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Naidoo, Aveshan

2018
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Business success in Emerging Markets: A case of South African firms expanding into Africa

Aveshan Naidoo

1784487

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

Johannesburg, 2018

Protocol number: WBS/BA1784487/128

DECLARATION

I, Aveshan Naidoo, declare that this research article 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 Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Aveshan Naidoo



Signed at Sunninghill, Johannesburg, South Africa

On the 28th day of August 2018

ACKNOWLEDGEMENTS

To my wife, while I often wander off to pursue ambitious dreams, I am forever reminded that my heart lies with you. Your ongoing support, patience and strength has been the fundamental reason I have progressed this far with my studies. I look forward to the start of a new and lush chapter in our lives.

To my supervisor, I am truly grateful for your assistance and insights provided during the compilation of my research project. Your on-going persistence has provided that necessary transcendence in surpassing my own boundaries and capabilities in research.

SUPPLEMENTARY INFORMATION

Nominated journal:	South African Journal of Economic and Management Sciences
Supervisor / Co-author:	Bongani Munkuli
Word count †:	14,931
Supplementary files:	-

† Including abstract references, etc.

ABSTRACT

Background: Business in Africa is often associated with uncertainty and hence, risk, in light of significant growth opportunities. Gaining an understanding of how to effectively develop strategies and an approach tailored for emerging African markets is crucial for success, mitigating hurdles embedded in the continent. A case of South African firms entering these markets is a limiting perspective offered in literature and forms the significance of this study.

Aim: The purpose of this study is to facilitate a change in the way South African firms view other African markets. In this way, the study aims to promote foreign impact investment and liberation of the continent as a prime investment hub.

Setting: The study assessed South African firms which have expanded into Africa within the mining, infrastructure and retail sector.

Methods: A qualitative assessment was performed, employing semi-structured interviews of 10 South African based firms, covering major industries in Africa. A purposive sampling method was utilised, using grounded theory as the foundation for data analysis.

Results: The findings indicate that the compelling factors to venture into business outside South Africa include risk mitigation, growth opportunities, gaining a competitive advantage and improving productivity of the business. There are however, barriers to entry include which political, social, infrastructure, legislation and incorrect definition and implementation of a strategy when entering foreign markets. Key elements to success involve localisation, effective risk management and leveraging off regional advantages where relevant.

Conclusion: The fundamental aspect associated with business initiatives in Africa can be attributed to a localisation effort which encompasses a deep market understanding of legislation, customers, clients, government and infrastructure of the host nation. A definition of an entry strategy that will realise a successful, sustainable and impactful investment will be influenced by these factors.

Keywords: Emerging market strategies; South African firms in Africa; Succeeding in Africa

Introduction

Any form of business brimming with uncertainty can be classified as risky, as is the case with most African markets which filter through across countries as well as sectors. Organisations which have been involved in doing business in Africa have provided a mixed view of their experience on the continent (Khanna & Palepu, 2010). Since these views can have a profound impact on complementing foreign investment, there is a wide spectrum of sentiments ranging from invest in Africa immediately (Dupoux, Becker, Hammoud, & Fihri, 2016) to defer or even avoid investment altogether (Davies & Edinger, 2017). A common element on either end of the spectrum is the embedded uncertainty prevalent in emerging African markets. A crucial step to realise business success involves understanding how to overcome market entry and operational challenges and can often be an overwhelming task for the uninitiated (Courtney, Kirkland, & Viguerie, 1997). The main concerns are inclined towards managing legislative requirements and the risk of corruption embedded in the inner workings of doing business (Lawal, 2007). A recent example includes MTN being fined by the Federal Government of Nigeria for legislative non-compliance (Financial Times, 2017). Incidences of this nature have influenced and crafted a negative sentiment with regard to doing business in Africa. While these are fundamental challenges, they are not the only hurdles encountered when doing business in Africa. As such, these added complexities related to doing business on the continent have further compounded this view (Johnson, Ostry, & Subramanian, 2007). While the negative sentiments have depressed investment, there is still a significant drive for South African companies to establish a presence in African markets with the goal of reaping growth opportunities (Games, 2004).

While Africa has benefited from the commodity boom over the past two decades, there has been a rise in other sectors including retail, agriculture, transportation and construction (Leke, Lund, Roxburgh, & Wamelen, 2010). Through embarking on an economic diversification initiative, the real gross domestic product (GDP) growth for Africa has proved resilient, even during economic downturns, realising an average annual growth of 4.4%, surpassing the average world growth rate of

3.5% over the past decade (International Monetary Fund, 2017b). Focussing on recent times, a sharp drop in growth can be observed with signs of recovery in 2017 (International Monetary Fund, 2017b). The slowing growth has been largely attributed to the economic decline in resource rich countries which are heavily dependent on exports to the rest of the world and the growing perceived investment risk (PricewaterhouseCoopers, 2017). The recent challenges in Africa highlights macroeconomic weaknesses of currency depreciation and structural risk. However, the continent has found a path for regaining its position as a prime investment destination (Spangenberg, 2017). Businesses have discovered that while market conditions may be well defined in developed countries, they are not immune to change and thus, risk. In recent times, examples include the United States (US) fiscal and geopolitical uncertainty triggered by the presidential campaign led by Donald Trump as well as the exit of the United Kingdom from the European Union (Spangenberg, 2017).

These global changes are a catalyst for South African firms to revive their focus on business in Africa for growth. While the African continent is underdeveloped, these global changes pose both risks and opportunities for businesses. Therefore understanding the key attributes for doing business in Africa is becoming progressively crucial for firms to be not only successful in Africa, but also grow in a sustainable manner. Literature offers a limited insight on how to be effective in the emerging markets of Africa from a South African perspective. The fundamental aim of this project is to establish how South African firms can successfully tap into the opportunities entrenched in emerging markets. Consideration of the political landscape, economy, legislation, competition and consumers form the main elements used to address the objectives of this study.

Problem statement

One of the main challenges faced by organisations focused on growth is the matter of globalisation (Khanna, Palepu, & Sinha, 2005). While this may not be a unique observation, there has been a notable shift in economic activity from developed markets to emerging ones (Dewhurst, Harris, & Heywood, 2012). It

can therefore be deduced that business in emerging markets will assume a major role in global growth which is acknowledged by the International Monetary Fund (IMF) in their forecast for the years ahead (International Monetary Fund, 2017b). Africa holds a pivotal position in the emerging markets environment and is progressively recapturing its position as a prime destination for foreign investment (Ernst & Young, 2017). While businesses have shown a revitalised interest in Africa, there is a lack of understanding of how to achieve success, given historical performance (Eyring, Johnson, & Nair, 2011). A major problem encountered is the adoption of domestic business models for implementation in emerging markets, due to a lack of understanding of the market (Eyring et al., 2011). Lack of reliable consumer data, limited access to financing, corruption and inadequate infrastructure are among the culprits which perpetuate the problem (Rand Merchant Bank, 2017). The ramifications of this challenge include overlooked opportunities for firms and depressed investment in Africa. While increased investment is important, firms who able to succeed in Africa are often accused of exploiting the market at its infancy (Honest Accounts, 2017). Social responsibility is a reality and strongly associated with doing business in Africa (Luiz, 2006). It is therefore crucial to understand how to succeed in emerging markets in a sustainable and impactful manner, which is the knowledge gap this study seeks to fill.

Objective

The underlying objective of this study is to facilitate a change in the way South African firms view other African markets. In this way, the study aims to promote foreign impact investment and liberation of the continent as a prime investment hub. The following sub-objectives form part of this study:

- To acquire an understanding of why firms should invest in Africa;
- To evaluate the current challenges and success factors of doing business in Africa;
- To evaluate the key business elements requiring a tailored approach to market entry.

Significance of the study

Conducting business in Africa has never been more significant than in current times (Rand Merchant Bank, 2017). Africa is often associated with significant uncertainty and hence risk, which is no longer the case in modern times. Firms are realising that there is also significant volatility associated with doing business in developed countries (Tett, 2016). As such, there are huge growth opportunities in Africa if strategies and approaches are tailored for emerging markets and executed correctly (Leke, Jacobson, & Lund, 2016). There are indeed historical cases of South African firms that have expanded in Africa and failed. Therefore, understanding the requirements to enter emerging markets, as well as learning lessons from historical cases, holds significant value in improving the probability of success. These are features currently lacking in literature and the primary aim of this study is to address these gaps, thereby contributing to the existing knowledge base of doing sustainable business in Africa. The relevance of the results will provide a deeper insight through a repeatable framework in order to achieve business success that is valuable for investors, political leaders and business schools.

Research questions

- What are the drivers of investment in Africa?
- What are the barriers of doing business in Africa?
- What are the differentiating factors to succeed in Africa?

Literature review

Introduction

The literature review has been framed on the research objectives and questions defined in the introduction of this report. The review has been designed to provide insights into the attributes of emerging markets in Africa within the context of doing business for South African firms. Consideration of the macro environment, competition, opportunities and challenges collectively forming the African business conundrum, are the focal areas of this review which ultimately facilitates in a deeper understanding of doing business in Africa. Learnings from these encounters have been critically assessed in order to establish the current state of literature.

The African economy and the drivers of investment in emerging markets

Emerging markets have become increasingly prominent within the global economy, accounting for approximately 75% of global growth in output and consumption in recent times (International Monetary Fund, 2017c). Africa is still a commodity-driven continent which has both aided in rapid GDP growth as well as hampered growth during the commodity fallout (Deloitte, 2017). As a result, global economic growth is crucial for growth in emerging markets which became evident through the slowing growth in China, resulting in a reduction in commodity demand (Kaberuka & Leke, 2016). While limited diversity in emerging markets exposes these countries to economic risk, there has been a shift to reduce reliance on commodities in favour of trade, investment and domestic consumption (Kaberuka & Leke, 2016). The economy in Africa has nearly tripled in size over the past two decades and is represented in Figure 1. These changes have stimulated foreign investment into emerging markets, promising the opportunity of rapid growth through legislation geared for economic liberation (Wright, Filatotchev, Hoskisson, & Peng, 2005).

Africa's top three largest economies are South Africa, Nigeria and Egypt (CNBC Africa, 2017). The forecasts for the top five fastest growing economics in Africa

will be Ghana, Ethiopia, Côte d'Ivoire, Djibouti, and Senegal, all in excess of 6% growth rates (International Monetary Fund, 2017b).

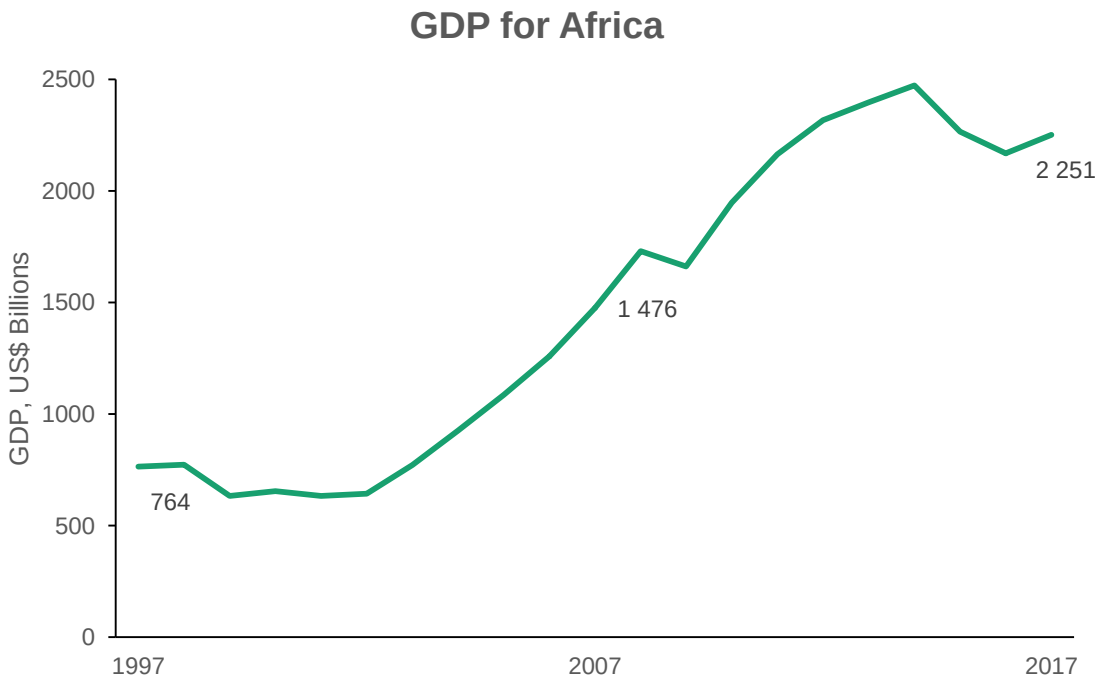

Figure 1: GDP for Africa

Source: International Monetary Fund (2017b).

While GDP has shown significant growth in absolute terms, real GDP growth has been hampered by high inflation (Peltonen, Sousa, & Vansteenkiste, 2010), decline in commodity prices and the general global economic slowdown (PricewaterhouseCoopers, 2017). Figure 2 highlights the historical profile of real GDP for Africa in comparison to the world which reveals a recovering growth rate comparable to the world in 2017. The main sectors poised for growth include retail, agriculture, healthcare, financial services, manufacturing and construction (Leke et al., 2016) holding significant opportunity for foreign firms willing to enter these markets.



Figure 2: Real GDP Growth Rates

Source: International Monetary Fund (2017b).

Natural resources have been Africa's dominant source of economic growth for decades (Sachs & Warner, 1997). This reality has been slowly changing complexion and in recent times, through improved global integration, GDP growth has been driven by private consumption and capital investment, coupled with a reduced reliance on imports (United Nations, 2017a). The change in GDP mix has been enabled through improved integration into the global economy (International Monetary Fund, 2017c) and is evident through increases in private consumption, capital investment and net exports. Figure 3 highlights this trend and it is anticipated that this will continue in the future as a result of rapid urbanisation.

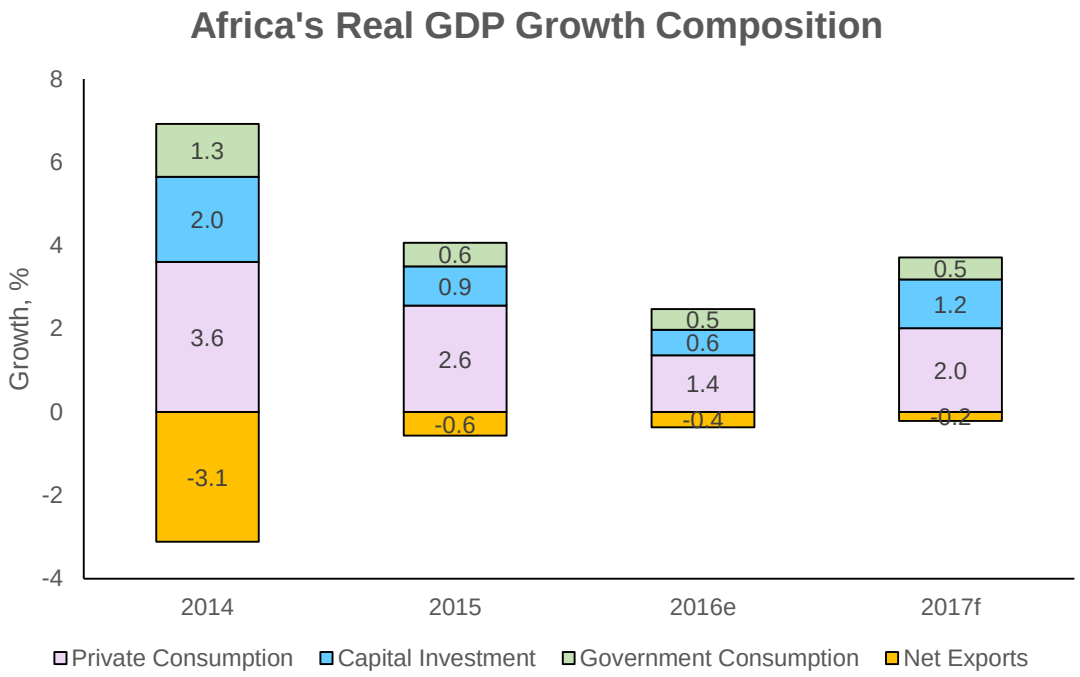

Figure 3: Real GDP Growth Composition

Source: United Nations (2017a).

Note: e=estimate, f=forecast

Foreign direct investment (FDI) forms a sub-category of capital investment and has been forecast to increase slightly in 2017 to US$65 billion with projects in real estate, infrastructure, energy and chemicals and automotives (United Nations, 2017b). Africa constitutes a fraction of FDI which is dominated by Europe, Asia and North America, accounting for approximately 80% of total FDI for 2016 (United Nations, 2017b). Major investors providing FDI in Africa include the United States, Europe, China and India (United Nations, 2017b). FDI forms a crucial factor in economic growth (Borensztein, Gregorio, & Lee, 1998; Erdal & Tatoglu, 2002) and Africa's inability to enhance investment is potentially due to the perceived risk on the continent which can be addressed through employing a credible reform process (Asiedu, 2002). Asiedu (2006) revealed that FDI was influenced through countries with large local consumption potential, natural resources, good infrastructure, economic stability, efficient legal systems and a strong investment framework.

While each emerging market has developed its unique embedded identity, there are shared features which can be observed. These features can be included in five distinct categories which include economic reform, demographics, urbanisation, skills and competitive threats.

Progressive economic reform involves establishing conducive policies with the sole aim of improving economic efficiency (Appiah-Adu, 1999). These policies are entrenched in the financial and trade sectors. In the case of emerging markets, these initiatives include the establishment of an economy integrated with the global economy which shows signs of improvement over time, resulting in economic growth and thus expansion. Lancaster (2009) argued that economic reform programmes in Africa were challenging to implement and in certain cases, were detrimental to the country's economy. While there may be strains of truth in this point of view, there was a limited understanding on how to tailor common economic reform principles for the African continent (Chhibber & Fischer, 1991). It would appear that this is no longer the circumstances in current times, as countries which have been actively progressing with economic reform have realised improved economic growth and competitiveness (Bughin et al., 2016).

Changing demographics and hence population growth, is naturally a major driver of global consumption and is one of the key factors which drives investment (Dobbs, Remes, & Woetzel, 2016). This relationship between GDP growth and population growth can be observed in Figure 4 which highlights the positive impact of population growth on GDP growth. Growth in working-age consumers is a key feature of emerging markets and can be viewed as an indicator of business opportunity (Cavusgil, Ghauri, & Ayse, 2013). A rise in the working-age population can result in improved GDP and GDP per capita which will have a direct impact on productivity and thus skills development. These consumers typically fall within the age range of 15 to 59 years (Dobbs et al., 2016). Africa's total population accounts for approximately 16% of the world's (International Monetary Fund, 2017b) and the top five most populated countries include Nigeria, Ethiopia, Egypt, Democratic Republic of Congo and South Africa

(WorldAtlas, 2017). The corresponding GDP contribution equates to a disproportionate 3% (International Monetary Fund, 2017b).

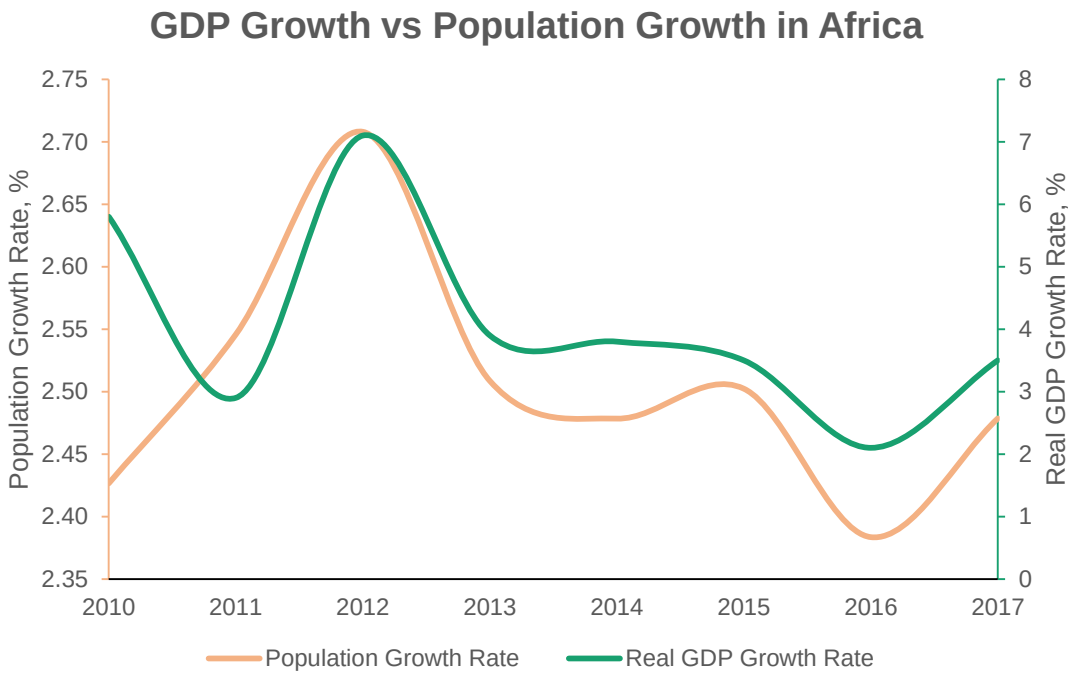

Figure 4: GDP Growth vs Population

Source: International Monetary Fund (2017b).

Urbanisation is the next attribute of emerging markets. A rapid shift to urbanisation is being realised for emerging markets (The World Bank, 2017). The main driver for this shift is linked to economic growth and industrialisation (Cavusgil et al., 2013). One of the major challenges associated with rapid urbanisation, coupled with population growth, is the limited infrastructure (Bond, 2016) and services made available to the African population (The World Bank, 2017). Structural deficiencies associated with education and infrastructure are common obstacles with emerging markets. An environment of this nature, while challenging for firms, creates an opportunity for innovation and growth potential (International Monetary Fund, 2017a; Sakarya, Eckman, & Hyllegard, 2006).

Aligned with the concept of urbanisation, a symptom of economic growth in emerging markets is an increase in demand for talent (McKinsey and Company, 2010). These skills are typically not available in emerging markets and hence are

often outsourced globally (Sheth, 2011). This trend enables firms to provide their unique skill set with an impactful outcome on the country and society through skills development, thereby growing the local economy and creating new potential markets for growth (London & Hart, 2004).

The main attraction for investing in emerging markets is economic growth through extracting new channels of sustainable revenue. Global GDP contribution from Africa accounts for approximately 3% (International Monetary Fund, 2017b) and therefore holds huge potential to radically improve. In the current economic times, firms are battling to achieve rapid growth and a main contender to assist here, is growing in Africa (Vorobyov, 2016). While this may be the initial reason for firms to consider investing in Africa, another trend observed is the emergence of competitors from these markets (Khanna & Palepu, 2006). The competitive threats emerging from these markets which were previously overlooked, are becoming increasingly relevant (Ramamurti, 2008). The top three competitive sectors include financial services, mining and natural resources and technology (Boston Consulting Group, 2009). These competitors are not only able to perform well in local economies, but also to compete in the global market (Ming & Williamson, 2008) and hence, pose a threat of rivalry. South Africa is often perceived as a gateway to Africa and enables a unique advantage of doing business in Africa due to existing trade agreements, as well as geographical proximity (Mushuku, 2006); an advantage not being fully employed.

Turbulence, instability and growing consumer demand, while initially perceived negatively, can often give rise to great opportunities (Rajan & Hardning, 2008). These are distinct attributes of emerging markets and hence draw the interest of investment. Key growth areas exist in the consumer market, natural resources, energy and transportation (Moyo, 2013).

Barriers to doing business in Africa

From a hopeless continent in 2000, to making Africa work in 2016, the Economist magazine has raised far-reaching and rather confusing points of view of doing business in the continent. A lack of understanding of the business environment

and associated complexities could be a reality not clearly defined in current literature. These factors have a natural impact on deterring foreign investment in Africa (Asiedu, 2002), thereby hampering growth and global competiveness. Meyer and Nguyen (2000) support this premise and argue that these institutional voids defer investors while there are some who attempt to overcome these hurdles, driven by the potential for success.

There are several sources of literature highlighting the challenges encountered when doing business in Africa. These challenges can be categorised as four main themes. These themes are contextualisation of the market, regulatory requirements, access to capital and infrastructure. Consider the withdrawal of Woolworths from Nigeria in 2013, where Ian Moir, CEO of Woolworths, cited rising operational costs and a challenging target market as the main reasons to exit (Business Report, 2013). Truworths also chose to exit Nigeria during 2016, due to stringent regulation of importing stock and high costs (Mail and Guardian Africa, 2016). A poor supply chain was cited by Famous Brands CEO, Darren Hele, as the reason to exit Tanzania, Ivory Coast and the Democratic Republic of Congo during 2017 (Fin24, 2017). Standard Bank was involved in a corruption scandal with the Government of Tanzania during 2015, and agreed to a pay-out of US$33 million (Business Report, 2015). The top five problematic factors of doing business in Africa include access to finance, corruption (Uhlenbruck, Rodriguez, Doh, & Eden, 2006), tax rates, inefficient government bureaucracy and inadequate infrastructure (World Economic Forum, 2017). These factors, in addition to innovation, impact on productivity and thus, global competiveness, resulting in Africa faring poorly, according to the Global Competiveness Index report by the World Economic Forum (2017). While data sources and credit histories are well established in developed markets, emerging markets tend to be in an infancy stage with respect to consumption data, market research, advertising and credit history (Khanna et al., 2005). This is a major challenge and a common oversight made by firms entering emerging markets who base decisions on inaccurate information sources (Adegoke, 2017). While the opportunity in Africa is highly lucrative, the embedded obstacles can be challenging and unique to the country and industry.

Differentiating factors to succeed in Africa

Succeeding in emerging markets encompasses aspects of strategy associated with the mode of entry and sustaining business operations through addressing the hurdles present in the foreign country. Strategies employed in emerging markets can be probed through three theories defined by Hoskisson, Eden, Lau, and Wright (2010). These comprise of institutional theory, transaction cost economics and a resource based perspective. Institutional theory is centred on the systems which influence the firm's behaviour in terms of market entry and sustainability (Peng, Wang, & Jiang, 2008). These elements can include political, social and economic orientations, defining the construct of doing business in the country. These features are often the starting point of developing an effective entry strategy for emerging markets. There are several modes of entry which a firm can consider when entering foreign markets. These can often include a greenfield investment, acquisition or joint venture (Raff, Ryan, & Stähler, 2006). The impact on selecting an appropriate mode has a significant bearing on the success of entry, as well as sustainability of the firm in that particular region (Anderson & Gatignon, 1986). Rijamampianina (2015) revealed that South African retail firms consider trade restrictions, political stability, demand, economy and corruption as key factors when considering market entry and suitable modes of entry into a particular regional space. Factors of low importance include prior experience in a particular African country which proved irrelevant, providing no material competitive advantage (Rijamampianina, 2015). Kalyanaram and Gurumurthy (1998) analysed various strategies employed by successful pioneers involved in market entry and identified three main parameters required for succeeding. These factors include (1) understanding market dynamics, (2) assessing capabilities and offering, and (3) formulation of a strategy. The main challenge in market entry lies in sourcing accurate information used to synthesise effective strategies for implementation (Kalyanaram & Gurumurthy, 1998).

As markets develop and realise maturity levels, transaction cost economics and resource based views become progressively more relevant (Hoskisson et al., 2010). Transaction cost economics is focused on firms assessing the viability of

expanding organically as opposed to establishing some version of a partnership through licencing or joint venture (Brouthers, 2002). While transaction costs remain low, the option of partnering becomes highly probable whereas in the case of high transaction costs, the option of a wholly owned subsidiary is likely (Brouthers, 2002).

A resource based perspective is grounded on resource utilisation, enabling capabilities which establish the firm in a competitive position (Wright et al., 2005). Klein and Wöcke (2007) postulated that South African firms possess specific competences which enable the ability to adapt to similar emerging market environments.

Emerging markets tend to be associated with some level of uncertainty and, as such, firms face risk when entering these markets. The strategies required to enter these markets tend to be very different to what established their operations in other regions (Bekaert & Harvey, 2003; Sime, 2010) and therefore require an holistic understanding of the local market. These countries are filled with institutional voids where consideration for political and social systems, transparency in doing business, knowledge of product, capital and labour markets are fundamentally key to success (Khanna et al., 2005; Mair & Marti, 2008) and to some degree, are comparable to the South African environment.

In order to overcome these challenges, innovative business approaches and economic liberation are fundamental to success (Eyring et al., 2011) which lacks definition in current literature from a South African perspective.

Methodology

Introduction

The research approach adopted for the project entails exploring the challenges and opportunities encountered by South Africa firms when doing business in Africa and hence, identifying the main attributes required to achieve business success. The definition of a suitable research paradigm and methodology is crucial in order to address the research questions while ensuring credibility of the findings (Chilisa, 2012). These elements are moulded based on the individual's values and beliefs (Chilisa, 2012).

Research paradigm and methodology

A research paradigm can be described as a philosophical orientation represented by the researcher's values and beliefs which have a direct influence on the execution of the research study (Patton, 2002). Certain paradigms can often be associated with specific methodologies (Chilisa, 2012). The value of defining a research paradigm lies in the ability to frame the research problem, guide the approach, as well as the methodology to be used (Wagner, Kawulich, & Garner, 2012). Creswell (2003) defined four main perspectives which include post-positivism, constructivism, transformative and pragmatism.

The research approach necessitated a critical assessment of South African firms who have expanded into emerging markets in Africa. The project followed a qualitative analysis, based on interpretation. Qualitative research has proved particularly valuable in analysing strategies applied in emerging markets, revealing novel and reliable insights (Hoskisson et al., 2010) which are limited on a purely quantitative approach. Doz (2011) supports these claims, expressing that qualitative research methods are strategically positioned to address the actions of organisations relating to international business, providing rich insights while reducing the risk of relying on a single viewpoint.

On this basis, a constructive paradigm has been proposed, based on the criteria defined by Chilisa (2012). The constructive paradigm relies on the participants' view of the study in order to identify core themes or patterns (Mackenzie & Knipe, 2006).

Data collection method

Qualitative research methods involve the collection and interpretation of textual data which can be derived from talk or observation (Malterud, 2001). Participant observation, interviews and focus groups are common techniques used in qualitative research (Mack, Woodsong, MacQueen, Guest, & Namey, 2005). Multiple semi-structured interviews were selected as the proposed data collection method. Interviews serve as an optimal instrument for data collection of experiences and perspectives (Mack et al., 2005), aligned to the objectives of this study. Voice recordings were used as the main tools for data collection. The interviews were conducted on selected South African firms that have expanded into African emerging markets.

Sampling method

A purposive sampling method was proposed for the selection of participants in interviews. Robinson (2014) explains the advantage associated with a purposive sampling method is that it enables non-random methodologies in selection of a representative and relevant sample population aligned to achieving credible results in the research. A total of ten semi-structured interviews were conducted covering the largest industries in Africa which include the commodity, infrastructure and retail sectors. The sample size was determined through achieving theoretical saturation, as defined by Mack et al. (2005) whereby presentation of new data provides little or no significant insights to the research questions proposed.

Sample population

The sample population was based on selecting core industries on the African continent which included mining, infrastructure and retail sectors. A summary of the sample industries is represented in Table 1. A total of ten semi-structured interviews were conducted. No reference to the firm or interviewee has been made in the report as per the confidentiality terms agreed to with the interviewees. The firms in the report have been allocated sequential identification numbers for reference purposes.

Table 1: Sample Industries

Company	Industry
1	Mining
2	Mining
3	Retail
4	Infrastructure
5	Retail
6	Infrastructure
7	Infrastructure
8	Infrastructure
9	Retail
10	Retail

Data analysis method

Grounded theory was used as the foundation for qualitative data analysis. The concept was developed by Glaser and Strauss (1967) and entails analysis of data through interactions grounded on the views extracted from participants in the study (Creswell, 2003). Yin (2003) defines this method as the most desirable technique in qualitative analysis as this approach improves internal validity.

Reliability of the research

The goal of reliable research is to ensure repeatable and unbiased results. An operational process associated with the execution of collecting data is

encouraged by Yin (2003) in order to improve the reliability of the research. Therefore, in order to ensure reliability, a systematic and semi-structured interview process was conducted.

Validity of the research

An adapted three stage approach defined by Yin (2003) to test validity of qualitative research is shown in Table 2. These three tests consider construct, internal and external validity. Construct validity was addressed using multiple sources of data, identifying key themes in the findings in order to extract aspects aligned to addressing the problem statement. The research was externally reviewed by a supervisor, facilitating and guiding the research initiative. Internal validity was based on pattern-logic matching while external validity was addressed through repeatable logic achieved by conducting multiple interviews.

Table 2: Validity of Research

Type	Tactic
Construct validity	– Multiple sources; – Chain of evidence; – External review.
Internal validity	– Pattern matching; – Explanation building; – Logic models.
External validity	– Repeatable logic through multiple interviews.

Source: Yin (2003)

Interview process

An interview guideline and design was generated in consultation with the researcher's supervisor. The interview process was agreed to be confidential with no reference to interviewee and firm in order to facilitate a more transparent interview session. The approved guideline was followed with the completion of an ethical clearance form in order to attain formal approval of the project from the researcher's university. Based on the researcher's existing network base, a list was generated of potential companies, as well as respective individuals who

could assume the role of an applicable interviewee. Contact was established through email or telephonically to provide an outline of the process and purpose of the research, in order to ensure the potential interviewee could make an informed decision on whether or not to consider participation. If the candidate chose to proceed, a follow-up email was provided which included an electronic document providing further insight into the research and objectives, inclusive of detailing the interview process. The candidate was given the opportunity to select a suitable meeting date, location and interview medium. An option of telephonic or face-to-face interviews was provided to the interviewee. On the day of the interview, the interviewer and interviewee was required to sign a consent form in order to formalise the proceedings. Prior to the interview, a supplementing overview of the research and interview process was provided. The option to end proceedings at any time during the interview was emphasised in the case where the interviewee became uneasy. The interview lasted up to 90 minutes and was voice recorded in order to provide reference during compilation of the research report. A note of thanks was provided by the interviewer following the completion of the interview. The incentive of a final report to be provided upon completion of the research project was extended to the interviewee that was positively received.

Ethical considerations

Ethical considerations have been made to the method of data collection and assumptions in an attempt to foster a collaborative approach between involved stakeholders. It was anticipated that interview respondents would fully co-operate during the data collection process. Questions were designed to ensure fairness without compromising on the integrity of the research. All participants were required to sign a consent form detailing the subject matter of the interview, as well as the expectations from the process. This enabled the interviewee to make an informed decision on whether to accept or decline the request, with consideration to the participant’s privacy, transparency and authenticity.

Research limitations

The main limitations of this study are grounded on the sample population and time constraints. Selection of the sample population was influenced on available business networks, willingness of firms to participate and availability of suitable participants. Such a selection method, poses potential bias as a limitation in selecting a representative assessment of business in Africa across sectors and regions relative to the population of South African firms conducting business in Africa.

Time constraints associated with scheduling and interview requirements directly impacted on the availability of suitable participants. Additional time in order to accommodate the interviewee's schedule was realised through the researcher taking leave from work in order to mitigate this challenge.

Results

The results derived from each interview are presented in this section. The results have been configured to highlight core themes and patterns identified, grouped according to industry and presented by research question. Details regarding the firm as well as the interviewee have been kept confidential as part of the interview design in order to aid in the extraction of transparent, unbiased and insightful responses.

Question 1: What are the drivers of investment in Africa?

Mining

The expansion beyond South Africa was realised through a merger for **Company 1** as a result of an intentional strategic change initiative. The strategic change was fuelled by the need for regional diversification and to ensure the sustainability of the firm over the long term. The business model applicable for the firm is unique in that the business relies on establishing both a short and long term resource pipeline. Africa was, and still is, a resource rich continent and the merger enabled leveraging of existing skills of doing business in Africa, as well as acquiring and optimising these finite resources through expertise gathered with doing business in South Africa, as explained by the company. Collectively, the benefit was realised through ensuring on-going growth and enhancing the life span of the firm.

Company 2 explained that reducing reliance on the South African market was the main driver to consider alternative sources of revenue and hence, expand into Africa. An executive decision was made to actively pursue projects outside South Africa in order to alleviate potential market and political challenges which may be encountered in the country. Considering Africa is a resource rich continent, the opportunity to expand expertise and capture additional market share was highly lucrative, and was a necessity to gain a competitive advantage leveraging off the firm's South African roots, as explained by the firm. The firm

initially began its expansion with executing projects within the Southern African Development Community (SADC) region and this was followed by several projects in West Africa which included Ghana, Burkina Faso, Guinea, Sierra Leone and Liberia.

Infrastructure

The driving consideration for **Company 4** to expand outside South Africa was triggered by a slump in the local economy during the 1990's era. The strategic intent was to expand into Africa in order to realise financial benefits, access and to grow new markets, to reduce risk through establishing a larger business footprint and to gain work that was relevant and challenging, thereby establishing a sustainable business. The initial expansion involved leveraging off regional proximity within the SADC region, followed by an expansion in West Africa.

*"Don't go and fish next to a seasonal river" – Perspective from **Company 6** relating to the competitive environment in South Africa.*

South Africa was viewed as a highly competitive and saturated market for the firm. Foreign direct investments for large infrastructure projects were largely channelled to remote areas in Africa which the firm viewed as a significant opportunity. The intention to expand beyond South Africa and into Africa was directed by this investment trend. Realisation of projects in Africa resulted in improved profit margins, reduced hindrance by external legislation and hence more control over the implementation of projects. The success of these projects led to discontinuation of further work within the South African region largely due to complexities in doing business, high level of corruption and lack of relevant work. Africa enabled opportunities to gain expertise in working in difficult terrain and attracted new clients who were looking to conduct business in Africa, as explained by the firm.

Company 7 perceived the South African market as highly saturated and regulated and hence made a conscious decision to embark on entering the

African market. The objective was to extract business opportunities which achieved higher profit margins, albeit higher risk, while growing the firm in a sustainable manner.

Mitigation of risk and exploring growth opportunities for **Company 8** were the main rationale to pursue business interests in Africa. South Africa offered limited scope in terms of growth, and Africa enabled the opportunity to capture additional projects while expanding on the firm's capabilities and expertise.

Retail

The business model employed by **Company 3** entails the licencing of brands through franchising or a partnership agreement. Originally embedded in the South Africa market, the opportunity to expand into Africa was realised through entrepreneurs who identified opportunity in Africa for particular brands offered by the firm. Following the financial success of these brands in the SADC region, an intentional strategic initiative was launched in order to expand and grow beyond the border of South Africa and actively embark into Africa through the development of partnerships.

Given the muted economic growth realised in South Africa, an intentional initiative to consider sustainable growth opportunities outside South Africa was prompted for **Company 5**. Diversification of earnings in order to mitigate isolated reliance on a single country formed part of the strategic intention.

The scope to expand the reach of products and services offered by **Company 9** through synergies prevalent in other African countries, including Cameroon, Zimbabwe and Nigeria, moulded an intentional strategy to explore these markets. The premise was based on reducing the focus on South African markets through regional diversification in Africa in an aid to reduce risk exposure.

Company 10 entered Africa directed due to a historical acquisition by a multinational corporation. The corporation seized the opportunity to use South

Africa as a gateway into other African countries, particularly those falling within the SADC region. The drive focused on realising growth opportunities through the sale of product offerings which were progressively increasing in demand across the majority of nations in neighbouring countries, as well as in West Africa.

Question 2: What are the barriers of doing business in Africa?

Mining

The business model for **Company 1** derives revenue through constructing and operating mining operations. The firm's experience in Africa has been a compilation of several challenges, as well as successes. They have leveraged off their existing expertise gained in South Africa as well as the skills acquired during the merger with another business operation. While this has aided in doing business in Africa, there were several challenges which were encountered and formed a natural component of doing business in Africa. These challenges included the following:

Localising the supply chain, encompassing both goods and services, has been a significant challenge in Africa for the firm. The lack of investment in the country by government to support major industries through vertical integration forms the major deterrent to completely localising business operations, as explained by the firm. Limited infrastructure has further inhibited establishing an effective supply chain required for their assets. The strategy employed by the firm in order to alleviate this involved holding larger inventories and utilisation of expatriates. The long term strategy has involved investing in up-skilling and support of local communities to ultimately enable a localised supply chain.

Power and water remain challenges on the African continent and has been a compounded issue in remote areas for the firm. Access to stable sources of power and clean water has often been a challenge requiring the firm to establish its own supply of utilities. The initiatives have taken the form of self-generation through fuel driven generators or hydro power and the establishment of water

treatment plants. The firm explained that these elements drive operating costs for the business and can hinder the viability of certain business opportunities in Africa.

Francophone countries have been a particular challenge for the firm who have operated under the premise that English is the corporate language. The firm expressed that the challenge encountered resides in employees who fall under the lower-tier employment bracket who have an embedded local culture and language. Strategies employed by the firm include adapting communication through facilitators who are bilingual locals and corporate communications.

Upper-tier employees have predominately been expatriates, due to lack of skilled employees prevalent in Africa, as described by the firm. The firm explained that while there may be cost and legislative challenges associated with deterring employment of expatriates, the core issue lies in operating a business in Africa with individuals assuming senior roles who are not permanently based in the country. The firm would employ an expatriate under a rotational leave cycle which often involves a lengthy period of leave following several weeks of service in the country. Developing legislation has created additional barriers to utilise expatriates in order to promote employment of locals. The challenge with this form of legislation is that local skills cannot be utilised without some form of on-going external support and training, as explained by the firm.

The firm expressed a significant concern with regard to corporate social investment as, while the local government promotes development of assets in the country, there is demand to conduct social projects in order to develop the country from an infrastructure and skills perspective. These demands are in addition to tax revenue generated through operations and often include significant capital investment in infrastructure upgrades.

Legislation associated with doing business in Africa can often be immature in development and requires the firm to collaborate with government in order to define a legislative framework. The challenge lies in political changes which occur during elections and can expose the firm to significant risk to continued and

sustainable business in the country. The firm has alleviated this risk through the establishment of fiscal agreements which have been honoured even in cases where the political make-up has been altered.

"Because we are in South Africa we believe we have an understanding of Africa which is a huge misconception" – Perspective from Company 1 relating to the misdirected complacency of South Africa firms.

The South African approach to doing business differs significantly to doing business in Africa, according to the firm. It was a challenge realised by the firm through adopting South African models and approaches to other African markets. The outcomes were failures and the fundamental lesson learnt by the firm was that each African country required to be treated on an individual basis in terms of legislation and culture.

The Ebola crisis has been the main challenge for the firm which has directly impacted on operation of their assets in applicable countries. Limitations with respect to medical services, supply of goods and services, as well as containment of the employment force to limit disease exposure, have been the major challenges encountered by the firm.

The core business of **Company 2** generates revenue through service offerings which include design, construction and commissioning of mining operations on behalf of a particular client. While the firm may be shielded against political and government interference through interfacing with the client, there are core challenges which have surfaced during the several years of doing business in Africa. These include the following:

Logistics and planning can easily become one of the fundamental aspects of executing projects when doing business in Africa, according to the firm. The firm explains that ensuring goods can be delivered, operating within a challenging terrain has been a significant barrier in ensuring delivery of projects on time and within budget. Significant allowances in terms of capital and timeline for transportation of goods to a particular remote site becomes a necessity and is a strategy employed by the firm to mitigate this risk.

Establishing a thorough understanding of the local tax regimes and applicable treaties established with South Africa and a particular African country is crucial to ensure compliance with local legislation, as explained by the firm. The risk lies in non-compliance and can result in crippling financial penalties and potential barring of future business in the country, according to the firm. Instability associated with legislation has prompted a short term view from investors who look for rapid financial gain followed by exit, limiting any form of progressive impact investing in the country and is a trend observed by the firm.

A trend observed by the firm that has become progressively prevalent is the requirement of firms doing business in a country to establish a local presence in the form of a registered company. The underlying objective is to channel all revenue generated through this local entity in order to gather tax liabilities for the local government. While compliance may be necessary, the ability to expropriate funds to South Africa can be challenging as encountered with projects conducted in Mozambique by the firm. The result of this barrier has deterred further work in these countries.

The firms explain medical emergencies in remote areas in Africa can be challenging, due to the lack of adequate medical support within short travel distances. While the firm will establish medical support on-site, this remains a significant challenge and risk to employees should a serious personal injury occur.

Personal security of employees has been an on-going risk for the firm which has been managed through employing rigid selection criteria of countries to conduct business in. African countries which have encountered continued instability and conflict have been explicitly excluded from consideration for potential projects due to this barrier.

Infrastructure

Company 4 offers infrastructure and operational services focused on the mining industry. These types of serviced based firms are contracted by a local entity and while this may result in weathering political interference, there are still several challenges which arise when doing business under this model; these include the following:

"Very few countries on a social level will tolerate colonisation for the long term" – Quote from Company 4 relating to the influence from local government to localise operations.

Company 4 explains that legislation associated with labour have become increasingly challenging as countries in Africa shift to promote local employment as opposed to sourcing expatriates to conduct business in the country. Utilisation of expatriates introduces an additional challenge associated with salary payment as locals tend to enforce alignment of salaries with an equivalent expatriate which introduces significant capital implications for the firm. The firm uses Ghana as a relevant example where government imposes stringent regulation on the utilisation of expatriates, creating significant barriers to achieve any form of a work permit. Additional legislation associated with employment of locals includes difficulties associated with termination of contracts, as encountered by the firm in Mali.

The firm explains that capital projects benefit from conducting business with international clients who comply with international standards of conducting business in terms of contractual liability and payment for services or goods. In the case of the firm who deals with local clients and hence agreements, these can often result in risk associated with payment for services, albeit which have been contractually agreed. The firm explains that limited legal recourse can be taken as the local government often supports the local entity as opposed to a foreign business, even if there is a breach of terms.

Taxation of foreign firms forms a significant source of income for the country in addition to upliftment of the economy through local employment. The firm

explains that in certain countries, a single business can be the largest tax contributor to the country. While government may impose several regulations to promote local consumption and employment, the lack of adequate services, goods and skills has been a significant challenge for the firm in effective service offerings. The firm explains that the major shortfall potentially lies in the local government's inability to utilise income generated through taxes in a structured and effective manner to develop and integrate supply chains to support business development.

The business model utilised by **Company 6** is unique to the industry as the firm adopts an industrial franchise model offering services to build, maintain and supply services to processing plants in Africa. While this mitigates significant risk often faced with conventional businesses in the industry, there have been particular challenges which were encountered and include the following:

The approach adopted for South African business can be vastly different to the way business is conducted in other parts of Africa, as explained by the firm. The firm relates that exposure to foreign competition creates a unique challenge and compels the need for innovation and productivity in order to attain projects. The shift of mind-set can be challenging, but is necessary for succeeding, according to the firm.

Ensuring people's safety in remote parts of Africa has been an on-going challenge for the firm. Mitigating risks associated with diseases such malaria, tuberculosis and ebola is a core focus area for the firm and is addressed with appropriate prevention, treatment facilities and protocol.

Francophone countries have been challenging due to cultural and language barriers for the firm. Understanding the local underpinnings of the people in an African country has been a challenge to effectively conduct business. Learnings from these experiences have resulted in a localisation business model to ensure effectiveness in project implementation.

Corruption has been in inherent challenge for firms doing business in Africa. Often there would be facilitation fees to import materials or to attain work permits

which are completely unjustified, according to the firm. Over time, these habits become embedded as a standard of operation and need to be complied with in order to cross the hurdle of continuing business for the firm.

Offerings from **Company 7** in Africa are largely focused on build projects in the mining industry. The business model employed typically involves being contracted by a client who owns the mining resource and requires the processing plant to be built in order to extract value from the resource. The company has encountered key challenges aligned to this model that include the following:

The South African model of doing business as a sub-contractor can be vastly different to the expectations of clients willing to conduct business in Africa, as explained by the firm. The shift to understanding these expectations from a contractual and specification perspective can be challenging and places South African firms at a disadvantage, according to the firm.

The firm explains that corruption is rife in Africa and can be encountered for both private and government clients. Countries, such as Nigeria and Angola, serve as examples by the firm where accommodating corrupt activities is a necessity for market entry. Due to corporate governance, the firm has explicitly identified these countries as zones which they would not enter.

Safety of stakeholders is a fundamental focus area for the firm when entering markets in Africa. In areas where there is instability and potentially a risk to personal safety, the firm would attempt to design out their risks or alternatively not consider any potential work opportunities. Examples of such countries include Somalia.

"I would never employ an expatriate if I can use a local equivalent" Quote from Company 7 relating to the importance of having local skills in order to be cost effective.

Utilisation of the right skill-set and team is crucial to succeeding in doing business in Africa for the firm. Availability of skills has been a challenge in Africa and often requires deployment of expatriates to a particular country in order to effectively

implement projects. Conformance to local legislation for the firm tends to hinder this process in order to promote local employment without addressing the shortage of skills.

Company 8 focuses on infrastructure projects in Africa, servicing both the mining and petrochemical industries. The firm often selects private clients as opposed to government projects in order to facilitate ease of market entry, limiting exposure to macro risks. In this adopted model, there are specific challenges which they have encountered, and include the following:

Competing for work with foreign competitors, particularly from European nations, has been a significant challenge in order to win work for the firm. These competitors are price competitive even in favourable exchange rates with the South African rand, according to the firm.

"There is a huge missed opportunity for South African firms due to lack of collaboration between South African government and other countries in Africa to facilitate business" - Company 8 relating to the lack of collaboration between governments in order to facilitate more opportunities in Africa for South African firms.

Legislation has been challenging on two key aspects for the firm. Firstly, interpretation of legislation in a non-English speaking country has often resulted in a misunderstanding of how legislature is enforced. Secondly, often what is stipulated in law is not what is implemented and can be inconsistently applied, resulting in barriers to market entry and on-going business in the country for the firm.

Attaining the right skills for projects in a foreign country can be challenging to source and often results in deployment of expatriates for the firm. Obtaining work permits can be challenging under these circumstances as government often deters foreign firms from this practice of employment.

Retail

While the adopted business model of **Company 3** may be viewed as low risk through franchise and partnership offerings, success of these establishments forms a crucial element of the sustainability of the brand, as well as the business. Therefore risks and barriers encountered by the selected local entity also form part of their risk exposure and includes the following:

"Every country we go into is distinctly different, one cannot adopt an approach of what we think we know about consumer habits and trends and translate that into another market, there is a need to understand the local consumers" – Quote from Company 3 relating to the importance of tailoring approaches to penetrate markets.

Company 3 explains that one of the fundamental challenges encountered with expansion into Africa is that consumer needs change within regions, as well as countries. There is limited reliable consumer data in Africa and therefore this necessitates the need to generate specific consumption data while establishing a presence in the country which can be challenging, as explained by the firm. Each segment has specific needs in terms of product expectations and spending ability. Adapting to these changes and understanding of the local preferences of customers has been a significant challenge, but crucial for successful market penetration for the firm.

Expansion into Africa and understanding the market dynamics is crucial and a fundamental component of success involves attaining a committed and experienced partner in navigating through the terrain of a particular country for the firm. Most failures and hence, exits from countries have been attributed due to poor partnership relationships and include examples of exiting Ivory Coast and the Democratic Republic of Congo (DRC) for the firm.

The firm explains that in order to ensure brand consistency associated with quality products and hence an exceptional customer experience, import of consumables required to produce certain products is necessary. Limited in-country capabilities in terms of skills and manufacturing outputs drive the need to

import certain raw materials. Government, in an attempt to promote localisation of the value chain, often imposes restrictions of imports either through quantity or imposing a form of import tax, creating a barrier to ensuring quality and price competitive products for the firm.

"It is always important to remember that Africa is a continent, made up of various nations at differing stages of development" – Quote from Company 5 relating to the uniqueness of each country in Africa.

Company 5 offers various telecommunication services and has an established presence in Nigeria. The interviewee has held several executive level positions for South African firms and has gathered a wealth of experience into the challenges encountered when doing business in Africa; these include the following:

The African continent has a well-known reputation of being resource rich and while this has invoked foreign investment, it has also been the downfall of the continent, according the firm. The firm is of the opinion that Africa has fallen ransom to commodity cycles and has lacked the ability to translate foreign investment into economic diversification, thereby reducing its reliance on international markets. Due to this reliance on commodity pricing, propensity for customers to spend has been volatile, creating challenges for foreign businesses to adapt and sustain their presence in Africa.

The firm explains that infrastructure is a crucial element for any business operating in a country. It forms the nucleus of the operation in order to ensure relevant and reliable services can be delivered to customers effectively. Africa is riddled with infrastructure challenges and can be largely attributed to the ineffective utilisation of funds brought into the continent for developing infrastructure and improving the welfare of the population, according to the firm.

Company 9 operates in the fast moving consumable goods industry deriving revenue from sales to wholesalers. The model employed to access different African markets entails adopting a hybrid approach which requires certain manufacturing capabilities to be localised while certain markets will require

exporting of goods to the foreign country. The requirement to localise the value chain as opposed to exporting has been dependant on country dynamics associated with demand, skills and regulations. These have given rise to several barriers and challenges, however the main hurdle encountered was the South African mentality of doing business. Cultural misalignment associated with the firm and other countries has posed as a significant challenge to overcome. The firm incurred significant losses associated with entering the Nigerian market which was largely attributed to cultural differences to doing business, according to the firm. While South Africa as a country is exposed to significant cultural diversity, it would be expected that South African firms are able to accommodate diversity in cultures encountered with other African countries, however this is not what occurs in practice, according to the firm.

Company 10 is able to derive revenue through the sale of industrial chemicals in certain African countries. The operation model includes establishing strategic nodes based on supply and demand, in order to optimise costs and service delivery. Considering a significant portion of chemicals are sourced globally, the firm's main challenge in doing business in Africa is often encountered through lack of adequate infrastructure, impacting on the supply chain to the customer. The firm utilises shipping, road and air transportation as primary methods of delivery. Road transportation is often the most cost effective while being dependent on the availability of adequate infrastructure. The firm explains that alternative means of transportation due to poor infrastructure often requires the utilisation of air transportation which creates challenges associated with costs and can deter business as a result.

Question 3: What are the differentiating factors to succeed in Africa?

Mining

Understanding the local environment is key for success as foreign mentalities can often deter progress or even fail in doing business in African countries according to **Company 1**. South African firms hold specific advantages which have been

leveraged as a competitive advantage for the firm. These include cost effectiveness of goods and services, ease of communication due to similar time zones and exposure to cultural diversity, enabling an accommodating nature to different cultures experienced in other countries.

"I am more nervous to build projects in Europe than Africa due to the extensive regulation and barriers necessary to overcome" – Quote from Company 2 relating to the suitability of South African firms doing business in Africa.

Establishing a local presence, collaborating with the client and government form key elements required for succeeding in Africa for **Company 2**. South African firms are placed in a unique yet competitive position, enabling effective access into Africa while being geared to address and accommodate cultural differences, cost effectiveness through utilisation of South African resources and understanding of design codes for projects, according to the firm.

Infrastructure

Adopting a contractual short term business model to conducting business in Africa has enabled the ability to realise adequate capital gains with limited risk exposure for **Company 4**. Instabilities associated with political and legislative change can often blur accurate forecasting of long term sustainability and opportunities in countries and hence, adopting a short term view eliminates adverse risk exposure, according to the firm.

Intended localisation of business operations forms the core to succeed in Africa for **Company 6**. The firm has geared their operation to promote local ownership and employment. While the firm may begin with a small team of expatriates, the intention is to up-skill locals to achieve autonomy. The firm derives revenue through vertical integration, achieved by developing local industries and leveraging off the associated industry growth. The benefit of localisation lies in ensuring client centricity, cost effective solutions and enabling an access platform

for future work. The view adopted by the firm is a long term view where the firm views Africa as a significant opportunity for growth in a sustainable manner.

Up-skilling of locals forms the key element of success for projects implemented in Africa for **Company 7**. These enable a cost effective, competitive and socially acceptable approach to doing business in a foreign country. Avoiding significant interaction with local government reduces risk exposure associated with corruption, and facilitating a market entry through a client is a crucial element for the firm.

Partnering with the right client who has the interests of all stakeholders involved has been crucial to succeeding in Africa for **Company 8**. The client often absorbs risk associated with political instability and mitigates any hindrance with project implementation.

Retail

Measuring success in terms of financial returns and market penetration involves understanding the local market place in order to gather a deeper understanding of the customer and environment from a supply chain perspective for **Company 3**. The ability to secure committed partners is crucial in order to establish the brand and successfully execute business in Africa for the firm. Being a South African firm provides advantages limited to SADC regions and going beyond this boundary provides little advantage in Africa.

Patience and having a long term view of Africa in terms of opportunity and development has been key to success for **Company 5**. Establishing a small presence in a country and utilising this local presence to understand the market and customers prior to making any form of major investment has been the differentiating factor of succeeding for the firm.

According to **Company 9**, a crucial element to succeeding in other African markets entails gathering a deep understanding of the local environment and

encapsulates elements of culture, political landscape, economy, legislation and the customer or client preferences. The firm explains that realising these challenges can be overwhelming and can often act as a deterrent to limit commitment or not invest altogether, however firms who look at the long term opportunity can succeed with the right implementation strategy.

Company 10 views South Africa as a gateway into Africa and emphases the importance to leverage off this capability for businesses. The firm explains that certain South African markets are well developed, nearing a maturity stage, where other African countries are still progressing to realise this growth phase. As a result, opportunity lies in identifying these consumer trends and understanding the local markets in order to succeed in consumer driven industries.

Discussion

Drivers of investment in emerging markets

The firms that formed part of the research revealed that the compelling factors to venture outside South Africa included risk mitigation, growth opportunities, gaining a competitive advantage, and improving productivity of the business. Deduction of these four categories has been represented in Figure 5, highlighting the identification of codes which influenced the category definition.

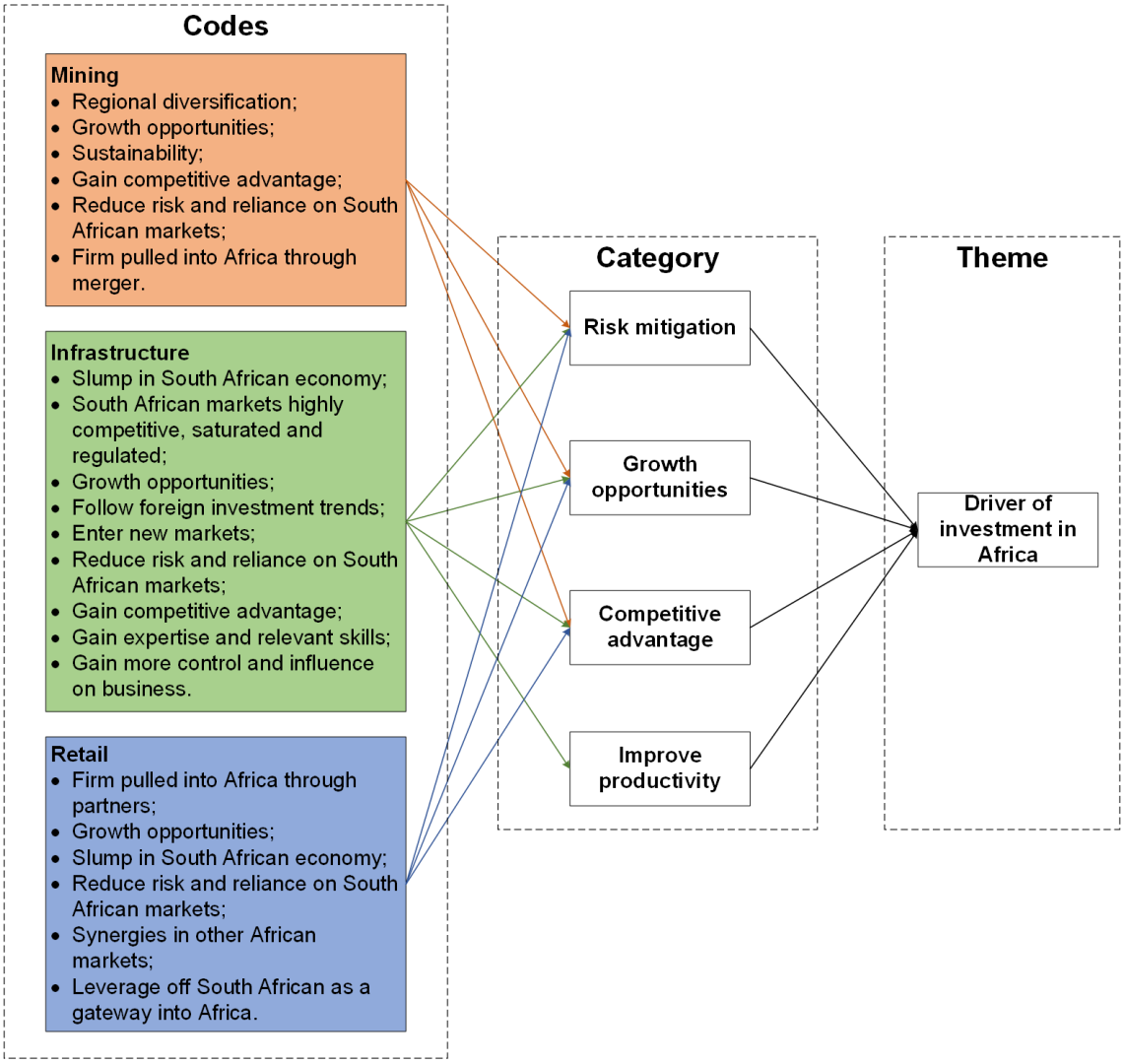

Figure 5: Factors Driving Investment in Africa

Risk mitigation is realised through regional diversification and reducing the reliance on South African markets which can be exposed to political instability, increasing legislation, competition and corruption inhibiting the sustainability of these firms. Literature is well defined on the risks associated with emerging markets (Asiedu, 2002; Meyer & Nguyen, 2000), however the reality that these country specific risks are relative and serve as a driver for South African firms to explore other relatively lucrative emerging markets, has not been explicitly defined and forms an important element in investment selection. Growth opportunities in other African countries is realised through following investment trends, entering new markets and exploiting synergies with other African countries. Leke et al. (2016) identified retail and construction industries poised for significant growth, which aligns to the observations provided by the firms interviewed in these industries. Ramamurti (2008), Khanna and Palepu (2006) and Ming and Williamson (2008) consider the impact of competitive threats being born from emerging markets which can pose a challenge locally, as well as with international firms. Observations from research have revealed a conflicting argument where there is a lack of economic diversification in emerging African economies. South African firms argue that entering other African markets is a necessity to gather expertise and skills in order to complement a portfolio of skills to ultimately gain new clients and business. Growing the local economy which will inherently create competition is crucial in order to localise foreign interests, comply with legislation, reduce costs and improve productivity and is an element yearned for by South African firms. Productivity is enabled through legislation geared for economic liberation and complements the discussion detailed by Wright et al. (2005). While Africa may be surrounded with several institutional voids, Meyer and Nguyen (2000) identify these voids as instruments which deter investment. In contrast, the opportunity that could arise as market opportunities is a perspective adopted by South African firms.

Barriers to doing business in Africa

The World Economic Forum (2017) has cited access to finance, corruption, tax rates, inefficient government bureaucracy and inadequate infrastructure as the

top five factors forming barriers to entry and business sustainability in Africa. An holistic view drawn from research resembles these challenges listed above, in addition to other prime elements which have been represented in Figure 6. Key elements drawn from research include changing customer trends and incorrect business models, local government interference, language barriers, limited infrastructure, misunderstanding and inconsistent application of local legislation, limited availability of skills or partners, ability to manage a crisis, limited or inaccurate information and foreign competitors.

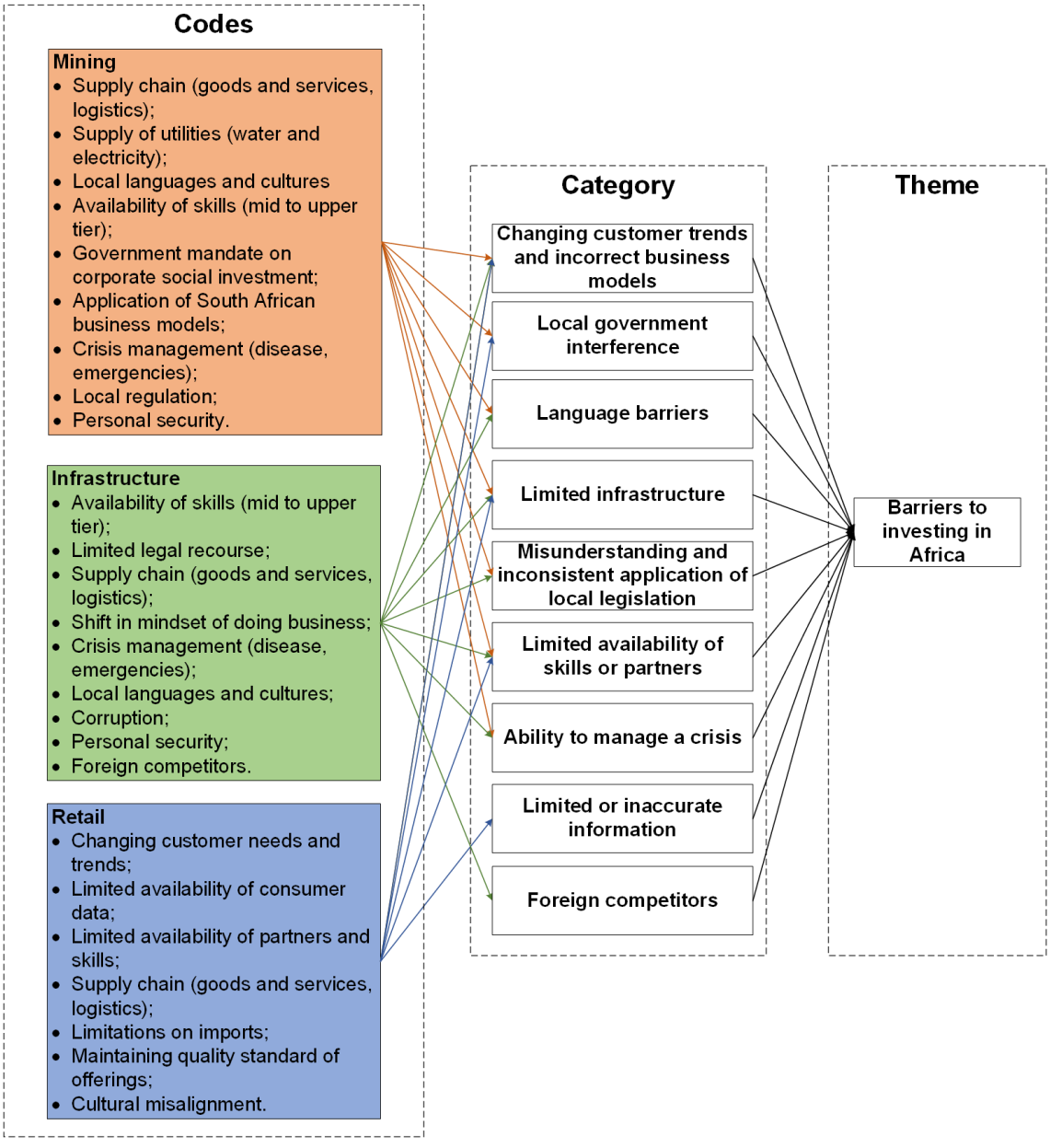

Figure 6: Barriers to Investing in Africa

The findings from the interviews conducted reveal that while there are indeed common themes prevalent to South African firms doing business in Africa, there are also unique elements which depend on entry mode, country, as well as industry. All firms interviewed highlighted the importance of understanding the uniqueness of each country from a political, economic, legislative and social perspective, thereby contextualising the market and aligns to the concepts represented by Sime (2010). Firms who possess a limited understanding of the market can result in dire consequences, leading to financial costs, brand damage and potential barring of future business in the region.

A country specific element which is not covered in literature is the impact of a South African mentality when conducting business in Africa. The South African mentality encapsulated the firm's values, beliefs, culture which ultimately influences business models and strategies when entering foreign markets. The complacency associated with firms being able to successfully operate in South Africa appears to provide an unsubstantiated level of confidence when doing business in Africa, often resulting in failure. The paradigm shift can be challenging, but is a necessity to succeed and adopt custom-built local models of operating in other countries in Africa.

Infrastructure development in Africa has remained a significant challenge to effectively conduct business in Africa (Bond, 2016). Bond (2016) explains that infrastructure development is at the lowest levels relative to global rankings and directly impacts on economic growth of the continent. While this may be a challenge, South African firms have managed to overcome this hurdle within certain limitations. The findings from research reveal that this barrier can be overcome through either substantial capital investment, or finding alternative means to facilitate logistics and supply of utilities. This places a huge burden on foreign firms as incurring larger capital expenses reduces the viability of business initiatives and can often cripple sustainable operations in the country. The challenge with infrastructure is widely documented in literature (Khanna & Palepu, 2006), however the core reasons responsible for this challenge have not explicitly assessed. A perspective revealed through research identified local

governments as the main culprit in enabling the development of infrastructure. Revenue generated through taxation of foreign firms can be substantial and effective utilisation of these funds towards growing the economy and diversification is a severe challenge. Infrastructure services pose an additional challenge to development in terms of availability, reliability, quality and cost of goods and service offerings (Bond, 2016). Development of infrastructure and ultimately, the economy, has significant bearings on sourcing adequate skills and services which form crucial elements for successful operations of foreign firms. Crisis management and security of employees remain a significant concern for South African firms and forms part of risk management in assessing which countries to enter. Literature has limited coverage of this topic and its impact on deterring investment in African markets. Research has revealed that access to adequate medical healthcare and disease control are significant challenges faced with firms entering most countries in Africa.

The challenge with availability of local skills lies with mid to upper tier level employees and aligns to the circumstances described by Mushuku (2006). While foreign firms may prefer to employ locals, the lack of adequate skills available in-country poses a challenge and requires the employment of expatriates. Governments in several African countries have begun to intervene, creating legislative barriers while providing little or no significant alternative to sourcing suitable local skills. Firms have initiated programmes with the specific intention of skills transfer, aligning to strategies defined by London and Hart (2004), however this appears to have had a limited impact as skills shortage in Africa is still an on-going challenge. Attaining an understanding of market dynamics can be a crucial element for succeeding in Africa as a business. Navigating through the challenging terrain and gaining a local understanding of both macro and micro business elements are found to be fundamental elements revealed from research. These can include understanding interpretation of legislation, cultures, customer preferences, customer spending trends and local capabilities. Building on this concept is the lack of appropriate local partners to facilitate business initiatives. There is consensus with this finding, as Chinese firms who have been successful in Africa have reported the lack of local firms who possess technical

and managerial skills as a significant challenge and is often an entry mode which is avoided (Chen & Orr, 2009).

Hoskisson et al. (2010) state that government institutions not only impact state owned enterprises, but also private firms doing business in the emerging economy. Research confirms this observation as political interference and corruption through inconsistent application of legislation and investment demands blur competitive business environments and are often mandatory in order to establish and continue business operations in certain African countries. Uhlenbruck et al. (2006) identified that multinational enterprises often encounter challenges associated with corrupt governments in emerging markets resulting in a significant reduction in FDI for the country. These enterprises adopt a joint venture with a local subsidiary in order to mitigate this risk while being able to participate in the local market (Uhlenbruck et al., 2006). Government, in addition to tax revenue generated, will often demand capital investments to develop infrastructure, placing a significant burden on firms. Liquidity of funds and expropriating funds outside the country, serves as an additional deterrent and challenge for doing business in certain African countries. Non-compliance can result in crippling the business through creating operational barriers and enforcing fines.

Differentiating factors to succeed in Africa

Each country in Africa has its unique challenges which encompass political, infrastructure, language and legislative challenges (Sheth, 2011). Adapting business models to accommodate country dynamics is a fundamental requirement in Africa (Bekaert & Harvey, 2003). Research has revealed that keys to success involve localisation, effective risk management (investing long/short term, phasing implementation and limiting government interaction) and leveraging off South African advantages, and is represented in Figure 7. Findings revealed by Kalyanaram and Gurumurthy (1998) identify understanding market dynamics, assessing capabilities and offerings and the formulation of a strategy as the three main factors required for succeeding in market entries. These factors

concur with the research findings, highlighting the importance of localisation and entry mode as key elements to succeed.

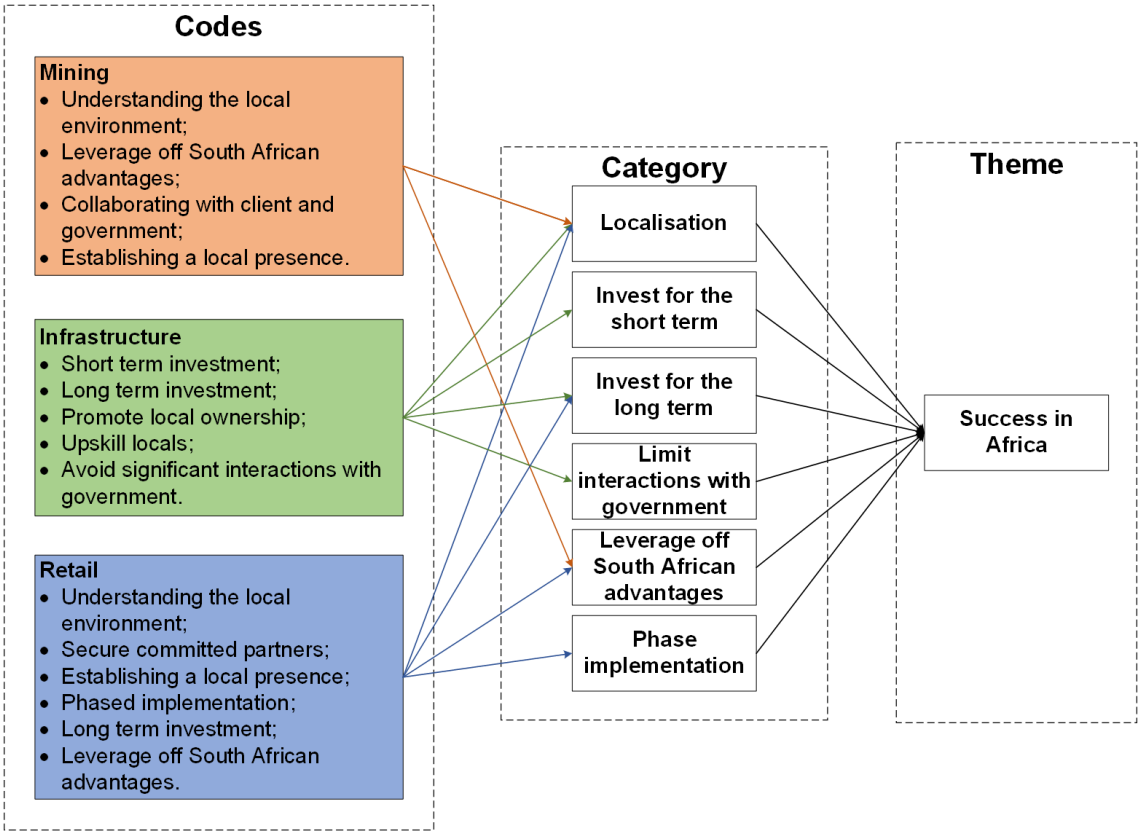

Figure 7: Differentiating Factors to Succeed in Africa

Hoskisson et al. (2010) define three perspectives to view strategies employed in emerging markets. These include institutional theory, transaction cost economics and a resource based perspective. Intuitional theory draws on elements which influence market entry modes and sustainability (Peng et al., 2008). These elements include political, social, and economic orientations and align to the success factors raised from research under localisation and risk management. Entry modes adopted by the firms interviewed gravitate towards an acquisition or joint venture for the mining and infrastructure sectors while retail operates within the greenfield and joint venture regime. The tendency to consider a joint venture or partnership can be viewed through the lens of transaction cost economics (Hoskisson et al., 2010) which, under realising low transaction costs, the firm would lean towards a joint venture, or a wholly owned subsidiary under high

transaction costs. The preferences for differing modes of entry by firms can be explained using the theory defined by Hoskisson et al. (2010) which is influenced by political, social and economic aspects, rather than sectors. Rijamampianina (2015) revealed that South African retail firms consider trade restrictions, political stability, demand, economy and corruption as key factors when considering market entry, complementing the institutional perspective. An overview of the selected modes of entry into Africa by sector is shown in Figure 8.

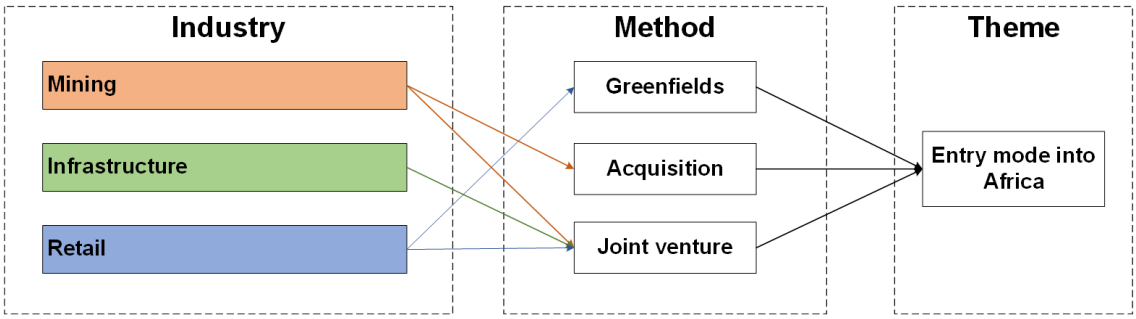

Figure 8: Entry Modes into Africa

Compliance with legislation is non-negotiable and needs to be tailored to accommodate these differences in comparison to South African markets. The findings partially concur with literature. While there is agreement in terms of the importance of localisation from a cultural, legislative, political and cost perspective, research has revealed that there are differing views on whether the investment should be short term, realising financial benefits and exiting the market thereafter. The proposed approach is due to the uncertainty associated with political stability and legislation in Africa. While certain firms argue that this can be mitigated through fiscal agreements with local government, there is the risk of non-compliance with these historical arrangements due to new political figures being employed.

Conclusion

The research, conducted through qualitative interviews, has provided rich and in-depth insights into South African firms conducting business in Africa. The globalisation effect is a necessity in order to realise sustainable business growth in environments which are saturated with competitive and hindering forces. Africa holds significant growth opportunity and employing a thoughtful strategy to enter the market is crucial towards realising success and revealing new sources of revenue. The insights revealed through this research project have extended the current depth of literature from the perspective of firms entering emerging markets and specifically provided an understanding of South African firms and associated challenges encountered and methods utilised to overcome these hurdles. Learnings from these experiences have enabled an understanding of how to effectively conduct business in an effective and sustainable manner to ultimately, realise success with impact investing.

Drivers of investment in emerging markets

Research has revealed that South African markets are highly competitive and hindered by extensive legislation, limiting the ability to realise significant growth and compete in a fair and effective manner. The reasons to expand into other African countries have been driven by realising growth opportunities, mitigate risk, gain a competitive advantage, and improve business productivity. Africa is filled with institutional voids and leveraging off this reality is crucial to succeeding as a business. Realising growth opportunities and mitigation against risks are topics extensively covered in literature for emerging markets. An oversight is the benefit associated with gaining a competitive advantage and improving business productivity. These elements can be achieved through gaining experience and potentially, a first mover advantage in African countries where competition and legislative maturity is lacking which can wrongly deter investment in the continent.

Barriers to doing business in Africa

The importance of understanding both the macro and micro dynamics of a particular country is a fundamental requirement for market entry and on-going sustainability of the business. Definition of a suitable market entry strategy will be influenced based on the degree of these challenges and can include a greenfield, acquisition or joint venture entry mode. These findings correspond to literature associated with multinationals entering emerging markets. Elements such as political, economic, legislative and social attributes are unique to each country in Africa and adapting business models to accommodate these dynamics is a necessity. The nuances revealed through research has identified the challenge associated with South African firms and application of a stubborn mind-set when entering neighbouring African countries and going beyond these regions. The unsubstantiated level of confidence with which South African firms approach business in other countries, can often result in failure due to the unwillingness to adapt strategic models to suit other countries. A paradigm shift is required in order to successfully operate in other regions, adapting to the political, economic, cultural and social landscape. These attributes ultimately lead toward globalisation through localising operations in different countries. Localisation includes employment and up-skilling of locals in order to ensure conformance with legislation and being cost-effective, reducing reliance on expatriates. Whether a long or short term view is associated with doing business in other African countries, has been found inconclusive and appears to be dependent on industry type. In the case of mining and infrastructure development, clients often adopt a short term view with the intention of realising rapid capital returns and exiting the market due to uncertainty associated with political and legislative aspects. Industries such as telecommunication and retail tend to adopt a long term view requiring commitment and patience to effectively penetrate the market through a phased implementation strategy.

Infrastructure development for most countries in Africa is a severe limitation. Access to provide services and goods are directly hindered due to this reality. These environments provide an opportunity for firms to innovate approaches to

overcome this hurdle while gaining expertise in operating under challenging circumstances with limited competition. Challenges associated with crisis management can include changing legislation and access to adequate medical care and need to be addressed through adequate planning, cost contingencies and protocol.

Differentiating factors to succeed in Africa

Research has revealed that keys to success involve localisation, effective risk management (investing long/short term, phasing implementation and limiting government interaction) and leveraging off South African advantages. It is crucial to have an appreciation that each country in Africa is unique and to varying degrees, business will encounter challenges associated with political, economic, social and legislative hurdles. Therefore the fundamental aspect associated with business initiatives in Africa can be attributed to a localisation effort which encompasses a deep market understanding of legislation, customers, clients, government and infrastructure. Definition of an entry strategy will be influenced by these outcomes in order to realise a successful, sustainable and impactful foreign investment.

Recommendations for future research

The research study has explored investment drivers, challenges and success factors encountered by South African firms entering other countries in Africa. Identifying key attributes for South African firms required for succeeding in other African countries was the underlying objective and a gap in current literature. While an holistic assessment was conducted, identifying major aspects which require focus in order to succeed, there are unique elements to each country in Africa which were not explicitly explored. These investigations have revealed the need to explore different emerging markets on a per country and industry basis. Insights from research revealed the importance of understanding that Africa is a non-homogenous continent and while there are common challenges which need to be overcome, the degree and extent can vary significantly. Further research

exploring these unique differences is necessary and is recommended as a follow-on study, building on this research project.

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