5 Prioritising countries according to the level of diversification of the economy*

MNEs do prioritise the entry and business development into Africa in a specific country sequence. However, the level of diversification of the country's economy is not the criterion used. Instead the following are selection criteria.

- Market Potential.
- Political stability and ease of doing business.
- Presence of MNEs customers such as mines and oil & gas operators.
- Geographical location to use as hubs.

#### *11.5.6 Conclusion*

MNEs are entering the market in whichever mode they find benefit in and are not relying only on mergers and acquisitions. Partners are chosen on defined criteria in order to add value to the partnerships. Localisation strategies are gaining momentum with more locals now involved in business development. Lobby groups to influence government and policy makers are considered a natural part of doing business.

## 11.6 Additional findings

The participants were asked to rank the following criteria in order of importance for MNEs to consider when venturing in SSA. The results are shown in Figure 17 starting at the top with the most important criteria and ending with the least important at the bottom.

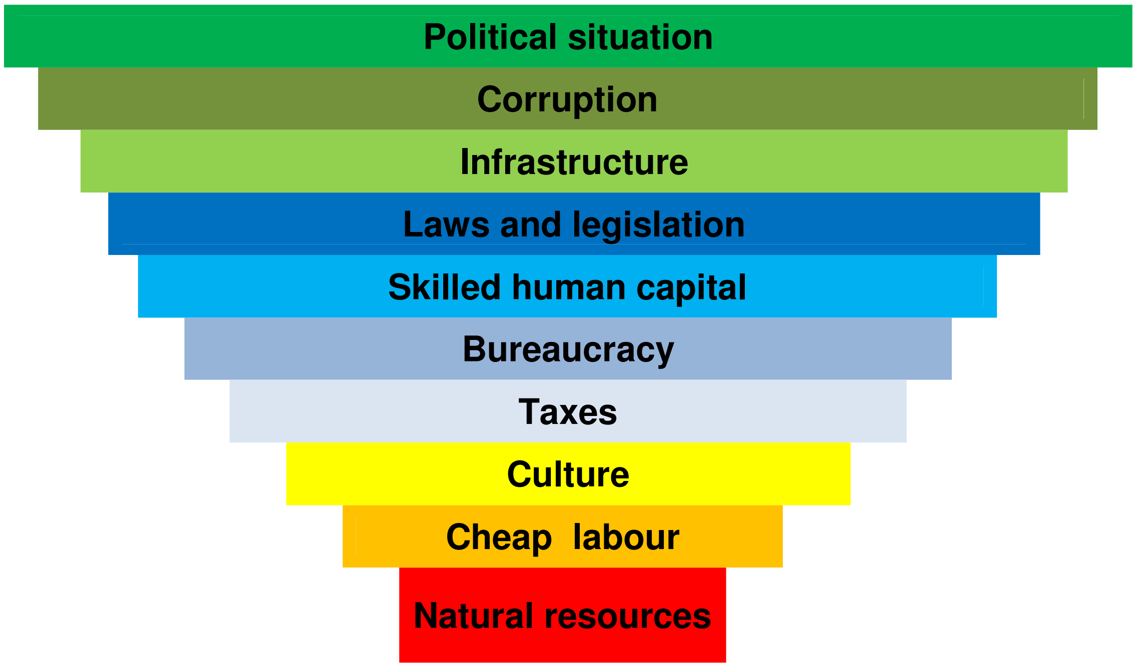


**Figure 17: Survey results showing the ranking of criteria to consider in SSA (in terms of importance)**

Furthermore, the participants were probed to evaluate their perception of whether riots and civil unrests equivalent to the situation in North Africa could become reality in SSA. The response was somewhat mixed with a few individuals believing that the risk is real whilst the majority were confident that although protests will be part of life, civil unrest and disobedience to the scale seen in Egypt and Tunisia is unlikely in SSA.

Lastly, one point worth noting is that many business executives find that changing their own internal company vision and views about doing business in SSA is one of their greatest challenges. Many companies based outside SSA have views on doing business which are solely Western and in conflict with what is needed in SSA.

### *11.6.1 Conclusion*

Political situation, corruption and infrastructure have been found to be the three most important criteria to consider when venturing in SSA. The political situation in SSA is unlikely to result in overthrowing of regimes. One of the major challenges which MNEs face is the internal change of attitudes towards business culture in SSA.

## 11.7 Summary of the results

The business potential in SSA is largely untapped. There are many challenges such as infrastructure, political situation, corruption, bureaucracy, poor financial institutions, culture diversity and skill gaps which MNEs will have to overcome. Despite the multitude of challenges, the opportunities for business and financial rewards remain encouraging.

The ideal moment for entering SSA has passed but nevertheless it is still not too late to start operations. The landscape is highly competitive and price is the main driving force for buying decisions. MNEs select a few countries based on business potential and develop additional markets as they go along using the same criteria. Other businesses chose countries in strategic locations to develop as hubs for further expansion. Most MNEs plan their entry carefully and do not have an exit strategy upfront.

MNEs use mainly exports, turnkey projects, acquisitions, own subsidiaries and franchising to enter SSA countries. Licensing and mergers are seldom used. Local partners and local staff are crucial for successful growth and partners have to be chosen with due-diligence. It is useful to lobby policy makers in order to facilitate entry and operations in SSA countries.

Political situation, level of corruption and infrastructure status are key criteria which MNEs consider when selecting the country to enter. The region is not expected to experience political or social troubles similar to North Africa. One additional challenge found is the MNEs own internal culture which is more suitable for Western countries than SSA countries.

# CHAPTER 5: DISCUSSION OF THE RESULTS

## 12.1 Introduction

The results of the study are discussed in relation to the literature review. Each topic in the research proposition is analysed and compared to the literature review. A triangulation of the research findings is performed from information available in the public domain in order to improve on the internal validity of the research.

## 12.2 Demographic profile of respondents

The aim was to interview fifteen business executives covering five industries: Mining; Engineering and Construction; Retail; Services and Petrochemical. With the exception of the mining industry, interviews were conducted with business executives from the other industries. From the interviews conducted, the researcher did not find any significantly opposing views from the respondents. In addition, the mining industry can be viewed as a resource based industry and in this respect can be considered similar to the petrochemical industry. Therefore the researcher believes that the results obtained are also applicable to the mining industry.

## 12.3 Discussion pertaining to the research proposition 1: the challenges facing business executives in SSA

### *12.3.1 Poor infrastructure (transport, energy, water and communication)*

The results of the research show that the state of the infrastructure in most SSA countries is still underdeveloped in accordance with the literature. The poor infrastructure includes road transport, electricity supply, water supply and telecommunication. Cellular telephony on the other hand is good and still getting better. Despite this state of affairs, businesses are not deterred from investing in SSA. On the contrary, infrastructure suppliers see this as one great opportunity and the very reason for them to penetrate the SSA markets.

### *12.3.2 Poor governance*

The literature review indicated that poor governance remains a serious problem in SSA and is a deterrent to business investors. Although changes have taken place and democracy is gaining momentum, business executives still consider poor governance a major problem. Political stability is not a concern anymore but the implementation of measures and policies conducive to transparent and good business practices are still lacking. It is not surprising that some of the countries which the respondents have indicated to be the least promising for business include those with a track record of poor governance such as Sudan, Somalia and Swaziland. Although there was consensus that Zimbabwe is poorly governed, there was much hope that a post Mugabe government will bring the necessary changes to attract investment from MNEs. Governments in SSA are aware that they need foreign investments in order to create jobs and economic prosperity. We have seen the newly elected President Michael Sata of Zambia reversing the windfall tax on mining which was introduced by his own government one year earlier in a bid to prevent an exodus of mining operators (England, 2011b).

### *12.3.3 High level of corruption*

Corruption remains endemic to the region. Despite the major efforts made both at government level and in the private sector, the level of corruption remains high. Business executives agree that there is good progress in some countries but less in others and the perception of corruption is directly linked to government policies. This is again in agreement with the literature review. Every single respondent has been clear that their enterprises do not condone the practice of unethical behaviour and strongly oppose corrupt activities. MNEs prefer to forfeit the business rather than to dent their reputation. It must be understood that MNEs cannot afford the perception of corrupt practices in SSA since this will jeopardise their business opportunities in the developed markets. Business executives are therefore not deterred by the corruption issues and are actively pursuing opportunities on the continent without compromising their ethical stance.

### *12.3.4 Heavy bureaucratic institutions*

The research finding corroborates the literature review on the fact that SSA is highly bureaucratic. Business executives are not against bureaucracy. On the contrary they see bureaucracy as the mechanism which can facilitate business since it provides the transparent process and procedure one needs to follow. However, their concern is the inefficiency and ineffectiveness of bureaucracy in SSA. MNEs get around the burden of bureaucracy through starting early and through using specialised agencies which help facilitate their application for documents. This obviously adds to the cost of doing business but is not a strong deterrent to MNEs. Many SSA countries, for example Ghana, Tanzania and Uganda have created one stop agencies to facilitate the processing of documents and the issue of permits.

### *12.3.5 Weak financial institutions*

The response from business executives on the poor financial system in SSA is not in conflict with the literature review. Banks and other financial institutions are still at their infancy and will take a long time to develop despite the many foreign banks attempting to create a market in the region. Standard Bank and First Rand are amongst the South African bankers to have set targets of growing into Africa (Kamhunga, 2011b, 2011a). MNEs do not rely on internal financing but rather from external sources such as the World Bank, other Foreign Banks or their own capital. A few business executives have indicated that they had failed to make the effort and understand the tax implications in previous dealings in SSA. consequently, a significant portion of their earnings from previous project execution could not be repatriated. MNEs need to ensure that all tax implications are understood and factored in when costing projects or investments in SSA.

### *12.3.6 Multitude and specific cultural inclinations*

There is agreement between the research findings and the literature on culture and language. However, most business executives are not concerned by the culture differences and believe that business is not affected by the cultural and language differences. It is interesting to note that the more time business executives have spent doing business in Africa, the more importance they put on culture. Their experience has shown that to develop good business, one has to create trust. Relationship in the long run builds trust and to build relationship one has to really understand the culture and adapt oneself to operate in the cultural space of each region. MNEs are advised to pay attention to cultural differences and to see SSA as it is rather than with the eyes of a foreigner. Many experienced business executives now agree that instead of trying to change SSA, they have more to gain in changing themselves rather.

### *12.3.7 Unskilled and abundant labour force*

The literature indicates that skilled individuals are scarce and that the skill level is poor in SSA. The research shows a different view with one set of business executives agreeing with the literature whilst the other set believing that high calibre skills are available in the Diaspora and that skills will come to Africa as the need arises in the form of expatriates. The Africa Leadership Academy (ALA) for example is one institution in Africa, run by Africans, targeting the creation of 6,000 leaders over a 50-year period (England, 2011a). In the words of the ALA founder, Mr Fred Swaniker "In Africa, where you don't have strong institutions, one good leader can have a tremendous impact on society, but similarly, on the downside, one bad leader can destroy society" Whatever the debate, business executives are not worried about the issue and it certainly does not weigh much in their investment decision. One business executive pointed out that if MNEs need skills, they simply have to provide for it through their own training and coaching programs. MNEs are advised to factor in training programmes and to use expatriates to pass on skills to locals. In the long run, it is much more cost effective and more productive to use locals than expatriates since locals are culturally homogeneous to the population.

### *12.3.8 Conclusion*

The research on the challenges facing MNEs in SSA was found to be in line with the literature. Although the situation has improved and is still getting better, the challenges are nevertheless hurdles which must be overcome. MNEs are not at all deterred by the challenges and have found ways to overcome them. “Africa is on the move: from basket case to potential bread basket, from dodgy debtor to investor opportunity” summarises the current situation extremely well (Holman, 2012: 7).

Research proposition 1 on the challenges facing MNE in SSA is therefore accepted.

## 12.4 Discussion pertaining to the research proposition 2: the important criteria for successful business development in SSA

### *12.4.1 Select timing and appropriate entry mode based on risk appetite and adapt over time if necessary*

Strategy theory states that first movers obtain a competitive advantage over late comers. The research however indicates that although the ideal timing to be in SSA was in the last decade, the market potential is so huge and diverse that entering the market now is still not too late. In fact it is in the interest of the MNEs to move now rather than later since the opportunities are great now and may not be so later on as more competitors set in.

Although theory provides for six entry modes, the research shows that some are more favoured than others and the ideal entry mechanism is business specific. In essence MNEs need to choose an entry mode amongst: exports; turnkey projects; licensing, franchising, joint ventures or wholly owned subsidiary to start with. As they gain experience the strategy can change to best meet the needs of the business.

MNEs are still scared of licensing to African businesses for two main reasons, firstly, the intellectual property rights in SSA is not well developed and secondly, MNEs are wary of abuse of copyrights and fakes especially in the music and apparel industries. There is however hope when one considers that firms such as Adams & Adams are rapidly expanding into Africa (James, 2012).

### *12.4.2 Select one amongst "low cost, differentiation or focus" strategy to achieve competitive advantage*

Competitive advantage is obtained when choosing amongst one of the three strategies (Porter, 1985). The research shows that most firms chose cost leadership as the primary strategy in SSA. This could be explained by the fact that the market is still young and not sophisticated as yet. One could expect that as competition grows, other strategies will also become popular. Although cost is the main driver for the buying decisions this by no means implies that products and services are cheap in SSA. In fact many MNEs generate higher profitability from the SSA region than elsewhere.

### *12.4.3 Start with a few countries first based on factor conditions, market demands, availability of supporting industries and competitor's rivalry.*

The research findings agree with the literature in general. MNEs do indeed start with a small selection of countries and then later on expand to other areas. Whilst some expand on the same criteria of market size and growth potential others expand using the first series of countries as hubs. However, resource based industries choose countries with generous factor conditions such as the availability of oil, gas and minerals. The investments made by Shell in Mozambican gas is one good example where Shell acquired the shares of Cove Energy in order to access the huge natural gas reserves (Jones and Chazan, 2012). Non-resource industries choose market potential as the key element for determining the country to explore. The retailer Spar, who currently operates in South Africa, Namibia, Botswana and Mozambique is looking at expanding further into SSA to achieve further growth (Enslin-Payne, 2011). Similarly the medical group Merck has announced its plans to operate in SSA using South Africa as a production centre (Allix, 2011). MNEs have indicated that the availability of supporting industries is not a factor in their country selection decision. However, as the market develops further, supporting industries will become useful to existing MNEs. Hence there exists opportunities for entrepreneurs to provide the supporting industries once MNEs are established.

#### *12.4.4 Select organisational structure in order to harmonise with country specific cultural traits*

The literature indicates that organisational structure needs to be adapted to the business environment. The research found that most organisations have kept their structure whether they operate in SSA or elsewhere. However, the scale of operation is adapted to suit the market needs. Each method has its merit and MNEs need to choose accordingly.

#### *12.4.5 Plan an exit strategy prior to entry*

The research is categorical in the fact that MNEs do not plan nor find it useful to plan an exit strategy upfront. Business executives concede though that they have contingency plans and that planning the entry is done carefully enough to warrant the exclusion of an exit strategy.

#### *12.4.6 Conclusion*

Besides the organisational structure and the exit strategy, the other important criteria for successful business development in SSA are generally in accordance to the literature. The important criteria are; start operations now and choose appropriate entry mode; cost leadership is the strategy to follow for now; and start with a few countries first then expand.

We therefore partially accept that the research proposition 2 on the important criteria for successful business development in SSA.

## 12.5 Discussion pertaining to the research proposition 3: the strategies which MNEs are taking to develop markets in SSA

#### *12.5.1 Market entry through mergers and acquisitions*

The research has found that acquisitions are favoured over mergers in SSA despite the fact that there are not many organisations in SSA one could acquire.

Furthermore, other entry techniques such as exports, and turnkey projects are also very popular. Exporting is common since it allows the MNEs to set foot from the outside and to learn how to operate prior to setting up operations in SSA. Turnkey projects are also in favour since the infrastructure deficits provide MNEs the opportunity of executing projects in the region.

MNEs consider the entry modes based on their respective business model and maturity of their operations in SSA. It seems that the entry mode is selected mostly on benefit to risk ratio and business executives have been clear about their aversion to risk in SSA.

### *12.5.2 Choosing joint venture partners carefully and allowing sufficient time for relationship to mature*

The research has pointed out the five key elements which MNEs look out for in a partner.:

- Customer base and market knowledge;
- Stakeholder relationships;
- Past experience in the business;
- Value system and past behaviour especially in areas of ethics. Executives do not want exposure or embarrassment to their companies;
- Competence.

The time it takes to develop relationships was not seen as a significant element on its own although it was understood that finding the right partner is generally a lengthy process. MNEs have indicated that they prefer partners who have experience, have good relationships with stakeholders and are competent. The underlying reason is that they look for partners who complement their deficiencies and add value to the overall relationship.

### *12.5.3 Localisation strategy when local market is sufficiently large for economies of scale.*

Although the research agrees with the literature on the necessity of a localisation strategy, the reasoning behind the strategy differs substantially. The literature proposed a localisation strategy essentially as a means to circumvent trade barriers and as a next step to export. The research however, showed the significance of a localisation strategy. Business executives were clear about their cultural mismatch, market knowledge deficiencies and relationship development shortcomings and saw localisation as the route to overcome all three hurdles besides the trade barriers alone. The only way one can really understand the region is through being present on the ground and to employ local staffs to manage the operations. Expatriates are required in the initial stages to train and coach the locals but eventually the locals are the ones who can develop the business further.

### *12.5.4 Influencing government and policy makers through industry lobby groups*

Both the research and the literature agree on the need for MNEs to have dialogues with the authorities and policy makers. Business executives consider that they need to approach government both as an enterprise and as an industry and the approach is dependent on the circumstances. There is unanimous agreement among business executives that the relationship with authorities must be professional and ethical for it to be viable. The authorities need to hear the business requirements and similarly, businesses need to hear what the authorities have to say.

### *12.5.5 Prioritising countries according to the level of diversification of the economy*

There is agreement between the literature and the research that there are selection criteria of the country to invest. Although the literature distinguishes four levels of country diversifications which should guide the prioritisation, MNEs instead do the selection based on market potential, customer base, political stability and geography. These characteristics are dynamic and continuously evolving. MNEs have every interest to ensure that they use the latest data when making the selection of countries.

#### *12.5.6 Conclusion*

The strategies which MNEs are taking to develop markets in SSA are not entirely in line with the literature. Since the literature was compiled a few years earlier, it is possible that MNEs have adapted their strategies over time to take cognisance of the evolution of the market and of the business environment. Conditions are dynamic and changes at political, economic and environmental levels evolve all the time to warrant that MNEs also adapt to the circumstances.

We therefore partially accept that the research proposition 3 on the strategies which MNEs are taking to develop markets in SSA.

## 12.6 Discussion pertaining to the additional findings

The ranking of the important criteria presents a conundrum. Many business executives have ranked culture amongst the least important criteria. Yet the literature indicates clearly that understanding the way business is done in SSA implies understanding the culture of its people. It is possible that business executives rated culture as they did partly because they believed the localisation strategy addresses the problem and partly because Africans, by nature of being polite, did not come across as having different needs. For example the concept of time in Africa does not have the same meaning as in Germany. Business executives seem to believe that Africans do not respect time whilst Africans on the other hand see Westerners as not respecting culture. It takes many years of experience and open mindedness to be attuned to the cultural differences, yet this is so critical to business success.

It is interesting to note that some business executives have started to see the nuances between African and Western business values. These business executives have now understood that their internal organisational perceptions are one of the very obstacles they will need to overcome.

As part of the localisation strategy, MNEs now see the value of delegation to regional managers and this is a sign that there are some understandings amongst business executives that business practices are not universal. Some business executives have expressed the views that businesses need to add more value in SSA through beneficiation plants and local industries. Others believe that MNEs need to provide complete offerings rather than a partial solution since Africans, firstly, do not want the trouble of completing the missing portions and secondly, do not have the skills yet to manage complex projects. Western enterprise could do well in partnering with Chinese and Indian businesses since they are from a culture which promotes relationships in a similar way Africans do.

## 12.7 Conclusion

The research shows that the challenges facing MNEs in SSA is in line with the literature. Infrastructure, governance, corruption, bureaucracy, finances, culture and skills remain the hurdles which MNEs will need to overcome.

- The research proposition on the challenges facing MNEs in SSA is completely accepted.

Some of the critical success factors confirmed by the research is that timing, cost leadership and phased entry remain important. However, the research contradicts the view that organisational re-structure and exit plans are at all important.

- The research proposition on the important criteria for successful business development in SSA is partially accepted.

The strategies which MNEs are taking to develop markets in SSA are not entirely according to the literature. Market entry through mergers and acquisition was not found to be the most favoured mode. Instead turnkey projects, exports and acquisition were the most popular mode of entry. The criteria for choosing a business partner are on business principles rather than on allowing the relationship to mature over time. Localisation strategy, dialogue with authorities and prioritisation of countries are the key strategies which MNEs find vital.

- The research proposition on the important criteria for successful business development in SSA is partially accepted.

# CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

## 13.1 Introduction

This chapter presents the conclusions and recommendations emanating from this study. Firstly, a summary of the main findings with regards to the three research propositions, namely:

(a) the challenges facing business executives in SSA.
(b) the important criteria for successful business development in SSA.
(c) the strategies which MNEs are taking to develop markets in SSA.

Secondly, a set of recommendations for MNEs who have or intend to start business operations in SSA are made.

Lastly, recommendations are made for further research areas arising from this study.

## 13.2 Conclusions of the study

This research was conducted using in-depth semi-structured interviews with senior business executives of MNEs with experience in operations in SSA. The main purpose of the research was to identify the current challenges facing MNEs in SSA and to propose success strategies for the development of a sustainable business.

The results of the research are presented in chapter 4. Discussion and comparison of the results findings to empirical knowledge is presented in chapter 5. The challenges and success strategies for MNEs were also discussed in detail. This section highlights the main conclusion emanating from this discussion.

### *13.2.1 Conclusion pertaining to the research proposition 1: the challenges facing business executives in SSA*

#### *13.2.1.1 Poor infrastructure (transport, energy, water and communication)*

The infrastructure deficit prevalent in SSA, despite adding to business difficulties, is not detracting investments into SSA. In fact the very same deficit is proving to be a driver of growth and is creating opportunities for infrastructure developers.

#### *13.2.1.2 Poor governance*

Political instability is gradually coming to an end in SSA as more countries embrace democracy. Modern communication means have allowed the population to be informed to such an extent that governments can no longer keep secrets and are compelled to embrace change. Many SSA countries especially in Southern and Eastern Africa are now examples in good governance. MNEs have no reason to be afraid of investing in SSA anymore although some countries are more risky than others.

#### *13.2.1.3 High level of corruption*

Corruption remains endemic in SSA. However, this is more widespread amongst the general public rather than at government level. MNEs are not necessarily penalised for objecting to corrupt practices and there is plenty of room for doing business ethically. MNEs are advised to reject any demands for bribes and to advise their employees to show confidence when dealing with officials.

#### *13.2.1.4 Heavy bureaucratic institutions*

Despite a heavy and often dysfunctional bureaucracy, officials in SSA are generally friendly. MNEs have found ways through agents and early planning to overcome the burden of bureaucracy.

#### *13.2.1.5 Weak financial institutions*

Access to capital and to financial instruments is generally poor in SSA. International banking institutions are rapidly setting up shops in many countries. It is envisaged that the banking system will develop but for the time being MNEs are advised to source capital from outside the region. The tax legislation is also complex and MNEs will find benefits in ensuring they obtain the right information upfront.

#### *13.2.1.6 Multitude and specific cultural inclinations*

Doing business in SSA is very different from doing business in other parts of the world. Africa has unique characteristics and often poorly understood. MNEs are advised to use locals as much as possible in order to overcome the cultural differences. Since relationship is a key ingredient for success in SSA, locals stand a better chance of gaining the trust of their peers than any outsider can.

#### *13.2.1.7 Unskilled and abundant labour force*

Whether there are sufficient skills available to develop SSA is still an ongoing debate. Skills are resources and attracting them carries a cost. Many talented expatriates are willing to work in SSA provided the rewards are justified. MNEs are advised to internally train their own personnel to operate in SSA even if they have to use expatriates for this purpose since it will guarantee them a constant supply of qualified staffs.

The challenges facing MNEs are real but are totally manageable. Since growth in other parts of the world is currently very low, it makes business sense to explore opportunities in SSA. MNEs are advised to consider expanding their activities into the last frontier and to do so now.

### *13.2.2 Conclusion pertaining to the research proposition 2: the important criteria for successful business development in SSA*

#### *13.2.2.1 Select timing and appropriate entry mode based on risk appetite and adapt over time if necessary*

For organisations that are not already present in SSA now is the time to enter the market. The entry mode needs to be assessed in terms of the business requirements. Exports and acquisitions seem to be the preferred routes to initial entry. Licensing is still not popular due to underdeveloped property rights. MNEs are advised to take due-diligence in planning their entry though.

#### *13.2.2.2 Select one amongst "low cost, differentiation or focus" strategy to achieve competitive advantage*

SSA is predominantly a price sensitive market and MNEs are using cost leadership as the main strategy. Differentiation and focus strategy have their place, but in emerging markets may prove to be ahead of time. As competitors flood in, differentiation and a focus strategy may provide the competitive advantage for some firms.

#### *13.2.2.3 Start with a few countries first based on factor conditions, market demands, availability of supporting industries and competitor's rivalry*

Since one has to learn how to do business in SSA it is strongly advised that entry be done gradually. The choice of country to enter is made on two major criteria. Resource based industries select countries with an abundance of the resource they are after and the facilities which this resource can be brought o market. Non-resource based industries select the country based on market size and growth opportunities. MNEs are advised to choose the first country to enter diligently since this will provide them with the experience needed for further expansion.

#### *13.2.2.4 Select organisational structure in order to harmonise with country specific cultural traits*

The conclusion from this research indicates that there is no need to adjust the organisational structure differently for SSA. MNEs therefore do not need to worry about this topic.

#### *13.2.2.5 Plan an exit strategy prior to entry*

Careful planning at entry eliminates the need to exit at all. MNEs have been categorical that they do not plan exit upfront but recommend that a contingency plan be prepared in case staffs have to be repatriated in a hurry whether for reasons of natural disaster or political turmoil.

The important criteria for success in SSA are no different from the criteria for success elsewhere. Timing, cost leadership, gradual approach and careful planning are the key success criteria.

### *13.2.3 Conclusion pertaining to the research proposition 3: the strategies which MNEs are taking to develop markets in SSA*

#### *13.2.3.1 Market entry through mergers and acquisitions*

Exports and turnkey projects are the most common entry modes. Mergers and acquisitions are also favoured but MNEs need to be cautious in choosing the right partner. MNEs need to ensure the local partner or acquired firm adds value to the business and that there are no previous cases which could result in anti-trust issues.

#### *13.2.3.2 Choosing joint venture partners carefully and allowing sufficient time for relationship to mature*

The partner is chosen along the following lines rather than how long the relationship has existed:

- Customer base and market knowledge;
- Stakeholder relationships;
- Past experience in the business;
- Value system and past behaviour especially in areas of ethics. Business executives do not want exposure or embarrassment to their companies;
- Competence.

MNEs will find value in choosing the partner along the five criteria above.

#### *13.2.3.3 Localisation strategy when local market is sufficiently large for economies of scale*

There is no doubt that MNEs who establish operations in SSA and use locals to run the operations will have the advantage of overcoming the cultural and other barriers specific to the country. It will be useful that in the initial stages, experienced expatriates provide the training and skill transfer necessary to allow the locals to continue afterwards. This has both cost and competitive advantages.

#### *13.2.3.4 Influencing government and policy makers through Industry lobby groups*

It is recognised that there is extreme value in maintaining relationship and dialogue with the authorities of the country where one is investing. The benefits are mutual. MNEs, however, need to ensure that the relationship is entirely ethical and professional.

#### *13.2.3.5 Prioritising countries according to the level of diversification of the economy*

Choosing the appropriate country to start up operations is mostly made on the market potential, customer base, political stability and geography. However, this is industry specific and a mining company could very well choose according to available resource of interest rather.

The conditions in SSA are rapidly evolving. Key success criteria of today may be obsolete tomorrow. MNEs need to evaluate the conditions at the time of entry in order to make the appropriate choice based on the prevailing conditions.

### *13.2.4 Conclusion pertaining to the additional findings*

There are significant opportunities for providing turnkey solutions in SSA especially in infrastructure projects. Most governments in SSA prefer that one single consortium provides a full turnkey solution to a particular project and manage the entire venture rather than for them to subdivide the project into work packages for smaller contractors. MNEs that can form mega consortium have the advantage of meeting with the expectations of government and stand better chances of securing mega infrastructure projects. One, however, needs to ensure that funds are secured upfront to finance such operations.

The market potential and growth opportunities for MNEs in SSA are huge. Despite the many challenges in terms of infrastructure, governance, corruption, bureaucracy, financing, culture and skill gaps, the opportunities for successful business ventures remain high. The continent is making progress on each front and MNEs simply cannot afford to miss this wave of opportunities. However, investing in SSA is very different to investing in other parts of the world and one has to ensure having prepared well prior to starting operations. It is unlikely that the region will become politically or socially unstable and opportunities are expected to continue for many years. MNEs with long term plans will find the region attractive and will be able to set up business without much difficulty.

## 13.3 Summary of recommendations

Recommendations were made on each point of the conclusion in section 6.2. These are now summarised below in bullet point for clarity.

- There is little reason to be afraid of investing in SSA.
- Accept that business pace is slower than in Western cultures.
- Stay clear from corrupt practices and show confidence when dealing with officials.
- Plan early and use specialist agencies to handle bureaucratic burdens.
- Understand tax structures of country where investment is made.
- Pay attention to cultural differences.
- Establish coaching programmes to boost skills development.
- Invest now rather than later and select entry mode according to industry.
- For now, cost leadership is preferred over differentiation and focus strategies.
- Evaluate opportunities against risks prior to selecting the country.
- Start with a few countries first then expand as experience is gained.
- Chose partners and staff carefully.
- Choose localisation strategy.
- Maintain dialogue with authorities.
- Cultivate relationships to build long lasting trust.

- Offer turnkey solutions as much as possible.

## 13.4 Suggestions for further research

Many questions and areas for further exploration arose during this research project. These were not pursued due to the limited scope of this research coupled with the time constraints. The topics for further research are therefore listed below:

- To find the reasons why some enterprises have failed in their venture into SSA.
- Is South Africa really the best platform for foreign MNEs to use to enter SSA?
- Are investors now less scared of Africa and are they ready to invest directly into their target countries?
- Can the leadership of the country affect economic prospects and investment attractiveness of SSA countries?
- To determine how SSA can develop and retain the skills needed to develop the region.

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# APPENDIX A: ACTUAL RESEARCH INSTRUMENT

## Letter to Respondents

Dear Respondent,

I am an MBA student at Wits Business School finalising my MBA research project. The topic of my research is on the **Success strategies for business development of Multinational Enterprises in sub-Saharan Africa**. In view of gathering data on this subject, I would be grateful if you would kindly grant me a one -hour interview.

The objective is to understand the processes used and challenges faced by Multinational Enterprises while doing business in SSA. I understand that this interview will take time out of your schedule and I greatly appreciate your contribution towards this research.

The interview will not address questions on your detailed strategic plans nor request sensitive and confidential enterprise information. The focus will be on general strategies employed, problems faced and outcomes in the business development in the sub-Saharan region.

Confidentiality will be observed throughout the research process and the final report will be for academic purposes only.

I make myself available to meet with you at a location and time of your convenience.

Thanking you for your kind support.

Yours sincerely,

Rajen Soobben

MBA Student (WBS)

(Cell: 083 565 5865)

## Research questionnaire

Organisation: …………………………………………………………..

Respondent: …………………………………………………………

Position: ……………………………………………………………

Date …………………………………………………………………..

Venue: ……………………………………………………………..

## Business climate

1. What are your general views (in SSA) about:
    - Government?
    - Corruption?
    - Culture?
    - Infrastructure?
    - Skills?
    - Bureaucracy?
    - Legislation – Foreign exchange control, taxes, permits, licences.

2. What are your views on China and India's interests in SSA? In what ways do they affect your strategies?
3. In your opinion is there and ideal timing to develop business in SSA? Why?
4. What are your views on the market and business potential in SSA?
5. What do you see as major opportunities and threats in SSA?

## Challenges

6. What were the major challenges you have encountered and what did you do about them?
7. Are there any regrets about the approach your organisation took when venturing into SSA?
8. If you had to start again, what would you do differently?
9. What are your concerns about ethics when operating in SSA?
10. Do you consider your venture a success and why?
11. How are you affected by other industries or supporting industries operating in SSA?
12. How were you impacted by the cultural and language differences?
13. Which country do you consider the most promising? Why?
14. Which country do you consider the least promising? Why?
15. Are the changes is political situation which is taking place in North Africa of any concern to your interests in SSA?

## Success Strategies

16. In which countries are you currently doing business in SSA?
17. What criteria were used in the selection process?
18. How do you identify and prioritise which country or countries to develop next?
19. Which method of entry (Export, turnkey projects, licensing, franchising, JV, M & A, WOS) you consider most suitable for your organisation. Why?
20. If you had to choose a local partner, what would be the important criteria for selection?
21. How do you manage your competitors in these new territories?
22. In what way is doing business in SSA different from your home market?
23. In what way did you have to adjust your structure and processes to adapt your business to SSA countries?
24. What are your views about foreign MNEs lobbying local governments? What approach should the MNEs take?
25. What exit strategy did your organisation plan for prior to entry into foreign markets?

## Additional Question:

Can you please rank the following criteria in order of importance for MNEs to consider when in SSA?

Least Important – 1
Most Important – 10

- Infrastructure ______________________
- Political situation ______________________
- Laws and legislation ______________________
- Corruption ______________________
- Bureaucracy ______________________
- Taxes ______________________
- Culture ______________________
- Natural resources ______________________
- Skilled Human Capital ______________________
- Cheap labour ______________________