Company Expansions from Emerging Markets into Developed Markets

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ABSTRACT

The number of participants in the global economy is growing each year, fuelled partly by globalisation and increasing levels of integration (Lloyd 1993) amongst economies. Companies from emerging markets ("EMC"s) are playing an increasingly significant role in the global economy. In 2009, EMCs received 50% of foreign direct investment ("FDI") flows, up from 40% in 2008 (UNCTAD 2010). More interestingly though, in 2009, EMCs were the source of 25% of FDI flows, up from 19% in 2008 (UNCTAD 2010). With healthy balance sheets, due in part to strong home market growth (Kumar 2009), EMCs are not just choosing other emerging markets ("EM"s) for growth. Developed Markets ("DM"s) are becoming increasingly important as a host location for EMCs (Cantwell and Barnard 2008).

The study identified the critical success factors for EMC expansions into DMs. Moreover, it also identified the top 5 critical success factors. Data was collected by conducting 15 semi-structured interviews with high ranking members of South African companies.

The critical success factors were as follows:

- Corporate brand management
- Understanding of local customers
- Customised marketing strategies
- Financial management/capital
- Understanding the legal/regulatory environment
- Experienced management team
- Management team with local complement
- Organisational structure and design

- Corporate governance and citizenship
- Management of external stakeholders
- Clear objectives/goals for the expansion
- Integration and corporate culture management
- Due diligence with high degree of care/accuracy
- Experience/learning

The top 5 critical success factors ranked in order of importance were as follows:

1. Clear objectives/goals for the expansion
2. Experienced management team
3. Due diligence with high degree of care/accuracy
4. Financial management/capital
5. Integration and corporate culture management

There is significant change taking place in the global economy. Both the presence and role of EMCs will likely continue to increase, particularly within DMs. In so doing, EMCs need to ensure that they consider the critical success factors in their expansionary activities, particularly during the planning stages. Moreover, they should put extra energy into the top 5 critical success factors, which are actually applicable whether entering an EM or DM alike. Lastly, some of the key recommendations include, *inter alia*, that EMCs need to adhere to their core competences, not stray from existing business models and implement flexible strategies within their DMs of choice.

DECLARATION

I, Jeremy Katzen, 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.

Jeremy Katzen

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2012

DEDICATION

To Polly, Candy, Lizzy, Jason, Remo, Enzo, Temba, Tiger, Gremlin, Cody, Hagar and Khaya.

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to investigate the critical success factors relevant to the global expansion of companies based in emerging markets (“EMC”s) into developed markets (“DM”s).

1.2 Context of the study

The world economies are becoming more and more integrated (Lloyd 1993), a concept referred to as globalisation. This level of integration was well illustrated by the recent global financial crisis, which began in the DMs and quickly spread to the emerging markets (“EM”s). As the global economy grows, its number of participants grows with it. Dunning, Kim and Park (2008) state that globalisation is partly to blame for the emergence of EMCs, the entities of focus in terms of this study.

The relative importance of these EMCs within the global economy is also growing, as evidenced by the growth of their participation in foreign direct investment (“FDI”) – EMs received 50% of FDI inflows in 2009, up from just over 40% in 2008, and were the source of 25% of global FDI outflows, up from just 19% in 2008 (UNCTAD 2010). Their growing relative importance was spurred further by the global financial crisis and more recent Euro-zone crisis. As recently as September 2011, the finance ministers and central bank governors of the BRICS nations, being Brazil, Russia, India, China and South Africa (“SA”), were considering the provision of aid and assistance to the crisis-hit Euro-zone (Leahy 2011). The same author states further that should this take place, it would “mark a further symbolic shift in the momentum of the global economy towards the largest emerging markets” (Leahy 2011: p1).

As has been illustrated above, EMs tend to receive significantly more FDI inflows than the FDI outflows they make. This is because EMs have typically been regarded as destinations rather than sources of FDI (Dunning *et al* 2008).

However, as indicated by the growth above, this has started to change. Outward FDI from EMCs has increased much faster than that from their DM counterparts (Gammeltoft, Pradhan and Goldstein 2010). Despite the disadvantages inherent in EMCs entering DMs (Thomas, Eden, Hitt and Miller 2007), these entities have pushed ahead with their outward FDI agendas, adopting springboard approaches (Luo and Tung 2007) and embarking on accelerated internationalisation strategies (Bonaglia, Goldstein and Mathews 2007) in search of new markets, resources and capabilities (Dunning 1993; Sauvant 2005). In line with brewing aspirations to become truly global, EMCs are realising that they need to serve and win customers in DMs to do so (Luo and Tung 2007).

The topicality of expansion by EMCs into DMs has been exemplified by a number of recent high-profile transactions (Sauvant 2008). These include China-based Lenovo's acquisition of the Personal Systems Division of United States-based IBM, India-based Tata's bid for United Kingdom-based Corus or Jaguar, China-based TCL's purchase of France-based Thomson and SA-based Investec Bank's announcement in September 2011 of its acquisition of United Kingdom-based Evolution.

The global economic terrain is certainly changing and may well represent a rebalancing of world economic power (Goldstein and Pusterla 2010). Douglas and Craig (2011) note that firms in DMs are facing mounting competition from EMCs. The last decade has seen many take-overs of companies based in DMs by companies based in EMs like China and India (Salehizadeh 2007), something which Thomas *et al* (2007: p847) referred to as an "increasingly more common phenomenon".

SA is widely accepted as an EM, meeting most of the popular classification criteria, such as rapid growth, economic liberalisation and low average income levels (Hoskisson, Eden, Lau and Wright 2000). It is the only African member of the Group of Twenty Finance Ministers and Central Bank Governors ("G20") and is the most recent addition to the BRICS group of emerging nations. SA is also home to a number of multinational corporations ("MNC"s) that have ventured offshore, often into DMs, making it a good candidate for this study.

1.3 Problem statement

1.3.1 *Main problem*

Identify the critical success factors for EMC expansions into DMs. The purpose of this research was also to identify the top 5 critical success factors.

1.4 Significance of the study

The study fills a gap in that, as noted by Hernandez (2008), despite there being growing hype around FDI by EMCs, relatively little is known about this growing trend of EMC cross-border investment. Despite Cantwell and Barnard (2008) noting the increasing importance of the first world as a host location for EMCs, the existing literature specifically addressing this subject matter was found to be limited.

As noted by Goldstein and Pusterla (2010), the conceptual frameworks surrounding DM MNCs are well established. Moreover, they point out that much of the existing international business theory, such as Dunning's (1981) ownership-location-internalisation ("OLI") paradigm (discussed in **Section 2.5**), is based on the experiences of large DM MNCs. Previous studies have suggested that new theories are required for EMs (Liu, Buck and Shu 2005). Other authors have expressed concern that there may well be gaps in the extent to which existing theories apply to latecomer MNCs, typically being those from EMs (Luo and Tang 2007; Gammeltoft *et al* 2010). Clearly, more research on EMCs is required, and this study aimed to enhance the body of research.

Hoskisson *et al* (2000) specified that many EMs, in particular in the African and Middle Eastern regions, have received relatively little research attention. Much of the existing literature in the EMs space focused on EMCs from Asia and South America. This study focused on MNCs from SA, which is the most significant participant in cross-border investment on the African continent (UNCTAD 2010). As such, there has certainly been a contribution in filling this space.

Many of the EMCs selected in the sample for purposes of the study have made entries into multiple DMs. As a result, they are well acquainted with the subject matter, which enabled rich, meaningful data to be extracted. The use of interviews with senior individuals also enabled the researcher to get down to the real issues, with accurate context, something which might not have been possible with a purely quantitative approach.

The study provides guidance to a variety of parties. Firstly, the management teams within EMCs considering DMs as potential target markets would find the study very useful. It will assist them to focus on the key issues and facilitate the best chances of success in entering DMs. Secondly, the corporate finance teams and strategy departments within EMCs would also find strong value in the study, as it is up to them to plan for and implement any expansionary actions into DMs. Thirdly, still within EMCs, the board of directors could use the findings of the study in assisting them to make decisions relating to expansion into DMs, in particular with regards to understanding the potential risks and other key challenges. In terms of external parties, company analysts may derive value from the study, in assisting them to make calls on stocks, based on management plans for expansion into DMs. Governments of EMs might find the study useful in understanding the concerns of the firms looking to enter DMs, particularly in terms of assessing the need for incentives for such firms to assist their internationalisation. Lastly, academics covering global expansion, internationalisation and other related topics could derive useful information, that may support research that they might be undertaking.

1.5 Delimitations of the study

This study only considered EMCs currently or previously based in SA. In addition, only companies that were listed on the Main Board of the Johannesburg Stock Exchange on 1 October 2011, or that were previously listed, were considered.

The term “expansion” is a fairly wide concept and can be construed as covering any number of possible activities associated with internationalisation. Hill (2011) refers to six entry modes with respect to foreign markets: exporting, turnkey projects, licensing, franchising, establishing joint ventures and setting up a new wholly owned subsidiary. For purposes of this study, only expansionary activities making use of FDI were considered. These generally take two forms, being greenfield investment or mergers and acquisitions ("M&A") (Hill 2011), and encapsulate the joint venture and new subsidiary entry modes referred to above.

A focus on FDI was relevant for a number of reasons. Firstly, in light of the observed behaviour of EMCs from countries like China, Russia and SA that are using M&A as their main globalisation strategy (Kumar 2009). Secondly, the observed tendency by EMCs towards springboard (Luo and Tung 2007) and accelerated approaches to internationalisation (Bonaglia *et al* 2007) lends itself to a focus on modes that facilitate the most efficient combination of resources committed and speed to execution, namely FDI and more specifically, M&A. Lastly, Bartlett and Ghoshal's (1989) definition of a MNC, as indicated in **Section 1.6**, specifically refers to a company with significant direct investment in another country. It is therefore appropriate to focus on FDI in terms of entry modes.

As indicated by Goldstein and Pusterla (2010), the use and existence of tax haven countries can at times make it difficult to gauge accurate FDI inflows and outflows. There may be instances where such flows can skew certain figures. Nevertheless, information obtained from the United Nations World Investment Report was considered to be sufficiently accurate.

1.6 Definition of terms

- Emerging Markets (“EM”s) - Countries with low average income levels, high levels of growth, spurred on by economic liberalisation (Hoskisson *et al* 2000). For purposes of the study, EMs refer to those countries classified by the United Nations as transition or developing economies, as indicated in **Table 1**.

- Developed Markets (“DM”s) - Countries classified as developed countries by the United Nations, as indicated in **Table 1**. The term can also be used interchangeably with that of first world markets.

- Foreign Direct Investment (“FDI”) - an action whereby a company invests time, money and other valuable resources in operations outside of the company’s home country, usually in the form of an acquisition, merger or greenfield investment (Hill 2011).

- International Expansion - Hill (2011) refers to six entry modes with respect to expansion into foreign markets: exporting, turnkey projects, licensing, franchising, establishing joint ventures and setting up a new wholly owned subsidiary. For purposes of this study and for reasons explained in **Section 1.5**, only expansionary activities employing FDI, namely greenfield investments and M&A, were considered.

- Multinational Company (“MNC”) - also known as a multinational enterprise, is an organisation with significant direct investment in foreign countries and which the company considers to be integral to the business (Bartlett and Ghoshal 1989).

- Emerging Market Companies (“EMC”s) - Companies currently headquartered in EMs or companies that were previously headquartered in EMs and maintain a strong identity with and ties to the EM in which it was initially headquartered.

- Internationalisation - Generally encompasses exporting, cross-border collaboration and clustering, alliances, subsidiaries, branches and joint ventures that stretch beyond the home country environment (Singh, Pathak and Naz 2010).

- Globalisation – the increasing interdependency (Hill 2011) and integration (Lloyd 1993) of the world's economies due in part to liberalisation of trade and free movement of capital (Saunders, Bowles, Biswas and Zhou 2011).

1.7 Assumptions

- The total number of companies selected was sufficient to gain adequate data to make relevant conclusions and recommendations.

- Information provided by the company representatives was truthful. As company representatives were not necessarily asked about specific expansionary actions taken, there should have been no reluctance by individuals, nor any constraints, on the provision of information.

- Company representatives were sufficiently close to the expansionary activities of their firms into DMs to be able to provide the required insight. All such representatives were of a certain level of seniority within their respective organisations and/or have worked directly on relevant expansionary activities. In addition, their level of education and/or experience enabled them to clearly articulate meaningful answers in the context of the study.

- Information from the United Nations World Investment Reports was considered to be accurate and a true reflection of FDI inflows and outflows.

2 LITERATURE REVIEW

2.1 Introduction

This chapter begins by discussing two phenomena that have helped elevate the status of companies based in emerging markets (“EMC”s) - globalisation and the recent global financial crisis. It then takes a brief look at the meanings of an emerging market (“EM”) and a developed market (“DM”), as well as considers South Africa (“SA”) as an EM. Thereafter, company growth strategies, the various entry modes of international expansion and the drivers thereof are considered. Following that, the process of internationalisation is examined, after which the destinations of foreign direct investment (“FDI”) are explored, mainly being between EMs or DMs. Throughout these sections, relevant international business theories will be incorporated wherever possible. The next step is to consider any areas in which potential success factors might arise that have not been dealt with in earlier sections. Following from this a thematic grouping of success factors pertinent to the international expansion by EMCs into DMs is presented. Thereafter, the most important success factors are considered, culminating in a list of the top 5 most critical success factors.

2.2 Background discussion

2.2.1 *Globalisation*

Lloyd (1993) notes that the world economies are becoming more integrated, resulting in notable changes in the global economy. This integration is sometimes referred to as globalisation. According to Saunders *et al* (2011), the concept of globalisation is not well defined. They go further to state that the concept implies liberalisation of trade and free movement of capital (on a global scale). Hill (2011) uses concepts such as integration and interdependency in relation to the world economy in describing globalisation. Shah and Shaikh (2011) see the term encompassing a changing world order and where aspects of a nation are part of a global community. Logical inferences from the globalisation phenomenon would include increased levels of international trade and cross-border activity. This is supported further by UNCTAD's (2010) view that foreign direct investment ("FDI") flows could reach $1.3 – $1.5 trillion in 2011 and $1.6 - $2.0 trillion in 2012, evidencing strong momentum given that 2003 levels were just over $0.5 trillion. This growing global economy is also likely to have more participants than ever before, including those from EMs. Evidently, globalisation is partly to blame for the emergence of EMCs (Dunning *et al* 2008), the entities of focus under this study.

A concept related to the globalisation phenomenon is that of internationalisation. It is defined differently by various authors, but generally encompasses exporting, cross-border collaboration and clustering, alliances, subsidiaries, branches and joint ventures that stretch beyond the home country environment (Singh *et al* 2010). The main difference between globalisation and internationalisation, as is evident from the literature reviewed so far, is that globalisation refers to the worldwide phenomenon of integration amongst world markets; whilst internationalisation refers to a strategic process undertaken by MNCs in order to grow and expand their business.

2.2.2 *The global financial crisis*

The global financial crisis which began in 2007 and precipitated a worldwide recession is evidence of the extent of globalisation across the world today. As noted by Mohsen, Abdullah and Jalal (2011), the crisis began in the industrialised countries and quickly spread to EMs – no country was spared by the contagion effect.

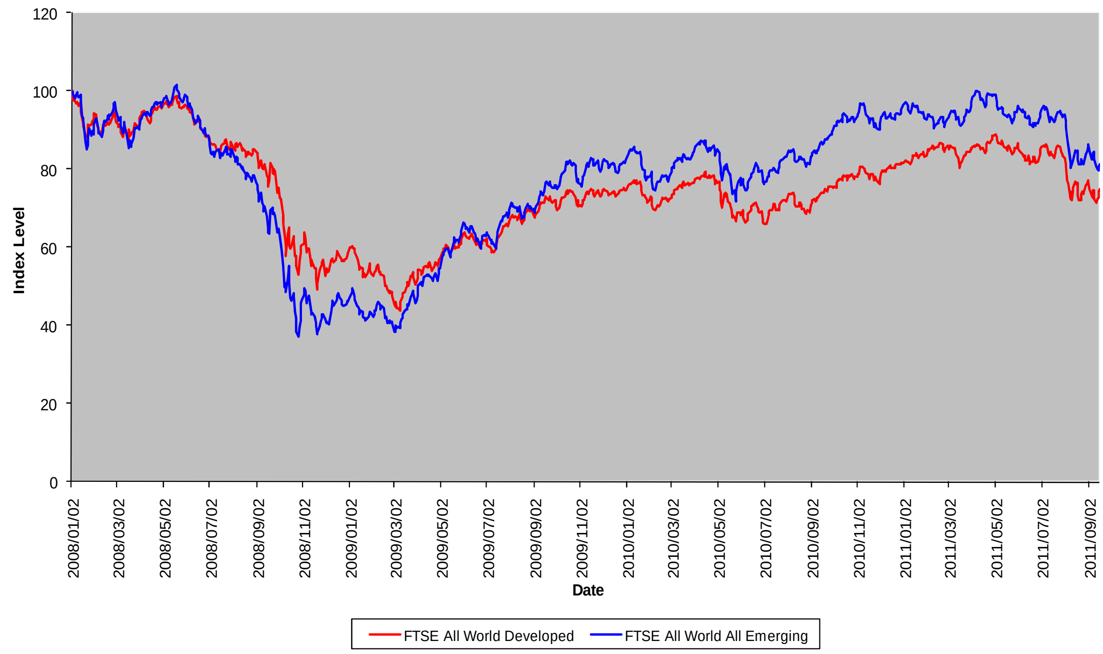
The impact of the crisis resulted in a number of changes in the world economies, further resulting in changes in investor behaviour (Natalia 2011). EMs accounted for 25% of global FDI outflows in 2009, up from 19% in 2008 and received 50% of FDI inflows in 2009, up from just over 40% in 2008 (UNCTAD 2010). It is clear from these figures that EMs' relative importance in the global economy is increasing. Sachs (2008: p18) sees this as part of the "major rebalancing of global power", inferring that the strength of the EMs may soon rival their developed counterparts, whilst Gammeltoft *et al* (2010) believe the increasing internationalisation of EMs and their firms represent a long-term structural phenomenon. The increased activity by EMCs in the global economy is a key element of the modern political economy of globalisation and point to a rebalancing of world economic order (Goldstein and Pusterla 2010). According to the Fortune Global 500 list of the world's largest corporations for 2011, multinational corporations ("MNC"s) from China, Mexico, Brazil, Russia and India make up 86 spots (Fortune 2011). An even more impressive showing of the shifting power towards EMs has arisen out of the recent Euro-zone crisis. The finance ministers and central bank governors of the BRICS nations were scheduled to meet during September 2011 to consider providing aid and financial assistance to the crisis-hit Euro-zone (Leahy 2011). EMs providing assistance to DMs has certainly not been a common phenomenon in previous years.

Another notable change relates to the international sources of FDI. As already mentioned, EMs accounted for 25% of global FDI outflows in 2009, up from 19% in 2008 (UNCTAD 2010). EMs are usually regarded as destinations rather than sources of FDI (Dunning *et al* 2008). But of growing interest is in fact EMs acting as sources of FDI, that is, FDI outflows from EMs. Sauvant (2005: p640) referred to this as "the neglected twin of their inward FDI". Furthermore, EMCs that are aggressively engaging in outward FDI are not only from large EMs like China or Brazil, but also from smaller economies in Africa, Asia and Latin America (Goldstein 2007). This supports the use of South Africa ("SA") for purposes of this study.

Despite the decline in global economic activity, some EMCs are turning the global crisis into an opportunity, by targeting sought-after assets and accelerating the pace of their internationalisation (Gammeltoft *et al* 2010). EMCs are internationalising in greater numbers and at an earlier stage in their life-cycle (Goldstein 2006). This is confirmed by Bonaglio *et al* (2007), who noted that unlike most DM MNCs, EMCs do not delay their internationalisation until they are perceived to be large.

The FTSE All World Developed Index and the FTSE All World All Emerging Index are two indices worth considering. They are shown graphically in **Figure**

1, where each index was plotted with a value of 100 at 1 January 2008, making that the reference point and creating relative index values.



Source: Bloomberg 2011

Figure 1: Comparison of Emerging and Developed Market Indices

As can be seen, following the drop in index levels driven by the global financial crisis, both indices began to recover in early 2009. However, from late 2009 onwards, the emerging markets index has moved at a relatively higher level than has the developed market index, again further corroborating the shift in significance toward EMs.

As will be showed consistently in this study, the behaviours of EMCs do not necessarily fit the established theories and models and often take a springboard approach (Luo and Tang 2007) to internationalisation.

2.2.3 *Emerging markets and developed markets*

It is important to understand the key differences between EMs and DMs and their respective peculiarities, as this provides significant context to the study, in particular relating to global expansionary activities, motivations, concerns and various other elements.

The United Nations ("UN") distinguishes between 3 types of countries or economies: developed countries, transition economies and developing economies (UNCTAD 2010). The countries that qualify under each grouping appear in **Table 1**.

Table 1: Classification of Countries

[redacted]

For purposes of this study, transition and developing economies shall be grouped together to form the EMs. With reference to **Table 1**, member countries of the Organisation for Economic Co-operation and Development ("OECD") are generally regarded as DMs.

Key definitions of EMs in the literature generally refer to countries with low average income levels, rapid levels of growth, spurred on by economic liberalisation and other market-friendly policy reforms (Hoskisson *et al* 2000, Das 2010). Well known examples include the BRICS nations, consisting of Brazil, Russia, India, China and the most recent addition, SA.

EMCs shall refer to those companies that have originated from EMs, regardless of where the current head office may be located.

With reference to DMs, Globerman and Shapiro (2008) mention access to key resources, availability of capital and labour, well-functioning external markets, supportive governance infrastructure, protection of property rights, low levels of corruption and transparent regulatory frameworks. On the other hand, a logical inference would be that EMs are often lacking in terms of these key aspects.

Some of the literature on international expansion does not necessarily differentiate between DMs and EMs. However, differences between the two, particularly in terms of economic and political conditions, suggest the exercise of caution against assuming that expansionary consequences or other elements for EMs will mirror those of DMs (Globerman and Shapiro 2008). In addition, even amongst themselves, EMs are not homogeneous (Hoskisson *et al* 2000). Moreover, the peculiarities of EMs might imply that they create distinct MNCs and further, that such entities will follow different evolutionary trajectories than DM MNCs (Gammeltoft *et al* 2010). Khanna and Palepu (2010) corroborate this view, noting that the journeys of EMCs into foreign markets can vary widely. Research on EM outward FDI has indicated diversity in the internationalisation trends and characteristics of EMCs (Gammeltoft *et al* 2010), in particular for those emanating from Brazil, Russia, India and China.

In contrast to typical features of DM MNCs, Salehizadeh (2007) notes the often unique management styles, corporate practices and FDI strategies of EMCs. Such EMCs often attempt to leap-frog (Boisot and Meyer 2008) or take a springboard approach (Luo and Tang 2007) with regards to internationalisation, a feature that Bonaglia *et al* (2007: p371) referred to as "accelerated internationalisation". Others refer to this accelerated approach as being "born global" (Fan and Phan 2007: p1113). This was corroborated by Salehizadeh (2007) and UNCTAD (2004), who observed that many EMCs internationalise at a rate faster than their first world counterparts.

Key drivers of global expansion by EMCs can also differ from their developed world counterparts. These are discussed in more detail in **Section 2.5**.

2.2.4 *South Africa as an emerging market*

In terms of the UN definitions discussed in **Section 2.2.3**, SA qualifies as an EM. Also discussed in the section above were the BRICS, made up of five EM economies, including SA. Each of the BRICS nations are also members of the G20 nations, of which SA is the only African country member.

Within the African continent, SA is placed in the highest category for FDI inflows, being above \$3.0 billion, as well as the highest category for FDI outflows, being the \$1.0 billion to \$1.9 billion range (UNCTAD 2010). On this basis, it is clear that SA is the most active participant in cross-border investment on the continent.

2.3 Company growth strategies

According to Ansoff (1957), companies looking to grow their businesses have 4 potential strategies at their disposal: deeper market penetration, market development, product development or diversification. In elaborating further on market development, he explains that this approach sees the company seek out new potential markets for existing offerings. Pleshko and Heiens (2007) devised 9 possible growth strategies, 3 of which rely on new market entries as the driver of growth. New markets, or new customers, can often be found in new geographic locations, clearly indicating that internationalisation and global expansion are a means of pursuing a strategy for growth.

2.4 Modes of international expansion

International expansion requires consideration to be given to the means by which a MNC will enter a new market. These entry modes are considered by many to be a core component of the internationalisation concept and the choice of the correct mode is critical to the success of an EMC (Andersen 1997). As discussed in Chapter 1, only FDI will be considered in terms of MNC expansion. FDI includes setting up joint ventures, establishing new subsidiaries, as well as partaking in mergers and acquisitions (“M&A”) activities (Hill 2011).

Andersen (1997) notes that 4 schools of thought are commonly used to understand the entry mode decision, namely the internationalisation model (Johanson and Vahlne 1977), discussed below in **Section 2.6**, the transaction cost approach (Gatignon and Andersen 1988), the eclectic or OLI framework

(Dunning 1981), discussed below in **Section 2.5** and the organisational capability perspective (Madhok 1997). The various discussions in this study will illustrate that the internationalisation model is not relevant for the expanding EMCs, which tend to springboard (Luo and Tung 2007) and leap-frog (Boisot and Meyer 2008) as they internationalise, particularly when entering DMs. Likewise, the transaction cost approach (whereby decisions are motivated by cost minimisation) is only relevant to EMCs in terms of their potential search for scale economies (Ghymn 1980), or institutional arbitrage (Boisot and Meyer 2008). It is unlikely that EMCs internationalise in search of lower labour or other production costs, as is the case with many DM MNCs that expand into EMs (Ghymn 1980). Lastly, the organisational capability perspective focuses on the value of the MNCs capabilities (Andersen 1997). According to Rugman and Verbeke (2005), successful exploitation of international opportunities requires a match with a MNC's internal capabilities. The relevant inference is that MNCs should only pursue entry modes (and moreover, international expansion in general), if they possess the requisite capabilities to do so. Unfortunately, there is also the danger of management misperceptions of a firm's capabilities, as well as cognitive bias (Thomas *et al* 2007), discussed further in **Section 2.8.14**.

The M&A approach appears to be the favoured option, most likely in part due to the speed with which it can be executed (Sauvant 2005). Kumar (2009) also noted that EMCs from the likes of China, Russia and SA have used M&A as part of their main globalisation strategy. Sauvant (2005) specified that entry via M&A by Indian MNCs has become increasingly popular, particularly when entering DMs. Moreover, with respect to Russian and Chinese MNCs, M&A is also the favoured approach. However, when it comes to Brazilian firms, he states that greenfield projects appear to be the preferred entry mode, although they are also engaged in M&A transactions. This makes sense in light of the accelerated levels of internationalisation followed by EMCs (Bonaglia *et al* 2007) and may also be the most appropriate given their late-comer status to DMs. Salehizadeh (2007) refers to the new trends whereby EMCs have utilised FDI to expand their markets and often gain a competitive advantage over their first world counterparts. To some extent, the noted approach to internationalisation has also been facilitated by the fact that many EMCs have large supplies of cash on their balance sheets, outcomes of operating in home markets with very high growth rates (Kumar 2009). The same author also noted that the recent financial crisis, discussed in **Section 2.2.2**, has made the valuations on companies in DMs more attractive to EMCs than ever before and as a result, we should expect this trend to continue in light of the current global climate.

M&A has generally been the preferred mode of entry over the past twenty years (UNCTAD 2010). Through the global financial crisis, the marked reduction in FDI was mostly due to a reduction in cross-border M&A (UNCTAD 2010). Furthermore, as FDI activity began to pick up in 2010, there appeared to be more dynamic growth in M&A activity than other entry modes.

Interestingly, in the M&A space, from 2008 to 2009, there were decreases in sales and purchases for DMs, as well as for sales by EMs. However, there was an increase in cross border acquisitions by EMs (UNCTAD 2010).

Not surprisingly, it has been noted that the springboard approach (Luo and Tung 2007) and accelerated internationalisation (Bonaglia *et al* 2007) of EMCs on the global stage has been enabled by means of aggressive acquisitions, which would logically infer a preference for M&A by EMCs. As a result, for purposes of this study, the focal modes of entry are those that qualify as FDI.

2.5 Drivers of international expansion

The Investment Development Path ("IDP") model, developed by Dunning (1981), provides theoretical insight into FDI. The model predicts that as a country's level of economic development increases, its net outward investment position (being the difference between outward and inward investment) is first negative, then moves to positive and later hovers around zero as the country progresses to being a fully developed economy. From this model, it is clear that young EMs are more likely to receive FDI than to make FDI, however, as their economies develop further, their MNCs begin to undertake outward FDI, becoming active investors in the global economy. Based on the IDP model, it is clear that a country's level of development can also drive expansion by its MNCs.

The eclectic paradigm, also known as the OLI framework, seeks to explain international investment and production, in the context of three factors, which are ultimately the source of advantage: ownership factors, location factors and internalisation factors (Dunning 1981; 1988). Ownership factors or advantages are those firm-specific advantages, usually in the form of assets, sometimes specific to the nature or nationality of ownership, which enable the MNC to overcome the costs of setting up operations in a foreign country (Dunning 1988). He explains that location advantages relate to where foreign operations are set up, the advantages specific to those locations and are influenced by factors such as trade barriers, relative costs, regional trading blocs or investment treaties and exchange risks. Further, internalisation advantages relate to considerations around whether MNCs should transfer their ownership advantages across borders within their own organisation, or rather sell or rent them to foreign-based organisations, for example through export or licensing. Internalising firm activities across borders enables potential economies of scale and scope (Bonaglia *et al* 2007).

When it comes to FDI, typical investors may either be motivated by market-seeking, resource-seeking, strategic asset-seeking or efficiency-seeking (Dunning 1993). As reflected on by Buckley, Clegg, Cross, Voss, Rhodes and Zheng (2008) and Dunning (1993), this behaviour is described as follows: Market-seeking relates to the desire to expand a MNC's market, as evidenced by its number of customers, either by targeting a consumer population, or one with large growth potential. Resource-seeking relates to a need or desire by MNCs to secure the supply of key resources, often natural resources. Strategic-asset seeking would include the need to obtain key technologies, knowledge, managerial practice, brand names, distribution networks or other proprietary assets. While lastly, efficiency-seeking is generally underpinned by a desire to reduce costs, often in the manufacturing or research and development ("R&D") space. According to Sauvant (2005), on the other hand, a firm internationalising can be driven by cost-savings, economies of scale, linkages to improved assets and resources, a larger financial resource base, access to larger markets and resilience to locational shocks in specific business environments.

The theory and drivers discussed in the aforementioned paragraphs are general in nature. However, EMs typically face significant barriers in efforts to create internationally competitive firms (Globerman and Shapiro 2008) and these barriers may be even more severe when entering DMs.

Due to the heterogeneity of EMC's, there can be wide variety in the drivers of their internationalisation (Goldstein and Pusterla 2010). Generally speaking, these drivers are either classified as push or pull factors, referring to home country conditions and host country opportunities respectively (Goldstein and Pusterla 2010). These factors and drivers usually fit into the categories of production costs, government policies, local business conditions, or market and trade conditions (UNCTAD 2006).

At the root of most drivers for expansion is the underlying desire to increase profits, through lower costs, higher revenues and/or overall risk diversification (Boddewyn 1985). Expansion into the first world especially can provide an EMC with much needed diversification in its business and strategically would enhance the firm's risk mitigation due to potential instability in the home market (Ghymn 1980; Goldstein and Pusterla 2010). SABMiller and Anglo-American are well-known examples of companies that moved significant operations offshore as part of a diversification and risk mitigation strategy (Boisot and Meyer 2008). Geographic diversification reduces risk as follows: multiple exchange rates can reduce cash flow volatility, asynchronous business cycles between different countries can cushion against regionalised downturns and multiple production locations can improve flexibility and enhance assurance of uninterrupted supply (Contractor 2007).

As noted in Chapter 1, the OLI framework is based on the experiences of large DM MNCs (Goldstein and Pusterla 2010). Some researchers may logically question its applicability to EMCs. In fact, Bonaglia *et al* (2007) note that many EMCs internationalise in order to build their advantages and resources, a reversal of the perspective emanating from the OLI framework, which suggests firms utilise existing advantages to launch an offshore expansion. This is backed up by Luo and Tung (2007), who note that EMCs make rapid acquisitions into DMs in order to enhance their critical resources, rather than to exploit existing assets as predicted by conventional MNC theory.

In considering specific EMCs' need to invest abroad, Cantwell and Barnard (2008) refer to those firms' search for created assets in DMs. They go on to consider the motives being either the search for new markets or the search for new competencies and capabilities (Cantwell and Barnard 2008). Generally speaking, it is logical to expect that DMs would be home to some of the most well developed competencies and capabilities.

Cantwell and Barnard (2008: p81) reflect further as follows:

> "FDI in the developed world seems to be the preserve of the most powerful developing-country firms and those firms often engage in OFDI in order to assume global leadership positions in their respective industries."

Luo and Tung (2007) take the view that EMCs use global expansion as a springboard to obtain strategic resources as well as to reduce constraints inherent in their home markets. Specifically relating to EMCs, Khanna and Palepu (2010) identify drivers as including, *inter alia*, new customer bases, innovation hubs, scale and stretch opportunities, the latter referring to the ability to learn new things not possible in the home location. Salehizadeh (2007), on the other hand, believes the primary motivation for EMCs undertaking FDI has been market-seeking.

Khanna and Palepu (2010) cite another potential driver for expansion, particularly into DMs, being the will of EMCs to better defend their home markets. Their point relates to the fact that many EMs are being targeted by MNCs from DMs. Hence in order to better defend their home markets, EMCs go into DMs to better learn about their foes and how to compete with them. Following on a similar line of thought, Sauvant (2005) believes many EMCs are forced to internationalise, in order to be competitive, as the foreign competitors entering their home markets have already done so and therefore have attained higher levels of firm competitiveness. A further related observation is that when EMCs are forced to compete against DC MNCs, by virtue of the fact that such entities enter the home markets of EMCs, they gain experience, confidence and even develop new capabilities, which ultimately can contribute to international expansion, particularly into DMs (Luo and Tung 2007).

In many instances, internationalisation by EMCs, especially into DMs, has been driven by the pursuit of natural resources and established global brands, rather than to exploit capabilities and advantages developed in the home market (Boisot and Meyer 2008). Goldstein and Pusterla (2010) indicate that when EMC's enter DMs through acquisitions, they typically target companies with strong brands and mature market presence, a strategy referred to as buying-in by Luo and Tung (2007).

A further potential driver and ancillary benefit of entering DMs is the strengthening of the brand and attaching of a premium thereto within the home EM and likewise in other EMs (Khanna and Palepu 2010).

In contemplation of the internationalisation of Chinese firms, Boisot and Meyer (2008) believe strategic exit from the home market rather than strategic entry into a foreign market might also be a key motivator. In this regard, they refer to the notion of institutional arbitrage, essentially moving away from the institutional voids and constraints in their home EMs for those in DMs.

2.6 Process of internationalisation

The Uppsala internationalisation model, in contrast to the OLI framework, expects MNCs to enter new countries incrementally and in distinct stages (Johanson and Vahlne 1977; 1990), gradually committing more resources as experience and learning is enhanced with time (Rugman and Verbeke 2004). The observed behaviour of EMCs seems to fly in the face of this theory too, through their accelerated internationalisation approach (Bonaglia *et al* 2007; Luo and Tung 2007).

A potentially more appropriate school of thought relates to the idea of born-global firms, being those that internationalise early (Rialp, Rialp and Knight 2005) and seem to operate in contrast to the staged internationalisation theory (Fan and Phan 2007). Although studies in the area have not focused on EMCs, the concept fits with the accelerated internationalisation observed in EMCs by Bonaglia *et al* (2007). Fan and Phan (2007) note that a firm's decision to internationalise early is driven by its home market size (*vis-a-vis* offshore markets), production capacity and the economic forces affecting the more traditional-minded internationalising firms. The authors further consider that the potential keys to success of an early and fast-paced internationalisation lie in two areas, namely the prior exposure and experience of founding management (discussed in **Section 2.8.8**), as well as the learning capacity and abilities of the organisation (discussed in **Section 2.8.14**). Naturally, a "global mindset" would also need to be inherent in a born-global organisation, a trait that many consider to be a source of sustainable competitive advantage in the global market (Levy, Beechler, Taylor and Boyacigiller 2007: p231).

Barkema and Drogendijk (2007) draw a distinction between two strategies that can be followed by MNCs, namely exploitation, which involves utilising the company's existing knowledge base and taking incremental steps as with the Uppsala Model, and exploration, which involves a departure from the existing knowledge base, by taking larger, riskier steps in their internationalisation. The former approach ties in with some literature on regionalisation theory (Rugman 2000), stating that MNCs will tend to expand into countries that are culturally near what they know. The latter approach tends to agree with recent observations made with respect to the accelerated expansion of EMCs (Bonaglia *et al* 2007; Luo and Tung 2007; Boisot and Meyer 2008). Expansion by EMCs into DMs certainly qualifies as the pursuit of an exploratory strategy. Barkema and Drogendijk (2007) further point out that firms following an exploitative strategy generally enhance short-term performance, whilst those taking an exploratory approach, in particular at an early stage of internationalisation, often sacrifice short-term performance, but significantly enhance their learning and knowledge base, which ultimately better positions them for future success. As noted by Morgan and Fai (2007), underlying sources of competitive advantage have moved away from tangible assets toward intangible ones such as knowledge and skills.

2.7 Destination of foreign direct investment

Buckley *et al* (2008) identified a number of variables that can impact on MNC (specifically China-based) decisions regarding investment destinations. These included, *inter alia*, geographic distance, political risk, market size, relative changes in purchasing power parity, relative changes in exchange rates, inflation rates, level of market openness, exchange controls, level of natural resource endowments, membership of the World Trade Organisation ("WTO"), existence of bilateral investment treaties, multilateral investment treaties and double tax agreements.

Traditional internationalisation theory also takes the view that firms will initially enter foreign markets where the liability of foreignness (Hymer 1976) and the psychic distance (both of which carry costs) are perceived to be low (Luo and Tung 2007). These concepts refer to the lack of similarity and familiarity with home markets in relation to, *inter alia*, culture, language, religion, legal and political systems. This would also explain why some researchers have argued in favour of a regionalisation approach to internationalisation (Rugman 2000). UNCTAD (2010) also noted that some firms from Brazil, Russia, India and China initially started their expansion in their own regions, in particular within countries with close cultural links. Rugman (2008) further points out that EMCs that expand internationally tend to be home-region based, not unlike MNCs from DMs. Monkiewicz (1986) also referred to the clear intra-regional concentration with regards to EMCs. This may be partly explained by inter-governmental treaties within certain regions that facilitate and incentivise economic activity (Rugman and Verbeke 2005). Alternatively, it would appear that the advantages identified by Dunning (1981) in terms of the OLI framework would need to outweigh the costs associated with psychic distance and a liability of foreignness (Hymer 1976) in order to undertake long distance expansion.

Dunning *et al* (2008) posed the question as to whether EMCs tend to focus their international investments primarily on other EMs or DMs. In part answering the question, they identified 4 distinct historical waves characterising the geography of previous outward FDI by the EMCs, as follows:

- First Wave: Mainly other EMs within the same region
- Second Wave: Attracted more to DMs
- Third Wave: Increasing share of FDI returned to home regions
- Fourth Wave: Increasingly toward DMs, for new reasons

Some researchers see only 3 waves, effectively combining the third and fourth waves noted above (Gammeltoft *et al* 2010). Furthermore, they describe this third wave as yielding more advanced organisational and structural forms of EMCs.

The fourth wave forms the basis for this study. This phenomenon was described as the prey becoming the predator by Roy (2005), specifically referring to EMCs targeting firms in North America and Europe. With reference to M&A activity, Cantwell and Barnard (2008) note the increasing importance of DMs as a host location for EMCs.

EMCs entering DMs would be viewed by Kim and Mauborgne (2004) as pursuing a red ocean strategy, as they are entering existing markets, where competition is rife and the rules of the game are well defined. This strategy may seem counterintuitive and certainly the same authors would argue in favour of blue ocean strategy, which entails seeking out new markets with little or no competition. However, as indicated in **Section 2.5**, EMCs may have unique requirements that drive such an approach. Despite the general sense that entering DMs constitutes red ocean strategy, some EMCs do target underserved niches in those markets, specifically those where their unique capabilities can be exploited (Khanna and Palepu 2010). A key benefit from this approach is noted by the same authors, being the time and ability to learn about the DM before committing further resources.

Nevertheless, it is certainly difficult for EMCs to compete in DMs, where the world's top firms reside, partly due to the presence of institutional voids in their home environments (Khanna and Palepu 2010). Thomas *et al* (2007) state that EMCs entering DMs are in fact at a double disadvantage, firstly due to the usual cost of entering a foreign market and secondly due to the presence of resource-endowed, established, first world firms.

Hill (2011) refers to first-mover advantages, being the advantages accruing to early entrants in a market, such as brand loyalty and experience, as well as late-mover disadvantages, which are the handicaps late-entrants can suffer due to entering the market late. EMCs that enter DMs are clearly late-entrants into those markets. Moreover, it makes intuitive sense that such late-movers would be at serious disadvantages. In contrast though, Bonaglia *et al* (2007) suggest that many of these EMCs have actually been able to capture advantages associated with being late-entrants, which include new prospects for linkage, as well as leverage of knowledge and market access, which have arisen out of the globalisation phenomenon. The same authors further point out that this late-comer status may partly explain the accelerated levels of internationalisation observed with EMCs.

Luo and Tung (2007) suggest that EMCs overcome their late-comer disadvantage through aggressive acquisitions of critical assets from DM MNCs, a subject discussed in **Section 2.4**.

However, as has already been indicated in this report, EMCs do not necessarily follow the conventional theories with regards to internationalisation. As noted by Luo and Tung (2007), many EMCs do not shy away from psychic distance, as evidenced by early ventures being into DMs, considered to be highly psychically distant to many EMC home environments. The same authors note further that EMCs overcome psychic distance and liabilities of foreignness through acquisitions, in order to obtain knowledge and resources, as well as by use of host country experts, to improve processes such as organisation and management.

A further consideration is that FDI into DMs by EMCs is not always well received, as noted by Salehizadeh (2007), with reference to previous cases of United States rejection of FDI inflows from China and Dubai, or by Boisot and Meyer (2008), with reference to the political opposition encountered in Canada by a Chinese consortium's bid for the metals and mining company Noranda. This sort of resistance is likely to worsen in the aftermath of the global financial crisis, as local job protection issues continue to be raised by American politicians. Indeed, EMCs may face increased barriers to entry in terms of levels of bureaucracy and red tape associated with DM competition and antitrust authorities (Salehizadeh 2007), simply window-dressed as such to cover local political and social concerns.

2.8 Specific areas critical to international success

Critical success factors are those elements that are central to future success, or aspects that a company must do well in order to be successful (Cambridge Dictionaries Online 2011). The following subsections consider key areas not previously identified from which critical success factors might be derived based on existing literature.

2.8.1 *Corporate brand management*

Kotler and Keller (2009: p659) refer to "country-of-origin perceptions", being the attitudes, beliefs and mental associations triggered by a specific country. Goldstein (2008) points out that if people have a negative perception of a country, they will generally carry a negative perception of MNCs based in those countries. Despite having a well established brand in an EM, unfavourable perceptions by local customers in DMs of EM offerings can negate any pre-existing brand value (Lovallo and Kahneman 2003).

The idea of corporate brand management encapsulates a number of concepts, such as corporate image, corporate identity and corporate reputation (Siso, Bick and Abratt 2009). It is considered to be one of the most important drivers of stakeholder value (Hawabhay *et al* 2009). Its key objective is to create a favourable perception of the company by all potential stakeholders (Siso *et al* 2009). Two crucial stakeholders include the financial community, as well as current and future employees (Einwiller and Will 2002). As shall be indicated elsewhere in this literature review, access to financial resources and hiring of well-regarded local talent are also key success factors in expanding into DMs, indicating how this success factor is inextricably linked to others. As a result, it can be inferred that successful active management of the corporate brand can be critical to EMCs entering DMs, particularly in instances where the country of origin carries a negative disposition by those in the first world.

In managing the corporate perceptions of an EMC, it is important to have good records of corporate responsibility and citizenship (Hall 2008). The same author points out how at times, revelations of human rights violations, corruption or human exploitation have tarnished the reputations of EMCs. That being said, she acknowledges that a large proportion of the world's EMCs have embraced the United Nations Global Compact initiative, thereby elevating their corporate citizenship status, a key imperative when transacting in DMs. Such action would certainly assist in managing some key external stakeholder relationships, for example with first world governments, also a key success factor as described below in **Section 2.8.10**.

Goldstein (2008) notes the potential for general underlying fear with regard to EMCs amongst stakeholders in DMs. She further considers how this fear can manifest in high levels of red tape and bureaucracy, resulting in unnecessary costs and delays, something less likely to occur when companies are well established and carry a reputation of trust. In addition to the concerns indicated above, she highlights questionable corporate governance practices, low regard for minority investors, ties to host country governments and issues of national security as other potential adverse drivers of this fear. Globerman and Shapiro (2008) point out that the state of corporate governance in EMs can be an important factor affecting the success of EMCs based in those locations. This subject is considered in section **2.8.9**. It is partly for this reason that many EMCs seek listings on first world stock exchanges (Khanna and Palepu 2010) and abide by international standards of corporate governance, accountability, transparency, social responsibility and accounting, out of necessity, as well as to eliminate these fears amongst stakeholder groups (Goldstein 2008). The hiring of local management, a key factor as indicated below in section **2.8.8**, can also assist in eliminating corporate governance issues.

2.8.2 *Marketing and foreign customers*

Customers and markets are likely to differ from country to country. MNCs need to potentially customise their marketing efforts accordingly. According to Mujtaba and Patel (2007), McDonalds, in their internationalisation efforts, customise their marketing strategies in accordance with cultural and national variations, while at the same time keeping certain aspects of the offering to a global standard, referred to as a “glocal strategy” by Kotler and Keller (2009: p662). One of the sample companies in this study was Nandos Group Holdings (Pty) Ltd, also a fast expanding international food chain. Such companies need to go as far as possible to cater to the diverse customers in various markets. In order to get this right, significant research may be required on the part of the MNC.

Foreign marketing knowledge, which includes understanding host country customers, their nuances and expectations, is viewed as a key knowledge resource for an internationalising firm (Yu, Gilbert and Oviatt 2008). Building such knowledge is often a component of a greater due diligence exercise. Khanna and Palepu (2010) see first world consumers as highly demanding, whilst D’Andrea, Marcotte and Morrison (2010) note that first world consumers across all income segments are generally sophisticated and knowledgeable about retail offerings. They elaborate further that EM-based consumers may not have the same levels of knowledge and sophistication. As a result, it can be inferred that MNCs across the globe need to understand the differences between consumers in different markets, in order to be successful. Interestingly, the same authors point out that it has been the first world MNCs that have been sluggish to understand consumers outside of their base markets. Nevertheless, the principles apply equally to EMCs entering DMs and now more than ever, EMCs are realising they need to serve and win customers in DMs in order to become truly global (Luo and Tung 2007).

One cause for concern is that in some cases, management of EMCs may falsely assume that their interactions with DM firms through various alliances in home markets will have prepared them sufficiently for understanding DM customers and their expectations (Thomas *et al* 2007).

2.8.3 *Adapting to the local environment*

EMCs need to take significant action in order to reduce their liability of foreignness, particularly in DMs, as simply employing inward investment will be inadequate (Luo and Tang 2007). It has been noted that the most successful EMCs have aligned their businesses with the institutional contexts of the host markets (Khanna and Palepu 2010).

2.8.4 *Financial management*

According to Hill (2011), good practices of financial management can be a source of competitive advantage. He sees the concept as encompassing a number of different areas such as investment decisions, financing decisions, cash flow management, budgeting and the mitigation of risks associated with differences in foreign exchange rates, regulations and tax regimes. The recent global financial crisis and the associated outcomes such as limited access to bank funding and volatile exchange rates gave a clear illustration of the risks that sound financial management should seek to mitigate.

As noted previously in this literature review, companies like SABMiller relocated operations offshore, partly due to financial management reasons such as, *inter alia*, weaker capital markets in SA and a depreciating local currency (Khanna and Palepu 2010). The same authors point out that entrance into DMs is a costly endeavour. Further, one of the reasons why EMCs experience difficulties in competing in DMs is due to potentially limited access to expansion capital. Despite often having cash-flush balance sheets, as noted by the same authors, this certainly would not be the most efficient way to finance entry into a foreign market. The authors continue that such MNCs often take burdensome debt onto their balance sheets in order to finance their cross-border M&A activity. Given this propensity to take on gearing, it is critical that EMCs establish and maintain a credible corporate standing in international capital markets (Salehizadeh 2007), in order to ensure availability of funds, as well as good interest rates or yields. Moreover, it can be inferred that they also need to take care not to overpay or accept unrealistic premiums on acquisitions of first world assets, a concern touched on further in **Section 2.8.12**.

2.8.5 *Organisational structure and design*

John Stopford (1999) has observed that some MNCs gain advantage through having a flexible organisational structure. He notes further that some of these MNCs have organisational hierarchies that facilitate the development and deployment of intangible assets and human resources. Moreover, if structure enables better and more efficient responses to customer needs, for instance through the development and linking of expert teams in various geographic locations, in a sense they are achieving economies of scale at a corporate level rather than at a production level. Rugman and Verbeke (2005) suggest that in the context of internationalisation, management should engage on the internal design of the organisation, specifically considering issues on how to structure the foreign subsidiary network. They see this mindset as contributing to cost reduction and hence enhancing efficiencies across foreign operations. In addition, appropriately crafted structure and design can facilitate the spill-over effects mentioned in **Section 2.8.14**. Structure and design can encompass a number of components, including, *inter alia*, management structure, reporting systems and financial benchmarks.

Under the new landscape of a highly integrated world economy, global competition and an ever increasing pace of change in technologies and markets, Luo and Tung (2007) view flexibility, innovation and speed, concepts facilitated to a large extent by the structure and design of an organisation, as keys to success for an internationalising firm.

2.8.6 *Competitor analysis*

Performing a competitor analysis is considered to be a central part of any strategic initiative (Chen 1996; Tsai, Su and Chen 2011), particularly in relation to a new market. Such an analysis is often incorporated into a due diligence exercise. It has been noted that EMCs might presume erroneously that the DM firms they encountered in their EM homes will behave similarly, or yield the same level of capabilities and resources, in their home DMs (Thomas *et al* 2007). It can be inferred that underestimating the competition in a market, in particular in a DM that is likely to be mature and competitive (Thomas *et al* 2007), may be a recipe for failure.

2.8.7 *Regulatory environment*

In considering the consequences of FDI flows from EMs to DMs, Goldstein (2008) highlights the adaptability of non-OECD investors to the OECD policy environment as a potential issue.

Morgan and Fai (2007) note that regulatory influences can emanate from a number of different levels, from supra-national, such as the European Union or WTO, to regional, local or city council. Meyer (2004) highlights the institutional framework of a host country as being of key influence to any MNC's entry and subsidiary strategies. He sees the institutional framework as including, *inter alia*, the local labour law, environmental, competition and industry-specific regulation. It is indeed logical to presume that the level of regulation in DMs would be more extensive than that in most EMs. In considering the expansion of Israeli company Teva into the United States, Khanna and Palepu (2010) noted that mastering the local regulatory environment was key to that company's success in the United States.

Dorris and Rosener (2003) point out that one of the secrets to international success is to know your legal rights, as well as the lack of rights, peculiar to foreign countries. Ebert, Hafez and Setu (2011) discuss, *inter alia*, the management of regulatory risk exposure and state that proactive management thereof tends to be financially beneficial for MNCs. Das (1981) also highlights the importance of compliance with regulations in regards to strategy formulation.

As can be seen, understanding and managing the regulatory environment of a foreign country can be critical to success. This is particularly true when entering a DM, as one would expect the levels of regulation to be highest in those markets. To a large extent, the use of local experts, professional firms and staff (discussed in **Section 2.8.14**) will assist to manage the risks associated with the regulatory environment.

2.8.8 *Management*

This segment will address multiple management considerations, including the abilities/traits of management, the decision on whether to utilise local management or expatriates and the overarching requirement for strong and effective leadership.

Fan and Phan (2007) and Sauvant (2008) highlight the importance of experienced management, preferably with prior exposure to global business, in achieving success with early and/or fast internationalisation. Further, Khanna and Palepu (2010) and Levy *et al* (2007: p244) note the importance of MNC management maintaining a global mindset, defined by the latter authors as follows:

> “A highly complex cognitive structure characterized by an openness to and articulation of multiple cultural and strategic realities on both global and local levels and the cognitive ability to mediate and integrate across this multiplicity.”

The same authors also point out that a global mindset is a necessary management trait in dealing with the uncertainty, complexity and cultural diversity inherent in the global marketplace.

a. ***Local staff***

When companies enter a new market, they generally need to make decisions regarding the level of local staffing versus expatriates. To a large extent, this decision can hinge on the nature of the business and scale of the operation. However, Luo and Tung (2007) point out that EMCs have been noted to use local talent for host market senior management in DMs. Furthermore, they stress that expatriates may not be qualified for the nuances of the host market, particularly if this is a DM, or may not be accepted by the local customer or investor base. As noted by Mujtaba and Patel (2007), McDonald’s strives to hire local management in new markets, to facilitate acceptance in the country, as well as circumventing levels of bureaucracy.

b. ***Leadership***

MNCs require leaders able to transfer the firm’s skills, processes and technologies into foreign markets so as to extract value (Waldron 2008), abilities facilitated by international experience. Moreover, the characteristics of the leaders and their management teams have a large impact on the processing and final outcome of an expansionary transaction (Erez-Rein, Erez and Maital 2004).

2.8.9 *Corporate governance and citizenship*

Global stakeholders generally perceive the corporate governance of EMCs as weak (Luo and Tung 2007). Hall (2008) notes that awareness and interest in corporate responsibility by the majority of EMCs is lacking. There has also been much discussion about bribery and corruption in EMs (Stiglitz 2008). This implies that EMCs need to work extra hard to create a positive corporate image and brand, as noted in **Section 2.8.1.** Part of this exercise would include elevating an MNC’s status in terms of social and environmental reporting (Rugman and Verbeke 2005), further contributing to its corporate citizenship and creating ties with a variety of external stakeholders. Trustworthiness is considered by many to be a source of competitive advantage and would likely be of particular importance when dealing with firms from recently liberalised

EMs (Barney and Hansen 1994). Although it is likely that this would not create an advantage in a DM, but would merely place the EMC on the same footing as their first world competitors. It is interesting to note that leading SA companies, such as Sasol (included in our sample), make use of Global Reporting Initiative indicators to report on corporate social practices (Hall 2008).

Some EMCs might hire top international executives and place them in top positions within the firm, even on the board or supervisory committees of the home country firm (Luo and Tung 2007). Another possibility is to seek a local listing in the DM, as this would require the firm to meet local listing standards of accounting, finance and governance (Salehizadeh 2007; Luo and Tung 2007), also improving transparency and disclosure. This course of action has been taken by some of the South African EMCs included in the sample for this study, such as Investec Bank and SABMiller. Added benefits of first world listings include the attraction of both customers and local talent (Khanna and Palepu 2010), also key drivers of success. However, the EMC would need to develop its ability to work with global shareholders, in particular investors such as hedge funds (Salehizadeh 2007). This is especially pertinent given that many EMCs have majority national ownership (Monkiewicz 1986) and hence are not used to investors from other countries, in particular those of DMs.

The concept of “borrowing developed market institutions” (Khanna and Palepu 2010: p17), which includes, *inter alia*, use of local experts, financial institutions, equity markets or patent and other regulatory systems, is considered a key aspect for survival in DMs, in particular in its ability to build credibility and further contribute to overcoming any institutional voids from the home market straining the operations of the EMC.

2.8.10 *Management of external stakeholders*

An important consideration derived from **Section 2.8.9.** is the management of a wide array of stakeholders, many of which are external. The financial community were considered the most important stakeholder group amongst a sample of European listed companies (Einwiller and Will 2002). Thereafter, priority was assigned to customers, employees and journalists. Other stakeholders might include, *inter alia*, government, unions or other public interest and rights groups. These stakeholders have the potential to affect the performance of an EMC in a DM and hence require careful management.

2.8.11 *First world technology*

Monkiewicz (1986) noted that technology acquisition and technological transformation were critical factors in the survival and sustainability of EMCs in international markets. He further observed that EMCs tend to affiliate themselves with host country technological leaders. This course of action would further build on the corporate reputation of an EMC in a DM, the importance of which was discussed in **Sections 2.8.1.** and **2.8.9.**

2.8.12 *General mergers and acquisitions guidelines*

Luo and Tang (2007) make further suggestions that tend to be in line with M&A theory, in particular with regards to planning as well as post-M&A considerations. Conflicts rooted in corporate cultures, incentive schemes, leadership approaches and managerial philosophies can commonly arise. They further refer to the need for a special team with responsibilities covering post-expansion integration and co-ordination. Their planning activities cover such elements as the global resource flow and product flow systems, efficient cross-border reporting and information flow, as well as how to ensure that foreign country operations' decisions are consistent with the home country operations' interests.

Corporate culture clashes can be exacerbated when an EMC is party to an M&A, as in such cases the two companies may originate from substantially different market contexts (Khanna and Palepu 2010). This would necessitate a great deal of sensitivity in implementing such transactions.

Luo and Tung (2007) indicate that many DM firms are happy to sell off brands or business units so as to cash in on slow-growing businesses. This willingness to let go of assets by DC firms may be exacerbated by the global financial crisis where many firms are in financial difficulty. Based on this willingness to sell and the noted desire by many EMCs to make first world acquisitions, at an accelerated pace, it can be inferred that there is significant risk of EMCs being too hasty in their decisions, neglecting high levels of due diligence, or potentially overpaying for first world assets, which can put high levels of stress on a company, given that most acquisitions are funded to a large extent by debt, as noted in **Section 2.8.4.**

It is imperative that EMCs have clear objectives for expansion plans, particularly when entering DMs (Khanna and Palepu 2010). The same authors also highlight the importance of not necessarily rushing into DMs and considering all the potential opportunities elsewhere first.

2.8.13 *Exit strategy*

Inherent in any potential FDI action is the potential for failure. Moreover, changes in the host country business environment or even a weakening in the investor company's financial condition are also a realistic consideration, particularly against the backdrop of the global financial crisis discussed previously. The result of such considerations is that divestment from any FDI action may become an economic necessity. Boddweyn (1985) refers to a number of potential causes of foreign divestment by international firms, such as poor financial performance by the foreign operation, weak pre-investment analysis, lack of fit, lack of resources and adverse environmental conditions. It can be inferred from the above that planning for a potential divestment should be incorporated into any FDI action plan. Michael Porter (1976) highlighted the importance of considering the unpleasant contingency of strategic failure. With reference to the possibility of divestment, he identified three classes of exit barriers, namely structural, corporate strategy and managerial. He clearly points out that it is crucial to understand and plan for exit barriers, in the event that a divestment is required. Whilst some of these barriers will be inherent within an organisation, others may be peculiar to the host environment. For example, given that levels of regulation can be expected to be highest in DMs, there may well be exit barriers rooted in regulation, in the form of potential cost outlays, that need to be considered and planned for. Porter's (1976) discussion on exit barriers and planning highlights the importance of an exit strategy.

2.8.14 *Learning and experience*

Delios and Henisz (2000) consider international experience to be very important in a MNC's market entry. Thomas *et al* (2007) found that experiential resources affect the likelihood of an EMC's entry and success in DMs. More specifically, they see the experiences drawn on to include alliance interaction with first world companies, previous failures in DMs, as well as number of prior entries into DMs. The authors caution, however, that firm experience can be strongly impacted by managerial perception of those experiences, introducing a level of cognitive bias which should be considered. Moreover, management's misperceptions regarding the firm's capabilities and resources can lead to failure in a DM.

A large portion of a firm's experience will lie with its management, highlighting once again the potential value added, in particular with reference to fast-pace internationalising firms, by strong management with previous exposure and experience in the global marketplace (Fan and Phan 2007), reiterating points made in **Section 2.8.8.**

Salehizadeh (2007) considers experience to be another trait that many EMCs will be lacking, in particular with reference to entry into and survival in DMs. Experiential learning, a critical component of the basic Uppsala internationalisation model (Rugman and Verbeke 2004) discussed in **Section 2.6**, is considered most important when firms are newcomers to international markets, as is the case with many EMCs (Thomas *et al* 2007). Unfortunately, experience cannot be purchased or attained through short-cuts – it is built through a process of learning by doing (Barkema and Vermeulen 1998). A key concern here relates to the noted accelerated internationalisation of EMCs and their springboard approach, which may impact negatively on EMCs' abilities to build an experience pool to draw from in their internationalisation efforts (Luo and Tung 2007). They noted further that experience in this context also relates to approaches to dealing with external stakeholders in the host market, discussed in **Section 2.8.10**, an element that can mean the difference between success and failure in a first world market. It is for this reason, that they see it critical that EMCs engaged in M&A in DMs evaluate potential target firms' human capital, alluded to in **Section 2.8.8.** in regards to local staffing, as these resources can add critical value to the host market experience pool.

Following from the above, Nadolska and Barkema (2007) agree that experience gained from international acquisitions can influence the success rate of future M&A activities. Kumar (2009) observed how India's Hindalco learned from each acquisition and utilised each piece of experience as a stepping stone to its next acquisition. However, they urge caution as the value of such experience might depend on the similarity of past acquisitions with future ones. In this light, they urge companies to learn which parts of their knowledge should be applied to future acquisitions and which should not, as there may be elements of bias that can arise. Lastly, they highlight that gearing the organisation to learn, as well as develop knowledge and routines, is a key factor for success in foreign expansionary activities.

As mentioned above, Thomas *et al* (2007) point out that failure by EMCs in DMs is a valuable source of organisational learning. They suggest that the EMC perform a detailed review following such failure, in order to specifically identify the reasons for failure and other pertinent factors. Thereafter, they suggest that management take steps to exploit and leverage this new knowledge and experience within the organisation, as this has been proved to enhance potential success of the EMC for future DM entries. The organisation should focus less on allocating blame for failure and focus more on the potential need to alter organisational culture and stimulate a "global mindset" (Levy *et al* 2007: p231). Naturally, not all EMCs will have failure experience, or any experience for that matter, in DMs. In that instance, they should endeavour to learn from the failure of industry rivals (Kim and Miner 2000), as this is an important knowledge base. The key concept is that the strength of knowledge-based resources is positively related to survival by an EMC in a DM (Thomas *et al* 2007).

EMCs can fill voids in professional and experiential knowledge through employment of host country-based staff (discussed in **Section 2.8.8.**), as well as utilising the services of locally-based leading professional firms (discussed in **Section 2.8.7.**), in areas of legal and accounting (Luo and Tang 2007). Moreover, EMCs should employ the necessary resources in order to learn from their older, first world counterparts, in particular regarding external threats in the local environment (Salehizadeh 2007).

An important potential advantage of undertaking FDI are spill-over effects, an aspect of learning, particularly when investing into DCs (Globerman and Shapiro 2008). Specifically, the authors refer to the potential for reverse flow of technological and managerial expertise, purely as a result of operating in a first world market, where such levels of expertise are expected to be at their highest. Kumar (2009) noted how India's Hindalco successfully learned from acquired company Novelis, particularly with respect to its processes. It can be inferred that EMCs need to be tuned in to the potential for these reverse flows and ready to learn from them, as they ultimately contribute to the knowledge and experience base of its global operations. A related concept is that of a "centre of excellence" (Frost, Birkinshaw and Ensign 2002: p997), usually a foreign subsidiary with certain capabilities that can create value throughout the global operations. The authors specify that the centre of excellence is influenced and developed by a number of factors, including the local environment. In the case of a DM, unique capabilities might be developed, which can hopefully be disseminated to other parts of the MNC, as with the spill-over effects noted above.

2.9 Critical success factors

The literature has generated the following critical success factors relevant to EMC expansions into DMs:

- Corporate brand management
- Understanding of local customers

- Customised marketing strategies
- Financial management and capital
- Organisational structure and design
- Understanding of legal and regulatory environment
- Experienced management team
- Management team with local complement
- Corporate governance and citizenship
- Management of external stakeholders
- Use of developed market technologies
- Clear objectives for the expansion
- An exit strategy
- Integration and corporate culture management
- Due diligence with high degree of care and accuracy
- Experience and learning

2.10 The most significant critical success factors

Erez-Rein *et al* (2004) identified and explained the key non-financial success factors (indicated in **Sections 2.10.1 – 2.10.6**) pertinent to cross-border acquisitions. As noted previously, the preferred entry mode by EMCs is that of M&A (Sauvant 2005; Kumar 2009), hence the literature is appropriate for this study. A summary of the key factors and related description as per the work of Erez-Rein *et al* (2004) is as follows:

2.10.1 *Business environment*

This can encompass a number of sub-factors, for example the regulatory environment or the nature of the local customer base. Nevertheless, all aspects of this environment would need to be taken into account as part of the due diligence process, mentioned in **Section 2.8.12**.

2.10.2 *Deal motive*

This refers to the goals and objectives for the transaction.

2.10.3 *Deal strategy*

This explores the structure of the deal and the preferred mode of entry. As discussed in **Section 1.5**, the focus for purposes of this study is FDI only, which encompasses greenfield investment and M&A. Moreover, as mentioned in **Section 2.4**, the preferred mode for EMC expansion into DM is that of M&A. As a result, this factor is not considered relevant for purposes of this study.

2.10.4 *Deal processing*

This hinges on effective management, culture integration and clear, consistent objectives for the transaction.

2.10.5 *Leadership*

This includes effective and experienced management teams.

2.10.6 *Culture*

This relates to both the culture of the company in question, as well as the culture of the nation into which the company enters, together with efforts for integration.

2.10.7 *Finance*

Erez-Rein *et al* (2004) point out that M&A literature is generally biased towards the financial aspects of cross-border transactions, which is partly why they chose to focus on the non-financial factors. Nevertheless, it can be inferred from this bias that the financial element is certainly considered by many to be one of the most important critical success factors.

2.11 The top 5 critical success factors

The 5 most important critical success factors ("top 5") for emerging market company expansions into developed markets include the following:

- Due diligence with high degree of care/accuracy
- Clear objectives/goals for the expansion
- Experienced management team
- Integration and corporate culture management
- Financial management/capital

2.12 Conclusion of literature review

It is clear from the literature that it is certainly not easy for an EMC to enter a DM, with a number of aspects that an EMC must accomplish in order to achieve success. With reference to EMC aspirations in DMs, Cantwell and Barnard (2008: p75) note the following:

> "To be successful in the developed world, increasingly sophisticated capabilities are needed – and they need to be continuously transformed, at a faster rate than most developing country firms can generally manage in isolation."

2.12.1 *Proposition 1:*

Critical success factors for emerging market company expansions into developed markets include those depicted in **Table 2**:

Table 2: Critical Success Factors

[redacted]

2.12.2 *Proposition 2:*

The five most important critical success factors ("top 5") for emerging market company expansions into developed markets include those depicted in **Table 3**:

Table 3: Top 5 critical success factors

[redacted]

3 RESEARCH METHODOLOGY

This chapter sets out the methodology that was used in order to conduct the proposed research. Firstly, the overall methodology is discussed, highlighting important assumptions that were made. Following this, the research design, sampling method and planned population are reviewed. Thereafter, data collection, analysis, interpretation and limitations are considered. Lastly, the validity and reliability is discussed.

3.1 Research methodology/paradigm

The study has made use of a mixed methodology in the gathering of sufficient data, including both qualitative and quantitative aspects, although with an underlying focus on qualitative research. High level thematic content analysis was utilised to organise the data into manageable parts enabling the key consistencies, specifically relating to the critical success factors, to be identified.

Qualitative research is considered to be well-suited to investigating complex issues, particularly when one is seeking detailed data and also excels at providing data that tells a story (Trochim 2006). Furthermore, qualitative methods often facilitate a deeper understanding of issues, focusing more on interpretation, meanings, people and experiences (Tewksbury 2009). Qualitative approaches are also more useful for discovering what may often be hidden or unknown factors or motivations (Hair Jr, Money, Samouel and Page 2007). The subject matter at the focus of this study is inherently complex, affected by a multitude of forces. Moreover, the key data obtained for this study is to a large extent based on the experiences of individuals within corporations, which required a relatively high degree of context, detail and understanding. Furthermore, certain success factors may not be apparent or obvious to the people involved and might remain hidden were it not for a qualitative approach. In addition, semi-structured interviews with key individuals were used in order to extract the required data, an approach that lends itself to a qualitative methodology. As a result, the researcher decided to adopt an underlying qualitative focus to the research. Nevertheless, the methodology also employed a quantitative angle to the study, through an exercise where the researcher assessed the frequency with which respondents identified critical success factors for inclusion in the top 5 most important critical success factors. This enhanced the research as it has been noted that there is significant value in mixing qualitative and quantitative approaches (Trochim 2006).

A key assumption inherent in the methodology was a reliance on the respondents to be truthful in respect of the data provided. Hair Jr *et al* (2007) highlighted the emphasis on respondents to be trustworthy as part of a qualitative approach. A further assumption made was that the respondents were of a sufficient level of seniority within the organisations or were close enough to expansionary activities into DMs in order to be able to provide meaningful data. This assumption was managed through the selection of individuals from each company. The researcher ensured that each individual was appropriately senior or close enough to the expansion to maximise value. This was evidenced by the fact that individuals included 4 CEOs, 3 CFOs, 4 directors of various focal areas, 3 non-director management members and one board chairman.

3.2 Research design

The research design was in the form of an interview-based, interpretive study, which facilitated the extraction of both factual and subjective insight from the respondents. Hair Jr *et al* (2007) noted that an interview approach is very useful when data may relate to sensitive or complex issues. Given the nature of the study, it was appropriate to make use of semi-structured interviews in order to extract the data, especially in light of the fact that a semi-structured interview allowed the researcher to engage with respondents, an approach that often resulted in unexpected and insightful data extraction (Hair Jr *et al* 2007). Furthermore, as indicated in **Section 3.1**, the complexity of the subject matter lends itself to an interview approach, with the researcher acting as both an observer and participant (Chesebro and Borisoff 2007).

The interview approach was advantageous as it enabled the researcher to actively engage with the respondents and extract meaningful data. Moreover, it facilitated the extraction of content from which key themes were identified and consistencies noted. There were disadvantages of this approach, for example locating suitable time slots with individuals, the time-consuming nature of performing the interviews and analysing large amounts of content, as well as relying on individuals to be truthful and managing. In addition, some respondents were concerned about confidentiality issues during interviews. However, the relevant data was often able to be extracted without reflections on specific events, should they have been of a market-sensitive nature. This was explained to respondents ahead of the interviews.

Nevertheless, the advantages outweighed the disadvantages and the interviews were successful.

3.3 Population and sample

3.3.1 *Population*

The population included senior current or former management-level employees of current or previously South African Main Board Johannesburg Stock Exchange-listed companies that have undertaken expansion into DMs.

3.3.2 *Sample and sampling method*

The study made use of random selection in identification of the sample, but taking specific consideration of the status of prospective entities, as well as the number of entries into DMs. Every effort was also made to select a sample representing diverse industries, from banking to real estate and many more. The sample size selected was 15, which was considered to be adequate to extract the required data. Smaller sample sizes are typically used for qualitative research approaches, usually from 1 to 50 (Hair Jr *et al* 2007).

One interview was conducted per company. In each case the most senior, accessible individuals were targeted, ensuring that each was close enough to previous expansionary activities into DMs in order to add value to the study. The individuals included 4 CEOs, 3 CFOs, 4 directors of various focal areas, 3 non-director management members and one board chairman. Interviews were requested either by telephone or email. In most cases, the researcher was able to leverage off existing relationships in the market in order to secure interviews. In the event that respondents were contacted by email, the form of the email appeared as per **Appendix B**. The sample of companies selected appears in **Table 4**. The specific individuals interviewed have been excluded for confidentiality purposes. Further information on each company is provided in **Appendix C.**

Table 4: Sample Companies

[redacted]

3.4 The research instrument

The main instrument took the form of a semi-structured interview that lasted between 45 and 60 minutes.

3.4.1 *Semi-structured interview*

The interview consisted of four open-ended questions, with a fifth question that asked the respondents to identify the top 5 critical success factors. The fifth question made use of a separate schedule which listed the critical success factors that arose from the literature, as well as making provision for any new success factors that might have arisen in the interview, categorised from “Other

1” to “Other 5” in the schedule. The interview questions together with the separate schedule for identifying the top 5 critical success factors are indicated in **Appendix A**.

The individuals were mostly of a very senior level and as such, it was desirable for them to do as much talking as possible, in order to maximise the probability of extracting the best value. To this end, open ended questions were utilised and the interviewer actively engaged with the respondents. That being said, the semi-structured nature ensured that the required data was obtained, despite the open-ended questions. A semi-structured approach to the interviews ensured that there was structure to the overall approach, but flexibility for researcher engagement and unstructured questions (Hair Jr *et al* 2007).

The first question asked respondents what DMs the company had entered and why. This question was used in order to give context to the interview and to help establish rapport with the individual. The second question asked for a specific example of an entry into a DM as well as the entry mode utilised. This question was also used in order to provide more context to the interview as well as to ensure the researcher had sufficiently engaged the individual in order to begin the critical questions. The researcher had performed work in these areas beforehand which enabled better interaction with the individuals as well as illustration that the researcher had performed research in advance on the respondent company.

The third and fourth questions specifically focused on the critical success factors pertinent to expansions into DMs. The third question simply asked for the critical success factors – individuals were encouraged to consider all possibilities and areas within the businesses. For purposes of the fourth question, the researcher specifically asked the individuals for their thoughts on any success factors identified in the literature but not mentioned in the third question. This ensured that all success factors derived from the literature were considered by the respondents.

The fifth and final question of the interview pertained to the quantitative aspect of the research. A hard copy list of critical success factors, as derived from the literature review, was presented to each respondent. They were then asked to identify the top 5 success factors from the list. There were 5 empty spaces at the bottom of the list, entitled “Other 1” to “Other 5”. These were included to accommodate any success factors that may have arisen, identified during the interview, but not in the literature review. The data collected from this exercise was then collated in order to determine which critical success factors were identified most frequently. The 5 most frequently identified success factors were then identified as the top 5 critical success factors.

3.4.2 *Pilot interview*

A pilot interview was conducted with a management consultant. The aim was to understand the approximate amount of time required for each question in order to determine the length of time required for the scheduled interviews with respondents. Moreover, the pilot also enabled the researcher to better craft the questions and to ensure that they would be easily understood and correctly interpreted. Following the pilot, various changes were made to the questions which ultimately served to improve the efficiency of the respondent interviews.

3.5 Procedure for data collection

As mentioned in **Section 3.3.2**, the researcher was able to leverage off existing relationships in the market in order to secure interviews. In the event that respondents were contacted by email, the form of the email appeared as per **Appendix B.** On this basis, all 15 interviews took place from 17 October 2011 to 19 December 2011. Every attempt was made to conduct the interviews face-to-face. However, due to logistical issues, 3 of the interviews had to take place over the telephone. The other 12 interviews took place face-to-face in Johannesburg.

The location for each face-to-face interview was at each individual’s corporate office, in order to maximise convenience for the individuals, as well as to ensure that the correct mood and environment was set in order to extract the relevant data. This is in line with Chesebro and Borisoff (2007), who highlight the importance of the setting and state that it is usually determined by the respondents.

Each interview was recorded by the researcher, either by hand-written notes, voice recorder, or both. In addition, the researcher sought permission from each individual to make subsequent contact should there be any gaps or questions. However, this was not necessary as all required data was obtained.

Every effort was made to keep the respondents talking in order to maximise the opportunities to extract valuable data.

The fifth and final question of each interview made use of the schedule of critical success factors which is indicated in **Appendix A**. The schedule was presented to each individual who was then required to mark their top 5 critical success factors on the actual schedule. These schedules were preserved from the interviews and used to transfer the data into an excel spreadsheet for analysis.

3.6 Data analysis and interpretation

The hand-written notes taken during the interviews together with the voice recordings were analysed for key themes, which enabled substantial data reduction. High level thematic content analysis enabled the researcher to slice up the data into meaningful, manageable parts (Misulis 1997). This approach to data reduction ensured that the most relevant themes or patterns in relation to the research propositions were extracted (Hair Jr *et al* 2007). In addition, it was expected that a wide range of opinion and different perspectives would be presented. The researcher explored all areas that may have been relevant to the research propositions, regardless of whether such areas were cited by few or many respondents. This further ensured that an appropriate level of depth was achieved.

The researcher determined that in order to be considered critical, a success factor needed to be considered critical by a majority of respondents. This meant that greater than 50% of respondents had to consider a success factor as critical in order to conclude that it was a critical success factor in terms of this study.

As noted in **Section 3.5**, the data from the schedules used by respondents to identify the top 5 success factors was transferred into an excel spreadsheet. The data was then interrogated further in order to determine the total number of times each listed success factor was placed in the top 5. In addition, this frequency was also calculated as a percentage. The information is depicted in **Table 7**. The 5 most frequently identified critical success factors, as indicated by those with the 5 highest percentages calculated, were determined to be the top 5 critical success factors.

3.7 Limitations of the study

- Reliance was placed on individuals to be truthful in the data provided.
- The potential existed for concern on the part of individuals with respect to sharing sensitive information with the researcher, with a possible outcome being that certain information may not have been provided. Specifically, this might have included instances where companies made mistakes, the details of which they prefer to keep out of the public domain.
- The research has only focused on companies currently or previously based in SA, which as a business environment may have peculiar conditions different to other EMs. This might bring into question the applicability of the findings of this research to companies from other EMs.

3.8 Validity and reliability

3.8.1 *External validity*

It is important to ensure that the findings accurately represent the phenomena under consideration (Hair Jr *et al* 2007). The study focused on the critical success factors for the expansion of EMCs into DMs. However, only currently or previously SA-based companies were considered in terms of the sample selected. Whilst inferences can certainly be drawn about the applicability of the findings to companies from other EMs, it is likely that SA is not representative of every EM, which is in line with Hoskisson *et al* (2000), who noted that EMs are not homogeneous. The point that EMs can be very different, as well as the fact that there is not a large amount of literature focused on EMs entering DMs (Gammeltoft *et al* 2010), might mean that it would be difficult to achieve validation from external sources. Nevertheless, all findings were considered in relation to the literature, from which expectations were formed. Any deviations from the existing literature was considered by the researcher and explored. In addition, wherever possible, the researcher checked data to external sources. For example, if respondents provided information about which DMs they had entered, the researcher would already have sought this information in preparation for the interview and would have known whether the information provided was accurate. This enhanced the level of external validity.

3.8.2 *Internal validity*

Internal validity was ensured through the use of a clear structure to the interview, specifically in the form of four simple questions, with the fifth being the identification and ranking of the top 5 success factors on a schedule. The same structure and questions were replicated for each interview. Despite the anticipated discussion in each interview, emanating from the open-ended questions and active involvement and encouragement of the conversation by the researcher, caution was exercised to ensure that the relevant data was extracted.

Furthermore, other than the 3 telephonic interviews, all were recorded on voice recorders. This ensured that clear records were kept of the interviews, which could be revisited with ease to validate data if necessary. In addition, detailed hand-written notes were taken during each interview, which could also be referred to with ease in order to validate data. As a result, the findings are considered to be internally valid.

3.8.3 *Reliability*

The research instrument was carefully crafted and tested beforehand with a pilot interview, which would have helped to ensure a good degree of reliability in the study. During each interview, the researcher provided clarification to the respondents if they demonstrated a lack of understanding of the questions. Given the level of seniority of individuals interviewed, this happened very infrequently. Due to the open-ended nature of the questions, the researcher engaged with respondents in detail. This enabled the researcher to gain a better and clearer understanding of each and every point made by the respondents. As a result, the findings are considered to be reliable.

4 PRESENTATION OF RESULTS

4.1 Introduction

This chapter begins with a profile of the respondent companies. The results pertaining to proposition 1 are then presented, followed by the results for proposition 2. The chapter ends with a summary of the results.

4.2 Demographic profile of respondents

The respondent companies and their respective industries are depicted in **Table 5**. More detailed information for each company is provided in **Appendix C**.

Table 5: Profile of Respondent Companies

[redacted]

The original proposal included a sample of 16 companies and noted that provision had been made in the event that 2 to 3 companies were not available for interview. From the original proposed sample, 3 companies fell away, namely Anglo American, Richemont and Sappi, as either the right people could not be reached, or adequate time slots with the appropriate individuals could not be finalised. As a result, Aspen Pharmacare Holdings Ltd and Nampak Ltd were added to the sample, bringing the final sample size to a satisfactory 15.

4.3 Results pertaining to Proposition 1

Table 6: Respondent views on critical success factors

[redacted]

Table 6 indicates the number of respondents that agreed (column 3) and disagreed (column 5) with the proposition that each of the identified success factors (column 2) are indeed critical. The table also presents the responses in percentage format.

As can be seen, a majority of respondents viewed 14 of the 16 success factors as critical, with responses ranging from 80% upwards. More specifically, 9 success factors were viewed as critical by 100% of respondents, 4 success factors by 93% of respondents and 1 success factor by 80% of respondents. The 2 factors without a respondent majority (less than 50%) were *use of developed market technologies* and *an exit plan/strategy,* both of which have the percentage scores highlighted in red in **Table 6**. The factor *use of developed market technologies* was viewed by 7 out of 15 respondents as being critical, which was just short of a majority, but still far below the majority levels attained by the other success factors. The factor *an exit plan/strategy,* on the other hand, was viewed by none of the respondents as critical to success in a DM.

The findings clearly indicate that the original proposition outlining the critical success factors for EMC expansions into DMs is proved to be true for all the success factors except *use of developed market technologies* and *an exit plan/strategy.*

4.4 Results pertaining to Proposition 2

Table 7: Respondent views of top 5 critical success factors

[redacted]

Table 7 indicates the number of times that each success factor was highlighted by the respondents as being a top 5 critical success factor (column 3). This was also expressed in percentage format (column 4). The last column shows the critical success factors that were included in the top 5 the most number of times. These success factors were also all deemed to be critical in terms of research proposition 1. Moreover, each factor was also placed in the top 5 by more than 50% of the respondents, the range being from 53% (*integration and corporate culture management*) to 80% (*clear objectives/goals for the expansion*).

The critical success factors categorised as Other 1 to Other 4, each of which appeared in the top 5 only once, are discussed in **Section 5.4.3**.

The findings clearly indicate that the proposition relating to the composition of the top 5 critical success factors is proved to be true.

4.5 Summary of the results

The critical success factors for EMC expansions into DMs include those presented into **Table 8**:

Table 8: Critical success factors for EMC expansions into DMs

[redacted]

The 5 most important critical success factors for EMC expansions into DMs are presented in **Table 9**:

Table 9: The top 5 critical success factors for EMC expansions into DMs

[redacted]

5 DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter begins with a profile of respondent companies, similar to that presented in **Section 4.2**. The repetition is necessary as the industries in which respondents operate add context to the ensuing discussions. Based on content extracted from the interview discussions, **Section 5.3** discusses key elements of DM entries made by respondents. Firstly, an analysis of the DMs in which respondents operate is presented. Secondly, the main reasons for entering DMs are considered. Thirdly, the favoured modes of entry into DMs by the respondents are discussed. Although not directly related to the research propositions, the content adds significant context to the research and enhances the value of the overall study.

Following from the contextual aspects, detailed discussions surrounding propositions 1 and 2 are undertaken. With regards to proposition 1, specific consideration is given to the success factors concluded as critical, the success factors concluded as not critical, new success factors that arose during the interviews, the culture within respondent companies, whether the success factors should take place during the planning or post-entry phases, peculiarities of the SA business environment, differences between EMs and DMs, as well as failures experienced by respondents in DMs. In regards to proposition 2, a detailed examination of the results is presented. Following from this, the top 5 critical success factors are ranked in order of importance. Thereafter, consideration is given to whether the top 5 critical success factors should take place during the planning or post-entry phases of the expansion. Lastly, the chapter closes out with a conclusion.

5.2 Demographic profile of respondents

Differences between the sample per the original proposal and the final sample per the study were discussed in **Section 4.2**.

Table 10: Profile of Respondent Companies

[redacted]

Table 10 presents the sample companies with a brief indication of the industries in which they operate. More detailed information on respondent companies is presented in **Appendix C**. Given the wide range of sectors represented, it is possible that the relative importance of success factors will vary, depending on the nature of the business. As such, it is worthwhile repeating the sample of respondents with the respective industries, as this will be reflected upon during various discussions of the results.

5.3 Developed market entries by respondents

The following section considers the various DMs entered into by respondents, as well as the underlying drivers or reasons for entry. It also considers the favoured modes of entry employed by the respondents.

5.3.1 *Developed markets entered by respondents*

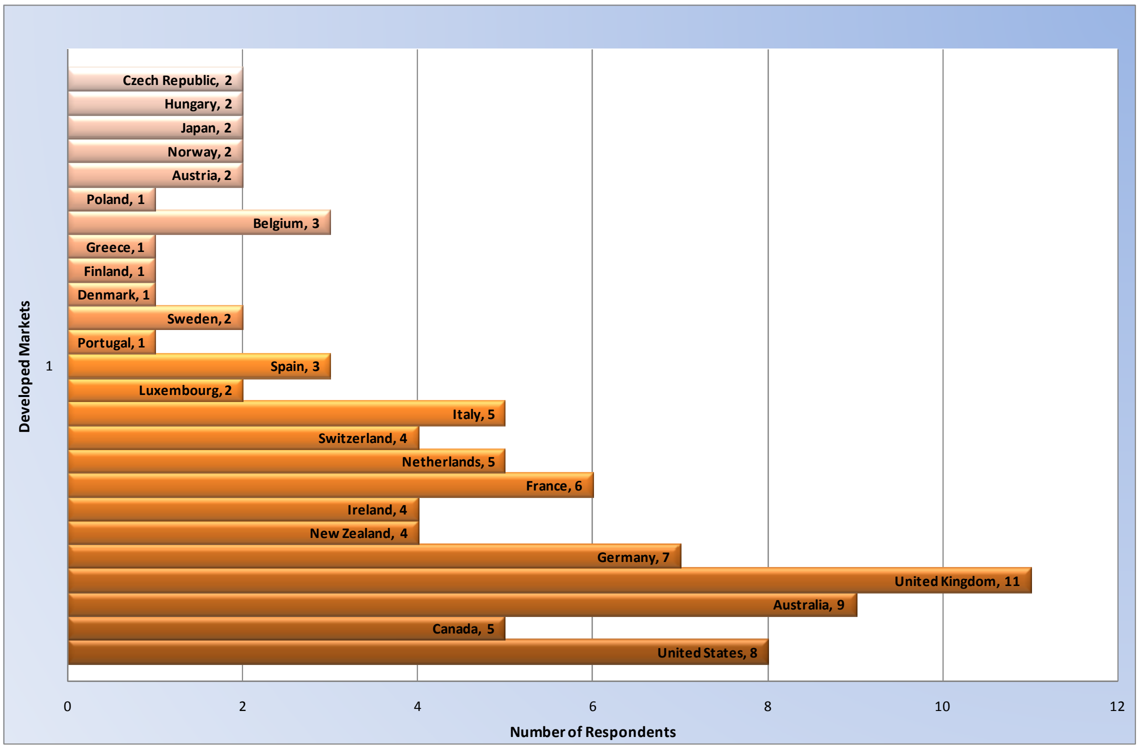


Figure 2: Developed Markets Entered by Respondents

Figure 2 illustrates the DMs which the respondents operate in as well as the number of respondents in each country. As can be seen, the respondents are present in 25 DMs, at an average of 3.72 DMs per respondent. This illustrates that the respondents tend to enter and operate in multiple DMs, rather than focusing on just one DM. Interestingly, only 3 of the respondents have entered 1 DM only. It is also clear from the figure that the United Kingdom (11 respondents), Australia (9 respondents) and United States (8 respondents) are the 1st, 2nd and 3rd most popular DMs respectively. The sheer number and vastness of DMs in which the sample of EMCs operate clearly indicates the increasing importance of the first world as a host location for EMCs (Cantwell and Barnard 2008). It further supports Lloyd's (1993) observations in regards to globalisation and the increased levels of integration amongst the world's economies.

The results are not unexpected. As noted in the literature, companies will favour destinations where the liability of foreignness (Hymer 1976) and psychic distance are low (Luo and Tung 2007). They also prefer locations that are relatively more culturally similar to what they know (Rugman 2000). The United Kingdom, Australia and United States are all English speaking countries, either with significant SA expatriate populations or with culturally familiar environments through media and other exposure mediums. Moreover, as is noted in **Section 5.3.2**, a primary driver for respondents is market size (Sauvant 2005; Cantwell and Barnhard 2008; Buckley *et al* 2008). The 3 most popular countries, in particular the United States, offer 3 of the largest markets in the first world. Another key driver for expansion into DMs is that of diversification (discussed in more detail in **Section 5.3.2**), which includes currency exposure management. The United States Dollar, British Sterling and Australian Dollar are 3 of the most sought after and stable currencies in the world. A further consideration is ease of access and convenience. This would help explain why the United Kingdom is the most favoured location, as it offers the shortest and most frequent direct flights from SA. In addition, up until recently, the visa and entry requirements for SA citizens were the easiest relative to the United States and Australia.

Germany and France, while not English-speaking countries, are also popular destinations. They were the 4^{th} and 5^{th} most popular DMs respectively. The likely reason for this is their market sizes. Moreover, their proximity to the United Kingdom would most likely imply convenience and synergy aspects in light of the fact that the majority of respondents operate in the United Kingdom.

The countries present at the lower end of **Figure 2** are understandably dominated by foreign languages and smaller market sizes. The least popular DMs, of which 5 were cited once and 7 were cited twice, were all European countries, with the exception of 1, being Japan.

5.3.2 *Reasons for developed market entries*

Figure 3 illustrates the primary reasons that drove respondent decisions to enter DMs. It is clear that there is wide variety in the drivers of internationalisation (Goldstein and Pusterla 2010), as indicated by the 11 reasons cited by respondents.

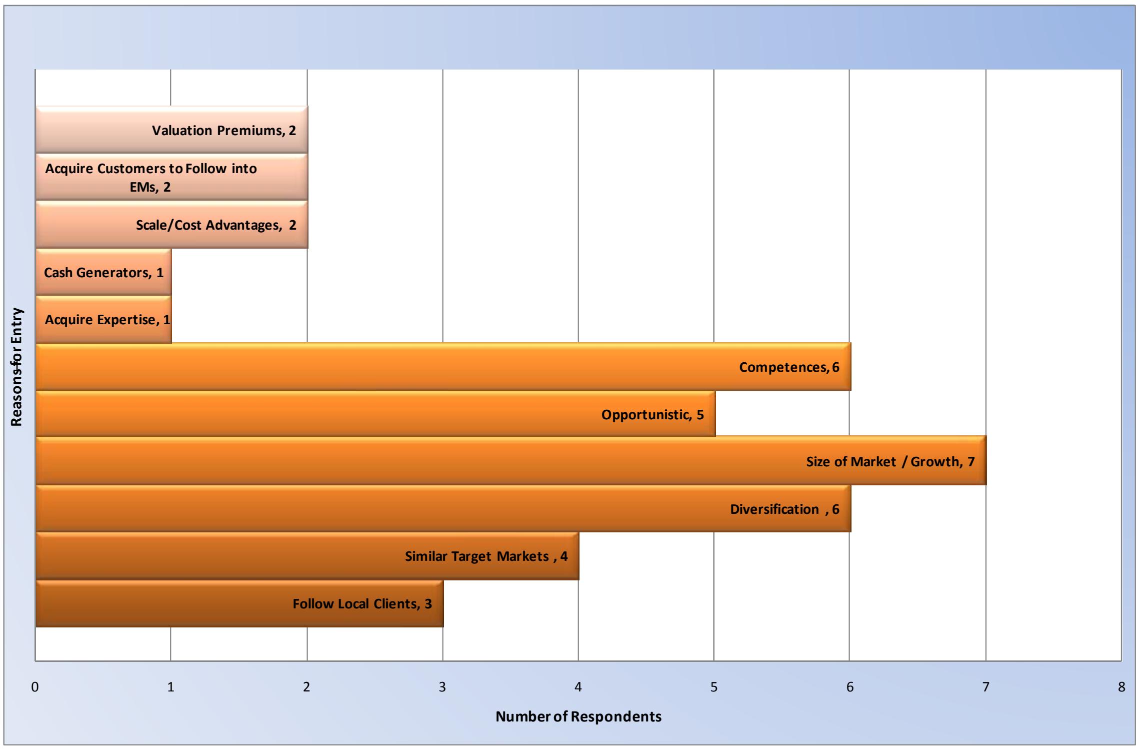


Figure 3: Reasons for Entry into Developed Markets

As can be seen, *size of market/growth* dominated as the main reason, as indicated by 7 respondents. These companies were looking for ways to grow their businesses and cited DMs as offering good opportunities to ensure long-term sustainable growth. This is in line with Dunning (1993), Salehizadeh (2007) and Buckley *et al* (2008), who referred to market-seeking, as well as Sauvant (2005) and Cantwell and Barnard (2008) who discussed access to large markets. A further consideration is that SA in itself is not a large market, particularly when compared to the likes of many DMs. Despite the SA population being in excess of 50 million people (Statistics South Africa 2011), the reality is the demographic nuances within the population mean that the true market for many of the sample companies is far smaller. As such, it would be expected that many SA EMCs would be driven primarily by market-seeking for growth, due to constraints in the home market, a consideration specifically referred to by Luo and Tung (2007).

Diversification (6 respondents), *competences* (6 respondents) and *opportunistic* (5 respondents) followed closely behind *size of market/growth* as some of the dominant reasons for entry. Ghymn (1980), Boddewyn (1985), Boisot and Meyer (2008) and Goldstein and Pusterla (2010) all made reference to diversification and risk mitigation, while Sauvant (2005) specifically referred to creating resilience to locational shocks.

As indicated, some of the respondents specifically mentioned that they felt they had the required competences and skills to be competitive in select DMs. This is interesting, as it differs to the literature - both Luo and Tung (2007) and Boisot and Meyer (2008) did not think that exploitation of existing capabilities, advantages or assets was a key driver. Of further interest is the indication in **Section 4.3** that only 47% of respondents thought that *use of developed market technologies* was a critical success factor. This would imply that the majority of respondents believe their technologies and associated competences are indeed good enough to compete in DMs. A possible explanation for this is that EMCs from SA may have developed differently to EMCs from other EMs. This is in line with Hoskisson *et al* (2000) who indicated that EMs are not homogeneous. This is explored further in **Section 5.4.6**, where potential peculiarities in the SA market are considered. A further consideration in respect of differences is that prior literature has tended to focus on DMs and associated MNCs as opposed to EMs and EMCs (Goldstein and Pusterla 2010). Moreover, the limited research that has focused on EMs has given little attention to markets in Africa (Hoskisson *et al* 2000).

With regards to opportunistic behaviour, 6 respondents indicated that their entries into DMs were opportunistic – either they were not necessarily considering expansion into DMs, or they were not specifically focusing on the markets they entered when the opportunity arose. Goldstein and Pusterla (2010) referred to pull factors as potential drivers, being opportunities in host country environments or markets. The recent global financial crisis has also created an opportunistic environment for some EMCs (Kumar 2009), in particular by driving valuations on many DM companies to low levels. As noted by Gammeltoft *et al* (2010), despite the decline in global economic activity, some EMCs are turning the global crisis into an opportunity.

A further interesting point is that existing literature has indicated that EMCs internationalise by means of accelerated approaches (Bonaglia *et al* 2007). There are a number of possible reasons as to why this takes place. However, the literature does not consider the possibility that a contributing factor to the accelerated expansionary activities may be due to the presence of unexpected opportunities which EMCs take advantage of. In most cases, opportunities have defined timeframes of availability. The fact that 6 respondents entered DMs due to unexpected opportunities makes this a very feasible reason.

Interestingly, 4 respondents indicated that one of the driving reasons for entry into DMs was *similar target markets* in respect of those in SA and those in the DMs. This reason also ties in with that of *size of market/growth*, as EMCs would tend to prefer DMs where they can employ their existing business model, which relies on existing target segments in the home market. The businesses of the 4 respondents tend to focus on individuals in the upper income bases. As such, it is reasonable to expect that customers in similar income and wealth positions would be found fairly easily in DMs.

As can be seen, 3 respondents identified *follow local clients* as a key driver for their entries into DMs. This involves moving into DMs because SA-based clients and customers have ventured there first. This once again reiterates the increasing levels of globalisation (Lloyd 1993) and importance of the first world as a host location for EMCs (Cantwell and Barnard 2008), as not only are the sample EMCs entering DMs, but their SA-based customers are also entering DMs. In order to protect their business with clients in SA and potentially enhance the relationship, these companies need to move with their clients, effectively leveraging off their clients' entries. A key risk that many SA companies face is that as their customers move into DMs, they may be serviced by DM-based competitor companies, who may look to expand into EMs and ultimately steal the host market business too. As a result, many EMCs may move into DMs as a defensive move to protect their home market, as noted by Khanna and Palepu (2010).

The least popular of the reasons for entering DMs included *valuation premiums, scale/cost advantages, acquire expertise, acquire customers to follow into EMs* and *cash generators.* 2 respondents indicated that one of the reasons why they wanted to enter DMs was because businesses in their industry were trading at premiums in those DMs. They wanted to move into those markets so that the valuation of their businesses would increase simply by having a footprint there. In both cases, the management of the companies have specific short-term and medium-term valuation goals for the businesses and are likely formulating exit plans so as to maximise the value they realise upon exit. Furthermore, operating in a DM can enhance the perception value of a company's brand, ultimately enhancing the value of the company itself, as discussed by Khanna and Palepu (2010).

It is interesting to note that *scale/cost advantages* is not a popular reason. Dunning (1993) and Sauvant (2005) both considered cost-savings, economies of scale and improved efficiencies as important reasons for undertaking FDI. Achieving scale and reducing costs are certainly valid reasons for international expansion. However, as was noted previously, the majority of research in the international business arena has focused on companies from DMs (Goldstein and Pusterla 2010). Such companies may often expand into lower cost locations, which are very often EMs, in order to reduce their labour costs and achieve greater scale. However, this study focuses purely on EMCs entering DMs and as such it is not unexpected that existing literature deviates from the research undertaken in this study.

The driver *acquire expertise* has also been downplayed by the sample companies with only 1 respondent identifying it. Despite Dunning (1993) and Cantwell and Barnard (2008) seeing the search for new competences or capabilities as a key reason for expansion into DMs, the sample companies have indicated this as not to be of key importance. Interestingly, this is consistent with the results shown in **Section 4.3**, where *use of developed market technologies* was shown to not be a critical success factor in DMs. It makes sense that the sample companies do not see *use of developed market technologies* as a critical success factor if the same companies are also not driven to enter DMs in order to acquire expertise. Moreover, there is the possibility that there are peculiarities in the SA market which may have facilitated the development of EMCs not requiring DM expertise or technologies. This is discussed in more detail in **Section 5.4.6**.

One respondent included *acquire customers to follow into EMs* as a reason for entering DMs. Although this would be a very strategic move, it would need to be complementary with a strategy to enter other EMs, in particular those where the EMC does not have a target for acquisition or strong local relationships. It is reasonable to expect this to not be a popular reason for entering a DM, as it would likely be a fairly long process to undertake simply in order to enter another EM.

The reason *cash generators* refers to the search by a company for mature businesses that generate strong consistent cash flow. Such established firms are often located in DMs (Thomas *et al* 2007). The respondent that identified this as a primary reason for entering DMs has an extremely large and geographically diverse portfolio of companies that it owns. As such, the portfolio needs to be balanced correctly, essentially with cash flows from mature businesses funding the younger and riskier businesses. Given that most mature businesses within the respondent's industry are based in DMs, it is logical that this is a key reason for the respondent to enter DMs.

Contrary to the work of Boisot and Meyer (2008), strategic exit from home markets was not raised as a driver of entry into DMs by respondents. This may be due to the fact that the literature focused on the internationalisation of Chinese firms. As pointed out by Hoskisson *et al* (2000), EMs are not homogeneous. Moreover, distinct peculiarities within different EMs may affect the development and traits of corporations from those EMs. This is considered further in **Section 5.4.6.**

5.3.3 *Favoured entry modes into developed markets*

The entry mode options cited by respondents were acquisitions and greenfield operations. Interestingly, mergers were not a preferred means of entry.

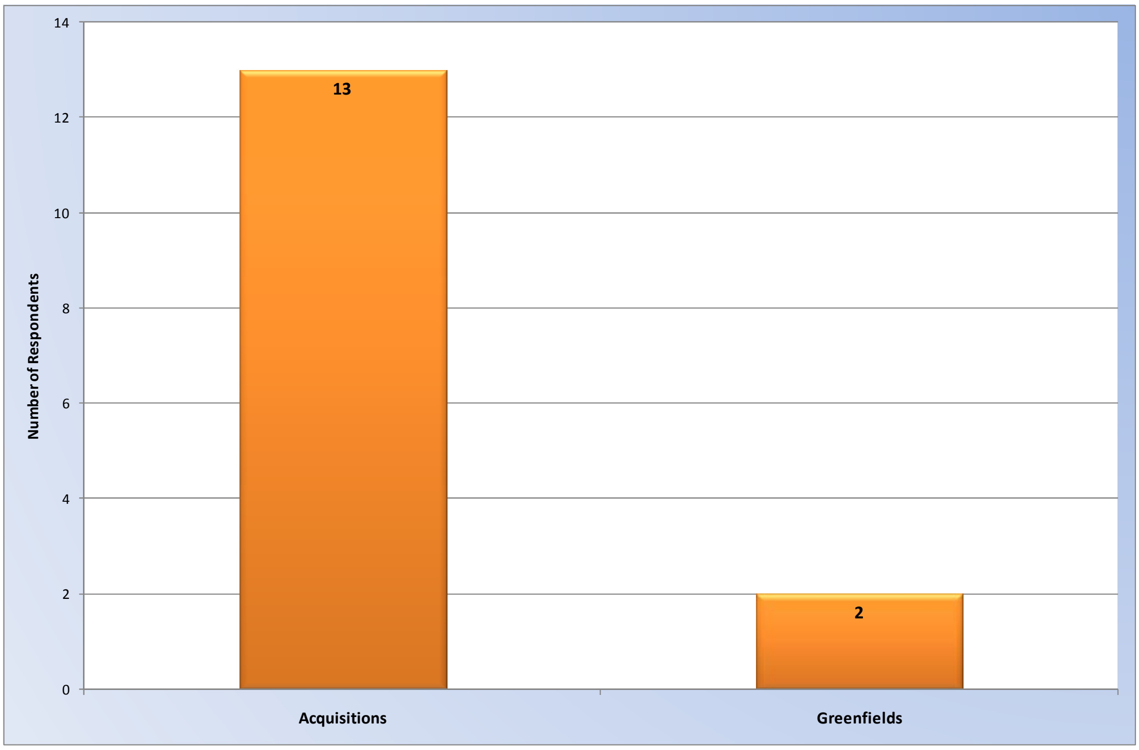


Figure 4: Favoured Entry Modes into Developed Markets

Figure 4 indicates the favoured entry modes by respondents into DMs. Each respondent clearly had a preference for a certain mode of entry. As can be seen, 13 respondents, being 87% of the sample, preferred acquisitions to greenfield entries. This was expected, but only partly in line with the literature, which often referred to both mergers and acquisitions collectively (Sauvant 2005). However, respondents were clear in their preference for acquisitions only. No mention was made of mergers as an entry mode and as such, the results are only partly in line with the literature.

Sauvant (2005), Kumar (2009) and UNCTAD (2010) indicated that M&A was the favoured entry approach, whilst Luo and Tung (2007) stated that one way of overcoming the psychic distance was via aggressive acquisitions. It also fits with the noted leap-frog (Boisot and Meyer 2008), springboard (Luo and Tung 2007) and accelerated internationalisation (Bonaglia *et al* 2007) approaches undertaken by EMCs. One respondent specifically noted that due to time constraints and a need to move quickly, acquisitions were the only option.

One key consideration that was specifically mentioned by 4 respondents is that DMs are generally mature markets, populated to a large extent by mature businesses (Thomas *et al* 2007). As such, it would make very little sense to enter a DM and start a business in an established industry from scratch. The logical approach is to acquire an existing business that has established its own brand, has a stable infrastructure and a consistent client base already in place. Moreover, the barriers to entry can be significant (Globerman and Shapiro 2008) and would be far lower through acquisition than as a fresh entrant into the market starting a brand new business. This would also be the fastest way into a DM, which has been noted to be a key consideration for many EMCs (Bonaglia *et al* 2007).

It is worthwhile considering the 2 respondents that preferred greenfield entries to acquisitions. The first respondent has a very specific approach to entering a DM. They always seek a joint venture structure with a local partner that offers exactly what they need. There are certain roles and activities which they do not wish to undertake and an adequate partner must bring this to the table. At the same time, there are specific activities which they must undertake, in order to infuse their proven processes and competences into the joint venture. Following from this, they have a very strong culture and way of doing things, which they are not prepared to compromise on. Opting for an acquisition would at a minimum retard the infusion of their culture and processes into the business as it is unlikely that a target company would have an identical culture. As such, they see a greenfield approach as a far smoother entry into a DM, provided they have the right local partner.

The second respondent has a business that actually lends itself to greenfield entries rather than acquisitions. They do not need a DM brand and a core element of the business is the location which is generally leased as opposed to owned. Their way of doing things is also infused into every aspect of the business and as such starting from scratch makes the most sense when it comes to their DM entries.

5.4 Discussion pertaining to Proposition 1

For ease of reference, this section will be split into sub-sections based on the main discussion categories.

5.4.1 *Success factors deemed critical*

Of the 14 success factors deemed critical, 9 were considered critical by 100% (15) of the respondents, 4 were considered critical by 93% (14) of the respondents and 1 was considered critical by 80% (12) of the respondents. This indicates that the respondents were very much in agreement with the existing literature, despite the noted diversity in respondent industry. This indicates that the critical success factors identified by 93% or more of respondents are generally insensitive to industry type or business model and should apply to most EMCs.

It is worthwhile considering why 4 success factors were considered by 1 respondent each to not be critical. The respondent that did not view *corporate brand management* as critical explained that this was likely due to the type of business it operates in, being an owner and manager of commercial real estate. It is interesting to note that the same respondent also did not view *customised marketing strategies* as a critical success factor, also due to the nature of its business. Clearly branding and marketing, although important, are not critical to success in that company's business in DMs.

The respondent that did not see *experienced management team* as critical indicated that they have their own people that they can place in any operation or offer support to any operation. Moreover, they only enter businesses that they know, understand and are very similar to their own. As such, as long as the management are talented and have a local complement, they are able to succeed due to the support they receive from people within the greater organisation.

The respondent that stated *management of external stakeholders* as being non-critical explained that this was largely due to certain of the company's internal strengths. For example, they do not rely much on financial institutions as they are generally in a cash-flush position. Moreover, due to their credit standing, if they were required to borrow, they would be able to procure funding fairly easily. Furthermore, they have a very strong, respected global brand and generally do not experience push-back from governments in DMs. This is amplified further by the fact that all the target companies they acquire have excellent track records when it comes to performance, employment and environmental compliance. Interestingly, it would appear that the corporate actions this company takes as a result of the criticality it places on other factors, such as *corporate brand management*, *corporate governance and citizenship*, *financial management/capital* and *understanding the legal/regulatory environment* has enabled it into a position where it sees *management of external stakeholders* as not being critical to its success.

Experience/learning was also considered by 1 respondent as not being critical to its success. The simple reason for this was that this company has only undertaken one DM entry and has not had the opportunity to utilise its experience from that entry for another DM entry. Moreover, the company did not analyse entries made by similar EMCs into DMs in planning its own entry. The respondent did indicate that the entry was opportunistic in nature and the opportunity presented would likely not have matched the conditions prevailing when similar companies in the same industry had entered DMs, potentially making any knowledge from competitor actions superfluous in respect of their own DM entry.

Customised marketing strategies was the only success factor with a slightly lower score (80%), albeit still high enough to be considered critical. The 3 respondents provided valid reasons for their views. The first respondent explained that the target segments in SA were the same as those targeted in DMs and as such the marketing approach was also the same. The second respondent indicated that marketing and branding was not an integral part of their business and as such customisation is not critical. The third respondent pointed out that their general approach to marketing is uniform around the world as it is based around the concepts of quality and consistency. Moreover, many of their customers in SA are also customers in DMs and as such they do not need to reinvent the wheel to get the attention of these customers. The reasons provided for this critical success factor clearly relate to the types of businesses and industries that the respondents operate in, as indicated in **Section 5.2**, as well as who their respective customer groups are.

A general consideration in regard to understanding why certain success factors may not have been viewed as critical by all respondents might relate to the industries in which the sample companies operate. The selected sample was fairly diverse across industry and sector and needless to say, there are many nuances within different industries. As a result, it is feasible to contemplate that certain success factors may be more critical to certain industries than to others.

5.4.2 *Success factors deemed not critical*

As noted in **Chapter 4**, *use of developed market technologies* and *an exit strategy/plan* were concluded not to be critical to EMC expansions into DMs, as a majority of respondents (greater than 50%) did not view them as critical. It is also worth noting that neither of the two success factors were identified by any respondent as part of the top 5 critical success factors, which was to be expected. Potential explanations for the non-criticality of each success factor are discussed in the following paragraphs.

Use of developed market technologies came very close to inclusion as a critical success factor, as indicated by the fact that 7 respondents (47%) felt that it was critical, only 1 less than the required 8 in order to be considered critical. Nevertheless, for purposes of this study, it has been deemed non-critical. This is contrary to views by Buckley *et al (*2008) and Dunning (1993) in respect of strategic-asset seeking behaviour. It is also contrary to Monkiewicz (1986) who viewed technology acquisition as critical to EMC survival. A potential explanation for this is that certain sectors or industries may be more reliant on technologies than others. It may then be expected that those technology-intensive industries, such as those operating as manufacturers, would be more likely to see *use of developed market technologies* as a critical success factor.

More interesting though is the fact that in **Section 5.3.2**, it was shown that the second most stated reason for entry into DMs was the belief that the respondents had the requisite skills and competences to compete effectively in DMs. It can be inferred from this that those companies may feel that they do not need any additional technologies in order to be successful in DMs. Moreover, **Section 5.3.2** also showed that only 1 respondent indicated acquiring expertise as a reason for entry into DMs. This further supports the notion that many of these companies believed that they already had what was required in order to compete effectively in their chosen DMs.

A key theme that is clearly apparent from this research is that many EMCs believe they have what it takes to be amongst the best and want to actively compete with their DM counterparts in order to win customers and achieve growth in their businesses for their shareholders.

A further consideration is that although SA is an EM, not all EMs are homogeneous (Hoskisson *et al* 2000), with the result that certain existing literature may only be applicable to certain EMs. Despite being an EM, SA has a number of well established companies able to offer first world quality and service, as indicated by the respondent sample and their respective successes internationally, but in particular in DMs. Furthermore, it is worthwhile considering that certain nuances in the SA market may have contributed to the development of companies that do not adhere to existing theory. This is explored further in **Section 5.4.6**. The nuances and peculiarities between different EMs can be immense.

An exit plan/strategy, on the other hand, was overwhelmingly declined as being a critical success factor by every respondent. This is a very strong statement and needs to be considered. One potential explanation is that EMCs are in too much of a hurry to expand, driven by their accelerated internationalisation and springboard approaches, as noted by Bonaglia *et al* (2007) and Luo and Tung (2007) respectively. The result of this may be to choose not to consider and plan for potential exit strategies due to it taking up time.

However, the more likely explanation derives from content extracted during the interviews. The majority of respondents indicated that they did not plan for an exit as they simply did not believe they would fail. The majority did seem to have performed detailed due diligence work and planning for their expansionary activities and as such should they have deemed it necessary, would have allocated the time to plan for potential exit strategies. The reality is that they firmly believed they would be successful. They highlighted that they wanted to be in those DMs and as such would do what was required to make it work. As a result they did not plan for an exit. Again, this attitude and approach might be consistent amongst certain types of SA companies, potentially rooted in peculiarities present in the SA market (explored further in **Section 5.4.6**) or within the cultures fostered in these organisations (explored in **Section 5.4.4**), which in itself may be a product of the SA market.

One consideration that was highlighted by 6 respondents was the fact that extensive scenario and sensitivity planning did take place, incorporating a down-side scenario, usually as part of the due diligence work.

5.4.3 *New success factors arising from interviews*

As indicated in **Table 7** of **Section 4.4**, the *Other* categories were included 4 times by 3 respondents in the top 5 critical success factors. This means that those respondents felt that there were critical success factors not derived from the literature review and presented to them that were of sufficient importance for inclusion in their top 5 list. Regardless of the fact that none of these *Other* factors were identified by more than 7% of respondents and hence cannot be considered critical for purposes of this study, it is still worthwhile to consider the factors themselves and why respondents felt they were critical.

a. *Partners and brands*

One respondent indicated that the most important critical success factor is having the right partner in the DM. The company is very specific about what it requires from a partner, but primarily they require a strong brand and capital. There are certain competences that it likes to focus on and certain it does not.

The expectation is for the local partner to fill the gaps and take care of certain activities.

This success factor is peculiar to this particular business, but not unexpected given that this company's preferred method of entry into a DM is through a greenfield joint venture. In fact, this company is 1 of only 2 in the sample that favours greenfield entries over acquisitions, as was indicated in **Figure 4**. It would also seem logical that if a company does undertake greenfield entries into DMs, it would seek a joint venture approach, with a strong local partner and existing brand loyalty, in order to mitigate risks relating to *inter alia* local market peculiarities (Meyer 2004; Luo and Tang 2007; Khanna and Palepu 2010). Moreover, a joint venture with a partner with an existing brand of strength would accelerate entry into the market, a factor shown to be important to EMC expansions (Bonaglia *et al* 2007), potentially reducing the speed disadvantages associated with opting for a greenfield over an acquisitions approach.

b. ***Market dynamics and strategic flexibility***

One respondent indicated that understanding the market dynamics in a DM was the most critical of all the success factors. Despite the researcher indicating that this factor was covered by other success factors, such as *due diligence with high degree of care/accuracy* and *understanding of local customers*, the respondent was adamant that this be documented for their purposes as a separate factor.

According to the respondent, this success factor also encapsulates a number of different areas such as, *inter alia*, external threats, potential market changes, the decision of whether to sell based on price or quality, potential ancillary costs, size of sales force required for adequate penetration and level of critical mass required in order to achieve adequate cost levels.

The same respondent also viewed a dynamic strategy as being an extension of this factor, a critical component of any expansion they undertake into a DM, as unplanned things always occur and the strategy must be capable of being amended accordingly. Interestingly, 2 other respondents also referred to the need for flexibility and clarity in strategic planning and deployment. This is in agreement with the work of Luo and Tung (2007) who viewed flexibility, innovation and speed as important traits for an internationalising firm.

c. ***Products for the market***

The same respondent that highlighted *market dynamics and strategic flexibility* as a critical success factor also highlighted *products for the market* as a critical success factor. The respondent explained that the core of its business hinges on its products, potentially more so than a business in any other industry.

When the company enters a DM, it must first ensure that it has sufficient products for that market. There must be a demand for such products in the DM and they must be able to generate sufficient margin. Moreover, those products must fit the existing business model and strategy. The respondent stressed that EMCs expanding into DMs should stick to their current business models and rely on their existing competences, as straying can easily lead to failure. **Section 5.3.2** indicated that the second most highlighted reason for expansion into DMs related to the fact that EMCs believed they had the competences to compete effectively in those markets. As such, it can be inferred that many EMCs do heed this advice, choosing to rely on their existing skills, competences and business models. This is explored further in **Section 5.4.8** which considers failures by respondent companies.

Given that the respondent's current model strives to compete based on quality and consistency, rather than price which ultimately squashes margin, there need to be products available, as well as substantial pipeline, to ensure a sustainable business on this basis in the DM.

d. ***Environment after entry into developed markets***

One respondent saw the wider economic environment and market conditions prevailing after market entry as being critical to success in a DM. The key issue here is that conditions can change rendering a once feasible business opportunity as a lost cause. The most obvious demonstration of such an occurrence would be the recent global financial crisis, discussed in **Section 2.2.2**. Its impact has been incredibly wide, resulting in, *inter alia*, changes in investor behaviour (Natalia 2011) and further driving the rebalancing of global power (Sachs 2008).

If an EMC makes an acquisition in a DM, the price it pays will likely be based on the conditions prevailing at the time. An event like the global financial crisis can drastically depress the performance of companies in DMs, resulting in depressed cash flows by the acquired company. Based on the new conditions prevailing after the acquisition, it would then appear that the price paid for the target company was too high relative to the cash flows it is able to generate going forward. As noted in **Section 2.8.4**, Khanna and Palepu (2010) point out that companies often take on burdensome debt to finance such acquisitions. With lower than expected cash flows, the result may be that the company may not be able to meet its obligations, which can result in liquidation.

This discussion once again highlights the importance of flexibility, adaptability and robustness within the strategic models and approaches taken to enter DMs, as was discussed in **Section 5.4.3.b** on *market dynamics and strategic flexibility*. It also reiterates the importance of *due diligence with a high degree of care/accuracy* as a critical success factor. Moreover, it highlights the importance of scenario and sensitivity planning, discussed in **Section 5.4.2**, aspects raised by 6 respondents as being a key part of the due diligence process.

5.4.4 *Culture within respondent companies*

An interesting theme that came up during the interviews related to the corporate culture within the respondent companies. In fact, 9 respondents, representing 60% of the sample, referred to there being a very strong culture, corporate identity and way of doing things within their companies. The importance of culture has been highlighted by the inclusion of *integration and corporate culture management* in the top 5 list of critical success factors, as is discussed further in **Section 5.5.1**. It is interesting to acknowledge that many of these companies, such as Investec Bank and SABMiller, are renowned for their strong cultures. Moreover, an important strain of their cultural DNA relates to entrepreneurialism, something which surely must be present for an EMC to wish to expand offshore, particularly into DMs.

A further component of these strong cultures relates to the need to be hands-on involved in the DM operation. In fact, 6 respondents, representing 40% of the sample size and 66% of those who indicated they had strong corporate cultures, specifically indicated that they need to be very hands-on and involved in their DM operations. This involvement includes *inter alia* board representation, paying close attention to all available information and the placing of expatriates in the DM businesses. Furthermore, 6 of the respondents, being 40% of the sample size, referred to the need for expatriates, specifically as a means of infusing the culture of the EMC into the DM operation. 1 respondent pointed out that sending expatriates offshore is a huge challenge, but absolutely necessary. They undergo a formal process where they identify key areas in the DM business where they have no choice but to place expatriates. Another respondent reflected on the fact that a DM is inherently unforgiving and if the offering is not world class, the business will not survive. As such, it is imperative that the company put some of their best people on the ground, which makes the need for expatriates an imperative. Interestingly, it appears that respondents believe strongly in the need for expatriates, despite Luo and Tung (2007) having suggested that expatriates may not be qualified for the nuances of a host market, particularly a DM.

Whilst it cannot be assumed that EMCs from SA, in particular those that expand into DMs, all share similar cultural traits, it is worthwhile to consider that this may indeed be a possibility, in particular in relation to entrepreneurial flair. Despite the fact that EMCs often have unique corporate practices and management styles (Salehizadeh 2007), there may well be consistency in certain aspects of their businesses within the same EMs. This might help explain further the finding that respondents overwhelmingly declined *an exit plan/strategy* as a critical success factor. As was pointed out in **Section 5.4.2**, the companies did not believe they would fail and firmly believed they would achieve success. It is worth considering that this mindset may well be driven by the unique cultures within such organisations, which further might well be a product of the companies developing in SA, with its inherent peculiarities, as is discussed further in **Section 5.4.6**.

5.4.5 *Clusters of critical success factors*

It is interesting to cluster the identified critical success factors according to when they should take place. **Table 11** clusters each critical success factor either as *planning* or *post*. The former implies that the most important time to focus on this factor is during the planning phases, prior to actually entering the DM, while the latter sees the focus time as being after the actual expansion and once the operation is already on the ground and moving forward.

Table 11: Clustering of critical success factors

[redacted]

As can be seen from **Table 11**, 8 of the critical success factors are most important to focus on during the planning stages, 5 during the post stage and 1 equally during the planning and post stages. It would appear from this that the planning stages are the most important when it comes to EMC expansions into DMs, given that this is when most of the critical success factors require the most focus. This is very interesting for members of management of EMCs considering expansion into DMs. In particular, in light of the noted accelerated internationalisation by EMCs (Bonaglia *et al* 2007), it illustrates how rushing an expansion and failing to commit sufficient resources to the planning stages can be detrimental to an EMC's success in a DM. This is revisited in **Section 5.5.3**, where the top 5 critical success factors are considered in relation to the planning and post timing perspectives.

5.4.6 *Peculiarities of the South African market*

According to Hoskisson *et al* (2000), EMs are not homogeneous. This can help explain why research performed in other EMs may be inconsistent with certain findings in this study. Specifically, this would include the fact that the sample EMCs did not believe *an exit strategy/plan* or *use of developed market technologies* were critical success factors. In light of this, it is worthwhile to consider the possibility that certain peculiarities in SA may have facilitated the development of EMCs with unique behaviours and traits.

Table 12 summarises information extracted from the Global Competitiveness Report 2010-2011 for the BRICS nations, as well as Nigeria and Argentina, two additional EMs. Two DMs, the United Kingdom and United States, have also been included for comparative purposes.

Table 12: Country scores from the Global Competitiveness Report 2010-11

[redacted]

Source: Global Competitiveness Report 2010-2011

Table 12 shows the overall ranking of each country in the column entitled "Overall", out of a total of 139 countries. The columns entitled "Sub-Index 1" to "Sub-Index 3" represent 3 summary indices, namely *basic requirements, efficiency enhancers* and *innovation and sophistication factors.* Each of these sub-indices are made up of a number of pillars, which are essentially sub-categories. For example, the *basic requirements* sub-index is made up of 4 pillars, the *efficiency enhancers* sub-index is made up of 6 pillars and the *innovation and sophistication factors* sub-index is made up of 2 pillars. The last two columns of **Table 12** show the 8th pillar, being *financial market development* and the 3rd pillar, being *macroeconomic environment*, which are component categories of the *efficiency enhancers* and *basic requirements* sub-indices respectively.

As can be seen, with the exception of China, the BRICS nations are positioned overall in the range of 51 to 63, substantially far off from the United Kingdom and United States with ranks of 12 and 4 respectively. It is interesting to note that as the sub-indices are examined, it is clear that there are distinct differences in performance between EMs within different sub-categories. This is very much in line with Hoskisson *et al* (2000) in terms of EMs not being homogeneous.

It is worth considering two specific pillars that are likely to be very important factors when considering a foreign market. In the context of the Global Competitiveness Report 2010-2011, *financial market development* refers to *inter alia* the efficiency of the financial sector, the functioning of capital markets and regulation of local exchanges (World Economic Forum 2010). *Macroeconomic environment* refers to the stability of the macroeconomic systems and environment within a country (World Economic Forum 2010). It would certainly be expected that DMs would fare better in the rankings than EMs within these pillars. However, it is surprising to note that SA actually ranks higher than both the United Kingdom and United States in respect of both pillars. In fact, SA is ranked 9th in the world in terms of the *financial market development* pillar (and higher than any of the other BRICS nations). This is a truly interesting scenario and illustrates peculiarities in SA that may well not be present in other EMs.

Following from the aforementioned discussion, it appears feasible that certain factors in the SA market may have enabled EMCs from SA to develop in different ways to EMCs from other EMs. This is a step further than what was noted by Gammeltoft *et al* (2010) that entities from EMs may follow different evolutionary trajectories than MNCs from DMs. Given the fact that SA is able to rank higher than the United Kingdom and United States in terms of important pillars such as *financial market development* and *macroeconomic environment,* it might be inferred that EMCs from SA may have developed with certain DM characteristics in their make-up, enabling them to already have skills or technologies that match or are better than those in DMs. This might explain why the respondent companies did not see *use of developed market technologies* as a critical success factor for entries into DMs.

An outside consideration may be the impact of apartheid and the isolation that SA as a market experienced. The prevailing conditions at the time may have induced the development of a certain type of corporation that really needed to fight for its existence and place in the world, fostering a greater development of entrepreneurialism and innovation as might otherwise have occurred.

In line with the discussions above, it may also be inferred that due to some SA EMCs potentially having DM traits embedded within their corporate DNA, this may be what fuels their confidence and self-belief in terms of attaining success in DMs. This might also help explain why the sample companies overwhelmingly indicated that *an exit strategy/plan* was not critical to success in DMs. Many of the respondents indicated that they did not believe they would fail and went in with extremely high levels of confidence. Their development in the SA market and certain peculiarities of that market may well have contributed to their rise and success in DMs. Moreover, it certainly might explain why factors critical to companies coming from other EMs may not be critical to companies from SA.

5.4.7 *Differences between emerging and developed markets*

In certain instances, respondents highlighted differences between EMs and DMs, sometimes revealing perspectives that were unexpected. It is worth noting these differences as some are contrary to expectations.

One respondent mentioned that when entering an EM, it is imperative to find people and partners you can trust, particularly because you likely do not understand the culture, the people and various other nuances. However, when the company enters a DM, there is an assumption that you are getting people you can trust. But in their experience, this has been proved to not always be the case and as such, caution needs to be exercised despite the fact that a partner may be based in a DM.

Another respondent reflected on their business in SA (and EMs in general) versus their business in the United States. On the diligence side, it is far easier entering a DM as more information is more widely and readily available. This also enhances the value of research. However, it takes approximately 6 to 8 weeks to open a new operation in SA, whilst it takes approximately 6 to 8 months to set up a new operation in the United States and begin trading. This is likely due to less experience in the United States, as well as more stringent and detailed legal and regulatory requirements which need to be met.

A further interesting difference relates to the *management of external stakeholders* critical success factor. One respondent indicated that often the company needs to apply more attention to external stakeholders in EMs than in DMs, which may be contrary to intuition. The reasoning was that DMs are generally more predictable and communications more efficient. On the other hand, things can change faster in EMs and moreover, the changes can be far more dramatic.

5.4.8 *Failures by respondent companies*

Despite the fact that most of the sample companies did not consider failure to be an option, the reality was that some did fail in certain DMs. It appeared that of those respondents who did raise previous failures during the interviews, some of the most significant learning that took place was through those failure experiences, affecting the conduct of future market entries (Nadolska and Barkema 2007; Thomas *et al* 2007). This further highlighted the importance of *experience/learning* as a critical success factor. It is worth considering the specific reasons cited for failure by the respondent companies.

There were 3 respondents that specifically mentioned failures in the interviews. The first respondent was not sufficiently prepared for the legal and regulatory environment of the DM they chose to enter and ended up in a lengthy litigation process. This highlights the importance of *understanding the legal/regulatory* *environment* as a critical success factor. The second respondent pointed out how they entered a segment of a DM that changed shortly after entry. This was discussed in **Section 5.4.3**. Moreover, the basis on which they had to compete in this altered environment was strategically different to their typical business model, which resulted in strain on the business. The third respondent also alluded to an altered business model in the specific DM and a potential lack of strategic clarity. The company did not play to their strengths (Rugman and Verbeke 2005) and lacked the critical mass, partly due to financial constraints (which reinforces the *financial management/capital* critical success factor), that it needed in order to be successful.

The findings and discussions clearly indicate that the original proposition outlining the critical success factors for EMC expansions into DMs is proved to be true for all the factors except *use of developed market technologies* and *an exit plan/strategy.*

5.5 Discussion pertaining to Proposition 2

5.5.1 *Results*

The top 5 critical success factors pertinent to EMC expansions into DMs are depicted in **Table 13**:

Table 13: The top 5 critical success factors

[redacted]

Firstly, it is reassuring to note that each of the success factors identified in the top 5 were also concluded as being critical success factors in terms of proposition 1. In fact, other than an *experienced management team*, which 14 out of 15 respondents considered critical, the other 4 critical success factors in the top 5 were all considered critical by all 15 respondents. Secondly, the fact that each of the critical success factors in the top 5 were all identified by at least 50% of the respondents as top 5 critical success factors adds further support to the validity of this top 5 list.

The critical success factors making up the top 5 are in line with the work of Erez-Rein *et al* (2004). Despite their research focusing on cross-border acquisitions only, this was not anticipated to impact the research, based on the fact that the majority of respondents favour acquisitions as an entry approach (Sauvant 2005; Kumar 2009), rather than greenfield, as shown in **Section 5.3.3**.

It is interesting to note that although Erez-Rein *et al* (2004) considered cases involving American and Israeli companies, the results are still the same for this research, which focused specifically on EMCs entering DMs. It would appear based on this that the 5 most important critical success factors are the same, regardless of whether the investor or target company is from an EM or DM. It seems likely that should a study have been performed considering the top 10 critical success factors, then differences may well arise in the range from 6 to 10, depending on whether the investor and target company are from EMs or DMs.

The inclusion of *integration and corporate culture management* in the top 5 further upholds the literature around EMCs favouring acquisitions as an entry mode into DMs (Luo and Tung 2007; Kumar 2009), referred to in more detail in **Section 5.3.3**. The reason for this is that integrating businesses and managing different corporate cultures is only really relevant when mergers or acquisitions take place, rather than greenfield entries. Moreover, the importance of culture within the respondent companies was also discussed in **Section 5.4.4**.

Clear objectives/goals for the expansion links closely with strategy in general, an area that a number of respondents highlighted during the interviews. Based on the literature, it would also be expected to be in the top 5, as it was highlighted as being imperative that EMCs have clear objectives for expansionary activities, particularly into DMs (Khanna and Palepu 2010). 1 respondent indicated that when an EMC enters a DM, it really has to hit the ground running, which is very much in line with Bonaglia *et al* (2007) in regards to the noted accelerated approaches undertaken by EMCs. The same respondent elaborated further that in order to achieve this, the company requires absolute clarity around its strategy and objectives for the DM.

The inclusion of *experienced management team* in the top 5 was also not surprising. Although a number of respondents indicated that they like to be hands-on involved in the DM operation, the general sentiment also seemed to be that management must be given sufficient autonomy in order to accomplish the goals set forth by the EMC. In order to provide this autonomy, the EMC needs to be satisfied that the management will have sufficient experience to get the job done.

As noted in **Section 5.3.3**, acquisition is the favoured entry mode into DMs for the respondent companies. As such, it would be expected that *due diligence with high degree of care/accuracy* would be included in the top 5, as this is a critical part of any acquisition. It becomes even more important when one considers the noted accelerated approaches to internationalisation by EMCs (Bonaglia *et al* 2007), as a company that potentially rushes an acquisition may be prone to error and hence the due diligence process needs to be even more efficient and accurate than it might normally be. Moreover, as one respondent pointed out, the seller of a business always knows more about the asset than the buyer. This simple point alone highlights the criticality of the due diligence.

Once again, the inclusion of the critical success factor *financial management/capital* was expected, given its critical role in breathing life into any operation. It is the financial capital that ultimately sets up the operation or effects the acquisition. Moreover, it is the financial capital and management that ultimately sustains the business in the DM. Given the fact that entry into a DM is usually a costly exercise (Khanna and Palepu 2010), the criticality of this factor is exacerbated further. One respondent specifically mentioned that EMCs need far more financial capital than just the means to enter and sustain normal operations. They also need capital to sustain losses if the unexpected occurs. Another respondent pointed out how the financial capital environment contributed to the circumstances that enabled their opportunistic entry into a

DM. This particular company entered a DM during the global financial crisis (discussed in **Section 2.2.2**) – a time when banks in DMs had liquidity restraints, whilst banks in SA were not constrained the same way. As a result, the respondent was able to enter the DM utilising cash made available by SA financial institutions and obtain the required assets. Again, this highlights the important role *financial management/capital* can play in achieving success in a DM.

Only two other critical success factors came remotely close to inclusion in the top 5, as well as to the level where 50% or more of respondents considered them to be top 5 factors. These two factors were *understanding of local customers* and *management team with local content*, both which were placed by 47% of respondents in the top 5.

There is no question that understanding local customers is crucial. This factor may have been negatively biased by certain respondents due to their reasons for entering certain DMs. **Section 5.3.2** showed that 4 respondents indicated similar target markets as one of their reasons for entering the DMs. It further showed that 2 respondents followed local clients into the DMs. A potential inference from this is that some respondents may place lower levels of criticality on understanding customers in DMs if they feel they already know some of the customers there through similarity in target markets or dealings with the same customers in the home market.

In terms of having a *management team with local content*, it is interesting to note that another management-related critical success factor, namely having an *experienced management team,* was included in the top 5. This highlights the large importance placed on management in general when it comes to being successful in DMs.

It is also interesting to note that despite the request from the researcher to identify the top 5 critical success factors, 5 of the respondents, representing 33% of the sample, specifically indicated during the interviews that all of the factors are in fact important and necessary in order to successfully manage an operation in a DM.

5.5.2 *Ranking of the top 5 critical success factors*

Although the researcher did not set out to determine the ranking of those critical success factors within the top 5, the frequency with which each factor was placed by respondents in the top 5 enabled a ranking within the top 5 to be determined. This would be particularly useful to members of management considering expansionary activities as it indicates the relative importance of the 5 most important critical success factors.

Table 14 illustrates the relative ranking of the top 5 critical success factors based on frequency of occurrence in the top 5.

Table 14: Ranking of top 5 critical success factors

[redacted]

The factor *clear objectives/goals for the expansion* appeared 12 times in the top 5, meaning that 80% of respondents believed that this critical success factor belongs in the top 5. The factor *experienced management team* appeared 11 times in the top 5, meaning that 73% of respondents placed this critical success factor in the top 5. Given that this represented the second highest number of times in the top 5, this critical success factor received a ranking of 2. The same is true for the critical success factors ranked 3, 4 and 5.

The ranking results are not unexpected and make sense, particularly in light of what 1 respondent indicated, being that the basics and the big picture will always be the most important things to get right. It would appear logical that the most important factor is for a company to know why they are in a particular DM and what they want to achieve there. Moreover, success in the DM will likely be determined and measured in relation to goals and objectives defined by the EMC with regards to the DM entry. Thereafter, having a capable, experienced team on the ground to manage the operations is crucial. The viability of the expansion is largely determined by the due diligence process, whilst ensuring adequate financial management and capital availability ultimately enables the entry into and sustainability of the business in the DM. Lastly, given the noted focus on acquisitive entry (Sauvant 2005; Kumar 2009) indicated in **Section 5.3.3**, as well as the potential sensitivities around absorbing or merging businesses and in particular one from a DM and one from an EM (Khanna and Palepu 2010), a ranking of 5 for *integration and corporate culture management* makes sense.

5.5.3 *Clusters of top 5 critical success factors*

In line with the discussion in **Section 5.4.5**, it is useful to consider the clusters into which the top 5 critical success factors would fit. This is illustrated in **Table 15**.

Table 15: Clustering of top 5 critical success factors

[redacted]

It is very interesting to note that 4 of the top 5 critical success factors fall into the *planning* cluster and only 1 into the *post* cluster. Moreover, the top 4 spots in terms of the ranking are all occupied by success factors falling into the *planning* cluster. This clearly shows how important the planning process is for EMCs entering DMs. Management of EMCs should take cognisance of this, particularly in light of the fact that EMCs have been noted to employ accelerated internationalisation (Bonaglia *et al* 2007), springboard (Luo and Tung 2007) and leap-frog (Boisot and Meyer 2008) approaches into DMs. 1 respondent clearly stressed during the interview how short on time the company was when making a previous entrance into a DM.

The information highlights the importance of adequate planning. Furthermore, it suggests that EMCs should exercise caution when making hasty expansions and should commit sufficient time and resources to the planning process. A company should not rush at the expense of planning activities as this might be the difference between success and failure.

The findings clearly indicate that the proposition relating to the composition of the top 5 critical success factors is proved to be true.

5.6 Conclusion

This chapter discussed a number of key points and important issues relating to EMC expansions into DMs. It considered the DMs into which the respondents had entered, noting that the United Kingdom was the favourite, followed by Australia and the United States, most likely due to their market sizes, familiarity and convenience. Other popular DMs included *inter alia* Germany, Canada and France. Interestingly, only 3 respondents had entered 1 DM only, with the majority entering multiple DMs. In fact, across the sample, respondents tended to have entered at least 3 DMs each on average. A total of 25 DMs had been entered into by respondents, indicating the wide reach and geographic dispersion achieved by many EMCs. This highlights once again the importance of DMs as a host location for EMCs (Cantwell and Barnard 2008) and reaffirms the growing levels of integration and globalisation (Lloyd 1993).

There is wide variety in the reasons driving EMC internationalisation (Goldstein and Pusterla 2010). The most common reason for entering DMs was for the size of the markets and associated potential for long-term growth (Dunning 1993; Sauvant 2005; Salehizadeh 2007; Buckley *et al* 2008; Cantwell and Barnard 2008). Other popular reasons included diversification (Ghymn 1980; Boddewyn 1985; Boisot and Meyer 2008; Goldstein and Pusterla 2010), opportunistic behaviour (Kumar 2009; Gammeltoft *et al* 2010; Goldstein and Pusterla 2010) and belief that the required competences were on hand in order to be successful in the DMs. The reason that the respondents felt they had the required competences to compete in DMs was most interesting, as it was contrary to the literature, which expected EMCs to want to enter DMs in order to acquire DM expertise and competences, rather than exploit existing capabilities (Luo and Tung 2007; Boisot and Meyer 2008). Opportunistic behaviour was also an interesting reason as it points out that EMCs tend to be ready to act when opportunities arise. The recent global financial crisis for example facilitated conditions that created opportunities for many EMCs (Kumar 2009) which many have taken advantage of. Another significant deviation from the literature in this area related to the expectation that companies would expand in order to achieve scale or other cost advantages (Dunning 1993; Sauvant 2005). This was shown to not be a very popular reason amongst the respondents, most likely due to the fact that the existing literature tended to focus on the activities of companies from DMs (Goldstein and Pusterla 2010), many of which do internationalise in order to achieve cost or scale efficiencies, whilst the focus of this study was on EMCs.

In terms of entry mode into DMs, respondents clearly preferred acquisition to greenfield operations, which was very much in line with the literature (Sauvant 2005; Luo and Tung 2007; Kumar 2009; UNCTAD 2010). There was however slight deviation from some literature in that none of the respondents considered mergers to be a preferred mode of entry, whilst Sauvant (2005) and Kumar (2009) referred to M&A, being mergers and acquisitions collectively. Moreover, the respondents were very definitive about their preference, mostly noting that their favoured approach was the only approach they would consider. Some respondents indicated that acquisition was the only logical approach for their businesses in a DM as the existing industries and businesses there tend to be mature (Thomas *et al* 2007) and starting a new business with all the associated barriers to entry (Globerman and Shapiro 2008) would not make sense. There were only 2 respondents that preferred greenfield operations. The one respondent has a business that lends itself to greenfield start-ups, whilst the other respondent has a very specific way of entering a DM, which involves a joint venture with a local partner. As such, the specifics relating to each respondent's business and strategic approach were what influenced those companies to favour greenfield operations over acquisitions.

Proposition 1 was true for all success factors except *use of developed market technologies* and *an exit plan/strategy.* Although *use of developed market technologies* came close to inclusion as a critical success factor, a number of possible reasons may have contributed to its exclusion, which is contrary to the views of Monkiewicz (1986), Dunning (1993) and Buckley *et al* (2008). Certain respondents believed they already had the competences and capabilities to be successful in the DMs, as indicated by the fact that this was actually identified by respondents as the joint second most popular reason or driver for entry into DMs. Another reason given for its non-criticality was that certain respondent business sectors are less reliant on technologies in general than others might be.

The success factor *an exit plan/strategy* was unanimously declined as being critical by all respondents. The majority indicated that they did not believe they would fail and hence did not see a need to plan for it. Other potential explanations may be rooted in the noted accelerated and sometimes rushed internationalisation approaches employed by EMCs (Bonaglia *et al* 2007). There was a very clear message, however, that respondents felt they were good enough to be in those DMs, they knew they wanted to be there, had performed sufficient due diligence and employed sensitivity and scenario planning as a means of considering downside risk. But regardless of measures taken, they still believed they would be successful. This interesting corporate mindset and self-belief may be rooted in the specific cultures fostered within respondent companies. It may also be due to such companies developing in the SA market, where they might have been influenced by many of its inherent peculiarities.

Following from the aforementioned culture discussion, it was noted that the majority of respondents felt there was a very strong culture prevalent within their organisations. Moreover, many respondents also felt that they needed to be very hands-on and involved within their DM operations, most likely driven to some extent by their corporate cultures. As a result of this, a number of respondents cited the importance of placing expatriates within their DM operations, partly in order to infuse the right culture into the new operation.

Furthermore, it is possible that these strong corporate cultures are partly to blame for the confidence, self-belief and cannot-fail attitudes inherent in some organisations. They are certainly responsible for fostering the entrepreneurial mindsets present in many of the respondent companies, demonstrated clearly by the EMC desires to venture offshore, in particular into DMs.

In light of the aforementioned consideration that EMCs from SA may have been affected by unique conditions within the SA business environment, the results from The Global Competitiveness Report 2010-2011 were examined. Such results showed that the BRICS nations ranked between 27 and 63 out of 139 countries. Within the Report, there are 12 pillars or sub-categories. The presence of vast differences in scores across certain of the pillars for different EMs clearly supports Hoskisson *et al* (2000) in showing that EMs are by no means homogeneous. As a result, it is logical to presume that EMCs from different EMs may develop in different ways, with different traits, cultures and/or other nuances. SA in particular experienced a very challenging period in its history where many of the respondent companies had to operate in an isolated business environment due to the constraints of the apartheid system. This influence may well have affected the EMCs that originate from SA in very unique ways, possibly as far as influencing the corporate cultures, strategic mindsets and entrepreneurial drive.

Of even more interest was the fact that SA actually outscored DMs like the United Kingdom and United States for pillars such as *financial market development* and *macroeconomic environment.* This may fuel arguments relating to why EMCs from SA enter DMs with confidence and an absolute belief that they will succeed. It may also help explain why EMCs from SA might be less inclined to see *use of developed market technologies* and *an exit strategy/plan* as critical success factors. These results could certainly support the contention from certain EMCs from SA that they have the requisite competences and capabilities to compete with the best companies in any DMs.

Despite respondent companies believing they would succeed and that their competences are as good as those in DMs, it has still been the case that some respondents have experienced failures in certain DMs. It was clear that the respondents learned valuable lessons from the failure experiences for future entries (Nadolska and Barkema 2007; Thomas *et al* 2007), for example ensuring that they play to their capabilities and strengths (Rugman and Verbeke 2005), which highlights the importance of the *experience/learning* critical success factor.

Certain success factors deemed critical for purposes of this study were still considered not critical at times by a small number of respondents. Reasons why specific respondents did not think certain success factors were critical was sometimes due to peculiarities in respect of the type of business or the industry as a whole. Certain businesses or industries will place more value on certain success factors than others might.

New success factors identified by respondents but not concluded as critical included *partners and brands, market dynamics and strategic flexibility, products for the market* and *environment after entry into developed markets.* In the cases of *partners and brands* and *products for the market,* these were somewhat peculiar to the specific respondents, their choice of entry modes and the types of businesses they operated in. The aspect of strategic flexibility was very interesting as it indicated the need for flexibility and adaptability in terms of strategy and business models employed. It also tied in with *environment after entry into developed markets,* which also highlighted the potential for significant changes in the market or greater environment following entry into a DM, circumstances that would necessitate strategic flexibility in order to survive. This did agree with some of the work performed by Luo and Tung (2007) who viewed flexibility, innovation and speed as important traits for the internationalising firm.

Proposition 2 was also true and very much in line with the literature. Despite the fact that much of the literature had focused on DM companies whilst this study focused on EMCs, the results were still consistent and aligned. Interestingly, this indicates that the top 5 critical success factors likely do not differ regardless of whether the expanding company or target company is from a DM or an EM. This also highlights the fact that the top 5 were dominated by what can be considered big-picture success factors.

An ancillary benefit of the research was the ability to perform a ranking for the top 5 critical success factors based on the frequency with which respondents included such factors in the top 5. *Clear objectives/goals for the expansion* was the most important, followed by *experienced management team, due diligence with high degree of care/accuracy, financial management/capital* and lastly *integration and corporate culture management* in fifth position.

Another interesting exercise involved clustering critical success factors according to when they should take place. The majority of critical success factors required focus during the planning stages for an expansion. Moreover, rankings 1 to 4 of the top 5 were occupied by factors taking place during the planning stages. As such, the planning aspect of entry into DMs was stressed as the most important. This was particularly important for EMC management teams who have previously had a tendency to rush internationalisation or pursue accelerated approaches (Bonaglia *et al* 2007), hence opening themselves up to errors and potential failure.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The chapter begins by presenting the summarised findings and conclusions of this study. Thereafter, recommendations are made to the stakeholders identified in **Section 1.4**. Following from this, the chapter closes with suggestions for further research.

6.2 Conclusions of the study

The impact of globalisation is more evident than ever before. EMC activity around the globe is becoming an increasingly common phenomenon. Representing the source of around one quarter of global FDI outflows (UNCTAD 2010), EMs are taking an ever-growing role in the global economy. With healthy balance sheets, strong home market growth and building aspirations to internationalise into true MNCs, comes the increasingly publicised entries by EMCs into DMs. Recent examples include Chinese firm Lenovo’s acquisition of the Personal Systems Division of United States-based IBM and South African bank Investec’s acquisition of United Kingdom-based Evolution. With the global marketplace showing signs of structural change and rebalancing of world economic power (Goldstein and Pusterla 2010), driven to some extent by the global financial crisis and the more recent Euro-zone crisis, EMs are flexing their muscles and their increasing presence in DMs will likely increase.

EMCs from SA are widely spread across at least 25 DMs. The preferred DMs are the United Kingdom, Australia and the United States, indicating a tendency toward English-speaking, conveniently accessed locations. The least popular markets accessed include Poland, Greece, Finland, Denmark and Portugal. The majority of EMCs tend to enter multiple DMs (with the average for the respondent group exceeding 3), rather than focusing on just one, supporting the literature that indicates that DMs are becoming an increasingly important host location for EMCs (Cantwell and Barnard 2008).

EMCs enter DMs for numerous reasons, the most widely noted including to gain access to larger markets, to add diversification to their businesses and due to the belief that their competences and capabilities are on a par or better than their DM counterparts. The latter reason highlights a key difference from most existing literature, which did not believe EMCs could be driven by the desire to exploit existing competences and capabilities (Luo and Tung 2007; Boisot and Meyer 2008). The difference might be explained by peculiarities within the SA market, which have enabled and fostered the development of EMCs with DM capabilities. One of the least cited reasons for entering a DM was in order to acquire expertise, which reinforces the mindset that EMCs from SA believe they already have the capabilities to operate effectively in DMs. In fact, a key theme that emerged from many of the interviews was that many EMCs believe they already have what it takes to compete with the world's best firms in the most advanced markets, win customers and create sustainable growth in their businesses for their shareholders. Another key difference with existing literature was that very few respondents expanded into DMs in order to achieve scale or cost efficiencies (Dunning 1993; Sauvant 2005). The likely reason for this difference was due to the fact that much of the existing literature in this area did not specifically cover instances of EMCs entering DMs. In fact, most of the previous literature centred on companies from DMs (Goldstein and Pusterla 2010), which often expand in order to achieve cost or other efficiencies. This further supports the value added by this study to the growing body of research focused on EMCs.

Another key reason or driver cited by respondents for entering DMs is that of EMCs engaging in opportunistic behaviour. In many instances, respondents entered DMs due to unexpected opportunities being presented. This is very interesting, as existing literature has indicated that EMCs employ accelerated (Bonaglia *et al* 2007), springboard (Luo and Tung 2007) and leap-frog (Boisot and Meyer 2008) approaches to internationalisation. There are a number of possible reasons why EMCs may wish to internationalise quickly, however the literature did not make mention of opportunistic behaviour as a potential reason. If opportunities arise, companies generally have a narrow window in which to act on the opportunity. Given that a number of respondents entered DMs due to unexpected opportunities, this may well be a contributing reason as to why EMCs have tended to undertake expansion activities in an accelerated manner.

Acquisition as a mode of entry is overwhelmingly favoured by EMCs, most likely due to the speed of execution and the mature market environment prevalent in DMs. Greenfield operations would be extremely difficult for most businesses in DMs, due to the high level of competition and barriers to entry. Nevertheless, some respondents do opt for greenfield entries, but this is due to the peculiar nature of their businesses or strategic approaches to new markets, which necessitates greenfield entries. As a result, management of EMCs must pick the entry mode that suits their businesses and strategic requirements. Whatever choice is made, EMCs should try to be consistent with that choice for each new DM, as this will enhance the learning and experience inherent within the organisation. In both the IBM and Evolution examples, referred to in **Section 1.2**, acquisition was the employed mode of entry.

In considering EMC expansions into DMs, the following were determined to be the critical success factors:

- Corporate brand management
- Understanding of local customers
- Customised marketing strategies
- Financial management/capital
- Understanding the legal/regulatory environment
- Experienced management team
- Management team with local complement
- Organisational structure and design
- Corporate governance and citizenship
- Management of external stakeholders

- Clear objectives/goals for the expansion
- Integration and corporate culture management
- Due diligence with high degree of care/accuracy
- Experience/learning

Two success factors, identified in the literature, were excluded as critical success factors for purposes of this study. The first factor was *use of developed market technologies.* Firstly, a number of businesses may not be technology-intensive or reliant and as such, acquiring technologies are not critical to certain businesses succeeding in DMs. Secondly, as already indicated, a number of respondents felt they already had the capabilities and competences required to succeed in DMs. Moreover, they actually discounted acquiring expertise as a driver for entering DMs.

The second factor excluded as critical by respondents was *an exit strategy/plan.* There was a general theme that the EMCs did not expect to fail and as such did not see any value in having an exit plan or strategy. Consideration was given to the possibility of this signalling an underlying theme amongst the EMCs from SA. Many of the respondents highlighted the presence of a very strong culture within their organisations. Moreover, certain of the respondents are in fact renowned in SA for their unique cultures, particularly with respect to entrepreneurial flair. The very fact that these organisations are expanding from EMs into DMs corroborates the entrepreneurial nature of these organisations. As such, the mindsets of success, not expecting to fail and self-belief may well be rooted in the strong cultures within these organisations. The importance of the culture to the respondent companies is highlighted by the very hands-on approach that many respondents take to their DM operations, as well as their requirement for the placement of expatriates into DM operations, to ensure *inter alia* the infusion of the correct corporate culture.

Following from the preceding paragraph, to take the argument a step further, it was also considered that there may be or have been peculiarities in the SA market or business environment that might have facilitated the development of

EMCs with certain unique traits, which may well include the fostering of strong cultures with embedded entrepreneurial traits. The Global Competitiveness Report 2010-2011 showed that despite SA being an EM, its ranking within the pillars of *financial market development* and *macroeconomic environment* were in fact higher than those for certain DMs like the United States and United Kingdom. This is unexpected and may suggest that if such peculiarities exist in the SA market, then EMCs from SA may also develop with certain DM traits and abilities. This further lends support to the respondents' self-belief that they have the required capabilities and competences to be successful in DMs.

The results of The Global Competitiveness Report 2010-2011 also highlighted how vastly different one EM can be from another. This is very much in line with existing literature. The overall ranking range for the BRICS nations as well as Argentina and Nigeria is from 27 to 127, with large differences across the *basic requirements, efficiency enhancers* and *innovation and sophistication* sub-indices. This also points out that literature on specific EMs may not fit other EMs, due to the presence of inherent peculiarities across countries, likely necessitating studies to be EM-specific in nature.

Despite the respondents not expecting to fail in DMs, in certain instances they have failed, due to reasons such as, *inter alia,* straying from the existing business model (Rugman and Verbeke 2005) or not paying sufficient attention to the local regulatory environment. Nevertheless, they used the failures to derive valuable learning which could be employed for future entries into DMs, which highlights the importance of the *experience/learning* critical success factor.

Some respondents raised success factors not identified in the literature. Such factors included *partners and brands, market dynamics and strategic flexibility, products for the market* and *environment after entry into developed markets.* Some of these factors are very specific to the nature of certain businesses. But a key theme derived from the above factors relates to the need to be adequately prepared, to have a flexible, robust strategy and to be able to respond to changing conditions efficiently. Scenario planning, sensitivity analysis and other planning activities are paramount in being prepared and flexible.

The following were determined to be the top 5 most important critical success factors:

- Due diligence with high degree of care/accuracy
- Clear objectives/goals for the expansion
- Experienced management team
- Integration and corporate culture management
- Financial management/capital

The findings agreed with the existing literature, which was interesting given that the existing literature focused on American and Israeli companies. It is apparent from this that the top 5 most important critical success factors are in fact the same whether the companies are from EMs or DMs. Given the big-picture nature of the top 5 factors, this is in line with expectations.

The ranking of the top 5 critical success factors in order of importance is as follows:

1. Objectives/goals for the expansion
2. Experienced management team
3. Due diligence with high degree of care/accuracy
4. Financial management/capital
5. Integration and corporate culture management

The planning phase of any expansionary activity was shown to be the most important, as evidenced by the number of critical success factors both in the comprehensive list, as well as in the top 5, that require focus prior to execution of an expansion, being in the planning phase. This is an important consideration, given that it has been noted by various academics that EMCs often internationalise quickly and in great leaps (Bonaglia *et al* 2007; Boisot and Meyer 2008). This indicates that EMCs should be mindful not to rush an expansion into a DM at the expense of ensuring that adequate planning and the associated critical success factors are adequately addressed.

Despite the fact that EMs have typically been regarded as destinations rather than sources of FDI (Dunning *et al* 2008), this study has corroborated previous literature that supports the growing significance of EMs as active investors around the world, particularly into DMs.

6.3 Recommendations

The first stakeholder groups to consider are those within EMCs themselves. These include the management teams, corporate finance teams, strategy teams and board of directors. If an EMC is considering expansion into DMs, the various teams should consider the key findings of this study. They need to be aware of the 14 critical success factors so as to ensure that each is adequately addressed as this will enhance the chances of long-term success in the chosen DMs. In addition, they should focus more attention on the top 5 critical success factors, as these are the most important. Moreover, significant effort needs to be put into the planning phases of any expansionary activities, as the majority of the critical success factors, in particular in the top 5, need to be addressed before the actual expansion takes place. Following from this, a key recommendation is therefore to take all steps necessary not to rush an expansion at the expense of important planning activities, as this can ultimately reduce the EMC's chances of success in DMs.

Further recommendations to internal stakeholder groups within EMCs are as follows:

- Be very clear as to why the company wants to expand into a DM, as this will form the basis for the strategy as well as how the benchmarks are set which determine success or failure.

- Ensure there is shareholder buy-in for any expansion into a DM as the company may well need financial assistance in the form of equity injections, either upfront for the expansion or later on should the DM operation take strain.

- Following from the above, ensure adequate scenario planning and sensitivity analysis is undertaken. This will provide a better understanding of the downside risks and will help assess the potential financing needs should the DM operation not perform well.

- Ensure that the company really does have the capabilities and competences to compete in the DM. Management should do their utmost to keep ego and over-confidence out of strategic initiatives. DMs are very competitive, tough business environments and the company should ensure that it has the right people with adequate local and/or international experience.

- Companies not necessarily seeking expansion offshore, particularly into DMs, should be open to opportunities that may arise from time to time. A number of respondents in this study entered DMs successfully due to unexpected opportunities.

- EMCs should ensure that the DM selected for entry makes sense in relation to the company's overall goals as well as the peculiarities present within that DM (for example, *inter alia,* proximity to the head office, proximity to other DMs that the company may also be interested in, local language spoken, size of the market).

- EMCs should determine the best entry method suited to their type of business and industry. Once selected, they should endeavour to stick to that entry mode, as this will enhance the learning and experience inherent within the business, contributing to more efficient entries into future DMs.

- As most EMCs tend to enter multiple DMs over time, companies should consider setting up in-house corporate finance teams. This will help ensure that the right skills are congregated in the right place as well as concentrate and facilitate the accumulation of learning and experience. Such corporate finance teams should work very closely with in-house strategy personnel and top management.

- EMCs should consider the strength and importance of their corporate culture prior to expanding into a DM. Thereafter, it should identify key areas within the DM operation where it should place expatriates, in order to facilitate infusion of the correct culture into the operation. Expatriates should be carefully selected and should be ideal corporate ambassadors, in particular with reference to the head office culture.

- EMCs should not stray from their existing business model and competences when entering a new market, in particular a DM. The companies should stick to what they know.

- EMCs should ensure that there is a level of dynamism and flexibility inherent within their strategies for DMs, as unexpected events can unfold and both the operation and the strategy need to be able to respond quickly and effectively.

Analysts covering EMC stocks should take note of the findings of this study in determining the likely future cash flows and performance of EMCs embarking on expansionary activities into DMs. They should consider the actions taken by EMCs in relation to the critical success factors identified in this study. Furthermore, they should assess whether such EMCs appear to be rushing the expansion, in particular if such expansion is greenfield in approach, in which case they should consider the potential impact on the long-term sustainability of the business.

Host governments of DMs should not perceive or treat EMCs differently to those companies emanating from other DMs. Goldstein (2008) pointed out that if people have a negative perception of a country, they will generally carry a negative perception of MNCs based in those countries. In light of this risk, host government officials should acknowledge that there is no need to retard EMC entries with red tape or other means of bureaucracy simply based on the origins of EMCs. The operations of many EMCs are as advanced as their DM counterparts, with best of breed technologies, processes and competences. As long as they comply with host country laws and regulations, they should be welcomed into any market. Their internationalisation efforts, in particular into DMs, should be accepted as elements of a changing global market and should be embraced as in many cases they can add significant value to DM customers.

Academics can utilise this study as part of the greater body of research surrounding EMs, in particular relating to the African continent, where research has been noted to be very light. Such academics should also take cognisance of **Section 6.4**, where suggestions for further research are indicated.

6.4 Suggestions for further research

As noted previously in this study, there can be substantial peculiarities amongst various EMs. As a result, it would be useful for similar research to be conducted within other EMs. For example, research could be done that considers the critical success factors pertinent to Brazilian company expansions into DMs. It would be very interesting to compare the results of this study with studies that focus on samples from other EMs.

Following from the previous paragraph, it would also be interesting to understand what the defining peculiarities are amongst the world's EMs and what the reasons are for these nuances. Research in this area could specifically focus on peculiarities in specific EMs that influence the state and development of locally-based MNCs.

As part of this study, some data was obtained relating to which DMs are most popular amongst SA's EMCs, as was discussed in **Section 5.3.1**. This was however not the purpose of this research and as such, it would be interesting for further research to be undertaken in this area. It would be useful to know which DMs are favoured by EMCs from other EMs like Russia or China. Furthermore, the reasons for specific DM preferences could also be explored.

Another interesting research area would be to analyse EMC exits from DMs. For instance, some respondents for purposes of the current research study indicated that they had previously exited from two DMs, namely Australia and the United Kingdom. A case study approach to this could be very valuable. The researcher could aim to understand firstly which DMs have most commonly been exited from and secondly what the main reasons or drivers were for the exit. Understanding why EMCs have exited from DMs would certainly add significant value to understanding what is required in order to be successful in DMs.

Yet another area for research might be to understand differences in strategic approaches and focus areas employed by EMCs depending on whether they are entering DMs or other EMs. Furthermore, it would be interesting to know whether there would be any differences in the critical success factors when the target country is an EM as opposed to a DM.

In light of some discussions in this study, it might also be useful to understand whether there are definitive cultural similarities between corporations (particularly EMCs) in SA, specifically looking for traits such as entrepreneurialism.

A related area for research might also be to investigate the impact apartheid and its effect on the SA business environment had on the development of EMCs from SA.

Lastly, it would be worthwhile to understand whether there is a regionalisation aspect to DMs entered into by EMCs. For example, if an EMC operates in the United States, will the proximity of Canada induce a decision to enter that DM? Or if an EMC operates in the United Kingdom, will it be more likely to enter another DM in Western Europe rather than Australia or the United States? This regionalisation approach has been examined in the context of EMCs entering other EMs, but not with respect to entries into DMs.

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APPENDIX A

NOTE: To clarify upfront to respondent that the focus of this study is on foreign direct investment, specifically through greenfield investment or mergers and acquisitions only.

Question 1

What first world markets/developed markets has your company entered into and why did you choose those markets?

Question 2

Can you give me a specific example as well as a little detail on how the company entered the country?

Question 3

In your opinion, and based on the experiences of the company, what were the critical success factors in expanding into those first world markets?

Question 4

Would you also consider XXXXXX ** to be critical success factors?

** If the respondent has not mentioned a success factor identified in the literature review, the researcher shall refer to such factors here (per the table below) in order to get their views.

[redacted]

Question 5

Would you mind identifying the top 5 critical success factors from the following list of success factors (refer to **List of Critical Success Factors**) based on your views of their importance? Any other factors that you have raised in this interview, not appearing in the list, can be classified under the categories described as “Other 1” to “Other 5”, should you believe them to be worthy of inclusion in the top 5.

List of Critical Success Factors

[redacted]

APPENDIX B

Dear Norbert

I'm not sure if you remember me – we met a while back. I work in the Investec Specialised Finance team. I previously did some work with Estienne de Klerk about 2 years ago.

I am currently completing my MBA at Wits Business School. My chosen thesis topic explores the critical success factors of emerging markets-based companies' expansion into first world markets. I'd like very much to include Growthpoint in my sample, given its advances into Australia. Other companies in my sample include Investec Bank, Nandos, Discovery, Steinhoff and Sasol, to name but a few.

I would like to set up 45 minutes with you to conduct a high-level interview, discussing some of the broader issues relating to your/Growthpoint's experiences in terms of expanding into a first world market. I am not looking for any sensitive information – I believe you can speak broadly around what you believe the critical success factors to be, obviously based on the experiences you/Growthpoint have had, but without reference to any specific incidents.

I am scheduling my interviews between mid-October and mid-November. If possible, please let me know what days/times would suit you.

Thanks and regards

Jeremy Katzen

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APPENDIX C

Company	Industry	Description
Investec Bank	Banking/Finance	• Provides a wide range of financial products and services that include *inter alia* private banking, investment banking, asset management, property investment and various capital markets offerings.
SABMiller	Beverages	• One of the world's largest and leading brewers. • The portfolio of brands includes Peroni Nastro Azzurro, Miller Genuine Draft and Pilsner Urquell.
Aspen	Healthcare	• Supplier of branded and generic pharmaceuticals, as well as consumer and nutritional products. • One of the top 20 generics manufacturers in the world and Africa's largest pharmaceutical manufacturer.
Bidvest	Food Services/Other	• An international diversified services, trading and

		distribution company. • Businesses include *inter alia* food services, financial services, freight management, cleaning services, security services, manufacture and distribution of electrical products and motor vehicle services and retailing.
Growthpoint	Real Estate	• Leading owner and manager of commercial property, operating in the retail, office and industrial sectors. • Recently acquired a 50% stake in Cape Town's Victoria and Alfred Waterfront property.
Netcare	Healthcare	• Operates a private hospital network. • Provides primary care facilities, medical emergency services, as well as private training for healthcare and emergency workers.
Mondi	Paper/Packaging	• A leading international paper and packaging group. • Provides solutions and

		products for diverse paper and packaging needs.
Nandos	Restaurant	• Operates restaurants and fast-food outlets specialising in flame-grilled peri-peri chicken.
Steinhoff	Furniture/Household	• Manufactures, distributes and retails furniture and other household goods. • Also owns diversified industrial businesses, as well as provides supply chain and logistics services.
Discovery	Insurance	• Operates in health insurance, life assurance and financial services.
Didata	IT Services	• Provider of specialist information technology solutions and services. • Solutions include *inter alia* data centre solutions, security solutions, network integration and advanced infrastructure. • Services include *inter alia* IT outsourcing, consulting and supply chain services.

Sasol	Energy	• A leading energy and chemicals company. • Energy business: manufactures, refines and markets fuels, oils and gas. • Chemicals business: producer of *inter alia* polymers, solvents, waxes and explosives.
Old Mutual	Long Term Savings	• Focuses on the long term savings market, but also provides asset management, banking and short term insurance.
Pick 'n Pay	Retail	• Retailer of food, clothing and other general merchandise through 775 stores.
Nampak	Packaging	• Manufactures packaging in metal, glass, paper and plastic. • Also in the tissue, barcoding and labelling solutions markets.