A QUALITATIVE STUDY OF KEY SUCCESS FACTORS FOR MULTINATIONAL CORPORATIONS OPERATING IN SUB-SAHARAN AFRICA

by

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DECLARATION

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ABSTRACT

“Africa’s not for sissies” is what one often hears when discussing business conditions in sub-Saharan Africa (SSA). For purposes of this study, the relatively well-developed country of South Africa has been excluded from the definition of SSA.

The region boasts some of the lowest human development index scores and economic growth levels in the world, while enjoying the unenviable reputation as one of the most corrupt places on earth.

The fact that SSA fares poorest of all when it comes to attracting foreign direct investment (barely 1% of global inflows), is due to foreign investor perceptions of unacceptable levels of country risk that keep them from investing in the region. Reasons for SSA’s malaise are instructive as context for the status quo and include the aftermath of colonialism, continued flare-ups of ethnic-induced civil unrest, the lingering effects of a disastrous flirtation with socialism and a recent generation of corrupt and incompetent leaders.

However, the good news is that the new millennium increasingly exhibits significant trends in support of the notion that a reversal of SSA’s fortunes is underway: annual GDP growth in the region is well ahead of the global average, civil wars in the region have largely come to an end and, for two years running, private equity investment flows into the region have surpassed that of foreign aid, Africa’s traditional ‘crutch’.

Importantly, a small band of early-mover Multinational Corporations (MNCs) are making their presence felt in the region and beginning to make good profits. These firms include the likes of Diageo, The Coca-Cola Company, MTN and SABMiller.

Still, today’s business environment in the small, impoverished markets of SSA remains extremely challenging, characterised by poor infrastructure and skills, coupled to an unhelpful officialdom.

The purpose of this study is to research the impediments to investing in SSA, both real and imagined, and then to discuss ways of overcoming these. By applying a qualitative research methodology, including the use of case studies and structured interviews with selected executives of the MNCs active in the region, key success factors for investing and operating in the region will be identified and explained.

OPSOMMING

Enigeen wat ‘n besigheid in Afrika bedryf is dit eens dat ‘n mens hare op jou tande nodig het om hier sukses te behaal as gevolg van die aansienlike aantal struikelblokke wat ‘n mens te wagte moet wees. Hierdie studie is gemik op die onontwikkelde Afrika lande, suid van die Sahara woestyn (ASS). Suid Afrika word vir doeleindes van hierdie studie uitgesluit uit die definisie van ASS, weens die land se relatiewe gevorderde besigheidsklimaat.

Ongelukkig word die lande van die ASS streek oorwegend gekenmerk deur lae peile van ontwikkeling, asook lae ekonomiese groeikoerse. Die streek word boonop beskou as die mees korrupte plek op aarde. Dit is dus geen wonder nie dat ASS die slegste van alle streke vaar wanneer dit by besteding deur buitelandse beleggers kom nie – laasgenoemde glo eenvoudig dat die gepaardgaande risiko verbonde aan die maak van ‘n belegging in die streek onaanvaarbaar hoog is. Sommige van die redes wat aanleiding gee tot hierdie teleurstellende toedrag van sake is insiggewend as konteks vir hierdie studie, insluitend: die nagevolge van die era van kolonialisme, sporadiese uitbarstings van etniese geweld, die negatiewe gevolge veroorsaak deur die onlangse beheptheid met sosialisme onder baie van die streek se lande, asook die uitwerking van uiters swak leierskap in die streek gedurende die tweede helfte van die 20ste eeu.

Die keersy van hierdie swak beeld is dat ‘n aansienlike verbetering in toestande te bespeur is sedert die aanvang van die 21ste eeu. Die Bruto Nasionale Produk van ASS lande groei nou vinniger as dié van enige ander streek op aarde. Die voorkoms van burgerlike onrus en geweld in die streek toon ‘n beduidende afname. Vir die eerste keer ooit is die waarde van buitelandse beleggings in ASS groter as die waarde van hulp en ondersteuning wat die streek van die buiteland ontvang (en waarop die regerings van die streek tradisioneel staatgemaak het om basiese dienste aan hul inwoners te verskaf).

Dit is ook verblydend om te verneem dat ‘n klein groepie ywerige internasionale maatskappye besig is om hulself toenemend in die gebied te vestig en dat hulle goed geldmaak daaruit. Voorbeelde van suksesvolle maatskappye sluit Diageo, Coca-Cola, MTN en SABMiller in.

Nogtans bly die besigheidstoestande waarin maatskappye hulle bevind ongunstig in die brandarm markte van ‘n streek wat verder gekenmerk word deur gebrekkige infrastruktuur, onvoldoende vaardighede en onbehulpsame amptenare.

Die doel van die navorsing is eerstens om die daadwerklike toedrag van sake vas te stel i.v.m. die omgewingsfaktore wat verhinder dat maatskappye vrylik hul doelstellinge in ASS mag najaag. Daarna word die fokus verskuif sodat oplossings geformuleer mag word ten einde hierdie struikelblokke uit die weg te ruim. ‘n Kwalitatiewe navorsingsmetode word nagevolg. Dit sluit die gebruik van

gevallestudies en gestruktureerde onderhoude met senior verteenwoordigers van internasionale maatskappye met filiale in ASS in. Die vernaamste uitslag van die navorsing is die daarstelling en verduideliking van 'n stel kritieke suksesfaktore wat as handleiding mag dien aan diegene wat besighede in die streek bedryf.

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Not only did they give of their valuable time to grant me personal interviews, but by also preparing in advance they ensured that their input turned out to be both informative and insightful.

SABMiller plc (my erstwhile employer) and other firms, both indigenous and international, currently making a difference in sub-Saharan Africa.

By conducting themselves in the finest traditions of the free enterprise system at work (to the benefit of all stakeholders), these firms play a meaningful role in the process of turning the countries of sub-Saharan Africa towards a more promising future. My time spent working and interacting with my peers in the region has given me invaluable insights that have hopefully made a positive contribution to the outcome of this study.

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LIST OF ABBREVIATIONS

ASS	Afrika, suid van die Sahara-woestyn
BOEP	base or bottom of the economic pyramid
BOP	balance-of-payments
CCM	Chama Cha Mapinduzi
CEO	Chief Executive Officer
CITI	the Corruption Index of Transparency International
EABL	East African Breweries Limited
EIU	The Economist Intelligence Unit
ERPDF	The Ethiopian People's Revolutionary Democratic Front
FDI	foreign direct investment
GDP	gross domestic product
HDI	the Human Development Index
HQ	head quarters
IFC	International Finance Corporation
JV	joint venture
IMF	International Monetary Fund
KBL	Kenya Breweries Limited
KSF	key success factor
MD	Managing Director
MNC	Multinational Corporation
NEPAD	the New Partnership of Africa's Development
NGO	non-governmental organisation
SSA	sub-Saharan Africa
TBL	Tanzania Breweries Limited
TCCC	The Coca-Cola Company
UNAIDS	the United Nations joint programme on HIV/Aids
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organisation
$	United States Dollar

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CHAPTER 1: OVERVIEW OF THE STUDY

1.1. INTRODUCTION

This study focuses on how the *affiliates*[1] of selected *Multinational Corporations (MNCs)*[2] deal with the opportunities and risk factors that exist in the *sub-Saharan region of Africa(SSA)*, excluding South Africa[3].

Figure1.1. Map of the African continent[4]

____

[1]also referred to as subsidiaries.

[2]also referred to as multinational enterprises (MNEs).

[3]South Africa has been excluded from the definition of sub-Saharan Africa for purposes of this study because it does not share the undeveloped characteristics of the rest of the sub-continent.

[4]Sub-Saharan Africa (SSA) defined as per UNCTAD,2008: All Africa except for the countries of North Africa (Algeria, Egypt, Libya, Morocco, Sudan & Tunisia). Often facts and figures are published for Africa only, in which case this will be pointed out in the text.

1.2. BACKGROUND TO THE STUDY

1.2.1. The role of the Multinational Corporation in generating Foreign Direct Investment and exploring new business opportunities

With the rapid growth in the process of globalisation, especially in the post-World War Two era, Multinational Corporations (MNCs) have proven to be very effective at making cross-border investments, initially mainly in developed markets, but increasingly also in the poorer emerging markets of the world.

A closer examination is therefore required of the characteristics and roles of MNCs, their role in generating foreign direct investment (FDI), as well as the business potential that exists amongst the world's poorer nations in general, and in Africa in particular.

1.2.2. The Multinational Corporation (MNC)

"A multinational firm or MNE is an enterprise that engages in foreign direct investment and owns and controls value-adding activities in more than one country. It typically has multiple facilities across the globe, derives a substantial portion of revenues from foreign operations, manages subsidiaries with a common strategic vision and resource pool and often places foreign nationals or expatriates in key management posts." (Erwee,2007: 176).

This study emphasises the conduct and contribution of the *in-country affiliate* in SSA member countries to the overall performance of the MNC, as opposed to the functioning of its head quarters, important as this may be.

1.2.3. Foreign Direct Investment (FDI)

FDI occurs when a firm invests directly in facilities to produce and/or market a product in a foreign country. This study is focussed on *horizontal FDI*, defined by Hill (2005: 223) as when firms expand by investing in the same industry abroad as at home due to one or more of the following reasons: transportation costs, market imperfections, strategic behaviour, the product life cycle and location advantages.

Between the 1970's and the 7 years ended in 2006, average world annual FDI inflows grew from US$ 24 billion to $ 930 billion, having exceeded the $ trillion mark in 1999,2000 and 2006 on the back of spikes in the level of cross-border mergers and acquisitions. The view of SSA as an unattractive FDI destination is also clear, with a mere $12 billion per annum flowing into the region over the 7 years ending 2006, despite an increase in investments in the extractive industries. (UNCTAD World Investment Directory, volume X, Africa 2008).

1.2.4. Opportunities that exist at the Base of the Economic Pyramid (BOEP)[5]

The billions of aspiring poor consumers at the Base of the Economic Pyramid (BOEP) represent the new untapped source of market promise. However, it is virtually uncharted territory in terms of MNC understanding of the strategies required to capture the opportunity. Prahalad and Hart's study (cited in Ricart et al.,2004) found that the emerging market opportunity may be much larger than thought previously, believing that the *new untapped source of market promise* is not the wealthy few in the developing world, or even its rising middle-class consumers, but rather it is the billions of aspiring poor who are joining the market economy for the first time.

This finding has relevance for SSA, the world's poorest region. A visitor to SSA's cities may vouch for the industriousness of those who already operate in her large informal sector at the BOEP, be it money-changers in Luanda, roadside mechanics in Lagos or Faull's description of the typical African entrepreneur as a survivalist: "He or she ekes out a living, tip-toeing between the price demands of customers (low) and suppliers (high) and their own need for an income" (Faull,2006: 317).

Although this research will be spread across the entire range of measures taken by MNCs in order to deal with the opportunities and risks that present themselves in SSA's emerging markets, identifying ways of exploring the potential at the BOEP will be a specific area of focus.

1.3. BACKGROUND TO THE BUSINESS ENVIRONMENT IN SUB-SAHARAN AFRICA

1.3.1. Introduction

This study's analysis of the environment within which business is transacted in sub-Saharan Africa (SSA) emphasises those factors that are unique to the region. An attempt has been made to separate fact from fiction, and to trace the historic origins resulting in the status quo.

1.3.2. Country risk

Research conducted by AT Kearney, as well as Collier and Gunning (as cited in Luiz,2006) reveals that Africa has traditionally been seen as a high-risk investment environment with a resultant expected rate of return higher than anywhere else on the globe. Although actual returns on African FDI during 1990 to 1994 were 60% higher than in other developing regions, these have been insufficient to offset the perception of unacceptably high risk, which explains SSA's unenviable position as the *world's least attractive investment destination*. It is not difficult to see how his perception of unacceptable country risk has developed:

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[5]also referred to as Bottom of the Economic Pyramid

- SSA countries generally feature at the wrong end of any global ranking scale, as illustrated by the United Nations Development Programme's 2007/8 rankings in terms of the Human Development Index (UNDP,2008).
- UNAIDS,2004 (as cited in Mitchell et al,2006) found that SSA accounted for 25 million of people living with HIV/Aids, out of the world total of 38 million, as at the end of 2003.
- SSA has also earned the reputation as the world's most politically unstable region with 60% of her leaders being overthrown in a coup, invasion, war or by assassination between 1960 and 1999 (Luiz,2006: 11).
- Luiz (2006: 4) records that real economic growth per capita for SSA has hovered at just under 1% for the period 1965 to 2003.
- Only 8 African countries[6] were rated as 'free' in the "Freedom in the world" survey (as cited in Hough,2007: 113 - 118) with the remainder of the continent's countries rated as either 'not free' or 'partly free' in this global survey of political rights and civil liberties.
- In 2005 The World Bank had proven a positive correlation between the degree of economic freedom that exists in a country and its per capita income. The 2006 Index of Economic Freedom scored SSA as the least free region in the world in terms of an index of economic freedom indicators (Hough,2007: 124 – 125).

An analysis of the *reasons for Africa's malaise* is often contentious and over-emphasised as the cause of today's shortcomings. However, the following are worth mentioning as context:

- The negative impacts of colonialism that include the formation of sub-economic country units, reliance on commodity exports and subsistence farming, as well as a negative mindset towards globalisation. As example, the World Bank (as cited in Grobbelaar,2006) compared the size of an average SSA country economy (excluding Nigeria and South Africa), at US$3,6 billion, as being equal to the economic scale of a typical American town with a population of 60 000 inhabitants.
- Continuous flare-ups of ethnic-induced civil unrest result in governments that are distracted from improving conditions for economic recovery. Ali (as cited in Luiz,2006) made an attempt at calculating the real cost of conflict in Africa in the year 1999, arriving at a staggering US$ 247 per capita.

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[6] the African countries rated as 'free' were: Benin, Botswana, Cape Verde, Malawi, Mauritius, Namibia, Sao Tome and Principe and South Africa.

- A disastrous flirtation with socialism during the cold war years in the latter half of the 20th century, which not only destroyed the fledgling private sector that existed in these countries, but also resulted in the current dearth of managerial skills in most SSA countries.
- The failure of donor aid which, according to Arnold (as cited in Venter,2007) was seen as the panacea for Africa's economic ills in the 1960s.
- Luiz (2006: 14) cites Transparency International's Corruption Index which places Africa at the bottom of its global list.

Couple these facts with a hostile business environment characterised by the scourge of bureaucratic red tape, exorbitant administrative costs and delays, as well as weak property rights as highlighted by the World Bank (cited in Luiz,2006), and one begins to understand why most investors decide to stay away.

"The prospect of investing in sub-Saharan Africa can cause businessmen to sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets where war, famine, AIDS and disaster are always lurking" (The Economist, "The flicker of a brighter future",2006: 65).

1.3.3. Growth opportunities

From the foregoing, one may be tempted to side with those that view Africa as a 'basket case'. However, the following facts provide compelling evidence that *SSA has started to turn the corner* (albeit at a relatively low point):

- 2006 GDP growth for SSA had overtaken the average of all developing regions, second only to Asia and ahead of Eastern Europe and Latin America (The Economist, "The flicker of a brighter future",2006: 65).
- GDP growth of 6,7% was recorded in 2007, and expected to be followed by 6,5% in 2008. Apart from sizeable contributions from oil producing Nigeria and Angola, SSA is beginning to receive massive capital inflows as the last frontier market."What sets 21st century Africa apart from its moribund 20th century self is its improved financial management with many of the continent's bad boys cleaning up their act" (The Economist, "Lion cubs?",2008: 80).
- Preece (2008, 54) quotes a recent IMF survey which recorded US$50 billion worth of private equity inflows into SSA during 2007, exceeding the total value of foreign aid into the region for the second year running.
- Following the end to conflict situations in Mozambique, Angola, Rwanda and Burundi, the region is enjoying an extended period of peace and stability.
- Initiatives such as NEPAD may be flawed, but have moved the African debate beyond politics towards good governance, regional co-operation and economic development. So too, have

attempts at forming regional trade associations in order to overcome the problem of fragmented markets.

On the other hand, the Zimbabwean sore continues to fester and new ones are bound to open up. Also, the agriculturally-dependent region remains at the mercy of increasingly erratic weather gods. However, this is a vastly improved Africa when compared to the latter half of the 20th century as illustrated by a recent opinion poll which revealed that SSA inhabitants are extremely optimistic about their future, to an extent where 'indomitable optimism permeates the region' (Gallup poll,2007).

"Companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephones. The region's economy is growing steadily.....In part this is because of the commodities boom and debt forgiveness. But more peace, political stability and better economic management have done their bit, too "(The Economist, "The flicker of a brighter future", 2006: 65).

1.3.4. Profit potential

A popular myth that needs dispelling is that, there's no money to be made in Africa, due to her constrained and impoverished markets.

This is simply not so, as testified by many examples to the contrary:

- Heineken and Diageo have been making world-class returns in West Africa since the 1930's.
- More latterly, South Africa's MTN has revolutionised Nigerian telecoms and earned a rich reward for its efforts: 16,5 million subscribers at US$17 revenue per user (McLeod,2008: 36).
- SABMiller plc earns its best world-wide margins in Africa (SABMiller,2007: 19,27).
- Blakeney Investment has seen its NAV per share move from US$5,80 to $35,00 over the last 5 years (Moreland,2007).This performance has been substantially driven by listed African equities operating in the telecommunications, banking and beverage sectors.
- Imra's Africa Opportunities Fund has almost doubled in value in less than three years, while the Investec Africa Fund has returned 40% per annum since November,2005 (Cranston,2008: 77).

Individual SSA markets may be small, but they possess rapidly growing middle classes who are brand conscious and susceptible to global trends. Significantly, even poor Africans, eking out a living in the large informal sector, are willing to pay for what they need. Importantly, *competitors are still few and far between* at this point in time: a significant factor that provides an off-set against the challenging environment faced by MNC affiliates in the region.

Grobbelaar (2006: 35) agrees that *a number of companies have demonstrated beyond any doubt that good business can be done on the continent. There's money to be made on this continent and indeed returns on investment are already substantially higher than anywhere else*.

1.3.5. The attraction for Multinational Corporations (MNCs)

According to Deresky (as cited in Hough,2007), proactive reasons for internationalisation are closely linked to the growth imperative of organisations in mature markets to look for new opportunities in the global marketplace. Many of these MNCs, who have to deliver superior earnings growth in order to meet shareholder expectations, expanded into Eastern Europe, Asia and South America 10 to 15 years ago, meaning that these investments are now quite mature.

In addition, the results of many of these investments have disappointed, as illustrated by Hill (2005: 218) in the case of China.

Africa represents the final frontier for MNCs in search of new growth markets. SABMiller's CEO, Graham Mackay, summed up his MNC's view thus: "*If there was more of Africa, we'd be investing in it*" (The Economist, "The flicker of a brighter future", 2006: 65).

1.3.6. Sub-Saharan Africa (SSA) host country views of Multinational Corporations MNCs)

Although all SSA governments are keen to attract FDI provided by MNCs, there seems to be a lingering suspicion of the private sector that's best described as follows by Ramachandran & Shah (2007: 17):"While the situation on the ground is changing and sometimes quickly, what governments still seem to fear the most is a private sector which generates wealth independent of government controls, and which makes its own, unfettered decisions." The reasons for SSA governments displaying such skittish behaviour are varied, but include the region's brush with colonialism and, more recently, socialism.

There is much that a well-run MNC affiliate can offer a developing country in turn-around mode, including *the example that it sets of the capitalist system at work to the benefit of all stakeholders.*

Grobbelaar (2006: 55) sounds a note of warning, however. In the case of Mozambique, the superior technology, business knowledge and financial strength of South African business have contributed to its dominance of the economy, creating local resentment. This *fear of a wave of South African economic colonialism* sweeping through SSA is not unique to Mozambique and needs careful and sensitive management by the relevant MNCs and their affiliates.

1.3.7. Operating conditions

'Africa is not for sissies' is a common refrain that greets investors looking to expand their foothold into the continent (Grobbelaar,2006: 55). The business environment most certainly represents a challenge, typically characterised by poor infrastructure, utility shortages, an ill-equipped talent pool and unsympathetic authorities. It is also true that the scourge of corruption is still alive and well in some countries.

However, it's far from a hopeless situation as proven by the success enjoyed by early-mover MNCs. Luiz (2006: 27) comments that *it is not that the environment of business is impossible in Africa, but rather that it's different and often requires more patience.*

It should further be noted that South African-based MNC affiliates and companies are particularly well-positioned to move north. Grobbelaar (2006: 55) comments that the impact of South African firms already active and successful in the rest of Africa clearly illustrates the value of careful management of local sensitivities and meticulous adherence to good corporate-governance practice. *South African firms who, being African and based in Africa's most dynamic economy, should have an advantage over MNCs from the rest of the world.* (Brews,2006: 379).

1.4. RESEARCH DESIGN AND METHODOLOGY

1.4.1. Introduction

Malhotra (2004: 86) describes *research design* as a framework or blueprint that guides a research project towards achieving its objectives. Tull and Hawkins (1993: 51-197) suggest that the *methodology* section of a research project should cover the following points:

- the type of study;
- the target population and sample;
- the data collection method;
- the research instruments used;
- data analysis.

The design and methodology elements applied in order to arrive at the research findings are discussed in chapter 4. Consistent with the insights gained from the above writers, the layout of chapter 4 follows the complete research process from start to finish, and is divided into the following sections:

- *confirmation of the research problem to be investigated;*
- *converting the problem into research questions to be answered;*
- *stating the objective of the research, as well as the justification thereof;*

- *defining the target population and sample;*
- *the design of the research study for purposes of this study;*
- *the data collection methods applied;*
- *data analysis;*
- *evaluating the validity of the findings;*
- *a summary of the contents of the chapter.*

1.4.2 The research problem

Mouton (2008: 48) describes the first phase of a research project as the transformation of an interesting idea into a "feasible, researchable research problem." The research problem has been formulated as follows:

"Sub-Saharan Africa's unattractive business environment has, until now, largely prevented MNCs from investing in the region, when compared to their presence in the rest of the developing world."

1.4.3. Research questions

According to Mouton (2008: 53): "Research problems implicitly or explicitly embody a research question". In this instance, three questions flow from the research problem:

- As stated by Hill (2005: 218), when it comes to FDI, Africa is by far the worst performing region on the globe. Secondary research has identified those environmental factors that result in the region being viewed in negative light by international investors. Why aren't MNCs targeting Sub-Saharan Africa with the same fervour as they do when it comes to the likes of Asia, Eastern Europe and South America?

  For purposes of this study of MNC affiliates operating in SSA, this question has been rephrased into the following two-part question: *What are the real impediments experienced in doing business in SSA, and* why *have those MNC affiliates present in the region decided to do business there despite these impediments?*
- Grobbelaar (2006: 35) states that a number of companies have demonstrated beyond any doubt that good business can be done on the continent. This fact leads to the next question: How are those MNC affiliates currently operating in the region able to overcome the challenges of SSA in order to earn good profits?

  Put into terms used in this study, this question is phrased as follows: *What are the Key Success Factors (KSFs) that have allowed early-mover MNC affiliates to achieve success in SSA?*

- Luiz (2006: 9), estimates that SSA accounts for 17% of the world's poor, with just about 800 million inhabitants earning US$650 per capita annually, while 48% live on less than a US dollar a day. Collectively, this represents a large untapped market opportunity.

  Brews (2006: 382), however, cautions that a serious challenge facing rich country entrants into Africa is "whether their existing products, services or solutions are even saleable or scalable in the continent."

The final question to be considered, therefore, is w*hether it is possible for MNCs to commercially explore the considerable potential that exists at the base of the economic pyramid (BOEP) in SSA.*

1.4.4. Research objective and justification

Mouton (2008: 48) stresses the need to clearly state the objective(s) of a research study by answering the question: "to what end is the research being undertaken? "

In this instance, *the primary aim of the research is to alert current and potential investors to the considerable opportunities and challenges that exist in the region, including the identification of strategic and operational guidelines that may enhance their chances of being successful.*

Business research amongst emerging economies is a fairly recent development as global investors increasingly turn to these markets as a source of future earnings growth. Ricard et al (2004: 194) comment that MNC understanding of what it takes to capture the BOEP opportunity amounts to virtual uncharted territory. Eisenhardt and Lee (as cited in Tsui,2004) argue that in contexts where management research is a recent introduction, there is a great need for developing indigenous theories. Tsui (2004: 505) observes that grounded theory building is a necessary step in developing management models that capture the richness of local context.

The paucity of business research amongst the economies of SSA (excepting South Africa) is severe, partially as a result of the lack of interest in the region as displayed to date by international investors. Smit (2006: foreword) comments that "Africa is seen as the last untapped market for business education in the world. The need for business education here is almost boundless." Binedell (2006: foreword) further states that if SSA's 850 million inhabitants are going to benefit from the region's current growth potential, it is vital that the leaders of government, business and community organisations are equipped with the right insights and skills to lead in a dynamic landscape. These leaders need to understand:

- the key capabilities that result in performance;
- the practices and processes that inhibit performance;
- new ideas and practices that will take them to the next level of competitiveness and performance.

Therefore, the *justification of this research study is to add value to the limited body of Africa-specific business knowledge in order to provide both leaders and students with fresh insights into exploiting the opportunities that exist in the poor markets of the region.*

1.4.5. Target population, sample and scope of the research

The primary research component of this study sits squarely in the *qualitative* camp and includes the selection of a small and informative sample from which data was collected by way of interviews. According to Brummer (2005: 343) the population of a research project is defined as the object of study and may include individuals, organisations and events. Levin & Rubin (as cited in Lotz, 2008) define a sample as "a portion of elements in a population chosen for direct examination or measurement. The sampling methodology applied in this study is *non-random* sampling (also referred to as non-probability or judgement sampling) (Lotz,2008: 4-6).

More specifically, the sampling technique adopted in this qualitative study is referred to by Miles and Huberman (2004: 27) as *purposive sampling*, a sampling framework that allows the researcher to identify participants on the basis of their particular knowledge.

Within this sampling framework, the *target population is the affiliates of MNCs who have a meaningful presence in sub-Saharan Africa and proven track record of supplying branded goods and services to consumers in the region.*

The sample has been structured to include:

- MNC affiliates head-quartered in different countries (UK, USA and South Africa);
- fast-moving consumer goods manufacturers (soft drinks, milk, beer and spirits);
- service providers (banking, advertising and mobile phone call time);
- retailers.

MNC's included in the study are:

- The Coca-Cola Company;
- Diageo plc;
- SABMiller plc;
- MTN;
- Coca-Cola Sabco;
- Standard Bank;
- Shoprite;
- Game;
- Promasidor;
- Game Stores;

- Ogilvy.

It is important to note that the study is focussed on the behaviour of the affiliates or subsidiaries of MNCs, as opposed to MNC headquarters. This distinction is consistent with the observation by Phene and Almeida (2008: 902) that: "given this importance of the subsidiaries to MNC success, researchers are increasingly examining subsidiary performance."

For purposes of this study, *the South African market has been excluded* from the rest of the SSA countries, because it has a relatively well-developed economy and possesses a business-friendly environment, characterised by relatively good infrastructure and business skills.

In order to give effect to a purposive sampling framework, it was decided to structure a *selected convenience sample consisting of 18 senior executives* (current or past Managing Directors of affiliates or regions) of MNCs selected according to the above criteria, and to whom the author could gain direct access (including spending a reasonable period of uninterrupted 'quality time' during the interview process). This approach allowed for the capture of in-depth knowledge and thought regarding SSA's business challenges and solutions thereof. On the other hand, however, the limited sample of respondents surveyed means that it is impractical to present the results of this study as being representative of all firms operating in the region.

In deciding on limiting the research to a relatively small group of top executives (as opposed to a larger sample that would necessitate including middle-managers), the author was swayed by the earlier plea from Tsui (2004: 508) for the need to "*build new theories of management and organisations in emerging economies* where businesses are new phenomena". This goal is best achieved by gaining the views from a panel of experts, that is those at the very top of their organisations who have a complete view of the complexities of doing business in the region, from strategy all the way through to the most mundane of operational challenges.

As far as the secondary research component of the study is concerned, results drawn from the *extensive review conducted of international business literature* on the subject of developing economies, including SSA, may justifiably be regarded as being representative of current theories held by academics in this field.

1.4.6. Research design

1.4.6.1. The qualitative research process

The key requirement for research design is to address the kind of evidence that is required in order to adequately address the research questions. The question to be answered by research design is the following: what type of study will be undertaken in order to provide answers to the research problem or questions? (Mouton,2008: 49,56).

According to Collis and Hussey (2003: 10), various types of research may be classified according to:

- the purpose of the research: exploratory, descriptive, analytical or predictive;
- the research process: qualitative or quantitative;
- the research logic: deductive or inductive;
- the outcome of the research: applied or basic research.

By applying Collis and Hussey's (2003: 10-15) research-type descriptors, this research study may be classified as follows:

- *qualitative:* involves examining and reflecting on perceptions in order to gain an understanding of social and human activities;
- *inductive*: a study where theory is developed from the observation of empirical reality;
- *applied*: research designed to apply its findings to solving a specific existing problem.

Further input gathered in designing the research study to adequately provide answers to the research problem and questions defined above was taken from relevant *international business literature*.

Tsui (2004: 508) observes that "for contexts without an extensive body of literature, and in emerging economies where businesses are new phenomena, there is a need to build new theories of management and organisations. *This means taking an inductive approach, hence qualitative methods, to construct development and theory building.* He goes further in calling for *focus on local practical relevance, along with existing literature or current knowledge* on the topic being analyzed. By relating to models, theories and constructs in existing literature, new findings can add to and even modify current knowledge about management and enrich understanding thereof in the global context (Tsui,2004: 503).

Birkinshaw and Hood, as well as Ferner et al (both cited in Moore,2005) comment that researchers in international business should be encouraged to experiment more in methodological terms and to be less cautious in terms of incorporating *qualitative methodologies* and research perspectives into their project design (Moore,2005: 720). Babbie and Mouton (2003: 262) recommend the use of *face-to-face interviews* as being effective when posing complicated or sensitive questions.

Yin (2003: introduction) states the following in support of the use of *case studies*: "Case study research continues to be an essential form of social science inquiry. The method is appropriate when investigators either desire or are forced by circumstances to:

(a) define research topics broadly and not narrowly;

(b) cover contextual or complex multivariate conditions and not just isolated variables;

(c) rely on multiple and not singular sources of evidence."

Thompson, Strickland and Gamble agree: “The purpose of this 16th edition is to satisfy the market’s legitimate and understandable yearning for newly-researched cases involving high-interest companies and headline strategic issues. Both professors and students have long preferred that assigned cases be as up-to-the-minute as possible” (Thompson, Strickland and Gamble,2008: preface).

Following the advice given by these writers, this study displays the following characteristics:

- an inductive research logic;
- a qualitative process;
- an emphasis on local practical relevance;
- the inclusion of a thorough review of existing literature on the subject;
- a small, informative sample of respondents for primary research;
- the use of face-to-face and telephonic interviews in order to collect primary data;
- observations by the researcher as supplementary source of primary data;
- the use of case studies to support the research findings.

1.4.6.2. Research design elements

In order to achieve the design specifications set out above, it was decided to design the qualitative research study to contain both primary and secondary research sources of data. Whereas secondary sources include data and information that have already been published, primary data are specifically collected for the research problem at hand (Brummer,2005: 342).

The specific research design elements included in this study are:

Primary research elements:

- *Face-to-face and telephonic interviews with senior executives of MNC affiliates* operating in the region in order to provide fresh insights and empirical proof of the reasons for entering SSA, operational difficulties encountered in the region and the existence of KSFs currently employed in order to overcome these challenges.
- A compilation of *case studies* of MNC affiliate successes achieved in the region which will illustrate how these KSFs are being implemented, as well as their impact on business results.
- *Observations by the author* based on his personal experience and interaction with peers during 15 years spent as the head of SABMiller plc’s operations in SSA. These observations are centred on the KSFs employed by MNC affiliates in the region, but also include views about the state of the region’s business environment.

Secondary research elements:

- An *analysis of existing literature on the business environment in SSA*. Although there's a paucity of formal publications on the subject, more recent interest in the region has resulted in a number of articles now being published on a regular basis in reputable publications.
- A *scan of current international business literature* in order to complement and validate the primary research findings.

It is intended that the final list and description of the KSFs resulting from the research should be both *well grounded in fact and practical to implement*, in order to meet the previously stated demand for emerging market research that has 'local practical relevance' (Tsui,2004: 503).

1.4.7. Data collection methods

1.4.7.1. Introduction

The data collection step in the research process has been addressed under the following headings:

Secondary research through a literature review of:

- international business literature;
- SSA-specific business literature;

Primary research through empirical fieldwork, including:

- observations by the author;
- interviews with selected MNC executives;
- the open-ended questionnaire as research instrument;
- case studies.

1.4.7.2. Secondary research: the literature review

The vast majority of secondary data may be collected by reviewing existing literature on the subject being researched. In fact, Mouton (2008: 86-87) places great store on the requirement for every research project to begin with a thorough review of existing literature in order for the researcher to learn from 'the most recent, credible and relevant scholarship' in the area being researched.

This study is characterised by an adherence to Mouton's advice in terms of the literary review. A thorough review of current SSA and international business literature formed the departure point on which the primary research study amongst MNC executives was based. In addition, the review of both international and SSA business literature was used to validate the existence of the KSFs as found in the primary research study.

1.4.7.3. Review of international business literature

Chapter 2 is devoted to a discussion of the role and conduct of the MNC as source of FDI and management in the developing world, including SSA. As may be seen from the bibliography, a wide range of international business literature was reviewed by the researcher who, for historic and theoretical perspectives, placed great store by *Hill's 'International Business, competing in the global marketplace',* as well as the recently updated work of *Daniels, Radebaugh and Sullivan, 'International Business, environments and operations'*, while articles from updated issues of the '*Journal of International Business Studies'* were thoroughly reviewed in order to access the latest thinking as far as doing business in emerging markets is concerned.

1.4.7.4. Review of SSA business literature

The business environment in SSA is discussed in chapter 3. The chapter was compiled following a comprehensive review of the limited literature available on the subject. The shortage of useful information available on the business environment in the region comes as no surprise, given the lack of interest in the region shown by the business community to date.

Hough and Neuland's 'Global business: environments and strategies' provided an African context to the international business theory covered in section 1.4.7.3 above, while Luiz's *'Managing Business in Africa'* proved to be an excellent source of relatively current information, written by various African authorities in their specific fields of business science. In addition, the authoritative *'The Economist'* magazine, as well the South African-based business publications, '*Financial Mail'* and *'Finweek'*, were monitored in order to gain further current information on the subject matter.

1.4.7.5. Primary research - empirical fieldwork

The *primary research* component of the study resorts under the heading of "empirical field research", that part of the research process when the researcher leaves his study or the library and enters the field (Mouton,2008: 98-99). Mouton includes the following among potential data sources:

- observation, including participant observation in natural field settings;
- self-reporting, including personal interviewing.

This study collected primary data using both *observation and self-reporting* sources. Self-reporting was used in the research amongst the selected sample of senior executives of MNCs, whereas observation is discussed under the next heading.

1.4.7.6. Observations by the author

The author's experience and interactions with peers and colleagues during 15 years of doing business in Africa, has enabled him to not only contribute to the discussion on the prevailing business environment in SSA, but also to develop a list and description of KSFs that have been

successfully applied in the region. This includes ways of exploring the potential that exists at the BOEP. These KSFs served as departure point for further research and validation of same.

1.4.7.7. Interviews with MNC executives

According to Babbie and Mouton (2003: 262 – 264) there are three ways of collecting data in surveys, namely through a questionnaire mailed to respondents, a personal face-to-face interview or an interview by telephone. Mindful of the above, the researcher was further led by Miles and Huberman's (1994: 27) qualitative sampling technique known as *purposive* sampling, a sampling framework that allows the researcher to identify participants on the basis of their particular knowledge.

It was therefore decided to conduct *face-to-face and telephonic interviews* with the *18 experienced senior executives* (Managing Directors of affiliates or regions) of selected MNCs who have been chosen to participate in the study because of their knowledge of the subject matter and to whom the author could gain direct access (including spending a reasonable period of uninterrupted 'quality time' during the interview process.) The interviews were conducted in an *unstructured* (*open-ended) manner* in order to allow for the extraction of the greatest possible depth of knowledge and insight from these business leaders. In order to allow the respondents some time to formulate his responses, the open-ended questionnaire was e-mailed to them at the time of setting a date for the planned interview.

The *executives interviewed* were the following:

- *ATO AFFUL – MD Ogilvy Africa* (interviewed telephonically 18.12.08)
- *PHIL GUTSCHE – Chairman, Coca-Cola Sabco* (interviewed 15.12.08)
- *FANUS NOTHNAGEL – Coca-Cola Sabco CEO* (interviewed telephonically 28.11.08)
- *MURRAY LOGGIE – MD Coca-Cola Sabco Tanzania* (interviewed telephonically 16.12.08)
- *NATHAN KAMBULU – East & Central Africa President for The Coca-Cola Company* (interviewed 27.11.08)
- *JACKO MAREE, Chief Executive, Standard Bank Group Ltd* (interviewed telephonically 9.12.08)
- *CLIVE TASKER – Chief Executive, Standard Bank Africa* (interviewed telephonically 8.12.08)
- *KEITH RICHARDS – MD of Promasidor Nigeria* (interviewed 27.11.08)
- *JAN POTGIETER (MD) and RICHARD FULLER (Director – Africa) for Massdiscounters (Game Stores & Dion)* (interviewed together 27.11.08)
- *ROB NISBET – Financial Director of the MTN group* (interviewed 17.11.08)
- *CHRIS FREER – former MD of Castle Brewing Kenya and Guinness Cameroon.*(interviewed 16.11.08)

- *DANIE NIEMANDT – retired Operations Director of SABMiller East Africa* (interviewed 16.11.08)
- *ROGER SMITH - MD Cervejas de Mozambique* (Roger completed the questionnaire electronically, after an explanatory phone call)
- *MARK BOWMAN – SABMiller MD for Africa* (interviewed 27.11.08)
- *NICK BLASQUEZ – current MD of Diageo Africa* (interviewed telephonically 10.12.08)
- *DAVID HAMPSHIRE – retired Managing Director of Diageo's Africa Division* (interviewed 11.11.08)
- *WHITEY BASSON – CEO of Shoprite & JULIAN WENTZEL – Head of Research: Macquarie First South Securities* (Basson declined, but Wentzel interviewed 10.12.08)

Interviews were personally conducted by the researcher during which he probed for greater insights in order to answer the research questions as formulated under section 1.4.3 above. Details of the information provided by each respondent may be found in appendix 3.

The final set of KSFs, in particular, had to enjoy sufficient proven support amongst the selected sample of respondents in order to have validity, else the results remain purely anecdotal – interesting, but of no scientific value. This proof was delivered in the following ways:

- by testing for commonality of KSFs as employed across the sample of respondents;
- by compiling examples or case studies of the impact of these KSFs at work in SSA;
- by comparing the KSFs as defined to existing business literature on the subject.

1.4.7.8. The unstructured primary research instrument: an open-ended questionnaire

Although the unstructured interview process has been chosen over a structured approach in order to extract in-depth insights from the senior executive respondents, a questionnaire had to be developed in order to lead the interview process towards delivering the required answers to the research questions.

Five basic themes were developed in order to guide each interview towards achieving results that both meet the research goals and allow for testing for the convergence of views amongst respondents:

- Why early-mover MNCs have invested in SSA.
- The nature of the business environmental challenges faced by these MNC affiliates in SSA.
- The KSFs that these affiliates have developed in order to be successful in SSA.
- Specific measures taken by these affiliates to reach consumers at the BOEP.
- Practical examples of the impact of the KSFs at work in the workplace.

This research instrument may be found in appendix 2 and includes known examples in order to stimulate thought amongst respondents. By giving the respondents some time to gather their

thoughts on the subject matter, it was also intended to derive maximum benefit from the limited time available for the interview. Practical examples of the KSFs at work formed the basis for compiling case studies.

The questionnaire was sent out to respondents in advance of the interviews together with a covering letter from the supervisor, as per appendix 1.

Because the researcher personally conducted the interviews amongst a limited number of respondents, it was felt unnecessary to pre-test the questionnaire. The researcher was able to clarify any queries from respondents during the interview process.

Finally, a brief description of each respondent's biographical details, as well as that of the MNC and the affiliate that he represents, was completed at the time of each interview.

1.4.7.9. Case studies as primary research instrument

A further derivative of ethnographic research, Mouton (2008: 149-150) recommends the case study method for use in empirical studies that are qualitative in nature and aim to provide in-depth insights.

In this study, case studies have been employed as an additional element of the research design due to the impact of *providing empirical proof through examples of applying theory in practise.* This is consistent with the popularity amongst researchers and students who use case studies on diverse topics, including business and organisational issues. It is also one of the most common methods of conducting research for use in public and business administration (Yin,2003: introduction).

The rationale used for deciding on the case studies included in this study is classified by Yin (2003: 13) as an "Exemplary case design.....Use of this rationale means that all of the cases will reflect strong, positive examples of the phenomenon of interest." In this instance the 'phenomenon of interest' is to illustrate how MNC affiliates successfully apply KSFs in the region.

Four selected cases were prepared, illustrating the Key Success Factors as applied by MNC affiliates in SSA. These studies were completed during the interview process with the relevant MNC executives and supplementary information extracted from each MNC's website and other relevant publications.

1.4.8. Data analysis

Data *analysis* involves 'breaking up' the data into manageable themes, patterns, trends and relationships. The aim of this analysis is to understand the various elements that make up the data collected by inspecting the relationships between concepts, constructs or variables in order to see whether there are any trends or patterns that can be identified, or to establish themes in the data (Mouton,2008: 108).

In analysing the data collected from the unstructured interviews with MNC executives, the researcher applied an *interpretive approach*, as recommended by Miles and Huberman (1994: 8): in order to gain "a practical understanding of meanings and actions."

The recordings of the interviews were analysed and transcribed into points made under the following headings:

- Reasons for early-mover MNCs investing in SSA.
- Business environmental challenges faced by these firms operating in the region.
- The KSFs that these firms have developed in order to be successful in SSA.
- Measures designed by these firms to access the consumers at the BOEP.
- A practical example of the impact of each KSF at work in the workplace.

The above results were then interpreted in order to ascertain the degree of convergence among the responses under each heading on the one hand, and to compare the findings to current theory as gleaned from the literature search on the other.

Statistical analysis of the results from this research study is not practical because of the limited sample of respondents, coupled to the open-ended nature of the unstructured research instrument.

1.4.9. Validity

Validity is essential to any measurement model. According to Tull and Hawkins (1993: 316), the validity of a measure is indicated by the extent to which it is free from systematic and random error. However, perfect reliability and validity are virtually impossible to achieve (Neuman,2003: 178).

Various authors, including Welman and Kruger, as well as McDaniel and Gates (as cited in Brummer,2005) refer to reliability as the extent to which the results from a research study may be generalised to different measuring occasions, forms and administrators. Put differently, reliability may be viewed as the extent to which the results in the survey could be duplicated in similar surveys.

Neuman (2003: 179-180) identifies three types of reliability:

- stability reliability, which refers to reliability over time;
- representative reliability, which is reliability across groups of people;
- equivalence reliability, when the items in a questionnaire measure the same construct.

In the primary research component of this study, the senior executives interviewed largely represent the views of their firms, so that their responses represent a reliable picture of the views and experience of the MNC affiliates included in the structured study. However, because the sample is limited, it is not really possible to extrapolate the findings to all firms operating in SSA.

On the other hand, Lincoln and Guba (as cited in Babbie and Mouton,2003) comment that judgement concerning the transferability of findings in qualitative research rests *in the context of the reader*. There's bound to be a sizeable body of businessmen operating in SSA, or contemplating entering the region, who would contemplate applying portions of the research findings in their businesses, for instance, the KSFs as identified.

The final set of KSFs produced as a result of the primary research were subjected to further validation through *comparison to the findings from the extensive review of relevant literature* listed in sections 1.4.7.3 and 1.4.7.4 above.

1.5. FINDINGS & DISCUSSIONS

1.5.1. Introduction

The contribution of the *empirical research study* towards answering the research questions in this study is four-fold:

- Confirmation of reasons for MNCs investing in SSA
- Confirmation of impediments to doing business in SSA
- The identification of Key Success Factors (KSFs) employed by MNC affiliates in SSA, including ways of exploring the BOEP potential
- Case studies of MNC affiliate successes achieved in SSA.

1.5.2. Confirmation of reasons for MNCs investing in SSA

The findings from the *literature review* may be summarised under three broad headings:

- The strategic motive for MNCs to find new profit growth opportunities as the rest of their global markets begin to mature.
- The advantage of low levels of in-country competition that accrues to early entrant firms.
- A perceived reduction in country risk as business conditions in SSA begin to improve

1.5.3. Confirmation of impediments to doing business in SSA

The findings from the literature review were fully supported by the empirical research results, although country risk-related issues did not feature prominently in the feedback received from respondents, most probably because their presence in the region signifies their willingness to accept its inherent risk factors as being outweighed by its rewards. They have, however, confirmed most of the operating impediments listed in literature and their responses have been captured under the following headings:

- infrastructural shortcomings;
- skills shortages;
- government interference;
- the scourge of corruption;
- other.

1.5.4. The identification of Key Success Factors (KSFs) employed by MNC affiliates in SSA

"Doing business in Africa is not business as usual. The principles of good management may be universal, but the context and the people differ profoundly in Africa" (Luiz,2006: 391). Assuming, therefore, that the foundation of good management practice is in place, the research was aimed at uncovering those *Africa-centric KSFs* that make a real difference to firms operating in the region.
The KSFs identified have been grouped under strategic and operational headings:

Strategic KSFs

- *Choosing the right strategy and organizational architecture*
- *Making trade-offs in order to share the benefits (and burdens)*
- *Partnering with Government*
- *Bulking up for critical mass*
- *Capturing the opportunity at the base of the economic pyramid.*

Operational KSFs

- *Using expatriates effectively*
- *Flawless execution*
- *Investing ahead of demand*

The description of each KSF contains the research results from both primary and secondary sources (literary review and empirical research).

1.5.5. Case studies of MNC affiliate successes achieved in SSA

The following four cases were prepared:

- *MTN's Nigerian entry*
- *The privatisation of Tanzania Breweries Ltd to SABMiller*
- *Kenya Breweries Ltd's introduction of Senator Keg*
- *The turn-around of Coca-Cola Sabco's Ethiopian bottler*

1.6. CONCLUSIONS

The purpose of this research study is to determine to what extent sub-Saharan Africa holds interesting and viable business opportunities for MNCs, especially those willing to explore the BOEP market segment.

The study further investigates ways in which the challenging and changing business environment of the region may be effectively overcome by firms that are well prepared and willing to adapt to local needs. The study also highlights the extent of the current opportunity that exists in the region for firms setting out from neighbouring South Africa, due to reasons of regional proximity and cultural sensitivity. Insight into the final set of key success factors resulting from the research study could serve as practical tool for application by firms already present in the region, as well as those preparing to enter sub-Saharan Africa for the first time.

However, before addressing the business issues that are specific to the SSA region, it is essential to study the emergence of the Multinational Corporation as a growing force in the international business environment (see chapter 2).

CHAPTER 2: AN EVALUATION OF THE ROLE AND CONDUCT OF MULTINATIONAL CORPORATIONS (MNCs)

2.1. INTRODUCTION

The research problem as defined in section 1.4.2 above places the MNC at the centre of this study. Unfortunately for the countries of sub-Saharan Africa (SSA), the region's unattractive business environment has, until now, largely prevented MNCs from investing there, when compared to their presence in the rest of the developing world.
This chapter is devoted to understanding the factors surrounding the emergence of this enterprise-type to the position of prominence that it enjoys in today's global economy. The chapter consists of the following sections:

- an introduction to the rationale for the emergence of the MNC and its characteristics
- the globalization process as driving force for the growth in MNCs
- the role of the MNC as efficient provider of foreign direct investment (FDI)
- a review of strategic options available to MNCs.

2.2. THE MULTINATIONAL CORPORATION (MNC)

This section defines the unique characteristics of, as well as rationale for the existence of the MNC that sets it apart from other enterprises. The section then goes on to explore the changing face of the modern MNC, including a discussion of the international institutions that regulate the environment in which today's MNCs operate.

2.2.1. Defining the MNC

Multinational corporations (MNCs) are also referred to as multinational enterprises (MNEs), multinational firms, multinational companies and transnational corporations in business literature. For sake of consistency, this study only refers to these firms as MNCs, whereas the literature reviewed also includes the use of these synonyms.
As the name above implies, MNCs conduct business and earn income across a number of foreign countries. Hill (2007: 21) defines a MNC as any business that has productive activities in two or more countries. Although Hill's views are generally regarded as being authoritative when it comes to international business, this definition has been rejected for purposes of this study as being too broad

to be useful (for instance, any South African firm who had made two small investments in neighbouring Lesotho and Swaziland would qualify as a MNC according to this definition).

The Daniels et al definition is more conceptual in nature and has also been rejected as not being definitive enough for purposes of this study: “A MNE takes a worldwide view of markets and production; in other words, it’s willing to consider market and production locations anywhere in the world” (Daniels et al,2009: 63).

At the turn of the century, a more complete definition was provided by Root (1994) who described a MNC as a parent company that (1) engages in foreign production through its affiliates located in several countries, (2) exercises direct control over the policies of its affiliates, and (3) implements business strategies in production, marketing, finance and staffing that transcend national boundaries.

A more recent and comprehensive definition states that: “a multinational firm or MNE is an enterprise that engages in foreign direct investment and owns and controls value-adding activities in more than one country. It typically has multiple facilities across the globe, derives a substantial portion of revenues from foreign operations, manages subsidiaries with a common strategic vision and resource pool and often places foreign nationals or expatriates in key management posts.” (Erwee,2007: 176). This definition has been chosen as being most complete for purposes of this study and may be applied to all the MNCs active in SSA included in the research study.

2.2.2. The rationale for ‘going global’

Although success can by no means be guaranteed (indeed, it may be *risky business* for a domestic firm to expand beyond the confines of its familiar home market), Hill (2005: 416) states that expanding globally allows firms the opportunity to *increase their profitability* in ways not available to purely domestic enterprises. Firms that take the plunge into international markets are able to:

1) realize location economies by spreading value creation activities to those locations across the globe where they can be performed most effectively

2) realize greater economies of scale by serving an expanded global market from a central location

3) earn a greater return from the firm’s core competencies by rolling out these skills to new markets and

4) leverage any valuable skills developed in foreign operations by transferring them to other entities within the firm’s global network.

A firm’s ability to realise increased profits by going global is, however, not as simple as merely rolling out a winning business formula and/or its brands to all the corners of the world. Consumer preferences, legal requirements and infrastructural realities differ from country to country, requiring

MNCs to make the necessary adjustments to meet these local requirements, without which success will remain elusive. This requirement to incorporate *the impact of local differences* into its business model, compounded by the paucity of local business skills, is especially challenging for MNCs operating in SSA, thereby reducing the opportunities identified by Hill above to one only, which is the MNC's ability to profit from the leveraging of its *core competencies* in the markets of SSA.
In fact, the process of transferring core competencies amongst an MNC's affiliates is difficult in itself. Harvey (2006: 422) mentions the following as being the main challenges faced in this regard: culture, language, attitude, developing a 'common language', the 'not invented here' syndrome, time zones and resistance to change.

According to Deresky (as cited in Hough, 2007), firms consider international expansion for reactive and proactive reasons. The former includes trends such as the globalization of competition and the saturation of domestic markets, while the latter is aligned with the growth imperative of firms in mature markets, compelling them to continually look for new opportunities on the global stage.
The US retailer, Wal-Mart, serves as a successful example of a firm that expanded internationally because:

- its growth opportunities at home were becoming constrained;
- it thought it could create value by transferring its value proposition to foreign markets;
- it wished to pre-empt other retailers who were also starting to expand globally.

Despite some early to-be-expected setbacks in the 1990s, Wal-Mart achieved the growth it was searching for. By 2004 it had established 1 500 stores outside the US, generating revenues in excess of US$ 50 billion. In addition, by expanding internationally, Wal-Mart was able to reap significant economies of scale from its expanded global buying power, as well as benefitting from the flow of ideas from the new international markets in which it now competes (Hill,2007: 407 – 408).

The SABMiller story serves as example of a successful South African firm which went in search of profit growth on the international stage by leveraging its core competencies. Up to the end of apartheid in 1994, the then SAB was precluded from investing overseas due to political pressures and was forced to look for growth within the borders of South Africa, which it did by diversifying away from its core beverage business into retail, hotels, furniture manufacture and the like. This strategy did not have the desired results because of management's inability to come to grips with these non-core assets (for instance, SAB eventually sold its supermarket chain, the OK Bazaars, to Shoprite for one Rand – the latter has subsequently successfully turned OK Bazaars around, while maintaining many of the original OK store locations to this day.)

Once it was politically acceptable for SAB to enter the global stage (following the birth of a democratic South Africa), the firm sold off the bulk of its non-core South African assets, preferring to purchase brewing assets internationally, including in SSA. SAB's core competencies as low cost beer manufacturer, coupled to a robust set of systems and processes that had been proven in South Africa with its unique mix of first and third world characteristics, stood the firm in good stead internationally. It became SABMiller after purchasing the number two brewer in the US and has today become the world's second largest brewer, recognised for its management excellence.

2.2.3. The changing face of MNCs

According to The World Investment Report,2004 (as cited in Hill,2007), global business activity was dominated by MNCs originating from the USA in the three decades after World War Two. In 1973 almost half of the world's largest MNCs were US firms. By 2000, the US share of the top 100 MNCs had dropped to 24%, with Japanese firms taking up the slack, reaching a share of 16%, with Britain weighing in at 14%. In 2002, only three firms from developing countries made it onto the top 100 list.

However, Van Hoesel (as cited in Daniels & Radebaugh,1995) confirms that as far back as the 1990s considerable FDI growth was beginning to be contributed by MNCs from the newly industrialized countries, while Chetty (as cited in Hill,2007) observes a further trend in favour of developing country participation in the internationalisation of business, being the explosive growth of mini-multinationals, many of whom originate from these countries. This trend of greater outward investment by *MNCs originating from developing nations* is expected to accelerate, thus further shifting the axis of the world economy away from North America and Western Europe and threatening the long dominance of Western Companies (Hill,2005: 20).

South African firms, too, have started to spread their wings on the global stage, notably Anglo-American, BHP Billiton, SABMiller and MTN.

Daniels and Radebaugh (1995: 307 – 308) further observed that trends in the distribution of FDI by MNCs generally conform to long-term economic changes in both home and host countries, explaining why MNC investments in manufacturing grew steadily from the 1920s to the early 1970s. Thereafter the trend swung to investing in the services sector (banking and finance), as well as technology-intensive (hi-tech) manufacturing. By 1990, as much as 50% of the world stock of FDI was accounted for by services. They further predicted (correctly, as it turns out)that in future *resource-seeking investments* might grow more rapidly than market-seeking investments as international trade barriers continue to fall and MNCs become more experienced in manufacturing abroad.

This trend has been boosted by sharply increased demand for the world’s raw materials due to the tremendous levels of economic growth achieved by China and India, and is borne out by the recent spate of massive mergers and acquisitions in the resources sector by the likes of Mittal, Rio Tinto, BHP Billiton and others.

2.2.4. The emergence of International Institutions

According to the United Nations Conference on Trade and Development (UNCTAD) (as cited in Fredriksson,2003), MNCs accounted for two-thirds of world trade and employed 53 million people across the world in 2003. Daniels & Radebaugh (1995: 424) further illustrated the sheer size of MNCs in the 1990s by observing that the sales turnover of MNCs such as General Motors, Exxon and Mitsubishi exceed the GNP of many medium-sized economies, including Argentina, Indonesia, South Africa and Poland.

Data generated by the World Trade Organisation (WTO) (as cited in Hill,2007) shows that the volume of world merchandise trade has outstripped that of world economic growth between 1970 and 2004 to the tune of 26 times versus 7,5 times.

Due to the sheer size of the above phenomena, it’s clear to see why international institutions have emerged to help manage the global business system. De Lange (2007: 19) singles out ‘the Bretton Woods Trinity’ as the three main institutions that govern globalisation:

- The International Monetary Fund (IMF), whose task it is to maintain order in the international monetary system.
- The World Bank, established in order to promote economic development.
- The World Trade Organisation (WTO), whose responsibility it is to police the world trading system, essentially by freeing it up.

MNCs operating in SSA would do well to acknowledge the substantial, if somewhat controversial, role played by the Bretton Woods institutions in shaping national legislation and policies, including:

- taxation;
- duties and trade barriers;
- infrastructural finance;
- fiscal and monetary policy;
- privatisation.

Diageo sets the best example of opening up channels of communication with these institutions through regular visits to Washington aimed at presenting their view of the impact of potentially harmful policies, such as excessive taxation, on their operations throughout the world, including those in SSA.

In summary, the emergence of the MNC as a dominant force in the global economy has come about as an appropriate and *efficient reaction by business to the globalisation trend* that has swept the world, particularly post - World War Two. The establishment of the Bretton Woods institutions should be viewed as an enabling factor towards creating a more conducive environment for the growth of MNCs.

2.3. GLOBALISATION: FUEL FOR THE GROWTH IN MULTINATIONAL CORPORATIONS (MNCs)

From the afore going, it is clear that the growth in importance of the MNC in the global economy is closely linked to the process of globalisation, a not uncontroversial phenomenon, details of which are discussed hereunder.

2.3.1 Defining globalisation

Hill (2007: 4) describes the process of globalization as follows: “A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones and language; and by national differences in government regulation, culture and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over and national economies are merging into an interdependent, integrated global economic system. The process by which this is occurring is commonly referred to as globalization.”

MNCs have emerged as the private sector’s response to the opportunities inherent in the process of globalization. In doing so, MNCs have contributed to the process gathering momentum, to the extent that even the furthest flung corners of the world, including SSA, are being integrated into the global economy.

2.3.2. Empire building

Contrary to popular belief, globalisation is not a new phenomenon. It is a fact that governments and companies have busied themselves in economic activities that stretched beyond their home boundaries for many centuries, mostly to access raw materials in order to fuel growth in their home countries. A fact supported by Ellwood (cited in de Lange,2007) who asserts that the integration of the global economy began in earnest with the launch of European colonialism around five centuries ago.

The emergence of the likes of 'The British Empire' and 'The Dutch East Indies Company' are both early examples of multinational organisations at work in order to unlock new growth opportunities for their respective constituents.
From the outset, these multinational organisations *left a controversial mark on history*:
On the one hand, making hugely positive contributions towards progressing the lot of mankind through, amongst others, the discovery of new types and sources of raw materials, products, trade routes and manufacturing methods. In short, laying the foundation for wealth creation and improved living standards, albeit mainly in their home countries.
On the other hand, however, history also tells a sorry tale of land grabbing, greed, exploitation of host countries and their citizens, as well as numerous wars fought in the name of securing sources of wealth. An example, close to home, is that of the Anglo – Boer wars which were really fought because of the British desire to own South Africa's gold and diamond fields.

MNCs operating in SSA, in particular, would do well to *heed the lessons of the sub-continent's colonial past*, bearing in mind that all of the region's countries, other than Ethiopia, were colonised by a European country in the not-too-distant past. MNCs should be sensitive to local perceptions that often equate foreign investment in a SSA country with the exploitation and repression of local people and their talents, as experienced in their previous brush with colonialism. The MNC should make every effort to be seen to be different from the erstwhile colonisers and should strive to be seen as a *force for good by local stakeholders*, through the way in which it acts, develops local citizens and shares in the benefits of its endeavours.

2.3.3. The post-World War Two era

Today's MNCs have flourished because of, and contributed to, the era of globalisation that followed the end of World War Two. Although unrecognisable as far as management methods are concerned when compared to the likes of 'The Dutch East Indies Company' or the manner in which Britain ruled her Empire, *the modern MNC shares in the controversial nature* of the benefits reaped by its forerunners such as unquestionable benefits for the largely developed home countries, while the case for the host countries often remains unclear, especially where they happen to be of a less-developed nature.

Globalisation has numerous facets, including globalized markets (the merging of separate national markets into one global marketplace) and the globalization of production, as well as the sourcing of

goods and services from around the world in order to take advantage of cost and quality advantages in terms of labour, energy and capital. (Hill,2007: 5-8).

Because of its poor infrastructure and low skills levels, SSA has not to date interested MNCs in search of production globalisation benefits, although it is true that the world's large extractive and mining MNCs are well-represented in the region due to its relative wealth in natural resources. As a rule, however, these MNCs do not invest in beneficiating assets in the region. However, SSA is starting to attract MNC attention in terms of the potential it holds on the market globalisation front. With the help of global media and the Internet, a great number of international brands are making their presence felt in the region, including Ford, Toyota, BMW, Sony, Hitachi, IBM, Coca-Cola, Heineken, Marlboro, Colgate, Nokia and many others.

Stonehouse et al (as cited in de Lange,2007) identified the following factors as being the main drivers of globalisation:

- Political forces, including reduced trade barriers, the recognition of intellectual property rights, privatisation, regional co-operation and the establishment of trading blocs with common technical standards.
- Economic forces, including increased world trade, rising income levels, efficient financial markets, growing free market forces, increasing competition and reducing government intervention.
- Social forces, including growing consumerism, increasing affluence, converging consumer tastes and improving lifestyles, education and skills.
- Technological forces, including the continued industrialisation of nations, improved transportation networks and the influence of the information and telecommunications revolution.

The drivers of globalisation listed by Daniels et al (2009: 51) are similar:

- Expanded technology.
- The liberalization of cross-border trade and resource movements.
- Development of support services for international business.
- Increased pressure from consumers.
- Increased global competition.
- Changing politics.
- Improved cross-border co-operation.

Small wonder, therefore, that it is a derivative of the modern-day MNC, as opposed to a stand-alone in-country firm, that increasingly represents the most appropriate business model to profit from the

opportunities and deal with the challenges presented by the current wave of globalisation. This fact is borne out by UNCTAD estimates that the number of transnational corporations of 14 OECD countries increased from some 7,000 in the late 1960's to 24,000 by 1990 and 64,000 at the turn of the century. According to UNCTAD, these firms controlled 870,000 foreign affiliates, accounted for two thirds of world trade and employed 53 million workers in 2003 (Fredrikson,2003: 8).

A cautionary note comes from Hill (2007: 16) who rightly warns against over-emphasizing the 'global village' phenomenon. A firm that ignores differences between countries does so at its peril – a message that Hill repeats throughout his writings. Even earlier on, Daniels and Radebaugh (1995: 25) had observed that when a company goes abroad, it faces conditions very different from those it encounters at home and may need to engage in national responsiveness, that is, make operating adjustments in order to achieve success in a particular country.

The *need for local responsiveness* applies equally to MNCs wishing to do business in SSA. In fact, as a result of differing histories, cultures and languages, countries within the region also display very significant differences from each other. Although most are poor, there is no such thing as a 'typical' African consumer.

2.3.4. Anti-globalisation sentiment

Globalisation has encountered some stiff opposition, as commented on by various international business writers, including Hill (2007: 25) who observes that globalization has its critics, despite the existence of a compelling body of theory and evidence that increased international trade and cross-border investment stimulate economic growth, create jobs and raise income levels.

As early as the 1970s, MNCs were perceived in many quarters to be huge economic powers, being beneficial in some cases, but necessary evils at best. Their actions in developing countries were often interpreted as a threat to the sovereignty of recipient economies which, if not controlled, could be detrimental to their welfare. The policy response was to seek ways for national and international bodies to monitor, restrict and regulate the activities of MNCs (Fredriksson,2003: 4).

Searching amongst the rhetoric of various anti-globalisation voices such as Hood and Young, as well as Sweezy and Magdoff (as cited in Hill,2007), one is struck by *a deep underlying fear and suspicion of the growing dominance of 'big business'*, making it an easy target for populist radicals to blame as the cause of many of today's evils, including poverty, the exploitation of labour, pollution, unemployment and the like. Unfortunately, too, there have been a few high-profile cases of wrongdoing by MNCs (Nike's use of child labour, as example) that fuel these radical claims.

Hill (2007: 27 – 33) identifies the following 'ills' currently being laid by various interest groups at the door of globalisation:

- The outsourcing of jobs from developed countries in favour of poorer paid jobs in developing countries.
- Manufacturing firms that move from well-regulated environments in advanced countries to less developed countries that lack the necessary controls to protect labour and the environment from exploitation.
- The shift in economic power away from national governments towards international organisations such as the United Nations, WTO and European Union.
- The widening gap between the rich and poor nations of the world.

The latter two arguments, in particular, enjoy a sympathetic audience amongst the governments of SSA.

Daniels et al (2009: 56 – 58) categorize the anti-globalisation arguments under the following three headings:

- Threats to national sovereignty: a nation's fear that it is able to act in its best interests without externally imposed restrictions.
- Damage to the environment as a result of the pursuit of economic growth, including the depletion of the non-renewable resources, pollution and the like.
- Growing income inequality, as per Hill's point above.

The threat to national sovereignty is a further concern keenly felt by SSA governments and their citizenry, especially during the process of privatisation. Generally, governments have put state-owned assets up for sale only in those instances where the enterprise concerned had fallen into a desperate state of ill repair and bankruptcy.

Anup Shah's personal website for global issues contains an example of the outpouring from radicals that helps shape the largely undeserved poor press that MNCs enjoy amongst anti-globalisation forces: "Some options that corporations take to make profits can affect people all over the world. Sometimes fatally....As profits are naturally the most important goal, damaging results can arise, such as violation of human rights, lobbying for and participating in manipulated international agreements, environmental damage, child labour, driving to cheaper and cheaper labour, and so on" (Shah,2008).

Although many of the above charges made in the name of the anti-globalisation lobby may be watered down or even discounted in the face of well-researched evidence and reason, the point is that MNCs should face up to the fact that *the capitalist system does not have a great track record of*

self-discipline in its pursuit of profit-maximization and wealth creation. Global issues such as food security, protection of the environment, sustainable resource development and poverty alleviation have to be addressed as an integral part of the system. The days of 'business as usual' are long gone. MNCs, in particular, need to clean up their act in this regard or else they'll invite others, such as developing world governments, NGOs, Green Peace and the like, to do so on their behalf. The profit motive has to remain at the centre of any firm's endeavours. However, in addition, MNCs need to develop a new set of tools towards system sustainability that are acceptable to an array of legitimate external stakeholders.

Behrman (2006: 440) summarises as follows: "Globalization will never be acceptable to any given country unless there is a sufficient community of interest to permit the making of trade-offs and compromises necessary to permit reform and change. This, in turn, is dependent on a harmonisation of value systems that include the extension of respect and dignity to others as well as a willingness to seek an equitable distribution of benefits and burdens."
It is clear that the debate that surrounds the impact of globalisation as force for good versus the negative views of its detractors is by no means over. Behrman's expression of *the need for MNCs and other key players to compromise and search for trade-offs in order to extend the positive outcomes of globalisation, especially to the world's poorer nations,* has relevance.

2.4. MULTINATIONAL CORPORATIONS AS PROVIDERS OF FOREIGN DIRECT INVESTMENT (FDI)

One of the primary functions provided by MNCs in the global economy is that of an efficient provider of FDI which, in turn, generates economic growth and its resultant benefits, also in the poor countries of the world. Because of the importance of this outcome, a closer analysis of the interplay between MNCs and FDI is required.

2.4.1. An introduction to FDI

FDI occurs when a firm invests directly in facilities to produce and/or market its products in a foreign country. When a firm undertakes FDI, it becomes a MNC (Hill,2007: 238). According to Daniels et al (2009: 63) FDI occurs when an investor takes a *controlling interest* in a foreign company, else an overseas investment is known as a portfolio investment.
Vertical FDI occurs when a firm ventures abroad to secure either inputs (backward) for its domestic production processes or sells the outputs (forward) of its domestic production processes (Hill,2007: 238 – 239). This study is focussed on *horizontal FDI*, defined by Hill (2007: 246 - 252) as when firms

expand by investing in the same industry abroad as at home due to one or more of the following reasons:

- transportation costs;
- market imperfections, including impediments to exporting and the sale of know-how;
- strategic behaviour, where firms decide to compete in the global market place in order to find new sources of profitable growth;
- the product life cycle, which makes local production of a product in a foreign destination viable once export-led demand has grown sufficiently;
- location specific advantages, where the location of essential raw materials or specialist skills dictate.

The key enabling factor for horizontal FDI is the transfer of knowledge within the firm – knowledge transfer being the primary expression of growth of the firm (Kogut and Zander,1993: 639).

FDI occurs either through a greenfield investment (the establishment of a new operation in a foreign country), or by acquiring or merging with an existing firm in the foreign country. Firms generally prefer the latter entry route as it is quicker to execute, acquired firms usually come with valuable strategic assets and because the acquirer believes that he can improve the efficiency of the acquired unit by transferring capital, technology and management skills (Hill,2007: 238).

2.4.2. FDI trends

The US accounted for two thirds of world-wide FDI in the 1960s. This dominance was such that it caused acute concern in Europe, including calls for limiting US-sourced FDI flows into countries such as France. From the 1970s onward, Japanese and European firms joined the bandwagon, shifting their production activities in order to lower labour costs, build a permanent presence in foreign markets and to hedge against both possible government intervention from host countries and potential unfavourable currency moves (Hill,2007: 19).

The World Investment Report of 2004 (as cited in Hill,2007) contains the following relevant facts:

- Between 1992 and 2004, cumulative FDI flows grew by 260% to US$8,1 trillion, well ahead of world trade which grew by 100% and world output growth of 32% over the same period.
- In 2003, the existence of at least 61 000 MNCs was recorded, operating more than 900 000 affiliates in foreign markets, employing 54 million people and generating value equal to 10% of global GDP. With global sales of $17,6 trillion, these MNC affiliates almost doubled the value of $9,2 trillion recorded for global exports.

The table below further highlights the extent of rapid growth in global FDI. Between the 1970's and the 7 years ended in 2006, average world annual FDI inflows grew from US$ 24 billion to $ 930 billion, having exceeded the $ trillion mark in 1999, 2000 and 2006 on the back of spikes in the level of cross-border mergers and acquisitions.

Table 2.1. FDI inflows in $ billion: SSA versus the World

FDI $bn	70's	80's	90's	2000	2001	2002	2003	2004	2005	2006	7yrs
SSA	0,9	1,3	4,6	6,2	14,5	9,6	13,3	11,4	16,1	12,2	11,9
World	24,4	93,9	403,8	1411,3	832,6	622,0	564,1	742,1	945,8	1305,9	930,5
SSA share	3,9%	1,4%	1,1%	0,4%	1,7%	1,6%	2,4%	1,5%	1,7%	0,9%	1,3%

Source: UNCTAD, FDI/TNC database (UNCTAD World Investment Directory, volume X, Africa 2008).

It further confirms the view of SSA as an unattractive FDI destination, with a mere $12 billion per annum flowing into the region over the 7 years ending 2006, despite a sharp increase in investments in the extractive industries.

Luiz (2006:7) confirms that although both SSA and world-wide FDI inflows have risen dramatically since the 1980's, SSA's share has remained stagnant at a paltry 1%.

Only the Democratic Republic of Congo, Namibia, Zambia and Botswana were listed among the top 70 out of 141 countries included in The United Nations Conference on Trade and Development (UNCTAD)'s Inward FDI Performance Index for 2004 – 2006 (UNCTAD,2007).

Consultants AT Kearny's list of top 25 economies in their FDI Confidence Index includes only South Africa from the African continent at number 18, despite a marked influx of developing economies onto the list (Kearny,2007).

It is an unfortunate fact that SSA, the economic region that forms the subject of this study, is the *world's least favourite investment destination,* the reasons for which will be dealt with when discussing the prevailing business environment in the region.

2.4.3. FDI costs and benefits to host countries

It is generally accepted that the benefits of FDI to home countries far outweigh the limited costs, be they in the form of capital outflow or outsourced jobs. However, the impact of FDI on host countries is often a controversial subject, hence the need to objectively evaluate the pros and cons:

Daniels et al (2009: 231 - 237) confirm that an inflow of investment by MNCs can bring both gains and losses to the host country. The host country undoubtedly gains through the *transfer of capital and technology.* Critics have claimed, inconclusively, that there are examples where the MNC uses its

muscle to make investments that local companies could otherwise have undertaken, thereby displacing local entrepreneurs and entrepreneurial talent.

Hill (2007: 268 – 274) identifies four main benefits to host countries:

- Through the supply of capital, technology and management resources that boost the local economy's growth rate.
- By bringing new jobs, both direct and indirectly through the multiplier effect.
- By positively impacting on the host country's balance-of-payments (BOP) via the initial investment capital inflow, by substituting imports and by generating new exports.
- By increasing competition in instances when a greenfield investment is made, thereby unlocking the resultant benefits of greater consumer choice, lower prices, etc.

SSA countries strongly desire the first three benefits above, whereas the desire for increased levels of competition is less of a priority because of the constrained nature of their markets which often results in only one local manufacturer per product category.

Fear of loss of independence and potential negative BOP impacts are what concerns many governments in SSA.

The concern over loss of independence is further exacerbated in countries whose economies are dominated by overseas investors from one particular country, as is the case in Mozambique which has been overrun by South African investors (Grobbelaar,2006: 55).

In fact, de Lange (2007: 30) mentions a number of arguments in favour of host country government intervention in the free flow of trade and investment, including the protection of selected industries from foreign competition. As example, the global brewing giant, SABMiller has, despite its best efforts over many years, been unsuccessful in its attempts to obtain a brewing licence in Namibia where government has acceded to the incumbent brewer's request for protection.

2.4.4. Host country views of FDI

Hill (2007: 264 – 266) summarizes the various ideological stances taken on the subject as follows:

- The radical view, which traces its roots back to Marxist policy and economic theory. MNCs are seen as an instrument of imperial domination, exploiting host countries to the exclusive benefit of their home countries. This view was widely held, also in Africa, until the collapse of communism in 1989 when it was abandoned in favour of the capitalist model.
- The free market view, which argues that international production facilities should be distributed among countries according to the theory of competitive advantage. Countries should specialise in producing those goods and services that they can produce most efficiently.

The MNC becomes the instrument for ensuring overall efficiency of the world economy. Although it is true that the world tide is running in favour of the free market view, no country on earth embraces it fully. Even the US and British governments maintain their rights to intervene, for instance, should local companies become take-over targets for foreign MNCs.

- Pragmatic nationalism, an approach somewhere between the above two extremes, which acknowledges that incoming FDI has both benefits and costs, and designs policies that maximise the positive impact on the host country economy.

Many SSA countries nationalised MNC affiliates during their flirtation with socialism in the mid-1900s, but have subsequently changed their views as a result of the dismal performance of their economies while under government command, contrasted by the strong performance of the Asian Tigers, as example, who had gone the free-enterprise route instead.

A comparison of the economic fortunes of Ghana and South Korea by Hill (2005:306) vividly illustrates the case in point:

In 1970, Ghana's GNP per capita was US$ 250, while that of South Korea amounted to $ 260.

By 1998,Ghana continued to struggle at a lowly $ 390 per capita, whereas South Korea had shot up to $8 600,in the process, becoming the world's 12th largest economy.

Virtually all SSA countries today find themselves in the *'pragmatic nationalism'* camp, determined not to fall back into the socialist trap and going out of their way to attract FDI. However, they are also implementing laws and regulations that are clearly aimed at advancing the national interest. The fear of foreign domination by SSA countries possessed with a colonial past is a fact that remains to this day – one that MNCs operating in the region would do well to bear in mind.

2.5. MULTINATIONAL CORPORATION STRATEGIES

Multinational Corporations (MNCs) come in various guises. It is therefore useful to discuss various strategies employed in response to the extremely complex challenge of operating in a multitude of countries across the globe.

2.5.1. Strategic options

According to Bartlett and Ghoshal (cited in Hill,2005), MNCs generally follow one of the following strategies:

- Multidomestic, where the MNC focuses on the need for local responsiveness and decision-making through an extremely decentralised organisational structure. This is an attractive option from an organisation perspective because of its simplicity. The need for co-ordination is low, so headquarters only have to intervene on a by exception basis. However, these firms cannot profit from the transfer of core competencies or the realization of location and experience curve economies.
- International, where the MNC creates value by transferring its core competencies (typically R&D and/or marketing) to foreign affiliates by retaining centralised control over the source of these competencies, while decentralising all other operating decisions to affiliates. The need for co-ordination is limited to the transfer of core competencies and the level of complexity is low.
- Global, where the MNC leverages location and experience curve economies of scale through a world-wide product division structure, while headquarters co-ordinates diverse activities around the world through ultimate control over most operating decisions. The need for integration is high and is best served by a centralised organisation that is quite complex in its nature.
- Transnational, where the MNC endeavours to capture the unique advantages of all of the above, including local responsiveness, global learning and the attainment of location and experience curve economies through matrix-type structures. This requires a complex organisation, capable of mixing high degrees of centralization for some decisions with high degrees of decentralization for others. A strong corporate culture is a requisite for these firms to prosper, given the existence of considerable performance ambiguities.

2.5.2. Choosing the right international strategy and organizational architecture

With regard to strategy, Hill (2007: 422 – 426) states that MNCs face two counter-pressures. On the one hand, he cites Prahalad and Doz in singling out *the pressures for cost reduction*, which is increasing because of increased international competition resulting from the liberalization of the world trade and investment environment in recent decades. On the other hand, *pressures for local responsiveness* arise from national differences in consumer preferences, infrastructural development, accepted business practices, distribution channels and host country demands.

Hill (2007: 441) further cites Naidler et al in describing organizational structure as being the totality of a firm's organization, including the organizational structure, control systems, incentives, culture, processes and people.

The art in choosing the strategy and organisation that will best suit a particular MNC lies in its ability to strike a balance between the need to lower the cost of value creation on the one hand (generally

best served by standardisation of processes and products, the establishment of best practice communities within the organisation and greater central control), and being able to differentiate its product and service offerings to best meet consumer needs within a local context on the other (an objective best met through a decentralised business model that values having capable and autonomous in-country executives and lets them get on with it.)
"It is therefore important to note that industry characteristics, the type of product and related consumer needs will largely determine the type of pressure that a firm will have to contend with and hence the appropriate strategy to be adopted in a specific instance" (Neuland and Hough,2007: 215).

The need for MNCs to 'act local' in SSA countries cannot be over-emphasised, as the national differences referred to by Hill above are accentuated due to the prevalence of quite different histories, cultures, languages and levels of economic prowess. The really successful MNCs are able to carefully *overlay their global recipe for success with local flavour* in order that the operating unit may capture the best of both worlds when meeting the challenges of any particular country.

"There's a paradox at play here: on the one hand we are all participants in a global market, whereas the explosion of products and the technology revolution are making all international markets more local, catering to local tastes" (Peters,1987: 152). In fact, Mr Peters already held the view during the late 1980s that the organisation should decentralize information, authority and strategic planning (Peters, 1987: 609).
Even the experience curve does not necessarily result in success in developing markets due to their dynamic nature. A quote from Kotter (1999: 9) has relevance:"The better a hammer has served in the past, the more all problems look like nails. People often get into trouble when they try to apply the tactics that worked previously."
On the other hand, it is generally accepted that deviations from the global recipe should be limited to the bare necessities, as much of the value of a MNC parent (as opposed to a number of stand-alone independent businesses) lies in the power of its common brands, processes and systems, including the ability to share standardised information and move its people in between jobs and places. In fact, Porter (1998: 332) argues that MNCs should penetrate international markets with a consistent positioning."Efforts to internationalise based on opportunistic modifications of a company's competitive positioning from country to country rarely succeed.....Without a consistent position, the company lacks a real competitive advantage, and its reputation does not cumulate."

According to Bartlett and Ghoshal (as cited in Hill, 2005), a *transnational strategy* is the way to go for most MNCs as it allows them to exploit both experience-based cost economies and location-based economies by transferring core competencies within the firm while paying attention to pressures for local responsiveness. Hill (2005: 430) supports this way of reasoning in asserting that a transnational strategy makes sense when a firm faces high pressures for cost reductions, high pressures for local responsiveness and where there are significant opportunities for leveraging valuable skills within a MNC's global network of operations.

The transnational model is compelling, but Bartlett and Ghoshal (as cited in Hill,2005) warn that building an organisation capable of supporting a transnational strategic posture is a *complex* and difficult task due to conflicting organisational demands.

As all MNCs operate in competitive markets on the international stage, Porter (1998: 45) rightly adds a further complication by emphasising the competitive imperative. "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value."

Kristensen and Zeitlin (as cited in Moore,2005) further caution against the view of MNCs as possessing static forms which change in more or less predictable ways at predictable points in their development. Their image of today's MNC is that of an agent of development and as an integral part of local regions rather than as a detached, goal-focussed global network. They further stress that MNCs are, in fact, *volatile, unstable and constantly changing in a state of continuous experimentation.* This view of MNCs as dynamic organisations is exacerbated when they operate in the volatile environments of emerging economies, where the key question is one of "how to play the game, when the rules of the game are changing and not completely known?" (Peng,Wang and Jiang,2008: 924).

2.5.3. Entry strategies

A critical sub-set of the MNC's foreign expansion strategy has to do with decisions regarding entry options available to the MNC.

2.5.3.1. Country, timing and scale

According to Hill (2007: 480 - 485), there are three basic decisions that a firm contemplating foreign expansion must make:

- Which foreign markets to enter?
- Timing of entry.
- The scale of entry.

Firstly then, *the decision on which markets to enter:*

The deciding factor may be summarised as being the MNC's assessment of a nation's long-term profit potential – a really difficult task as this means interpreting current trends in order to form a view of the future benefits, costs and risks associated with doing business in a particular country. Such an analysis generally favours countries that are politically stable, have free-market policies in place, as well as also having inflation and private-sector debt levels under control. Low levels of indigenous competition are a further favourable factor (Hill 2007: 480 – 481).

Although SSA countries may be less politically stable than their counterparts vying for inward FDI, they rate reasonably well on the rest of the above factors, especially with regard to the existence of *low levels of local competition*.

Secondly, *the timing of entry:*

According to Hill (2007: 481) the first-mover advantages available to an early entrant into a new market are obvious in that the MNC is able to settle into the local way of doing business without the distractions of having to deal with a meaningful competitor. In particular, the firm is able to build a loyal market for its brands well before the competition arrives. However, there are possible first-mover disadvantages, or pioneer costs, associated with learning the rules of the game in a foreign market. Shaver et al (as cited in Hill,2007)further states that research results prove that the probability of survival improves when the MNC enters a national market only after others have done so.

The case for entering today's constrained markets of SSA, however, calls for *early entry* where possible, as well as a MNC mindset that views the existence of potentially hostile local rules of the game as an opportunity for it to engage with local stakeholders in order to arrive at more equitable solutions that benefit all participants.

Thirdly, *the scale of entry:*

Broadly speaking, the larger the resources committed by a MNC when entering a new country, the more rapid the entry, especially if a strong competitive position had been established through the acquisition of a successful local company. However, the flip side also holds true in that the cost of potential failure also increases with the increased scale of entry, to the point where failure could damage the performance and reputation of the parent company (Hill,2007: 484 – 485).

Fortunately, the investment levels required in order to enter any SSA market at this moment in time are still small enough not to affect the risk profile of any medium or large-sized MNC.

2.5.3.2. Entry modes

Hill (2007: 486 - 493) identifies six options available to MNCs once they've decided which country to enter:

- Exporting their products as a means to an end. A manufacturing MNC may choose to establish a market for its products in this low-risk way before committing itself to the next step once demand has been proven.
- Turnkey projects, where a contractor completes all aspects of a greenfield entry on behalf of the foreign client.
- Licensing agreements, allowing MNCs to license the rights to intangible property (trademarks, inventions, formulas, processes) to local firms in return for a flow of licence fees or royalties.
- Franchising, which goes further than licensing, as the franchisor also sets rules and assists the franchisee in the running of his business.
- Joint ventures, which typically occur where the MNC teams up with a local company by means of shared ownership in order to best explore the local market.
- Wholly-owned subsidiaries, which are 100% owned by the MNC, either through a greenfield entry or acquisition of a local firm.

He goes further in identifying a seventh entry strategy that has become increasingly popular in recent times, which is the formation of strategic alliances where cooperative agreements are reached between actual or potential competitors (Hill,2007: 499).

All of the above options have their advantages and disadvantages, and may be found in SSA. As a rule, the limited market sizes of SSA countries tend to render the potential income–flow to be earned through licensing, franchising and long-term exporting as marginal and, therefore, uninteresting. On the other hand, *the joint venture (JV) route is attractive in the SSA context* in that it offers up much greater potential rewards, while also introducing a strong element of local participation in the fortunes of the MNC affiliate which, apart from delivering local knowledge benefits to the JV, also establishes the firm as being local in the minds of key stakeholders. The MNC is also able to partially compensate itself for the loss of earnings shared with the local partner by concluding exclusive licensing agreements for its brands and formulas with the local affiliate.

2.5.3.3. Greenfield entry or acquisition?

The World Investment Report,2004 (as cited in Hill,2007) reveals that between 50 and 80% of all FDI inflows over the last decade have been in the form of mergers and acquisitions (M&A).
Hill (2007:495-496) mentions three reasons for this trend:

- M&A is quicker to execute.
- It pre-empts entry by global competitors.
- It is also less risky as the MNC is able to share in an existing profit flow from day one.

However, many acquisitions fail because the MNC overpaid for the firm acquired – a common occurrence where more than one international suitor pursues a particular target, as is commonplace these days. Other reasons for failure include an irreconcilable clash of culture between the two firms and the inability of the MNC to realise anticipated synergies. A greenfield entry, on the other hand, allows the MNC the luxury of building the local affiliate from scratch according to its own specifications. However, such an entry takes longer and is extremely risky because of the untested nature of its revenue streams, especially in cases where incumbent competitors exist (Hill,2007: 496 - 498).

In the case of SSA, the above observations generally apply. If the MNC is able to *acquire an established local company at a fair price,* either outright or in the form of a JV, this is by far the preferred way to go, even if the acquired firm has some flaws (which any effective MNC should be capable of fixing.) Quite often, however, no such option exists due to the tiny industrial bases that typically are to be found in SSA countries, forcing the MNC to go the greenfield route, in which event, it would do well to heed the cautions mentioned above, key of which is the risk surrounding future revenue streams. Where it exists, it is a good option to prove a potential revenue stream through building the MNC's exports until levels are reached that could justify putting down an in-country greenfield plant.

2.5.4. Further strategic considerations

2.5.4.1. Leadership and management

A critical strategic consideration should be the realization by any prospective MNC that it requires a pool of managers capable of dealing with the *complexities of an international business*, as opposed to successfully managing a purely domestic business. This is often an elusive prize in the early years of a firm's internationalisation, as it generally starts out with the pool of managers at the helm that brought it success when it was still a unitary country business.

Daniels et al (2009: 75) comment that when operating abroad, firms have to adjust their usual methods of doing business. This is because foreign conditions often require more suitable methods and the operating modes for international business differ somewhat from those used domestically. In order to operate effectively within a MNC's external environment, its managers must have knowledge not only of business operations, but also a working knowledge of the basic social

sciences: history, political science, law, anthropology, sociology, psychology, economics and geography.

Hill (2007: 34) cites the following factors that contribute to the complexity of doing business internationally:

- Differences in country characteristics, requiring the MNC to modify its practices accordingly. The MNC is faced with a wider range of issues, including the co-ordination of globally dispersed production units, deciding on which new countries to enter and how to do so, dealing with the ethical dilemmas of low wage levels and poor environmental standards in developing countries and the like.
- The need to understand and work within the rules imposed by governments intervening in the international trade and investment systems.
- The ability to deal with international transactions that involve converting money into different currencies.

Whereas the above factors apply to any MNC contemplating a SSA entry, it is especially the demanding need to *interface with governments* that has particular relevance. So too, the currency issue because the MNC affiliate will be trading in local, mostly soft, currencies It has quite a challenge on its hands in order to *deliver hard currency earnings growth* to its MNC parent (who typically reports to its shareholders in US$, Pounds or Euros.) This is a complex and risky matter requiring, amongst others, managers capable of treasury management across a range of currencies.

2.5.4.2. Competitive advantage

Porter (1998: 331) stresses the need for a MNC to possess a *unique* competitive advantage as the most fundamental building block in developing its global or multi-location strategy, stressing the fact that a company will not be able to overcome the barriers to penetrating unfamiliar markets unless it brings a meaningful advantage in either cost or differentiation or both. Companies should go international first in those businesses and product lines where they have the most unique advantages.

MNCs in SSA have their work cut out to maintain such an advantage in the face of increasing levels of competition. *Building loyalty to a MNC's brands* among local consumers probably offers the most enduring advantage against its competitors.

2.5.4.3. Culture

Hill (2007: 116 – 118) warns that MNCs should not underestimate the importance of *cultural differences* when entering a foreign country, including the ways in which these differences manifest

themselves in how business is transacted in a specific country. Apart from recruiting competent local citizens into the local affiliate (at senior levels in order for them to have impact), MNCs should also work hard at building a cadre of cosmopolitan executives, experienced in working in different countries around the globe. MNCs should further guard against the dangers of ethnocentric behaviour (a belief of superiority in one's own ethnic group) developing in the organisation, when it very easily becomes the MNC's home country culture which dominates those of others, causing potential conflict and loss off key local personnel.

Cultural differences also have a bearing on national competitive advantage or the cost of doing business in a particular country, for instance, Japan's emphasis on group affiliation, loyalty, reciprocal obligations, honesty and education contributes towards lowering the relative cost of doing business in that country. On the other hand, Pacific Rim nations who boast a combination of free market economics, Confucian ideology, group orientated social structure and advanced education systems, have become fierce cost-efficient competitors in international markets (Hill,2007: 117 – 118).

Porter (1998: 155) agrees, arguing that in a world of increasingly global competition, nations have become more important. Differences in national values, culture, economic structures and histories all contribute to competitive success. According to him, nations ultimately succeed in particular industries because their home environment is the most forward-looking, dynamic and challenging.

The poor infrastructure and low levels of education that currently prevail in SSA combine to ensure that *the cost of doing business in the region is relatively high*. However, there's every reason to believe that once governments come to grips with providing appropriate education to its citizens, existing traits, including ubuntu and entrepreneurship visible in the flourishing informal sector, will eventually play a positive role in the emerging business environment of the region.

2.5.4.4. Ethics

Finally, MNCs should be made aware of their *responsibility* to operate in an ethical manner throughout their operations. Recent fraudulent disasters such as occurred at Enron, coupled to pressures from governments, NGOs and the media concerned at the sharp increase in the global influence of MNCs, place an unenviable responsibility on MNCs to ensure that their strategies, practices and actions are able to withstand the most intense scrutiny from a vast array of stakeholders, some of whom are extremely difficult to please. This is no simple matter for MNCs operating across a vast array of countries, especially those in the developing world where tough

trade-off decisions await their affiliates around every corner. Take the imposition of minimum wage levels as a case in point:

A US MNC manufacturing beverages in India (Pepsico or The Coca-Cola Company, for example) has to decide if it is willing to pay locally acceptable wage levels of about US$ 2 per day (rupee equivalent) for seasonal workers, in order to maintain cost competitiveness against aggressive local cost-driven competitors in an extremely price sensitive market, thereby opening itself to charges of worker exploitation from stakeholders comparing these levels to those back home.

Daniels et al (2009: 260) go further in asserting that: "A major challenge facing MNEs is the globalization of the supply chain and the impact on workers, especially in the areas of fair wages, child labour, working conditions, working hours and freedom of association". The complexity of the environment in which the MNC finds itself is exacerbated by their statement that "the law is an important basis for ethical behaviour, but not all unethical behaviour is illegal".

MNCs face many such dilemmas in the fields of unfair employment practices, human rights violations, environmental pollution, corruptive practices and also their responsibility to give something back to the communities in which they operate (social responsibility) (Hill,2007: 127 – 133).

Today's best-in-class MNCs have adopted the principle of *triple bottom line accountability* to stakeholders and regularly report on the following, in addition to financial results:

- the results of the impact of their actions on the environment in which they operate;
- the results of the impact of their actions on the communities in which they operate.

The pressures and dilemmas facing MNC affiliates operating in SSA are substantial due to:

- the high levels of corruption still prevalent in the region;
- dysfunctional legal systems;
- incompetent and poorly paid civil servants;
- unscrupulous and well-connected local competitors.

The challenge to operate freely, yet ethically, should not be under-estimated. And yet it can be done, as proven by existing MNCs in the region that are both successful in financial terms, while upholding the requisite ethical standards as prescribed by their parent companies, as is the case with The Coca-Cola Company, Nestle', Unilever, SABMiller, Diageo and others.

Key enablers of ethical behaviour include:

- a clear and unambiguous code of conduct;
- thorough communication of the above to both internal and external stakeholders;

- a reputable local business partner, if possible;
- recruiting executives with a strong ethical bias;
- rewarding ethical behaviour;

Also, the affiliate should seek considered opportunities where it is able to *make an ethical stand, even at the cost of short-term profitability,* such as refusing to bribe officials in order to get containers released from port and escalating the problem to the appropriate ministry.

2.6. CONCLUSION

The chapter was necessitated because this dissertation is focussed on the behaviour and experiences of the *affiliates of MNCs* in sub-Saharan Africa. It was therefore deemed essential to conduct a thorough examination of the subject matter of the MNC, in order to serve as context when evaluating the modus operandi of this enterprise-type in the region. Hence, the definition of the key characteristics of the modern-day MNC, as well as tracing its origins and emergence as arguably the most dominant enterprise at work in today's global economy.

The literature review found that firms that expand into international markets are able to generate profitable growth in ways not available to domestic firms, including the realization of location and scale economies, as well as leveraging their core competencies by rolling out these skills to new markets (Hill,2005: 416). The emergence of *the MNC as a dominant force in the global economy* has come about as an appropriate and efficient reaction by business to the *globalisation* trend that has swept the world, particularly post - World War Two. The establishment of the Bretton Woods institutions should be viewed as an enabling factor towards creating a more conducive environment for the growth of MNCs.

The growth of MNCs has gone hand in hand with the rising tide of globalisation that has gathered momentum post-World War Two. It is clear that the debate that surrounds the impact of globalisation as force for good versus the negative views of its detractors is by no means over. Behrman's expression of the need for MNCs and other key players to compromise and search for trade-offs in order to extend the positive outcomes of the process, especially to the world's poorer nations, has relevance (Behrman,2006: 440)

The role of MNCs as efficient providers of foreign direct investment (FDI) was confirmed, including encouraging FDI trends towards developing countries whose governments today go out of their way in order to attract FDI in order to stimulate economic recovery.

It is an unfortunate fact that SSA, the economic region that forms the subject of this study, is the *world's least favourite investment destination*, the reasons for which will be dealt with when discussing the prevailing business environment in the region.

The good news is that virtually all *SSA countries wish to attract FDI today*, determined not to fall back into the socialist trap. However, they are also implementing laws and regulations that are clearly aimed at advancing the national interest. The fear of foreign domination by SSA countries possessed with a colonial past is a fact that remains to this day – one that MNCs operating in the region would do well to bear in mind**.**

Various strategic options and considerations exist that MNCs need to bear in mind as they plot their course of action in a complex environment that stretches across country borders. From the afore going it is clear that MNCs are faced with a greater number of strategic choices when compared to a less complex unitary country enterprise. Bartlett and Ghoshal's *transnational approach* (cited in Hill,2005)seems to be the most appropriate model for the modern MNC in that it potentially captures the widest range of advantages, including: global learning, local responsiveness and location and experience curve economics. However, it is a complex solution, relying as it does on matrix-type structures in order to be effective and may, therefore, not be suitable for a fledgling MNC setting out on the path of internationalisation of its business. Kristensen and Zeitlin's view (cited in Moore,2005) of MNCs as being volatile and unstable organisations in a constantly changing state of continuous experimentation may, in fact, hold most relevance when plotting the strategic direction that a MNC should take.

Having dealt with the above global issues as context, with particular reference to the evolution and increasing importance of MNCs, chapter 3 will be devoted to analysing the specific business environment to be found in the geography of focus in this study, sub- Saharan Africa (SSA.)

CHAPTER 3: THE BUSINESS ENVIRONMENT IN SUB-SAHARAN AFRICA (SSA)

3.1. INTRODUCTION

Whereas chapter 2 contextualised global economic factors that impact on the research topic, this chapter analyses the environment within which business is transacted in SSA, with specific emphasis on those factors that are unique to the region.

3.2. SUB-SAHARAN AFRICA (SSA) COUNTRY RISK

The high level of country risk generally ascribed by investors to SSA requires further investigation in order to ascertain the true facts as they stand today, hence the analysis that follows.

3.2.1. SSA's precarious position at 'the bottom of the table'

It's an unfortunate fact that SSA countries generally feature at the wrong end of any global ranking scale:

The United Nations Development Programme's (UNDP) 2007/8 rankings in terms of the *Human Development Index* (HDI) serve as an example. Only the Seychelles (#50) and Mauritius (#65) make it into the High Human Development list. The rest of SSA countries are rated as Medium and Low in HDI terms, coming in below #119 (including South Africa at #121, as a matter of interest.) Sadly, only African countries bring up the rear of UNDP's HDI table, occupying all positions from #151 to the very last at #177 (UNDP,2008).

The region's susceptibility to the *HIV/Aids* epidemic is well-known. According to UNAIDS,2004 (as cited in Mitchell et al,2006: 151) SSA accounted for 25 million of the world's total number of people living with HIV/Aids, estimated at 38 million as at the end of 2003. Apart from the human tragedy caused by the epidemic, it has a crippling impact on the economies of the region on two counts:

- due to the massive costs involved for impoverished nations to care for the large numbers of sick and dying citizens;
- because the disease has infected disproportionally large numbers of skilled workers and managers, resulting in a further constriction to the already small local talent pools that are a requisite for SSA's economic recovery.

SSA has further earned a reputation for being the most *politically unstable* region in the world. Luiz (2006: 11) mentions that 60% of Africa's leaders left office by being overthrown in a coup, invasion, war or by assassination between 1960 and 1999.
Hough (2007: 113 – 118) cites the "Freedom in the world" global survey whereby countries are rated according to their records of political rights and civil rights. Only 8 African countries are rated as being 'free', with the balance of the continent rated as 'partly free' or 'not free'.
In 2005 the World Bank had proven a positive correlation between the degree of economic freedom that exists in a country and its per capita income. The 2006 Index of Economic Freedom scored SSA as the *least free region* in the world in terms of an index of *economic freedom* indicators (Hough,2007: 124 – 125).

Small wonder, therefore, that various UNCTAD and UNDP reports (as cited in Luiz,2006) reveal that:

- real *economic growth* for SSA has hovered at just under 1% per capita for the period 1965 to 2003;
- SSA's share of world *exports* fell from 3% in the 1950s to under 1,5% in 2003;
- SSA's share of *FDI inflows* remained at a mere 1% between 1980 and 2003, despite the fact that all developing countries had experienced a doubling in share over the period, from 15 to 30%;
- *external debt* for SSA stood at US$ 206 billion in 2000 or almost 90% of the region's GNP, compared to an average of 30% for other developing countries, with the proportion of repayment arrears growing from 15% in 1990 to 28% in 1998;
- whereas the *income levels* of developing nations in Asia, the Pacific, Latin America and the Caribbean maintained their relationship to that of the developed OECD countries between 1960 and 2003, those of SSA actually worsened dramatically from a ninth of OECD per capita income levels in 1960 to an eighteenth in 2003;
- SSA *GDP per capita* in 2003 amounted to US$ 1 856, the lowest of any region and compared to $ 4 359 for all developing countries;
- 48% of the population in SSA live on *less than US$ 1 per day*, more than double that for the developing world as a whole;
- average *life expectancy* in SSA in 2003 was 46 – no other region recorded less than 63 years;
- the Corruption Index of Transparency International (CITI) ranked Africa at the bottom of their list - *the most corrupt region in the world*. (Luiz,2006: 14)

Finally, the following figures from the annual compilation of global statistics by The Economist complete the rather depressing reading:

- despite having 12,8% of the world's population, Africa accounts for only 3,3% of world *spending power* and generates a mere 1,8% of the world's gross domestic product (GDP);
- not a single SSA country makes it into the top 70 GDP per capita list, while 15 countries on the bottom 20 list come from the region;
- sixteen countries from SSA feature amongst the world's top 30 *aid recipients;*
- twenty-three out of the 30 countries most *dependent on agriculture* are from SSA;
- twenty-nine out of the 30 countries with the lowest life expectancy rates are from SSA.

(The Economist pocket world in figures,2008: pages 27,28,44,48 and 81).

The Economist Intelligence Unit (EIU) produces an authoritative risk briefing each quarter where it rates operational risk in 150 markets on a scale of 0-100. The overall scores are an aggregate of underlying scores for ten categories of risk: security; political stability; government effectiveness; legal and regulatory; macroeconomic; foreign trade and payments; financial; tax policy; labour market; and infrastructure. EUI ratings for the quarter ended September, 2008 were as follows:

Table 3.1. A ranking of operational risk in selected countries

Economist.com rankings

Operational risk

Countries, September 2008 (September 2007 score, if different)

Least risky

Rank	Country	Score*
1	Switzerland	8 (7)
2	Denmark	10 (8)
	Singapore	10
	Sweden	10
5	Finland	12 (10)
6	Austria	14
	Luxembourg	14
	Norway	14
9	Netherlands	15 (13)
	Britain	15 (12)
11	Canada	16 (15)
	Hong Kong	16
13	France	17 (16)
	Germany	17 (16)
15	Australia	18 (16)
	Belgium	18
	Malta	18 (19)

Most risky

Rank	Country	Score
150	Iraq	84 (88)
149	Guinea	80 (79)
148	Myanmar	79 (78)
147	Zimbabwe	78 (77)
146	Turkmenistan	77
	Uzbekistan	77
144	Venezuela	75 (74)
143	Tajikistan	71 (70)
142	Eritrea	70 (69)
141	Chad	68
	Ecuador	68
139	Kenya	66
138	Côte d'Ivoire	65
	Nigeria	65 (67)
	Sudan	65

*Out of 100, with higher numbers indicating more risk.

Source: Economist Intelligence Unit

Source: The Economist website,2009.

The Economist website,2009 further defines *risk* as “the chance of things not turning out as expected. Risk taking lies at the heart of capitalism and is responsible for a large part of the growth of an economy. In general, economists assume that people are willing to be exposed to increased risks only if, on average, they can expect to earn higher returns than if they had less exposure to risk”.

SSA countries feature prominently amongst the most risky destinations on the planet.

The stark reality, also contained in the World Investment Directory, is that SSA has, at least until now, proven to be by far *the most unattractive investment destination on the globe*, with no apparent signs of improvement other than increased investment in the extractive sector (UNCTAD, 2008).

The above picture could easily lead any rational observer to despair of any realistic hope for SSA, especially in the light of the sobering fact that the already impoverished region lost even further ground during the latter half of the 20th century. The fact of the matter, as we stand at the beginning of the 21st century, is that Africa is in danger of becoming a lost opportunity, while the rest of the world marches on to greater levels of prosperity.

Venter (2006: 329) comments that: “Africa has, over the past 40 years, been perceived as a continent of crises by the world media and clear signs are emerging of world inertia and concomitant ‘donor fatigue’ when it comes to the African continent and its peoples.” “The economic reality for Africa is that it is a tiny player on the world stage – one that is easily ignored and one that is increasingly facing marginalisation” (Luiz,2006: 9).

3.2.2 Reasons for SSA’s malaise

A comprehensive analysis of the reasons for SSA failings is often contentious, but the following factors are worth mentioning in the context of this study:

3.2.2.1. ‘The sins of the past’

The negative impacts of colonialism are often over-used by more radical commentators, such as Magubane (as cited in Venter,2006) who claims that until 1960 the map of Africa was dominated by the flags of European colonising powers, representing a symbol of the looting and slave labour to which they subjected Africa. Whereas the above contains elements of truth, it is also an undeniable fact that colonialism has resulted in many advances, including increased levels of education and administration, the introduction of ‘modern’ business practices and the like.

Even more extravagant conclusions have been drawn by the likes of Rensburg (cited in Venter,2006) who asserts that the export of slaves from Africa represented a meaningful loss of human capital

which has undermined the capacity of African communities to develop and generate wealth. The above claims may be dismissed as being fanciful and without much substance. In particular, it is far-fetched to pin Africa's current malaise on the influence of the European colonialists, as most of today's leading developing economies (India, China, Brazil, Vietnam, Malaysia, Mexico, amongst others) share in this common ancestry.

However, it is true that SSA has inherited substantial problems from the colonial era,including :

- the formation of sub-economic country units;
- reliance on commodity exports and subsistence farming;
- a negative mindset towards globalisation.

For instance, the World Bank (as cited in Grobbelaar, 2006) compared the size of an average SSA economy (excluding Nigeria and South Africa) at US$3,6 billion, as being equal to the economic scale of a typical American town with a population of 60 000. Moss et al (2007: 17) found that the constrained level of GDP and small size of markets were key obstacles in the way of SSA countries wishing to generate investment interest. Grobbelaar (2006: 33) further comments that agricultural products, minerals and oil make up 80% of Africa's exports, while in a country such as Mozambique, over 80% of the population is employed in subsistence agriculture.

3.2.2.2. Political instability and conflict

Continuous flare-ups of ethnic-induced civil unrest and wars which, apart from direct costs, also result in governments that are distracted from improving conditions for economic recovery and a loss of confidence by the international investor community. The region has been poorly served by corrupt and incompetent leaders, the so called 'big men', who spent their days enriching themselves and entrenching their power bases, as opposed to busying themselves with the task of improving the lot of the man in the street.

Ali (as cited in Luiz,2006) made an attempt at calculating the real cost of conflict in Africa in the year 1999, arriving at a staggering US$ 247 per capita.

Collier (also cited in Luiz,2006) identifies the following effects as a result of civil wars:

- the destruction of physical and human capital;
- a reduction in savings;
- diversion of portfolios from domestic investment to capital flight;
- disruption of economic transactions;
- distortion of government expenditure, away from the provision of public services towards military expenditure.

Easterly and Levine (as cited in Luiz,2006) argue that cross-country differences in ethnic diversity explain a substantial part of the cross-country differences in public policies, political instability and other factors associated with long-term growth. They further assert that not only does ethnic diversity have economic importance, but that it helps account for Africa's growth tragedy.

3.2.2.3. Socialism and its aftermath

A disastrous flirtation with socialism during the cold war years in the latter half of the 20th century (a period during which the 'Asian Tigers' really took off by going the capitalist route) which not only destroyed the fledgling private sector that existed in these countries, but also resulted in the current dearth of managerial and entrepreneurial talent available in SSA. The comparison of the economic fortunes of Ghana and South Korea by Hill (2005: 306), as stated in section 2.3.4 above, vividly illustrates the case in point.

On the positive front, there's every chance that the countries of SSA will remain committed to the free market model in their attempts at economic recovery (the lesson having been learnt, there should be no turning back to government-managed economies, unless the benefits of the 'new way' are not seen to be reaching the many impoverished citizens of the region).

3.2.2.4. The failure of donor aid

According to Arnold (as cited in Venter,2007), aid was seen as the panacea for Africa's economic ills back in the 1960s, but increasingly seems to have resulted in a permanent net outflow of resources from poor African countries to rich developed countries, instead of the other way round as was initially intended.

According to Venter (2007: 332 – 333), this unintended result occurred because of the following:

- The spectacular failure of the Development Merchant System, the institutions who prescribed cures for the lack of socio-economic development in Africa, as may be deduced from the worsening trends observed under section 3.1.1 above.
- The increasing trend of globalisation, where bodies such as the WTO, World Bank and IMF work towards the removal of protective tariffs and other impediments that stand in the way of the free flow of trade and investments, with the resultant move to global competition as being the only guiding principle, thereby strengthening the hand of developed economies.
- Africa's increasing economic marginalisation as a result of poor leadership by Africans themselves on the one hand, contrasted by the fact that the highly industrialised nations have become the locomotives of the globalisation process.

Within this global context, the continent is faced with a severe development crisis. While most African countries are eagerly pursuing the twin process of economic and political liberalisation, there is an absence of a stable management framework or governance system that's sorely needed to give the development process a chance of success. Put differently, Africa needs a development paradigm that would both eradicate poverty and ensure its rightful place in the global arena. To date this remains an elusive ambition.

Etkind (2006) cites New York University professor, William Easterly, who reported to the 16th World Economic Forum held in Cape Town in 2006 that Africa had received over US$ 500 billion in foreign aid up to the year 2000 - a period when it was not growing. China and India, on the other hand, had achieved home-grown economic growth with no significant aid.

The situation that Tanzania currently finds itself in, as highlighted by The Economist Intelligence Unit (2008), serves as a good example of the dilemma faced by SSA countries as they struggle to unshackle themselves from reliance on the aid crutch:

Tanzania's economy has done relatively well, considering where it came from following its economic collapse during the African Socialism experiment. The IMF expects Tanzania's current economic growth level of around 8% to be maintained in the medium term, despite increased inflationary pressures driven by fuel and food prices – an impressive performance indeed.

However, the big weaknesses in Tanzania's economy are the huge current-account deficit, expected to average 13,3% of GDP, which is to be funded by aid inflows at 10% of GDP and, hopefully, FDI at 4%. So, as long as donors foot the bills, the Tanzanian economy will be able to grow at about 8% per annum, but should donors pull back, Tanzania could be in trouble.

The second weakness is the low level of domestic revenue at 16% (although up from 12,5% three years ago) versus government spending that exceeds 27%, leaving a further gap of 10% of GDP to be funded by obliging donors. After 50 years of donor assistance at extremely high levels, Tanzania cannot finance either its budget or balance of payments. To top it all, the IMF describes the Tanzanian situation as among the best for non-oil exporting countries in Sub-Saharan Africa.

In order to break free from this donor 'bondage', it is suggested that countries such as Tanzania should, together with donors, subscribe to an aid 'sunset clause', forecasting a gradual decrease in aid inflows, offset by a steady increase in domestic financing, tax and borrowing, as well as exports.

3.2.2.5. A hostile business environment

The countries of SSA are not alone in being characterised by the scourge of bureaucratic red tape, exorbitant administrative costs and delays, weak property rights and poor infrastructure, as

highlighted by the World Bank (cited in Luiz,2006). However, these obstacles frighten off many potential investors.
Ramachandran and Shah (2007: 17) comment that it is still relatively difficult to find policymakers in SSA who really trust markets to deliver results and that, given the choice, they often prefer regulatory or administrative solutions.
Moss et al (2007: 17) conclude their survey of the investment climate in SSA by commenting that business losses due to investment climate constraints – power outages, transport failures and logistics delays – are largely responsible for productivity shortfalls observed in their study. In Kenya, for instance, losses from power failure amount to 6% of a firm's sales versus 1% in the case of China.
"Despite recent reforms, African firms still suffer from a harsh business climate; one that reduces their productivity to a significant extent when compared to firms in other parts of the world."

"The prospect of investing in sub-Saharan Africa can cause businessmen to sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets where war, famine, AIDS and disaster are always lurking" (The Economist, "The flicker of a brighter future", 2006: 65).

3.3. GROWTH OPPORTUNITIES IN SUB-SAHARAN AFRICA (SSA)

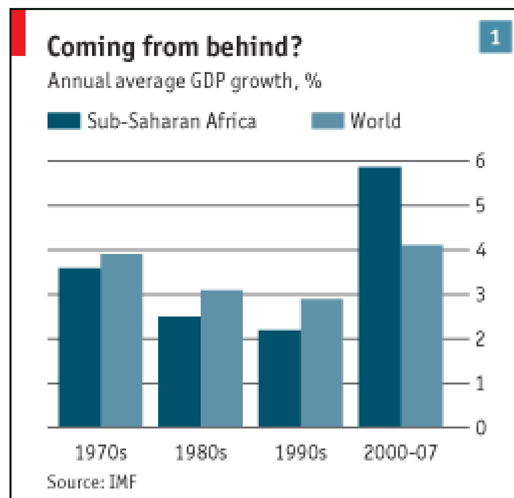
From the afore going, one may be tempted to side with those that view Africa as a 'basket case'. However, many believe that SSA represents a largely unexplored opportunity for far-sighted MNCs, including South African-based companies who wish to spread their wings and are superbly positioned to do so.

3.3.1. The flicker of a brighter future

This heading, borrowed from a feature article by The Economist magazine on SSA, is appropriate in that compelling evidence is rapidly beginning to emerge that SSA has turned the corner, albeit at an extremely low level:

- Annual *GDP growth* for SSA had overtaken the average of all developing countries,2nd only to Asia and ahead of Eastern Europe and Latin America (The Economist, "The flicker of a brighter future", 2006: 65).
- In fact, since the start of the new millennium, the region's GDP growth performance has reversed its traditional role as laggard versus the rest of the world, as may be seen from table 3.2 below.

Table 3.2. Annual GDP growth: SSA versus the World



Source: The Economist, "Africa's prospects – opportunity knocks", 2008.

- The Economist also recently reported that:"GDP growth of 6,7% in 2007 is expected to be followed by 6,5% in 2008. Apart from sizeable contributions from oil producing Nigeria and Angola, SSA is beginning to *receive massive capital inflows as the last frontier market.* What sets 21st century Africa apart from its moribund 20th century self is its improved financial management with many of the continent's bad boys, Nigeria in particular, cleaning up their act"(The Economist, "Lion cubs?", 2008: 80).
- Following the end to conflict situations in Mozambique, Angola, the Democratic Republic of Congo, Rwanda and Burundi, the region is enjoying a relatively extended period of *peace and stability.*
- Having turned their backs on the socialist model, countries such as Ghana, Tanzania, Uganda, Mozambique and Angola have made great strides both in terms of *economic reconstruction* and good governance.
- The China-led increase in *global demand for commodities* has resulted in surging earnings and capital inflows for the likes of Nigeria, Angola, Togo, Gabon, Angola, Zambia and Tanzania. Unlike the past, these windfalls are not being squandered and, in fact, the IMF argues that cub-like countries such as Togo and Gabon are following the path the Asian Tigers took in the 1980s, only much faster (The Economist, "Lion cubs?",2008: 80).
- The need to stamp out corruption and provide *clean efficient government* is now formally shared by all African governments as demonstrated by the content and adoption of a charter of good conduct for Africa's civil servants (Pan-African Ministers of Civil Service,2001).
- African *representation at G8 meetings and gatherings of the World Economic Forum* augers well for Africa's belated but welcome inclusion into the mainstream of global deliberations and decision-making about the key issues affecting our planet.

Writing in a recent edition of the Sunday Times, Leon Myburgh cites the IMF's World Economic Outlook which forecasts Africa's economic growth at 6,3% for 2008, with a similar expectation for 2009. In contrast, the advanced economies of the world are forecast to grow by a mere 1,3% in 2008. African *inflation* (excluding the bizarre Zimbabwean set-up) at 7,5% is above that of the global average at 4,7%, but has come down drastically from its 1990s average of 25,4%. African *foreign debt* as a percentage of GDP has come down from 75% in 1994 to around 20% this year, beating the 25% average for all emerging markets.

He continues:" Africa has *become an extremely popular investment destination*. Global fund managers and, more recently, their South African counterparts, have been looking to Africa to find higher returns than they can find in the more traditional investment destinations. Their interest has moved beyond the normal 'emerging markets' like South Africa and Egypt, and has branched out to Nigeria, and also ones considered 'exotic' like Zambia, Uganda and Tanzania. Africa provided some attractive yields and many expected a number of countries to benefit from the commodity boom. Various programmes of *debt relief* made material improvements to the balance sheets of some of the countries. The cherry on the top was the lack of correlation between African financial assets and assets in the rest of the world. With macroeconomic trends like this, it is not surprising to see foreign investors take note.(Myburgh,2008: 6).

Obviously, it's not all good news, as the Zimbabwean sore continues to fester and new ones are bound to open up, vide the 2008 Kenyan election. Also, the agriculturally-dependent region remains at the mercy of increasingly erratic weather gods and recent world-wide shortages in staple foods, accompanied by massive price increases, don't augur well for the continent's poorest of the poor in the short-term.

3.3.2. Enabling initiatives

Although some may be flawed, recent initiatives originating from within Africa itself have moved the African debate beyond politics towards good governance, regional co-operation and economic development. So too, the continuing attempts at forming regional trade associations in order to overcome the problem of fragmented markets.

3.3.2.1. The New Partnership for Africa's Development (NEPAD)

NEPAD may have its flaws, chiefly with regard to its inability to convert good intent into practical action and projects, but its significance as a symbol of a new African approach to the continent's development challenge should not be under-estimated.

Agreed by all African Union states in Abuja in 2001, NEPAD signifies a drastic departure from the way in which African countries tackled the key development issues in the past.

"Fundamentally, NEPAD declares Africa open for business and this is a deep-seated paradigm shift from the inward-looking statism of the past. Instead of resisting globalisation, Africa is embracing it. It emphasises the importance of markets and of providing an environment conducive to foreign direct investment. NEPAD is primarily concerned with the reduction of risk attached to doing business on the continent – political, economic and social risk. It recognises the failures of the past and places the emphasis on institutional and governance issues" (Luiz,2006: 4).

Venter (2007: 337) describes the NEPAD plan of action as: "a strategy to deploy a pan-African "Marshall Plan' to recreate Africa by developing the resources of African countries in partnership with the developed world. The continent needs to reposition itself in response to the international economic system that has for so long frozen it out of global economic life except as supplier of cheap labour and raw materials."

Of course, the process of turning Africa around is going to require far, far more than a simple declaration of intent. In addition, the NEPAD initiative shows all the hallmarks of politicians and academics at work, sporting wall-to-wall key principles that cover the whole gamut, including human rights, advancing women, reducing dependency on aid, forging partnerships with African civil society, etcetera. In the process of so doing, losing the focus required for economic development plans to become reality. The oversight role and performance by the NEPAD secretariat also leaves much to be desired, as does the early round of completed reviews of a country's human rights record and democratic principles performed as part of the African Peer Review Mechanism.

Instead of dwelling on the considerable problems that even the best-run initiative of its kind would face in helping Africa get out of the hole it finds itself in (mostly, but not entirely through its own making), the key take-out for MNCs is that this is *a good time to invest in the region:*

- Africa is open for business;
- Countries are vying amongst themselves to attract FDI;
- Levels of competition are still low;
- Socialism has been abandoned in favour of the free market system, at least for now – the system's best MNCs have an opportunity, nay obligation, to show that this is a workable approach to bring about social and economic recovery, including job creation and poverty alleviation;

Big business has a role to play in Africa's economic development, by doing what it does best, which is by operating profitable value-adding investments.

A final word, however, from Easterly (as cited in Eifert et al,2005) who serves a chilling reminder of the performance of African governments by stating that a search of World Bank documents revealed that the Bank argued 14 times since 1990 that Africa was about to turn the corner in terms of policy reform, but to no avail. He further comments that donors have contributed billions of dollars to road construction across Africa without any significant increase in the overall quality of road networks due to poor maintenance.

Any prospective investor in SSA would be wise not to pin its hopes on assistance from local governments. The best they could hope for is that *governments would disengage from interfering in business matters on the one hand, and invest in infrastructural improvements on the other.*

3.3.2.2. Economic communities

In recognition of the need to foster economic integration amongst the fragmented markets of the continent, African leaders signed a treaty in 1991, also in Abuja, to establish a continent-wide common market by 2000. However, in recognition of the difficulties facing the regional process on the continent, the due date was extended to 2025 (Grobbelaar,2006: 36). No person familiar with the ways of Africa really believes that the above date will be met.

However, SSA does possess the makings of some developing regional economic communities that, despite massive debt levels, are beginning to display the potential of, in time, developing into fully fledged trading blocs. According to Table 3.3 below, key indicators in 2002 were as follows:

TABLE 3.3. THE REGIONAL AFRICAN ECONOMIC COMMUNITIES

REGION	COUNTRIES	POPULATION	GDP in US$	DEBT % GDP
COMESA	20	385m	181,0bn	84,2
ECCAS	11	116m	48,9bn	157,3
IGAD	7	169m	45,5bn	92,7
ECOWAS	15	240m	101,2bn	145,5
SADC	13	210m	226,8bn	75,9

Source: Tsotetsi (as cited in Grobbelaar,2006: 37)

Given a lot more work towards freeing up the flow of trade between participating countries, coupled to an acceleration of economic recovery in the region, and there's every chance that SSA investors may soon be faced with the attractive prospect of exploring more substantive markets.

3.3.3. Finally, an African renaissance?

Significantly, a recent opinion poll revealed that SSA inhabitants are extremely optimistic about their future, to an extent where 'indomitable optimism permeates the region' (Gallup poll,2007).

Even on the education front, there's good evidence that institutions, including business schools, are waking up to the needs of a different Africa, one that's relying on the private sector to show the way towards economic recovery. Pfefferman (2008) writes that INSEAD's Africa initiative is one indication of the recent shift. The purpose is to increase the school's presence and relevance in Africa, so as to be a catalyst for development in Africa while leveraging the knowledge gained there to promote effective business practices in other regions. INSEAD is not alone. Growing interest in Africa reflects a number of factors: the region's rapid economic growth and the rise of an African private sector and of a middle class, increasing internationalisation of the business school student body, which compels schools to step up their activities in many countries, and an increasing awareness of entrepreneurship. In 2002 the Global Business School Network (GBSN) was created to provide a framework for leading business schools wanting to contribute to capacity building in under-served parts of the world, first and foremost in Sub-Saharan Africa. The Association of African Business Schools (AABS) was established in 2005 with a mission to promote excellence in business and management education in Africa.

Enlightened observers agree that Africans are ready for change and there's every reason to believe that we may be seeing the beginnings of an irresistible force that will not abate until 'the African Renaissance' truly comes of age.

"Companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephones. The region's economy is growing steadily and could expand by 5,8% this year. *In part this is because of the commodities boom and debt forgiveness. But more peace, political stability and better economic management have done their bit*, too"(The Economist, "The flicker of a brighter future",2006: 65).

Miles Moreland, founder and chairman of Blakeney, a successful London-based equity fund that only invests in African and middle-Eastern equities, was recently interviewed by the Financial Times' Africa editor who asked him if the continent had finally reached its tipping (turning) point. He

responded as follows:"William, you're eight years late. Africa tipped in the late nineties, but it's just now that people are waking up to it" (Moreland,2007).

The 2008 issue of the IMF's Survey Magazine picks up on Moreland's optimism with the news that a record US$ 50 billion's worth of private equity flowed into SSA during 2007, exceeding the total value of foreign aid into the region for the second year running (Preece,2008: 54).

3.4. PROFIT POTENTIAL IN SUB-SAHARAN AFRICA (SSA)

One of the myths about doing business in SSA is that there's no money to be made in this impoverished corner of the world. The facts below tell a different story.

3.4.1. Low levels of competition: a welcome boost to Multinational Corporation profitability

Market attractiveness of the host country as FDI destination may be measured in terms of size, growth and competition (Anand and Kogut,1997: 450). Hill (2007: 481) describes the importance of the competitive landscape to a MNC entering a new market in the following simple terms: "This (value creation in a foreign market) depends on the suitability of its product offering to that market and the nature of indigenous competition. If the international business can offer a product that has not been widely available in that market and that satisfies an unmet need, the value of that product to consumers is likely to be much greater than if the international business simply offers the same type of product that indigenous competitors and other foreign entrants are already offering. Greater value translates into an ability to charge higher prices and/or build sales volumes more rapidly."

It is the uniquely comfortable competitive environment that holds a potentially meaningful, if unheralded, *advantage to MNCs currently operating in SSA, or considering entering the region.* The lack of competitors has two dimensions:

- Firstly, as discussed earlier, the region attracts less FDI than any other because of its unattractiveness, reasons for which have been discussed under sections 3.1.1 and 3.1.2 above. This means that the one very big issue that does not affect those MNCs doing business in the region is that of having to do battle with many of their global competitors, as is the case throughout the rest of the world.
- Secondly, unlike all developed markets and many other developing ones, such as India, China, Brazil and South Africa, *SSA does not possess strong indigenous competitors* in any of its markets. This may be of even greater value to the MNC than the lack of global competitors, as

the above-mentioned countries have proven just how difficult it is for foreign MNC affiliates to compete with the best indigenous firms.

The reasons for the lack of indigenous competitors may also be laid at the door of the hostile business environment described earlier, except that the impact on indigenous firms has been even more debilitating than on the few MNCs present in the region during the 'dark days'. At least the latter had the support of their home country governments to pressurise local authorities when times got tough. The indigenous firms, however, have never had any 'legitimate' clout with their governments and still don't, so when dealing with the authorities, according to Emery (as cited in Ramachandran and Shah,2007), they have to "place a premium on means of circumventing, or speeding up the process, which creates a flourishing environment for corruption."

Faull (2006: 317) phrases his observation as follows: "It is often noted that business in Africa is characterised by 'deal making' rather than process excellence," whereas Eifert et al (2005: 28) found that African business was segmented between small indigenous firms struggling to survive on the one hand, and larger foreign firms on the other who have productivity levels closer to those of average firms in high-performing economies like China and India.

MNC affiliates operating in SSA who are able to manage their stakeholder relations effectively (and ethically) should always be able to out-execute their indigenous competitors by quite some margin.

This is how matters stand at the moment. However, it is reasonable to expect that the easing of environmental factors will soon result in a more competitive environment in SSA, including participation by emerging local champions.

3.4.2. Dispelling the low-profit myth

A number of MNC affiliates, including those producing and selling branded consumer goods in SSA's constrained and impoverished markets have built up impressive records of profitable growth in the region. Examples include:

- Heineken and Diageo have been making world-class returns in West Africa since the 1930's.
- In fact, Diageo earns greater returns from sales of its Guinness Stout Beer in Nigeria, than it does in Ireland where the brand originated (Hampshire, 2007).
- More latterly, South Africa's MTN has revolutionised Nigerian telecoms and earned a rich reward for its efforts: 16,5 million subscribers at US$17 revenue per user each month (McLeod,2008:36).
- SABMiller plc earns its best world-wide margins in Africa (SABMiller, 2007: 19,27).

- Standard Bank, Barclays, Celtel, The Coca-Cola Company and Dimension Data are among other MNCs who have similar stories to tell.

To further expand on this subject, the financial performance of the MNCs included in the primary research study will be explored.

Equity funds too have success stories to tell. Blakeney has seen its NAV per share move from US$5,80 to $35,00 over the last 5 years, recording growth rates of 37% and 43% in 2006 and 2007 respectively (Moreland,2007).This performance has been substantially driven by listed African equities who operate in the telecommunications, banking and beverage sectors. In similar vein, Imra's Africa Opportunities Fund has almost doubled in value in less than three years, while the Investec Africa Fund has returned 40% per annum since November,2005 (Cranston,2008: 77).

Generally, individual African markets may be small, but they possess rapidly growing middle classes who are brand conscious and susceptible to global trends. Significantly, even poor Africans, eking out a living in the large informal sector, are willing to pay for what they need.

Grobbelaar (2006: 35) agrees that a number of companies have demonstrated beyond any doubt that good business can be done on the continent. *There's money to be made on this continent and indeed returns on investment are already substantially higher than anywhere else*. Shelley (as cited by Grobbelaar,2006) found that on average, the return on equity on individual investments in Africa is four times higher than in the G-7 countries and twice as high as in Asia.

3.5. THE ATTRACTION FOR MULTINATIONAL CORPORATIONS (MNCs)

According to Deresky (as cited in Hough,2007), proactive reasons for internationalisation are closely aligned with the *growth imperative* of organisations in largely mature markets to look for new opportunities in the global marketplace. So it is with today's MNCs originating from developed countries, constantly looking out for opportunities to deliver superior earnings growth in order to meet shareholder expectations, and who participated in the flow of new FDI into Eastern Europe, Asia and South America from the early 1990s onwards. Many of these investments are now relatively mature, so the search for new opportunities must lead MNCs to seriously consider investing in SSA, the final frontier as far as the world's unexplored markets are concerned.

In addition, MNC forays into the developing markets mentioned above have not been universally successful, for instance:

- Hill (2005: 218) comments that, blinded by the size and potential of China's market, MNCs have underestimated just how difficult it is for foreign firms to do business in its complex operating environment.
- In "Mr. China", Clissold (2004) gives a first-hand account of the day-to-day obstacles encountered by foreign businessmen in China, in this instance, en route to losing over US$ 400million.
- India too, possesses strong local competitors and brands and a raft of archaic laws implemented by an unhelpful officialdom, as illustrated by the following example:

  Rigzin Samphel, the District Magistrate of Jaluan in Uttar Pradesh province who oversees no fewer than 65 (sixty five!) government departments, has the following to say about his department heads:"Around one in five is run by competent deputies. If I don't put pressure on my juniors, everything gets largely corrupted." His office does not have one computer at its disposal (The Economist, "India's civil service", 2008: 28)

  Multiply this example by hundreds of similar districts throughout India and one gets the picture of a near- hopeless situation. Doing business in India is no simple thing, more so for foreign-owned MNCs.
- In South America, Cuba's Castros have found an ally in Hugo Chavez who seems intent on using Venezuala's oil riches in order to affect a return to socialism amongst their neighbours, something of a worry, given the fragile nature of some of the democracies in the region.

The 'leap of faith' required by MNCs to move from these environments to that of SSA is not as great as some may imagine and the rewards may also surprise on the up-side. All in all, there's every reason to believe that the time has come for MNCs hungry for growth, as well as those wishing to build a complete global footprint, to take the plunge into SSA, despite the latter's environmental challenges.

SABMiller's CEO, Graham Mackay, summed up his MNC's view thus: "*If there was more of Africa, we'd be investing in it"* (The Economist, "The flicker of a brighter future",2006: 65).

3.6. SUB-SAHARAN AFRICA HOST COUNTRY VIEWS OF MULTINATIONAL CORPORATIONS (MNCs)

Although MNCs have much to offer the countries of SSA, they are not always welcomed with open arms. This is not a uniquely SSA perspective as noted by Daniels et al (2009: 230):" There are three major criticisms of the globalization of business: the threat to sovereignty, the threat to growth and the threat of increasing inequality. The MNE, whose greatest impact on host countries involves its strategies of foreign direct investment (FDI), is constantly confronted with questions issuing from

this set of criticisms and must answer for the effects of its activities, both in the home and the host country".

3.6.1. Multinational Corporations (MNCs) as a force for good

The MNC provides the host country with much sought after foreign direct investment (FDI). The desire for FDI was not always shared by the countries of SSA. However, it may be assumed that they have now seen the folly of their ways, as illustrated earlier by Hill (2005: 306) in comparing the contrasting fortunes of Ghana under socialism versus South Korea under capitalism. The countries of SSA have subsequently converted to the free enterprise system, to the extent that they actively compete against each other in order to attract FDI and, therefore, MNCs to their countries. This sentiment has been captured by Luiz (2006: 4) in his commentary on the meaning of NEPAD: *"Instead of resisting globalisation, Africa is embracing it. It emphasises the importance of markets and of providing an environment conducive to foreign direct investment."*

Hill's (2007: 268) list of main benefits to host countries includes three that are highly prized in the SSA region:

- the supply of capital, technology and management resources;
- the creation of new jobs;
- a positive impact on the host country's balance-of-payments (BOP) by substituting imports and by generating new exports.

Daniels et al (2009: 260) summarise the impact as follows: "*FDI creates jobs and economic growth* in the host country".

Indeed, there is much that a well-run MNC affiliate can offer a developing country in SSA in turn-around mode, as illustrated by Grobbelaar (2006: 52) in the case of Mozambique, a country experiencing the effects of a recent spate of FDI from South African firms, including:

- The transfer of cutting-edge technology via Mozal, a greenfield aluminium producer, which also exports its entire production.
- Sharply increased tax revenues paid by SABMiller, who bought the bankrupted formerly state-owned breweries and restored them to health – also substituting the imported beer trade that had flourished during the period of the breweries' demise.
- The provision of additional energy from Sasol.
- As well as generally increased wage levels, skills, consumer choice and investor confidence in that country.

However, this is not the full story, in that the ultimate value that a MNC affiliate has to offer a host country that has recently converted from a failed socialist system comes from *the example that it sets of the free enterprise system at work on the ground and to the benefit of all stakeholders*, including:

- Being *a good corporate citizen* – to be acknowledged as a force for good in the communities in which it operates, through its considerate conduct, sponsorship of popular events and corporate social investments.
- Through applying first world standards of *good governance* in the way it manages its operations, including the requisite approach to dealing with corruption.
- Showing a willingness to *engage and partner with government* through excellent communication, including regular briefing sessions, as well as an appreciation for and readiness to act on worthy government imperatives - on this count, job creation, opportunities for small and medium enterprises and cash crop alternatives for subsistence farmers top the list in most African countries.
- *Well trained and managed employees* that are suitably rewarded, including the application of modern performance management techniques that require employees to self-manage (as opposed to the days of state-owned enterprises where no-one moved unless ordered to do so from above.)
- By extending its *impact on new jobs created* through the multiplier effect, both down- and upstream, especially by developing SMEs through the outsourcing of non-core functions, training and the provision of credit.
- And, yes, *prosperous shareholders*, many of whom ideally should be local citizens, as is currently the case in many MNC affiliates listed on local stock exchanges in the region, such as SABMiller's Tanzanian affiliate which includes 17 000 mostly small Tanzanian shareholders in its register.

MNC affiliates operating in SSA have to work really hard at being seen to be a force for good by local stakeholders, primarily because the free enterprise approach is still relatively new in this part of the world and foreign-owned firms find themselves faced by many cynical stakeholders (see section 3.6.2 below.) Their support for worthy initiatives such as the World Bank-led Investor Round Tables, where local and foreign investors meet with the cabinet and senior civil servants under the chairmanship of a country's president. This initiative has met with a fair amount of success in those countries where it has been instituted. In Tanzania, in particular, it has played a prominent role towards the turnaround in economic fortunes that is currently underway in that country.

Unilever is a good example of a 21st century MNC at work. The following is an excerpt from its mission and values statement:

"How we contribute to sustainability:

- improve people's health through nutrition and hygiene;
- minimise our environmental footprint;
- secure sustainable supplies of raw materials;
- create wealth and bring benefits to local communities" (Unilever, 2008).

3.6.2. Host country perceptions of MNCs

As alluded to previously, unfortunately the benefits of having MNC affiliates operating in a country are not universally appreciated throughout the region, as observed by Ramachandran and Shah (2007, 17): "while the situation on the ground is changing and sometimes quickly, *what (SSA) governments still seem to fear the most is a private sector which generates wealth independent of government controls, and which makes its own, unfettered decisions."*

On the one hand, one can confidentially state that all SSA countries are united in their desire for FDI into their countries, essentially because of their historic and current record of massive balance-of-payment shortfalls and subsequent dependence on having to resort to the begging-bowl approach to procure aid that comes with strings attached from developed countries. Any alternative source of external funding is therefore highly prized.

However, the notion of a foreign-owned firm operating freely in their sovereign territory is one that's some way off from being shared by all SSA countries. Why is it that Africans are reluctant to do so? The following reasons may go some way to providing the answer:

- One should remember that SSA's experience with *colonialism* is still fresh in this generation's mind as most African countries only received independence from their former colonial masters from the 1950s onwards.

  An objective observer may disagree with Venter (2007: 330), who compares the evils of colonialism with those of slavery, going on to assert that: "The main consequence of this diversion of resources from the African continent during the colonial period is that the Africa of today is currently losing the war against poverty." However, the point is that if a respected South African academic takes such a dim view of the impact of the colonial era, you can bet your bottom dollar that the view is widely held by leaders throughout SSA, especially those in search of an easy and popular scapegoat to blame for the dire economic state that the region finds itself in (as opposed to their own shortcomings.)

Making the connection between a foreign-owned MNC affiliate and the former occupying colonial power does not take a flight of fantasy, nor does it to expect that the results will be the same: exploitation and suppression of the host country and its resources in favour of accumulating wealth for the MNC parent located in a developed country.

- The abandonment of the *failed system of socialism* by SSA countries is an even more recent event, having occurred from the early 1990s onwards, which, amongst others, has delivered two consequences relevant to this analysis:

  Firstly, a feeling of defensiveness amongst SSA leaders, many of whom are still in power or at least influential in their respective countries, for having messed up so comprehensively. The act of having to turn to capitalism, with its links to the former enemies of the cold war years, in order to get their economies back on track, comes as a great blow to the generally large egos of these leaders.

  Secondly, it is also a fact that the vast majority of the civil servants now charged with overseeing the freeing up of business activities in a SSA country are exactly the same civil servants who were schooled in the ways of socialism and who implemented a system of absolute government control over all walks of life earlier on in their careers. It should come as no surprise that these extremely influential figures (many argue that the Permanent Secretary in a ministry holds greater sway than his Minister) feel more comfortable in adopting the interfering and regulating mode of their former roles when they also wielded greater power.

- The early years' *experience of freeing up the economy* has not been that popular with the man in the street that has ended up being worse off in quite a few respects as against the socialist days. Job losses in the civil service, increased basic food prices due to the abolition of subsidies and an end to services formerly provided by the state on a free and gratis basis are some of the benefits that they no longer enjoy.

These reasons are exacerbated by the following:

- the region is yet to experience a meaningful increase in FDI;
- new jobs created by the fledgling private sector have not yet made an impact in reducing the large unemployment numbers;
- privatising formerly state-owned assets in favour of foreign firms does not appeal to the patriotic masses;
- external factors are driving up global fuel and food prices.

It therefore becomes plain to see why a large section of the population (and, therefore, many voters) are *not convinced that this new way of private ownership is going to deliver the answers to SSA's most pressing needs*, including the creation of jobs and the alleviation of poverty.

It is also true, that in common with most governments across the world, those of SSA don't take kindly to what's perceived to be *foreign interference in their internal affairs*. During these early days of foreign-owned firms entering the region, the natural reaction is for host governments to monitor and control their every move. The idea of allowing them the freedom to get on with their business with only minimal interference from authorities will take time and requires the development of trust in the firm's behaviour.

These doubts and fears are re-enforced by a growing band of *anti-globalisation NGOs and radicals*, some of whom go to any lengths, including the destruction of property and violent protests, to grab world headlines in order to state their case and keep it topical.

The freedom of the world-wide web too, has become a useful and inexpensive ally for those willing to spread lies and half-truths in the interests of the anti-globalisation cause, for instance, Anup Shah's personal website for global issues, referred to in section 2.3.4 above.

MNCs operating in SSA should be aware of, and have sympathy for, the very real doubts and fears expressed above. So too, obviously, should those contemplating entering the region for the first time who may otherwise be surprised to learn that they're not welcomed with open arms by an adoring public.

In order to place the observations above in their proper perspective, it would be appropriate to point out that it is the author's observation that all Africans would like to improve their personal circumstances and regain their pride in their respective countries. They are painfully aware that the African socialist experiment in the heady days when the flame of uhuru spread across the continent did not work for them and, in fact, left them worse off economically than even in the days of colonialism.

Africans do not have an issue with free enterprise per se; in fact they're very good at working for themselves, despite dire circumstances and without assistance as may be witnessed by the thriving informal sector operating throughout the continent's cities. Although their experiences to date have combined to make them somewhat doubtful that the new capitalist order will be able to deliver against their reasonable expectations, Africans are nevertheless willing to give it a go and will be delighted if it proves to be the answer to rescuing them from their predicament.

Ask the majority of expatriates that have worked in Africa and they'll report on local citizens that are hospitable and willing to accept foreigners on face value (recriminations about colonialism and/or apartheid rarely occur). Moreover, *many Africans are bright, industrious and eager to embrace new ways of doing business*. An investor cannot wish for much more.

Finally, a note of caution from Grobbelaar (2006: 55) to firms branching out from South Africa into neighbouring countries. He mentions the *unintended consequences* of the success achieved by South African firms operating in Mozambique where the superior technology, business knowledge and financial strength of these businesses have contributed to South African firms dominating the local economy, creating local resentment. This fear of a wave of South African economic colonialism sweeping through SSA is not unique to Mozambique and needs careful and sensitive management by SA MNCs and their affiliates.

3.7. OPERATING CONDITIONS IN SUB-SAHARAN AFRICA

The business environment in SSA represents a significant challenge, typically characterised by *poor infrastructure, utility shortages, an ill-equipped talent pool and unsympathetic authorities*. MNCs need to be aware of the situation and develop strategies to overcome these difficulties.

3.7.1. The extent of the challenge

Grobbelaar (2006: 55) mentions '*Africa is not for sissies' as* a common refrain that greets investors looking to expand their foothold into the continent. The following serve as examples of difficulties faced by investors in SSA:

- Skills levels are appallingly low – 22 out of the 30 least literate countries in the world are African (The Economist,2008: 79).
- The region suffers from desperately low productivity as illustrated by Moss et al (2005: 8) who found that GDP per square kilometre in Africa (excluding South Africa) is one-tenth of the level in Latin America and one-twentieth of the Indian level. Manufacturing value added per hectare for the same African universe is only 1,2% of that of China.
- It is also true that the scourge of corruption is still alive and well in a region recently described as the most corrupt in the world (Luiz,2006: 14).

In addition, the lack of physical infrastructure on the continent is a legendary major obstacle for private investors doing business in the region, for example:

- The island of Manhattan has more telephone lines than all of Africa (Luiz,2006: 31).
- 20 Africans out of a thousand have a cellular phone versus 705 in high-income economies.
- Internet hosts per thousand equals 95 in high income countries versus only 0,6 in SSA (Luiz,2006: 18).

- Only the Democratic Republic of Congo features in the top 40 list of countries with the longest road networks and only Nigeria and Congo-Brazzaville in the top 40 for longest railway networks (The Economist,2008: 70 & 75).
- Per capita consumption of electricity in African households is limited to a tenth of that in developed countries. Eskom, the South African state-owned electricity unit which generated 60% of the continent's power used in 2004, is currently unable to meet demand in its home country (Nkomo & Cook,2006: 84).

3.7.2. Dealing with the challenges

However, it's far from a hopeless situation, as proven by the early-mover MNCs already achieving success in the region. Luiz (2006: 27) agrees by observing that *it is not to say that the environment of business is impossible in Africa, but rather that it's different and often requires more patience.*

In addition, a more co-operative stance from the authorities that allows, amongst others, for the importation of expatriate skills, coupled to the communication revolution brought about by the web, internet and mobile 'phone technology, has meant that MNCs are advantaged in order to overcome the environmental challenges prevalent in SSA, including skills shortages.

The combination of *seasoned expatriates and technological advances* in communication means that any committed MNC is able to effectively roll out its globally proven systems and processes, including adaptation for local circumstances where necessary. Modern business programs in the fields of world class manufacturing, budget setting, management accounting, performance management and reward, strategic marketing and the like may thus be swiftly inculcated into the local affiliate.

MNC's are further well poised to *steer clear of the temptation to corrupt.* Most have strict and very visible codes of conduct which ensure that both their local employees as well as the potential corruptible know that no approaches in this regard will be tolerated.

Celtel set the perfect example in entering the DRC when it refused to bribe its way into the country, which delayed negotiations by two years, but eventually the company was able to enter successfully (The Economist, "The flicker of a brighter future",2006: 67).

3.7.3. The opportunity for South African firms

It should be noted that South African-based MNCs and firms are *particularly well-positioned* to move north:

- the potential pool of South African expatriates should be more effective and less costly than their first world counterparts;

- Johannesburg is a well-located hub from where to support SSA businesses - closer to the action and better served in terms of flights than anywhere else;
- South Africans should be more sensitised to local perceptions and beliefs than non-Africans;
- the best South African companies can hold their own with any on the world stage.

In addition, the fact that these firms originate from a developing country such as South Africa, could be a further factor in their favour. Research by Cuervo-Cazurra and Genc (2008: 976) found that despite being smaller and possessing less sophisticated resources than developed-country MNCs, *those MNCs that originate from developing countries have a proven ability of managing successfully in a challenging governance environment* which can help them become leading firms in the least developed countries of the world (many of which are to be found in SSA.)

Binedell (2006, foreword) comments eloquently on the leadership attributes required in order to be successful in SSA:

"Effective leaders will need a sound dose of pragmatism and realism combined with strong communication skills, a high level of resilience and persistence, as well as the creative and entrepreneurial flair to take ideas from insight to action" - a description that well describes many South African managers and entrepreneurs.

Grobbelaar (2006: 55) states that the impact of South African firms already active and successful in the rest of Africa clearly illustrates the value of careful management of local sensitivities and meticulous adherence to good corporate-governance practice.

Harvey (2006: 487 - 489) conducted research amongst three South African firms that had expanded internationally: SABMiller, Sappi and Barloworld. Respondents commented on the following attributes of their South African managers that have stood them in good stead in foreign markets:

- adaptability;
- humility;
- openness to learning;
- ability to interact with other cultures;
- confidence, stemming from adversity.

There's no reason to believe that the current or next generation of South African managers will not continue to display these characteristics, while also displaying an increased preference for operating beyond the country's borders.

South African firms who, being African and based in Africa's most dynamic economy, should have an advantage over MNCs from the rest of the world (Brews, 2006: 379).

3.8. SUMMARY

In this chapter an attempt was made at sketching the true picture of the business environment in SSA, one that is seen by some as being so hostile that "the prospect of investing in sub-Saharan Africa can cause businessmen to sweat.“ (The Economist, "The flicker of a brighter future",2006: 65).
The reality is best captured by Luiz (2006: 27) when he states that, although the environment of business in Africa is undeniably challenging, it is not to say that it is impossible, but rather that it is *different and often requires more patience.*
At the outset of the chapter, facts confirming Africa's position at the bottom of most of the world's development tables were outlined, as were reasons for the continent finding itself in this precarious position. Thereafter, this view was tempered by pointing out the considerable progress being made by Africans, including their governments, in order to turn matters around. Reasons were advanced for why SSA should represent an attractive investment destination for MNCs, while simultaneously dispelling the myth of lack of profit potential in the region.
The critical aspect of host country views of MNCs, which are not always positive, was discussed in detail. Although MNC managers may not agree with all of these sentiments, they should be aware of them and take care to act accordingly, in other words, *with great sensitivity.*
Finally, the prevailing and mostly difficult operating conditions prevalent in SSA were touched upon, as well as ways in which MNCs may deal with same. The *opportunity for South African firms* due to their proximity in both geographical and cultural terms was further highlighted.

Having completed the examination of the SSA contextual factors surrounding this study, chapter 4 will deal with the research design and methodology followed to arrive at the research results.

CHAPTER 4: RESEARCH DESIGN & METHODOLOGY

4.1. INTRODUCTION

Whereas chapters 2 and 3 were devoted to analysing the business environments in which MNCs and their affiliates operate in both global and sub-Saharan Africa contexts, this chapter is focussed on the designing and implementation of the research project itself.

Leedy and Ormrod (2001: 4-5) list the following *characteristics* of formal academic research:

- it originates with a research question or problem;
- it has as objective the solving of a real world problem;
- it requires clear articulation of the primary research objectives;
- it follows a specific plan or process;
- it requires the formulation of 'investigative (sub) questions' in support of the primary research question;
- it usually divides the principle problem into more manageable sub-problems;
- it normally is limited to a specific field of study;
- it requires the collection of data (qualitative and/or quantitative) and the subsequent interpretation of such data in order to solve the research problem;
- it follows a structured sequence of events.

The methodology to be followed has to be justified, not just described (Perry,1998: 76-79). Malhotra (2004: 86) describes research *design* as a framework or blueprint that guides a research project towards achieving its objectives. Babbie and Mouton (2003: 97-98) comment that although research design occurs at the start of the research project, it involves all the steps of the project.
Tull and Hawkins (1993: 51-197) suggest that the *methodology* section of a research project should cover the following points:

- the type of study;
- the target population and sample;
- the data collection method;
- the research instruments used;
- data analysis.

This chapter combines both the above design and methodology suggestions in order to arrive at the research findings to be published in chapter 5.

Consistent with the insights gained from the above writers, the chapter layout follows the complete research process from start to finish and is divided into the following sections:

- confirmation of the *research problem* to be investigated;
- converting the problem into *research questions* to be answered;
- stating the *objective* of the research, as well as the *justification* thereof;
- defining the *target population and sample*;
- the *design of the research study*;
- the *data collection methods* applied*;*
- *data analysis;*
- evaluating the *validity* of the findings;
- a *summary* of the contents of the chapter.

4.2 THE RESEARCH PROBLEM

Mouton (2008: 48) describes the first phase of a research project as the transformation of an interesting idea into a "feasible, researchable research problem."

The research problem formulated in section 1.4.2 above is as follows:

"Sub-Saharan Africa (SSA)'s unattractive business environment, has until now, largely prevented MNCs from investing in the region, when compared to their presence in the rest of the developing world."

4.3. RESEARCH QUESTIONS

According to Mouton (2008: 53), "Research problems implicitly or explicitly embody a research question". In this instance, three questions flow from the research problem:

- As stated by Hill (2005: 218), when it comes to FDI, Africa is by far the worst performing region on the globe. Secondary research has identified those environmental factors that result in the region being viewed in negative light by international investors. So, why aren't MNCs targeting Sub-Saharan Africa with the same fervour as they do when it comes to the likes of Asia, Eastern Europe and South America?

  For purposes of the study of MNC affiliates operating in SSA, this question has been rephrased into the following two-part question: *What are the real impediments experienced in doing business in SSA, and* why *have those MNC affiliates present in the region decided to do business there despite these difficulties?*

- Grobbelaar (2006: 35) states that a number of companies have demonstrated beyond any doubt that good business can be done on the continent. This fact leads to the next question: How are those MNC affiliates present in the region, able to overcome the challenges of SSA in order to earn good profits?

  Put into terms used in this study, this question is phrased as follows: *What are the Key Success Factors (KSFs) that have allowed early-mover MNC affiliates to achieve success in SSA?*
- Luiz (2006: 9), estimates that SSA accounts for 17% of the world's poor, with just about 800 million inhabitants earning US$650 per capita annually, while 48% live on less than US$1 a day. Collectively, this represents a large untapped market opportunity. Brews (2006: 382), however, cautions that a serious challenge facing rich country entrants into Africa is "whether their existing products, services or solutions are even saleable or scaleable in the continent."

Therefore, the final question to be considered is w*hether it is possible for MNCs to commercially explore the considerable potential that exists at the base of the economic pyramid (BOEP) in SSA.*

4.4. RESEARCH OBJECTIVE AND JUSTIFICATION

Mouton (2008: 48) stresses the need to clearly state the objective(s) of a research study by answering the question: "to what end is the research being undertaken? "

In this instance, *the primary aim of the research is to alert current and potential investors to the considerable opportunities (and challenges) that exist in the region, including the identification of strategic and operational guidelines that may enhance their chances of being successful.*

Business research amongst emerging economies is a fairly recent development as global investors increasingly turn to these markets as a source of profitable growth. Ricard et al (2004: 194) comment that MNC understanding of what it takes to capture the base of the economic pyramid (BOEP) opportunity amounts to virtual uncharted territory. Eisenhardt and Lee (as cited in Tsui,2004) argue that in contexts where management research is a recent introduction, there is a great need for developing indigenous theories. Tsui (2004: 505) observes that grounded theory building is a necessary step in developing management models that capture the richness of local context.

The paucity of business research amongst the economies of SSA is severe, partially as a result of the lack of interest in the region as displayed to date by international investors. Smit (2006: foreword)

comments that "Africa is seen as the last untapped market for business education in the world. The need for business education here is almost boundless." Binedell (2006: foreword) further states that if SSA's 850 million inhabitants are going to benefit from the region's current growth potential, it is vital that the leaders of government, business and community organisations are equipped with the right insights and skills to lead in a dynamic landscape. These leaders need to understand:

- the key capabilities that result in performance;
- the practices and processes that inhibit performance;
- new ideas and practices that will take them to the next level of competitiveness and performance.

Therefore, the *justification of this research study is to add to the limited body of Africa-specific business knowledge in order to provide both leaders and students with fresh insights into exploiting the opportunities that exist in the poor markets of the region.*

4.5. TARGET POPULATION AND SAMPLE

Table 4.1 below contrasts the distinguishing characteristics of qualitative and quantitative research studies. This particular study sits squarely in the *qualitative* camp, including the characteristic selection of a small and informative sample from which data will be collected by way of interviews.
According to Brummer (2005: 343) the population of a research project is defined as the object of study and may include individuals, organisations and events. Levin and Rubin (as cited in Lotz, 2008) define a sample as "a portion of elements in a population chosen for direct examination or measurement".
The sampling methodology applied in this study is *non-random* sampling (also referred to as non-probability or judgement sampling) (Lotz,2008: 4-6).
More specifically, Miles and Huberman (2004: 27) refer to the sampling technique adopted in this qualitative study as *purposive* sampling: a sampling framework that allows the researcher to identify participants on the basis of their particular knowledge.

In this study, *the target population* is *the affiliates of MNCS* who have a meaningful presence in sub-Saharan Africa and proven track record of supplying branded goods and services to consumers in the region.

The sample has been structured to include:

- MNC affiliates head-quartered in different countries (UK, USA and South Africa);

- fast-moving consumer goods manufacturers (soft drinks, milk, beer & spirits);
- service providers (banking, advertising and mobile phone call time);
- retailers.

MNC's included in the study are:

- The Coca-Cola Company;
- Diageo plc;
- SABMiller plc;
- MTN;
- Coca-Cola Sabco;
- Standard Bank;
- Shoprite;
- Game;
- Promasidor;
- Game Stores;
- Ogilvy.

It is important to note that the study is focussed on the behaviour of the *affiliates* or subsidiaries of MNCs, as opposed to MNC headquarters. This distinction is consistent with the observation by Phene and Almeida (2008: 902) that: "given this importance of the subsidiaries to MNC success, researchers are increasingly examining subsidiary performance."

In order to give effect to a purposive sampling framework, it was decided to structure a *selected convenience sample* consisting of *18 senior executives* (current or past Managing Directors of affiliates or regions) of MNCs selected according to the above criteria, and to whom the author could gain direct access (including spending a reasonable period of uninterrupted time on the interview.)
In deciding on limiting the research to a relatively small group of top executives (as opposed to a larger sample that would necessitate including middle-management), the author was swayed by the earlier plea from Tsui (2004: 508) for the need to *build new theories of management and organisations in emerging economies* where businesses are new phenomena. This goal is best achieved by gaining the views from a panel of experts. Those at the very top of their organisations have a complete view of all the complexities of doing business in the region, from strategy all the way through to the most mundane of operational challenges.

4.6. RESEARCH DESIGN

4.6.1. The qualitative research process

The key requirement for research design is to obtain the kind of evidence that is required in order to adequately address the research questions. The question to be answered by research design is the following: what type of study will be undertaken in order to provide answers to the research problem or questions? (Mouton,2008: 49,56).

According to Collis and Hussey (2003: 10), the various types of research may be classified according to:

- the purpose of the research: exploratory, descriptive, analytical or predictive;
- the research process: qualitative or quantitative;
- the research logic: deductive or inductive;
- the outcome of the research: applied or basic research.

Table 4.1 lists the contrasting distinguishing characteristics of the qualitative versus quantitative research paradigms:

Table 4.1. Characteristics of qualitative versus quantitative research methods

RESEARCH FOCUS	QUANTITATIVE(positivistic) research paradigm	*QUALITATIVE(phenomenological) research paradigm*
Purpose of the research	To explain & predict To confirm & validate To test theory	*To describe & explain* *To explore & interpret* *To build theory*
Nature of the research process	Known variables Established guidelines Static design Context-free Detached view	*Unknown variables* *Flexible guidelines* *Emergent design* *Context-bound* *Personal view*
Method of data collection	Large representative sample Standardized instruments	*Small informative sample* *Observations & interviews*
Analysis-type	Deductive analysis	*Inductive analysis*
Method of communicating findings	Numbers Statistics, aggregated data Formal voice, scientific style	*Words* *Narratives, individual quotes* *Personal voice, literary style*

Source: Leedy and Ormrod (2001: 102)

This research study clearly sits in the *qualitative* (phenomenological) camp, although it should be noted that there is some overlap between the two processes in most research studies, including, to a lesser extent, this one. “Recognizing the distinction between qualitative and quantitative research doesn’t mean that you must identify your research activities with one to the exclusion of the other. A complete understanding of a topic often requires both techniques” (Babbie, 2005: 25).

By applying Collis and Hill’s (2003: 10-15) research-type descriptors, *this research study* may also be classified according to the following criteria:

- *qualitative* (involves examining and reflecting on perceptions in order to gain an understanding of social and human activities);
- *inductive* (a study where theory is developed from the observation of empirical reality);
- *applied* (research designed to apply its findings to solving a specific existing problem).

Further input gathered in designing the research study was taken from relevant *international business literature*. Tsui (2004: 508) observes that “for contexts without an extensive body of literature, and in emerging economies where businesses are new phenomena, there is a need to build new theories of management and organisations. *This means taking an inductive approach, hence qualitative methods, to construct development and theory building.* He goes further in calling for *focus on local practical relevance, along with existing literature or current knowledge* on the topic being analyzed. By relating to models, theories and constructs in existing literature, new findings can add to and even modify current knowledge about management and enrich understanding thereof in the global context (Tsui,2004: 503).
Birkinshaw and Hood, as well as Ferner et al (both cited in Moore,2005) comment that researchers in international business should be encouraged to experiment more in methodological terms and to be less cautious in terms of incorporating *qualitative methodologies and research perspectives* into their project design (Moore,2005: 720). Babbie and Mouton (2003: 262) recommend the use of *face-to-face interviews* as being effective when posing complicated or sensitive questions.

As early as the 1990s, Thompson and Strickland (1996: preface) commented that keeping readers well-supplied with a stream of timely, newly researched *cases* satisfies a legitimate market need; moreover, fast changing circumstances can prematurely render an otherwise good case obsolete. In their most recent update of their work, the message remains consistent: “The purpose of this 16th edition is to satisfy the market’s legitimate and understandable yearning for newly-researched cases involving high-interest companies and headline strategic issues. Both professors and students have

long preferred that assigned cases be as up-to-the-minute as possible" (Thompson, Strickland and Gamble,2008: preface).

Yin (2003: introduction) states the following in support of the use of case studies: "Case study research continues to be an essential form of social science inquiry. The method is appropriate when investigators either desire or are forced by circumstances to:

(a) define research topics broadly and not narrowly;

(b) cover contextual or complex multivariate conditions and not just isolated variables;

(c) rely on multiple and not singular sources of evidence."

This study has been designed to include the advice given by these writers, displaying the following characteristics:

- *an inductive research logic;*
- *a qualitative process;*
- *an emphasis on local practical relevance;*
- *the inclusion of a thorough review of existing literature on the subject;*
- *a small, informative sample of respondents for primary research;*
- *the use of face-to-face and telephonic interviews in order to collect primary data;*
- *observations by the researcher as supplementary source of primary data;*
- *the use of case studies to support the research findings.*

This design sits well with Mouton's (2008: 148) definition of the characteristics of *ethnographic research,* including:

- exploratory and descriptive research questions;
- conceptualisation in the form of guiding ideas or expectations;
- a judgement sampling method;
- data sourced through participant observation, semi-structured interviewing and documentary sources;
- strengths include high construct validity and in-depth insights;
- limitations are that it is difficult to generalise results, measurement is non-standardised and it is a time consuming process.

4.6.2. Research design elements

In order to achieve the design specifications set out above, it was decided to design the qualitative research study to contain both *primary* and *secondary research* sources of data. Whereas secondary

sources include data and information that have already been published, primary data are specifically collected for the research problem at hand (Brummer,2005: 342).

The specific research design elements included in this study are:

Primary research elements:

- *Face-to-face and telephonic interviews with senior executives of MNC affiliates* operating in the region in order to provide fresh insights and empirical proof of the reasons for entering SSA, operational difficulties encountered in the region and the existence of KSFs currently employed in order to overcome these challenges.
- A compilation of *case studies* of MNC affiliate successes achieved in the region which will illustrate how these KSFs are being implemented, as well as their impact on business results.
- *Observations by the author* based on his personal experience and interaction with peers during 15 years spent as the head of SABMiller plc's operations in SSA. These observations are centred on the KSFs employed by MNC affiliates in the region, but also include views about the state of the region's business environment.

Secondary research elements:

- An *analysis of existing literature on the business environment in SSA*. Although there's a paucity of formal publications on the subject, more recent interest in the region has resulted in a number of articles now being published on a regular basis in reputable publications.
- A *scan of current international business literature* in order to complement and validate the the primary research findings.

It is intended that the final list and description of the KSFs resulting from the research will be both well grounded in fact and practical to implement, in order to meet the previously stated demand for emerging market research that has 'local practical relevance' (Tsui,2004: 503).

Table 4.2 represents a tabular presentation of the contribution of each design element to the achievement of the final research results.

Table 4.2. The role of each design element in arriving at the research results:

DESIGN ELEMENT	SECTION	CONTRIBUTION TO RESEARCH RESULTS	RESULT
SSA literature analysis	4.7.2+4 4.9	Defining the SSA business environment Validation of KSFs	Chapter 3 Chapter 5
International literature scan	4.7.2+3 4.9	Defining the role of MNCs Validation of KSFs	Chapter 2 Chapter 5
Observations by the author	4.7.5+6	Defining the SSA business environment Formulation of KSFs for MNC affiliates	Chapter 3 Chapter 5
Interviews with MNC executives	4.7.5+7+8	Formulation of KSFs for MNC affiliates	Chapter5
MNC affiliate case studies	4.7.9	Illustration of the KSFs at work in SSA	Chapter 5

4.7. DATA COLLECTION METHODS

4.7.1. Introduction

The data collection step in the research process has been addressed under the following headings:

Secondary research: the literature review;

- *international business literature;*
- *SSA-specific business literature;*

Primary research: empirical fieldwork;

- *observations by the author;*
- *interviews with selected MNC executives;*
- *the research instrument;*
- *case studies.*

4.7.2. Secondary research: the literature review

The vast majority of secondary data may be collected by reviewing existing literature on the subject being researched. In fact, Mouton (2008: 86-87) places great store on the requirement for every research project to begin with a thorough review of existing literature in order for the researcher to learn from 'the most recent, credible and relevant scholarship' in the area being researched. He uses the term 'accumulated scholarship' to describe the literature review process which may include any or all of the following elements:

- definitions of the research topic,

- different theories, models and hypotheses in the field being researched;
- existing data and empirical findings produced by previous research;
- measurement instruments that have been developed to measure the extent or scope of the topic being researched.

A good review further saves time and avoids duplication and unnecessary repetition, while also providing clues and suggestions to the researcher about what avenues to follow.

This study is characterised by an adherence to Mouton's (2008: 86-87) advice in terms of the literary review. *A thorough review of current SSA and international business literature* formed the departure point on which the primary research study amongst MNC executives (section 4.7.7 below) was based. In addition the review of both international and SSA business literature will be used to validate the existence of the KSFs as found in the primary research study (section 4.9 below).

4.7.3. Review of international business literature

Chapter 2 was devoted to a discussion of the role and conduct of the MNC as source of FDI and manager in the developing world, including SSA. As may be seen from the bibliography, a wide range of international business literature was reviewed by the researcher who placed great store by *Hill's* '*International Business: competing in the global marketplace'*, as well as the recently updated work of *Daniels, Radebaugh and Sullivan, 'International Business, environments and operations'* for historic and theoretical perspectives.

Articles from updated issues of the '*Journal of International Business Studies'* were thoroughly reviewed in order to access the latest thinking as far as doing business in emerging markets is concerned.

4.7.4. Review of SSA business literature

The business environment in SSA has been discussed in chapter 3. It was compiled following a comprehensive review of the limited literature available on the subject. The shortage of useful information available on the business environment in the region comes as no surprise, given the lack of interest in the region shown by both the business and academic communities to date.

Hough and Neuland's '*Global business: environments and strategies'* provided an African context to the international business theory covered in section 4.7.3 above, while Luiz's *'Managing Business in Africa'* proved to be an excellent source of updated information on business conditions in the region, written by various authorities in their specific fields of business science. In addition, the authoritative '*The Economist* magazine', as well as the South African-based business publications, '*Financial Mail'* and '*Finweek',* were monitored in order to gain further current information on the subject matter.

4.7.5. Primary research: empirical fieldwork

The primary research component of the study resorts under the heading of "empirical field research," which is that part of the research process when the researcher leaves his study or the library and enters the field (Mouton,2008: 98-99). He includes the following among potential data sources:

- *observation*: participant observation in natural field settings;
- *self-reporting*: personal interviewing.

This study will collect primary data using both observation and self-reporting sources. Self-reporting will be used in the research amongst the selected sample of senior executives of MNCs as per section 4.7.7 below, whereas observation has been employed in section 4.7.6 hereunder.

4.7.6. Observations by the author

The author's experience and interactions with peers and colleagues during 15 years of doing business in Africa, has enabled him to not only contribute to the discussion on the prevailing business environment in SSA, but also to develop a list and description of KSFs that have been successfully applied in the region. This includes ways of exploring the potential that exists at the BOEP. These KSFs served as departure point for further research and validation of same.

4.7.7. Interviews with MNC executives

According to Babbie and Mouton (2003: 262 – 264), there are three ways of collecting data in surveys, namely through a questionnaire mailed to respondents, a personal face-to-face interview or an interview by telephone. De Necker and Manzini (as cited in Lotz, 2008) identify four data collection methods for use in qualititative research:

- structured interviews, where a prescribed set of questions developed by the interviewer are asked;
- unstructured interviews, where the interviewer asks non-leading questions in order to illicit the respondent's own description of the issues being researched;
- questionnaires, where written questions are developed by a diagnostic team in conjunction with management;
- survey-research methods, where data is collected by consultants and results fed back to management.

Mindful of the above, the researcher was further led by Miles and Huberman's (1994: 27) qualitative sampling technique known as *purposive* sampling, a sampling framework that allows the researcher to identify participants on the basis of their particular knowledge.

It was therefore decided to conduct *face-to-face and telephonic interviews* with the *18 experienced senior executives* (Managing Directors of affiliates or operating regions) of selected MNCs who have been chosen to participate in the study because of their knowledge of the subject manner and to whom the author could gain direct access (including spending a reasonable period of uninterrupted time on the interview.) The interviews were conducted in an *unstructured* (*open-ended) manner* in order to allow for the extraction of the greatest possible depth of knowledge and insight from these business leaders.

In order to allow respondents some time to formulate their responses, an open-ended questionnaire was e-mailed to them at the time of setting a date for the planned interview.

The *executives interviewed* were the following:

- *ATO AFFUL – MD Ogilvy Africa* (interviewed telephonically 18.12.08)
- *PHIL GUTSCHE – Chairman, Coca-Cola Sabco* (interviewed 15.12.08)
- *FANUS NOTHNAGEL – Coca-Cola Sabco CEO* (interviewed telephonically 28.11.08)
- *MURRAY LOGGIE – MD Coca-Cola Sabco Tanzania* (interviewed telephonically 16.12.08)
- *NATHAN KAMBULU – East & Central Africa President for The Coca-Cola Company* (interviewed 27.11.08)
- *JACKO MAREE, Chief Executive, Standard Bank Group Ltd* (interviewed telephonically 9.12.08)
- *CLIVE TASKER – Chief Executive, Standard Bank Africa* (interviewed telephonically 8.12.08)
- *KEITH RICHARDS – MD of Promasidor Nigeria* (interviewed 27.11.08)
- *JAN POTGIETER (MD) and RICHARD FULLER (Director – Africa) for Massdiscounters (Game Stores & Dion)* (interviewed together 27.11.08)
- *ROB NISBET – Financial Director of the MTN group* (interviewed 17.11.08)
- *CHRIS FREER – former MD of Castle Brewing Kenya and Guinness Cameroon.*(interviewed 16.11.08)
- *DANIE NIEMANDT – retired Operations Director of SABMiller East Africa* (interviewed 16.11.08)
- *ROGER SMITH - MD Cervejas de Mozambique* (Roger completed the questionnaire electronically, after an explanatory phone call)
- *MARK BOWMAN – SABMiller MD for Africa* (interviewed 27.11.08)
- *NICK BLASQUEZ – current MD of Diageo Africa* (interviewed telephonically 10.12.08)

- *DAVID HAMPSHIRE – retired Managing Director of Diageo's Africa Division* (interviewed 11.11.08)
- *WHITEY BASSON – CEO of Shoprite & JULIAN WENTZEL – Head of Research: Macquarie First South Securities* (Whitey Basson declined, but Julian Wentzel was interviewed 10.12.08)

Interviews were personally conducted by the researcher during which he probed for greater insights in order to answer the research questions as formulated under section 4.3 above. Full details of the information provided by each respondent may be found in appendix 3.

4.7.8. The unstructured primary research instrument: an open-ended questionnaire

Although the unstructured interview process has been chosen over a structured approach in order to extract in-depth insights from the senior executive respondents, a questionnaire had to be developed in order to lead the interview process towards delivering the required answers to the research questions.

Five basic themes were developed in order to guide each interview towards achieving results that both meet the research goals and allow for testing for the convergence of views amongst respondents:

- *Why early-mover MNCs have invested in SSA.*
- *The nature of the business environmental challenges faced by these MNC affiliates in SSA.*
- *The KSFs that these affiliates have developed in order to be successful in SSA.*
- *Specific measures taken by these affiliates to reach consumers at the BOEP.*
- *Practical examples of the impact of the KSFs at work in the workplace.*

The research instrument may be found in appendix 2 and also includes known examples in order to stimulate thought amongst respondents. By giving the respondents some time to gather their thoughts on the subject matter, it was also hoped to derive maximum benefit from the limited time available for the interview. Practical examples of the KSFs at work formed the basis for compiling case studies as contemplated in section 4.7.8 below.

The questionnaire was sent out to respondents in advance of the interviews together with a covering letter from the promoter, as per appendix 1.

Mouton (2008: 103) warns against the dangers of not pre-testing or piloting a questionnaire. Tull and Hawkins (1993: 360) add their voice to this assertion by stating that a pre-test is a critical activity that should be conducted prior to administering any but a very routine questionnaire, in order to determine the clarity of the questions, omissions and the like. However, because the researcher personally conducted the interviews amongst a limited number of respondents in this instance, it

was felt unnecessary to pre-test the questionnaire. The researcher was able to clarify any queries from respondents during the interview process.

Finally, a brief description of each respondent's biographical details, as well as that of the MNC and the affiliate that he represents, was completed at the time of each interview.

4.7.9. Case studies as primary research instrument

A further derivative of ethnographic research, Mouton (2008: 149-150) recommends the case study method for use in empirical studies that are qualitative in nature and aim to provide in-depth insights.

Case studies have been employed in this research study as an additional element of the research design due to the impact of *providing empirical proof through examples of applying theory in practise.* This is consistent with the popularity amongst researchers and students who use case studies on diverse topics, including business and organisational issues. It is also one of the most common methods of conducting research for use in public and business administration (Yin,2003: introduction). The rationale used for deciding on the case studies included in this study is classified by Yin (2003: 13) as an "Exemplary case design.....Use of this rationale means that all of the cases will reflect strong, positive examples of the phenomenon of interest." In this instance the 'phenomenon of interest' is to illustrate how MNC affiliates successfully apply KSFs in the region.

Four cases have been prepared, dealing with the following subject matter:

- *MTN's Nigerian entry*
- *The privatisation of Tanzania Breweries Ltd to SABMiller*
- *Kenya Breweries Ltd's introduction of Senator Keg*
- *The turn-around of Coca-Cola Sabco's Ethiopian bottler*

In all instances, the cases focus on the following aspects[7:]

- *reasons for the MNC entering the specific country;*
- *major difficulties encountered by the in-country affiliate;*
- *KSFs implemented by the affiliate;*
- *financial and other results achieved by the affiliate.*

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[7]The Senator Keg case is different, as it focuses very specifically on exploring a BOEP opportunity, as opposed to the more extensive nature of the other three cases.

These studies were completed during the interview process with the relevant MNC executives and supplementary information extracted from each MNC's website plus other relevant publications. Unfortunately, among all forms of social science research methods, case study research has received very little attention and guidance – there's no journal of case study research in existence or one that focuses exclusively on case study research methods (Yin,2003: introduction). The approach taken in writing up the cases in this study was therefore to follow examples supplied by Yin as well as those included in the works of Hill, Luiz, and Hough and Neuland.

The 4 case studies included as part of the research findings in chapter 5 are brief and to the point. The layout and structure followed in each case is best illustrated by way of an example as per table 4.3 below using MTN's entry into the Nigerian telecommunications sector:

Table 4.3. Case study example: MTN's entry into Nigeria

- Case study title: **Exceeding expectations: MTN in Nigeria.**
- **Nigeria today: Overview**
  - **Politics**
  - **Economics**
  - **Prospects**

  A discussion of the environmental factors affecting MTN's business in Nigeria
- **MTN group overview**

  An overview of the group's development, achievements and business philosophies
- **MTN in Nigeria: Overview**
  - **Financial performance**
  - **Other achievements**

  A discussion of the affiliate's development and performance to date
- **How it all began....**

  Reasons for MTN entering Nigeria
- **KSFs employed by MTN in order to explore the Nigerian opportunity**

  KSFs applied in order to overcome in-country challenges and exploit the market potential
- **Sources** used in order to compile the case study

4.8. DATA ANALYSIS

Data *analysis* involves 'breaking up' the data into manageable themes, patterns, trends and relationships. The aim of analysis is to understand the various elements that make up the data collected by inspecting the relationships between concepts, constructs or variables in order to see whether there are any trends or patterns that can be identified, or to establish themes in the data (Mouton,2008: 108).

Although closely related to analysis, Mouton (2008: 109) separately defines data *interpretation* as involving the synthesis of the data into larger coherent wholes. Interpretation means relating the research results to existing theoretical frameworks and showing whether these are supported or falsified by these results.

In analysing the data collected from the unstructured interviews with MNC executives, the researcher applied an *interpretive approach*, as recommended by Miles and Huberman (1994: 8) in order to gain 'a practical understanding of meanings and actions'.

The recordings of the interviews were analysed and transcribed into points made under the following headings:

- Reasons for early-mover MNCs investing in SSA.
- Business environmental challenges faced by these firms operating in the region.
- The KSFs that these firms have developed in order to be successful in SSA.
- Measures designed by these firms to access the consumers at the BOEP.
- A practical example of the impact of each KSF at work in the workplace.

The above results were then interpreted in order to ascertain the degree of convergence among the responses under each heading on the one hand, and to compare the findings to current theory as gleaned from the literature search, on the other.

Statistical analysis of the results from this research study is not practical because of the limited sample of respondents, coupled to the open-ended nature of the unstructured research instrument.

4.9. VALIDITY

Validity is essential to any measurement model. According to Tull and Hawkins (1993: 316), the validity of a measure is indicated by the extent to which it is free from systematic and random error. However, perfect reliability and validity are virtually impossible to achieve (Neuman,2003: 178).

Various authors, including Welman and Kruger, as well as McDaniel and Gates (as cited in Brummer,2005) refer to *reliability* as the extent to which the results from a research study may be generalised to different measuring occasions, forms and administrators. Put differently, reliability may be viewed as the extent to which the results in the survey could be duplicated in similar surveys.

Neuman (2003: 179-180) identifies three types of reliability:

- stability reliability, which refers to reliability over time;
- representative reliability, which is reliability across groups of people;
- equivalence reliability, when the items in a questionnaire measure the same construct.

In the primary research component of this study, the senior executives interviewed largely represent the views of their firms, so that their responses represent a reliable picture of the views and experience of the MNC affiliates included in the structured study. However, because the sample is limited, *it is not really possible to extrapolate the findings to all firms operating in SSA.*

On the other hand, Lincoln and Guba (as cited in Babbie and Mouton,2003) comment that judgement concerning the transferability of findings in qualitative research rests in the context of the reader. There's bound to be a sizeable body of businessmen operating in SSA, or contemplating entering the region, who would contemplate applying portions of the research findings (eg: the Key Success Factors) in their businesses.

Trustworthiness, defined as objectivity and validity in research through the neutrality of the researcher during the data gathering process, is specified by Guba and Lincoln (as cited in Babbie and Mouton, 2003) as a further requirement for the transferability of the research findings to other contexts and respondents.

In this instance, the researcher has formed his own personal views on the subject matter during his years of operating in the region. However, these have been tempered by the literature review process as well as interviews with senior executives of MNC affiliates. The contents of these interviews were carefully recorded in order to reflect total accuracy.

According to Miles and Huberman (1994: 278), *credibility* in qualitative research can also be defined in the context of internal validity, which, according to Denzin and Geertz (as cited in Miles and Huberman, 1994) is described as "how context rich and meaningful (thick) the descriptions are."

The researcher's experience of conducting business in the region, coupled to his established relationship with the respondents, has contributed to the establishment of his credibility in conducting this research project. This credibility is further enhanced by the extensive literature review which forms a vital part of this study.

In particular, the *final set of KSFs produced* as a result of the primary research has to enjoy proven support in order to have validity, else the results would remain purely anecdotal – interesting, but of no scientific value. This proof was delivered in the following ways:

- by testing for commonality of KSFs as employed across the sample of respondents;
- by compiling examples or case studies of the impact of these KSFs at work in SSA (as per section 4.7.9);
- by comparing the KSFs as defined to existing business literature on the subject (as per sections 4.7.3 and 4.7.4).

4.10. SUMMARY

This chapter set out to deliver the requirements for a well-designed and unbiased research project that provides reliable answers to the research questions as formulated. In addition, it attempts to meet the demand to provide the necessary detail in order to prove evidence of the researcher's knowledge of the methodology, procedures, assumptions and reasons for choices made.

The chapter highlighted the *qualitative* nature of this study which relies on both *primary* and *secondary* sources of information. It includes an empirical research element conducted via unstructured interviews of a selected convenience sample of senior executives in order to verify the following:

- *reasons for their firms entering the region;*
- *major obstacles faced by these firms in SSA;*
- *a set of practical KSFs currently in use by MNCs operating in SSA.*

These findings will be discussed in chapter 5.

CHAPTER 5: FINDINGS AND DISCUSSIONS

5.1. INTRODUCTION

The research questions formulated in chapter 4 read as follows:

- What are the real impediments experienced in doing business in SSA, and why have those MNC affiliates present in the region decided to do business there, despite these difficulties?
- What are the Key Success Factors (KSFs) that have allowed early-mover MNC affiliates to achieve success in SSA?
- Is it possible for MNCs to commercially explore the considerable potential that exists at the base of the economic pyramid (BOEP) in SSA?

The contribution of the empirical research study towards answering these research questions is four-fold:

- *Confirmation of reasons for MNCs investing in SSA*
- *Confirmation of impediments to doing business in SSA*
- *The identification of Key Success Factors (KSFs) employed by MNC affiliates in SSA (including ways of exploring the BOEP potential)*
- *Case studies of MNC affiliate successes achieved in SSA.*

What follows is a detailed discussion of the empirical research findings under these headings. The names of the respondents to whom comments are attributed and the MNCs and/or their affiliates that they represent are:

- *ATO AFFUL - Ogilvy Africa*
- *PHIL GUTSCHE - Coca-Cola Sabco*
- *FANUS NOTHNAGEL- Coca-Cola Sabco*; previously *Game Stores, SC Johnson*
- *MURRAY LOGGIE - Coca-Cola Sabco Tanzania;* previously *Coca-Cola Sabco Ethiopia*
- *NATHAN KAMBULU - The Coca-Cola Company*
- *JACKO MAREE - Standard Bank Group*
- *CLIVE TASKER - Standard Bank Africa*
- *KEITH RICHARDS - Promasidor Nigeria;* previously Guinness Nigeria
- *JAN POTGIETER and RICHARD FULLER - Game Stores (Group and Africa respectively)*
- *ROB NISBET - MTN Group*
- *CHRIS FREER* - retired: *Castle Brewing Kenya and Guinness Cameroon*
- *DANIE NIEMANDT* - retired: *SABMiller East Africa and Tanzania Breweries Ltd*

- *ROGER SMITH - Cervejas de Mozambique;* previously *Maluti Mountain Breweries, Zambian Breweries and Castle Brewing Kenya*
- *MARK BOWMAN - SABMiller Africa*
- *NICK BLASQUEZ - Diageo Africa*
- *DAVID HAMPSHIRE* - retired*: Diageo Africa and Guinness Cameroon*
- *WHITEY BASSON*[8] *- Shoprite* and *JULIAN WENTZEL – Macquarie First South Securities*

5.2. CONFIRMATION OF REASONS FOR MNCs INVESTING IN SSA

The findings from the literature review are recorded in sections 3.3, 3.4 and 3.5 above and may be summarised under three broad headings:

- The desire by MNCs to *find new profit growth opportunities* as the rest of their global markets begin to mature.
- The *advantages that accrue to early entrant firms*, including low levels of competition.
- A perceived *reduction in country risk as business conditions in SSA begin to improve*

These findings have been fully supported by the empirical research results as may be gleaned from the following extracts:

5.2.1. The MNC desire for new sources of profitable growth

HAMPSHIRE: Being able to see the potential of Africa becoming a key contributor to Guinness's world-wide earnings, despite an environment that was often hostile, was critical. David's experience is that this insight was generated from within their African business, that is, by their own expatriates seconded to Africa. He had to work at conveying this message to his board of directors (also by personally taking individual board members to the African operations) who, in turn, backed him and his men all the way in making the dream come true.

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[8]In order to easily differentiate feedback received from the empirical research study versus the results from the literary review and observations by the author, respondent names will always appear in *CAPITAL LETTERS* in this chapter.

While Whitey Basson declined to be interviewed, his reasons for doing so were significant and have therefore been reproduced in the dissertation. Julian Wentzel, an analyst who follows Shoprite, was able to provide information regarding the group's expansion into Africa.

Tony Greener, who was the Chairman, and Brendan O'Neil, who was Managing Director for the group, came to believe that Africa was a good place to invest money and also that David and his team were capable of delivery. "The board has got to believe in the opportunity and has got to believe in the division's leadership".

BLASQUEZ: "*GDP growth rates in Africa* have been outperforming that of the global average in recent times, helping our African business to double its revenues over the last four years". Nick expects this superior growth to continue in the years ahead.

NIEMANDT: "SAB's core South African market was mature and the group needed to find *new sources of growth".* The due diligence process of Tanzania Breweries by SAB's team clearly showed the existence of substantial *pent-up demand* that TBL was unable to satisfy. In fact, more beer was imported into Tanzania than what TBL was able to produce. This was the result of a combination of historic under-investment in assets and people, as well as poor management processes – all problems that were relatively easy for SAB to correct as it played to their core skills.

FREER:" Both MNC parents looked to new markets in SSA to *boost flagging growth prospects* in their home markets of South Africa and the UK respectively. So when the affiliates in question did not deliver on this promise", as was the case with the firms that Chris was asked to manage, the parent companies acted decisively in order to return their sick patients to health or else stop the bleeding.

NISBET: Rob recounts how *a strategic miscalculation* gave MTN a head-start into Africa against their competitors. In 1995 MTN thought that their South African market would top out at around 400,000 to 450,000 subscribers. Pre-paid call cards didn't exist, so they were looking only at customers who were credit-worthy. In those days, DSTV only had around 800,000 subscribers, so that was the total market size they were looking at. MTN thought that growth was going to disappear within 3 years, so decided to expand into Africa and did so from 1996 onwards, "not because we recognised it as an unbelievable opportunity because of the almost complete lack of fixed line communications, but because *we looked at South African growth petering out* and thought, where to next? We decided to go to Africa".

POTGIETER & FULLER: Game was concerned that their *SA home market was maturing* with limited opportunities for new store placements. They had to find new sources of growth.

GUTSCHE: Phil had a *strategic imperative to grow the business* so that it became too large to be swallowed-up by large Coca-Cola bottlers such as ABI (owned at that stage by South African Breweries.) He wanted his family business to be a player in the long term development of the Coca-Cola franchise across the world, as opposed to selling out and having to re-invest elsewhere. "If we remained as we were in SA, we would get swallowed up by SAB."

SMITH:"The opportunity to grow SAB's business must have been one of the main drivers. The growth potential in much of SSA for the beer business is fairly obvious. Simple arithmetic of the PCE of many of the countries was a clear indication of the potential that existed. In many of the countries there was a beer business in the past and if the industry could be revived the opportunity was huge."

*KAMBULU: "*50% of the population in Africa is below twenty years of age, with population growth exceeding 3% per annum. *The population is young and the growth rate fantastic!"*

LOGGIE: Apart from their obligation to The Coca-Cola Company (TCCC), CCSabco was attracted to the fantastic *growth potential* offered up by the Ethiopian franchise, which in 1998 accounted for annual volumes of a mere 4 million unit cases or roughly one Coke unit consumed per capita per annum.

5.2.2. The advantages accruing to early mover MNCs[9]

BASSON: In turning down the invitation to participate in the research study, Whitey writes: "Unfortunately you must accept that Shoprite jealously guards its business expansion experience on the African continent. You, no doubt, appreciate the difficulties which have to be dealt with in this scenario from the time you spent with SABMiller. Having pioneered this road, we place great value on Shoprite's '*first mover advantage.*' We believe that to now record our strategies in some formal record for others to use as a 'slipstream' would do a disservice to our stakeholders who had faith in our judgement and who supported our initiatives."

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[9]It should be pointed out that consideration was given to including 'early entry' or 'first mover advantage' as one of the strategic KSFs in section 5.3. However, it was felt, on balance, that it belongs here as one of the fundamental reasons for making the decision to invest in SSA.

In comparing it to a juggler, Fanus sees the parent company's role as one of having lots of balls in the air and trying to keep none, or as few as possible, of dropping to the ground.

NOTHNAGEL: "*First or early mover advantage* is critical". Interestingly, Fanus believes that the window of opportunity open for early movers in Africa will remain open for an extended year or two as result of the current global financial crisis which is forcing MNCs to focus inwards at restructuring their business models, rather than investing in new markets that may be perceived as high risk.
He further believes that in order to achieve early mover advantage, the MNC parent company must be *ready to take some risk*, understanding that all of their SSA ventures may not be successful.

POTGIETER & FULLER: An analysis of the African opportunity by Game revealed both *low levels of competition* and the existence of *high retail margins.* "*Getting in first or near the beginning is important.* If you're in early on, you can bring the price down and still make margins that are better than in South Africa."

NIEMANDT: There was a further *strategic imperative* as SAB was keen to obtain a foothold in East Africa where the British brewer, Guinness, had already established interests in neighbouring Kenya and Uganda – if it were to acquire TBL as well, Guinness would have dominated the region.

GUTSCHE: In the early 1990's, before the fall of apartheid, TCCC approached CCSabco to take-over the Suncrush-owned Coca-Cola bottler in Mozambique, which had all but collapsed. Phil and his men achieved a quick turn-around of the business which gave them the *confidence* to accept the appointment as East African anchor-bottler by TCCC (who obviously were also impressed by the Mozambican performance.)
As more opportunities came up in East Africa, including unchartered territories such as Ethiopia, Phil and his men were emboldened to take on these challenges, because:

- *SSA* was opening up and *becoming a more stable place* in which to operate;
- CCSabco's early success in Mozambique was a confidence-booster;
- So too, was the success being achieved by SABMiller in the region.

SMITH: High margins and profits were not the main drivers in the beginning. *SAB wanted to be early movers, first in and lead the way*. SAB entered as sole suppliers in most countries and were welcomed.

BLASQUEZ: "Diageo has a long and successful history in Africa, beginning with the first shipment of Guinness FES to Sierra Leone in 1826, while our first brewery on the continent was built near Lagos

in 1963. This *long and profitable history* has contained its fair share of ups and downs which has taught us the value of being *patient* during the bad times."

NISBET: **"***First mover advantage is critical for MTN*. To gain market share from an established player in a market is difficult and extremely costly, as borne out by our experience in South Africa". Rob views MTN's key competitive advantage as a philosophy that differs from that of their competitors in that they took the view that if the demand was there, they would not starve an affiliate of its cash requirements. MTN would willingly supply more cash from South Africa in order to develop the business infrastructure as quickly as possible in order to take up any slack before their competitors do so.

BOWMAN:"Early mover advantage and building up a portfolio of investments are important – to see an advantage where others didn't, such as moving into Angola when Heineken exited the country, going into Southern Sudan right now. There is risk, but the portfolio effect should take care of the impact on overall results". Mark sums up the strategy as follows: "*You go in early, grab as much land as you can and then you seal the borders."*

5.2. 3. The reducing country risk profile of SSA

KAMBULU: Nathan mentions that SSA's *economic indicators* have turned. Since about the beginning of the new millennium, the African countries in which his division of TCCC does business have improved considerably:

- GDP growth averages 6-7% per annum;
- exports have increased from 8 to 14% per annum;
- investment as a % of GDP has grown from 17% to 20%;
- the formation of trading blocs is great for our business – in East Africa TCCC now supplies the entire region with juice at affordable prices out of our state-of-the-art factory in Nairobi;
- mineral riches are beginning to be explored and new reserves discovered.

He further comments that *infrastructural improvements* have been noticeable:

- access to water and sanitation has increased by 18%;
- access to the electricity grid has increased by 44%;
- telephone access is up by 328% (as a result of mobile phones);
- "Thank God Blackberries are now working, even in countries like Malawi";
- the increase in the number of apartment blocks in cities attests to the growing middle class;
- progress in road networks in countries such as Angola and the DRC.

Although *good governance* may still have some way to go (as proven by the status quo in Zimbabwe, Sudan, Somalia and the DRC), Nathan believes that it is improving all the time and that the region is more stable now than 10 years ago.
In Nathan's view *African country risk is over-played* and cannot justify the cost-of-capital premiums ascribed to investments made in the region. He does acknowledge that doing business in Africa is difficult because of environmental factors, but *does not believe it is more risky than doing business in a competitive developed market.* TCCC is *optimistic* about the future for Africa and willing to invest in the capacity of its business on the continent. Africa is really making progress in Nathan's eyes.

BOWMAN: **"**There's a new pragmatism being displayed by African governments who, instead of trying to industrialise their countries with grand, impractical projects such as motor car manufacture, as in the past, are now playing to their mining and agricultural potential strengths. Angola is a case in point. Although we may have been somewhat conservative in the past, our view at SABMiller now is that Africa may very well succeed, so *we're willing to invest more aggressively in capacity than we did before*."

NIEMANDT: He claims that prospects for recovery by the Tanzanian economy improved due to *government ditching Nyerere's disastrous African socialist experiment in favour of a free market economy* (under pressure from the World Bank and the International Finance Committee).

5.2.4. Additional reasons as articulated by respondents

Because of the open-ended nature of the research instrument, the reasons advanced hereunder may not be accurately grouped under one of the three headings above. In fact, some of these could also be listed under the Key Success Factors (KSFs) in section 5.3 below. Either way, the following reasons remain equally *relevant* to those mentioned above and include the following themes:

- the ability of the *parent company to support* the expansion into SSA
- service companies (banks and advertising agencies) *following their clients* into SSA
- the relative *ease for South African firms* going north
- SSA expansion as *sub-set of a MNC's strategy to internationalize*
- the relative *low cost of entering* a SSA market.

*POTGIETER & FULLER:"*Game's *Durban-based hub was well-positioned* to support expansion into Africa, especially in terms of the critical logistics function as most stock-keeping units have to be imported".

AFFUL: In essence, Ogilvy *followed the FMCG MNCs* who they were serving in other markets, including in South Africa, when these firms expanded into Africa. Ogilvy's current customer base across the continent includes 15 MNCs, featuring the likes of SABMiller, M-Net Supersport and Unilever.

The fact that Ogilvy moved into the continent at a faster rate than their competitors did, may be attributed to the previous Chairman of Ogilvy South Africa, Robin Putter, who had stated way back in the nineties that "we have an *emotional involvement with the continent* and therefore need to serve her consumers even if it does not make commercial sense up front."

*SMITH: "*SAB had the funds, not unlimited but enough. It was going through a phase of upgrading and renewing production facilities in South Africa and had surplus 'fit for purpose equipment'. SAB was also getting to the stage where it had surplus skilled managers during the initial phases of its equity (affirmative-action) program. South Africa and its people were benefiting from the Mandela rainbow-nation status and were welcomed back into SSA as visitors and business people".

SSA fitted well with the internationalisation strategy of the company to have a portfolio of businesses exposed to both emerging and developed markets. SAB's roots in Africa made SSA the most obvious starting point. SAB's core strength lay in getting things done: production, distribution and financial controls.

According to Roger *the ability to support affiliates* was a major consideration as not only did SAB have a surplus of well trained managers and technical staff in South Africa, it also had an underutilised training facility in Johannesburg that was able to provide the necessary skills training for running a Brewery. Technical, Sales, Distribution and Financial manuals were readily available in order to ensure a basic level of standardisation across the business units. Fortunately, English was widely spoken and understood in SSA, with the exception of Mozambique and Angola.

TASKER: Unlike many other sectors, SSA was relatively well served by two British banking groups, Barclays and Standard Chartered Bank (erstwhile owner of Standard Bank SA), at the time that the group decided to enter the region via the Grindlay's acquisition. Despite the competitive threat posed by these well established banks in the region, Standard Bank believed that their *South African experience* would stand them in good stead when it came to managing banks effectively in the rest of the continent.

Expanding into SSA was also part of Standard Bank's *globalization strategy* which saw them build a substantial presence around the world, including London and Hong Kong. A strong presence in Africa

allowed them to better serve their South African and British customers who were beginning to invest in the region.

*NIEMANDT:"*The relatively *low cost of entry* meant that the downside potential was limited, even though this was one of SAB's first forays onto the global stage". The extremely hostile Tanzanian business environment prevalent at that stage was partially mitigated by the fact that SAB's entry was in the form of a joint venture with the Tanzanian government which meant that they became an ally rather than a potential obstacle in SAB's way towards transforming the business.

HAMPSHIRE: **"***Relatively small amounts of money spent* behind the introduction of the Guinness brand allowed for the opening up of new markets such as Burkina Faso, which grew into a profitable business and Madagascar which failed, but at minimal cost".

5.3. CONFIRMATION OF IMPEDIMENTS TO DOING BUSINESS IN SSA

Findings of the literature review of this topic have been recorded earlier under sections 3.2 and 3.7. As tends to be the case in many unattractive destinations, the ills of the region have been well documented, some may say overplayed.

Country risk-related issues have *not featured prominently in the feedback received* from respondents, most probably because their presence in the region signifies their willingness to accept the region's inherent risk factors as being easily outweighed by its rewards. They have, however, confirmed most of the operating impediments listed in literature. Their responses have been captured under the following headings:

- *infrastructural shortcomings*
- *skills shortages*
- *government interference*
- *the scourge of corruption*
- *other*

5.3.1. Infrastructural shortcomings

AFFUL: The limitation of the c*ommunication infrastructure* represents the second most important impediment to Ogilvy's business in Africa.

LOGGIE: Really poor infrastructure (*roads, power, water*) is a hallmark of Ethiopia, a vast country of mainly rural people (out of a population of 80million, Addis Ababa with 5 million is the only city of substance.) Chinese state-owned investors are beginning to make an impact as they construct roads and build dams (essential in order to supply hydro-electric power), but on the other hand, the country's 7-10% annual growth in economic activity continues to outstrip these improvements. The cost of delivering soft drinks to generally poor rural consumers is prohibitive and posed a major challenge for the affiliate to overcome in its quest for market growth.

A lack of local supply of raw materials meant that the affiliate had to import materials at considerable cost and/or invest in local facilities. The affiliate refines locally produced sugar itself in order to meet quality specifications as set by TCCC. It also generates its own CO^2. The affiliate continues to experience supply problems with the supply of locally manufactured glass bottles, although the position has improved over the years (the glass manufacturer is government owned and used to supply as little as 30% of the company's needs), while the privately-owned manufacturer of crowns has still not come up to scratch.

Communication channels are also poor, a situation exacerbated by the Ethiopian government's strict control over this strategic resource. CCSabco was unable to get permission from the authorities to use its own satellite in order to submit real-time information to headquarters, and therefore could not roll out SAP to Ethiopia, unlike all other countries in which they operate.

RICHARDS: "*Lack of power* is a huge issue in Nigeria, with 40% supply the norm, adding substantial *cost and complexity* to production processes".

KAMBULU: The *poor road and rail networks* in countries such as Kenya, the DRC and Malawi have a devastating impact on doing business – sales are lost due to towns being cut-off in the rainy season and the cost of maintaining a distribution fleet is sky high. "This is a real big negative for our business." Even flight connections are problematic.

The *poor fixed line network* remains an issue due to the inability to video-conference effectively, as well as the high cost of the mobile phone alternative.

SMITH: "Poor physical infrastructure has been a limiting factor in most countries. *Stock availability and selling price in rural areas* (where consumers are poorest) has always been a challenge".

POTGIETER & FULLER: A lack of suitable premises (the right location being of critical importance in the retail sector) has resulted in long lead times for Game when planning new stores in SSA. It has

also forced Game to overpay for certain rentals and even invest in their own buildings, which places a strain on their cash resources and margins. This does not suit their strategy as a low-priced discounter of brown and white goods. In fact, Game has been searching, without success, for suitable premises in Luanda for the past five years, which has resulted in them being unable to participate in the tremendous growth experienced in the Angolan market.
Due to Game's reliance on imported goods, coupled to poor infrastructure (including congested ports and corrupt officials), Game experiences *erratic and lengthy order lead times* (as much as 100 days) when re-stocking their SSA stores. This places further strain on their cash resources as well as their ability to maintain in-store stock availability.

BLASQUEZ: "Poor infrastructure (power, roads, ports, water) *adds enormous cost* to doing business in Africa. These costs come in the form of having to *provide stand-by generators, failure to fully supply demand*, as well as *increased working capital, maintenance and running costs".*

WENTZEL: Julian referred to the findings of research conducted amongst South Africa's top five retailers operating in African countries, highlighting the following factors as considerable *obstacles* to their operations:

- Poor transport infrastructure outside major urban areas
- Volatile local currencies
- Withholding taxes payable
- Problems in obtaining land titles and the acquisition of land
- Congestion at ports and bureaucratic delays
- Local government regulations, including ad-hoc taxes
- Lack of in-country retailing skills
- Language barriers.

(Macquarie First South Securities Africa brief #6: retail in Africa,2008: 13)

5.3.2. Skills shortages

AFFUL: People recruitment and development is the *number one impediment* in Ato's book.

GUTSCHE: Phil also mentions the shortage of local skills as the *number one impediment* to doing business in the region.

LOGGIE: Most of Ethiopia's industries remain state-owned, in particular *support industries* such as mechanical and electrical engineering workshops which are extremely poorly equipped in terms of skills and machinery. In addition, as CCSabco embarked on an ambitious refurbishment and expansion campaign, it soon found that most suppliers of new bottling equipment and the like did not have permanent local resources capable of delivering the requisite after-sales service levels. Although local Ethiopian talent has proven to be extremely trainable and enthusiastic, CCSabco were confronted with an extreme *lack of critical technical skills* as a result of state-ownership of most industries. Technicians at relatively well-run Ethiopian Airlines offered some respite to the dearth of talent.

KAMBULU: "Developing and holding onto local talent is a major issue, especially as most African students that study overseas decide *not to return to their home countries* due to improved prospects in the USA or Europe. In addition, the quality of *education is going down* in many African countries such as Zimbabwe and Nigeria, while on the other hand, the growth and profitability of mobile phone operators in Africa have further reduced the pool of high-flier talent available to the Coca-Cola system on the continent".

SMITH: "Lack of local skills is particularly evident in Mozambique and Angola in the *technical and marketing fields* where historically there was either no need, or obsolete equipment and training programs. It is particularly difficult to train older staff or lower ranks in the organisation, many of whom cannot read or write".

BLASQUEZ: The ability to attract and retain sufficient local talent out of a limited pool is at the top of Nick's list of difficulties. "There's a real *war for talent* out there as new investors start to enter the region."

5.3.3. Government inadequacies

LOGGIE: Ethiopia's high levels of economic growth, coupled to limited exports, has resulted in a *critical shortage of foreign exchange*, resulting in delays of around three months being experienced before the company is able to remit payment to off-shore suppliers. CCSabco has taken a long-term view of its investment in Ethiopia, re-investing all profits earned to date and thereby not requiring foreign exchange to remit as dividends to their off-shore owners (which would typically be harder to come by than in the case of paying for imported goods).

MAREE: Jacko points out the fact that private banking is more difficult in SSA because of *deficiencies in the legal system, coupled to the lack of property ownership* which makes the lending of money to individuals extremely risky.

TASKER: As banking is a regulated industry, Standard Bank has to deal with even more *red tape* than the heavy dose that foreign investors have come to expect in the region. As example, even non-executive board appointments are subject to approval from the country's banking regulators. In order to recover bad debts, banks require a sophisticated and effective *legal system which, unfortunately, is lacking* in the vast majority of countries in the region.

KAMBULU: The problem of *high excise taxes* is severe in Africa and self-defeating. "These excise tax regimes are way out of control." Examples such as South Africa and Egypt have shown that by eliminating these taxes on the sale of soft drinks, governments actually increase tax revenues from this source. Tax law is often *applied inconsistently* – international companies have to pay, while a blind eye is turned on local companies.

Excessive red tape remains problematic. "It took over a year for TCCC to register a company and bank account in Angola. In Kenya, a TCCC program to set up over a thousand kiosks has run into headwinds from local councils who have delayed the process for no good reason".

Poor and selective control of imports by the authorities has also caused TCCC much harm in that Illegal importers are able to land competitive energy drinks at a much lower price than those imported legitimately by TCCC. The products of many American firms are also the target of *counterfeit* goods, many of which originate in the East.

The effects of *political instability* are limited at present, but do affect TCCC's business in Somalia and the DRC.

SMITH: "*Excessive taxation* in our business starts with consumption taxes which, if set at too high a level, will stimulate smuggling and limit your growth through price and affordability of the consumer. In addition to the above, *unfair competition* can be facilitated by tax determination as was evidenced in Kenya where penalty taxes were imposed on raw malt imports, under the pretence of protecting the local industry, which undermined our pricing strategy and profitability".

Further unfair competition took place in Kenya with a court interdict accusing SAB of stealing the recipe to produce an un-malted barley beer ending in stock being impounded and a three month court battle which effectively derailed the brand launch and questioned the credibility of the company.

"The relationship with government far outweighs any other business consideration. Government gives you your licence to trade and in many instances will determine your survival or level of profitability through taxation levels and other forms of protection or interference. A hostile government is by far the most difficult to overcome. Botswana is the latest victim of irrational and hostile government with the implementation of the 30% alcohol levy. Generally most obstacles can be overcome if you apply your mind to it - government relations being the most problematic".

POTGIETER & FULLER: Game overpaid duties in Nigeria years ago and has still not got its money back. It still battles to *repatriate funds* out of Nigeria and Mozambique.

NISBET: Because telecommunications are *regulated by governments* in all countries in which MTN operates, they are often *conflicted* because they also own the fixed line business. "The playing fields, especially in the early years, weren't always level."

NIEMANDT: Although they were joint venture partners with SAB, *government was initially extremely suspicious* and defensive when it came to supporting SAB management's turn-around plans. However, once results became evident, they became most supportive.

5.3.4. The scourge of corruption

This is one area where the *practitioners are more sanguine* about the problem than many commentators are, although Nigeria, in particular, seems to have ongoing challenges in this regard. Certainly all respondents interviewed had no problem in rebuffing corrupt practices without suffering negative business consequences as a result.

MAREE: Jacko believes that dealing with corruption is *not such a big issue* when operating in SSA and points out that other banks such as Citibank and Barclays have been operating in the region for many years, without having to employ corrupt practices. "Corruption exists in most countries, including South Africa, but you simply have to turn down opportunities that involve this type of unacceptable behaviour."

LOGGIE: On a positive note, Murray experienced generally *good levels of governance* as practised by the Ethiopian authorities. Corruption and crime weren't issues at all. He puts it down to the intolerance of dishonest practises displayed by most Ethiopians.

TASKER: Attempts at corruption have been encountered, especially in the *port of Lagos* where containers have been delayed for up to five months.

NOTHNAGEL: Fanus singles out country risk and corruption as the two *at the top of his list* of impediments. He's absolutely adamant that one *cannot bribe or corrupt*, even if the 'experts' tell you that there's no other way of doing business in a country such as Nigeria. "Resist the temptation early on, even if it comes with some pain, and the affiliate should be fine from thereon onwards".

RICHARDS: FMCG firms are less exposed to large-scale corruption than the *oil and gas firms in Nigeria*, for instance. However, petty corruption occurs continuously at lower levels of the organisation and is energy sapping for management dealing with the issue, apart from the fact that it adds up to a sizable amount at the end, losses that at best, range 'only' between 5 and 10% of sales. Most Nigerian companies lose around 20% of their marketing budgets through fraud. Local purchases probably include an 8 to 12% premium as a result of fraudulent practices. *"Petty corruption is a way of life in Nigeria* – it wears management down".

KAMBULU: Part of the *problem of corruption* is caused by MNCs themselves, in that they don't issue clear and unambiguous statements against this practise. "TCCC has been very robust on this matter in that we tell everyone that we don't pay bribes. If more companies will resist paying bribes, Africa will be a better place."

POTGIETER & FULLER: In dealing with corruption, Jan recalls how he once had to tell a Lagos port official, "You know what, if you want the goods in our containers, you can have it, but we're not going to pay you to release the containers." Needless to say, the containers were soon released.

NIEMANDT: In the early days, some corrupt practices were encountered, especially when it came to clearing goods out of the Dar Es Salaam port. These were *rebuffed* and government informed accordingly, where necessary.

BLASQUEZ: Corruption is not an issue for Diageo per se, as the company not only adheres to its internal strict code of conduct, but also complies with the Sarbanes-Oxley code and the Foreign Corrupt Practices Act. Nick does, however, acknowledge that: "corruption is an unfortunate reality in Africa that stunts growth." With regard to Nigeria's oil revenues he rightly asks: "where has all the money gone?"

HAMPSHIRE: David found that corruption was *not that widespread* and normally encountered at the lower levels of officialdom. The best response, beyond refusing to pay bribes, was to *employ legitimate 3rd parties,* such as forwarding and clearing agents, to act on their behalf.

BOWMAN: "*We don't do graft, so as a result we're trusted*. In Angola, government has allowed us to open our own in-bond warehouse with minimal control from their side, in the belief that we don't take chances". This represents quite an achievement!

5.3.5. Other

This list includes the common themes of *language and cultural differences,* as well as *constrained markets*.

AFFUL: "There are numerous cultural and language differences which have to be acknowledged when communicating with the continent's consumers. *Africa is not a homogenous market*!"

LOGGIE: Language also proved to be an issue with the workforce, especially amongst older employees who were only able to converse Amharic, whereas younger qualified Ethiopians are fine when it comes to the use of English.

KAMBULU: "*Language* is a problem in Angola, where very little English is spoken".

SMITH: "A great variety of goods and services are now competing for the *very little disposable income* available. Soft drinks, tobacco, mobile phones, etc all compete, without mentioning competition in one's own industry. Providing good quality at affordable prices will always be a challenge".

MAREE: Jacko lifts out the challenge of having to operate in markets possessing *small profit pools*. "Building a really big business consisting of lots of little units is hard work".

NISBET: "Estimating market potential before entering an African market proved to be no easy task, especially because official GDP information excludes the considerable impact of the informal sector". For MTN this fact resulted in them typically *under-reading the potential market size.*

FREER: Chris singles out the challenge of dealing with the *'soft issues'* (people management, cultural differences, liaison with government officials, and the like) as being both the most critical and difficult prerequisite for achieving business success in Africa.

5.4. THE IDENTIFICATION OF KEY SUCCESS FACTORS (KSFs) EMPLOYED BY MNC AFFILIATES IN SSA

"Doing business in Africa is not business as usual. The principles of good management may be universal, but the context and the people differ profoundly in Africa" (Luiz,2006: 391). Assuming, therefore, that the foundation of good management practice is in place, the research study was aimed at uncovering those Africa-centric Key Success Factors (KSFs) that make a real difference to firms operating in the region.
The description of each KSF contains the research results from both primary and secondary sources (literary review and empirical research).

The KSFs identified have been grouped under strategic and operational headings:

Strategic KSFs[10]

- *Choosing the right strategy and organizational architecture*
- *Making trade-offs in order to share the benefits (and burdens)*
- *Partnering with Government*
- *Bulking up for critical mass*
- *Capturing the opportunity at the base of the economic pyramid*

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[10]Consideration was given to including '*management of the foreign exchange risk'* as separate KSF, especially due to the generally 'soft' nature of SSA currencies. It was eventually decided not to do so as this risk is addressed through excellent treasury management, an essential component of good management practice applied by MNCs the world-over. In addition, MNCs operating in SSA have found that having a portfolio of investments spread across a broad range of countries further mitigates this risk. This aspect is addressed in section 5.4.1.3.

Operational KSFs

- *Using expatriates effectively*
- *Flawless execution*
- *Investing ahead of demand* [11]

5.4.1. Choosing the right strategy and organizational architecture

The challenge for MNCs is to *blend their global recipe for success with local flavour* in order that the operating unit may capture the best of both worlds when meeting the challenges of any particular country.

5.4.1.1 Centralization versus decentralization

The discussion of various strategic options available to MNCs in section 2.5 concluded with the observation that the art in choosing the strategy and resultant business model that will best suit a particular MNC lies in its ability to find a balance between the *need to lower the cost of value creation* on the one hand and being able to differentiate its product and service offerings to best *meet consumer needs within a local context* on the other. The former requirement is best served by standardisation of processes and products, the establishment of best practice communities within the organisation and greater *central control*, while the latter is best met through a *decentralised* business model that values having capable and autonomous in-country executives and lets them 'get on with it'.

"It is therefore important to note that industry characteristics, the *type of product and related consumer needs* will largely determine the type of pressure that a firm will have to contend with and hence the appropriate strategy to be adopted in a specific instance" (Neuland and Hough,2007: 215).

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[11]Investing ahead of demand may also be classified as a strategic KSF in the sense that MNCs may called upon to take a bold approach in providing sufficient capacity to meet unproven estimates of business growth in the high risk markets of SSA. On balance, however, because the provision of capacity for future growth is such a basic business function, it was decided to group it together with the other operational KSFs.

Further relevant insights are provided by Peters and Porter, highlighting the counter-veiling nature of the centralisation/decentralisation debate:
“There’s a *paradox* at play here: on the one hand we are all participants in a global market, whereas the explosion of products and the technology revolution are *making all international markets more local, catering to local tastes”* (Peters,1987: 152). In fact, the populist Mr Peters further holds the view that the organisation should decentralize information, authority and strategic planning (Peters, 1987: 609).
But handle with care, there’s a subtle balance to be had. It is generally accepted that deviations from the global recipe should be limited to the bare necessities, as much of the value of a MNC parent (as opposed to a number of stand-alone independent businesses) lies in the power of its common brands, processes and systems, including the ability to share standardised information and move its people in between jobs and places. In fact, Porter (1998: 332) argues that MNCs should *penetrate international markets with a consistent positioning*. ”Efforts to internationalise based on opportunistic modifications of a company’s competitive positioning from country to country rarely succeed.....Without a consistent position, the company lacks a real competitive advantage, and its reputation does not cumulate.”

The MNCs represented in the empirical research study generally follow or strive towards Hill’s definition of a *transnational strategy*: “In essence, firms that follow a transnational study are trying to simultaneously achieve low costs through location economies, economies of scale and learning effects; differentiate their product offering across geographic markets to account for local differences; and foster a multidirectional flow of skills between different subsidiaries in the firm’s global network of operations” (Hill,2007: 429 – 430).
This strategic choice reflects the fact that these *MNCs are dealing in fast moving consumer goods and service offerings in the poorer markets of SSA, which are further characterised by tough operating environments.*
In terms of implementing the appropriate business model in order to pursue a transnational strategy in SSA, it was significant to find that the respondents interviewed were overwhelmingly in favour of a *decentralised* approach. On the one hand, this result is not that surprising as the majority of the respondents have worked, or are currently working in MNC affiliates in the region, which may reflect a natural bias against ‘interference’ from the centre. A more rational explanation may be found in the very different markets and trying surroundings that these affiliates operate in, *elevating the need for local responsiveness above the pressure for cost reductions.*

Responses include the following:

- *HAMPSHIRE:* The Managing Directors (MDs) of Diageo Africa affiliates were encouraged to *make their own decisions,* on the understanding that these were discussed with David before-hand. In instances where they could not agree on a course of action, David would allow the country MD to have his way unless it was an absolutely critical issue at stake. "The key to all of this is that *you have to have confidence in the MD."* Bringing in someone from within the Guinness culture was always a great help.

  David's view is that *the role of the centre is to co-ordinate activities, look for new opportunities, move people around and manage the global brands*. In David's view, there were considerable tensions between Diageo's African division headquarters and their Global headquarters because of a perceived lack of understanding by the latter of the issues at hand in Africa.

- *BLASQUEZ:* Although Diageo is the leader in the field of global premium liquor brands (and therefore requires a great degree of central control on all matters that affect the equity of their brands), their African affiliates require *devolved decision-making* in order to reflect the unique challenges and opportunities of the region. "When you're in it, *it's not rocket science, but the view from London is often very different.* The local country head must have full accountability for steering his own ship."

- *FREER:* "A *decentralised management model* is the right way to go - the man on the ground knows best and should be empowered to fully represent the MNC when it comes to dealing with in-country issues. However, support from a competent centre is critical when it comes to the provision of technical support (especially when machines break down!) or dealing with government on substantive issues".

- *BOWMAN: "We don't go into countries trying to impose South African ways* – we are humble in our approach".

- *SMITH:* "SABMiller believes in '*decentralised collaboration*'. This has been essential to the success of our business allowing for quick decision making and initiatives on the ground, while maintaining an overarching framework within which to operate". This approach can be vulnerable as it relies on high quality individuals with a passion for the business and strong leadership skills.

- *RICHARDS: "*Promasidor's competitive advantage lies in its '*light head office'*, coupled to the experienced 'Africa hands' that run the business, both at HQ and country levels".

- *TASKER:* Clive describes the Standard Bank Africa business model as being one of '*servant leadership*', although it is quite clear that the centre not only supports the affiliates, but also sets a comprehensive set of non-negotiable standards in the areas of risk management, IT and the like. Specialists from their London and Johannesburg HQs have also been hugely value adding when it comes to structuring innovative capital raising events for corporate clients such as MTN in Nigeria.

- *LOGGIE: "*Coca-Cola Sabco's business model is *decentralised*, and becoming more so". Functional support services to the Ethiopian affiliate such as human resources, previously supplied from their East African divisional office in Nairobi, have been discontinued in favour of strong in-country functions backed up by high-level support, if required, from their Port Elizabeth headquarters. "Country management teams run their own businesses with support from the centre", is how Murray sees their model at work.

- *AFFUL:* "Ogilvy Africa is an extremely *decentralised* organisation, relying on each office to provide the insights and energy valued by their MNC clients". It is important for local staff to have comprehensive knowledge of MNC brand positioning which Ato and a handful of headquarters staff are able to provide, as well as liaison with MNC central marketing personnel.

Consistent with the characteristics embedded in a transnational strategy, respondents agree that a decentralised approach has to be accompanied by *a robust set of proven processes and systems* that have to be applied uniformly (see point 5.3.7 below). *SABMiller's NIEMANDT* accurately described this interaction as *a* "tight/loose business model where headquarters sets the rules and then empowers the affiliates to operate freely. SAB's *proven approach had to be overlaid with the need for local knowledge and responsiveness."*
It is also noticeable that the decentralised approach carries an element of risk in that it places great emphasis on appointing *the right person as affiliate MD* – a poor choice could cause much damage to the business due to the large amount of autonomy assigned to the position.

A further word of caution regarding the implementation of a transnational strategy in Africa was raised by *Promasidor's RICHARDS:* "The concept of matrix management, in particular, is counter-cultural in Africa where clear lines of authority are appropriate". This statement has some relevance, even though it represents a broad generalisation of the situation on the ground. It does, however, accentuate *the complexity that accompanies the implementation of a transnational strategy*, a factor that enjoys support from Bartlett and Ghoshal (as cited in Hill,2005) who warn that building an organisation capable of supporting a transnational strategic posture is a complex and difficult task, due to conflicting organisational demands.

It should be pointed out from the research results that according to *POTGIETER and FULLER, Game Stores,* the mass discounter, successfully employs an extremely *centralised* business model in Africa, characterised by:

- the Game store look, design and branding which is uniform all over the continent;
- doing their own forwarding and shipping, except for clearing at the receiving port, where 3rd party agents are used;
- centralised global sourcing;
- centralised management of all logistics movements;
- generating each store's weekly special offers at headquarters before sending out the artwork for local translation (where necessary) and printing;
- centrally generated orders based on daily stock levels received from stores via an efficient Management Information System.

However, due to Game's desired position as everyday price leader, store managers are encouraged *to trade*, including dropping prices on line items in order not to be under-priced by a competitor. Due to the importance of its house brands, as well as out-of-country purchasing and logistics decisions, this seems to be an appropriate approach for Game to follow.

The research results as mentioned above certainly give credence to Neuland and Hough's (2007: 215) earlier assertion "that industry characteristics, the type of product and related consumer needs will largely determine the type of pressure that a firm will have to contend with and hence the appropriate strategy to be adopted in a specific instance" (Neuland and Hough,2007: 215).

Finally, Brews (2006, 380) frames the strategic question surrounding entering a SSA market by citing the example of Shoprite who had to adjust its business model and operational routines to fit the less efficient contexts it was trading in. Replicating the business model operating in South Africa was

inadvisable; however *would their adjusted business model or offering prove to be easily scalable in the context entered?*

In order to explore the largely untapped market potential of the SSA region characterised by severely limited spending power, winning MNCs are compelled to *innovate* and *change the rules of the game* as far as their product offering, route to market, organisation design and the like are concerned.

5.4.1.2. Brand-led internationalization

Here again, two counter forces prevail:

On the one hand, strong brands with world-wide appeal represent a *huge source of potential value when entering a new country.* During the empirical research study this view was strongly endorsed by *GUTSCHE, Chairman of Coca-Cola Sabco (CCSabco),* who places great store on *the appeal of the Coca-Cola brand*, the world's most valuable trade-mark, even amongst the poor, illiterate rural consumers of East Africa. This fact is underscored by the fact that Phil has tied the fortunes of his family business, and company name, to brand Coca-Cola.

In instances where *SABMiller* extends its activities into carbonated soft drinks (mostly in Africa), it too limits itself to the Coca-Cola range of brands (in fact, SABMiller is one of The Coca-Cola Company's (TCCC) largest global bottlers).

The fact that both CCSabco and SABMiller are willing to pay TCCC as much as 20% of turn-over for the concentrate used in the bottling process, is further proof of the power of TCCC's core brands as the bulk of this cost is, in effect, a licence fee charged to the bottler for the exclusive use of Coke, Fanta and Sprite in a particular territory.

Another MNC surveyed, Diageo plc, also places great reliance on its range of international premium drinks brands, including *Johnny Walker, Bell's, Smirnoff and Guinness .HAMPSHIRE*, *retired MD for Diageo Africa* comments: "Within Africa, brands are extraordinarily important. It was the fact that the *Guinness brand* was so strongly entrenched in Africa that we believed that we could build on it and use it." Brand acceptance provided the confidence for Guinness to invest and expand in SSA.

Interestingly, however, David warns against the accepted practice of global brands carrying the same label and advertising the world over, citing disastrous experiences with changes made to Smirnoff Vodka and Mainstay Cane labels as evidence. "Beware the bright, well intended brand manager based in London who does not heed the protestations of the African operators on the ground! "

Most of the other MNCs surveyed (*MTN, Game, Shoprite, Standard Bank and Ogilvy*) place great store on the consistent use of their mother-brand throughout SSA.

However, MNCs should *be warned that not all brands transcend borders equally well*. In the beer industry, for instance, local brands tend to dominate. A further documented factor is that a brand with close ties to its country of origin may, in fact, be tainted by the perceived actions of its home country. Leong et al. (2008: 996) found that a very real possibility exists that a country's political actions in the international arena (the USA war with Iraq, for instance) may create consumer animosity towards brands affiliated with that nation, such as Coca-Cola and McDonald's links with the USA.
SABMiller's SMITH, who has served as Managing Director in four of its African affiliates, comments as follows: "I do not believe parent company brands were a major consideration when SABMiller expanded into Africa, as most countries entered had local brands that we acquired together with the breweries." Mindful of consumer preferences for local beer brands the world over, SABMiller expanded into SSA *on the back of local mainstream brands*, which also enhanced its reputation of 'acting local'.

The conclusion seems to be that internationalisation can work with or without powerful international brands. After all, it depends on the *relevance of the specific brand(s) to local consumers*, which is easily ascertained through consumer research, also in Africa.

5.4.1.3. The portfolio effect

It is a fact that by having its investments spread across a number of SSA countries, a MNC is able to bring a welcome *sense of stability and predictability* to its earnings from this relatively volatile region. Two aspects of risk are reduced in this manner:

- *Political risk* of any given country which has the potential to destroy the local MNC affiliate's earnings during periods of internal instability. Zimbabwe serves as an obvious example at present.
- *Currency risk* which has the potential of reducing an affiliate's earnings when converting to the reporting currency of the MNC parent, which is typically in a 'harder' currency than that of the country in which the affiliate operates, due to the international perception of risk generally associated with SSA countries relative to 'first world' countries.

The risk reducing nature of the portfolio effect was underscored by the following examples from the empirical research study:

- *MAREE, CEO of Standard Bank,* points to the *stabilising impact of Standard Bank's portfolio of 16 countries on results from their African division*. He goes on to recount that Zimbabwe

used to be the 2nd largest contributor to group profits (after South Africa), but in a period which saw profits from this country all but disappear, the rest of the growing African portfolio picked up the slack to such an extent that the Africa division continues to outperform South Africa in terms of growth.

- *The SABMiller story is similar as far as Zimbabwe's fall from grace is concerned and the manner in which their 9 other SSA affiliates picked up the slack and more so*. In addition, the brewer entered into a strategic alliance with the Castel group, owner of breweries and soft drinks plants centred in Francophone West Africa, which effectively spread SABMiller's country risk (including currencies) over a further 14 African countries. The steady growth in profits by their African division bears testimony to the success of this strategy.
  BOWMAN, MD of SABMiller Africa believes that early mover advantage and building up a portfolio of investments go hand in hand. *There is risk to moving in early, but the portfolio effect should take care of the impact on overall results.*

- *By being spread across 10 SSA countries, Game also benefits* from the portfolio effect of having their risk spread across a number of markets with compensating fortunes, as does *Shoprite with its portfolio of 16 countries.*

5.4.1.4. In the wake of the client

It makes good business sense for MNCs offering support services to follow their major customers as they expand internationally. The research study found that this was indeed the case for two service providing MNCs in SSA:

- According to *TASKER*, expanding into SSA was part of *Standard Bank's* globalization strategy which saw them build a substantial presence around the world, including London and Hong Kong. A strong presence in Africa allowed them to *better serve their South African and British customers who were beginning to invest in the region.*

- AFFUL comments that advertising agency, *Ogilvy followed the fast moving consumer goods (FMCG) MNCs who they were serving in other markets* (including South Africa) when these firms expanded into Africa. Ogilvy's current customer base across the continent includes 15 MNCs, featuring the likes of SABMiller, M-Net and Unilever.

5.4.2. Making trade-offs in order to share the benefits (and burdens)

"Globalization will never be acceptable to any given country unless there is a sufficient community of interest to permit the making of trade-offs and compromises necessary to permit reform and change. This, in turn, is dependent on *a harmonisation of value systems that include the extension of respect and dignity to others as well as a willingness to seek an equitable distribution of benefits and burdens"* (Behrman,2006: 440).

De Soto (as cited in London and Hart,2004)extends this train of thought by arguing that entering low-income markets in emerging economies generally requires a different strategic approach in that the MNC has to bridge both the formal and informal economies, with relationships in the latter being grounded primarily on social, not legal, contracts. Organisations that value and manage to leverage existing social capital have achieved success in these markets (London and Hart,2004: 352).

Hart and Christensen (also cited in London and Hart, 2004)go even further in observing that the *pressure on MNCs to create a more inclusive capitalism* is mounting, including a greater role in addressing global societal issues such as eradicating poverty and environmental protection in developing countries.

However, caution is advised: "'Rich' companies are often viewed as resource pools to help reduce dependencies and poverty encountered in poor societies, and under such conditions the entering MNCs are usually required to offer more than direct business investment." (Brews,2006: 380).

In Africa, the above trade-offs are referred to by Nkomo and Kriek, as well as Jackson (both cited in situation: Nkomo and Cook,2006) who observe that business leaders find themselves in a paradoxical situation: *they need to make organisations leaner and competitive, while at the same time developing people and contributing to the socio-economic development of the broader community.*

5.4.2.1. Local partnership

The aim of the MNC in SSA should be to fully utilise its global capabilities, but simultaneously to act local and be seen as a source of local pride. *How then should the MNC affiliate respond to local needs?*

Apart from behaving as a responsible corporate citizen, including investing in worthy community projects, MNCs are also able to send a telling signal that their presence in a country is not merely another round of colonialism dressed up as FDI, by reserving a meaningful share in the affiliate for *local participation*, ideally through a listing on the local stock exchange where one exists. In addition, the affiliate should further actively encourage *outsourcing* suitable business activities to local entrepreneurs, including former employees. Apart from 'the usual suspects' (security, canteen and

cleaning services),large portions of the distribution chain may also be third-partied out to local entrepreneurs, given the establishment of the necessary control environment and effective training and support systems. As a result, not only is the affiliate then viewed in a positive light by local stakeholders, but it also receives a further *sharing-dividend in the form of local knowledge and influence* being integrated into its activities on the ground.

The value of a local partner as source of local knowledge is underscored by the findings of Petersen et al (2008: 1108) that MNCs entering into a new foreign market seem to go through a painful process of realizing that their experience from prior markets is of limited use in the new market. It takes around four and a half years for the firm to learn what they did not know about the foreign market at time of entry. *An effective local partner is able to radically shorten and improve the settling in period for the new entrant.*

In fact, Didata's James McCormack claims that they could not enter Nigeria and hope to understand local conditions without a local partner (The Economist, "The flicker of a brighter future", 2006: 66).

Local authorities will also think twice before implementing policies such as unrealistic taxes and minimum wage levels that could damage MNC performance.

These views are echoed by Zhou and Li (2008, 1115) when it comes to the critical function of *product innovation* by international joint ventures in emerging markets, which they describe as: "A collaborative and cumulative process that requires both foreign and local partners to contribute substantially to a series of activities along the value chain. Such activities may include detecting new market opportunities, adapting production processes and product features, establishing marketing channels, implementing technical support, analyzing customer feedback, and absorbing and integrating ideas and knowledge from both inside and outside firms. Conducting these activities requires not only advanced foreign technology, but also deep understanding of the local market opportunities and consumer needs."

MNCs and expatriates *originating from South Africa* have a further issue of perception to deal with, in that the common African view of foreign businesses as 'intruders who exploit locals and repatriate exorbitant profits' (largely as a result of the continent's historic brush with colonialism), is exacerbated when it comes to the South African connection due to the latter's apartheid past. The above-mentioned examples of partnering and sharing with local shareholders will go a long way in rectifying these misconceptions.

Results from the empirical research study included the following examples of best practice implemented by *MNCs who include local partners in their SSA affiliates*:

- *AFFUL:* Active local partners are an essential component of the *Ogilvy Africa* business model. When entering a new territory or reviewing an existing arrangement, Ogilvy places great store by a local partner that has top quality clients on their books.

- *BOWMAN, SABMiller Africa MD*, believes that it makes sense to have a local partner. "We would not have been able to make our latest acquisition from the Ethiopian government (Ambo Mineral Water) without the local partner representing and guiding us through the privatisation process. *You need a local link to protect your interests*."

- MTN always looks for good local partners to assist their in-country affiliate in coming to terms with local operating issues, including the scourge of corruption. According to *NISBET,* MTN group Financial Director*,* "we've always said no to corruption and have always looked for good apolitical local partners to help us without having to pay off officials."
  They went out of their way in Nigeria to *carefully vet and select 5 solid, apolitical local businessmen from different regions as their local partners*. Rob mentions an instance when MTN had 130 containers of critical equipment stuck in Lagos port, despite the best efforts of their management team to have them released. It was only intervention by their local partners (in the form of pressurising the right persons, as opposed to bribery) that resulted in the eventual release of the shipment.

- *BLASQUEZ, current Diageo* Africa MD, is a great believer in including "local partners that share your values" in Diageo's affiliate companies in Africa, which is unusual for the parent company who typically strives for 100%-owned affiliates. He describes the local advice and influence brought by these partners (or effective non-executive directors in the case of their listed affiliates) as *"ensuring that you're more integrated into the community."* As Diageo's businesses are heavily taxed and regulated, local directors play a key role in allowing the company to have its input when government considers legislation that will affect its performance.
  As an aside, Nick is particularly proud of the fact that their Nigerian and East African affiliates boast 70,000 and 26,000 local shareholders respectively.

- *HAMPSHIRE*, Nick's predecessor, further believes that having local shareholders not only means sharing the profits with local citizens, but also meant that these shareholders become great *ambassadors for the firm's brands*. In addition, government's perceptions of the

affiliate improve dramatically. David contrasted the negative perception of 100% foreign-owned Barclays Bank in Kenya versus the positive view held of East African Breweries, even though the latter is controlled by Diageo.

- *FREER,* a veteran expatriate who served as MD for both Diageo and SABMiller affiliates, introduces a valid *word of caution* on the subject in that, although he agrees with the potential value that local partners can bring to an affiliate, his Kenyan experience has alerted him to t*he negative effects of non-value adding partners*. He recommends exhaustive research of the potential partner's background and abilities before the MNC commits to bringing them on board.

5.4.2.2. Community investments

As far as can be ascertained, *all MNC affiliates participate in corporate citizenship investments to a greater or lesser degree,* much like the example of The Coca-Cola Company (TCCC) for whom community involvement is a feature of their operations in Africa, especially in the areas of water conservation, fighting HIV/Aids and eradicating malaria. TCCC also provides water through sinking boreholes in rural Ethiopia and Kenya. The research study did not attempt to further probe the extent of charitable donations made by MNCs and their affiliates as details are freely available from company websites, annual reports and the like.

However, the *research did unearth a best-in-class example that has been set by MTN* who, apart from giving monetary support to deserving causes through the MTN Foundation, actively *involves its staff members* across the company's 21 operations in Africa and the Middle East, who embark on a month-long '*Y'ello Care programme*', a volunteerism campaign that involves every employee in community building projects. Launched in 2007, Y'ello Care is aimed at achieving participation and ensuring sustainability of the culture of volunteerism among all MTN staff, regardless of where they are situated. Staff have been involved in various community projects, including initiatives to support disadvantaged children with school work, clinics, healthcare facilities and other social support and development programmes such as hospices and orphanages, neighbourhood clean-ups and environment awareness campaigns, football clinics and donations in kind.

As valid as the above investments may be, both experience and logic suggest that the most effective way in which a MNC and its affiliates should invest in the community is when they have *'skin in the*

game', in other words: a direct interest in a successful outcome for the particular investment, as opposed to mere 'cheque book charity'. Apart from benefitting the community recipient, such investments also have a positive spin-off for the investing MNC. Such investments may be found in the areas of job creation, opportunities for small and medium enterprises and cash crop alternatives for subsistence farmers.

A practical example is *SABMiller's* proven *owner-driver scheme*, whereby erstwhile employees are set up as individual business owners by the brewer who provides them with truck finance, advice on cash management and guaranteed contracts to distribute its products. By doing so, not only has the company helped create a new entrepreneurial class, but SABMiller itself benefits from more effective deliveries and improved customer service brought about by the incentivised owner-drivers. Further examples may be found in sections 5.4.3 and 5.4.5 below.

Finally, Diageo's BLASQUEZ does an excellent job of defining the appropriate level of corporate citizenship initiatives that firms should implement in SSA: "Being a good corporate citizen is becoming increasingly important, especially in Africa with its generally well developed sense of community. However, there's *a fine balance to be had between over-generous hand-outs and supporting projects that truly make a difference.*

5.4.3. Partnering with government

Ramamurti (2001:23) observes that it is a fortunate reality that relations between MNCs and host governments of developing countries have changed drastically from the adversarial 1960s and 70s, to being non-adversarial and co-operative at present.

5.4.3.1 The need for excellent communication

Because of historic factors referred to previously, coupled to the very visible nature of a significant foreign investment in a small SSA economy, it is essential that MNC affiliate executives go out of their way in *communicating clearly and frequently with all relevant levels of in-country government.* Experience among successful MNCs suggests that this is a time consuming, but very necessary task that demands the attention of their most senior executives.

Open channels of communication, including cordial personal relations with those at ministerial and director-general level, if possible, are helpful in order to create a business-friendly environment that is also in the best interest of the country concerned (it goes without saying that such efforts stop well short of unethical behaviour in order to gain unfair advantage for a particular business).

According to the results of the empirical research conducted, there is *widespread support amongst MNCs and their affiliates for the need to communicate well with government.* Herewith a few extracts from responses received:

- *KAMBULU*: "Continuous and active *engagement of governments* is a key activity for The Coca-Cola Company (TCCC.) We spend a lot of time and effort engaging governments across the continent. It's no good going to government only when you have a problem. I make it a point to see the President or Minister of Finance or other high-ranking official every time I visit one of my countries – it's a routine for me, just like visiting the marketplace." Nathan informs these senior government officials about TCCC's value-add in the country.

  TCCC also has a government affairs function that ensures that the company has good knowledge of relevant government thinking and priorities, in order to inform senior management accordingly and help shape appropriate responses.

  This interaction is taken a step further by also *engaging with those bodies that influence government policies*, such as the World Bank, IMF and Clinton Global Fund, especially before or during a visit to these bodies in Washington by an African leader. TCCC informs these bodies of the positive role that it plays, especially as far as the multiplier-effect is concerned in terms of wealth creation, and tries to enlist their help in eliminating punitive taxes, including an undertaking by TCCC to re-invest tax breaks. Nathan often travels to Washington in order to host a lunch for the visiting African country dignitary because he believes that it is useful to discuss thorny matters such as taxes in a neutral venue and in the company of reputable honest brokers.

- *GUTSCHE:* Like Nathan, Phil also goes out of his way in order to regularly *visit the Presidents of those countries in which Coca-Cola Sabco operates* in order to inform them of the CCSabco affiliate's progress, problems and contribution to the country's development. Visiting officials from TCCC will often accompany Phil on these visits, thereby adding more weight to his representation.

- *FREER:* Chris believes that communicating effectively with government is an essential part of an affiliate MD's job. When posted to Cameroon, he learnt French in order to assist his efforts.

- *SMITH:* "I believe that government is your *most important partner in the alcohol business* through their influence and determination of appropriate taxation levels, particularly consumption tax. The best example of this key success factor has been the effective lobbying and changes made to the consumption tax level in Mozambique, which in 1995 stood at 130% and was reduced in a number of steps to the current 40% that it is today. This reduction improved profitability of Cervejas de Mozambique, effectively eliminated smuggled imports and substantially increased government revenue collection. Consumption tax paid to government will exceed $45 million in 2009".

- *NIEMANDT:* "While government was supportive (in public anyway) of the privatisation of Tanzania Breweries to SAB, out of the public eye we were forced into about 10 board meetings in the first year to try and explain what we were doing and why". The newly arrived SAB team also learnt to act local in determining its role in the community. It was essential, therefore, to bring both central and local authorities on side in terms of their intentions.

- *TASKER:* Clive makes the relevant point that in-country governments play a dual role in Standard Bank's life, both as key stakeholder/regulator and potential customer. He and his team, both from headquarters and the affiliate, take great care to *interface with government officials* at all levels on a regular basis. It is not unusual, for instance, for Standard Bank to host central bankers from African countries in Johannesburg in order to discuss topics of mutual interest.

5.4.3.2 Practical implications of venturing with government

Whereas it is a fact that the lack of resources and undeveloped nature of the infrastructure in most SSA countries may be extremely challenging, the converse also holds true in that it creates opportunities for the local MNC affiliate to partner with government in arriving at *'win/win' solutions to mutual problems.*

Grobbelaar (2006:48) notes that quite often, services that would normally be supplied by national and local governments are so deficient that MNC affiliates have to take these on as a coping mechanism, for example:

- installing their own water purification plants and sewerage farms;
- sinking their own boreholes;
- building roads and water pipelines;

- providing back-up power generation;
- contracting additional security.

A further example of enlightened MNC reaction to national needs may be found in the reaction to the HIV/Aids epidemic sweeping across the continent. In 2002 over 28 million Africans were already living with the disease according to UNAIDS (as cited in Horwitz, 2006). Virtually all MNC affiliates provide free education, testing and anti-retroviral drugs to all of their employees as well as their immediate dependents. The likes of the Coca-Cola Company and SABMiller, amongst others, have extended their education efforts into the community at large.

The really good corporate citizen-firms look for ways to extend services such as the above, in order to benefit the neighbouring community at large, often at very little incremental cost versus goodwill generated.

MNCs will also do well to bear in mind that national governments are generally held in poor regard by the citizens of SSA, well behind religious organisations, the military, banks and the like (Gallup poll, 2007).Governments would desperately like to improve their popularity amongst the man in the street. This implies that MNCs show appreciation for and readiness to *act on worthy government imperatives*. On this count, *job creation, opportunities for small & medium enterprises (SMEs) and cash crop alternatives for subsistence farmers* (as mentioned in section 5.4.2.2) top the 'wish list' of most African governments.

A good example has been set by Nestle' who, according to their CEO, as cited by Laing (2008: 5), is a force for good wherever it operates. Its policies include supporting local farmers by buying raw materials from them and supplying them with scientific know-how. In South Africa it supports small business through an owner-driver scheme to upgrade ice cream vendors from bicycles to motorbikes.

Further examples of MNC affiliates that manage to meet these 'legitimate' demands from SSA host country governments with good effect (also to the commercial advantage of the affiliate), were discovered form the empirical research results, including:

- *KAMBULU: The Coca-Cola Company(TCCC) set up new SMEs* throughout SSA by supplying hawkers selling Coke products with ice, trolleys and limited credit.

  TCCC is also involved in a *fruit juice project* in Uganda together with the Bill Gates foundation, whereby they have established a co-operative for fruit farmers to grow and crush fruit that TCCC will guarantee to purchase from the farmers at a set price and then package and distribute the juice for sale.

- *BLASQUEZ and HAMPSHIRE: Diageo's creative solution to the illicit concoction-problem* encountered in Kenya has won plaudits from government, who also contributed to the cause by abolishing excise duties, and the World Health Organisation. It has been written up as a case study in section 5.5.3 below.

- *TASKER: Standard Bank Africa finances individual small maize out-growers* in a number of countries (Lesotho, Zambia, Ghana, Malawi and Mozambique), and enlists the help of non-governmental organisations and other 3rd parties to organise the farmers into co-operatives and provide them with 'cradle to grave' management support throughout the farming process.

SABMiller's successful initiative to substitute imported barley malt with sorghum malt sourced from local small scale farmers is well known. This project has been successfully implemented in Uganda, Zambia, Zimbabwe and Tanzania, facilitated by government support in the form of reduced excise taxes on beer produced through this process, allowing it to be sold at an advantageous price. SABMiller provides the farmers with seeds, finance, advice and guaranteed supply contracts (gaining international recognition for this initiative as a result). They're currently extending this initiative to include their breweries in Mozambique, Lesotho and Ghana.
Because of local government's willingness to support import-replacement initiatives through tax breaks and the like, SABMiller is able to justify meaningful investment in order to make these projects work. In order not to take up too much of the affiliate's management time, specialist 3rd parties plus a dedicated resource from SABMiller headquarters are engaged in order to support these projects.

These efforts could run the risk of diverting management attention and may not always meet a company's return criteria. Carefully selected however, payback extends to being viewed by local stakeholders as a genuine partner in developing the country's economy, especially among non-participants.

5.4.4. Bulking up for critical mass

A fundamental obstacle that stands in the way of any business wishing to invest profitably in a typical SSA country is that of constrained market size. As mentioned earlier, MAREE, CEO of Standard Bank, mentions that "building a really big business consisting of lots of little units is hard work".

In fact, this is a global challenge in base of the economic pyramid (BOEP) markets that have been described by Prahalad and Hart (as cited by London and Hart, 2004) as the new untapped source of market promise. Even in the largest global MNCs, many of their in-country affiliates have to slog it out in order to contribute to the global result. In the words of Jack Welch: “GE makes its money every quarter by bringing in cash from every corner of the world, nickel by nickel. Every day, everyone’s contribution counts.” (Welch,2001: 114).
It is also true that small, low-earnings operations demand a disproportionate amount of scarce resources to prop them up.

Although exploring the BOEP will be studied separately (see section 5.4.5 below), a further appropriate strategy for MNCs and their affiliates operating in poor countries is to *extract maximum return from each of their positions*, without unfairly exploiting the consumer or host country in the process, or else the investment may simply not be worth the effort. Examples of current best practise in Africa include:

- *Diageo’s purchase of Guinness* allowed it to *add beer to their spirits businesses* throughout the continent (and the rest of the world), leveraging the advantage of being able to offer a full portfolio of alcoholic drinks. In the Seychelles, Diageo has also added soft drinks to its product range.

- *SABMiller* has *extended its product offering* to *include the* Coca-Cola *range of carbonated soft drinks* in Swaziland, Botswana, Zambia, Lesotho, Zimbabwe and Angola.
  The group has also *extended its range into Chibuku traditional beer, aimed at the BOEP consumer*, in Zambia, Botswana and Zimbabwe.

- The following MNCs have managed to supplement their mainstream product offerings by also focussing on *premium-priced* branded consumer good offerings to SSA’s growing middle and upper classes:
  - SABMiller positions its Castle brand at a 5 - 15% premium over the local mainstream beer offering in the SSA countries in which it operates.
  - The Coca-Cola Company (TCCC) is typically able to command a 20% premium for its international brands over its ‘B-brands’ and those of local competitors.
  - MTN has managed to extend its user base throughout SSA by offering a range of call options that range from pre-paid cards and SMS facilities for poor consumers to monthly account and internet facilities aimed at the top-end of the market.

- MNCs such as SABMiller are able to use their global purchasing power and capability in order to source raw materials and capital equipment at best prices. In turn, this allows them to charge a reasonable *purchasing mark-up* to their affiliates on a transparent basis – margins of between 5 and 15% are deemed to be fair, depending on commensurate value added by the MNC's purchasing function.

- By *licensing global brands* to affiliates on an exclusive basis, MNCs are able to extract an acceptable royalty on sales of these brands. Up to 6% of the net selling price may be earned by the brand owner who, in turn, provides advertising materials and support. Known examples in the beer world include Heineken, Amstel, Guinness, and Castle Lager.

- *The Coca-Cola Company (TCC)*, owner of the world's biggest brand, uses its brand-power to command a substantial price for its c*oncentrate* (the secret ingredient used to make the world's largest-selling range of carbonated soft drinks) that it ships to its bottlers in order for them to produce Coke, Fanta and Sprite. On average around 20% of the wholesale price is earned directly by TCCC through this mechanism, the bulk of which is in effect a royalty for the exclusive use of TCCC's core brands.

- It is also an acceptable practice for MNCs such as Diageo and SABMiller to charge a modest *technical know-how fee* for the recipes, systems, processes and managerial support that it provides to the local affiliate. The quantum is usually sufficient to cover all or part of the cost of support to the affiliate provided by MNC headquarters.

MNCs should be heartened by the fact that Kogut and Kulatilaka, as well as Kogut and Chang (cited in Tong, et al.,2008) have found that once having entered a market, MNCs posses in-country growth options that provide platforms for expansion into other products in the host country or in neighbouring markets.
This includes the ability to explore both the BOEP market segment, as well as opportunities that may exist at the top-end of the market, although success on either front cannot be guaranteed - a head-start is all that MNCs may expect. They would be foolish not to leverage this opportunity.
*Accepta*ble ways and means to maximise earnings do exist - the challenge for the MNC is to look for ways in order to *extract its full pound of flesh, without overstepping the mark of reasonableness.*

5.4.5. Capturing the opportunity at the base of the economic pyramid (BOEP)

The research results and discussion of this KSF also provides answers to the following part of the research question: *Is it possible for MNCs to commercially explore the considerable potential that exists at the base of the economic pyramid (BOEP) in SSA?*

Base of the economic pyramid (BOEP) markets, consisting of the billions of aspiring poor who are joining the market economy for the first time, have been described by Prahalad and Hart (as cited by London and Hart, 2004) as the *new untapped source of market promise.* However, capturing the opportunity that exists at the base of the economic pyramid is virtually *uncharted territory* for MNCs and academics alike (Ricart et al,2004: 194). It's hard and risky work and there aren't many signposts or shortcuts.

Peng et al (2008: 930) observe that a fundamental challenge that confronts MNCs originating from developed countries is whether their traditional strategic recipe of standardised products and services can be extended and adapted with minimal change to meet the demands of emerging economies. This recipe is built on business models profiting from the one billion or so people who find themselves in the top of the global economic pyramid, whereas a focus on emerging markets calls on new business models built on how to profit from the bottom of the global economic pyramid, that is, the four billion people each earning less than US$ 2 000 per year. Despite country differences, emerging economies may have enough common underlying logic to justify developing *an alternative business model based on price-value trade-offs* that are different from those in developed economies. Milstein (as cited in London and Hart 2004) found that within emerging countries, MNCs need to develop specific strategies to meet the needs of the different consumer classes that make up the national market. This is especially relevant for those potential consumers that find themselves at the BOEP.

According to Brews (2006: 382-383),recently developed BOEP thinking has asked whether products, services or solutions developed for consumers in rich countries actually suit developing countries, including African markets. *Exploring the BOEP opportunity raises the challenge for those doing business in Africa to new heights*. Rather than just having to overcome contextual conditions and barriers to entry, or upgrading supporting infrastructure in a BOEP market, entry may be frustrated because the MNC's core products, services or solutions are unsuitable for entry in the first place. Unless the MNC is able to ensure an affordable (and profitable) version of its existing offering, it will have to consider the more risky option of developing a new affordable offering from scratch that is capable of generating acceptable returns, apart from being acceptable to a discerning consumer. High risk, but the potential rewards are worth pursuing.

The empirical research study probed extensively for progress made in exploring BOEP markets by MNC affiliates operating in SSA and came up with the following results:

- *NISBET:* MTN has achieved incredible success in extending their call-time offerings to low income earners throughout Africa and the Middle East, as reported by McLeod (2008: 36 – 40).

  The case study of MTN's Nigerian entry (see section 5.5.1) also contains details of how successfully MTN continues to grow its business amongst the country's poorer consumers. The fact that MTN retains its position as market leader with a share of 43% and is able to grow its subscriber base at a rapid rate (by 12% in the last 6 months) to reach 18,6 million, is testimony to its ability to reach poorer consumers at the base of the economic pyramid through the sale of inexpensive pre-paid cards as well as innovations such as 'the umbrella men', where hand sets are shared with those in possession of a pre-paid card, but who cannot afford a hand set. Hand set prices, too, are coming down rapidly and are now available at $15. MTN's average Nigerian subscriber spends $17 per month on call time, so probably earns more than a $1 per day, but less than $100 per month.

  According to Rob, MTN has always taken the view that they *would not 'cream-skim'*, meaning that they would not only meet the easy-to-reach demand at full prices from more affluent consumers. In Uganda, for instance, MTN built up a customer base of 30,000 subscribers in their first year of operation, whereas their competitor who had been active in the country for 5 years, had only 5,000 subscribers to show for their efforts.

  MTN's SA experience of massive market penetration gave them the confidence to pitch their brand and product offerings at the broader mass of poorer consumers. Says Rob: "Our target market stretches to consumers who earn well below $100 per month."

- *BLASQUEZ:* The low-priced barley-beer offering, *Senator Keg*, from Diageo's Kenyan affiliate, Kenya Breweries Ltd (KBL), has also been included as a case study (see section 5.5.3 below) of how the need for a milder and safe alcoholic beverage amongst Kenya's poorest consumers was identified and successfully met by KBL in an innovative manner. In so doing, Diageo were also able to *increase their profits, while simultaneously partnering the Kenyan government in alleviating a societal problem.*

  In the words of Nick: "Anecdotally and judging by press reports, incidences of illness and death directly related to alcohol consumption have shown a marked decrease since the introduction of Senator Keg. In addition, the Kenyan government, who initially had reduced the excise duty on Senator Keg in order to help us deliver a keenly priced 6% ABV beer against the illicit brews,

completely eliminated duties after a year or so because they recognised the benefit of the product to society. *The profits from sales of Senator Keg are making a meaningful contribution to our business.* The off-take has been such that we soon had to expand our production capacity dedicated to producing this product."

- *TASKER:* Standard Bank provides a fine example in the field of micro-finance, where it not only finances individual small maize out-growers in a number of countries (Lesotho, Zambia, Ghana, Malawi and Mozambique), but also enlists the help of non-governmental organisations and other 3rd parties to *organise the farmers into co-operatives and provide them with 'cradle to grave' management support* throughout the farming process. The good news is that the bulk of these farmers were formerly engaged in subsistence farming only.

- *KAMBULU:* The Coca-Cola Company puts the emphasis on *innovation* towards addressing the needs of the poorest consumers."We have to break through the affordability barrier with inexpensive offerings that optimise revenue growth. For instance:
  - in Zambia, we offer a 200ml Coke in a returnable bottle for 18 US cents, while a 300ml offering goes for between 26 and 30 US cents in the rest of Africa – out of reach for many BOEP consumers;
  - we invest in providing dealers with free ice and ice boxes in order that these consumers may enjoy an enhanced drinking experience at an affordable price;
  - we further provide non-carbonated cordials (such as Sobo in Malawi and Mazoe in Zimbabwe) as entry level offerings that recruit these consumers into the commercial beverage sector;
  - our Sparletta range represents our 2nd tier of carbonated soft drinks which are priced at 10 to 15% below our first tier brands of Coke, Sprite and Fanta".

- *SABMiller* has been *successful at the bottom end* of a number of the markets in which they operate:
  - According to *BOWMAN,* SABMiller Africa MD: "Our traditional beer business does a great job amongst BOEP consumers in Botswana, Malawi, Zambia and Zimbabwe."
  - *SMITH* mentions that Raiz was developed in order to address the affordability challenge in Mozambique and is sold at 75% of the mainstream price. Reduced raw material input is achieved by adding alcohol in the final phase of production. The product is also

brewed at maximum gravity allowing for 100% dilution. It currently holds a 14% market share.

- The distilling arm of Tanzania Breweries Ltd, achieved substantial success by offering Konyagi, their popular gin brand, in 20ml plastic sachets at competitive prices to BOP consumers. This market continues to flourish to this day.
- A technological breakthrough enabling clear beer production by using locally produced sorghum malt instead of imported barley malt in the brewing process, has enabled SABMiller to sell their Eagle brand at a price level of 20% below mainstream through their affiliates in Uganda, Tanzania, Zambia and Zimbabwe.

- *RICHARDS:* Promasidor has developed technology that allows them to offer their Cowbell *pas*teurised milk brand to poorer Nigerian consumers. It is *packaged in small 10 and 20 gram* s*achets* that sell at 10 and 20 Naira respectively (8 and 16 US cents), which allows them to reach families consisting of an average of 6 members with a combined annual cash income of US$2,000 per annum, or in other words, the dollar-a-day consumer at the base of the economic pyramid.

- *NOTHNAGEL:* The USA-based MNC, *SC Johnson*, has had great success in manufacturing and selling mosquito-repellent coils in Ghana and Nigeria. The unit of sale to the end-consumer was broken down to *individual coils and offered at the local currency (Cedi or Naira) equivalent* of *one US cent*, thereby breaking through the affordability barrier. However, the manufacturing process was set up in order that *this product also produced the group's best margins in the region.*

  The 'cherry on the top' was that the product helped reduce the incidence of malaria amongst its users, thereby giving the local affiliate positive spin-off in terms of its contribution towards recognising and meeting the needs of the community in which it operates - an excellent example of *meeting the demands of all key stakeholders:* the impoverished consumer, a profit-driven MNC and the community that provides the licence to trade.

- *WENTZEL:* According to a recent research report, retailers are being enticed by untapped opportunities and consumer populations emerging in Africa for the first time. Although informal markets and small shops will remain the most common source of goods for many, large chains are increasingly making progress. The main retail opportunities in Africa will

continue to be for *products that are priced for low income markets.* Shoprite and Massmart(Game) are the leaders in this field. (Macquarie First South Securities Africa brief #6: retail in Africa,2008: 14).

It would appear as if the MNC affiliates included in the research study have taken up the challenge of exploring the considerable BOEP opportunity that exists in SSA. In doing so, they seem to have heeded the advice offered by London and Hart (2004: 367) that firms operating in emerging markets in particular, would do well to keep an open mind and recognise the need to *develop more than one strategy in a particular country*, especially when it comes to also exploring the base of the pyramid market segment where there is little in the way of existing theory or research to guide the firm.

However, this market segment has just begun to offer up profitable opportunities to the formal business sector and the firms that are going to reap the greatest benefit in the future are those capable of *original thought, innovative product design and an appetite for risk.*

5.4.6. Using expatriates effectively

Adler and Ghadar (cited in Shay and Baak,2004) suggest that MNCs use expatriates as a *source of control*, assigning them to ensure consistency between headquarters and affiliates in terms of strategy, managerial practices and operational policies. Any reputable MNC has a huge potential advantage at its disposal when entering a new country in that it is able to second a small team of seasoned executives from other parts of the business to the country in question. These secondees (expatriates from various nationalities) are well versed in the company's globally proven systems and processes and able to transfer these efficiently and swiftly to the local business. In addition, they naturally provide the corporate view and cohesion when making key decisions at affiliate level.
An analysis of the erstwhile woes of Unilever plc, illustrates what could have been prevented if an effective cadre of expatriates had been in place: "Unilever's great strength - its strong roots in local markets - had turned into its biggest weakness. In an age of globalisation, Unilever's local bosses had become kings who took important decisions autonomously" (The Economist, "Unilever and emerging markets",2008: 62).

5.4.6.1. The real value of expatriates

However, it is *as facilitator of knowledge transfer* between affiliates and with headquarters that an expatriate has the greatest potential role to play. The leveraging of knowledge across borders is at the centre of the theory of the MNC. Horizontal FDI occurs because of the transfer of knowledge

within the firm and across borders – these transfers are the primary expression of the growth of firms. To the extent that a firm has developed procedures by which to codify knowledge for the benefit of external users, the easier it is to transfer technology to unaffiliated parties (Kogut and Zander,1993: 632,639).
Research by Szulanski and also Gupta and Govindarajan (cited in Jensen and Szulanski,2004) into the process of knowledge transfer, highlights the stickiness (difficulty) of the process, especially when it comes to the transfer of intra-firm knowledge. The seasoned expatriate is able to lubricate this sticky process by using both personal relationships and a mature view of what's best for the group.

Expatriates also serve as *in-country ambassadors* for the MNC – they're in the spotlight as far as local employees, stakeholders and local citizens are concerned, and, therefore, have the responsibility to live the company's values through their behaviour in the workplace and after hours. This places great importance on the selection and orientation of expatriates (and their families) before sending them out on a particular secondment. A technically-sound expatriate often fails due to an inability to cope with the inter-personal demands of the posting.

Findings from the empirical research study confirm the reliance of MNCs on the use of expatriates in their SSA affiliates:

- *LOGGIE:* Expatriates have been *critical to the successful turn-around achieved by CCSabco in Ethiopia*. Apart from requiring CCSabco's very best talent to head up the general management and finance functions, the lack of local skills meant that full and part-time expatriate skills remain an essential component of the technical function to this day.

- *TASKER:* Expatriates are an important part of Standard Bank's business model, at the rate of two to three per business. Interestingly enough, their expatriates are not primarily sourced from South Africa, but rather from the countries in which they operate. Therefore, one finds a Kenyan running the Ugandan affiliate and a Nigerian running Stanbic Ghana.
  This *more inclusive African expatriate cadre* certainly takes off some of the edge from local criticism aimed at expatriates, as well as setting Standard Bank apart from its South African peers who rely heavily on seconding white South Africans to their African operations.

- *NISBET:* MTN relied heavily on its SA base in order to both generate the considerable cash requirements needed to build infrastructure in new SSA markets, as well as to supply

expatriate staff to set up shop. *In Nigeria*, for instance, *they seconded as many as 120 expatriates* in the early days.

- *FREER:* Chris believes that expatriates are an important potential asset in managing successfully in SSA, but it is vital that their task is limited to setting up organisational structures, teaching local employees to the highest possible standard and then *handing over their responsibilities* to the latter.
  He further acknowledges that MNCs normally reserve one or two senior positions in an affiliate for their own secondees as a way of exercising control over the day-to-day running of the operation.
  Chris also stresses the point that the behaviour of the expatriate's spouse is critical to the success of the secondee. MNC headquarters should spend more time in assessing the suitability of the partner for the country to which the couple is headed.

- *NIEMANDT:* A happy coincidence for SAB was the fact that their affirmative action programme in South Africa had meant that they had a core group of experienced middle-aged managers at their disposal to second to businesses such as Tanzania Breweries Limited (TBL), thereby opening opportunities for previously disadvantaged candidates in SA. These secondees proved to be an excellent fit in terms of transferring basic knowledge and skills to TBL staff. Apart from taking the *SAB ways of operating (systems and processes)* with them, these secondees also arrived with *SAB's mission, values and business philosophies*, all of which contributed greatly in shaping the 'new TBL' as far as these critical issues were concerned.

- *HAMPSHIRE:* In turning around acquired businesses such as East African Breweries (EABL), Guinness Africa (the forerunner to Diageo Africa) had to *put an end to bad practices, introduce transparent purchasing processes, retrench excess heads* and so on. Key to effecting a successful turn-around was a capable set of expatriates, especially *the country Managing Director.* In the case of EABL, Pat Healy was such a man (he retired a few years ago, having completed over 50 years service with Guinness, having started with them in Ireland at the age of 15!). Pat instinctively knew what needed doing and went out and did it, however unpleasant the task may be. To quote David: "Ireland was the great resource for me. We had some super people in Ireland who understood breweries and were willing to come to Africa."

It should be noted that, as a rule, *South African expatriates do really well in Africa* where the attributes of 'boer maak 'n plan' and intent to make a difference are highly prized. They're also less expensive than their European counterparts.

5.4.6.2. The imperative to localize

Phatak et al, 2008: 186 identify three types of *MNC orientation* which has relevance in this instance:

- ethnocentrism, when the attitude is that everything originating from the MNC's headquarters is the best in the world, resulting on a centralized approach, including an over-reliance on managers seconded from headquarters to run the MNC's affiliates;
- on the other end of the spectrum, polycentrism, which holds that vast country–to–country differences demand a decentralised organisation where home-country secondees are regarded as being ineffective because of their inability to really understand foreign environments;
- geocentrism, on the other hand, is a world-orientated attitude with no predisposition to the degree of centralization – the MNC places the best person into each job, irrespective of nationality.

This view is shared by Neuland and Hough, 2007: 212 who add a fourth orientation, regiocentric, where the predisposition of headquarters is blended with those of the affiliates, thereby accommodating regional influences. The MNC's orientation plays an important role in structuring of the MNC's international operations, including the staffing of its foreign affiliates.

It should also be noted that *local resentment* against expatriates commonly occurs when the MNC uses the latter to actually run the affiliate indefinitely, without serious commitment to the often difficult process of localisation – an easy trap to fall into, especially in Africa given its limited talent pool.

The expatriate contract should be clear: it is to *pass on knowledge, train and develop local successors*, after which the expatriate moves onto his next secondment. It is when MNCs break this contract that they invite the ire of the host country. "In the early years of globalisation, we had to use US expatriates. They were critical to our successful start, but we were having trouble getting off this crutch" (Welch,2001: 314). General Electric's corrective action was based on localisation programmes by business that included quantified targets.

The bulk of respondents interviewed displayed an orientation that could be described as either *geocentric or regiocentric* and were committed to developing local talent with due haste. Herewith selected extracts from the answers received:

- *AFFUL: Training and development of their local teams is critical* to Ogilvy's success in Africa. They used to centralise this function in Johannesburg, but have subsequently decentralised it down to hub-level where different languages are catered for and travel costs reduced.

- *LOGGIE:* The local company places great emphasis on *training & development of Ethiopians,* including the establishment of a training centre where Coca-Cola Sabco's processes and systems are taught to local employees. This training is supplemented by visits to observe best-in-class practices in other countries within the Coca-Cola family, although costs often become exorbitant. The success of the Training & Development programme is underlined by the fact that 3 Ethiopians are currently serving as expatriates in other Coca-Cola Sabco affiliates.

- *TASKER & MAREE:* Clive comments that Standard Bank is generally quite pleased with the latent local talent that they encounter in the countries in which they operate. Although specific banking skills may be lacking, general education levels are fine, so that the company has no problem in equipping locals with the requisite banking skills.
  He points out that Standard Bank pays more than lip service when it comes to the training and development of its staff members. Their Global Leadership Centre in Sandton provides accommodation for delegates from their affiliates all over the world. Courses are aimed at executive, middle management and foundation levels.
  Jacko echoes Clive's endorsement of their *Global Leadership Centre as a unique enabling factor for their growing empire.* "The facility and its operation cost us $100s of millions and we use the best teachers, mostly sourced from Duke in the US. Nick Binedell rates it as one of the top ten facilities of its kind in the world."

- *KAMBULU:* The Coca-Cola Company *grows local talent through their 'Kusile' programme*, during which a group of suitable newly qualified local students are put through a structured in-house programme with the view to developing their future top-management cadre.

- *SMITH:* We have done an outstanding job training local employees in Mozambique and elsewhere. A formal training program that addresses key aspects of the business is set up at the beginning of each year and adhered to. The *SABMiller Training Centre in Johannesburg has been a great help*. Supplier training programs are also extensively used, as well as on the job training. The best form of training is to lead by example.

- *NISBET:* "In terms of staffing, *our real objective is to develop the local population*. Despite massive growth, Nigeria today operates successfully with only 15 expatriates, while their Swaziland operation has been totally localised".

- *NIEMANDT:* On what he'd do differently if he had his time over at Tanzania Breweries*: "Get a really good Human Resource Management process going as soon as possible*, with special focus on training and development".

- *BLASQUEZ:* Diageo focuses on local talent development, as opposed to merely relying on expatriates to fill the management void. In fact, *they have managed to halve their expat complement over the past four years*.

5.4.7. Flawless execution

Doing well in Africa requires relentless focus on executing well – doing it right every time. Poor infrastructure, skills shortages and the need to adapt to local circumstances, among others, all contribute to an extremely challenging environment. T*he ability to execute flawlessly is valued* abov*e all else, even above the smartest strategies and the best laid plans.*

5.4.7.1. The value placed on perfect execution

Examples from the empirical research results include:

- *GUTSCHE* sums up CCSabco's formula for success in Africa as follows: "*Our core strength has always been perfect execution*, especially as far as distribution is concerned." This approach played a huge role in turning around their Ethiopian affiliate.

- In fact, The Coca-Cola Company (TCCC) is extremely *disciplined about its approach to execution.* Whenever *KAMBULU* visits a bottler he spends the bulk of his time in the market, correcting poor practices and identifying missed opportunities. He is pedantic about follow-up, recording agreed corrective actions in his 'black book' which are then revisited at his following visit in order to ensure that implementation had taken place. As Nathan says, "It ain't gonna get done until you follow up."

  This disciplined market-directed approach is a particular strength of The Coca-Cola Company, the most global MNC as measured by the spread of sales volumes across the world (Rugman and Verbeke,2004: 9).

- *Brilliant execution is also a hallmark of MTN's Nigerian operation*. Strong branding, including 'painting the town yellow' is evident throughout Nigeria's cities. So too is the availability of MTN's pre-paid cards sold in small denominations by enthusiastic street vendors that move through the traffic in congested streets, as any visitor to Lagos will attest.

The business model that serves the execution focus best is a *decentralised* one. Hill (2005, 445) mentions the following arguments in favour of decentralisation:

- Top-management does not become over-burdened and can therefore focus on critical issues.
- Behavioural scientists argue that people are willing to give more to their jobs.
- More rapid response to environmental changes and, therefore, greater flexibility.
- Better decisions made on the spot by individuals with better information.
- Increased control through the establishment of autonomous, self-contained sub-units.

This sentiment is largely shared by the respondents interviewed in the empirical research study, as may be seen in section 5.4.1.1 above.

5.4.7.2. The role of systems & processes

However, the importance of *knowledge transfer* as one of the MNC's unique advantages (and one not particularly well served by a decentralised business model) cannot be over-emphasised. As mentioned under section 5.4.6.1, once a firm has developed procedures by which to codify knowledge for the benefit of external users, it becomes easier to transfer technology to unaffiliated parties (Kogut and Zander, 1993: 632). Faull (2006: 318) agrees in stating that *the key to superior execution is to be found in process reliability.* Venaik et al (2005: 659) argue that MNC's should simultaneously adopt networking (team-based decision-making within the global organization) in order to enhance firstly learning and innovation, and ultimately financial and market performance.

It's not a matter of merely decentralising decision making in order to execute well. A *globally-proven set of robust systems and processes combined with an effective performance management system that includes benchmarking against the best in class,* are essential precursors in order for a decentralised business model to work effectively for any MNC.

This is particularly relevant in the African business environment, as described by Faull (2006: 317): "It is often noted that *business in Africa is characterised by 'deal making' rather than process excellence*. Deal making is most common in situations of uncertainty. And in Africa there are many sources of uncertainty, or so it has been over the past 50 years......Even aid, of which Africa is the hungriest continent, can be seen to be about deal making. However, sustained progress for Africa

must be built on sustainable process excellence: being a reliable partner in a local and global trading environment cannot be based on 'deals'. Many of the uncertainties (infrastructure, rule of law, health care) have process as the core counter measure, and it is a sobering thought that both the private sector in Africa and the public servants in Africa *will have to shift from 'deal making' to process reliability to deliver long-term value to their 'customers'".*

The above sentiments are shared by the respondents included in the empirical research study*,* some of whom commented as follows:

- *BLASQUEZ:* Nick stresses the importance of applying Diageo's global standards and processes in their African businesses, especially when it comes to *brand building, quality control, people development and innovation.* These simply have to be adhered to!

- *SMITH:* We have been extremely fortunate in that *we have many tested and tried systems and processes*. Production is probably the most comprehensively documented but the others such as Performance Management, Sales Excellence Program, Financial Controls and the 'SABMiller Ways' for Marketing, Corporate Affairs, and the like.

- *NIEMANDT: "We clarified and simplified the SAB processes in order to develop an execution-based business approach for TBL that was understood and shared by all staff members".*

However, it should be noted that developing market specialist such as *SABMiller allow for sensible deviations from their global standards* for all or some of their SSA operations, in recognition of environmental challenges prevalent in the region. Examples include:

- Manufacturing units are required to carry higher levels of raw materials and spares, have to provide full standby power generation equipment and install slower, less sophisticated packaging lines ;
- All but their two largest SSA businesses are at this stage exempt of complying with the Sarbanes-Oxley code of governance;
- Management Information Systems are PC driven;
- Marketing spend as % of Revenue is below its global standard and heavily skewed to radio, outdoor and below-the-line activities;
- In Tanzania, the SABMiller performance management process has been modified away from the western emphasis on the individual towards team performance in recognition of the

humanistic systems prevalent amongst the local workforce, a paradox observed by researchers, including Jackson (as cited by Horwitz,2006).

The last word on the subject belongs to *RICHARDS*, an ex-Guinness Nigeria MD who now heads up Promasidor in Nigeria: *"To operate successfully in Africa, you need less ambiguity. In other words, keep your approach clear, simple and to the point".*

5.4.8. Investing ahead of demand

This particular KSF was not discovered during the literary review exercise, but has been included as result of a common theme emerging from the empirical research study. Some of SSA's most prominent MNCs have warned against an understandable, but costly mistake: that of not investing in sufficient production capacity in order to meet the increased demand when a business lifts off from its relatively small consumer base – *the cost of not meeting demand can be enormous!*

This is a common mistake to make in the early days after entering a new market because:

- The *market potential is difficult to define* as a result of the paucity of consumer-related information, including the impact of the substantial informal sector in these markets.
- New investors are naturally *reticent to invest* more than the minimum until they develop the confidence that comes from proven business successes, which takes some time to occur.

Herewith extracts from the research interviews in support of taking a *bold approach* to investments that provide sufficient production capacity in order to meet aggressive sales forecasts:

- *HAMPSHIRE:* Two key factors employed by Diageo during the lean years were to be patient and *not to under*-*invest* in *capacity, as the eventual upswing would be so steep that it would invariably exhaust all available capacity*, thereby limiting the firm's potential benefit during the upswing.

- *NISBET: Estimating market potential before entering an African market proved to be no easy task,* especially because official GDP information excludes the considerable impact of the informal sector. For MTN this fact resulted in them typically *under-reading the potential market size.*

  Rob views MTN's key competitive advantage as a philosophy that differs as follows from that of their competitors: "We took the view that if the demand was there, we would not starve an affiliate of its cash requirements. We would willingly *supply more cash from South Africa in order to develop the business infrastructure as quickly as possible in order to take up any slack before our competitors do*. Our competitors, on the other hand, would rely on the

affiliate to fund itself through its own cash generation which obviously takes longer. Our view has always been long-term and to never, ever starve an operation from its legitimate cash requirements."

Despite this aggressive investment approach, Rob believes that MTN has lost substantial profits due to the growth in demand outstripping their ability to meet it. "From an overall demand perspective, we always underestimate the size of the market. If we had been better at this from the start, you'd probably find that our *bottom line profitability would today be 15 – 20% better* as a result of market share losses sustained due to capacity constraints".

- *BOWMAN:* "Although we may have been somewhat conservative in the past, we're willing to invest more aggressively in capacity than we did before." Mark cites SABMiller's experience in Southern Angola as an example where the new capacity brought on by a series of expansions of their Ngola brewery in the southern city of Lubango remains short of the growing market demand. *"We think that we're clever because we expanded capacity, but we're not bold enough to expand it properly!"*

The relevance of this KSF should not be misunderstood as being a call for a reckless approach to investing in excessive capacity that may never pay for itself. However, it serves as a stark reminder of the opportunity costs associated with not being able to meet the demand for an affiliate's product in markets where it is impossible to supplement the shortfall via imports from the MNC's global grid. The appropriate response includes *a well thought out long-term capacity plan that incorporates flexibility to ramp up output in order to meet high-road sales scenarios.* Once in place, shareholders will typically be willing to vote the necessary funds in order to implement the plan.

5.5. CASE STUDIES OF MNC AFFILIATE SUCCESSES ACHIEVED IN SSA

Four cases have been prepared[12], dealing with the following *subject matter*:

- MTN's Nigerian entry
- The privatisation of Tanzania Breweries Ltd to SABMiller
- Kenya Breweries Ltd's introduction of Senator Keg
- The turn-around of Coca-Cola Sabco's Ethiopian bottler

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[12]In order to improve user-friendliness of the cases, these have been written up in a format that excludes the reference technique applied throughout the rest of the dissertation. Sources of information are listed at the end of each case, not in the text.

In all instances, other than the Senator Keg case (which focuses on exploring the BOEP opportunity), the cases *focus on the following aspects*:

- reasons for the MNC entering the specific country;
- major difficulties encountered by the in-country affiliate;
- KSFs implemented by the affiliate;
- financial and other results achieved by the affiliate.

The detailed case studies commence overleaf.

5.5.1. EXCEEDING EXPECTATIONS: MTN IN NIGERIA

MTN logo plus Nigeria map and flag

Nigeria today

Overview

Nigeria is Africa's most populous country with 132 million inhabitants, of whom 44% are under the age of 44 and the annual population growth rate = 2,3%.

GDP currently stands at around $100 billion per annum, with real growth of 4,2% per annum averaged over the decade ending 2005. In more recent times, the economy has been boosted by oil revenues which have exceeded $50 billion per annum, resulting in increased GDP growth to the 6-8% range.

After the turbulent years of the late 1990s when the country was ruled by military dictatorship, Nigeria has made considerable progress on the road to democracy, with the 2008 elections proceeding relatively freely and fairly (and peacefully) by Nigerian standards.

Politics

On April 21, 2007, Nigeria held presidential elections, marking the first time in Nigeria's history that the country passed control from one civilian government to another. On the29th of May 2007 Umar Musa Yar'Adua took over as president of the country and laboured under a cloud of opposition parties' challenge to his election victory. During his term thus far, President Yar'Adua has placed heavy emphasis on the upholding of the rule of law and the elimination of corruption in Nigeria's public service.

Nevertheless, given Nigeria's relatively high levels of poverty and diverse ethnic and religious mixes, the present administration continues to face major challenges of addressing the fundamental needs

of the population. A challenge that will continue to dominate the political landscape is the unrest in the Niger Delta as well as the lack of infrastructure development within the energy sector.

Economics

Oil accounts for 95% of exports by value and 80% of government revenue in Nigeria. With current output at 2.3 million barrels per day, and set to rise to 4 million barrels per day by 2010, Nigeria is now *the world's eighth largest exporter of oil.* Nigerian authorities are expected to spend US$15 billion on further exploration over the next 5 years. Recent developments in the liquefied natural gas sector have led to a production boom with revenues set to reach US$12 billion by 2009, and expected to overtake oil revenue within a decade. Although there is great potential in the agricultural and solid minerals sectors, these and all other sectors beyond oil and gas have been underdeveloped in recent decades.

President Yar'Adua's new government is expected to announce a detailed economic policy document in the near future. This new policy is unlikely to differ greatly from the National Economic Empowerment and Development Strategy (NEEDS), which expired at the end of 2007.

Very high export earnings generated by oil and gas exports will result in current-account surpluses over the next few years despite an increase in imports. Foreign direct investment, mainly in the oil sector, will remain high over the medium term, at over US$2 billion per annum. In 2007 exports amounted to US$ 61.81 billion, dominated by petroleum and petroleum products (95%), cocoa and rubber. Imports during the same year amounted to US$ 30.35 billion, made up largely of machinery, chemicals, transport equipment, manufactured goods, food and live animals.

Prospects

The Economist Intelligence Unit (EIU) has the following current view of prospects in the country:

- Major challenges for the president, Umaru Yar'Adua, will be to bring stability to the turbulent Niger Delta region and to find a solution to the ongoing energy crisis, under which nationwide power cuts are commonplace.
- Economic policy reform will be slow, as the country stands at a crossroads between implementing tough, unpopular market reforms and pandering to nationalistic and pro-subsidies interest groups.
- With the oil sector operating below potential and the non-oil sector suffering from the global financial crisis, real GDP growth is expected to fall back from the levels witnessed in recent years, to 4.6% in 2009 and 5.4% in 2010.

MTN group overview

The MTN Group Limited (MTN) is a leading provider of communication services, offering cellular network access and business solutions.

Launched in 1994, MTN is a multinational telecommunications group, operating in 21 countries in Africa and the Middle East. As at the end of September 2008, it had *81 million subscribers* across its operations. In 2007 the group reported revenues of R73 billion ($10,4 billion) and EBITDA at R31,8 billion ($4,5 billion), a massive 42% up on the previous year.

The group operates in Botswana, Cameroon, Côte d'Ivoire, Nigeria, Republic of Congo (Congo-Brazzaville), Rwanda, South Africa, Swaziland, Uganda, Zambia, Iran, Afghanistan, Benin, Cyprus, Ghana, Guinea Bissau, Guinea Republic, Liberia, Sudan, Syria and Yemen.

MTN has been, and is forecast to remain, in the *top 10 mobile growth stories in both revenue and EBITDA terms globally* for companies with market caps above US$5bn.

Amongst many other plaudits, MTN also won the prestigious inaugural *African Business of the Year* and *Brand of the Year* awards presented in London by the Commonwealth Business Council. The African Business of the Year award recognises companies that have shown outstanding returns and growth rates coupled with innovative working techniques, and the development of staff and the community it operates in. The Brand of the Year award recognises companies that have achieved outstanding brand recognition in the past 12 months, with wide appeal and wider recognition both in Africa and worldwide.

MTN Nigeria overview

MTN paid $285m for one of four GSM licenses in Nigeria in January 2001. To date, it has invested in excess of US$1.8 billion building its mobile telecommunications infrastructure in Nigeria. Since its launch in August 2001, MTN has steadily deployed its services across Nigeria. It now provides services in 223 cities and towns, more than 10,000 villages and communities and a growing number of highways across the country, spanning the 36 states of the Nigeria and the Federal Capital Territory.

The company's digital microwave transmission backbone, the 3,400 Kilometre Y'elloBahn was commissioned by President Olusegun Obasanjo in January 2003 and is reputed to be the most extensive digital microwave transmission infrastructure in all of Africa. The Y'elloBahn has significantly helped to enhance call quality on MTN's network, thereby giving it an edge over its competitors.

MTN Nigeria also recently expanded its network capacity to include a new numbering range with the prefix 0806, making MTN the first GSM network in Nigeria to have adopted an additional numbering

system, having completely exhausted its initial subscriber numbering system as a result of rapid subscriber growth.

MTN Nigeria performance

Financial

A recent placement of shares in MTN Nigeria by the parent company in order to fund their aggressive expansion programme in that country, valued the enterprise at an amazing $10 billion.

Profitability indicators for the year ended 31.12.07 include:

- Subscribers @ 16,5m (+34% for the year)
- Revenue @ $2,9 billion
- EBITDA @ $1,65 billion (+36% for the year, 36% share of MTN group, versus $1,39 for MTN South Africa)
- EBITDA margin @ 57,3% (versus 35% for SA)

An unbelievable performance for an August, 2001 start-up!

Other

2007 awards achieved by MTN Nigeria include:

- Best Corporate Tax Payer in the communications industry for the year 2005/2006
- TITANS OF TECH AWARD as GSM Company of the Year awarded by ICT Africa
- Distinguished Corporate Award for contributions to the development and promotion of the human resources profession in Nigeria, awarded by the Chartered Institute of Personnel Management
- GSM Company of the Year Award at the Lagos Enterprise Awards
- Best Health Merit Award, awarded by the Lagos State government.

How it all began....

Rob Nisbet, MTN's Group Financial Director, joined MTN in his current position in 1995, soon after the formation of the telecommunications company a year earlier, and has been at the forefront of the executive team that's transformed MTN into what it is today. He recounts how *a strategic miscalculation* gave MTN a head-start into Africa versus their competitors:

"In 1995 we thought that our South African market would top out at around 400,000 to 450,000 subscribers. Pre-paid didn't exist, so we were looking only at customers who one could give credit to. In those days, DSTV only had around 800,000 subscribers, so that was the total market size we were looking at. We thought that growth was going to disappear within 3 years, so we decided to

expand into Africa and did so from 1996 onwards, not because we recognised it as an unbelievable opportunity 'cause they just don't have any communications, but because we looked at South African growth petering out and we thought, where to next? We agreed, let's go to Africa."

Two things become clear from this anecdote:

- Firstly, that the *overwhelming reason for MTN entering Nigeria was that of a firm in search of growth.*
- Secondly, one should bear in mind that *strategic planning is not an exact science*, therefore requiring top-management to conduct regular reviews, as well as display flexibility in order to profit from emerging opportunities.

The first licence to operate in Nigeria was obtained by MTN in the 1990s at a cost of a mere $5m. However it was in the tumultuous days before General Olusegun Obasanjo became Nigeria's president in 1999 (for the second time), so the company felt that the country risk was unacceptably high and therefore decided not to utilize their licence.

In January, 2001, MTN bought one of four GSM licenses on offer as part of the globally lauded Nigerian GSM auction conducted by the Nigerian Communications Commission in Nigeria, and on May 16 MTN became the first GSM network to make a call in Nigeria. Thereafter the company launched full commercial operations, beginning with Lagos, Abuja and Port Harcourt.

Key Success Factors (KSFs) employed by MTN in order to explore the Nigerian opportunity

- Because telecommunications are regulated by governments in all countries in which MTN operates, also in Nigeria, governments are often conflicted because they also own the fixed line business. "The playing fields, especially in the early years, weren't always level" says Rob. *Effective liaison with government* therefore became an essential prerequisite for MTN if they were to operate under benign conditions in Nigeria.

  In addition, the scourge of corruption was alive and well in Nigeria in the early days. It is MTN's way to always looks for *good local partners* to assist their in-country affiliate in coming to terms with local operating issues, including the opening up of channels of communication with all levels of government and overcoming local attempts at extortion and corrupt practices. To quote Rob: "We've always said no to corruption and have always looked for good apolitical local partners to help us without having to pay off officials."

  MTN likes to have a controlling *stake* in their affiliates, preferably above 75% in order to allow for the easy passage of special resolutions (however, they often have to enter in a minority position and manage through a separate management contract until they're able to build their shareholding to the desired level over time, as and when opportunities present themselves).

This approach worked extremely successfully for MTN in Nigeria, where they went out of their way to carefully vet and select *5 solid apolitical local businessmen* from different regions as their local partners. Today MTN International owns 77% of MTN Nigeria, with around 18% held by these Nigerian partners.

Rob mentions an instance when MTN had 130 containers of critical equipment stuck in Lagos port, despite the best efforts of their management team to have them released. It was only intervention by their local partners who had 'skin in the game' (in the form of pressurising the right persons, as opposed to bribery) that resulted in the eventual release of the shipment.

- To further *regulate their relationship with key stakeholders* and prescribe the desired conduct from their employees, MTN has published the following mission statement and values for their Nigerian affiliate:

  MTN's overriding mission is to be a catalyst for Nigeria's economic growth and development, helping to unleash Nigeria's strong developmental potential, not only through the provision of world class communications, but also through innovative and sustainable corporate social responsibility initiatives.

  MTN Nigeria's core values are:

  - Leadership
  - Integrity
  - Innovation
  - Relationships
  - 'Can do attitude'

  The successful role played by both MTN's Nigerian partners, as well as it's clearly communicated set of values and mission statement, is underscored by the accolades earned as per section 1.4 above.

  In addition, these facts go a long way in helping establish MTN Nigeria as a local firm with international links in the eyes of Nigerian stakeholders (as opposed to a foreign-owned MNC operating in the country.)

- MTN Nigeria is one of the mobile phone world's penetration growth stories, which are defensive or 'decoupled' from economic issues such as inflation and an economic slow-down. In Nigeria the surprise has been that average revenue per user (ARPU) at around the $16 per month mark, has not declined as quickly as expected (in fact, has not decreased at all since day one of their operations), while penetration has increased ahead of expectations to 19 million at last count(a factor that MTN has traditionally under-estimated , with disastrous effects on capacity planning)

This fantastic achievement may largely be attributed to the following three factors:

- *First mover advantage,* which is especially critical in the mobile phone industry. In Rob's words: "to gain market share from an established player in a market is difficult and extremely costly, as borne out by our experience in South Africa."
- Rob views MTN's key competitive advantage as a philosophy that differs from that of their competitors: "We took the view that if the demand was there, we would not starve an affiliate of its cash requirements. *We would willingly supply more cash from SA in order to develop the business infrastructure as quickly as possible in order to take up any slack before our competitors do*. Our competitors, on the other hand, would rely on the affiliate to fund itself through its own cash generation which obviously takes longer. Our view has always been long-term and to never, ever starve an operation from its legitimate cash requirements."

  Over the last 3 years, capex as % of revenue averaged around 30% or $600m per annum. MTN has relied heavily on its South African parent in order to generate the considerable cash requirements needed to build infrastructure in new markets, including Nigeria.
- *Brilliant execution* is a hallmark of MTN's Nigerian operation. Strong branding, including 'painting the town yellow' is evident throughout Nigeria's cities. So too is the availability of MTN's pre-paid cards sold in small denominations by enthusiastic street vendors that move through the traffic in congested streets, as any visitor to Lagos will tell.

- Estimating market potential before entering any African market proved to be no easy task, especially because official GDP information excludes the considerable impact of the informal sector. For MTN this fact resulted in them typically *under-reading the potential market size.* According to Rob, the potential of the Nigerian market continues to confound MTN to this day: "In 2001 we estimated 15m subscribers. 3 years ago we upped this to 45m. Today we estimate 85m subscribers by 2012!" Given Nigeria's population of 140m, this translates to 60% of Nigerians subscribing as mobile phone users (perhaps this estimate, too, may be on the low end when compared to South Africa's ratio of one hand–set per citizen)

  Although MTN continues to invest heavily in infrastructure in order to keep pace with the growth in demand and not to leave gaps for competitors (who are increasingly entering the country), Rob believes that *MTN has lost substantial profits due to their inability to invest aggressively enough in order to meet the growth in demand.*

  "From an overall demand perspective, we always underestimate the size of the market. If we had been better at this from the start, you'd probably find that our *bottom line profitability would today be 15 – 20% better* as a result of market share losses." If one were to convert Rob's

estimate of earnings lost into monetary terms, the opportunity cost of MTN being out of capacity in its largest profit contributing market, Nigeria, has been massive.

- MTN's South African parent performed a further critical role in that it provided the skills base in the form of *expatriates* that allowed them to swiftly and efficiently 'set up shop' in Nigeria, to where as many as 120 expatriates were seconded in the early days.

  However, Rob stresses that "in terms of staffing, MTN's long term objective is to *develop the local employees,"* citing the fact that, despite its massive growth, Nigeria today operates successfully with only 15 expatriates (while their operation in Swaziland, has been fully localised.)

- MTN Nigeria does not shirk its *responsibility to the community* in which it operates. Apart from giving monetary support to deserving causes through the MTN Foundation, a hallmark of their effort is the involvement of their staff members who, together with MTN Group staff across the company's 21 operations in Africa and the Middle East, embark on a month-long '*Y'ello Care'* programme, a volunteerism campaign that involves every employee in community building projects.

  Launched in 2007, 'Y'ello Care' is aimed at achieving participation and ensuring sustainability of the culture of volunteerism among all MTN staff, regardless of where they are situated. MTN Nigeria staff are involved in various community projects, including initiatives to support disadvantaged children with school work, clinics, healthcare facilities and other social support and development programmes, including hospices and orphanages, neighbourhood clean-ups and environment awareness campaigns, football clinics and donations in kind.

  In addition, soccer-mad Nigeria is also a beneficiary of the MTM group's decision to *sponsor football in a big way*. It is a global sponsor of the FIFA 2010 World Cup South Africa and an established partner of football throughout the continent, as demonstrated by their ownership of football properties such as the MTN CAF Champions League and the MTN Africa Cup of Nations. MTN also sponsors various football clubs in its countries of operation. This commitment also includes innovations such as MTNfootball.com which enables football fans to view live matches and get updated information about the game. MTN's status as a multinational and leading provider of telecommunications in emerging markets has enabled the company to draw individuals from diverse backgrounds and experience towards a common goal of making a difference in all countries in which the company operates. This status has made football the natural medium for MTN to channel its contribution as a unifying force. According to a MTN spokesperson, the FIFA World Cup is indisputably one of the most popular

sporting events in the world and hosting it in Africa is a strong signal of the confidence and expectation the world has of Africa and its people.

- Finally, one of the unique successes that MTN Nigeria has managed to achieve is its proven ability *to commercialise the sale of call time to consumers at the BOEP* (base of the economic pyramid.) According to Rob, MTN has always taken the view that they would not 'cream-skim', that is, not only meet the easy-to-reach demand at full prices from more affluent consumers. In Uganda, for instance, MTN built up a customer base of 30,000 subscribers in their first year of operation, whereas their competitor at the time, who had been active in the country for 5 years, had only 5,000 subscribers to show for its efforts.

  MTN's South African experience of achieving massive market penetration gave them the confidence to pitch their brand and product offerings at the broader mass of poorer consumers. "Our target market stretches to consumers who earn well below $100 per month" says Rob. This represents an income level that's not too far off the $1 per day income level right at the bottom of the economic pyramid.

  In fact, MTN's average Nigerian subscriber spends $17 per month on call time, so those below this average certainly include some $1 per day earners. The fact that MTN retains its position as market leader in Nigeria with a share of 43% and is able to grow its subscriber base at a rapid rate to reach 18,6m at last count, is testimony to its ability to reach poorer consumers towards the base of the economic pyramid through the sale of inexpensive pre-paid cards as well as innovations such as setting up 'umbrella men', where hand sets are shared with those in possession of a pre-paid card, but who cannot afford a hand set. Hand set prices, too, are coming down rapidly and are now available for as little as $15 each.

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5.5.2. SABMILLER'S TREK INTO AFRICA: TANZANIA BREWERIES LIMITED

SABMiller logo plus Tanzania map and logo

Tanzania today

Overview

Tanzania has been one of Africa's success stories, transforming itself in the early 1990's into a multi-party democracy and opening up its economy to the private sector after many years of decline during the country's flirtation with 'African socialism,' as expounded by Julius Neyerere.

Politics

Tanzania's political landscape continues to be characterised by a deep democracy entrenched in stability. Although the political stability is evident on the mainland, the semi-autonomous island of Zanzibar still faces challenges posed by tension between the ruling party, the Chama Cha Mapinduzi (CCM), and the main opposition, the Civil United Front. The longstanding political divisions and the future of Zanzibar will continue to be a major challenge to the country. Even though Zanzibar's political landscape might have an insignificant impact on the mainland, speedy resolutions will contribute towards cementing the country's stability.

The resignation of Prime Minister Edward Ngoyayi Lowassa (as well as the central bank governor) in February 2008 amid a parliamentary inquiry implicating him in corruption, forced President Jakaya Kikwete to dissolve cabinet. The process accorded the President an opportunity to streamline his government and the new cabinet now consists of 26 full ministers and 21 deputies, compared with 29 full ministers and 31 deputies previously. The reduction of departments is expected to ease coordination of policies within the government. In addition, this decisive action against the corrupters, despite their high office, sends the right message to all Tanzanians and Africans alike.

Economics

Tanzanian's economy continues to show good overall macroeconomic performance. Sustained economic reforms over the past several years have enabled the economy to grow an average of 6% between 2000 and 2006. During 2007, the economy began to show signs of recovery from drought experienced in late 2005 into 2006, driven by strong growth in the mining, manufacturing and tourism sectors. The government's commitment to develop non-traditional sectors (especially mining and tourism) should help to address the problem of overdependence on the agricultural sector.

It is expected that the economy will have grown by an average of 7.3% in 2008. This economic expansion will also be driven by gross fixed capital formation, which is expected to grow by about 11% annually. This will be due to increased activities in the construction, mining, telecommunications and tourism sectors.

Prospects

The EIU view is as follows:

- President Kikwete will continue to face the most challenging period of his presidency, as high inflation erodes living standards. However, the fragmented opposition is unlikely to be able to pose a challenge.
- The ruling CCM party is likely to choose Mr Kikwete as its candidate in the 2010 presidential election. He is expected to win, but with a smaller majority in a lower turnout, as the electorate expresses its discontent.
- The government will stick to its pursuit of market-orientated reforms, including the promotion of private-sector growth by improving infrastructure and maintaining macroeconomic stability, but progress will be slow.

SABMiller plc overview

Rapid growth

One of the world's largest brewers, SABMiller has brewing interests and distribution agreements across six continents. They directly own and manage operations in 31 countries. Their wide portfolio of brands includes premium international beers such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch along with market-leading local brands such as Aguila, Miller Lite, Snow, Castle and Tyskie. Six of these brands are among the top 50 in the world, while SABMiller is also one of the world's largest bottlers of Coca-Cola products.

Over the past 21 years SABMiller has grown rapidly from its original South African base into a global operation, developing a balanced and attractive portfolio of businesses in markets that range from developed economies, such as North America, to fast growing developing markets, such as China and India.

Strategic approach

According to the company's website, SABMiller is committed to being *a responsible company* because it makes sense. It's not about being altruistic for its own sake, it's about understanding how behaving responsibly has a positive impact on profitability and on economic growth.

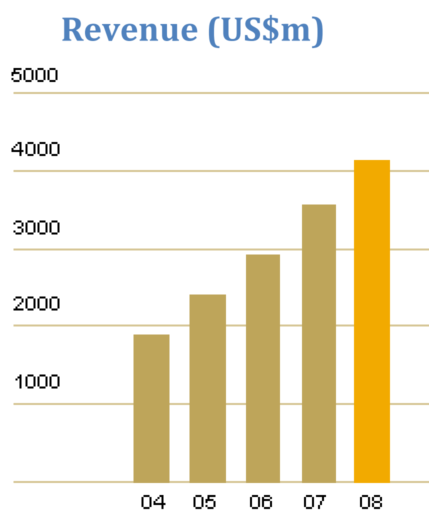
Their aim is to secure economic benefits for the *local communities* where they grow raw materials and brew beer and also for their *shareholders* who benefit from a sustainable business and a return on their investment.

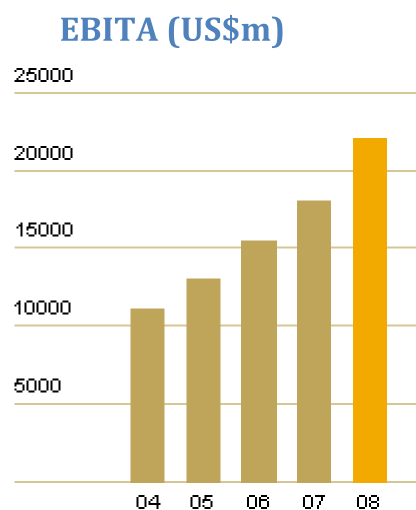
Environmental sustainability is also critical, whether in terms of using less water to make more beer or reducing its energy and carbon footprint. There are many examples – local sourcing, HIV/Aids campaigns, education and training – that show how both the company and local communities can reap mutual benefit.

Global framework, local action: SABMiller has a clear strategic focus founded on four key priorities:

- To create a balanced and attractive global spread of businesses
- To create a portfolio of brands that matches the aspirations and preferences of consumers within each market
- To keep raising the performance of local operations
- To gain maximum value from its global scale.

SABMiller plc's 5-year financial progression





Tanzania Breweries Ltd (TBL) overview

Development

The South African Breweries (forerunner to SABMiller) acquired a 45% stake and management rights in TBL for US$20 million in late-1993, when the Tanzanian government privatised its bankrupt state-owned brewing company.

SAB soon nursed the business back into robust health under the leadership of Danie Niemandt who was seconded as MD for the first 5 years of the JV's existence.

Today, 52% of the shareholding in TBL is owned by SABMiller plc and 23% owned by Tanzanians, including around 20,000 individuals, who bought shares when government sold off a large portion of their holding via a listing on the fledgling Dar Es Salaam stock exchange.

It may rightly be said that *SABMiller has managed to transform TBL from a broken-down state-owned enterprise into a profitable modern publicly listed company, to the benefit of all key stakeholders* (shareholders, government, customers & consumers and the Tanzanian community at large.)

Reasons for SABMiller investing in TBL

Danie singles out the following reasons:

- The relatively *low cost of entry* meant that the downside potential was limited, even though this was one of SAB's first forays onto the global stage. The extremely hostile Tanzanian business environment prevalent at that stage was partially mitigated by the fact that SAB's entry was in the form of a JV with the Tanzanian government which meant that they became an ally rather than a potential obstacle in SAB's way towards transforming the business.
- *Prospects for recovery by the Tanzanian economy* had improved due to government ditching Nyerere's disastrous African socialist experiment in favour of a free market economy (under pressure from the World Bank and IFC.)
- SAB's core South African market was mature and the brewer needed to find *new sources of growth.*
- The due diligence process of TBL by SAB's team clearly showed the existence of substantial *pent-up demand* that TBL was unable to satisfy (in fact, at that stage more beer was imported into Tanzania than what TBL was able to produce itself.) This was the result of a combination of under-investment in assets and people, as well as poor management processes – all problems that were relatively easy for SAB to correct as it played to their core skills.
- There was a further *strategic imperative* as SAB was keen to obtain a foothold in East Africa where the British brewer, Guinness, had already established interests in neighbouring Kenya

and Uganda – if it were to acquire TBL as well, Guinness would have dominated the region, effectively blocking out SAB for good.

TBL Financial performance achieved:

• *5-year review*	*2008*	*2007*	*2006*	*2005*	*2004*
Sales revenue (T shillings million)	383,181	314,878	260,628	229,644	197,982
Profit before tax (T shillings million)	109,168	95,603	85,584	69,332	57,471
Market capitalisation (T shillings billion)	490 466	442 436	395 472	330 132	130 156
Earnings per share (T shillings)	242 209	193 157	128 122	110 119	130 104

- 2008 *volumes* reached 2,8million Hectolitres (a 9-fold increase from the 1994 start-up)
- 2008 performance converted to *US$:* Sales revenue = $305m
Profit before tax = $90m (negative at start-up))

Other achievements

In 2007 TBL was voted the *'most respected company'* in Tanzania from an East African survey undertaken by PricewaterhouseCoopers and Nation Newspapers. The company had received this accolade for the three preceding years.

In an award ceremony organized by the Association of Tanzania Employers, TBL was named the *overall winner in the Category of Human Resources.*

In this year's *Employer of the Year Award* ceremonies, TBL was awarded first prize in the Training and Development, Occupational Safety and Health and Large Enterprise categories and second prize for the fight against HIV/AIDS, Corporate Social Responsibility and Employee relations.

Difficulties encountered by SABMiller in Tanzania

- The assets purchased were in a state of shocking *disrepair*, as were the country's utilities and infrastructure.
- The existence of massive over-employment in the company (over 4,000 heads, well over double the required amount), as well as extremely costly supply and distribution agreements (both hallmarks of the socialist system at work).These had to be dismantled forthwith, despite local opposition to such drastic action.
- Although they were JV partners with SAB, *government was initially extremely suspicious* and defensive when it came to supporting SAB management's turn-around plans. However, once results became evident, they became most supportive.

To quote Danie: “While government was supportive (in public anyway), out of the public eye we were forced into about 10 board meetings in the first year to try and explain what we were doing and why. There was also a very vocal group, including some local newspapers, which saw the deal as nothing but ‘a theft of the crown jewels’ by foreigners. Rectifying this misconception took up an enormous amount of management time.”

- Soon after taking up the management of TBL, the company was hit by *a large number of lawsuits* relating to the pre-JV days (mainly by ex-employees, but also by suppliers) for payments either outstanding or claimed as such. While a number were pure chance-takers, others had some substance, and all required time and management, especially since the last thing SAB wanted to do was go to court where, in those days, one could well lose despite the obvious merits of one’s case.
- Despite completing a through due diligence exercise, cash-flow during the first year was atrocious, as Danie’s team had completely *under-estimated the restructuring and operating costs*, especially the once-off costs. Danie takes up the theme: “For instance, we had been assured there were only some 3,000 employees. In fact, there were another 1,000-odd ‘casuals’ that had, because of prior mismanagement, become entitled to full employee benefits. We had to go begging for cash to pay salaries and wages during the first few months, and I had to curtail some very expensive expatriate benefits.”
- In the early days, some *corrupt practices* were encountered, especially when it came to clearing goods out of the Dar Es Salaam port. These were rebuffed and government informed accordingly, where necessary. In this instance, SAB’s clear and unambiguous stance against corrupt practices simplified matters for Danie’s team – they simply had no choice but to say no!

<u>Key success factors employed by SABMiller in order to turn TBL around</u>

- In order to ensure fair play between the two JV partners in the early days, the IFC and a consortium of international banks were invited to take a minority stake in TBL, including a seat on the board. This helped *eliminate initial suspicions that existed among the two partners and laid the foundation for a unified JV that survives to this day* (although government has sold down to a minority position by listing most of its shares in TBL on the local stock exchange.)

- The chaotic state of TBL at the time of SAB’s entry into the business meant that SAB had to rely heavily on a team of experienced *expatriate managers seconded from South Africa*. An

initial team of 22 had to rebuild the TBL organisation, its people (including retrenching many heads surplus to requirement), physical assets and brands, virtually from scratch. "When a turnaround is required, don't put in only one person to do it – put in a turnaround team", is Danie's view.

A happy coincidence for SAB was the fact that their affirmative action programme in SA had meant that they had had a core group of experienced middle-aged managers at their disposal to second to businesses such as TBL, thereby opening opportunities for previously disadvantaged candidates in SA. These secondees proved to be an excellent fit in terms of transferring basic knowledge and skills to TBL staff.

The choice of Danie Niemandt as MD to head up the team was mission-critical. He had built a successful 20-year career in South African Breweries (SAB), initially as a Human Resources practitioner and later in General Management. Apart from having the necessary experience (his human resources exposure turned out to be a particular bonus due to the amount of people-issues that had to be dealt with), his proven track record meant that he had earned the respect of those that worked for him, also from the team of battle-hardened expatriates (some of whom who could be difficult to manage because of their 'know-it-all' attitude.)

Danie comments as follows:" With only one exception, the team of expatriates was excellent, not only in performing their job but in mixing with the local employees and teaching, coaching and mentoring them."

It should be pointed out that self-sufficiency was an important attribute for the expatriate team, especially in those pre- mobile phone and internet days. This turned out to be another area of strength in Danie's make-up.

- Fortunately, local staff responded well to the SAB systems and processes, resulting in TBL recovering sooner than expected. In Danie's view: "While there were some baddies and some big problems, the *Tanzanian employees responded really well* to initiatives we put in place. From our side, we fixed staff ablutions and canteens before worrying about management offices plus we improved safety and working conditions, got basic employee communications going and initiated training as soon as we could."

  The *training and development of local staff members* was an absolutely critical element in order to establish a unified workforce that took ownership for business results and became off-site ambassadors for TBL, thereby giving further credence to TBL's claims as being 'truly Tanzanian'.

  The extent of the local employees rising to the occasion is underscored by the fact that the subsequent expatriate complement has been reduced to single figures, despite massive

growth in the business over subsequent years. The message from Danie is:*"Focus on the* employees – get them to understand what you're on about and involve them."

- Danie and his team went out of their way to *'think and act local' in their interactions with community and government stakeholders*. "You may disagree with them, but do it in the right way." They also tried to ensure that they didn't become a closed SAB expat community that worked and played only with each other.
- Danie soon found out that 'cash was king.' The SAB approach to acquisitions was that the new affiliate must be self-sufficient for its cash requirements from day one – the parent company was not going to inject further cash into TBL. "Of necessity we had to focus on cash-flow, and I learned (and have always remembered) that profits are great, but without cash-flow you don't sleep! "

  Fortunately, this approach bore fruits, as Danie observes: "Interestingly enough, the IFC was right in what we all thought was a very optimistic forecast about cash-flow and profits, and our cash-flow was positive within 12 months, with the bottom line black within 18 months – we had reckoned on about twice as long to get there."

  The down-side of this 'pay as you go' approach was that TBL battled to keep up with the growth in demand for its products, frequently running out of stocks during the peak summer months.
- Apart from taking the *SAB ways of operating (systems and processes)* with them, the secondees also arrived with *SAB's mission, values and business philosophies*, all of which contributed greatly in shaping the 'new TBL' as far as these critical issues were concerned, as may be seen from the current set adopted by TBL:

<u>TBL's vision, mission and values</u>

Vision:

To be the most admired Company in the beer industry in East Africa

- The investment of choice
- The employer of choice
- The partner of choice

Mission:

To own and nurture local and international brands which are the first choice of the consumer

Values:

- *Our people are our enduring advantage*
  - The calibre, passion and commitment of our people set us apart
  - We value and encourage diversity
  - We select and develop people for the long term
  - Performance is what counts

- *Accountability is clear and personal*
  - We favour decentralized management and a practical maximum of local autonomy
  - Goals and objectives are aligned and clearly articulated
  - We prize both intellectual rigour and emotional engagement
  - We are honest about performance
  - We require and enable self-management

- *We work and win in teams*
  - We actively develop and share knowledge within the Group
  - We consciously balance local and group interests
  - We foster trust and integrity in internal relationship
  - We encourage camaraderie and a sense of fun

- *We understand and respect our customers and consumers*
  - We are endlessly concerned with our customers' needs and perceptions
  - We build lasting relationships, based on trust
  - We aspire to offer the preferred choices of product and service
  - We innovate and lead in a changing world

- *Our reputation is indivisible*
  - Our reputation relies on the actions and statements of every employee
  - We build our reputation for the long term
  - We are fair and ethical in all our dealings
  - We benefit the local communities in which we operate

An interesting aspect of TBL's vision and set of values is the manner in which they have been expanded in order to foster a better understanding amongst all staff members.

- SAB was quite clear about its intention to add value to TBL's product offering through improved quality, packaging, availability, brands and consumer choice, as a means of enticing the consumer to pay a reasonable price (not cheap) in order to generate cash at decent margins. In this way they were not only able to reward their shareholders appropriately for their investment (high-risk), but also finance the aggressive capex programme that TBL required in order to return to robust health.
- SAB's *'tight/loose' business model* (HQ sets the rules and then empowers the affiliates to operate freely) was perfect to meet the challenges that they encountered in Tanzania – their proven approach had to be overlaid with the need for local knowledge and responsiveness.
  "If necessary, amend them, but try and *keep the basic processes and systems that work for the group in place*", is Danie's advice.
  In fact, Danie and his men clarified and simplified the SAB processes in order to develop an *execution-based business approach* for TBL that was understood and shared by all staff members.

- They further embraced technological advances in order to accelerate the turnaround process. The later advances made in the areas of mobile phone and internet technology was a great help. New brew houses built in Dar Es Salaam and Mwanza were fitted out with the latest state-of-the art automated PLC systems from Europe.
- The approach taken in TBL's beer business was to focus on the middle and upper classes, although more recently, efforts to extend into the economy segment are beginning to be explored more. Their traditional beer (made from sorghum and maize) business, however, was aimed at *BOEP consumers*, but TBL found the going tough due to price competition from informal home brewers and eventually sold this business.

  TBL's distilling arm, however, achieved substantial success by offering Konyagi, their popular gin brand, in 20ml plastic sachets at competitive prices to BOEP consumers. This market continues to flourish to this day, although TBL is concerned about instances of alcohol abuse that may be associated with this offering.

Sources:

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- Tanzania Breweries Limited annual report 2008,Dar Es Salaam: 2,5 & 7

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5.5.3. THE INTRODUCTION OF SENATOR KEG BY KENYA BREWERIES LTD

Diageo logo plus map of Kenya and flag

Kenya today

Overview

Kenya is East Africa's powerhouse in terms of economic activity and one of the few countries on the continent that never went the socialist route after receiving its independence from Britain. On the other hand, it has not been particularly well governed in recent years, especially during Daniel Arap Moi's tenure as president.

Politics

Until post-election political unrest struck in early 2008, Kenya had, since independence, maintained stability despite changes in its political system and crises in neighbouring countries. The political impasse that followed the disputed December 2007 Kenyan elections culminated with the signing of a power-sharing agreement by President Kibaki and the leader of the Orange Democratic Party, Raila Odinga, on 28 February 2008. The successful achievement of a political resolution reflects the country's commitment to ensuring that it does not fail, especially given its political and economic importance within the East African Community.

However, the political outlook depends on the sustainability of the power-sharing agreement even after the new bills become entrenched in the constitution. Given the delaying tactics that the leadership surrounding Kibaki used to thwart the amendment of the constitution throughout Kibaki's first term, it remains to be seen whether Odinga will be given actual executive powers or simply remain a ceremonial prime minister.

Economics

Recent political instability derailed the Kenyan economy from its growth momentum. On the upside, the Kenyan economy is supported by a relatively strong private sector that is largely removed from government. However, tourism has been affected by the crisis and the country will struggle to reduce the weight on political risk that foreign investors have assigned to it. The downward revisions of Standard and Poor's and Fitch credit ratings on Kenya in early 2008 also implied that credit will become more expensive, which will have an adverse effect on the country's infrastructure drive. Despite the effects of Kenya's political impasse on countries such as Uganda and Rwanda, these economies are still growing strongly and are expected to support the recovery of the Kenyan economy.

Prospects

The EIU's current view is as follows:

- Kenya's new, broad-based coalition government between the president, Mwai Kibaki, and his main rival, the prime minister, Raila Odinga, is likely to remain intact, although vulnerable to in-fighting and competition for influence.
- The unity government will focus increasingly on reforms to improve the business climate and investment in infrastructure. However, political feuding may hamper policy implementation, and corruption will remain a challenge.
- After slowing sharply in 2008 to an estimated 3.2%, GDP growth will weaken further in 2009, to 2%, as the global recession bites. Growth is expected to reach 3.5% in 2010 as the global economy recovers.

Overview of Diageo plc and Kenya Breweries Ltd (KBL)

Diageo plc was voted *Britain's most admired company* in 2008. The judges commented as follows regarding the progress made by the group under the leadership of Paul Walsh, CEO : " Walsh's consistent and painstaking development of a portfolio of leading brands - Guinness, Smirnoff and Johnnie Walker, to name but three - has created a profitable drinks empire that operates with the dynamism and marketing savvy of a FMCG firm. It's also a leader in the responsible drinking campaign. Diageo's combination of brand strength and light-on-its-feet responses should see the firm fare better than most in the downturn."

The Diageo group's most recent *financial results*:

Profitability indicator		*2008*	*2007*
Volume in millions of equivalent units		145.0	141.3
Net sales	£ million	8,090	7,481
Operating profit	£ million	2,226	2,159

Diageo has placed the following five *values* at the heart of its business:

- We are passionate about consumers – our curiosity and consumer insights drive our growth. We cherish our brands; we are creative and courageous in pursuing their full potential. We are innovative, constantly searching for new ideas.
- We value each other – we seek and benefit from diverse people and perspectives. We strive to create mutually fulfilling relationships and partnerships.
- We give ourselves the freedom to succeed – we trust each other, we are open and seek challenge, and we respond quickly to the opportunities this creates.
- We are proud of what we do and how we do it – we behave responsibly with the highest standards of integrity.
- We strive to be the best – we are always learning, always improving. We set high standards, we stretch to exceed them and we celebrate success.

Diageo's *major brands* include Bell's, J&B, Johnnie Walker, Smirnoff and Guinness.

In *Africa*, they directly manage spirits and beer operations in 10 countries, while they have distribution agreements for their products in a further 24.

Kenya Breweries Limited (KBL) is 80% - owned by East African Breweries Limited (EABL), with SABMiller owning the remaining 20%. EABL, in turn, is a majority–owned affiliate of Diageo that manufactures and distributes beer and spirits in Kenya.

East African Breweries 2008 PBT = $160m on net turnover of $420m. KBL is by far the largest contributor to EABL's profitability.

KBL's introduction of Senator Keg in Kenya

Key Success Factors at work

- Nick Blasquez succeeded David Hampshire as Diageo's MD for Africa in 2004. Both agree that Senator Keg, a low-priced barley-beer in Kenya is a good example of reaching the consumer at the *base of the economic pyramid (BOEP)*.
- As the facts will show, the case is also a perfect example of a MNC affiliate *partnering with government* by reacting positively and creatively to finding a solution to a societal problem.
- David's view is that b*eing seen to be a local company* in which Diageo had a shareholding, as opposed to being a branch of a MNC, was critical. This means working really hard at meeting expectations from local stakeholders and taking them seriously, because only when one has their support will local governments take one seriously when confronting them with issues requiring resolution.

  The introduction of Senator Keg was proof to Kenyan stakeholders, including government, that Diageo was willing to go out of their way in meeting local needs.
- Nick states that "being a *good corporate citizen* is becoming increasingly important, especially in Africa with its generally well developed sense of community. However, there's a fine balance to be had between over-generous hand-outs and supporting projects that truly make a difference."

  On this count too, Senator Keg passes the test.
- This case further underscores Nick's belief in including '*local partners that share your values'* in Diageo's affiliate companies in Africa, which is unusual for the parent company who typically strives for 100%-owned affiliates. Nick describes the local advice and influence brought by these partners (or effective non-executive directors in the case of listed affiliates such as KBL) as "ensuring that you're more integrated into the community." As Diageo's businesses are heavily taxed and regulated, local directors play a key role in allowing the company to have its input when government considers legislation that will affect its performance.

  In this instance, the opportunity for Senator Keg enjoyed enthusiastic support and encouragement from the Kenyan non-executive directors of KBL.

Turning a problem into an opportunity

Illicitly-made alcoholic concoctions, made from industrially produced methanol to strength of up to 50% alcohol-by-volume (ABV) and spiced up with the addition of flavourings, battery acid and other unmentionables, had become a national problem in Kenya's ghettos, especially in greater Nairobi,

because it had unsurprisingly resulted in numerous cases of blindness and deaths amongst consumers.

- KBL decided to investigate the incidence of illicit liquor sales and found that apart from the societal problems that it caused, it also represented a *commercial opportunity* as it accounted for roughly half of all alcohol sold in the country.
- In reacting to this well documented crisis, KBL approached the Kenyan government 4 – 5 years ago and proposed that they could target these poor consumers of dangerous alcoholic concoctions, who find themselves at the base of the economic pyramid (BOEP), with *a milder healthy alternative at an affordable price*, on condition that *government reduce the excise tax* on beer made from barley, in order to bridge the affordability gap, while still giving government an income from these sales (remembering that they received no income from the illicit products.)
- From their side, KBL had to invest heavily in draught dispensing equipment (in order to eliminate packaging costs), reduce their profit margin as further contribution to an affordable selling price and also undertook to make Senator Keg exclusively available in those areas where illicit concoctions had become a problem (mainly Nairobi's sprawling slums), which effectively meant employing a separate sales and distribution organisation.
- In developing Senator Keg, KBL was i*nnovative* in designing a relatively strong beer at 6% ABV in order to further close the gap with the illicit concoctions for those consumers who value the effect (buzz or kick) of drinking an alcoholic beer.
- The result was that a 300ml serving of Senator Keg was offered at 15 Kenyan Shillings (20 US cents), as opposed to 60 K Shillings (75 US cents) for a 500ml serving of Tusker Lager (their mainstream beer.) On a volume-for-volume basis, this meant that Senator Keg was offered at *a price level of less than half* of that of mainstream beer.

The results:

- The off-take was phenomenal, with Senator Keg sales reaching 1million HL within 18 months. Despite having to sacrifice a portion of their profit margin, this incremental volume (which would not have been realised at normal price levels) meant that Senator Keg *contributed substantially to KBL profit growth.*
- *Government was so impressed* by the reduction in the availability of illicit concoctions and its effects, that it dropped all excise tax on Senator Keg entirely, content to reap the additional corporate taxes delivered by increased EABL profits resulting from Senator.

- *The World Health Organization hailed the initiative* and the Kenyan Minister of Health wrote a letter of commendation to EABL.
- *In Nick's own words:* "Although no official statistics are available, anecdotally and judging by press reports, incidences of illness and death directly related to alcohol consumption have shown a marked decrease since the introduction of Senator Keg. In addition, the Kenyan government, who initially had reduced the excise duty on Senator Keg in order to help us deliver a keenly priced 6% ABV beer against the illicit brews, completely eliminated duties after a year or so because they recognised the benefit of the product to society. The profits from sales of Senator Keg are making a meaningful contribution to our business. The off-take has been such that we soon had to expand our production capacity dedicated to producing this product."

Sources

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- The Economist website. Available: www.economist.com (accessed 19th December, 2008)
- Macquarie First South Securities research report published 5th September, 2008: 24
- BBC Radio 4 interview with Nick Blasquez, 2008 (played 6th January, 2009)

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5.5.4. BUSINESS TURNAROUND: COCA-COLA SABCO IN ETHIOPIA

Sabco logo plus Ethiopia map and flag

Ethiopia today

Overview

One of the few African countries not to have been colonised during its history, Ethiopia has 80 million mainly rural, poor inhabitants.

Politics

From 1974 to 1991 the country was run by a Marxist junta under Mengistu Haile Mariam, destroying whatever industrial base that had existed as well as overseeing many acts of genocide against Ethiopian citizens in opposition to their regime.

In 1991, the Ethiopian People's Revolutionary Democratic Front (EPRDF) toppled the Marxist junta in a welcome move to a more democratic political system. The EPRDF has since remained in power, however, displaying increasingly authoritarian tendencies under its leader Prime Minister Meles Zenawi. The slow progress towards democratisation and the empowerment of civil society was interrupted in the May 2005 general election which plunged the country into violence and political chaos.

Ethiopia has a long history of conflict with two of its neighbours, Eritrea and Somalia.

Economics

The economy has enjoyed double-digit growth rates since 2004, but this success has come at the cost of rapid inflation and a steep fall in foreign currency reserves.

Government has embarked upon an ambitious infrastructural investment program. Five new hydropower plants and a wind-power facility are being built. Between them these will expand the

country’s installed generation capacity from the current 660 megawatts to some 3,600 megawatts by 2012.

Inflation reached a historic high of 40% in May,2008, driven by fuel prices, currency devaluation, the spill-over from the construction boom and rapidly rising food prices. As a result, people are withdrawing cash from the banks and from savings and spending it, partly because they expect prices to continue to escalate (inflationary expectations), but also because real interest rates are negative so that money in the bank loses its value.

Competitiveness is a worry too, because the real exchange rate is strengthening, with the consequence that Ethiopia’s current-account deficit is now very large, at around 20% of GDP. However, exports continue to boom. Since 2004 Ethiopia’s share of the global coffee market has increased by 50%. Export shares for its other main products—flowers and oilseeds—have also increased.

In terms of wages, Ethiopia is reckoned to be one of the most cost-effective (and poorest) countries on the continent, with a manual worker earning US$60 a month as against US$190 in China.

Prospects

The EIU paints the following picture:

- The ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) should remain firmly in power for the foreseeable future..
- Political tensions will begin rising during 2009, as all parties start to regroup and plan for the next general election, due in May 2010.
- Relations with Eritrea and Ethiopia's involvement in Somalia will continue to dominate the foreign policy agenda and tensions in the region will remain high.
- According to the IMF's latest report on the economy, growth will slow over the next five years, reflecting the combination of high inflation (which will have to be tackled by tightening fiscal and monetary policy), the infrastructural deficit (which will constrain production) and declining competitiveness, caused by real exchange rate appreciation.
- It is likely that the Birr will continue to depreciate over the next two to three years.

Coca-Cola Sabco (CCSabco) overview

CCSabco is a family-owned Coca-Cola bottler who operates franchises in South Africa, Namibia, five East African and five Asian countries. The group started as a purely South African player, expanding into Africa at the end of the apartheid-era in late-1994 when The Coca-Cola Company (TCCC)

approached it to become the company's anchor bottler in East Africa. CCSabco subsequently also entered the Asian countries of Vietnam, Sri Lanka, Cambodia, Laos and Nepal.

The group employs more than 9500 people and operates 25 bottling plants aimed at fulfilling the refreshment needs of more than 240 million consumers that live in its markets.

The Gutsche family is the controlling shareholder in CCSabco, with TCCC holding a minority stake of 20% in the business. It is head-quartered in Port Elizabeth.

The Group's *vision* is simply: "We will be the Best Coca-Cola bottler in the World".

This vision statement is amplified as follows:

- "The Best: In sales volume and in return on capital employed".
- "Coca-Cola Bottler: A consumer driven, customer oriented, manufacturer, sales and distribution company that markets the products and brands of The Coca-Cola Company".
- "In the World: We measure ourselves against the best Coca-Cola bottlers in the World".

CCSabco's *values* have been formalised as follows:

"We will create an environment where our people are passionate about performance.

This will be based on:

- Integrity: Be honest, open and sincere
- Individual Initiative: Take pro-active steps to drive performance
- Customer Value: Exceed customer expectations and add value to Customers' businesses
- Teamwork: Work with and support colleagues to raise overall performance
- People Development: Realise employee potential through training and development
- Mutual Trust & Respect: Treat each other with respect and dignity and earn trust
- Commitment: Be accountable and do as you say."

<u>How CCSabco turned around their Ethiopian affiliate</u>

Background

- In 1994 the CCSabco group concluded an agreement with The Coca-Cola Company (TCCC), owner of the Coca-Cola franchise, to be TCCC's *anchor bottler* in East Africa. When the Ethiopian franchise became available in 1998, TCCC therefore offered it to CCSabco.
- Apart from its obligation to TCCC, CCSabco was attracted to the fantastic *growth potential* offered up by the Ethiopian franchise, which in 1998 accounted for annual volumes of a mere 4 million unit cases or roughly one Coke unit consumed per capita per annum.

  The fact that CCSabco's Ethiopian volumes have quadrupled since taking on the franchise has certainly vindicated the group's assessment of the opportunity for growth.

- *Murray Loggie* is a South African Chartered Accountant who was transferred by CCSabco to their Ethiopian affiliate as MD in 2005, a position that he held for 3 years during which this affiliate made great progress, following a faltering start after purchasing the business in 1998, at a time when the Ethiopian business environment was particularly hostile to privately-owned foreign investors.

Difficulties encountered:

At the time of their entry into Ethiopia, and even to this day, CCSabco took on one of the most demanding business environments on the continent.

- Really *poor infrastructure* (roads, power, water) is a hallmark of Ethiopia, a vast country of mainly rural people (out of a population of 80million, Addis Ababa with 5 million inhabitants is the only city of substance.) Chinese state-owned investors are beginning to make an impact as they construct roads and build dams (essential in order to supply hydro-electric power), but on the other hand, the country's 7-10% annual growth in economic activity continues to outstrip these improvements.

  The cost of delivering soft drinks to generally poor rural consumers is prohibitive and posed a major challenge for the company to overcome in its quest for market growth.
- *Communication channels are also poor,* a situation exacerbated by the Ethiopian government's strict control over this strategic resource.

  CCSabco was unable to get permission from the authorities to use its own satellite in order to submit real-time information to HQ, and therefore could not roll out SAP to Ethiopia, unlike all other countries in which it operates.
- Most of Ethiopia's industries remain state-owned, in particular *support industries* such as mechanical and electrical engineering workshops which are extremely poorly equipped in terms of skills and machinery.

  In addition, as CCSabco embarked on an ambitious refurbishment and expansion campaign, it soon found that most suppliers of new bottling equipment and the like did not have permanent local resources capable of delivering the requisite after-sales service levels.
- Although local Ethiopian talent has proven to be extremely trainable and enthusiastic, CCSabco was confronted with an extreme *lack of critical technical skills* as a result of state-ownership of most industries. Technicians at relatively well-run Ethiopian Airlines offered some respite to the dearth of talent.

- *Language* also proved to be an issue in communicating with the workforce, especially amongst older employees who were only able to converse Amharic, where as younger qualified Ethiopians are conversant in English.
- *A lack of local supply of raw materials* meant that the company has had to import materials at considerable cost and/or invest in local facilities.

  The company itself refines locally produced sugar in order to meet quality specs as set by TCCC. It also generates its own CO^2. It still experiences problems with the supply of locally manufactured glass bottles, although the position has improved over the years (the glass manufacturer is government-owned and used to supply as little as 30% of the company's needs), while the privately-owned manufacturer of crowns has still not come up to scratch.
- High levels of economic growth, coupled to limited exports, has resulted in a *critical shortage of foreign exchange*, resulting in delays of around 3 months being experienced before the company is able to remit payment to off-shore suppliers.

  CCSabco has taken a long-term view of its investment in Ethiopia, re-investing all profits earned to date and thereby not requiring foreign exchange to remit as dividends to their off-shore owners (which would typically be harder to come by than in the case of paying for imported materials.)
- When CCSabco took on the franchise in 1998, it had to also take *local shareholders* on board who weren't known to them and who held a total stake of 38% in the local company, thereby having the right to block special resolutions from being passed. This frustrated CCSabco when it came to raising capital in order to fund its aggressive investment programme. The situation was further exacerbated when some of the partners were subsequently imprisoned for nefarious dealings - also when the owner of the competitor Pepsi bottler acquired a 12% stake in their affiliate from previous partners who were forced to liquidate their holdings.

  CCSabco were subsequently able to convert company debt into equity and increase their shareholding to 80% as a result, thereby crossing the 75% threshold required in order to pass special resolutions.
- *On a positive note*, Murray experienced generally good levels of governance as practised by the authorities. Corruption and crime weren't issues at all. He puts it down to the intolerance of dishonest practises displayed by Ethiopians.

Key Success Factors employed in order to turn the business around:

These included the following:

- Getting volumes up to a critical mass was essential in order to build a business capable of doing better than break-even, *win the confidence of its owners and then invest aggressively* in order to really exploit the potential for TCCC's powerful portfolio of brands.

  In order to do so, early investment in the two Ethiopian bottling plants took the form of cautiously rehabilitating existing assets, rather than spending big on new replacement plant. Capacities were initially expanded to meet the potential of the surrounding areas only and only 3rd party hauliers were used to truck product to agents. Funding was obtained from local sources (not from shareholders.)

  Pricing, too, was conservative with annual increases held at below-inflation levels in the early years in order to get volumes up to critical mass levels and explore the potential for the Coke range of products. Only later, when a position of full supply had been reached, did CCSabco Ethiopia begin to price more fully in order to begin to earn a return on their considerable earlier investments.

  This cautious, 'pay-as-you-go' approach had the desired effect in that it gave CCSabco the confidence to expand more aggressively in the second phase, installing new equipment that sufficiently increased capacity in order that it could fully service the entire country. The bottler also bought 15 of its own hauliers in order to improve service levels to rural agents and simultaneously lower the cost of doing so.
- With the help of TCCC, CCSabco effectively *lobbied government to reduce the excise tax* levied on its product from 50% to 30% of the cost of production. CCSabco's undertaking to re-invest profits made it easier for government to meet its demands.
- 'Sabconisation' is the term that Murray uses to describe the group's set of *core systems and processes*, aided and abetted by TCCC's world-wide standards for its franchise bottlers. These served CCSabco well in fast-tracking change after taking over the Ethiopian bottler. Only minor adaptation to local conditions was required, of which the major one was to replace SAP with a PC-driven information system because of government interference.
- *Expatriates* have been a key component of the successful turn-around achieved by CCSabco in Ethiopia. Apart from requiring CCSabco's very best talent to head up the general management and finance functions, the lack of local skills meant that full and part-time expatriate skills remain an essential component of the technical function to this day.

- The local company places great emphasis on *training and development of Ethiopians,* including the establishment of a training centre where CCSabco's processes and systems are taught to local employees. This training is supplemented by visits to observe best-in-class practices in other countries within the Coca-Cola family, although costs often become exorbitant. The success of the training and development programme is underlined by the fact that 3 Ethiopians are currently serving as expatriates in other CCSabco affiliates.
- TCCC's *focus on operational excellence* has been fully taken on board by the CCSabco group of bottlers, also in Ethiopia where it forms the backbone of their continuous improvement programme.
- CCSabco's business model is *decentralised*, and becoming more so. Functional support services to the Ethiopian affiliate such as human resources, previously supplied from its East African divisional office in Nairobi, have been discontinued in favour of strong in-country functions backed up by high-level support, if required, from their Port Elizabeth HQ. "*Country management teams run their own businesses with support from the centre,"* is how Murray explains the CCSabco model at work.

Results achieved:

CCSabco's Ethiopian turn-around really gathered momentum from 2001 onwards and although the unlisted nature of the affiliate means that profit numbers are not in the public domain, the following indicators attest to the extent of the turn-around achieved by Murray and his team:

- Compound volume growth, as well as net sales revenues (as measured in US$) have both grown by 24% per annum to date. The latter feat also means that the company was able to extract real price increases, as the Ethiopian Birr has been devaluing against the US$ over this period.
- Net income before tax has turned from loss-making into a meaningful profit result.
- Return on invested capital has turned from negative into +26%.
- CCSabco's market share (its major Ethiopian competitor is the foreign-owned Pepsi bottler) has increased from below 30% to almost 60%.
- CCSabco's franchisor, The Coca-Cola Company (TCCC) has given the bottler a favourable concentrate price in order to help fund its investment in expanding the business. TCCC, however, has also benefited substantially from the increase in concentrate sales on the back of Ethiopia's 24% compound growth in volumes – a win-win situation which makes for the perfect franchisor/franchisee relationship.

- The Coca-Cola Company's dashboard of operational efficiency and quality measures, by which it measures the performance of all its bottlers, has shown vast improvements on all fronts for CCSabco Ethiopia.

Sources

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5.6. SUMMARY

This chapter dealt at some length with the findings of the empirical research study. In particular, it provided answers to the research questions contained in chapter 4, aspects of which were discussed in the literature review in chapters 2 and 3. These answers were grouped as follows:

- Confirmation of reasons for MNCs investing in SSA
- Confirmation of impediments to doing business in SSA
- The identification of Key Success Factors (KSFs) employed by MNC affiliates in SSA (including ways of exploring the BOEP potential)
- Case studies of MNC affiliate successes achieved in SSA.

The final chapter that follows will attempt to capture the practical uses to which the results of this study may be applied by both existing and potential investors in SSA, as well as authorities desiring to attract new investment to the region. It also touches on the limitations of the study and possible future areas of research that could be of further benefit to both businessmen and governments of the region.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1. INTRODUCTION

This research study will be deemed a success if it makes even a modest contribution to making SSA a more predictable and less hostile place for businessmen to operate in, especially those intent on conducting themselves according to the finest principles of the free enterprise system.

This final chapter summarises the potential use of the results of this study by both existing and potential investors in SSA, and recommends potential areas for additional research that could be of further benefit to the region's businessmen. It also highlights the limitations of the study as far as extrapolation of the results is concerned.

It further is hoped that the representatives of SSA governments charged with attracting and regulating foreign investors will also find these results of use in their quest to establish a flourishing and responsible business sector in their respective countries. They too, could benefit from further research as suggested in 6.4 below.

6.2 CONCLUSIONS

6.2.1. Overview

Evidence presented in this paper suggests that sub-Saharan Africa (SSA) represents an interesting business opportunity for MNCs in search of *growth*, especially for those willing to explore *the BOEP opportunity*. It further suggests that the challenging business environment of the region may be effectively overcome by firms that are well prepared and willing to adapt to local needs.

The study also highlights the current opportunity that exists in the region for *firms setting out from South Africa,* who, being African and based in Africa's most dynamic economy, should have an advantage over MNCs from the rest of the world (Brews, 2006: 379).

The *set of key success factors (KSFs)* developed from the research results could serve as practical tool for application by firms already present in the region, as well as those preparing to enter SSA for the first time.

Due to the advantages accruing to early mover entrants, *a degree of urgency is suggested for firms considering new investments in the region*, although as Fanus Nothnagel correctly points out, the window of opportunity for early movers into SSA will remain open for an extended year or two as result of the current global financial crisis which is forcing MNCs to focus inwards at restructuring their business models, rather than investing in new high-risk markets.

6.2.2. SSA's business environment in perspective

The MNC executives interviewed during the empirical research process gave the lie to the following description of SSA, which is often still held by commentators not intimately involved in the region: The prospect of investing in sub-Saharan Africa can cause businessmen to sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets where war, famine, AIDS and disaster are always lurking" (The Economist, "The flicker of a brighter future", 2006: 65).

On the one hand, all respondents agreed that serious *impediments* to doing business in the region do exist, especially in the areas of infrastructure and local skills. However, these are *not impossible to overcome*, as proven by examples provided and case studies included in chapter 5.

Jacko Maree of Standard Bank further put the much-vaunted spectre of corruption in perspective by commenting that dealing with *corruption is not such a big issue* when operating in SSA and points out that other banks such as Citibank and Barclays have been operating in the region for many years, without having to employ corrupt practices. "Corruption exists in most countries, including SA, but you simply have to turn down opportunities that involve this type of unacceptable behaviour."

Nick Blasquez adds sage advice to investors in SSA: "Diageo's long and profitable history in Africa has contained its fair share of ups and downs which has taught us the value of being *patient during the bad times*."

SABMiller's Mark Bowman further believes that the risk of moving into high-risk markets may be offset by building up a *portfolio of investment spread across the region*. "There is risk to moving in early, but the portfolio effect should take care of the impact on overall results".

All MNCs and their affiliates active in the region have successfully developed *mechanisms to cope with the region's tough business environment* and there's every reason to believe that determined and well-equipped newcomers will be able to follow in their footsteps.

On the other hand, SSA's *profit potential* is usually *under-estimated* by those not familiar with the region. This view was well-represented by David Hampshire who commented that being able to see the potential of Africa becoming a key contributor to Guinness's world-wide earnings, despite an environment that was often hostile, was critical. David's experience was that this insight was generated *from within their African business*, in their case, by their own expatriates seconded to Africa. He had to expend considerable effort in order to convince his 'masters' from headquarters and members of the board of the extent of Africa's potential.

In fact, Rob Nisbet believes that MTN has lost substantial profits due to the growth in demand exceeding their wildest expectations. "From an overall demand perspective, we always underestimate the size of the market. If we had been better at this from the start, you'd probably

find that our *bottom line profitability would today be 15 – 20% better* as a result of market share losses sustained due to capacity constraints".

Nathan Kambul believes that Africa is really making progress, reporting that The Coca-Cola Company is *optimistic* about its future and willing to invest in the capacity of its business on the continent.

Africa's potential is often hidden from outsiders, but well known to those with operations on the continent, as illustrated by this comment from SABMiller's Graham MacKay: "*If there was more of Africa, we'd be investing in it"* (The Economist, "The flicker of a brighter future",2006: 65).

6.2.3. 'Business as usual' plus

"Doing business in Africa is not business as usual. The principles of good management may be universal, but the context and the people differ profoundly in Africa" (Luiz, 2006: 391).

The set of Key Success Factors (KSFs) identified from the research results should not come as any surprise to MNCs with operations throughout the developing world. The proper use of expatriates, focus on execution, investing ahead of demand and the like are standard fare for developing markets from Cameroon to China.

Even the following commentary from Faull (2006: 317) may be applied to most developing markets: "It is often noted that business in Africa is characterised by 'deal making' rather than process excellence. Deal making is most common in situations of uncertainty. And in Africa there are many sources of uncertainty, or so it has been over the past 50 years......Even aid, of which Africa is the hungriest continent, can be seen to be about deal making. However, sustained progress for Africa must be built on sustainable process excellence: being a reliable partner in a local and global trading environment cannot be based on 'deals'. Many of the uncertainties (infrastructure, rule of law, health care) have process as the core counter measure, and it is a sobering thought that both the private sector in Africa and the public servants in Africa will have to shift from 'deal making' to process reliability or certainty to deliver long-term value to their 'customers'."

However, the area requiring *fresh insights and solutions* has been described by Hart and Christensen (also cited in London and Hart, 2004) as the mounting *pressure on MNCs to create a more inclusive capitalism*, including a greater role in addressing global societal issues such as eradicating poverty and environmental protection in developing countries. Although observers will note that this too, represents a global challenge to big business, it is of particular relevance in SSA, the poorest continent on the globe and possessed with a past of being exploited by colonial and super powers alike.

The two KSFs that deal with this issue are headed '*making trade-offs in order to share the benefits (and burdens)*' and '*partnering with government'*. Both are particularly relevant to those wishing to do business in the region, bearing in mind that the results of this research represent a work in progress.

6.2.4. Capturing the opportunity that exists at the base of the economic pyramid (BOEP)

Base of the economic pyramid (BOEP) markets, consisting of the billions of aspiring poor who are joining the market economy for the first time, have been described by Prahalad and Hart (as cited by London and Hart, 2004) as the new untapped source of market promise. However, capturing the opportunity that exists at the base of the economic pyramid is virtually uncharted territory for MNCs and academics alike (Ricart et al,2004: 194).

The empirical research results provide an affirmative answer to the research question formulated as whether it is possible for MNCs to commercially explore the considerable potential that exists at the base of the economic pyramid in SSA. *A number of successful examples* were uncovered, from MTN building a US$ billion-plus company in Nigeria on the back of small domination pre-paid call cards, to SC Johnson's success with mosquito-repellent coils in Ghana and Nigeria, sold one coil at a time.

MNCs have proven that it is possible to explore this difficult-to-reach segment of the market, although they're nearer the beginning than the end in their ability to do so consistently.

6.3. SCOPE AND LIMITATIONS OF THE RESEARCH

6.3.1. Scope of the research project

6.3.1.1. The focus on MNC affiliates

Empirical research was conducted among MNC affiliates who have a meaningful presence in *sub-Saharan Africa(SSA)* and proven track record of supplying *branded goods and services* to consumers in the region. The sample was structured to include:

- MNC affiliates head-quartered in different countries (UK, USA and South Africa)
- Fast-moving consumer goods manufacturers (soft drinks, milk, beer & spirits)
- Service providers (banking, advertising and mobile phone call time)
- Retailers.

It is further important to note that the study was focussed on the behaviour of the *affiliates* or subsidiaries of MNCs, as opposed to MNC headquarters. This distinction is consistent with the

observation by Phene and Almeida (2008: 902) that: “given this importance of the subsidiaries to MNC success, researchers are increasingly examining subsidiary performance.”

6.3.1.2. A panel of experts

Personal interviews were conducted with a selected convenience sample of 18 senior executives (current or past Managing Directors of affiliates or regions) of the MNCs included in the study. In limiting the research to a relatively *small group of top executives* (as opposed to a larger sample that would necessitate including middle-management), the author was swayed by the earlier plea from Tsui (2004: 508) for the need to build new theories of management and organisations in emerging economies where businesses are new phenomena. This goal is best achieved by gaining the views from a panel of experts: those at the very top of their organisations who have a complete view of all the complexities of doing business in the region, from strategy all the way through to the most mundane of operational challenges.

6.3.1.3. South Africa excluded from sub-Saharan Africa (SSA)

The geographic area studied was that of SSA which is defined as Africa minus the North African countries of Algeria, Egypt, Libya, Morocco, Sudan and Tunisia (UNCTAD, 2008: 2). It was chosen as the economic region under review because it is *poor, undeveloped and under-researched.* This makes it topical and worthy of further research, as endorsed by the following authors:

- Studies by Hart and Milstein, as well as Prahalad and Hart (cited in London and Hart, 2004) show that a growing number of MNCs are now beginning to recognise and explore the enormous business opportunity that exists at the base of the economic pyramid (BOEP), of which SSA forms a significant part.
- However, almost no empirical research exists on strategies for pursuing opportunities in low-income markets in developing countries (London and Hart, 2004: 351).
- Tsui (2004:497) argues that in order to advance global knowledge, more context-specific or indigenous research is needed.

For purposes of this study, *the South African market,* and therefore MNC affiliates operating in that country, has been *excluded* from the SSA countries, because it has a relatively well-developed economy and possesses a business-friendly environment, characterised by good infrastructure and business skills. In fact, BusinessMap Investment (cited in Grobbelaar, 2006) found that South Africa is fast becoming a major source of Foreign Direct Investment into the rest of the SSA region. It should come as no surprise, therefore, that many of the MNCs and senior executives included in the research study hail from South Africa.

6.3.1.4. The Literature review

Results drawn from the extensive review conducted of international business literature on the subject of developing economies, including SSA, may justifiably be regarded as being representative of current theories held by academics in the field of international business. As may be seen from the bibliography, which contains over a hundred references, a wide range of international business literature was reviewed by the researcher.

6.3.2. Limitations of the research results

Because *the empirical research study* was restricted to only *18 senior executives from 11 MNC's* operating in the SSA region, as defined for purposes of this study, it allowed for the capture of in-depth knowledge and thought regarding the business challenges faced in SSA. On the other hand, however, the limited sample of respondents surveyed means that the results of this study cannot be taken as being representative of all firms operating in the region.

The secondary research component was hampered by the paucity of business research amongst the economies of SSA is severe, partially as a result of the lack of interest in the region as displayed to date by international investors. Smit (2006: foreword) comments that "Africa is seen as the last untapped market for business education in the world. The need for business education here is almost boundless." So for SSA-specific business literature, much reliance was placed on the content of one publication: Luiz's (2006) 'Managing Business in Africa' which, although an excellent reference work, cannot purport to be fully representative of business developments throughout the region, apart from being somewhat dated.

6.4. RECOMMENDATIONS FOR FURTHER RESEARCH

The following suggestions for further research are aimed at extracting full value from the results derived from this study:

- In order to overcome the limitation of not being able to replicate the current research results, one should test the support for the Key Success Factors identified in this study amongst a *representative sample* of MNC affiliates operating in the region.
- Because the governments of SSA countries are such key influencers of the business environment in which firms have to operate, it would be useful to conduct *research amongst governments* of the region in order to ascertain their views of FDI, private enterprise behaviour and the potential for government partnering with business to the benefit of society at large.

- Due to the unquestioned promise of *BOEP markets* on the one hand, coupled to the new challenges facing firms wishing to explore these markets commercially on the other, further *case studies* of commercial success achieved in this market segment would go a long way towards giving more firms the confidence of extending their activities to this market segment.
- Because expatriates are so important to the MNC cause in SSA, but are also often regarded with suspicion by host countries, a separate research study on the subject of *the use of expatriates* in the region would be of value to a wide range of stakeholders.
- As *Nigeria* represents SSA’s largest economy (excluding South Africa) and is a closed book to most MNCs not invested there, research of the business environment prevailing in that country would help open it up to possible further FDI-flows from MNCs.

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APPENDICES

APPENDIX 1: PROMOTER'S LETTER TO RESPONDENTS

To Whom It May Concern:

IDENTIFYING THE KEY SUCCESS FACTORS FOR FIRMS DOING BUSINESS IN SUB-SAHARAN AFRICA

Sub-Saharan Africa (excluding South Africa for purposes of this study) fares poorest of the world's regions when it comes to attracting Foreign Direct Investment, due to investor perceptions of unacceptable country risk associated with doing business in the region.

Against this background, Mr Andre' Parker, a M Comm student at the University of Stellenbosch, is conducting research to ascertain the true extent of business challenges present in the region, as well as to identify the Key Success Factors implemented by those early mover firms already present in sub-Saharan Africa. It is envisaged that the results of this study could encourage and assist more firms to invest in the world's last untapped market for consumer goods.

The research study will take the form of a face-to-face interview of about 90 minutes in duration with a selected sample of senior executives such as yourself and will be based on your responses to the following four over-arching questions:

- The reasons for your firm investing in sub-Saharan Africa.
- The nature of the business environmental challenges faced by your firm when doing business in the region.
- The Key Success Factors that your firm has adopted in order to be successful in the region.
- Practical examples of the impact of each Key Success Factor at work in your business.

For purposes of clarity, the four questions have been expanded and accompanied by examples in the enclosed attachment.

Andre' will record your answers during his interview with you, so there's no need for you to put pen to paper. On the other hand, your thoughtful and considered responses in answering the questions would be greatly appreciated, so you may wish to formulate some of these ahead of the interview. All responses will be treated with the utmost confidentiality. Should you have any additional queries, please do not hesitate to contact me at jhough@sun.ac.za .

A copy of the final research report will be available from the university to all respondents. We truly appreciate your valuable contribution to expanding the knowledge base of business conditions and practice in the sub-Saharan region of Africa.

Sincerely,

Prof J Hough
Promoter
Department of Business Management
University of Stellenbosch.

APPENDIX 2: INTERVIEW QUESTIONS

Please note that your responses should not be limited by the examples provided below.

Question 1: What are the 3-5 main reasons for your firm investing in sub-Saharan Africa?

Although the answers may seem obvious to the casual observer, this study wishes to identify those reasons that are so compelling that they have persuaded these early movers to invest in the region despite its considerable business environmental challenges.

Reasons may include:

- Low cost of entry or failure.
- Low levels of existing competition.
- High profit margins.
- Growth potential.
- Improving governance levels.
- Improving infrastructure.
- Availability of investment incentives.
- In order to improve your parent company's growth profile.
- As part of your parent company's internationalisation strategy.
- To exploit the potential for your parent company's brands.
- Your parent company's ability to support their affiliates in the region.
- Your firm possesses products that are affordable for the region's poor consumers.

Question 2: What are the 3-5 major difficulties encountered by your firm in doing business in sub-Saharan Africa?

It is possible that the perceived obstacles to operating effectively in the region may be overstated or misunderstood by commentators who do not have first-hand knowledge of doing business on the ground. This study wishes to learn from actual practitioners in order to separate fact from fiction.

Obstacles may include:

- Poor physical infrastructure.
- Communication problems.
- A lack of support industries.
- Unavailability of raw materials.
- Crime and safety concerns.

- Port congestion.
- Long lead times and cost of imported components & materials.
- Government interference in business.
- Incompetent officials.
- Bribery and corruption.
- Excessive taxation.
- Lack of local skills.
- Difficult-to-train local citizens.
- Language and cultural barriers.
- Competition from illegal imports.
- Lack of disposable income/ impoverished consumers.
- No brand loyalty.

Question 3: What Key Success Factors has your firm specifically adopted in order to explore and overcome the opportunities & challenges of operating in sub-Saharan Africa?

As this research study is aimed at uncovering Africa-specific Key Success Factors, the emphasis should be placed on the factors that overweight when it comes to doing business in the region. However, this does not mean that these factors should be unique from good business principles followed elsewhere in the world.

Key Success Factors may include:

- Devising an appropriate entry strategy.
- A decentralised business model.
- Being flexible when it comes to vertical integration.
- Being flexible when it comes to horizontal integration.
- Being flexible when it comes to investing in country infrastructure.
- Being flexible to innovate in order to bridge the affordability gap.
- Investing in community projects.
- Partnering government in projects.
- Communicating well with government.
- Bulked-up earnings from royalties and management fees.
- Effective use of expatriates.
- Training & development of local staff.
- By achieving execution excellence.

- By rolling out global and regional brands.
- The implementation of a proven set of systems and processes.
- The effective use of technology (world-wide web, internet, mobile ‘phones).

Question 4: Provide practical examples of the impact of the Key Success Factors mentioned under 3 above at work in your business.

These examples are a critical part of the research study in that they provide the evidence in support of the Key Success Factors as identified. The final research results will include a number of case studies based on the input received from correspondents.

Question 5: In particular what, if any, measures have your firm adopted in order to reach Africa’s poorest consumers (those earning < a dollar a day)?

These consumers make up a roughly of the region’s consumers and as such are a great source of market potential (also on the world stage.)

Does your firm actively pursue these consumers?

Has your firm been able to break the affordability barrier in order to tap this source commercially?

If so, please provide examples?

APPENDIX 3: RECORDINGS OF RESEARCH INTERVIEWS

1. WHITEY BASSON – CEO of Shoprite & JULIAN WENTZEL – Head of Research: Macquarie First South Securities (Julian interviewed 10.12.08)

Whitey politely refused to participate in this project because, in his own words:

"Unfortunately you must accept that Shoprite jealously guards its business expansion experience on the African continent. You, no doubt, appreciate the difficulties which have to be dealt with in this scenario from the time you spent with SABMiller.

Having pioneered this road, we place great value on Shoprite's '*first mover advantage.*' We believe that to now record our strategies in some formal record for others to use as a 'slipstream' would do a disservice to our stakeholders who had faith in our judgement and who supported our initiatives."

His non-response certainly lifts out the value that Whitey places on moving in first!

Whitey continues:"We trade in 16 other countries and *virtually all of them posted excellent results.* It is particularly our present focus on the oil-rich West-African countries that is reaping benefit."

In order to gain further information on Shoprite's performance in Africa, I approached Julian Wentzel. Julian acknowledged that Shoprite had pioneered the *discount retail format* in Africa, the model best suited to markets with low consumer spending.

Julian also referred to the findings of research conducted by Macquarie First South Securities amongst SA's top 5 retailers operating in African countries, highlighting the following factors as considerable *obstacles* to their operations:

- Poor transport infrastructure outside major urban areas
- Volatile local currencies
- Withholding taxes payable
- Problems in obtaining land titles and the acquisition of land
- Congestion at ports and bureaucratic delays
- Local government regulations, including ad-hoc taxes
- Lack of in-country retailing skills
- Language barriers.

A review of Shoprite's annual report of June, 2008, shows just how well Whitey and his men are doing in Africa, way ahead of their competitors. Shoprite currently operates 100 plus stores in 16 African countries. These stores delivered *turnover growth of 37%* to almost R6billion – a rate of growth well ahead of that achieved in SA well ahead of their South African stores.

The following excerpt from the Shoprite annual report has relevance:

	Shoprite	Checkers	Checkers Hyper	Usave	OK Furniture	OK Power Express	House & Home	Hungry Lion	OK Foods	OK Grocer	OK Mini Mark	OK Value	Megasave	Sentra
South Africa	302	119	24	91	162	13	37	93	16	54	29	12	32	58
Angola	3			5				1						
Botswana	4	1			4			7	5				1	
Ghana	1			1										
India	1													
Lesotho	4			3	4	1		2		1				
Madagascar	7													
Malawi	2			3				2						
Mauritius	1													
Mozambique	5				2									
Namibia	12	3		11	10		2	3	3	9	2	6	10	13
Nigeria	1													
Swaziland	6			2	1			1					1	
Tanzania	5													
Uganda	2													
Zambia	16							7						
Zimbabwe	1													
Total	373	123	24	116	183	14	39	116	24	64	31	18	44	71

	Angola	Ghana	Lesotho	Malawi	Mozambique	Nigeria	Swaziland	Uganda	Zimbabwe
Population 2006 (Millions)	16.6	22.5	1.8	13.2	20.1	144.7	1.1	29.9	13.1
Real GDP Growth % (ave. 2003 – 2007)	15.0	5.9	4.4	5.4	7.6	7.8	2.8	5.7	-5.9
Inflation 2007 (annual percentage change)	12.3	10.5	8.0	7.9	9.2	5.4	8.1	5.8	12,562.7

	Botswana	India	Madagascar	Mauritius	Namibia	South Africa	Tanzania	Zambia
Population 2006 (Millions)	1.9	1,109.8	19.1	1.3	2.1	47.4	39.5	11.9
Real GDP Growth % (ave. 2003 – 2007)	5.2	8.6	6.4	4	4.7	4.7	7.2	5.4
Inflation 2007 (annual percentage change)	7.07	6.4	10.65	9.7	6.7	7.1	7	10.7

2 SHOPRITE HOLDINGS LIMITED **ANNUAL REPORT 2008**

Julian and his researchers at Macquarie believe that Shoprite has reacted better than most in addressing the afore-mentioned challenges facing retailers. In Zambia, for instance, the group's 16

stores have reduced costs by *developing a supply chain of local farmers and industries* to the extent where they've become self-sufficient on all perishable goods.

In a bid to overcome the costs and delays associated with port congestion, bureaucracy and inadequate transport infrastructure, Shoprite is investigating the establishment of *regional warehouses* in East and West Africa, as well as expressing interest in boosting *local manufacturing capabilities* in key markets.

According to Macquarie, the *outlook for retailing in Africa is bright*, especially for retailers that target low income markets. "Food retailers in particular are pushing most aggressively into SSA, pressed partly by SA's own saturated domestic market and the need to expand abroad to stay competitive, but also enticed by untapped opportunities and consumer populations emerging in Africa for the first time. Although informal markets and small shops will remain the most common source of goods for many, large chains are increasingly making progress. The main retail opportunities in Africa will continue to be for *products that are priced for low income markets.* Shoprite and Massmart are the leaders in this field."

Shoprite's expansion continues apace, recently announcing that it has acquired land for retail developments in Angola and the DRC.

2. DAVID HAMPSHIRE – retired Managing Director of Diageo's Africa Division

(interviewed @ 11.11.08)

<u>Background:</u>

David is British, born in 1944 and has a MBA and history first degree.

Guinness is the beer arm of Diageo, the UK-based drinks MNC.

During an eleven year spell between 1985 and 2005, David took the Guinness Africa business from a virtual standing start (they only managed their marginally profitable Cameroon subsidiary at the time) to become sub-Saharan Africa's most profitable brewer (when excluding South Africa.) In the latter years under his tenure, Diageo's considerable spirits interests were combined with the Guinness beer business to form Diageo Africa.

The following profitability indicators of their two largest listed African affiliates illustrate the success achieved by Diageo in SSA:

1. East African Breweries 2008 PBT = $160m on net turnover of $420m.
2. Guinness Nigeria 2008 PBT = $144m on net turnover of $586m.

Before taking over as head of Africa, David completed a four year stint as MD of Guinness Cameroon, the 5th largest market for Guinness in the world. Previously, he had spent 10 years in Zambia, working for both the Zambian government and private enterprise.

One of the major reasons for the success achieved during his tenure as Diageo's Africa head may undoubtedly be found in lessons learnt during his early days of operating on the ground in Zambia and Cameroon.

(1) Reasons for investing in SSA

1.1. In deciding to transform Guinness's African business from one where only their brand was made available via 3rd party brewers in West Africa (in whom Guinness held majority positions), David was persuaded by his own experience in Cameroon plus the opinions of his staff in those operations that Guinness could out-perform these brewers and become Africa's dominant brewer if they could get themselves into a *control position* so that they could run these breweries their way.

This coincided with Unilever selling their shares in their Nigerian brewery and the Ghanaian government selling part of their holding in that country. By purchasing these shares and by underwriting rights issues, taking up share offerings and the like, also in East Africa, Guinness achieved their desired control positions and was subsequently able to freely implement its proven systems and processes. David was content to start off with a minority share in a targeted company, introduce the Guinness brand(s) and then patiently build up to a position of control over time (as opportunities invariably present themselves along the way.)

The experience of operating in Africa, built up by David and his men, convinced them of just how large the potential was despite the fact that a business targeted for acquisition (and its environment) may be in a desperate state. The fact that Guinness lost out to SA Breweries in the privatisation of the bankrupt Tanzanian Breweries was as result of their corporate finance people in London being unable to justify paying even a modest price for future potential despite the urging of the operators, ie, David and his team.

Being able to see the potential of Africa becoming a key contributor to Guinness's world-wide earnings, despite an environment that was often hostile, was critical. David's experience is that this insight was generated from within their African business, ie: by their own expatriates seconded to Africa. He had to work at conveying this message to his board of directors (also by taking individual members their African operations) who, in turn, backed him and his men all the way in making the dream come true. "Tony Greener, who was the chairman, and Brendan O'Neil, who was MD, believed that Africa was a good place to invest money and also that I was capable of delivery. The board has got to believe in the opportunity and has got to believe in you."

1.2. *Relatively small amounts of money spent* behind the introduction of the Guinness brand allowed for the opening up of new markets, for example Burkina Faso which grew into a profitable business and Madagascar which failed, but at minimal cost.

1.3. He further felt that all the reasons suggested in the questionnaire were valid to a lesser or larger degree, depending on the particular opportunity being considered.

(2) Difficulties encountered

2.1. David regards SSA's difficulties as an advantage as they *keep potential competitors from opening up* in the region. At the same time, Guinness has proven that they can be overcome.

2.2. The *fluctuating fortunes* experienced by most SSA countries is also seen in a positive light in that the hard times allowed Guinness to structure their businesses appropriately, which meant that they benefitted exponentially when the good years finally came. Two key factors employed during the lean years were to be *patient* and not to under-invest in *capacity,* as the eventual upswing would be so steep that it would invariably exhaust all available capacity, thereby limiting the firm's potential benefit during the upswing.

2.3. *When governments interfered in their business*, Guinness would look for the underlying reason which, if legitimate, they would try and sort out. If a corrupt practice or official was at the root of the problem, they would simply sit it out until things changed for the better.

2.4. *Corruption* was not that widespread and normally encountered at the lower levels of officialdom. The best response, beyond refusing to pay bribes, was to employ legitimate 3rd parties, such as forwarding and clearing agents, to act on their behalf.

(3+4) Key Success Factors employed

3.1. See 1.1. *Control* is critical.

3.2. See 2.2. *Patience and investment ahead of demand* also.

3.3. "Within Africa, brands are extraordinarily important. It was the fact that the *Guinness brand* was so strongly entrenched in Africa that we believed that we could build on it and use it." Brand acceptance provided the confidence for Guinness to invest and expand in SSA.

3.4. In turning around acquired businesses such as East African Breweries (EABL), Guinness had to put an end to bad practices, introduce transparent purchasing processes, retrench excess heads, etc. Key to effecting a successful turn-around was *a capable set of expatriates*, especially the country MD. In the case of EABL, Pat Healy was such a man (he retired a few years ago to Kenya, having completed over 50 years service with Guinness – he started with them in Ireland at the age of 15!) who knew what needed doing and went out and did it, however unpleasant the task may be. "Ireland was the great resource for me. We had some super people in Ireland who understood breweries and were willing to come to Africa."

3.5. The MDs of country affiliates were encouraged to *make their own decisions,* on the understanding that these were discussed with David before-hand. In instances where they could not agree on a course of action, David would allow the country MD to have his way unless it was an absolutely critical issue at stake. ”The key to all of this is that you have to have confidence in the MD.” Bringing in someone from within the Guinness culture was always a great help.

The role of the centre is to co-ordinate activities, look for new opportunities, move people around and manage the global brands. There were considerable tensions between Diageo’s African division HQ and their Global HQ because of a perceived lack of the understanding by the latter of the issues at hand (in David’s view, at least!)

3.6. David further warns against the accepted practice of *global brands carrying the same label and advertising* the world over, citing disastrous experiences with changes made to Smirnoff Vodka and Mainstay Cane labels as evidence – beware the bright, well intended brand manager based in London who does not heed the protestations of the African operators on the ground!

3.7. *Being seen to be a local company* in which Diageo had a shareholding, as opposed to being a branch of a MNC, was critical. This meant working really hard at meeting expectations from local shareholders and taking them seriously, because only when one has their support will local governments take one seriously when confronting them with issues requiring resolution.

David invested substantial time and energy in ensuring that *local board members* (who were normally in the majority) were properly recognised and *understood* the necessity for often taking unpopular operating decisions. Understanding the true expectations of local shareholders is often not so straight forward: “I spent my time in board meetings watching the body language of the local directors, more so than necessarily listening to what they had to say.” David goes on to quote EABL’s Kenyan chairman as commenting as follows about a newly arrived expatriate: “You know David, the problem with that young man is that he thinks I mean yes when I don’t say no.”

Having local shareholders meant sharing the profits with local citizens, but also meant that these shareholders became great *ambassadors for the country affiliate’s brands*. In addition, government’s perceptions improved dramatically – David contrasted the negative perception of Barclays (100% foreign-owned) in Kenya versus that of EABL, even though the latter is controlled by Diageo.

David was further able to get a partial exemption from Diageo’s global sourcing policy in order to *source materials locally,* where possible and given quality and price parameters.

3.8. David further thought that all examples of KSFs quoted in the questionnaire were valid.

(5) Exploring the BOEP opportunity

Because the Kenyan government was keen to eradicate illicit home brewing (which had resulted in numerous deaths due to poisonous ingredients and a lack of hygiene), the local Diageo affiliate identified an opportunity to meet government's request while simultaneously putting a beer on the market that could be affordable to the poorest of the poor.

Kenya Breweries produced a low-cost beer from locally-grown barley (thereby replacing imported malt as one of the key raw materials) and made it available in draught form, thereby eliminating packaging costs. They also reduced their profit margin on this particular offering. From their side, the Kenyan government reduced the excise tax levels levelled on this particular beer to further lower the price positioning in order to effectively compete against home brews.

3. NICK BLASQUEZ – current MD of Diageo Africa

(interviewed telephonically 10.12.08)

Background

Nick is British and succeeded David Hampshire as Diageo's MD for Africa 4 years ago. He joined Diageo in 1988 and was exposed to the logistics, production, sales and marketing disciplines before becoming General Manager for some of Diageo's key spirits brands in the UK. Thereafter, he took charge of the full range of Diageo products (spirits, beer, wine and RTDs) in the company's key Asian markets, before transferring to his current position.

Diageo currently operates in over 30 African countries with a number of breweries and spirits distilleries spread across the continent. The division currently turns over in excess of a billion pounds per annum or 12% of Diageo's global total. Beer contributes 50% to Africa's turnover, with Spirits at 35% the other major contributing product category.

(1) Reasons for continuing to invest in Africa

1.1. The company has a long and successful history in Africa, beginning with the first shipment of Guinness FES to Sierra Leone in 1826, while their first brewery on the continent was built near Lagos in 1963.

"This long and profitable history has contained its fair share of ups and downs which has taught us the value of being *patient* during the bad times."

1.2. "*GDP growth rates* in Africa have been outperforming that of the global average in recent times, helping our African business to double its revenues over the last 4 years." Nick expects this superior growth to continue in the years ahead.

1.3. SA, Nigeria and Kenya have for some time now continued to contribute substantially to Diageo Africa's success. In addition, they are starting to experience excellent growth from *new emerging markets* such as Angola and Ethiopia.

<u>(2) Operational difficulties in SSA</u>

2.1. The ability to attract and retain sufficient *local talent* out of a limited pool is at the top of Nick's list of difficulties. "There's a real war for talent out there as new investors start to enter the region."

2.2. *Poor infrastructure* (power, roads, ports, water) adds enormous cost to doing business in Africa. These costs come in the form of having to provide stand-by generators, failure to fully supply demand, as well as increased working capital, maintenance and running costs.

2.3. *Corruption is not an issue* for Diageo per se, as the company not only adheres to its internal strict code of conduct, but also complies with the Sarbanes-Oxley code and the Foreign Trade Corrupt Practices Act.

Nick does, however, acknowledge that: "corruption is an unfortunate reality in Africa that stunts growth." With regard to Nigeria's oil revenues he asks: "where has all the money gone?"

<u>(3&4) Diageo Africa KSFs</u>

3.1. Nick's a great believer in including '*local partners that share your values'* in Diageo's affiliate companies in Africa, which is unusual for the parent company who typically strives for 100%-owned affiliates. He describes the local advice and influence brought by these partners (or effective non-executive directors in the case of their listed affiliates) as "ensuring that you're more integrated into the community."

As Diageo's businesses are heavily taxed and regulated, local directors play a key role in allowing the company to have its input when government considers legislation that will affect its performance.

As an aside, Nick is particularly proud of the fact that their Nigerian and East African affiliates boast 70,000 and 26,000 local shareholders respectively.

3.2. Although Diageo is the leader in the field of global premium liquor brands (and therefore requires a great degree of central control on all matters that affect the equity of their brands), their African affiliates require *devolved decision-making* in order to reflect the unique challenges and opportunities of the region. "When you're in it, it's not rocket science, but the view from London is often very different. The local GM must have full accountability for his own ship."

3.3. Being a *good corporate citizen* is becoming increasingly important, especially in Africa with its generally well developed sense of community. However, there's a fine balance to be had between over-generous hand-outs and supporting projects that truly make a difference.

3.4. Linked to 2.1 above, Diageo focuses on local talent development, as opposed to merely relying on expatriates to fill the management void. In fact, they have managed to halve their expat complement over the past 4 years.

3.5. Nick stresses the importance of applying Diageo's global standards and processes in their African businesses, especially when it comes to brand building, quality control, people development and innovation. These simply have to be adhered to!

(5) Exploring the BOEP opportunity

Nick agrees with David Hampshire that *Senator Keg*, the low-priced barley-beer offering from East African Breweries (EABL) in Kenya is a good example of this strategy at work, although it also incorporates a further African KSF, ie that of partnering government. The facts are as follows:

Illicitly-made alcoholic concoctions (that included the addition of battery acid and other unmentionables!) had become a national problem, especially in greater Nairobi, because it had unsurprisingly resulted in numerous deaths amongst consumers.

In reacting to this tragedy, EABL approached the Kenyan government and proposed that they could target these poor consumers of dangerous alcoholic concoctions with a milder healthy alternative at an affordable price, on condition that government would drastically reduce the high excise tax on beer made from barley in this instance, in order to make it affordable to these BOP consumers, while still giving government an income from these sales (remembering that they received no income from the illicit products.) From their side too, EABL had to invest heavily in draught dispensing equipment (in order to eliminate packaging costs) and also undertook to make Senator Keg exclusively available in those areas where illicit concoctions had become a problem (mainly Nairobi's sprawling slums), which effectively meant employing a separate sales and distribution organisation.

The result was that a 300ml serving of Senator Keg was offered at 15 Kenyan Shillings (20 US cents), as opposed to 60 K Shillings (75 US cents) for a 500ml serving of Tusker Lager (their mainstream beer.)

The off-take was phenomenal, reaching 1million HL within 18 months. Government was so impressed by the reduction in the availability of illicit concoctions and its effects, that it dropped all excise tax on Senator Keg entirely, content to reap the additional corporate taxes delivered by increased EABL profits resulting from Senator.

The World Health Organization hailed the initiative and the Kenyan Minister of Health wrote a letter of commendation to EABL.

Addendum: Nick's 2008 interview with BBC Radio 4:

"It started about 4-5 years ago when we studied the illicit alcohol market in Kenya and found that it accounted for as much as half of all alcohol sold in the country. It is made from industrial produced methanol at strengths of up to 50% alcohol by volume (ABV) with flavourings and other more dangerous additives and is extremely injurious to health, resulting in numerous cases of blindness and deaths as a result. Because the heavily taxed legal alternatives were out of reach of poorer consumers due to the affordability gap, these consumers had no alternative but to literally take their lives in their own hands by purchasing these cheap, unhygienic and illicit concoctions.

Although no official statistics are available, anecdotally and judging by press reports, incidences of illness and death directly related to alcohol consumption have shown a marked decrease since the introduction of Senator Keg. In addition, the Kenyan government, who initially had reduced the excise duty on Senator Keg in order to help us deliver a keenly priced 6% ABV beer against the illicit brews, completely eliminated duties after a year or so because they recognised the benefit of the product to society.

The profits from sales of Senator Keg are making a meaningful contribution to our business. The off-take has been such that we soon had to expand our production capacity dedicated to producing this product."

4. DANIE NIEMANDT – retired Operations Director of SABMiller East Africa

(interviewed 16.11.08)

Background

After a successful 20-year stint in South African Breweries (SAB), initially as a Human Resources practitioner and later in General Management, Danie was seconded to Tanzania Breweries Ltd (TBL) after SAB had purchased the company in a privatisation process. From 1996 Danie spent 6 years as Managing Director of TBL, successfully turning around a run-down, bankrupt business into what has become SABMiller's top-earning brewer in SSA (outside SA.)

He returned to SABMiller's Africa & Asia division's HQ in Johannesburg in 2000, where he spent 2 years as Operations Director in charge of the MNC's East African operations. In 2002 he returned to the 'battle field' as MD: East Africa, based in Kampala, from where he also directly oversaw the fortunes of Nile Breweries Ltd, SABMiller's Ugandan affiliate that was locked in a battle for survival with a Diageo affiliate. After 3 successful years in Kampala, Danie announced his retirement from SABMiller.

He subsequently joined Namib Milling, a miller with operations in 4 Southern African countries, as non-executive Director.

The focus of this interview was to ascertain the facts surrounding the TBL case study.

<u>(1) Reasons for investing in TBL</u>

Danie singles out the following reasons for SAB originally investing $20m for a 45% stake plus management control in the company:

1.1. The relatively *low cost of entry* meant that the downside potential was limited, even though this was one of SAB's first forays onto the global stage. The extremely hostile Tanzanian business environment prevalent at that stage was partially mitigated by the fact that SAB's entry was in the form of a JV with the Tanzanian government which meant that they became an ally rather than a potential obstacle in SAB's way towards transforming the business.

1.2. Prospects for *recovery by the Tanzanian economy* had improved due to government ditching Nyerere's disastrous African socialist experiment in favour of a free market economy (under pressure from the World Bank and IFC.)

1.3. SAB's core South African market was mature and the group needed to find *new sources of growth.*

1.4. The due diligence process of TBL by SAB's team clearly showed the existence of substantial *pent-up demand* that TBL was unable to satisfy (in fact, more beer was imported into Tanzania than what TBL was able to produce.) This was the result of a combination of historic under-investment in assets and people, as well as poor management processes – all problems that were relatively easy for SAB to correct as it played to their core skills.

1.5. There was a further *strategic imperative* as SAB was keen to obtain a foothold in East Africa where the British brewer, Guinness, had already established interests in neighbouring Kenya and Uganda – if it were to acquire TBL as well, Guinness would have dominated the region.

<u>(2) Difficulties encountered</u>

2.1. The assets purchased were in a state of shocking *disrepair*, as were the country's utilities and infrastructure.

2.2. The existence of massive over-employment in the company (over 4,000 heads, more than double the required amount), as well as extremely costly supply and distribution agreements (both hallmarks of the socialist system at work) – these had to dismantled forthwith, despite local opposition to such drastic action.

2.3. Although they were JV partners with SAB, *government was initially extremely suspicious* and defensive when it came to supporting SAB management's turn-around plans. However, once results became evident, they became most supportive.

2.4. In the early days, some *corrupt practices* were encountered, especially when it came to clearing goods out of the Dar Es Salaam port. These were rebuffed and government informed accordingly, where necessary.

<u>(3 & 4) Key Success Factors employed</u>

3.1. In order to *ensure fair play* between the two JV partners in the early days, the IFC and a consortium of international banks were invited to take a minority stake in TBL, including a seat on the board. This helped eliminate initial suspicions that existed among the two partners and laid the foundation for a unified JV that survives to this day (although government has sold down to a minority position by listing most of its shares in TBL on the local stock exchange.)

3.2. The chaotic state of TBL at the time of SAB's take-over, meant that SAB had to rely heavily on a team of experienced *expatriate managers seconded from South Africa*. An initial team of 22 had to rebuild the TBL organisation, its people (including retrenching many heads surplus to requirement), physical assets and brands, virtually from scratch.

Fortunately, local staff responded well to the SAB systems and processes, resulting in TBL returning into profit after 18 months. The subsequent expatriate complement has been reduced to single figures despite massive growth in the business over the subsequent years.

3.3. A happy coincidence for SAB was the fact that their affirmative action programme in SA had meant that they had had a core group of experienced middle-aged managers at their disposal to second to businesses such as TBL, thereby opening opportunities for previously disadvantaged candidates in SA. These secondees proved to be an excellent fit in terms of transferring basic knowledge and skills to TBL staff.

Apart from taking the *SAB ways of operating* (systems and processes) with them, these secondees also arrived with *SAB's mission, values and business philosophies*, all of which contributed greatly in shaping the 'new TBL' as far as these critical issues were concerned.

3.4. The *training and development of local staff members* was an absolutely critical element in order to establish a unified workforce that took ownership for business results and became off-site ambassadors for TBL, thereby giving credence to TBL's claims as being 'truly Tanzanian'.

3.5. SAB was quite clear and unambiguous about its intention to *add value* to TBL's product offering through improved quality, packaging, availability, brands and consumer choice, as a means of enticing the consumer to pay a reasonable price (not cheap!) in order to *generate cash at decent margins.* In this way they were not only able to reward their shareholders appropriately for their investment (high-risk), but also finance the aggressive capex programme that TBL required in order to return to robust health.

3.6. SAB's *'tight/loose' business model* (HQ sets the rules and then empowers the affiliates to operate freely) was perfect to meet the challenges that they encountered in Tanzania – their proven approach had to be overlaid with the need for local knowledge and responsiveness.
3.7. Danie and his men clarified and simplified the SAB processes in order to develop an *execution-based business approach* for TBL that was understood and shared by all staff members.
3.8. They further *embraced technological advances* in order to accelerate the turnaround process. The advances made in the areas of cell phone and internet technology were a great help. New brew houses built in Dar Es Salaam and Mwanza were fitted out with the latest state-of-the art automated PLC systems from Europe.

<u>(5) Exploring the BOEP opportunity</u>

The approach taken in TBL's beer business was to focus on the middle and upper classes, although more recently, efforts to extend into the economy segment are beginning to be explored more.
Their traditional beer (made from sorghum and maize) business, however, was aimed at BOP consumers, but TBL found the going tough due to price competition from informal home brewers and eventually sold this business.
TBL's distilling arm, however, achieved substantial success by offering Konyagi, their popular gin brand, in 20ml plastic sachets at competitive prices to BOP consumers. This market continues to flourish to this day, although TBL is concerned about instances of alcohol abuse that may be associated with this offering.

<u>Appendix 1: TBL today:</u>

Relevant extracts from the latest annual report (for the year ended March, 2008) include:
Revenues = $305m
PBT = $90m (negative in 1994)
Volume = 2,8m HL (9-fold increase from 1994)
52% of shareholding owned by SABMiller plc
23% of shareholding owned by Tanzanians, including around 20,000 individuals
Voted Tanzania's most respected company for each of the last 4 years
I made some notes in the document that I hope will help.

<u>Appendix 2: Supplementary information received in writing from Danie:</u>

It has helped to rekindle some memories for what they're worth:

While government was supportive (in public anyway – out of the public eye we were forced into about 10 board meetings in the first year to try and explain what we were doing and why), there was a very vocal group who saw the deal as nothing but *a theft of the crown jewels by the foreigners*. This took up an enormous amount of management time, and we were very happy to have Arnold Kilewo and Paul Bomani to help us.

We were hit by a large number of *lawsuits,* mainly by ex-employees, but also by suppliers, for payments either outstanding or claimed. While a number were pure chancers, others had some substance, and all required time and management – especially since the last thing you wanted to do was go to court where you could well lose despite the obvious merits of your case.

Our cash-flow during the first year was atrocious – we had completely *under-estimated the operating costs*, especially the one-off costs. For instance, we had been assured there were only some 3,000 employees – in fact there were another 1,000 odd “casuals” that had, because of mismanagement, become entitled to full employee benefits. We had to go begging for cash to pay salaries and wages during the first few months, and I had to curtail some very expensive expat benefits. Of necessity we had to *focus on cash-flow*, and I learned (and have always remembered) that profits are great, but without cash-flow you don’t sleep! It didn’t help that Gert simply advised me that the lack of funding it was my problem, not his! Fortunately, Kirby came and helped, and he and Henry concocted some very extraordinary deals.

In addition to cash-flow, we *focused on production* to meet demand (and to get rid of the 100’s of people who lined up each day to see the Managing Director to get some beer!), and to create less hellish working conditions for the people we retained. This included getting some airflow into the packaging hall, and useable ablutions. (Gert also nixed my first idea, which was to put a bulldozer through the place and start from scratch)

#Interestingly enough, the IFC was right in what we all thought was a very optimistic forecast about cash-flow and profits, and our *cash-flow was positive within 12 months*, with the bottom line black within 18 months – we had reckoned on about twice as long to get there.

While there were some baddies and some big problems, the *Tanzanian employees responded really well* to initiatives we put in place: Fixing their ablutions and canteens before worrying about management offices (much to Arnold’s disgust!), improving safety and working conditions, getting basic employee communications going, and initiating training as soon as we could.

With only one exception, the *team of expats were excellent*, not only in performing their job but in mixing with the local employees and teaching/coaching/mentoring them. We tried to ensure that we didn’t become a closed SAB expat community that worked and played only with each other. While the concept was only articulated later, this was to some extent all part of the “*act local” philosophy.*

So, I find myself proposing a lot of the stuff we've talked about at odd times over the years in SAB about how to be successful in developing countries:
When a turnaround is required, don't put in only one person to do it – *put in a turnaround team*.
Focus on the employees – get them to understand what you're on about and involve them.
Get a really good Human Resource Management process going as soon as possible, with special focus on T&D (I took too long to replace the Tanzanian HR Manager with Dave Pieterse – we should have taken a good HR executive with us right at the start)
Be explicit about your purpose, objectives and values.
Be "local" in determining your role in the community and bring central and local authority on-side – you can disagree with them, but do it the right way (I still remember Paul Scott-Crossley's "rules of conduct" for dealing with government)
If necessary, amend them, but try and *keep the basic processes and systems that work* for the group in place (eg, the "SAB way" in marketing, or people management)
Don't be ashamed (in fact, don't be stupid) about taking *margins and profits*, or about remitting legitimate returns to the shareholders.
In retrospect, I think the unplanned relatively *lengthy stints* by me and then Justice had positive spin-offs – business in Africa is complex, and one does get to know and understand the art of the possible better with time.

5. CHRIS FREER – former MD of Castle Brewing Kenya and Guinness Cameroon respectively.

(interviewed 16.11.08)

<u>Background</u>

Chris is British and spent time with Cadbury-Schweppes in Hong Kong as well as heading up the Appletize business in the UK. He then joined Guinness plc as MD of Guinness Cameroon between 1995 and 1999, where after he served SABMiller plc as MD of their Kenyan affiliate, Castle Brewing Kenya Ltd, from 2000 – 2003.

A consummate professional, Chris was seconded to both these African brewers at a stage when both brewers were in trouble. In each instance, his brief was to rescue, if at all possible, 'a lost cause', or else, close the business down with dignity. He rescued the former (still going today) and closed down the latter.

(1) Reasons for investing in SSA

Both MNC parents looked to new markets in SSA to *boost flagging growth prospects* in their home markets (SA and the UK respectively.) So when the affiliates in question did not deliver on this promise (after all, success cannot be guaranteed), the parent companies acted decisively in order to return their sick patients to health or else stop the bleeding.

(2) Difficulties encountered

In general, Chris singles out the challenge of dealing with the *'soft issues'* (people management, cultural differences, liaison with government officials, etc) as being both the most critical and difficult prerequisite for achieving business success in Africa.

The terminal obstacles faced by Castle Brewing Kenya at the time that he was sent in, included the following:

- local partners who were not only ineffective, but counter-productive;
- an established competitor (Kenya Breweries), with dominant market share and strong local brands, who successfully played the xenophobic card against the 'South African' entrant;
- large negative cash flows as a result of cumulative losses incurred over 5 years.

(3 & 4) KSFs employed

3.1. Chris believes that *expatriates* are an important potential asset in managing successfully in SSA, but it is vital that their task is limited to setting up organisational structures, teaching local employees to the highest possible standard and then *handing over their responsibilities* to the latter.

He mentions that MNCs normally reserve one or two senior positions in an affiliate for their own secondees as a way of exercising control over the day-to-day running of the operation.

He also mentions that the expatriate's spouse is critical to the success of the secondee. MNC HQ should spend more time in assessing the suitability of the partner in the country to which the couple is headed.

3.2. A *decentralised management model* is the right way to go - the man on the ground knows best and should be empowered to fully represent the MNC when it comes to dealing with in-country issues.

However, support from a competent centre is critical when it comes to the provision of technical support (especially when machines break down!) or dealing with government on substantive issues.

3.3. Although most aspects of starting up an affiliate in a new country are well-known to the parent and its seconded expatriates and require very little adaptation to local conditions, the *sales and distribution functions should be recognised as being peculiar to a particular country*, requiring careful

study and analysis of the various channels, outlet types, etc before developing an appropriate strategy. Direct distribution is prohibited in countries such as Kenya, apart from which, 3rd party distributors have many endearing attributes, including their knowledge of local customers with whom they interface.

3.4. Chris dealt effectively with *corruption*. He simply said no to any such approaches, in accordance with the stated policy of his principals. However, expectations of receiving gifts by lower level civil servants are common in Africa and Chris often donated company products to meet deserving requests.

3.5. Although he agrees with the potential value that *local partners* can bring to an affiliate, his Kenyan experience has warned him against the negative effects of non-value adding partners. He recommends exhaustive research of the potential partner's background and abilities before the MNC commits to bringing him/her/them on board.

3.6. *Communicating effectively with government* is an essential part of an affiliate MD's job. When posted to Cameroon, Chris learnt French in order to assist his efforts.

(5) Exploring the BOEP opportunity

Neither of his African briefs included focussing on this difficult-to-reach market segment.

6. ROB NISBET – Financial Director of the MTN group

(interviewed 17.11.08)

Background

Rob (52) is a South African Chartered Accountant who joined MTN in his current position in 1995, soon after the formation of the telecommunications company a year earlier.

Apart from being on the board of MTN, Rob's been at the forefront of the executive team that's transformed MTN into one of South Africa's top companies in a mere matter of 14 years:

In 2007 the group had 60 million subscribers in operations spread across 21 Africa & middle-Eastern countries, with revenues of R73 billion ($10,4 billion) and EBITDA at R31,8 billion ($4,5 billion), a whopping 42% up on the previous year!

(1) Reasons for investing in SSA

Rob recounts how *a strategic miscalculation* gave MTN a head-start into Africa vs their competitors:

"In 1995 we thought that our South African market would top out at around 400,000 to 450,000 subscribers. Pre-paid didn't exist, so we were looking only at customers who one could give credit to. In those days, DSTV only had around 800,000 subscribers, so that was the total market size we

were looking at. We thought that growth was going to disappear within 3 years, so we decided to expand into Africa and did so from 1996 onwards, not because we recognised it as an unbelievable opportunity 'cause they just don't have any communications, but because we looked at SA growth petering out and we thought, where to next? We agreed, let's go to Africa."

(2) Difficulties encountered

2.1. Because telecommunications are *regulated by governments* in all countries in which MTN operates, they are often conflicted because they also own the fixed line business. "The playing fields, especially in the early years, weren't always level."

2.2. Estimating market potential before entering an African market proved to be no easy task, especially because official GDP information excludes the considerable impact of the informal sector. For MTN this fact resulted in them typically *under-reading the potential market size.*

(3 & 4) KSFs employed

3.1. MTN *relied heavily on its SA base* in order to both generate the considerable cash requirements needed to build infrastructure in new SSA markets, as well as to supply expatriate staff to set up shop. In Nigeria, for instance, they seconded as many as 120 expatriates in the early days.

3.2. However, Rob stresses that "in terms of staffing, our real objective is to *develop the local population*," citing the facts that, despite massive growth, Nigeria today operates successfully with only 15 expatriates, while their Swaziland operation has been totally localised.

3.3. MTN always looks for *good local partners* to assist their in-country affiliate in coming to terms with local operating issues, including the scourge of corruption. "We've always said no to corruption and have always looked for good apolitical local partners to help us without having to pay off officials." He mentions an instance when MTN had 130 containers of critical equipment stuck in Lagos port, despite the best efforts of their management team to have them released. It was only intervention by their local partners (in the form of pressurising the right persons, as opposed to bribery) that resulted in the eventual release of the shipment.

3.4. MTN likes to have a *controlling stake* in their affiliates, preferably above 75% in order to allow for the easy passage of special resolutions. However, they often have to enter in a minority position and manage through a separate management contract, until they're able to build their shareholding to the desired level over time (as and when opportunities present themselves.)

3.5. *First mover advantage* is critical for MTN. "To gain market share from an established player in a market is difficult and extremely costly, as borne out by our experience in SA."

3.6. Rob views MTN's key competitive advantage as a philosophy that differs as follows from that of their competitors: "We took the view that if the demand was there, we would not starve an affiliate of its cash requirements. We would willingly *supply more cash from SA in order to develop the business infrastructure as quickly as possible* in order to take up any slack before our competitors do. Our competitors, on the other hand, would rely on the affiliate to fund itself through its own cash generation which obviously takes longer. Our view has always been long-term and to never, ever starve an operation from its legitimate cash requirements."

Despite this aggressive investment approach, Rob believes that MTN has lost substantial profits due to the growth in demand outstripping their ability to meet it. "From an overall demand perspective, we always underestimate the size of the market. If we had been better at this from the start, you'd probably find that our bottom line profitability would today be 15 – 20% better as a result of market share losses."

(5) Exploring the BOEP opportunity

MTN has always taken the view that they would not 'cream-skim', ie: not only meet the easy-to-reach demand at full prices from more affluent consumers.

In Uganda, for instance, MTN built up a customer base of 30,000 subscribers in their first year of operation, whereas their competitor who had been active in the country for 5 years, had only 5,000 subscribers to show for their efforts.

MTN's SA experience of massive market penetration gave them the confidence to pitch their brand and product offerings at the broader mass of poorer consumers.

"Our target market stretches to consumers who earn well below $100 per month."

Not too far off the $1 per day income level right at the bottom of the economic pyramid!

Appendix: Building the case study: MTN in Nigeria

Introduction:

See point above plus key indicators for the group as contained in the MTN annual report.

Development:

The first licence to operate in Nigeria was obtained by MTN in the 1990's at a cost of a mere $5m. However it was in the tumultuous days before General Olusegun Obasanjo became Nigeria's president in 1999 (for the second time), so the company felt that the country risk was unacceptably high and therefore decided not to utilize their licence.

In 2001 MTN paid $280m for a further licence in a more settled country and entered Nigeria for the first time. Fortunately, the only competition present at that stage came in the form of the inefficient government-owned fixed line operator.

Building their business infrastructure placed heavy reliance on *MTN's South African staff*, with up to 120 seconded at any given time in the early days (now down to 15.)

The *potential of the Nigerian market continues to confound MTN* to this day:

Rob Nisbet: "In 2001 we estimated 15m subscribers. 3 years ago upped this to 45m. Today we estimate 85m subscribers by 2012!" Given Nigeria's population of 140m, this translates to 60% of Nigerians subscribing as mobile phone users.

MTN today:

MTN International owns 77% of MTN Nigeria, with around 18% held by Nigerian partners.

A recent placement of shares by the parent company in order to fund expansion, valued the enterprise at an amazing $10 billion!

Profitability indicators for the year ended 31.12.07 include:

- Subscribers @ 16,5m (+34% for the year)
- Revenue @ $2,9 billion
- EBITDA @ $1,65 billion (+36% for the year, 36% share of MTN group and vs $1,39 for SA)
- EBITDA margin @ 57,3% (vs 35% for SA)

Not bad for an August, 2001 start-up!

KSFs employed:

- All points listed under point 3 above apply to MTN Nigeria.
- They went out of their way to carefully vet and select *5 solid, apolitical local businessmen* from different regions as their local partners.
- MTN continues to *invest heavily in infrastructure* in order to keep pace with the growth in demand and not to leave gaps for competitors (who are increasingly entering Nigeria.) Over the last 3 years, Capex as % of revenue averaged around 30% or $600m per annum.
- *Brilliant execution* is a hallmark of MTN's Nigerian operation. Strong branding, including 'painting the town yellow' is evident throughout Nigeria's cities. So too is the availability of MTN's pre-paid cards sold in small denominations by enthusiastic street vendors that move through the traffic in congested streets, as any visitor to Lagos will attest.
- The fact that MTN retains its position as market leader with a share of 43% and is able to grow its subscriber base at a rapid rate (by 12% in the last 6 months) to reach 18,6m, is testimony to its ability to *reach poorer consumers towards the bottom of the economic pyramid* through the

sale of inexpensive pre-paid cards as well as innovations such as 'the umbrella men', where hand sets are shared with those in possession of a pre-paid card, but who cannot afford a hand set. Hand set prices, too, are coming down rapidly and are now available at $15.

MTN's average Nigerian subscriber spends $17 per month on call time, so probably earns more than a $ per day, but less than $100 per month.

7&8. JAN POTGIETER (MD) and RICHARD FULLER (Director – Africa) for Massdiscounters (Game Stores & Dion)

(interviewed 17.11.08)

Background

Jan has been MD of the group (a total of 92 stores in SA and Africa) for the last year, while Richard has been responsible for the group's 12 African Game stores (10 countries) for the past 5 years.

Although financial information could not be separated out, Jan confirmed that their African stores contributed around 15% of group revenue, while *comfortably exceeding their SA stores in both profit margin and growth % terms*. In 10 years time, they expect their African stores contribution to equal that of SA.

Game Stores first entered SSA about 14 years ago and own all their stores outright (no local partners.) Both Jan and Richard are extremely excited at further prospects in the region and plan to aggressively grow their presence by entering new markets as well as increasing their store numbers in existing countries.

(1) Reasons for entering SSA

1.1. Concerns that their *SA home market was maturing* with limited opportunities for new store placements. They had to find new sources of growth.

1.2. An analysis of the African opportunity revealed both *low levels of competition* and the existence of *high retail margins.*

1.3. The group's *Durban-based hub was well-positioned* to support expansion into Africa, especially in terms of the critical logistics function as most SKUs have to be imported.

(2) Difficulties encountered

2.2. *A lack of suitable premises* (the right location being of critical importance in the retail sector) has resulted in long lead times when planning new stores. It has also forced Game to overpay for certain rentals and even invest in their own buildings, which places a strain on their cash resources and margins. This does not suit their strategy as a low-priced discounter of brown and white goods.

At times, they look to co-operate with Shoprite as anchor tenants.

In fact, they've been searching, without success, for suitable premises in Luanda for the past 5 years, which has resulted in them being unable to participate in the tremendous growth experienced in the Angolan market.

2.2. Due to Game's reliance on imported goods, coupled to poor infrastructure (including congested and ports and corrupt officials), Game experiences *erratic and lengthy order lead times* (can be as much as 100 days) when re-stocking their SSA stores. This places further strain on their cash resources as well as their ability to maintain in-store stock availability.

In dealing with corruption, Jan recalls how he one had to tell a Lagos port official, "you know what, if you want the goods in our containers, you can have it, but we're not going to pay you to release the containers." Needless to say, the containers were soon released.

2.3. Game still battles to *repatriate funds* out of Nigeria and Mozambique.

2.4. Jan: "We make mistakes in the early days after entering a new country, for instance, we overpaid duties in Nigeria and have still not got our money back, but once we've *paid our school fees*, say from year 3 onwards, we're able to cope comfortably with local peculiarities."

<u>(3 & 4) KSFs employed</u>

3.1. Interestingly enough, but not surprising being a mass retailer, Game employs a very much *centralised* business model, characterised by:

- the Game store look, design and branding (extremely important in Africa) is uniform all over;
- doing their own forwarding and shipping, except for clearing at the receiving port, where 3rd party agents are used;
- centralised global sourcing;
- centralised management of all logistics (for instance, they managed to bring down the lead to their Lagos store from 120 to 32 days);
- generating each store's weekly special offers at HQ before sending out the artwork for local translation (where necessary) and printing;
- centrally generated orders based on daily stock levels received from stores via efficient MIS.

3.2. However, due to Game's desired position as everyday price leader, *store managers are encouraged to trade*, including dropping prices on line items in order not to be under-priced by a competitor.

3.3. Loca*l preferences are catered for*:

Although an African store would stock less SKUs than in SA, range width would typically be wider (from top-of-the range to the bottom) and differences based on local consumer preferences will

also be reflected in different stores, for instance, the Lagos store carries relatively more furniture than would be usual.

3.4. If goods can be *sourced locally*, this is done, on condition that comparative quality and cost parameters for goods sourced ex SA are met.

3.5. Game generates its main source of competitive advantage by not only selling its house brand of appliances, Logic, at competitive prices, but also including a *comprehensive 2-year guarantee* against faulty workmanship. This added benefit cannot be equalled by importers of grey goods or 'cheap and nasties.'

3.6. Game further encourages erstwhile *competitors* (especially those in the informal and rural sectors) *to purchase*, rather than compete against them.

3.7. "*Getting in first* or near the beginning is important. If you're in early on, you can bring the price down and still make margins that are better than in SA."

3.8. Richard has a *completely separate African team*, his own buyers, advertising, finance and logistics folk.

3.9. By being spread across 10 SSA countries, Game further benefits from *the portfolio effect* of having their risk spread across a number of markets with compensating fortunes.

3.10. Local Game stores go out of their way to behave as *good corporate citizens:*

- they prefer employing locals vs expatriates where possible, due also to cost considerations (50% of their stores are fully localised – no store has more than 3 expatriates);
- they train extensively and pay well above minimum wage levels;
- stores have an adopt-a-school programme whereby they supply the tools to both learn and teach.

(5) Exploring the BOEP opportunity

This opportunity is being *ignored* as not being worthwhile at present. Game's target market consists of the middle and upper classes.

9. MARK BOWMAN – SABMiller MD for Africa

(interviewed 27.11.08)

Background

Mark is a 41 year-old South African. His previous executive positions included 3 years as MD of ABI, the SABMiller-owned Coke bottler in South Africa, Chairman of Appletiser, as well as 2 years as head of SABMiller's successful Polish affiliate, Kompania Piwowarska.

(1) Why SABMiller continues to invest in SSA

1.1. There's a new pragmatism being displayed by African governments who, instead of trying to industrialise their countries with grand, impractical projects such as motor car manufacture, as in the past, are now playing to their mining and agricultural potential strengths. Angola is a case in point.

1.2. "Although we may have been somewhat conservative in the past, our view at SABMiller now is that *Africa may very well succeed*, so we're willing to invest more aggressively in capacity than we did before."

Mark cites their experience in Southern Angola as an example where the new capacity brought on by a series of expansions of their Ngola brewery in Lubango remains short of the growing market demand. "We think that we're clever because we expanded capacity, but we're not bold enough to expand it properly!"

(3&4) SABMiller KSFs employed in SSA

3.1. *Early mover advantage and building up a portfolio of investments* are important – to see an advantage where others didn't, such as moving into Angola when Heineken exited the country, going into Southern Sudan right now. There is risk, but the portfolio effect should take care of the impact on overall results.

Mark sums up the strategy as thus: "You go in early, grab as much land as you can and then you seal the borders."

3.2. Our view is that it makes sense to have a *local partner*. We would not have been able to make our latest acquisition from the Ethiopian government (Ambo) without the local partner representing and guiding us through the privatisation process. "You need a local link to protect your interests."

3.3. *Localising the marketing position* as soon as possible makes good sense. An expatriate marketing professional simply does not have the local knowledge of the market and its consumers required for this key function.

3.4. The *development of local sources of supply* is important for our long term profitability in the countries of SSA. If this means that we have to go into farming, so be it. We're currently extending our successful sorghum and barley growing projects in Uganda, Zambia, etc to include Mozambique, Lesotho and Ghana.

Because of government's willingness to support import-replacement initiatives through tax breaks and the like, we're able to justify meaningful investment in order to make these projects work. In

order not to take too much of the affiliate's MD time, SABMiller uses 3rd parties plus a dedicated resource from HQ in order to support these projects.

3.5. According to Mark, there are *more similarities than differences* amongst African beverage consumers, meaning that although the range of brands offered by SABMiller in each SSA country differs, their core positioning (appeal to consumer needs) across the range does not. He's appointed one advertising agency (Ogilvy & Mather) with a dedicated resource to do all SABMiller's affiliate brand work in SSA.

3.6. We don't go into countries trying to impose SA ways – we are *humble* in our approach.

3.7. "*We don't do graft, so as a result we're trusted*." In Angola, government has allowed us to open our own in-bond warehouse with minimal control from their side, in the belief that we don't take chances – quite an achievement!

(5) Exploring the BOEP opportunity

5.1. We need to *drive down the transaction cost* of buying our products. This means engineering costs out of the business, as well as reducing the quantity/size of the offering.

5.2. Our traditional beer business does a great job amongst BOP consumers in Botswana, Malawi, Zambia and Zimbabwe.

10. ROGER SMITH - MD Cervejas de Mozambique, an affiliate of SABMiller plc

(Roger completed the questionnaire electronically, after an explanatory 'phone call)

Background

Roger is one of SABMiller's long-standing affiliate MDs, who has been with the group in excess of 30 years. Having received his grounding in their South African business in Finance and Sales & Distribution management, Roger has served as MD of SABMiller affiliates in Lesotho, Zambia, Kenya and Mozambique.

Question 1: What are the 3-5 main reasons for your firm investing in sub-Saharan Africa?

1.1. Political change: Given that the research is based on South African firms, they would all possibly have had similar issues related to the apartheid years which limited or stopped them investing in SS Africa. My thoughts on SAB are that for many years we were forced into reinvesting shareholder earnings into different businesses and industries not by choice but as a way of growing the company during the years when we did not have international opportunities. When the political situation in SA normalised it was an opportunity redefine our core business as a beverage business, which we did, we then sold off the businesses that were not a logical fit, giving us cash to inject into new

ventures that would more closely align with the vision to become one of the four biggest brewers in the world. We never offloaded the Hotels and some gaming and expanded the definition to include not only beer but the broader beverages.

We had the funds, not unlimited but we had enough. We were going through a phase of upgrading and renewing production facilities in SA and had surplus "fit for purpose equipment". We were getting to the stage where we had surplus skilled managers during the initial phases of our equity / affirmative-action program. South Africa and their people were benefiting from the Mandela rainbow nation status and we were welcomed back into SS Africa as visitors and we were able to once again do business.

1.2. Growth: The opportunity to grow our business must have been one of the main drivers. Growth potential in much of SS Africa for the beer business is fairly obvious. Simple arithmetic of the PCC of many of the countries was a clear indication of the potential that existed. In many of the countries there was a beer business in the past and if the industry could be revived the opportunity was huge. High margins and profits I do not think were the main drivers in the beginning, we wanted to be early movers, first in and lead the way.

1.3. Parent Company's Internationalisation Strategy: SS Africa fitted well with the internationalisation strategy of the company to have a portfolio of businesses exposed to emerging and developed markets. We have our roots in Africa and SS Africa was the most obvious starting point. Our strength lay in getting things done: production, distribution and financial controls. In most countries we were sole suppliers and were welcomed as opposed to be given the cold shoulder and a competitive battle by existing players.

1.4. Ability to support affiliates: This was a major consideration as not only did we have a surplus of well trained managers and technical staff in South Africa we also had an underutilised training facility in Johannesburg that was able to provide the necessary skills training for running a Brewery.

Technical, Sales, Distribution and Financial manuals were available in order to ensure a basic level of standardisation across the business units. With exception of Mozambique and Angola, English was widely spoken and understood.

Investment Incentives: In many of the countries investment incentive schemes were available; normally these would be linked to a tax break equivalent to the level of capital investment that came into the country. There were also sweetheart arrangements regarding dividend payments and most of these were free of withholding taxes, royalty payments management fees etc that could be externalised. In most instances there were also generous tax incentives aligned with training spend aimed at uplifting local skills levels.

1.5. Other: I do not believe parent company brands were a major consideration as most countries had local brands. High profit margins were not present in the early days and would not have been an attraction. Infrastructure and governance were a problem then and are a problem now.

The one aspect which I suppose is worth mention is that the world order was changing with the failure of the socialist / communist model in Eastern Europe and in Africa providing an investment friendly environment where people were keen on trying something new. The timing of the change in South Africa and the changes in the SS political climate and relations with neighbouring states was opportune.

<u>Question 2: What are the 3-5 major difficulties encountered by your firm in doing business in sub-Saharan Africa?</u>

2.1. Excessive Taxation / Illegal Imports / Unfair Competition: I have chosen to lump these together as they are all the same thing in various guises. Excessive taxation will essentially limit your ability to survive or compete if you are in a competitive arena. Excessive taxation in our business starts with consumption taxes which if set at too high a level will stimulate smuggling and limit your growth through price and affordability of the consumer.

In addition to the above unfair competition can be facilitated by tax determination as was evidenced in Kenya where penalty taxes were imposed on raw material imports, malt, under the pretence of protecting the local industry undermined our pricing strategy and profitability.

Further unfair competition took place with the court interdict accusing SAB of stealing the recipe to produce an un-malted barley beer ending in stock being impounded and a three month court battle which effectively derailed the brand launch and questioned the credibility of the company.

I have worked in environments and countries where government relations have varied from friendly to non-existent to plain hostile and in my view the relationship with government far outweighs any other business consideration.

Government gives you your licence to trade and in many instances will determine your survival or level of profitability through taxation levels and other forms of protection or interference.

Most of the other difficulties normally have a solution that will be addressed by engineering, finance, people training etc. A hostile government or poor relations will by far be the most difficult to overcome.

Botswana is the latest victim of irrational and hostile government with the implementation of the 30% alcohol levy. The single biggest factor limiting growth and profitability in India is the government and their never ending list of trade restrictions and taxes limiting trade across regional boundaries.

2.2. Other: In rank order as follows:

- Language / difficult to train locals. Particularly difficult with older staff or lower ranks in the organisation. We are still identifying employees who cannot read or write fifteen years after our entry.
- Poor physical infrastructure / this has always been a limiting factor in most countries. Stock availability and selling price in rural areas has always been a challenge. I have always been a strong believer of an effective but basic depot network to control the channel.
- Lack of disposable income / many goods and services are now competing for the very little disposable income available. Soft drinks, tobacco, mobile phones etc all compete without mentioning opposition in our own industry. Providing good quality at affordable prices will always be a challenge.
- Lack of local skills / Particularly evident in Mozambique and Angola in the technical and marketing fields where historical there was either no need or obsolete equipment and training programs.

Generally most obstacles can be overcome if you apply your mind to it, *government relations* is the most problematic.

Question 3: What Key Success Factors has your firm specifically adopted in order to explore and overcome the opportunities & challenges of operating in sub-Saharan Africa**?**

3.1. Government / communicating, partnering, community project: I believe that government is your most important partner in the alcohol business through their influence and determination of appropriate taxation levels, particularly consumption tax. In most instances we did this particularly well in managing our relationship with government, especially where we entered through acquiring state run breweries and businesses as part of a government privatisation initiative. Normally government would retain a small shareholding and be represented on the board. Due to the fact that we are substantial contributors to state coffers they are keen to see that we succeed.

Our relationships have normally been further cemented by participating in community upliftment programs, and HIV AIDS initiatives etc.

This has always been a strong point of SAB in Africa.

3.2. Performance Management, Vision, Mission and Values: One of the major advantages of the performance management system is the goal setting and review process. Once all employees have clear and simple goals and objectives it simplifies the management process. It also forces good HR practice with regards to proper organograms, salary scales, job descriptions grading structures etc. The Mission, vision and values is provides the direction and reference point to check company goals

against on a regular basis. Values are an important aspect of the way we behave towards each other and ensuring that all dealings, internal and external are dignified and transparent.

3.3. Communication: Internal and external communications must rank as one of the key success factors along with *transparency* in our dealings. Having clear and simple plans that are communicated to all levels of staff and then providing regular feedback on progress against these plans on a regular basis is essential. The most effective tool was the Quarterly MD briefing session and news letter in order to have well informed and motivated staff. This forum was also used to reinforce company values and recognise outstanding contributions made by employees, long service, training achievements etc.

3.4. Decentralised Business Model: Or as it has been referred to "decentralised collaboration". This has been essential to the success of our business allowing for quick decision making and initiatives on the ground whilst maintaining an overarching framework within which to operate. This approach can be vulnerable as it relies on high quality individuals with the passion for the business and strong leadership skills. We have generally had good people through careful recruitment and selection criteria. "Clever people normally make better decisions than stupid people" (Steve Bluen MS&D Conference 2008.)

Good leadership at all levels of the organisation is essential, "Shit rolls downhill. You start here and it impregnates the whole organisation." Meyer Kahn in: "The Winning Way" published by Anthony Ball & Stephen Asbury.

3.5. Training and Development of local staff: At all levels we have done an outstanding job training local employees. A formal training program that addresses key aspects of the business is set at the beginning of each year and adhered to. SAB training Centre in Johannesburg has been a great help, but in addition to this there are senior management programs such as EBW, MDP and ALP. Supplier-training programs are also extensively used, as well as on the job training and then the best form of training, which is to lead by example.

3.6. Proven set of Systems and Processes: We have been extremely fortunate in that we have many tested and tried systems and processes. Production is probably the most comprehensively documented but the others such as Performance Management, Sales Excellence Program, Financial Controls (Hyperion reporting, BSU, Extract Costing), and now all of the "Ways" starting with the Marketing Way.

3.7. Effective use of technology: In the beginning we used "appropriate technology" in order to get the job done, but we have quickly moved towards leading edge technology certainly in our selection of the most advanced production equipment on the market for all capacity expansion and replacement projects, such as fully automated material handling and brew houses, state of the art

Krones packaging lines and IT systems that provide a comprehensive local area network and access a large percentage of the workforce. IT and access to internet, email, interactive training has had a huge impact on our business and has been a major success factor.

3.8. Recruitment / Retrenchment: In many businesses the workforce needed to be changed in order to meet the challenges and new skills set that employees needed to have. In many instances years of socialism and poor HR practices had resulted in many excess and ineffective employees. A policy that I successfully implemented in Mozambique was to not employ anyone over 30 years of age unless he brought a particular skill into the business.

Young people are generally easy to train and extremely adaptable, also familiar with new technology such as Mobile Phones, bank ATM's etc. Also helps eliminate nepotism.

We have effectively reduced the average age of our workforce over time.

3.9. Recognition and Reward: Effective and market related recognition and reward systems where high performing employees can be paid above average salary increases.

Salaries and benefits are regularly benchmarked and adjusted where necessary.

STI bonus system that includes all local senior management has provided added focus to achieving goals and EBIT targets.

<u>Question 4: Provide practical examples of the impact of the Key Success Factors mentioned under 3 above at work in your business.</u>

4.1. Government Partnering: The best example of this fey success factor has been the effective lobbying and changes made to the consumption tax levels in Mozambique.

1995 Consumption Tax was at 130%, this was reduced in a number of steps to the current 40% that it is today. These changes to the legislation improved profitability of CDM, effectively eliminated smuggling and substantially increased government revenue collection. Consumption tax will exceed $45 million in F09.

Recently, proposed increases to the level of tax recently were effectively reversed with beer remaining at 40% and wines and spirits being substantially increased with effect from 1st January 2009.

We extracted full value from our 50% tax relief given on new investments with the Maputo and Beira capacity expansion projects, $10 million credit achieved.

We established a long term relationship with Graca Machel's charities in order to ensure effective community upliftment projects. $600K invested to date.

A nominal fee of $30k was paid for allocation of land for the Nampula Brewery project, while our investment allowance increased from 5% to 10%.

4.2. Performance Management: Performance management together with standardised systems and processes has facilitated effective skills transfer and business understanding to local employees. This is evidenced by the phasing out of expatriates and the localisation of key positions. CDM is now down to five expatriates.

4.3. Decentralised Business Model: Facilitated business unit focus and drive to achieve results. Speedy decision making and action can be taken when needed.

We also built local skills and expertise in all areas of the business allowing for development of strategy at business unit level as well as incorporation of divisional goals.

Track record of outstanding results over a considerable period is evidence of the effectiveness of the model.

4.4. Recognition and Reward: We have had a comparatively low staff turnover, particularly in key management positions that are critical to the business, this in spite of fierce competition from other players in the market.

Positive feedback is received from employees regarding conditions, with v*ery few or no labour problems or strikes.*

4.5. Effective use of Technology: Speed and accuracy of reporting and decision making has been improved considerably with the use of local area networks and global satellite connectivity.

Standardised systems and processes are easily rolled out, processes and knowledge transfer takes place on a regular basis.

4.6. Communication: A well informed workforce has been critical to our success and well managed media has enhanced our reputation considerably.

Communication briefs, news-letters in printed and electronic form as well as published accounts resulting from being listed on the stock exchange.

Media coverage is actively sought of corporate social investment programs.

Question 5: In particular what, if any, measures have your firm adopted in order to reach Africa's poorest consumers (those earning < a dollar a day)?

5.1. Price Determination and Strategy: We have a price strategy that ensures a range of entry points to our products where the lowest would be at MT11 for a serving of draught to MT35 for imported Peroni. Price increases and adjustments are generally kept below inflation levels.

550ml Returnable: Extensive use of returnable packaging, more than 70% of our volume is sold in the cost effective 550ml returnable bottle ensuring maximum value for money.

5.2. Raiz was developed in order to address the affordability challenge and is sold at 75% of the mainstream price. Reduced raw material input is achieved by adding alcohol in the final phase of

production. The product is also brewed at maximum gravity allowing for 100% dilution. It currently holds a 14% market share.

5.3. Draught Beer: This has been by far the most effective strategy in addressing affordability at the lower end of the market. Entry level price of MT11 per serving allows easy access to all. Draught beer remains our fastest growing format and will reach 100,000hl in the current year!

5.4. Depot Network: A depot network country wide with agreed retail prices to wholesalers has eliminated exploitation of prices and allows us the selectively subsidise transport costs in rural areas.

11. NATHAN KAMBULU – East & Central Africa Business Unit President for The Coca-Cola Company (TCCC) (interviewed 27.11.08)

Background

Nathan is a Zimbabwean who joined TCCC in 1990 in Harare and subsequently moved up the ranks of the organisation, spending 4 years as Regional Manager for Nigeria, based in Lagos, where after he moved to Atlanta as Executive Assistant to the President: North America. He currently works out of Nairobi.

(1) Reasons for TCCC investing in Africa

1.1. *Demographics*: 50% of the population is below 20 years of age, with population growth exceeding 3% per annum. “The population is young and the growth rate fantastic!”

1.2. *Economic indicators* – since about the turn of the century, the countries in which I do business have improved considerably:

- GDP growth averages 6-7% per annum;
- exports have increased from 8 to 14% per annum;
- investment as a % of GDP has grown from 17% to 20%;
- the formation of trading blocs is great for our business – in East Africa we may now supply the entire region with juice at affordable prices out of our state-of-the-art factory in Nairobi;
- mineral riches are beginning to be explored and new resources discovered.

1.3. *Infrastructural improvements* too, have been noticeable:

- access to water & sanitation has increased by 18%;
- access to the electricity grid has increased by 44%;
- telephone access is up by 328% (as a result of mobile phones);
- “Thank God Blackberries are now working, even in countries like Malawi”;
- the increase in the number of apartment blocks in cities attests to the growing middle class;

- progress in road networks in countries such as Angola and the DRC.

1.4. *Good governance* may still have some way to go (as proven by the status quo in Zimbabwe, Sudan, Somalia and the DRC), but is improving all the time and the region is more stable now than 10 years ago.

1.5. In Nathan's view *African country risk is over-played* and cannot justify the cost-of-capital premiums ascribed to investments made in the region. He does acknowledge that doing business in Africa is difficult because of environmental factors, but does not believe it is more risky than doing business in a competitive developed market.

1.6. TCCC is *optimistic* about the future for Africa and willing to invest in the capacity of its business on the continent. "Africa is really making progress."

(2) Difficulties encountered by TCCC

2.1. The *poor road and rail networks* in countries such as Kenya, the DRC and Malawi have a devastating impact on doing business – sales are lost due to towns being cut-off in the rainy season and the cost of maintaining a distribution fleet is sky high. "This is a real big negative for our business." Even flight connections are problematic.

2.2. The poor fixed line network remains an issue due to the inability to video-conference effectively, as well as the high cost of the mobile phone alternative.

2.3. The problem of *high excise taxes* is severe in Africa and self-defeating. "These excise tax regimes are way out of control." Examples such as South Africa and Egypt have shown that by eliminating these taxes on the sale of soft drinks, governments actually increase tax revenues from this source. Tax law is often applied inconsistently – international companies have to pay, while a blind eye is turned on local companies.

2.4. *Excessive red tape* remains problematic. It took over a year for TCCC to register a company and bank account in Angola. In Kenya, a TCCC program to set up over a thousand kiosks has run into headwinds from local councils who have delayed the process for no good reason.

2.5. *Poor and selective control of imports* by the authorities has also caused TCCC much harm in that Illegal importers are able to land competitive energy products at a much lower price than those imported legitimately by TCCC. The products of many American firms are also the target of counterfeit goods, many of which originate in the East.

2.6. Part of the *problem of corruption* is caused by MNCs themselves, in that they don't issue clear and unambiguous statements against this practise. "TCCC has been very robust on this matter in that we tell everyone that we don't pay bribes. If more companies will resist paying bribes, Africa will be a better place."

2.7. Developing and holding onto *local talent* is a further issue, especially as most African students that study overseas decide not to return to their home countries due to improved prospects in the USA or Europe.

In addition, the quality of education is going down in many African countries such as Zimbabwe and Nigeria, while on the other hand, the growth and profitability of mobile phone operators in Africa has further reduced the available pool of high-flier talent on the continent.

2.8. The effects of *political instability* are limited at present, but do affect TCCC's business in Somalia and the DRC.

2.9. *Language* is a problem in Angola, where very little English is spoken.

<u>(3&4) KSFs employed</u>

3.1. *Adaptability* is very important in Africa. TCCC relies on a direct distribution system in the USA, but in Africa we have developed manual distribution centres (MDCs) which consist of local community members who are able to deliver very small quantities in their immediate vicinity (usually in a poor neighbourhood.) We continue to perform the sales function by calling on these outlets, but cannot perform as an effective distribution function as the MDS is able to do.

A further positive spin-off from these MDCs lies in the area of job creation, in that each MDC creates 10-15 new jobs in these impoverished areas.

3.2. "Continuous and active *engagement of governments* is a key activity for TCCC. We spend a lot of time and effort engaging governments across the continent. It's no good going to government only when you have a problem. I make it a point to see the President or Minister of Finance or other high-ranking official every time I visit one of my countries – it's a routine for me, just like visiting the marketplace."

Nathan informs these senior government officials about TCCC's value-add in the country. TCCC also has a government affairs function that ensures that the company has good knowledge of relevant government thinking and priorities, in order to inform senior management accordingly and help shape appropriate responses.

3.3. This interaction is taken a step further by also *engaging with those bodies that influence government policies*, such as the World Bank, IMF and Clinton Global Fund, especially before or during a visit to these bodies in Washington by an African leader. TCCC informs these bodies of the positive role that it plays, especially as far as the multiplier-effect is concerned in terms of wealth creation, and tries to enlist their help in eliminating punitive taxes, including an undertaking by TCCC to re-invest tax breaks.

Nathan often travels to Washington in order to host a lunch for the visiting African country VIP because he believes that it is useful to discuss thorny matters such as taxes in a neutral venue in the company of reputable honest brokers.

3.4. Nathan is adamant that whatever TCCC system does in Africa (quality, packaging, facilities, customer service levels, etc) should be *world class* and not second best, just because the markets may be impoverished or less sophisticated. African consumers are increasingly well informed and demand the best.

The use of second hand production equipment, in particular, is short sighted as frequent breakdowns only result in out-of-stock situations in an environment lacking in support services and spares.

3.5. TCCC *grows local talent* through their 'Kusile' programme, during which a group of suitable newly qualified local students are put through a structured in-house programme with the view to developing their future top-managements cadre.

3.6. *Community involvement* is a feature of TCCC's operations in Africa, especially in the areas of water conservation, fighting HIV/Aids and eradicating malaria. They also provide water through sinking boreholes in rural Ethiopia and Kenya.

3.7. TCCC is also involved in a *fruit juice project* in Uganda together with the Bill Gates foundation, whereby they have established a co-operative for fruit farmers to grow and crush fruit that TCCC will guarantee to purchase from the farmers at a set price and then package and distribute the juice for sale to the end-consumer.

3.8. TCCC is disciplined about its approach to *execution*. Whenever Nathan visits a bottler he spends the bulk of his time in the market, correcting poor practices and identifying missed opportunities. He is pedantic about follow-up, recording agreed corrective actions in his 'black book' which are then revisited at his following visit in order to ensure that implementation had taken place.

"It aint gonna get done until you follow up."

3.9. "*Relationship management* in Africa is very, very important, whereas in more developed markets it's all about the cold hard facts."

<u>(5) Exploring the BOEP opportunity</u>

According to Nathan, TCCC focuses on *innovation* towards addressing the consumer that finds himself *at the bottom of the economic pyramid*. We have to break through the *affordability* barrier with inexpensive offerings that optimise revenue growth. For instance:

- in Zambia, we offer a 200ml Coke in returnable bottle for 18 US cents, while a 300ml offering goes for between 26 and 30 US cents in the rest of Africa – out of reach for many BOP consumers;

-we invest in providing dealers with free ice and ice boxes in order that these consumers may enjoy an enhanced drinking experience at an affordable price;

-we further provide non-carbonated cordials (such as Sobo in Malawi and Mazoe in Zimbabwe) as entry level offerings that recruit these consumers into the commercial beverage sector;

-our Sparletta range represents our 2nd tier of carbonated soft drinks which are priced at 10 to 15% below our first tier brands (Coke, Sprite and Fanta.)

12. KEITH RICHARDS – MD of Promasidor Nigeria

(interviewed 27.11.08)

Background

Keith is British, but has made Nigeria his second home – he enjoys the country's vibrancy, people and opportunities. He first came to Nigeria in 1981 as debt collector for Crown Agencies and got to explore the country by car. He joined Guinness plc and served as non-executive director on their West African affiliate boards in the early nineties, where after he left the brewer and joined the trading firm, John Holt, as their Divisional Chief Executive for Nigeria.

He subsequently joined an Eastern Nigeria company who distributed the Colgate-Palmolive range of products as CEO, based in Aba, before re-joining Guinness as their MD for Nigeria in 2002 – a post that he held for 3 and a half years before venturing out on his own in a consulting and PR business as well as a water bottler, all based in Lagos. He joined Promasidor, a South African family-owned FMCG business with operations in 15 African countries, as MD in Nigeria, an affiliate in which the Oppenheimer fund has a 25% stake, towards the end of 2007.

I interviewed him in order to gain insights that are of specific relevance to Nigeria.

(1) Reasons for entering Nigeria

Keith is optimistic about the growth prospects for Nigeria in the long run, although the country is not immune to the current global financial melt-down which has resulted in lower oil revenues as well as remittances from the Diaspora drying up.

(2) Difficulties encountered

2.1. *Lack of power* is a huge issue in Nigeria, with 40% supply the norm, adding substantial cost and complexity to production processes.

2.2. FMCG firms are less exposed to large-scale *corruption* than the oil and gas firms, for instance. However, petty corruption occurs continuously at lower levels of the organisation and is energy

sapping for management dealing with the issue, apart from the fact that it adds up to a sizable amount at the end, losses that at best, range ‘only’ between 5 and 10% of sales. Most Nigerian companies lose around 20% of their marketing budgets through fraud. Local purchases probably include an 8 to 12% premium as a result of fraudulent practices.

Petty corruption is a way of life in Nigeria – it wears management down – many long-term expatriates hit the bottle as a result.

(3&4) KSFs employed

3.1. Keith singles out *capability* as the key to achieving success in Nigeria (and Africa, for that matter) His definition of the term includes the following sub-sets:

- generic (education, technology, good business practice, brands);
- cultural (the ability of leaders to understand and come to terms with complex cultural issues);
- integrity (trust, consistency, honesty).

3.2. He cites Diageo and Unilever as MNCs who are failing their African affiliates by forcing their *European business models* in a ‘one size fits all’ manner onto their African affiliates. The concept of matrix management, in particular, is counter-cultural in Africa where clear lines of authority are appropriate.

In addition, Nigeria places great importance on the *establishment of sound relations* with stakeholders and employers alike – this inter-personal attribute is often over-looked by European-based MNCs.

3.3. Keith’s view of what works best for a Nigerian MNC affiliate is an *autonomous MD with an operating team that is empowered* to get on with the job, with little or no interference from HQ.

3.4. “To operate successfully in Africa, you need *less ambiguity*”. In other words, keep your approach clear, simple and to the point.

3.5. Promasidor’s competitive advantage lies in its “light head office,” coupled to the experienced “Africa hands” that run the business, both at HQ and country levels.

3.6. “You have to be good at crisis management.”

3.7. The best way to *deal with corrupt practices* in the workplace is through dealing strictly with the slightest infringement, as well as by hand-selecting ‘honest Nigerians’ to enforce company policy.

(5) Exploring the BOEP opportunity

Promasidor has developed technology that allows them to offer their Cowbell pasteurised milk brand in 10 and 20 gram sachets at 10 and 20 Naira respectively (Naira 120 to a US$), which allows

them to reach families of around 6 members with a combined annual cash income of US$2,000 per annum, ie: the $ a day consumer at the base of the economic pyramid.

13. FANUS NOTHNAGEL – Coca-Cola SA Bottling Company (CCSabco) CEO

(interviewed telephonically 28.11.08)

Background

Fanus is a South African Chartered Accountant whose early career included a spell in financial management with SAB before joining SC Johnson, a family-owned USA-based multinational that manufactures a range of household FMCGs, where he headed up their African operations (with a strong bias towards West Africa.)

In 2003 he joined SA-based Massmart, heading up their Massdiscounters (Game and Dion stores) division and also serving as COO for the group from 2005 onwards. He joined CCSabco as CEO in 2007. The privately-owned Coca-Cola bottler is invested throughout Southern, Central and East Africa, as well as in Vietnam and Nepal.

(2) Difficulties encountered

Fanus singles out *country risk* and *corruption* as the two at the top of his list.

(3&4) KSFs employed

3.1. *First or early mover advantage* is critical. Interestingly, he believes that the window of opportunity open for early movers in Africa will remain open for an extended year or two as result of the current global financial crisis which is forcing MNCs to focus inwards at restructuring their business models, rather than investing in new markets that may be perceived as high risk.

3.2. The MNC parent company must be *ready to take some risk*, understanding that all of their SSA ventures may not be successful. In comparing it to a juggler, Fanus sees the parent company's role as one of "having lots of balls in the air and trying to keep none, or as few as possible, of dropping to the ground."

3.3. He's absolutely adamant that one *cannot bribe or corrupt*, even if the 'experts' tell you that there's no other way of doing business in a country such as Nigeria. Resist the temptation early on, even if it comes with some pain, and the affiliate should be fine from thereon onwards.

(5) Exploring the BOEP opportunity

During his stint with SC Johnson, Fanus and his team had great success in manufacturing and selling mosquito-repellent coils in Ghana and Nigeria. The unit of sale to the end-consumer was broken

down to individual coils and offered at the local currency (Cedi or Naira) equivalent of one US cent, thereby *breaking through the affordability barrier*. However, the manufacturing process was set up in order that this product also produced the group's best margins in the region. The 'cherry on the top' was that the product helped reduced the incidence of malaria amongst its users, thereby giving the local affiliate positive spin-off in terms of its contribution towards recognising and meeting the needs of the community in which it operates.

This represents an excellent example of meeting the demands of all key stakeholders (the impoverished consumer, profit-driven MNC and community that provides the licence to trade.)

14. CLIVE TASKER – Chief Executive, Standard Bank Africa

(interviewed telephonically 8.12.08)

Background

Before joining Standard Bank 8 years ago, Clive served as MD of PPCement and CEO of Educor in SA. He oversaw the bank's interests in Southern and Western Africa, before assuming his current position in March of this year.

Standard Bank's African division (excluding SA) consists of a footprint of banks spread across 16 African countries. Its formation began in 1990 when Standard Bank bought the ANZ Grindlay's group and has steadily increased in size due to a combination of both generic growth and further acquisitions.

Clive is satisfied with profit growth recorded by the Africa division, pointing to a 60% improvement in 2007 over the prior year, followed by +40% in 2008.

(1) Reasons for entering SSA

1.1.Unlike many other sectors, SSA was relatively well served by two British banking groups, Barclays and Standard Chartered Bank (erstwhile owner of Standard Bank SA), at the time that the group decided to enter the region via the Grindlay's acquisition. Despite the competitive threat posed by these well established banks in the region, Standard Bank believed that their *South African experience* would stand them in good stead when it came to managing banks effectively in the rest of the continent. Their growth record to date (see above) suggests that their confidence was well founded.

1.2. Expanding into SSA was part of Standard Bank's *globalization strategy* which saw them build a substantial presence around the world, including London and Hong Kong. A strong presence in Africa allowed them to better serve their South African and British customers who were beginning to invest in the region.

(2) Difficulties encountered

2.1. As banking is a *regulated industry*, Standard Bank has to deal with even more red tape than the heavy dose that foreign investors have come to expect in the region. As example, even non-executive board appointments are subject to approval from the country's banking regulators.

2.2. Another unique challenge faced by Standard Bank surrounds its *brand*, caused by its historic relationship with Standard Chartered Bank, as well as numerous acquisitions, some of whom still incorporate the acquired bank's name. In countries where Standard Chartered entered before Standard, the latter has to revert to the use of Stanbic as its brand.

Although this is obviously not a death sentence for the business, Clive and his team are convinced of the need for a unified brand in a region where brands are important and where cross-border activities are increasing.

2.3. In order to recover bad debts, banks require a sophisticated and effective *legal system* which, unfortunately, is lacking in the vast majority of countries in the region.

2.4. When acquiring a bank in SSA it is not unusual to find that it lacks the necessary *technology* in order for it to function to Standard Bank standards.

2.5. Attempts at *corruption* have been encountered, especially in the port of Lagos where containers have been delayed for up to 5 months.

(3&4) KSFs employed

3.1. Although *expatriates* are an important part of Standard Bank's business model (at the rate of 2-3 per business), they are different to many other MNCs in that their expats are not primarily sourced from their home base, but rather from the countries in which they operate. Therefore, one finds a Kenyan running their Ugandan operation, a Nigerian running Stanbic Ghana, etc.

This more inclusive African expatriate cadre certainly takes off some of the edge from local criticism aimed at expats, as well as setting Standard Bank apart from its South African peers who rely heavily on seconding white middle-aged males to their African operations.

3.2. Clive is mildly supportive of having *local partners* in their affiliates for all the right reasons, as long as Standard Bank has a minimum of 51% share and, thereby, control.

8 of their affiliates have local partners, while a further 4 are listed on local stock exchanges.

3.3. Standard Bank does *not tolerate corrupt practices* in any of its operations – it's a dismissible offence.

3.4. In *assessing the required returns* to be delivered by an affiliate, Standard Bank HQ personnel carefully evaluate the particular country's risk profile on the basis that higher returns are required

from more risky investments. It is no surprise, therefore, that the African division is expected to outperform their South African counterpart when it comes to banking margins.

3.5. Clive describes the Standard Bank Africa business model as being one of '*servant leadership*', although it is quite clear that the centre not only supports the affiliates, but also sets a comprehensive set of non-negotiable standards in the areas of risk management, IT and the like.

3.6. Specialists from their London and Johannesburg HQs have also been hugely value adding when it comes to structuring *innovative capital raising events* for corporate clients such as MTN in Nigeria.

3.7. Clive and his team, both from HQ and affiliates, take great care to *interface with government officials* at all levels on a regular basis. It is not unusual, for instance, for Standard Bank to host central bankers from African countries in order to discuss topics of mutual interest.

Clive also makes the relevant point that in-country governments play a dual role in Standard Bank's life, both as key stakeholder/regulator and potential customer.

3.8. Clive comments that Standard Bank is generally quite pleased with the latent *local talent* that they encounter in the countries in which they operate. Although specific banking skills may be lacking, general education levels are fine, so that the company has no problem in equipping locals with the requisite banking skills.

3.9. It should further be pointed out that Standard Bank pays more than lip service when it comes to the training and development of its staff members. Their *Global Leadership Centre in Sandton* provides accommodation for delegates from their affiliates all over the world. Courses are aimed at executive, middle management and foundation levels.

(5) Exploring the BOEP opportunity

Standard Bank Africa provides a fine example in the field of micro-finance, where it not only finances individual small maize out-growers in a number of countries (Lesotho, Zambia, Ghana, Malawi and Mozambique), but enlists the help of NGOs and other 3rd parties to organise the farmers into co-operatives and provide them with 'cradle to grave' management support throughout the farming process.

15. JACKO MAREE, Chief Executive, Standard Bank Group Ltd

(interviewed telephonically 9.12.08)

Background

Jacko is one of South Africa's most successful business leaders. He was educated at Stellenbosch, Oxford and Harvard and joined Standard Bank's Corporate Finance Division in 1980. He soon moved up the ranks and has been in his current position since 1999.

During his time at the helm, Standard Bank warded off a takeover bid by Nedbank and also embarked on a successful globalisation strategy.

This interview is a follow-up to the earlier one with Clive Tasker in order to capture Jacko's more strategic insights, given both his position and length of tenure.

(1) Standard Bank's performance to date against the rationale for entering SSA

1.1. Jacko is *reasonably satisfied* with the African division's performance against the growth imperative for the group:

- Africa records ROE of around 30% versus the 20-25% range achieved by the South African bank.
- Africa contributes about 15% of the group's profits, with 75% coming from SA and 10% from the rest of Standard Bank's world.
- The bank in Nigeria now delivers profits in excess of $100m per annum.

He further observes that whereas they assumed that the soft currencies of the region would depreciate against the Rand (Standard Bank's reporting currency) over time, the opposite has in fact been the case over the past 5-6 years, thereby enhancing the Africa division's Rand earnings.

1.2. However, Standard Bank has a structural issue that requires fixing. Jacko states that: "*we're big in small countries and small in big countries*" and, therefore, need to expand the operations in Nigeria, Angola, Kenya and Ghana in order for the African division to make a more meaningful contribution to group profits and growth.

(2) Difficulties encountered in SSA

2.1. Linked to point 1.2 above, is the challenge of having to operate in markets possessing *small profit pools*. Building a really big business consisting of lots of little units is hard work.

2.2. He agrees with Clive that dealing with *corruption is not such a big issue* when operating in SSA. Jacko points out that other banks such as Citibank and Barclays have been operating in the region for many years, without having to employ corrupt practices.

"Corruption exists in most countries, including SA, but you simply have to turn down opportunities that involve this type of unacceptable behaviour."

2.3. Jacko also points out the fact that private banking is more difficult in SSA because of deficiencies in the legal system, coupled to the lack of property ownership which makes *the lending of money to individuals extremely risky.*

Standard's SSA banks therefore tend to focus on business banking, as may be seen from their two thirds/one third contribution in favour of business over private banking, as opposed to their SA operation which is split on a 50:50 basis.

(3&4) KSFs employed

3.1. Jacko points to the stabilising impact of Standard Bank's *portfolio* of 16 countries on results from their African division. He goes on to recount that Zimbabwe used to be the 2nd largest contributor to group profits (after South Africa), but in a period which saw profits from this country all but disappear, the rest of the growing African portfolio picked up the slack to such an extent that the Africa division continues to outperform SA (see 1.1 above.)

3.2. Because of the greater focus on business banking in SSA, Standard Bank looks to value adding product offerings, tailor made to a particular customer, in order to attract clients at decent margins. In order to do so, the bank places great store by its *IT capability.*

3.3. Jacko echoes Clive's endorsement of their *Global Leadership Centre* as a unique enabling factor for their growing empire. "The facility and its operation cost us $100s of millions and we use the best teachers, mostly sourced from Duke in the US. Nick Binedell rates it as one of the top ten facilities of its kind in the world."

16. MURRAY LOGGIE – MD Coca-Cola Sabco Tanzania

(interviewed telephonically 16.12.08)

Background

Murray Loggie is a South African who joined the family-owned Coca-Cola South African Bottling Company (CCSabco) in the finance department of their Port Elizabeth-based group office in 1992. In 1998 he moved to CCSabco's Zambian operation (a management contract only) as Financial Director and then Managing Director. He was then transferred to Sabco's Tanzanian affiliate as Financial Director, where after he transferred in 2005 to Coca-Cola Sabco Ethiopia as MD, a position that he held for 3 years during which this affiliate made great progress, following a faltering start after purchasing the business in 1998 - a time when the Ethiopian business environment was particularly hostile to privately-owned foreign investors.

Although Murray has recently returned as MD to CCSabco's Tanzanian affiliate, the aim of this interview was to build CCSabco's turn-around in Ethiopia into a case study, and as this largely happened under Murray's watch, the interview was focussed on the company's exploits in Ethiopia only.

CCSabco not only owns and operates Coca-Cola bottling franchises in South Africa, but also in the African countries of Namibia, Mozambique, Tanzania, Kenya, Uganda and Ethiopia, as well as in

Asia's Vietnam, Nepal, Cambodia and Sri Lanka. For further information on the group, see the interview with the chairman, Phil Gutsche (no. 17 below.)

CCSabco's Ethiopian turn-around really gathered momentum from 2001 onwards as may be seen from the following profitability indicators:

- Compound volume growth, as well as net sales revenues (as measured in US$) have both grown by 24% per annum to date. The latter feat means that the company was able to extract real price increases, as the Ethiopian Birr has been devaluing against the $ over this period.
- Net income before tax has turned from loss-making into a meaningful profit situation.
- Return on invested capital has turned from negative into +26%.
- CCSabco's market share (their major Ethiopian competitor is the foreign-owned Pepsi bottler) has increased from below 30% to almost 60%.
- The Coca-Cola Company's dashboard of operational efficiency and quality measures, by which they measure the performance of all their bottlers, has shown vast improvements on all fronts for their Ethiopian bottler.

<u>1. Reasons for CCSabco entering Ethiopia</u>

1.1. In 1994 the CCSabco group concluded an agreement with The Coca-Cola Company (TCCC), owner of the Coca-Cola franchise, to be TCCC's *anchor bottler* in East Africa. When the Ethiopian franchise became available in 1998, TCCC therefore offered it to CCSabco.

1.2. Apart from their obligation to TCCC, CCSabco were attracted to the fantastic *growth potential* offered up by the Ethiopian franchise, which in 1998 accounted for annual volumes of a mere 4 million unit cases or roughly one Coke unit consumed per capita per annum.

The fact that CCSabco's Ethiopian volumes have quadrupled since taking on the franchise has certainly vindicated their assessment of the opportunity for growth.

<u>2. Difficulties encountered by CCSabco in Ethiopia.</u>

2.1. Really *poor infrastructure* (roads, power, water) is a hallmark of Ethiopia, a vast country of mainly rural people (out of a population of 80million, Addis Ababa with 5 million is the only city of substance.) Chinese state-owned investors are beginning to make an impact as they construct roads and build dams (essential in order to supply hydro-electric power), but on the other hand, the country's 7-10% annual growth in economic activity continues to outstrip these improvements.

The cost of delivering soft drinks to generally poor rural consumers is prohibitive and posed a major challenge for the company to overcome in its quest for market growth.

2.2. *Communication* channels are also poor, a situation exacerbated by the Ethiopian government's strict control over this strategic resource.

CCSabco were unable to get permission from the authorities to use their own satellite in order to submit real-time information to HQ, and therefore could not roll out SAP to Ethiopia, unlike all other countries in which they operate.

2.3. Most of Ethiopia's industries remain state-owned, in particular *support industries* such as mechanical and electrical engineering workshops which are extremely poorly equipped in terms of skills and machinery.

In addition, as CCSabco embarked on an ambitious refurbishment and expansion campaign, it soon found that most suppliers of new bottling equipment and the like did not have permanent local resources capable of delivering the requisite after-sales service levels.

2.4. Although local Ethiopian talent has proven to be extremely trainable and enthusiastic, CCSabco were confronted with an extreme *lack of critical technical skills* as a result of state-ownership of most industries. Technicians at relatively well-run Ethiopian Airlines offered some respite to the dearth of talent.

Language also proved to be an issue with the workforce, especially amongst older employees who were only able to converse Amharic – younger qualified Ethiopians are fine when it comes to the use of English.

2.5. *A lack of local supply of raw materials* meant that the company has had to import materials at considerable cost and/or invest in local facilities.

The company itself refines locally produced sugar in order to meet quality specs as set by TCCC. It also generates its own CO^2. They still experience supply problems with the supply of locally manufactured glass bottles, although the position has improved over the years (the glass manufacturer is government owned and used to supply as little as 30% of the company's needs), while the privately-owned manufacturer of crowns has still not come up to scratch.

2.6. High levels of economic growth, coupled to limited exports, has resulted in a *critical shortage of foreign exchange*, resulting in delays of around 3 months being experienced before the company is able to remit payment to off-shore suppliers.

CCSabco has taken a long-term view of its investment in Ethiopia, re-investing all profits earned to date and thereby not requiring forex to remit as dividends to their off-shore owners (which would typically be harder to come by than in the case of paying for imported goods.)

2.7. When CCSabco took on the franchise in 1998, they had to also take *local shareholders* on board who weren't known to them and who held a total stake of 38% in the local company, thereby having the right to block special resolutions from being passed. This frustrated CCSabco when it came to

raising capital in order to fund their aggressive investment programme. The situation was further exacerbated when some of the partners were subsequently imprisoned for nefarious dealings - also when the owner of the competitor Pepsi bottler acquired a 12% stake in the company from previous partners who were forced to liquidate their holdings.

CCSabco were subsequently able to convert company debt into equity and increase their shareholding to 80% as a result, thereby crossing the 75% threshold required in order to pass special resolutions.

2.8. *On a positive note*, Murray experienced generally good levels of governance as practised by the authorities. Corruption and crime weren't issues at all. He puts it down to the intolerance of dishonest practises displayed by Ethiopians.

3&4. Key Success Factors employed by CCSabco in Ethiopia

3.1. Getting volumes up to a *critical mass* was essential in order to build a business capable of doing better than break-even, win the confidence of its owners and then invest aggressively in order to really exploit the potential for TCCC's powerful portfolio of brands.

In order to do so, early investment in their two bottling plants took the form of cautiously rehabilitating existing assets, rather than spending more on new plant. Capacities were initially expanded to meet the potential of the surrounding areas only and only 3rd party hauliers were used to truck product to agents. Funding was obtained from local sources (not from shareholders.) *Pricing*, too, *was conservative* with annual increases held at below-inflation levels in the early years in order to get volumes up to critical mass levels and explore the potential for the Coke range of products. Only later, when a position of full supply had been reached, did CCSabco Ethiopia begin to price more fully in order to begin to earn a return on their considerable earlier investments.

This cautious, *pay-as-you-go approach* had the desired effect in that it gave CCSabco the confidence to expand more aggressively in the second phase, installing new equipment that sufficiently increased capacity in order that they could service the entire country. They also bought 15 of their own hauliers in order to improve service levels to rural agents and simultaneously lower the cost of doing so.

3.2. With the help of TCCC, CCSabco effectively *lobbied government to reduce the excise tax* levied on its product from 50% to 30% of the cost of production. CCSabco's undertaking to re-invest profits made it easier for government to partially meet their demands.

3.3. 'Sabconisation' is the term that Murray uses to describe the group's set of *core systems and processes*, aided and abetted by TCCC's world-wide standards for its franchise bottlers. These served CCSabco well in fast-tracking change after taking over the Ethiopian bottler. Only minor adaptation

to local conditions was required, of which the major one was to replace SAP with a PC-driven information system (see 2.2 above.)

3.4. *Expatriates* have been key to the successful turn-around achieved by CCSabco in Ethiopia. Apart from requiring CCSabco's very best talent to head up the general management and finance functions (unsurprisingly), the lack of local skills meant that full and part-time expatriate skills remain an essential component of their technical function in the country.

3.5. The local company places great emphasis on *training & development of Ethiopians,* including the establishment of a training centre where CCSabco's processes and systems are taught to local employees. This training is supplemented by visits to observe best-in-class practices in other countries within the Coca-Cola family, although costs often become exorbitant. The success of the T&D programme is underlined by the fact that 3 Ethiopians are currently serving as expatriates in other CCSabco affiliates.

3.6. TCCC's focus on operational excellence has been fully taken on board by the CCSabco group of bottlers, also in Ethiopia where it forms the backbone of their *continuous improvement programme*.

3.7. CCSabco's business model is *decentralised*, and becoming more so. Functional support services to the Ethiopian affiliate such as human resources, previously supplied from their East African divisional office in Nairobi, have been discontinued in favour of strong in-country functions backed up by high-level support, if required, from their Port Elizabeth HQ.

"Country management teams run their own businesses with support from the centre," is how Murray sees the CCSabco model at work.

3.8. CCSabco Ethiopia has received *good support from their franchisor*, TCCC, who, amongst other things, have given them a favourable concentrate price in order to help fund their investment in expanding the business. TCCC, however, have also benefited substantially from their increase in concentrate sales on the back of Ethiopia's 24% compound growth in volumes – a win-win situation which makes for the perfect franchisor/franchisee relationship.

5. Reaching the consumer at the BOEP

No efforts made to date.

17. PHIL GUTSCHE – Chairman, Coca-Cola South African Bottling Company (CCSabco)

(interviewed 15.12.08)

Background

For many years Phil has been the driving force behind the development of this family-owned Coca-Cola bottler who operates franchises in South Africa, Namibia, 5 East African and 5 Asian countries.

The group started as a purely South African play, expanding into Africa at the end of the apartheid-era in late-1994 when The Coca-Cola Company (TCCC) approached them to become the company's anchor bottler in East Africa. Phil believes that TCCC chose Sabco ahead of other South African bottlers because of their commitment to developing their staff. They subsequently also entered the Asian countries of Vietnam, Sri Lanka, Cambodia, Laos and Nepal.
The Gutsche family is the controlling shareholder in CCSabco with TCCC holding a minority stake of 20% in the business. The group is head-quartered in Port Elizabeth.

1. Reasons for entering SSA

1.1. Phil had a *strategic imperative to grow* the business in that it had to become too large to be swallowed-up by large Coca-Cola bottlers such as ABI (owned at that stage by South African Breweries.) He wanted his family business to be a player in the long term development of the Coca-Cola franchise across the world (he's passionate about the brand!), as opposed to selling out and having to re-invest elsewhere.
"If we remained as we were in SA, we would get swallowed up by SAB."
1.2. In the early 1990's, before the fall of apartheid, TCCC approached CCSabco to take-over the Suncrush-owned *Coca-Cola bottler in Mozambique*, which had all but collapsed. Phil and his men achieved a quick turn-around of the business which gave them the confidence to accept the appointment as East African anchor-bottler by TCCC (who obviously were also impressed by the Mozambican performance.)
1.3. As more opportunities came up in East Africa, including unchartered territories such as Ethiopia, Phil and his men were emboldened to take on these challenges, because:
- *SSA* was opening up and *becoming a more stable place* in which to operate;
- CCSabco's early success in Mozambique was a confidence-booster;
- so too, was the success being achieved by SABMiller in the region.

2. Difficulties encountered in SSA

2.1. Phil mentions the *shortage of local skills* as the #1 impediment to doing business in the region.
2.2. Although not the fault of the SSA countries in which they invested, Phil does point out the difficulty presented by having to obtain *permission from The South African Reserve Bank to externalise investments* in the 1990's. However, they eventually managed to clear this hurdle, although they were forced to rehabilitate plants by taking out 2nd hand plant and equipment from SA as an alternative to cash in the early years.

3&4.KSFs employed by CCSabco in SSA

3.1. "*Our core strength has always been perfect execution*, especially as far as distribution is concerned." This statement pretty much sums up the formula for CCSabco's success in Africa.

3.2. Being *a family-owned business* has its advantages in that it allows for on-the-spot decision-making. "When Doug Ivester and John Hunter of TCCC offered us the anchor bottler ship for East Africa, I immediately said yes. They asked if I wanted to consult with my people or have time to think about it, but I confirmed that I wanted it right there and then."

On the other hand, it has its own drawbacks once the size of the business grows beyond manageable limits (in terms of size and complexity), as happened with CCSabco after entering SSA. Phil recognised that he needed to step-up the professionalism of his management team, as well as infusing it with a more international approach to doing business outside SA. So, with help from TCCC, Phil head-hunted a top Dutch general manager in order to take on the COO role. This strategy has had the desired result as far as Phil is concerned (and judging by their many successes achieved in SSA.)

3.3. Phil has *a patient approach* to reaping the results of his group's considerable investments in SSA. CCSabco is quite content to re-invest their earnings in order to grow the size of the Coca-Cola franchise in a particular country (in Ethiopia, for instance, they have not remitted any of their earnings to date, choosing instead to re-invest in expanding the business.)

Although this approach does not appeal to most foreign investors (because of the negative impact on cash flows), there is method in Phil's 'madness', in that the value of a Coca-Cola franchise for sale (highly prized by International Beverage MNCs) is calculated on the size of its sales volumes – the greater annual volumes, the more valuable the franchise. So, although Phil proudly boasts that "I've never sold a Coca-Cola franchise and never will", he's co-investors are able to rest assured in the knowledge that the value of their investment is growing at roughly the same pace as their sales volumes.

3.4. Phil places great store on *the appeal of the Coca-Cola brand* (the world's most valuable), even amongst the poor, illiterate rural consumers of East Africa.

3.5. He further goes out of his way in order to regularly *visit the Presidents* of those countries in which CCsabco operates, in order to inform them of their affiliate's progress, problems and contribution to the country's development. Visiting officials from TCCC will often accompany Phil on these visits, thereby adding more weight to his representation.

18. ATO AFFUL – MD Ogilvy Africa

(interviewed telephonically 18.12.08)

Background

Ato's exclamation: "I love Africa!" best captures both the enthusiasm and commitment of the man and his company to the African continent. Ato is Ghanaian who joined the advertising agency, Ogilvy Worldwide, 15 years ago. After leaving the company for 3 years during which he was involved with television advertising on the continent, he rejoined as Ogilvy Africa MD in December, 2006.

Ogilvy Africa is a joint venture between Ogilvy South Africa (51%) and Ogilvy Worldwide (49%) which was formed in 1994 (at the end of SA's apartheid era.) It has expanded across the African continent at an incredible rate and offers the best network coverage of any agency, as may be gleaned from the following facts:

- they have 49 offices in 31 countries;
- they cover a further 19 countries through tie-ups with local agencies;
- they own equity in 16 of the above offices;
- they employ 1,200 Africans across the continent;
- in order to better serve their clients (and deal with language and cultural issues) they have established hubs in Zimbabwe, Mozambique, Kenya, Reunion, Nigeria and the Ivory Coast.

1. Reasons for Ogilvy's expansion into Africa

1.1. In essence, Ogilvy *followed the FMCG MNCs* who they were serving in other markets (including South Africa), when these firms expanded into Africa. Their current customer base across the continent includes 15 MNCs, featuring the likes of SABMiller, M-Net Supersport and Unilever.

1.2. The fact that Ogilvy moved into the continent at a faster rate than their competitors did, may be attributed to the previous Chairman of Ogilvy South Africa, Robin Putter, who had stated way back in the nineties that "we have an *emotional involvement with the continent* and therefore need to serve her consumers even if it does not make commercial sense up front."

This far-sighted lead from the Chairman gave management the freedom to aggressively pursue their expansion strategy.

1.3. Instead of serving Africa out of their Johannesburg or Paris-based agencies, Ogilvy went the more difficult (and expensive!) route by setting up their comprehensive coverage network in 50 African countries because of their belief that *local insights* result in more appropriate advertising concepts, while a focus on *local activation* means more bang for the client's advertising buck.

2. Difficulties encountered by Ogilvy in Africa

2.1. *People recruitment and development* is the #1 impediment in Ato's book.

2.2. This is followed by *communication infrastructural limitations*.

2.3. There are also numerous *cultural and language differences* which have to be acknowledged when communicating with the continent's consumers – Africa is not a homogenous market!

<u>3&4. KSFs employed by Ogilvy Africa</u>

3.1. The agency's very visible *commitment to the continent* (see point 1.2 above) gives them a clear advantage in marketing the goods of MNCs who have also committed themselves to Africa by dint of their investments.

3.2. The comprehensive coverage network built up over the past 15 years (see point 1.3 above) gives Ogilvy an edge in *knowledge of the local market*, a further significant advantage valued by MNCs all over the world.

3.3. *Training and development* of their local teams is critical to Ogilvy's success in Africa. They used to centralise this function in Johannesburg, but have subsequently decentralised it down to hub-level where different languages are catered for and travel costs reduced.

3.4. *Active local partners* are an essential component of their business model. When entering a new territory or reviewing an existing arrangement, Ogilvy places great store by a local partner that has top quality clients on their books.

3.5. Ogilvy Africa is an extremely *decentralised* organisation, relying on each office to provide the insights and energy valued by their MNC clients. It is important for local staff to have comprehensive knowledge of MNC brand positioning which Ato and a handful of HQ staff are able to provide, as well as liaison with MNC HQ marketing personnel.