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Master Degree Project in International Business and Trade

Assessing Location Choices of Swedish Firms:

South Africa and beyond

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Abstract

South Africa is considered the most developed country in sub-Saharan Africa and has since the end of apartheid experienced political, economic and social development. After apartheid, investments increased rapidly, including those sourcing from Swedish firms. Location-specific factors that attract investments to a specific market have somewhat been neglected in scientific research. The purpose of this study is to gain a deeper understanding of the location-specific factors that Swedish firms find most important when choosing South Africa as a location for investments. This includes investigating South Africa as gateway into sub-Saharan Africa as well as to explore risks and challenges, which together form the research questions. To fulfill the purpose, interviews were conducted with nine Swedish firms and organizations established in South Africa in order to obtain personal insights. According to this study, several location-specific factors are attractive for Swedish firms. Some of the most emphasized are market size, growth, a generally easy business environment and cultural similarities between Sweden and South Africa. For some firms, personal preferences were described as crucial factors when choosing South Africa. Historical and political relations seemed to be of less importance while the good reputation of Sweden and Swedish products was beneficial for firms. In line with previous research, an attractive factor for some Swedish firms is the possibility to use South Africa as a gateway into other markets in sub-Saharan Africa. Swedish firms in South Africa face several risks and challenges, such as crime and political instability. However, segregation seems to be the most imminent risk since it leads to difficulties in recruiting black competent employees. Nevertheless, most of the risks and challenges can be alleviated and do not pose a threat to Swedish firms. In conclusion, South Africa is a complex market where it is important to understand both the business environment as well as the South African society in general.

Key words: South Africa, sub-Saharan Africa, Swedish firms, foreign direct investments, location-specific factors, risks, challenges

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Abbreviations

ANC	African National Congress
B2B	Business to Business
B2C	Business to Consumer
BEE	Black Economic Empowerment
BRICS	Brazil, Russia, India, China, South Africa
CEO	Chief Executive Officer
CIP	Critical Infrastructure Programme
CSR	Corporate Social Responsibility
EFF	Economic Freedom Fighters
FDI	Foreign Direct Investment
FIG	Foreign Investment Grant
GDP	Gross National Product
HQ	Headquarter
ICT	Information Communication Technology
IPP	Industrial Policy Projects
MDG	Millennium Development Goal
NSBA	Nordic South African Business Association
SEK	Swedish Krona
SSA	sub-Saharan Africa
ZAR	South African Rand
USD	US Dollar

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1. Introduction

In this chapter a background is provided followed by a problem discussion regarding the field of research. Further, purpose and three research questions are presented and the section is concluded with a thesis outline as well as delimitations of the study.

1.1 Background

Many make the mistake of considering Africa as one big country. However, the continent can be divided into North Africa and sub-Saharan Africa (SSA) since the history and culture in North Africa distinguishes these countries from the rest of the continent (Dowden 2008). SSA, inhabiting almost 1 billion people, is often associated with poverty, famine, diseases and civil wars. Despite these issues there are parts of SSA embossed with e.g. African multinational firms and advanced information infrastructure (World Bank 2014a; Dowden 2008). Since the 2000s, SSA has experienced less armed conflicts, higher economic growth, and improved political and economic stability (UNECA 2013). Still, there are high rates of HIV/AIDS and malaria, and more than 400 million Africans live in extreme poverty (Bjerström 2013). Despite these problems, more than half of the world's 30 fastest growing economies are countries in SSA (UNDP 2013).

SSA has since 2000 experienced a stable growth of more than 5%. Still, the growth rates differ between countries and subregions. In 2013, West and East Africa had an expected growth rate of more than 6% whereas Central Africa had an expected growth rate of 4.5%. In the same year Southern Africa had the lowest expected growth rate of 4% (UNDP 2013). An important component in enhancing economic growth is to attract inward foreign direct investment (FDI) to SSA. The majority of FDI is in extractive industries although FDI in consumer-oriented industries has increased due to demographic development in SSA. In 2011-2012, the largest recipients in SSA were Nigeria, Mozambique and South Africa (UNCTAD 2013). The largest trade and investment partners are EU and the US although emerging countries, especially China, increase their engagement with African countries (World Economic Forum 2013). Africa in general is the last frontier and the only continent left to exploit. Firms have since long understood the potential of the region, especially those working with natural resources. However, a number of factors, both of external and internal nature, has put spanner in the wheels.

South Africa is the most developed country as well as the economic powerhouse in Africa (Gauteng Provincial Treasury 2013). The country has since the end of apartheid in 1994 experienced political, economic and social development, e.g. more than half of the South Africans are nowadays considered middle-class (Bjerström 2013). But, there are still many issues that remain, such as high unemployment rates and inequalities (EKN 2013). After apartheid, between 1994 and 2007, South Africa's economy grew stronger and had an average growth rate of 3.6% (Goldman Sachs 2013). Since then, South Africa has experienced an average growth rate of 2%, which is below estimated potential of 4-5% (OECD 2013). Even though South Africa experienced a decline in growth after the financial crisis, the country was officially included to the BRICS countries (Brazil, Russia, India, China, South Africa) in 2010 (DTI & Deloitte 2013). This is expected to benefit South Africa, as well as SSA, through e.g. increased trade and investment (DIRCO 2012). South Africa has increased inward FDI since 1994, and in 2012 the inward flow equaled USD 4.5 billion. Most inward FDI is in mining, manufacturing and in services, where financial services accounts for the lion share. Most FDI in South Africa originates from Europe and the US. However, United Kingdom is the single largest investor with more than 50% of total FDI (Wöcke & Sing 2013).

1.2 Problem Discussion

Historically, the relationship between South Africa and Sweden has been strong, especially due to Sweden's engagement during apartheid, which laid the foundation to a close relationship between the countries (Nordic Africa Institute 2014). A bilateral agreement was signed in 1995, aiming towards democracy, human rights, education and public administration (Sellström 2002). In 1999, the countries established a binational commission to deepen cooperation in political, economic, social, cultural and developmental issues. The commission promotes partnership between Swedish and South African actors in both public and private sectors (SIDA 2006, 2013).

Today, Sweden is the 18th largest investor in South Africa and the Swedish FDI in South Africa has increased from USD 18.9 million in 2003 to USD 111.1 million in 2012 (IMF 2014; OECD 2014). More than 100 Swedish firms are present in the country, which is twice as many as in 1997 (DIRCO 2013). Most of these firms operate in manufacturing, construction, transport or service industries (Business Sweden 2014). Today, South Africa is the largest trading partner in Africa for Swedish firms (Regeringskansliet 2011).

The importance of location-specific factors has been neglected in the past. However, new developments in firms' choice of location require more attention to these factors (Dunning 2009). Previous research on location-specific factors emphasized e.g. market size, growth, business infrastructure and closeness to SSA, as important factors when investing in South Africa. On the other hand, economic and political uncertainty, slow growth and crime rates were considered potential risks (e.g. Owusu & Habiyakare 2011; Tuomi 2011). However, the research concerning South Africa has been limited.

Since the involvement of Swedish firms in South Africa has increased it is interesting to examine the reasons for this. In spite of the fact that research has been conducted on FDI in South Africa, and the importance of location-specific factors, none of this research has concentrated on Swedish firms. The experiences of Swedish firms can be diverse and these can provide important knowledge that is useful for firms in general, but Swedish firms in particular. Investments in South Africa are expected to generate opportunities but they are also associated with risks. South Africa is considered the most developed country in Africa and it could be an attractive factor to use South Africa as a gateway into SSA. The previously rapid development in South Africa and SSA might change the location-specific factors. Those factors that were important ten years ago, when much research was conducted, might be irrelevant today.

1.3 Purpose and research questions

The purpose of this thesis is to gain a deeper understanding of why Swedish firms choose to invest in South Africa post-apartheid. This will be accomplished through personal insights from Swedish firms of the specific factors they find most important when choosing South Africa as a location. Investments also generate risks and challenges and consequently it is of essence to explore these as well. In order to fulfill the purpose of this study three research questions were formulated.

- What location-specific factors attract Swedish firms to invest in South Africa?
- Is South Africa considered a gateway into other markets in sub-Saharan Africa?
- What challenges and risks do Swedish firms experience in South Africa?

1.4 Thesis outline

This thesis is divided into the following chapters:

Introduction

This chapter will provide the reader with a brief background and problem discussion of the field of subject. The purpose and research questions are also presented. The chapter rounds off with discussing delimitations of the study.

Theoretical framework

This chapter will provide an overview of previous research and relevant theories. This includes general theories, e.g. internationalization, as well as more narrow theories, e.g. FDI in Africa and in South Africa, that together form the theoretical framework for this study.

Methodology

This chapter will present the research approach and design, as well as detailed information on data collection and analysis. An assessment of the research quality is also presented including the methodological limitations.

Empirical background

This chapter will provide an overview of Africa in general and South Africa in particular where relevant aspects for this study will be highlighted. This will provide the reader with a comprehensive background and prepare for the empirical findings.

Empirical findings

This chapter will introduce the firms and organizations and present the main findings discerned from the interviews. All information is presented according to common topics that were discussed during the interviews.

Analysis

This chapter will provide a deeper understanding of the field of subject. In order to answer the research questions, theoretical framework and empirical findings are reflected upon. Similarities and differences are discussed and analyzed.

Conclusion

This chapter will present the key findings and answers to the research questions. Further, contributions to research as well as suggestions for future research are discussed.

1.5 Delimitations of the study

This study is concentrated to South Africa since it is the most developed country in SSA as well as often considered the gateway into SSA (Gauteng Provincial Treasury 2013; DIRCO 2012). Thus, to examine South Africa as a market it is also of importance to examine certain aspects in SSA.

This study is limited to examining Swedish firms with subsidiaries in South Africa, i.e. this study do not include Swedish firms that export to South Africa but only firms that have established operations in South Africa. Due to many changes since apartheid, only firms that have established after 1994 will be included in the study. Specifically, the study aims to provide a deeper understanding and personal insights of the factors that attract Swedish firms as well as risks and challenges involved. Hence, this study does not intend to examine the reasons for Swedish firms' decisions to expand internationally but solely why Swedish firms choose South Africa. The conception behind this is partly that location-specific factors are often neglected when examining investments in new countries (Dunning 2009). Partly, the time and scope of this thesis makes it more reasonable to examine one aspect of Swedish firms in South Africa in order to provide a deeper and more thorough understanding.

2. Theoretical framework

In this chapter an overview of previous research and relevant theories will be presented in order to form a theoretical framework. This includes general theories regarding internationalization and FDI as well as more narrow theories regarding FDI in Africa and in South Africa.

2.1 Internationalization

Internationalization is a widely discussed topic in research and can be described as the increasing importance of international trade, international relations, treaties and alliances (Daly 1999). The internationalization process in regards to international business can be summarized as the process where firms increase their international involvement (e.g. Welch & Luostarinen 1988). There are several types of international involvement for firms, such as licensing, joint ventures or wholly owned subsidiaries. The different types have different implications for the firm and the degree of control (Hill, Hwang & Kim 1990). Several researchers have concentrated on the internationalization process and the rationale behind it. In broad terms, there are two different streams, economic and behavioral theories (Hotho 2009).

2.1.1 Economic theories

Hymer (1960) researched internationalization and found two major reasons for firms' decision to establish international operations: market imperfections in foreign markets, i.e. "if there is horizontal or bilateral monopoly or oligopoly" (p. 70), and advantages in production of particular products in comparison to competitors in foreign markets. Buckley and Casson (1976) discussed market imperfections that can benefit internalization, which should be performed to the point where benefits of externalizing outweigh the benefits of internalizing. However, communication both within the firm and to external actors creates additional costs that Buckley and Casson referred to as 'communication costs'. These costs are assumed to increase with geographical distance, which tend to negatively affect internalization across borders. Similar to this, Williamson (1985) used the term 'transaction costs' to explain friction costs when running a firm. He assumed that firms and other economic actors can be opportunistic with bounded rationality and 'transaction costs' are the costs to find an agreement between them. These costs include e.g. negotiating, controlling and enforcing of agreements between economic actors. This indicates that firms attempt to minimize

transaction costs through integrating business activities across countries (Welch, Benito & Petersen 2007).

According to Rugman (1976) firms internationalize to reduce the risk of profits through diversification to foreign markets. Kim, Hwang and Burgers (1993) concluded that firms could achieve beneficial risk-return performance by spreading activities across different foreign markets. A growing number of firms are more interested in keeping control over distribution rather than production (Buckley 1988). Further, Buckley stated that many theories are lacking since they do not estimate cost and argued against international growth through diversification, as proposed by Rugman (1976), since most firms invest in advanced countries where risk and benefits are similar. One of his main recommendations for further research was the measurement of transaction costs and more emphasis on location-specific factors, such as social and political conditions as well as demand and labor (Buckley 1988).

Dunning (1988) used the OLI-paradigm to explain internationalization. He argued that firms internationalize if they have owner-specific (O), location-specific (L) or internalization-specific (I) advantages. Owner-specific advantages refer to possession of specific assets and transactional benefits whereas location-specific advantages concerns beneficial factors in a particular location, such as trade barriers and transportation costs. Internalization-specific advantages refer to cost benefits of keeping international production in-house rather than using external providers (Frenkel, Funke & Stadtmann 2004). However, Dunning (2009) stated that location-specific advantages have been neglected in comparison to the O and I advantages and that new developments in geographic distribution of international firms require more attention to choice of location, since this largely affects global competitiveness of firms.

2.1.2 Behavioral theories

One of the most cited internationalization models is the Uppsala-model by Johanson and Vahlne (1977). They argued that firms increase their resources in a particular foreign market as learning and experience of that market increase. They stated that internationalization has two state aspects, market knowledge and market commitment, and two change aspects, commitment decisions and current business activities. The state aspects affect the change aspects and vice versa. In practical terms, this indicates that firms start through exporting and gradually increase their resource commitment with local agents and subsequently local subsidiaries. An important aspect was that firms would begin to enter markets with short

‘psychic distance’, which can be described as factors that might obstruct the understanding of foreign markets. These factors can be differences in culture, language and development (Johanson & Wiedersheim-Paul 1975).

Johanson and Mattson (1988) added the importance of networks and relationships in their network approach to internationalization. In that approach, firms need to establish themselves in a web of foreign networks and increase the number of relationships. In 2009, the Uppsala-model was revised to include the network approach. The revised model has two state aspects, knowledge opportunities and network positions, and two change aspects, relationship commitment decisions and learning creating trust building (Johanson & Vahlne 2009).

The previously discussed internationalization models that use stages to describe the process, known as the Uppsala-models (Johanson & Vahlne 1977, 2009), have received criticism. Andersen (1993) criticized these models for excluding important factors, such as critical events for the firms’ internationalization process, and for having an inappropriate empirical design in relation to theory. Other research have pointed out that not all firms follow the stage pattern. Some firms leapfrog steps while others experience them in another order. Some firms target international markets immediately after inception and are called ‘Born Globals’. These firms have become more common due to new and rapidly changing market conditions as well as technology and communication developments. This has resulted in increased specialization and niche markets where world markets are more accessible. Another explanation to ‘Born Globals’ is more entrepreneurial attributes in people where especially past knowledge and experience of the founder is important (Madsen & Servais 1997).

2.2 Location determinants

Zaheer (1995) discussed ‘liability of foreignness’, i.e. unfamiliarity of the environment, as an important consideration for firms that internationalize. Firms that operate abroad have a competitive disadvantage and need to determine to what extent the home-country organizational capabilities, i.e. firm-specific advantages, can help overcome this issue or whether copying practices of successful local firms can be the solution in order to compete with local firms. If the largest firm-specific advantage lie within the capabilities of the organizations firms will benefit most if sticking with routines imported from home rather than copying practices of local firms. This confirms the difficulty of successfully copying organizational routines from other firms (Zaheer 1995).

The 'liability of foreignness' can be considered a function of social and cultural barriers that a firm face when integrating into the information flow of the host country. The uncertainty is not just a lack of factual information but involve a lack of cultural understanding. The degree of informal cultural values, regulations and norms and the understanding of these will determine firms' success. Hence, the concept of 'liability of foreignness' is connected to implicit differences (Calhoun 2002).

2.2.1 Characteristics of the host-market

The preferred host-country characteristics depend on the motives for investing, i.e. which type of FDI a firm is undertaking. One type of FDI is market-seeking FDI with the purpose to serve local and regional markets. This is closely connected to horizontal FDI where market size and market growth are two important drivers. Resource- and/or asset seeking FDI is characterized by firms that invest abroad in order to acquire resources not available in the home market. This approach is connected to vertical FDI where access to low-cost labor and natural resources are important features. Efficiency-seeking FDI follows when firms gain from governance of geographically dispersed activities, creating agglomerations (Campos & Kinoshita 2003; Dunning 1998). Hyun and Hur (2013) argued that highly productive firms are more likely than firms considered less productive to invest in tough markets and choose a combination of a horizontal and a vertical strategy for FDI rather than a single investment strategy.

Firms that plan to expand internationally often neglect to consider the distance to a particular foreign market. Ghemawat (2001) argued that firms should consider distance in four dimensions; administrative and political, geographic, economic and cultural distance. Distance in these dimensions result in additional costs and risks. Administrative distance decreases due to positive historical and political relations whereas geographic distance decreases the closer the firm is to the particular foreign market. Economic distance decreases as the wealth and income in particular foreign market increases and cultural distance decreases due to similarities in e.g. culture, religion, social norms and language (Ghemawat 2001). Cultural proximity is important and can play a crucial role in affecting how well foreign firms can adapt to the local institutions in the host country. Hence, cultural proximity can alleviate possible negative impact on institutional differences on FDI (Du, Lu & Tao 2012).

The determinants that affect the choice of location, once a firm has made the decision to internationalize, can vary. Chakrabarti (2001) discussed a lack of consensus among scholars regarding determinants. He presented a number of different determinants for FDI such as market size, labor cost, trade barriers, growth rate, openness, trade deficit, exchange rate and tax. He stated that the strongest determinants are market size and growth rate whilst trade deficit and exchange rate were of less importance. Wang and Swain (1997) argued that trade barriers, other government policies, market characteristics, costs and productivity are the most important location-specific factors to consider when explaining the choice of FDI.

Political instability is considered having a negative influence on investments (Wang & Swain 1997). Contradicting to this is Piper's (1972) view on political instability, which was concluded to be of minimal concern for investors and not affect the FDI decisions to any further extent than the decision of domestic investments. This shows that there is a conflicting view of whether political instability has a negative effect when investing abroad.

2.2.2 Government role

In order to attract FDI many countries offer incentives for investments, which is especially common in developing countries. However, these incentives are said to have little effect on investments suggesting other factors as more important for the choice of location. Meanwhile, the relevance depends upon the specific situation of the investor rather than functions as a general decoy. Seven factors were proposed that affect the incentive preferences; market orientation, type of investment, country, product, investment size, labor force size and investment year. The characteristics of the investment will determine which incentives that are preferred by the firm (Rolfe, Ricks, Pointer & McCarthy 1993).

Other factors, such as network externalities and government institutions, also play an important role (Du et al. 2008). Government efficiency, property rights protection, low corruption and governmental interference all play an important role for FDI. The network externalities emphasize on agglomeration focusing on clustering of FDI from a specific country as central. Regions with higher horizontal- and vertical agglomeration and stronger institutions are more likely to promote FDI entry (Campos & Kinoshita 2003; Du et al. 2008). Strong horizontal agglomeration, firms within the same industry, increases the chance of knowledge spillover, improved access to specialized labor, access to infrastructure and scale economies. Nevertheless, strong agglomeration can result in technology spill, intensified competition in both product and factor markets and a loss of technology advantage. Strong

vertical agglomeration, domestic firms with backward and forward linkages, enhances the access to suppliers while the final consumers show accessibility to regional markets (Du et al. 2008).

2.2.3 Strategic and personal fit

The choice of location should be based on the fit between attributes of the location and the business activity. Firms relocate manufacturing activities to low-cost countries while research and development are relocated to high-cost countries (Jensen & Pedersen 2011). Further, Jensen and Pedersen grouped location attributes in four areas; cost levels, human capital, business environment and interaction distance. However, they claimed that cost levels are the most important determinant. This view has been questioned, e.g. Cantwell and Mudambi (2005) claimed that the specific qualities of the location are the most important determinant for FDI, especially regarding high-value activities.

An interesting aspect of choice of location is the notion of people-dependent internationalization. Choice of location is influenced by factors such as relationships, personal intentions and values (Ström & Schweizer 2012). Plattner (2012) proposed that the decision on location is influenced by living environment, which consists of livable local environment, manifold city life and the local information network. The preferred location depends on, among other things, cultural background and should offer a dynamic environment and the possibility to have a work-life balance.

2.3 FDI in Africa and sub-Saharan Africa

As discussed earlier, there are several location-specific factors that firms consider important and that attract them to a specific location. However, determinants of FDI to Africa are different in comparison to other developing countries. Firstly, the regional location has a negative effect on inward FDI. The continent is by many firms perceived as an inherently risky part of the world. Lack of knowledge about African countries makes investors not base their decisions on country-specific factors but instead they evaluate Africa as one big country. Secondly, there is a higher uncertainty in governmental policies than in other parts of the world. Even though returns on FDI in Africa might be high, it does not result in increased FDI. Thirdly, African countries are not as positively affected by trade liberalization as other developing countries. Foreign investors are skeptical towards trade reforms and fear reversal of these (Asiedu 2002). This might be a problem in other developing countries as well, but Asiedu distinguishes one reason for Africa being different: African countries have in the past

used trade reforms to manage macroeconomic situations. This has resulted in unpredictable policy changes and made foreign investors insecure and therefore they do not invest when trade is more liberalized. Finally, Asiedu argues that improved infrastructure in SSA has no direct effect on inward FDI. Most FDI in SSA is based on natural resources and these industries are not dependent on improved infrastructure (Asiedu 2002).

Several important determinants of FDI to SSA are discussed in previous research. Bartels, Alladina and Lederer (2009) concluded that political and economic stability is crucial for FDI. E.g. low inflation and efficient regulation positively impact FDI while corruption and conflicts negatively impact FDI (Asiedu 2006). Political and economic stability depends on institutions, i.e. a country's ethical, moral and behavioral norms in the society (Naudé & Krugell 2007). Foreign investors are attracted by a country's competitive business climate, market size, market growth and cost reducing incentives, although these are more important after establishment (Krugell 2005; Bartels, Alladina & Lederer 2009). Another important determinant of FDI is previous FDI since many foreign investors consider this as a sign that a country is safe and beneficial to invest in (Krugell 2005).

Another determinant discussed is geography (in terms of malaria, land area, coastal access and latitude). According to Naudé and Krugell (2007) geography does not have a direct effect on FDI to SSA. However, according to Gallup, Sachs and Mellinger (1999) geography have an impact on FDI. In their research, they found that SSA is the region with most countries in tropical climates, which implicates more diseases and less agricultural productivity and these two factors have a negative impact on FDI in many countries in SSA. Furthermore, a high percentage of land-locked population leads to high transportation costs (Sachs 2001).

To become a potential market and improve the reputation, countries in SSA face several challenges. The most important one is perhaps to create and maintain political and economic stability. The, relatively speaking, more stable countries in SSA, such as Tanzania, attract more FDI than unstable countries, such as Central African Republic. Another challenge is to improve physical, financial and information infrastructure that is now discouraging FDI to SSA (Darley 2012). Foreign investors search for lower overall production costs and therefore there is a need to promote high productivity rather than just low labor costs. Furthermore, there is a need of decreasing transaction costs for foreign investors and increasing the operation cost reducing incentives for foreign investors (Bartels et al. 2009).

There is a great challenge to convince foreign investors since many African countries might not even be considered as potential markets. An attractive business climate in an African country should, among other things, include trade liberalization, privatization programs, FDI-related trade agreements and significant efforts to improve reputation of a particular country (Morriset 2000). Many foreign investors are skeptical towards FDI to SSA due to the negative image, where the continent is associated with political and economic instability, armed conflicts, natural disasters and diseases. Even though some countries are rather stable, many countries experience spillover effects from conflicts in neighboring countries (Bende-Nabende 2002).

2.4 FDI in South Africa

One of the largest recipients of FDI in SSA is South Africa where Gilroy (2005) studied foreign firms. He concentrated on their perceptions of FDI determinants, such as political and economic structure, crime rates and labor relations. A majority of the firms were confident in the South African market and the economic and political environment. However, most firms expected increased crime rates and corruption. Owusu and Habiyakare (2011) concluded that foreign firms invested in South Africa due to the improved business infrastructure, market potential and enhanced economic and social conditions that have resulted in larger consumer market. The foreign firms in Owusu and Habiyakare's study emphasized that political stability and a trustworthy president are essential factors. They concluded that although South Africa was the target market in the first place most companies implied that in the medium- and long-term it would potentially be the base to reach other countries in SSA. The foreign firms stated some of the most important risks for them to consider as: unpredictable institutional changes due to social tensions in society, limited market growth due to slow growth in other SSA, volatile exchange rate, reserve bank requirements, political, economic and social challenges, high rates of unemployment, high crime rates in certain areas, and HIV prevalence (Owusu & Habiyakare 2011).

Tuomi (2011) investigated foreign firms' reasons for initial investments in South Africa. She concluded that tax incentives and other investment factors were not as important as expected, although the foreign firms used them extensively. The results indicated that the main attraction was market size followed by market growth and the possibility to use South Africa as a base to move into neighboring countries. Other reasons mentioned were natural resources, low production costs, insufficient property rights, infrastructure, incentives and

efficiency of financial institutions. The primary constraints to investments were high crime rates, political uncertainty, exchange rate volatility, exchange control and lack of skilled labor. The difficulty of exchange seems to be an increasing problem, especially for firms in global value chains where moving equipment and money across borders is required on a day-to-day basis. Furthermore, many firms mentioned the legislation regarding 'Black Economic Empowerment' (BEE) as constraining (Tuomi 2011).

FDI in South Africa is becoming more capital-intensive, which imply that FDI is becoming increasingly horizontal rather than vertical. Low wage-costs, openness of the economy and political institutional structure are crucial determinants for FDI in South Africa. However, there are several challenges ahead. South Africa needs to maintain long-term political stability, including property rights, lower wage-costs and corporate taxes, and make sure to become more integrated into the global economy. These measures will contribute to making South Africa more attractive for FDI (Fedderke & Romm 2005).

3. Methodology

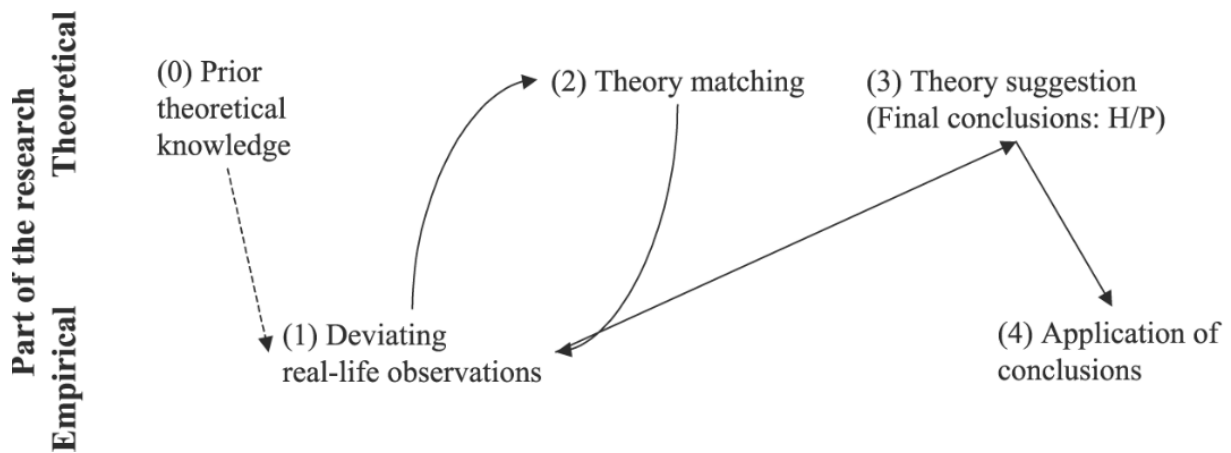
In this chapter the research approach and design are described as well as detailed information on data collection and analysis. An assessment of the research quality is presented and finally, a critical review of the chosen methodology is provided.

3.1 Research approach

This study is conducted in a qualitative way. Qualitative approaches are more concerned with interpretation and understanding collected data, in comparison to a quantitative approach that deals with testing of hypothesis and statistical analysis (Eriksson & Kovalainen 2008). For issues that are hard to measure qualitative studies are preferred over quantitative ones, which enhance the suitability of a qualitative study (Bryman & Bell 2003). The purpose of this study is to get a deeper understanding of what factors that attract Swedish firms to South Africa through personal insights. This field of study could be difficult to measure and thus a qualitative approach is best suited to use.

The idea and reasoning of deduction implies that theory is the first source of knowledge (Eriksson & Kovalainen 2008). Depending on what is known on the subject, the researcher can deduce one or several hypotheses and the research process develops starting from theories. Induction, on the other hand, views theories as outcomes of empirical research (Bryman & Bell 2003). Taking on an inductive approach means following the logic of proceeding from empirical research to theoretical results. Hence, the process develops, starting from the collected empirical data. One or the other approach seldom exists in the complexity of research, but instead a combination of the two processes is common to use. This is described as an abductive approach and illustrated in Figure 1 (Eriksson & Kovalainen 2008). This study could be considered a combination of inductive and deductive approach and thus uses an abductive approach. Starting off from the deductive approach, with a generalization of theories, the empirical research will bounce back on the theoretical framework and reframe it. The reasoning behind this is described later in this chapter when we discuss how the data was analyzed.

Figure 1. The abductive research process



Source: Spens & Kovács 2005

3.2 Research design

3.2.1 Theoretical framework

Theories are essential in business research and provide key aspects to the research process. They aim to explain and predict relationships and phenomenon based on previous studies (Hair, Babin, Money & Samouel 2003; Zikmund 2000). Thus, early on we reviewed literature and previous research through various scientific databases. This improved our understanding as well as shaped the research questions. The literature review resulted in a number of relevant theories, which was later used to form the theoretical framework. Most theories are based on scientific articles and range from broader theories, e.g. internationalization theories, to more narrow theories, e.g. FDI in Africa in general and in South Africa in particular.

3.2.2 Data collection

Organizations and people are commonly used in qualitative business research to collect primary data. However, since qualitative studies do not intend to generalize they are not required to use systematic sampling methods but rather non-probability sampling methods. Instead, it is usually more important to consider accessibility and suitability when sampling research participants. The most suitable participants depend on e.g. topic and research questions (Eriksson & Kovalainen 2008). In this study we have utilized judgment sampling, which means that we have identified Swedish firms present in South Africa that have invested in the country post-apartheid (Hair et al. 2003). We have also aimed at triangulation,

illustrated in Figure 2, which intends to generate more objective findings through the use of different sources of data (Bryman & Bell 2003). In the empirical background we have used international, South African and Swedish sources to obtain a more accurate image.

Figure 2. The logic of triangulation



Source: Elaborated by the authors

The empirical findings comprise a selection of Swedish firms that have invested in South Africa post-apartheid, operating in a variety of industries. In addition to this the findings comprise a number of organizations we have identified as ‘experts’. These organizations do not operate on firm level but can instead be considered to have extensive knowledge through adopting a more surveying position regarding Swedish firms. These organizations included governmental as well as non-governmental and private organizations and we believe they could provide a more nuanced picture of the topic.

3.2.3 Participant selection and interviews

Since the research topic concerns Swedish firms that have invested post-apartheid in South Africa we considered Business Sweden to be an essential participant in our study and through Business Sweden we were provided a list of 76 Swedish firms with subsidiaries in South Africa. Looking through the list we found that some firms were no longer present in the country or had been acquired by foreign firms and these were excluded from the beginning.

Thereafter, we identified firms that had invested post-apartheid and out of these we looked at the industries they were operating in, since we believed that choosing participants within different industries could result in more interesting and versatile findings. Finally, we contacted 20 of these firms through e-mail describing our aim with the study and got a positive response from five firms, where we proceeded with the intention to set up interviews.

An important part was to find the most suitable person in relation to our topic. We consider that we were successful in this work and the firm representatives we were able to establish contact with were either founders, CEOs or in other relevant positions. In some cases we initially got in contact with the right person whereas in other cases we were referred to the right one. Furthermore, the organizations we identified as ‘experts’ were recognized through research on the Internet and contacted through e-mail as well. In all these cases we were referred to the right persons. Firms and organizations interviewed in this study are illustrated in Figure 3.

Figure 3. Overview of interviewed firms and organizations

Type	Name	Interviewee	Position	Type of interview	Language used
Firm	HemoCue	Pontus Nobréus	Country Manager South Africa	Skype	Swedish
Firm	Nynas	Alistair Meyer	General Manager South Africa	Face-to- face	English
Firm	Propel Africa	Pernilla Landstedt	CEO/Founder	Skype	Swedish
Firm	Tapflo	Håkan Ekstrand	CEO	Face-to- face	Swedish
Firm	Travelstart	Stephan Ekbergh	CEO/Founder	Face-to- face	Swedish
Organization	Afrikagrupperna	Marja Wolpher	Theme officer	Face-to- face	Swedish
Organization	Business Sweden	Samuel Holst	Project coordinator	Face-to- face	Swedish

Organization	Embassy of Sweden	Sara Aulin	Counsellor of Economic and Commercial affairs	Written	Swedish
Organization	Nordic South African Business Association (NSBA)	Göran Söderholm	Chairman	Face-to-face	Swedish

As described previously, we have used a qualitative approach, where interviews are often used to collect data. Interviews are especially useful when dealing with complex or open-ended questions or when attempting to study people’s experiences from their own point of view. They are also efficient when desired information is not published (Hair et al. 2003; Eriksson & Kovalainen 2008). There are three different types of interviews in the qualitative approach: structured, semi-structured and unstructured interviews. The choice of interview-type depends on the research questions since all three types have advantages. Structured interviews can provide ‘facts’ whereas unstructured interviews provide personal experiences from each interviewee (in this study the term interviewee is used for an interviewed person no matter if representing a firm or an organization).

Based on the open-ended nature of our research we chose to conduct semi-structured interviews that provide both comparable information but also allow the interviewees to discuss their own experiences. We created an interview guide (see appendix) in which we collected both ‘facts’, e.g. year of establishment, as well as personal insights from the interviewees. This guide was used as a foundation during the interviews, although we encouraged the interviewees to discuss other appropriate topics if relevant. The interview questions were formulated based on the research questions, theoretical framework and empirical background (Bryman & Bell 2003). Most of the interviews were conducted during our field study in South Africa, where we had the opportunity to meet Swedish firms and organizations, as well as observe the South African business environment. However, some interviews were conducted in Sweden due to several reasons, e.g. the interviewee was not on site during our field study or the most suitable person to interview was located in Sweden. The interviews were held either face-to-face, via Skype or through written response and the

language used was Swedish, except in one case where English was used (see Figure 3). All interviewees agreed to being recorded and thus we could minimize the risk of misinterpretations and errors when recalling information from memory (Sekaran 2003).

3.2.4 Data analysis

Once the interviews were finished they were summarized and structured in line with the research questions. The empirical data was constantly discussed throughout the entire process since we believed that it would simplify our work in a later stage. This process started already from the first interview and gave us some good implications on topics, more important than others, to emphasize during the following interviews. Once all empirical data was collected it was assembled and presented based on different patterns we identified.

To analyze the empirical data we needed to go back to the theory in order to compare this with our findings. The starting point was to identify relevant theories in the framework and background that was applicable to the empirical findings. During the analysis process we continuously evaluated our findings in relation to the theoretical framework in order to identify similarities and differences (Bryman & Bell 2003). Throughout this process it was necessary to make adjustments in the theoretical framework to enhance the fit between theories and findings. This is in line with the abductive approach described in the research approach (Eriksson & Kovalainen 2008).

3.3 Research quality

Ensuring quality of research is a consideration for any researcher and we attempted to ensure this throughout this study. The importance of obtaining high quality can be analyzed through two different perspectives, reliability and validity, which will be further discussed. This section will end with a discussion of the limitations with the chosen methodology.

3.3.1 Reliability

Reliability is connected with whether the results of the study could be replicated by other researchers which is more difficult for qualitative studies than for quantitative ones (Bryman & Bell 2003). Qualitative research is intended to study social phenomena and as an author you are compelled to gather data during a specific period of time (Eriksson & Kovalainen 2008). It is very difficult to fully replicate a social situation since the circumstances of a certain social situation are unique (Bryman & Bell 2003). There could be difficulties if replicating this study since the business environment in South Africa might change and, thus,

a study conducted at another point in time might generate different findings. However, we have attempted to increase reliability through a number of actions. We made a clear interview guide in which it is easy for another researcher to replicate the questions. Furthermore, we chose not to anonymize the participants but instead be transparent with that information. The fact that we could record the interviews helped us agree on the information gathered.

3.3.2 Validity

Internal validity refers to the fact that you measure what you are supposed to and this is connected to whether the conclusions give an accurate explanation of what actually happened. A potential problem when performing a qualitative study is that the data needs to be interpreted, since interpretation increases the risk of a personal bias (Bryman & Bell 2003). Triangulation could be considered to increase the validity, since gathering data from different sources increase the chance of a true picture and, hence, a valid result. This cross-check information is used when understanding and interpreting the findings (Eriksson & Kovalainen 2008). In order to increase the validity of this study we have attempted to use triangulation as mentioned in the data collection. All gathered data has also been thoroughly discussed to ensure accurate interpretations and during the interview we have continuously repeated the interviewees' statements to avoid misinterpretations. Another way to increase validity and get the correct information is by talking to the right person (Bryman & Bell 2003). We were able to interview a person at a relevant level with personal insight in all firms and organizations, which increases validity.

External validity concerns if the findings can be generalized to other similar context (Hair et al. 2003). However, this can often be a problem in qualitative research since small samples are often used (Bryman & Bell 2003). This indicates that the result in this study cannot be applied in a general context. We have tried to increase external validity through sampling firms in different industries and different years of post-apartheid investment. However, this study is not intended to present a generalization of the entire population e.g. all Swedish firms in South Africa, but instead to provide personal insights in the field.

3.3.3 Methodological limitations

When conducting a study it is crucial to evaluate the method used in order to ensure the study's quality (Eriksson & Kovalainen, 2008). In this study the number of firms and organizations interviewed was limited due to time and scope. The study was conducted during a specific time period where several of the interviewees were located in South Africa. The

number of interviewees on each firm and organization were limited to one person. Due to this, trustworthiness of the interviewee was essential. Subsequently, since this study concerns past experiences there was a risk of faulty memories. However, all interviewees could in detail account for the experiences and thus we assess that the perceptions of the past were correct. Some questions might be sensitive and therefore it was essential to critically evaluate the answers. There is always the risk that the interviewees concealed certain information, but we perceived that the responses were genuine and honest and did not get any indications of the opposite. The limited amount of time for each interview, approximately one hour, might have omitted information. However, all interviewees were very busy and they could only assign one hour for our interview although all offered to answer additional questions through e-mail.

Since our empirical findings are based on interviews, it is crucial to consider our personal biases. However, as stated above, we have attempted to critically discuss the interviews in order to avoid personal biases in our interpretations of the interviews. Further, all but one interview were held in Swedish. Since this was the mother tongue for both the interviewees, except one, and as we believe we have diminished the risk of misinterpretations.

4. Empirical background

In this chapter an overview of Africa and sub-Saharan Africa in general and South Africa in particular will be presented. This will provide basic knowledge of the field of study in order to enhance the understanding of the empirical findings.

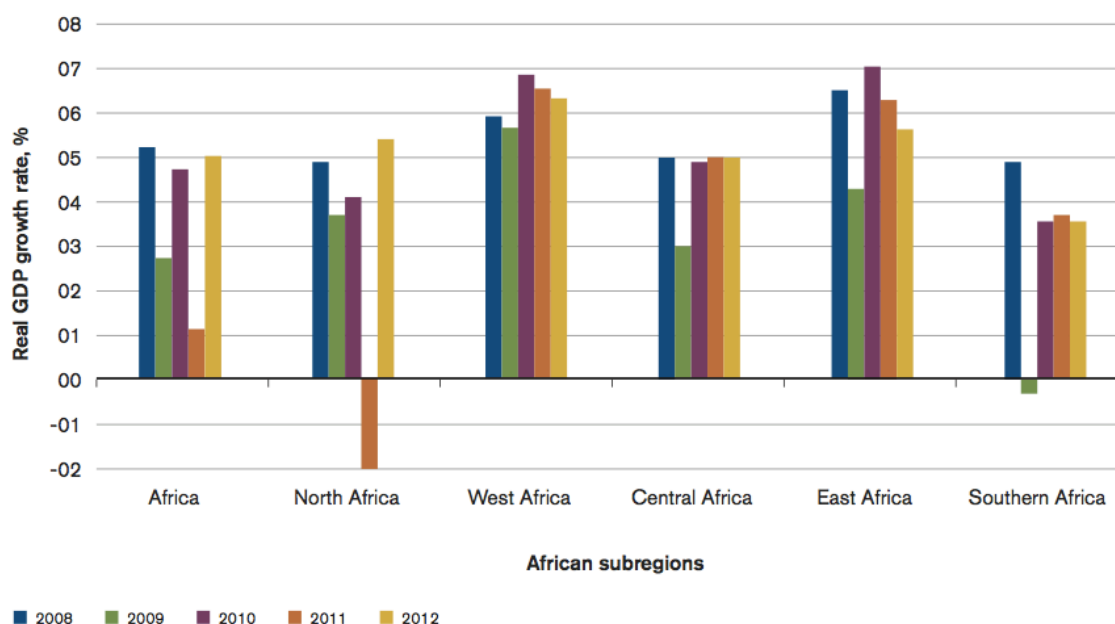
4.1 An overview of Africa and sub-Saharan Africa

Africa has for a long time suffered from a bad reputation where it has been associated with poverty, diseases and war. Many people make the mistake of considering Africa as one big country. However, North Africa distinguishes from the rest of the continent regarding history and culture, thus Africa can be divided into North Africa and SSA (Dowden 2008). SSA comprises of 47 different states with a total population of 910 million people and more than 2000 languages and cultures (World Bank 2014a; Dowden 2008). Although many armed conflicts have decreased since the 2000s, they are still a problem. The African states and their borders were created by foreigners that had little knowledge of the area, which resulted in no consideration to ethnic groups within the countries. This resulted in that different ethnic groups were put together in one state, which led to little sense of belonging to the same state. People identify with ethnicity rather than with nationality, which is an obstacle in ensuring peace in the region. Thus, most of the wars in Africa are not fought between countries but within countries between different ethnic groups (Dowden 2008).

4.1.1 Economic and social development

SSA is the second fastest growing region in the world, after Asia, where more than half of the world's 30 fastest growing countries are located. Africa has over the last decade experienced a stable growth of more than 5% (UNDP 2013). After more than 20 years of flat or negative growth in many of the African countries, the situation has improved since the millennium (World Economic Forum 2013; UNECA 2013). Still, the growth rates differ between countries and subregions, with Mozambique, Nigeria, Ghana and Rwanda as the fastest growing countries. In 2013, West Africa had an expected growth rate of 6.6% due to minerals, oil and increased stability. East Africa was expected to reach growth rates of 6.0% as a result of more efficient agriculture as well as resource discoveries. Central Africa had an expected growth rate of 4.5% in 2013-2014, which is hurt by civil war in Central African Republic. Southern Africa had the lowest expected growth rates of 4.0% in 2013 and 4.3% in 2014 (UNDP 2013). The regional differences are illustrated in Figure 4.

Figure 4. Growth by subregion, 2008-2012



Source: UNDP 2013

Attracting inward FDI is an essential part in enhancing economic growth. Africa received FDI of USD 58 billion in 2008 but the global crisis resulted in declined FDI (UNDP 2013). In 2012, FDI in Africa was USD 50 billion, which equaled 3.7% of the world’s FDI and a slight growth from previous year. The largest recipients in SSA in 2011-2012 were Nigeria, Mozambique, South Africa, and Ghana (UNCTAD 2013). The main trade and investment partners are EU and the US although emerging countries, especially China, have increased their engagement with countries in SSA (World Economic Forum 2013). In 2012, most inward FDI was concentrated to extractive industries although FDI has increased in consumer-oriented industries. This is a reflection of increased spending power, which could potentially attract more FDI (UNCTAD 2013).

The access to markets has been liberalized in most countries and the business environment is promoting corporate activities although regional differences occur. A more effective regional integration will play a key role to deliver a more diverse and sustained growth. The regional markets are fragmented and in order to reduce fragmentation three changes are needed. Firstly, a general improvement for cross-border trade is needed, especially for small traders. Secondly, a reduction of non-tariff barriers, such as rules of origin and costly licensing

procedures, has to be implemented. Thirdly, a streamline for regulations and immigration rules, that today limit the potential for trade, is necessary (World Economic Forum 2013).

Countries can be characterized as factor-driven ones, efficiency-driven ones and innovation-driven ones. Key characteristics for factor-driven economies are that the basic pillars for the economy are institutions, infrastructure, the macroeconomic environment and health and primary education. Countries in SSA in this stage are Kenya, Lesotho, Madagascar, Mozambique, Tanzania and Zimbabwe. Efficiency-driven economies are, besides the basic requirements for factor-driven economies, also characterized by efficiency enhancers, such as higher education and training, labor market efficiency, financial market development and market size. Mauritius, Namibia and South Africa are considered to be in this stage. Innovation-driven economies are not yet present in SSA but characterized by a situation of business sophistication and innovation (World Economic Forum 2013).

The stable growth in SSA has not resulted in rapidly improving living standards. However, changes in SSA in demography, urbanization and commodity prices have resulted in new opportunities to overcome shortcomings and being considered a global economic power. Other factors of importance are decline of political conflicts, sustained economic growth, increasing public spending and stability of governance (UNECA 2013). Extreme poverty, i.e. people living below USD 1.25 per day, has declined from 56.5% in 1990 to 48.5% in 2010, which is still 20% above the 2015 Millennium Development Goals (MDGs). The MDGs were established in 2000 to, among other things, reduce poverty, promote gender equality and education, and reduce child mortality (UNDP 2013). Child mortality rates and HIV prevalence have decreased while completion rates of primary education have increased (World Bank 2014a). However, improvements of health and sanitation are slow and food and water security remains unstable in many areas (UNDP 2012).

4.1.2 Challenges and future outlook for sub-Saharan Africa

SSA holds a large share of human and natural resources that could be utilized to promote economic transformation and industrialization. However, SSA has lagged in value-adding activities, which could be beneficial in order to reduce the risk of commodity price fluctuation. It could create a possibility to move to higher-value and more diversified products where prices are dependent on the fundamentals of the market and not speculations (UNECA 2013). Despite setbacks, SSA is moving in the right direction due to several factors. Firstly, political stability has increased in the region and more than half of the countries are

considered democracies (Bjerström 2013). However, some areas, such as the Horn of Africa, are still experiencing conflicts and civil unrest (UNDP 2012). Another important factor is the IT and communication boom in SSA where an increasing number of Africans have access to cell phones and Internet (Bjerström 2013; World Economic Forum 2013). SSA has benefited from large amounts of natural resources, high commodity prices and growing inward FDI. Another important factor is the growing middle class in SSA, which increases the number of consumers and purchasing power (Bjerström 2013).

There are several obstacles ahead for SSA. Considerable risks are, among others, low institutional quality, high income-inequality, insufficient infrastructure, high poverty rates, political and social tensions. SSA is vulnerable to global slowdown as well as heavily affected by the euro crisis (UNDP 2013). Climate change is expected to affect SSA more than any other continent (Dowden 2008). More than 50% of Africa is desert or dry land, and millions of Africans are already facing problems with floods, droughts and rising sea levels. Most of these people are depending on agriculture and are therefore vulnerable to climate change (World Bank 2009). Climate change can make their living conditions even worse while rising sea levels can negatively affect some of SSA's largest and most important cities (Dowden 2008).

4.2 An overview of South Africa

South Africa has a population of 51.2 million people where almost 80% are black, 9.5% white, 9% colored and 2.6% Asians (World Bank 2014b; DTI & Deloitte 2013; Sweden Abroad 2008). The country is often associated with apartheid, which was used in 1948-1991. The apartheid system was created by a white minority government, which enforced racial discrimination towards black people. African National Congress (ANC) commanded the anti-apartheid movement and many of the ANC leaders, such as Nelson Mandela, were either imprisoned or went into exile. Apartheid collapsed in 1991 due to two main reasons. Firstly, it was impossible separating and shutting the black people out from society while depending on them as labor. Secondly, it was a too wide resistance where blacks, progressive whites, Indians and colored protested (Palmberg & Strand 1995).

4.2.1 Political situation

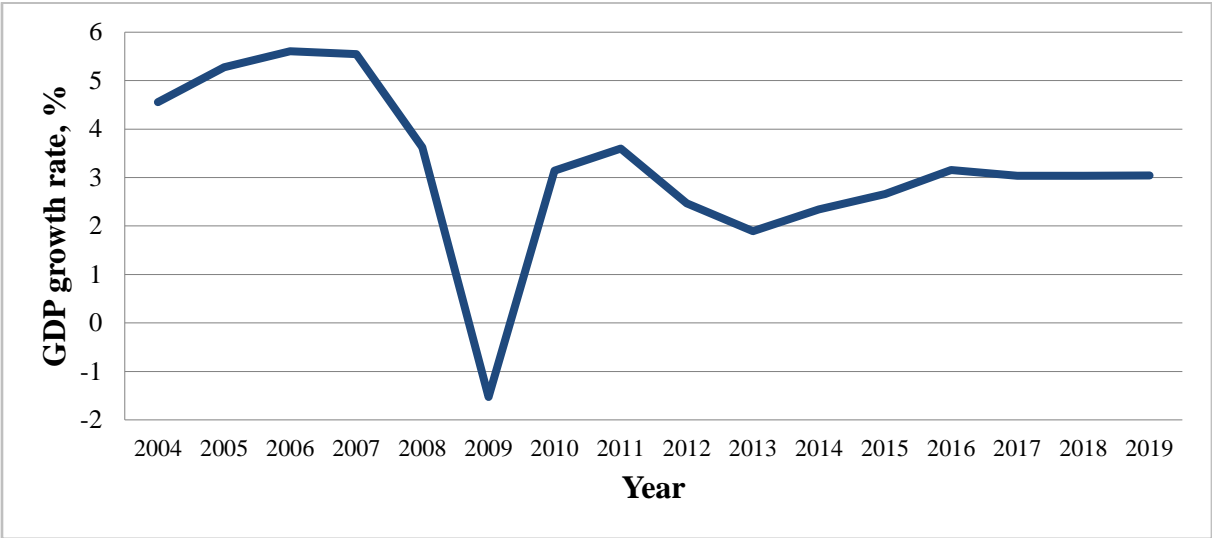
South Africa is a democratic republic since 1994 when Nelson Mandela became the first democratically elected president and since then ANC dominates politics (DTI & Deloitte 2013). Due to increasing socio-economic problems, and especially 25% unemployment rates,

there are growing tensions in society (EKN 2013). This has resulted in e.g. widespread strikes, especially within the mining sector, and increased populist rhetoric. Since the 1990s, South Africa has experienced labor peace but in the last few years labor unrest has resulted in conflicts and rivalry between unions (Goldman Sachs 2013). E.g. the strikes in the mining sector resulted in several USD billion in lost output while strikes in the automotive industry were estimated to a loss of USD 70 million per day (McGroarty & Maylie 2013).

4.2.2 Economic situation

The economy is primarily based on natural resources, especially minerals, as well as the industrial and service sectors. South Africa has experienced a shift since the early 1990s with an increased focus on the tertiary sector, including wholesale and retail trade, tourism and communications. It is a greater emphasis on technology, e-commerce and a well-developed financial and bank sector as well as other services, since the country is developing towards a knowledge-based economy (DTI & Deloitte 2013; EKN 2013). After apartheid South Africa’s economy grew stronger and had an average GDP growth rate of 3.6% in 1994-2007 (IMF 2014). However, South Africa suffered from the financial crisis in 2008-2009 and has experienced a slow recovery with an average growth of 2% per year, which is below estimated potential of 4-5% (IMF 2014; OECD 2013). This can to a large extent be explained through decreasing demand from China and EU (EKN 2013). The growth rate is expected to stabilize around 3% in 2014-2019 (IMF 2014). The development of GDP is illustrated in Figure 5.

Figure 5. GDP Growth in South Africa, 2004-2019



Source: IMF 2014

The inflation has since 2010 fluctuated between 3% and 6%, which is the target range set by South African Reserve Bank. The South African Rand (ZAR) is floating and has in the past been rather volatile. The ZAR has since 2010 depreciated with 17% to counter earlier overvaluation and is expected to further depreciate. However, the ZAR is still considered overvalued by 5-15% (OECD 2013).

South Africa faced various sanctions during apartheid, which affected trade as well as FDI. Inward FDI flows increased rapidly after the abolition of apartheid and the inward flow equaled USD 4.5 billion in 2012 (UNCTAD 2014). Most inward FDI is in mining, manufacturing and in services, where financial services accounts for the lion share. Most FDI in South Africa originates from Europe, the US, China, Japan and India. However, United Kingdom is the single largest investor with more than 50% of total FDI in South Africa (Wöcke & Sing 2013). In 2010, South Africa was included in BRICS and this is expected to benefit South Africa and the rest of SSA through enhancing economic development in the region, especially through trade and investment (EIU 2014; Gauteng Provincial Treasury 2013). As the most developed economy in SSA, South Africa promotes the country as the gateway to the rest of SSA (DIRCO 2012).

4.2.3 Business environment

The attractiveness of South Africa has changed after apartheid and the numbers of procedures, the cost and the expected time for starting up a business have improved in 2004-2014. The 'Ease of Doing Business Index' describes the business environment where focus is on the ease of complying with regulations. In 2014, South Africa ranked 41st of 189 in the index. South Africa stood out, in comparison to the rest of SSA (except for Botswana that ranks 56th) that had an average of 142 (World Bank 2013). South Africa's ranking has been fluctuating, which can partly be explained through more bureaucracy when starting a business, increased difficulties in registering property, shortage of skilled workers, and unexpected changes in regulations (EKN 2013). The 'Global Competitiveness Index', which measures national competitiveness, ranked South Africa as 53rd most competitive country out of 144 countries. South Africa ranked 3rd in terms of financial market development and has good institutional quality (41st), which includes intellectual property protection (18th), efficiency of legislation when challenging and settling disputes (12th and 13th), and high accountability of private institutions (2nd). South Africa also performed well in terms of market efficiency for goods and services (32nd) as well as innovation and business sophistication (42nd). The weak

categories are health and primary education (132nd), and labor market efficiency (113th) (World Economic Forum 2013).

4.2.4 Governmental policies and initiatives

BEE is a governmental policy that aims at empowering the black population and decrease inequalities of the past (DTI & Deloitte 2013; SIDA 2006). The empowerment act of 2003 does not require private or public companies to comply with it, since the act is based on “voluntary goals and codes for changing the racial composition of ownership and management structures” (Tuomi 2011, p. 145). However, clients are more likely to contract with a supplier who is BEE compliant. The BEE rating is determined according to the following criteria: ownership, management control, employment equity, preferential procurement, skills development, enterprise development and corporate social investment (DTI & Deloitte 2013).

One reason why South Africa has become an interesting and popular destination for investments is the government’s promotion of free markets and the implementation of several initiatives to attract FDI, such as Critical Infrastructure Programme (CIP), Foreign Investment Grant (FIG), and Industrial Policy Projects (IPP). CIP provides financial support for physical infrastructure to strategic investments that positively affect the economy while FIG provides financial support for transporting productive assets to South Africa. IPP can provide tax allowances for large investments that meet certain criteria and thus contribute to economic development in South Africa (DTI & Deloitte 2013). Furthermore, the government is attempting to create a stable and attractive environment for investments by constructing a stable macro-economic situation. In addition to this, several tax-incentives have been introduced (SADC 2012).

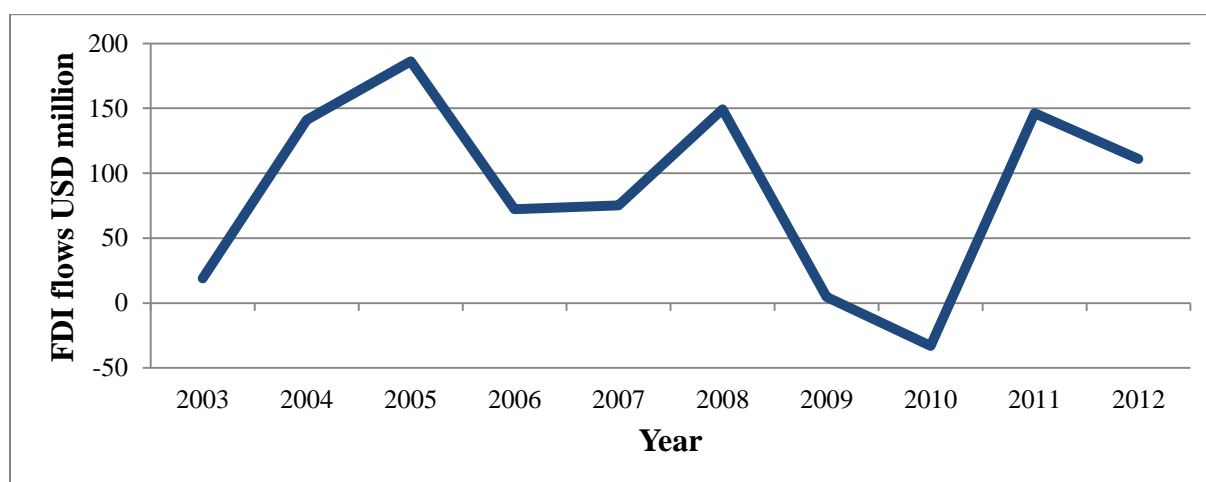
4.2.5 Sweden - South Africa relations

The close relationship between South Africa and Sweden was established during apartheid (Regeringskansliet 2014). Many levels in Swedish society contributed to form an anti-apartheid movement through fundraising and consumer boycotts of South African products. Political parties were engaged in protesting against apartheid and the Swedish government welcomed ANC leaders in exile to Sweden. Due to an active government and societal movement against apartheid Sweden was the first Western country that officially launched policies, e.g. trade and investment sanctions, in support for anti-apartheid (Nordic Africa Institute 2014). It was also the first Western country to provide financial and legal assistance

to the anti-apartheid movement in South Africa (SIDA 2013). However, the Swedish support towards anti-apartheid was not appreciated everywhere. Some firms, such as Atlas Copco and ASEA, argued that sanctions against South Africa was irresponsible and hurt Swedish interests in the country (Sellström 1999). Sweden maintained anti-apartheid policies and sanctions until 1994 when South Africa became independent (Nordic Africa Institute 2014). In 1995, Sweden and South Africa signed a bilateral agreement on development cooperation aiming towards democracy, human rights, education and public administration (Sellström 2002). The countries established a binational commission in 1999 to deepen cooperation in political, economic, social, cultural and developmental issues. The commission promotes partnership between Swedish and South African actors in both public and private sectors (SIDA 2006, 2013). Moreover, Sweden and South Africa have an agreement to avoid double taxation and fiscal evasion (SARS 2014).

In the early 1970s 20 Swedish firms were present in South Africa. Many of these firms were manufacturing firms operating in the metal or mining industry, such as SKF, Alfa Laval, Electrolux and Atlas Copco (Sellström 2002). In 2013, more than 100 Swedish firms were having operations in South Africa, which was twice as many as in 1997 (DIRCO 2013; Embassy of Sweden Pretoria 2014). Swedish firms employ more than 18,000 South Africans (Regeringskansliet 2013). Furthermore, South Africa is Sweden's largest trade partner in Africa and was the 27th largest export market for Swedish products in 2012 (Regeringskansliet 2011; SCB 2014). Swedish FDI in South Africa has increased from USD 18.9 million in 2003 to USD 111.1 million in 2012, as seen in Figure 6 (OECD 2014). Today, Sweden is the 18th largest investor in South Africa (IMF 2014). Most Swedish firms are in manufacturing, construction, transport or service industries (Business Sweden 2014). Furthermore, South Africa is an increasingly popular tourist destination for Swedes and approximately 45,000 Swedish tourists visit South Africa each year (Regeringskansliet 2011).

Figure 6. Swedish FDI flows to South Africa, 2003-2012



Source: OECD 2014

4.2.6 Challenges

Despite considerable improvements since apartheid there are still issues that remain evident. Important issues are income inequalities as well as inequalities in education, where many black South Africans do not have basic qualifications that are required in the labor market. Even though the education gap between black and white South Africans has decreased, there are still significant differences. This may impact firms through shortage of skilled workers and excess of unskilled workers in many sectors (OECD 2013; Afrikagrupperna Interview, Wolpher 2014). There are also shortcomings in infrastructure, especially in transport, technology and energy. Investments are needed in infrastructure to expand economic capacity and facilitate inward FDI (EIU 2014; Goldman Sachs 2013). Another issue is high crime rates that remain a problem in South Africa. Crimes occur frequently and in all parts of society, ranging from street muggings and assaults to armed home and business invasions (OSAC 2013). In 2012/2013 more than 2 million crimes were reported in South Africa although the rates have slightly decreased (SAPS 2012). Corruption has slowly become worse where South Africa is ranked as the 77th most corrupt country in the world out of 177 countries (Transparency International 2014). This is an obstacle for the delivery of public services (OECD 2013). The attractiveness of South Africa is mixed due to the ‘dual economy’, an economy comparable both to an industrialized country as well as a developing country (Wöcke & Sing 2013).

4.2.7 Future prospects for South Africa

South Africa is expected to have an opportunity as a frontier economy bringing up the uneducated, poor people into middle class. The country is also positioning itself as the gateway to the rest of Africa and therefore strengthens its position within the BRICS (DTI & Deloitte 2013).

The election in May 2014 resulted in continued support for ANC although corruption scandals and poor decisiveness have resulted in reduced support for the party (ECSA 2014; EKN 2013). Many young persons and first time voters have no experience of apartheid and do not identify with ANC as strongly as earlier generations. They are less supportive of ANC and instead favor other parties. Economic Freedom Fighters (EFF) is one of the newest and fastest growing parties among youths in South Africa. The party uses populist rhetoric and wants to e.g. enforce nationalization in strategic sectors of the economy, which can possibly hurt FDI. However, political stability is expected to remain in the short and medium term but might cause problems in the long term if EFF continues the same growth rate (EIU 2014; Utrikespolitiska Institutet 2013).

5. Empirical findings

In this chapter the empirical findings will be presented. First, a presentation of the interviewed firms and organizations will be given. Thereafter the information is presented according to common topics identified and will present the most important and relevant findings.

5.1 Introducing the empirical origin

The empirical findings are extracted and based on the opinion of nine different Swedish firms and organizations, all established in South Africa. The nature of industry the firms operate in are different as well as their entry into South Africa. The firms and organizations interviewed in this study are presented in the tables below (see Figure 7 and 8). The findings, derived from the interviews, provide information of what location-specific factors that are considered the most important when investing South Africa as well as those risks and challenges that are most imminent.

Figure 7. Presentation of interviewed firms

Firm	Industry	Year of establishment in South Africa	Unit in South Africa	Entry	Business idea
HemoCue	Healthcare	2009	Sales office	Acquired the successful South African distributor	Providing blood-test devices that aim to function close to the patient
Nynas	Oil	1997	Sales office	Established a sales office where they outsource most activities to local firms	Offering specialty oil products such as process- and transformer oils
Propel Africa	Destination management	1998	HQ	Established the entire firm in South Africa	Organizing custom made convention trips focusing on Swedish customers
Tapflo	Industrial pumps	2001	Sales office	Partnership with sales agent led to establishment of a sales office	Selling pumps to customers operating within chemical-, food- and pharmaceutical industries

Travelstart	Travel	2006	HQ	Sold off Travelstart Sweden and established Travelstart South Africa	Offering easy-booking travel services online focusing on customer service
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Figure 8. Presentation of interviewed organizations

Organization	Focus area	Year of establishment in South Africa	Organizational idea
Afrikagrupperna	Solidarity	1994	Working in five countries in Southern Africa. Aiming to improve public opinion and thereby change systems of trade, agriculture policies and other structures that prevent Africa from development
Business Sweden	Trade and Invest council	1994	Facilitating Swedish economy to grow through increasing trade and investments between Sweden and South Africa
Embassy of Sweden	Diplomatic mission	1994	Representing the Swedish government in South Africa, Namibia, Botswana and Lesotho
NSBA	Business network	2007	Promoting stronger business relationships between the Nordic countries and South Africa

5.2 Location-specific factors

5.2.1 Market size and growth

South Africa is one of the main economies in Africa with previously strong and high growth similar to that of an Eastern European country (Business Sweden Interview, Holst 2014). The country has experienced slower growth than most of SSA in the last years although South Africa continues being the driving market in Africa (NSBA Interview, Söderholm 2014). Thus, size of the market is essential (Embassy of Sweden Interview, Aulin 2014). The firms interviewed emphasized market potential and market size as crucial factors for investing in the country. These factors, as well as a large demand for Nynas's products, attracted Nynas to South Africa. The country is the powerhouse in Africa with three times as much power generated as the rest of the SSA market. The type of products that Nynas offers is essential when generating electricity, which is still lacking in 70% of SSA. Presence in South Africa provides closeness to SSA with a future demand of Nynas's products and thus future market potential (Nynas Interview, Meyer 2014). Tapflo emphasized the same factors (market

potential and growth) as the main reasons for investing in South Africa. Most of Tapflo's customers were active within the growing automotive industry, which created an opportunity for Tapflo to enter the large and promising South African market. Furthermore, it was positive that the market was geographically concentrated since Tapflo's presence in Gauteng, Durban and Cape Town cover 95% of the South African market (Tapflo Interview, Ekstrand 2014). South Africa had considerable market potential when Travelstart entered in 2006. It was a rather young market with expected future demand for technological products and services, such as those offered from Travelstart. At that point, there were no other firms offering similar products and services. It was beneficial to be an early mover, which could generate very large market shares, something not possible in more mature markets (Travelstart Interview, Ekbergh 2014). One of the main reasons for HemoCue to invest in South Africa was the size and potential of the South African market. The firm's prior cooperation with a distributor had resulted in large sales numbers. In 2009, HemoCue acquired the profitable distributor and created a South African subsidiary. In this way, HemoCue already had essential knowledge of the South African market and expected a promising sales development (HemoCue Interview, Nobréus 2014). Propel Africa established in South Africa in the late 1990s due to great market potential in the tourism industry. The firm considered South Africa to be an ideal destination for Swedish tourists. The country offered unexploited and exciting environments that could appeal to many Swedes (Propel Africa Interview, Landstedt 2014).

Many of the interviewees acknowledged that South Africa experiences slower growth today and might have reached its peak. However, they still considered South Africa to have market potential and growth in many industries. E.g. tourism offers opportunities in South Africa since many beautiful areas are still unexploited and could potentially become popular tourist destinations (Afrikagrupperna Interview, Wolpher 2014). South Africa also offers market potential in other industries due to a growing middle class and increased public and private consumption (NSBA Interview, Söderholm 2014).

5.2.2 The cultural perspective

The cultural similarities between South Africa and Sweden are important for Swedish firms investing in South Africa (Business Sweden Interview, Holst 2014). The culture in South Africa is in many ways similar to Western cultures and Propel Africa even described Cape Town as an African California (Propel Africa Interview, Landstedt 2014). The similarity in culture facilitates inward FDI from Western countries and thus, many foreign firms have invested in the country (NSBA Interview, Söderholm 2014). According to Tapflo's

experiences there are more cultural differences between Poland and Sweden than between South Africa and Sweden. However, there are large differences in culture across the country that needs to be considered (Propel Africa Interview, Landstedt 2014). In general, South Africans are friendly towards foreigners, which makes it easier to establish and find contacts (NSBA Interview, Söderholm 2014; Travelstart Interview, Ekbergh 2014). Most South Africans speak sufficient English, which simplifies business for Swedish firms (Business Sweden Interview, Holst 2014; Travelstart Interview, Ekbergh 2014). Foreigners get by with only speaking English whilst South African employees need to speak some of the eleven official languages since they are more or less compelled to when meeting customers (Tapflo Interview, Ekstrand 2014). Several firms expressed that being located in the same time zone as Sweden was an important factor. This was significant for Travelstart and HemoCue when they established since business between Sweden and South Africa became more convenient (Travelstart Interview, Ekbergh 2014; HemoCue Interview, Nobréus 2014). The same time zone also facilitates traveling between Sweden and South Africa since jetlag is avoided and does therefore not disturb business activities (Tapflo Interview, Ekstrand 2014).

5.2.3 The Swedish brand

Sweden and South Africa have developed a strong relationship, largely due to the Swedish support for the anti-apartheid movement. This was an important factor for Swedish firms establishing up until five-six years ago but is not that relevant anymore. 20 years have passed and the young generations have not experienced apartheid and do not know the relationship to Sweden during that time. However, the strong relationship between the countries was the reason for establishing the binational commission that few other countries have with South Africa (Business Sweden Interview, Holst 2014). The Swedish firms interviewed share Business Sweden's view that Swedish firms nowadays do not benefit from historical relations since most people have forgotten about Sweden's support and do no longer associate Sweden with the anti-apartheid movement (HemoCue Interview, Nobréus 2014; Travelstart Interview, Ekbergh 2014). It might be more beneficial for larger Swedish firms dealing with public firms than for smaller firms, like Tapflo, that deal with private ones (Tapflo Interview, Ekstrand 2014). However, large Swedish firms dealing with public firms seem to have had difficulties to take advantage of historical relations. E.g. a large Swedish firm tried to use Swedish goodwill from anti-apartheid movement but it did not improve business since corruption seemed to be almost necessary to close the deal (NSBA Interview, Söderholm 2014).

Although Swedish firms do not benefit from historical relations between the countries, they benefit from the good reputation of Sweden and Swedish products since Sweden is a strong brand worldwide. Swedish firms are considered trustworthy and are associated with high quality, corporate social responsibility (CSR) and sustainability. In South Africa, they are also known for being eager to adjust and fit into a South African context, which includes working with local partners and employees. This is important since many large Swedish firms work with natural resources and are involved in crucial parts of the South African economy. In South Africa, and the rest of SSA, Sweden is also known as a great contributor of financial aid to many of the African countries as well as having stable politics and keeping neutrality in conflicts (Business Sweden Interview, Holst 2014). The good reputation of Sweden is positive for the business since most South Africans associate Swedish products with high quality (Tapflo Interview, Ekstrand 2014; Embassy of Sweden Interview, Aulin 2014). Swedish firms are also known for being professional as well as having things in order, which appeals to South Africans (Propel Africa Interview, Landstedt 2014). It is positive in many ways to be “going under the Swedish flag” and in general, South Africans rather do business with Swedish firms than with American ones (Nynas Interview, Meyer 2014). In contrast, HemoCue stated that the firm has not benefitted from Sweden’s good reputation or good relations with South Africa (HemoCue Interview, Nobréus 2014). Travelstart stated that it is not associated with Sweden and does therefore not benefit from Sweden’s good reputation (Travelstart Interview, Ekbergh 2014).

5.2.4 Business environment

South Africa is most likely the easiest country to invest in out of the countries in SSA (Business Sweden Interview, Holst 2014). It provides a good business environment where it is generally easy to do business (Travelstart Interview, Ekbergh 2014). There is a well-developed banking system as well as functioning laws and regulations (Business Sweden Interview, Holst 2014). The judicial system is rather similar to that in many European countries as well as more similar to Sweden than most other emerging markets (Tapflo Interview, Ekstrand 2014). Practically, it is easy to set up a business and register a firm in the country (NSBA Interview, Söderholm 2014). The country also provides well-developed infrastructure, which is essential for Swedish firms (Embassy of Sweden Interview, Aulin 2014; Nynas Interview, Meyer 2014). There are well-functioning roads and great flight connections both across the country as well as to SSA and Europe. It is comparatively easy to conduct business from abroad since many business activities such as registration and taxation

can be performed online (Tapflo Interview, Ekstrand 2014). Furthermore, it is positive that other firms are located in South Africa. The fact that other firms are present suggests a security e.g. several have made the same choice of location (Embassy of Sweden Interview, Aulin 2014).

5.2.5 Personal preferences

Three of the interviewed firms mentioned personal reasons as crucial for choosing South Africa. Tapflo experienced personal affection for Africa in general, and South Africa in particular. When Tapflo visited South Africa for the first time, they loved the country, the people and saw a civilized industry that appealed to them (Tapflo Interview, Ekstrand 2014). Travelstart and Propel Africa shared the same affection for South Africa after their first visits during the 1980s and 1990s. There were not purely business reasons since in that case Travelstart probably would have chosen China at the time (Propel Africa Interview, Landstedt 2014; Travelstart Interview, Ekbergh 2014). Private aspects, such as access to quality schools, could be important (Embassy of Sweden Interview, Aulin 2014).

5.2.6 Low-cost perspective

Most firms did not consider low costs to be of importance in South Africa. The cost levels in the country have increased although they are still comparatively low, especially regarding wages. However, a firm's experience of increasing costs might depend on whether it is production or sales since it is usually more expensive and difficult to establish production. The largest costs for Tapflo concern rents, human resources, cars, mobile phones etc. These costs are still reasonable since they only have sales in South Africa (Tapflo Interview, Ekstrand 2014). For labor intense production that requires low-skilled workers, labor costs could be of higher importance (Embassy of Sweden Interview, Aulin 2014).

5.3 The gateway to sub-Saharan Africa

South Africa is considered to be the hub of SSA and from there it is rather easy to grow into other parts of the region (Embassy of Sweden Interview, Aulin 2014). SSA is the last frontier in the world with high growth, large market potential and a great amount of natural resources (Business Sweden Interview, Holst 2014). It is beneficial to have a foothold in South Africa and thereafter look north since the majority of the world's 10 fastest growing countries are from SSA. It is crucial to understand promising markets in SSA, which is easier when first being present in South Africa, since the country is easier to understand and less corrupt than other SSA countries. The geographic closeness to promising markets in SSA is beneficial

since it is generally time-consuming to establish business relationships in Africa. This might require several visits to potential markets and this is done more comfortably from South Africa than Sweden (NSBA Interview, Söderholm 2014).

Practically, Swedish firms might more easily establish in SSA by following their local partners in South Africa when those partners expand in SSA since these markets can be difficult to enter. Another way is to follow existing customers in South Africa when they expand into other countries since many Swedish firms are subcontractors to South African firms. Most Swedish firms active in SSA countries are also active in South Africa although a small number of Swedish firms have entered other SSA countries directly without establishing any activities in South Africa (Business Sweden Interview, Holst 2014).

5.3.1 The firms' experiences in sub-Saharan Africa

The interviewed firms had very different experiences of SSA. Tapflo and Propel Africa are not established anywhere else in SSA, HemoCue and Nynas have sales agents in many countries while Travelstart have three other subsidiaries in SSA. For Tapflo, South Africa is the main market in SSA since the rest of SSA has a low demand for the products. According to Tapflo it is essential to consider demography in these countries and how that can affect demand. There are usually high rates of unemployed, uneducated and a high prevalence of HIV and AIDS that indicate a small number of potential users of Tapflo's pumps. If expanding in SSA, it will most likely be some random occasion, just as in the case with South Africa, leading to sales in another country. Two possibilities are that an existing customer establishes in these countries and need Tapflo's products or beneficial circumstances where Tapflo find a person or firm that possess the right competencies for sales. However, there are not sufficient financial and human resources at the moment to establish sales in other nearby countries (Tapflo Interview, Ekstrand 2014). Just like Tapflo, Propel Africa has chosen to solely focus on South Africa. Since most clients are Swedes or South Africans there is no reason for expanding into SSA although Propel Africa arranges travel in neighboring countries. There is an increasing demand for tourism in these countries but there are no plans on establishing offices anywhere else since sales can be done from the office in Cape Town (Propel Africa Interview, Landstedt 2014).

Already when Nynas established in South Africa, in 1997, there were plans on expanding in SSA, although that expansion did not start until 2009. "South Africa is most definitely a gateway into other SSA markets" (Nynas Interview, Meyer 2014). Nynas has no offices in

other SSA countries but instead uses sales agents in most of the SSA countries that are run from the office in Johannesburg. The most important regions are East Africa (Kenya, Tanzania and Uganda), West Africa (Nigeria and Ghana), and nearby countries (Mozambique, Botswana, Zimbabwe, Zambia etc.). Despite massive potential and a share of more than 10% of total sales, Nynas are reluctant to open offices in these regions. One of the main reasons is corruption, which influenced the decision to use sales agents. In this way Nynas can be flexible and avoid investments in corrupt countries. According to Nynas's own experiences, they would score corruption in South Africa 2 out of 10, Kenya 5 out of 10 and Nigeria 10 out of 10. It is in general difficult doing business in these regions, i.e. many of these countries have very low rankings in 'Ease of Doing Business'. There are large logistical challenges with poor road infrastructure in many countries. This is especially a problem in land-locked countries with few other transport alternatives. Furthermore, it has not worked for Nynas's competitors to have offices in these regions, which according to Nynas indicates that it would not work for Nynas either. The sales objectives will most likely still be fulfilled since the need for electricity in SSA will increase the demand for Nynas's products (Nynas Interview, Meyer 2014).

Similar to Nynas, HemoCue had plans on expanding throughout SSA when the firm established in South Africa. HemoCue works with distributors or sales agents in approximately 20 markets in SSA. The most important regions are West Africa, with Nigeria as an important market, and East Africa, with Kenya and Tanzania as the most important markets. These regions are important and will most likely increase in the future especially since the growth rate is significantly higher than in South Africa. Despite this, South Africa is still the most important market accounting for 75% of all sales in Africa. For various reasons, HemoCue has no plans on establishing offices in other African countries. One reason is that many of the countries in SSA have problems with widespread corruption, which makes it difficult for HemoCue to find trustworthy partners. To reduce the risk, HemoCue uses distributors in the rest of SSA (HemoCue Interview, Nobréus 2014).

Travelstart considered South Africa as the main market in the initial stages of establishment with no plans of establishing in other SSA countries. However a few years back, a man wanted to start Travelstart in Tanzania. After hesitating for almost a year Travelstart established a partnership in Tanzania due to boredom of just doing business in one market and an eager to try the rest of SSA. Travelstart expanded through partnerships although now the firm only operates through its own subsidiaries. The difficulty in Africa is that the absolute

majority of the countries are not even emerging countries. The demand for Travelstart's product is still small in large parts of SSA due to limited Internet access. Moreover, it is difficult and expensive to travel from South Africa to the rest of SSA. Even if investments in SSA have great potential there are also many challenges in the different countries. Travelstart in Nigeria experiences problems with corruption and electricity shortage while in Kenya there are concerns of terrorist attacks, which negatively affect business. Travelstart does not aim to establish in any other countries in SSA since there is small demand for the product (Travelstart Interview, Ekbergh 2014).

5.3.2 Future outlook for sub-Saharan Africa

There are many promising countries in SSA, such as Botswana, Nigeria and Namibia (NSBA Interview, Söderholm 2014; Tapflo Interview, Ekstrand 2014). These countries offer many opportunities for Swedish firms. Ghana is another promising country that should be attractive for Swedish firms since it is stable with a good strategic location. It is also comparatively easy to understand or, put in another way; it is "Africa for dummies" (Travelstart Interview, Ekbergh 2014). Another country is Zimbabwe, which has large natural resources in e.g. diamonds and platinum as well as well-educated citizens. As soon as Mugabe resigns Zimbabwe is expected to boom in development, which can create opportunities for Swedish firms (Business Sweden Interview, Holst 2014). There are also certain industries in SSA that offer great opportunities, such as in information communication technology (ICT). This industry has large potential since there is an increasing demand in SSA and many business activities in that industry can be delivered from abroad (Business Sweden Interview, Holst 2014). However, one should always be aware that Africa, as any other continent, might experience a backlash in growth (NSBA Interview, Söderholm 2014).

5.4 Risks and challenges

5.4.1 Corruption

Doing business in a market is always associated with certain risks although the risks in South Africa might differ from those in other markets (Travelstart Interview, Ekbergh 2014). Corruption is an issue that all interviewees pointed out as a potential problem in South Africa. However, this could be a threat in all countries although probably a bigger threat in other countries in SSA than in South Africa (Business Sweden Interview, Holst 2014). Some firms believed they avoided many problems connected with corruption by being a B2C firm (Travelstart Interview, Ekbergh 2014; HemoCue Interview, Nobréus 2014). Corruption could

potentially make business easier in some ways but Swedish firms generally have strict rules against corruption, which makes it easier to stay away from situations connected to this (Travelstart Interview, Ekbergh 2014; Business Sweden Interview, Holst 2014). These rules have defused the issue and corruption is not considered to be a significant problem (Nynas Interview, Meyer 2014). Corruption is mainly present on higher levels in society, especially in politics, and therefore smaller firms are usually not affected. Missing out on important business activities due to anti-corruption policy is not an issue since there are greater risks of potentially losing clients if being discovered using corruption (Tapflo Interview, Ekstrand 2014). If the public would discover corruption it might result in bad publicity and if starting to engage in bribes it can be very difficult to stop (NSBA Interview, Söderholm 2014). South Africa has a strict corruption law compared to many other countries in the region but despite this, bribes occur in the business environment (Business Sweden Interview, Holst 2014; NSBA Interview, Söderholm 2014).

5.4.2 Fluctuating currency

An instable currency can cause problems and instability for a firm when operating on a foreign market. One of the main challenges when operating in South Africa is the volatile ZAR, which makes business more uncertain (Business Sweden Interview, Holst 2014; Travelstart Interview, Ekbergh 2014). One consequence of currency fluctuations is the negative effects on return on investment (Nynas Interview, Meyer 2014). HemoCue did not consider the instable ZAR to be a big problem since all sales outside South Africa is made from Sweden. However, for a manufacturing company the fluctuating currency could become a problem (HemoCue Interview, Nobréus 2014). According to Business Sweden, if a Swedish firm signs a long contract in ZAR but sells in SEK it can result in value loss of up to 20%. Another challenge is the regulated exchange control, which makes it difficult to move currency from South Africa abroad (HemoCue Interview, Nobréus 2014; Travelstart Interview, Ekbergh 2014).

5.4.3 Political risks

A potential threat for Swedish firms operating in South Africa could be political instability. One issue is potential nationalization of certain business areas, such as in natural resources, which discourages inward FDI. Changes in legislation can come suddenly and can especially impact firms working within natural resources (Business Sweden Interview, Holst 2014). Another industry that could be affected is the security industry (Embassy of Sweden

Interview, Aulin 2014). Nationalization and expropriation of this industry pose a potential threat for firms in the future. Swedish firms, such as Assa Abloy and Securitas, could end up in a situation where the firms have to relocate to other countries, e.g. Botswana (NSBA Interview, Söderholm 2014). Local outcomes from the upcoming election, especially around Cape Town and the Gauteng province, could have impact on Swedish firms. In general, larger firms are more affected by political changes than smaller firms. Even though populist sentiments have increased they are not considered an imminent threat (Tapflo Interview, Ekstrand 2014; NSBA Interview, Söderholm 2014). Nynas did not see any political risks in short-term but expected fragmented parties to grow stronger, which might become a problem in the long-term. Another potential risk can be higher and tighter tax policies for firms and also unpredictable and sudden changes in other business policies (Nynas Interview, Meyer 2014).

5.4.4 Social inequalities and regulations

There are many problems on the political and social agenda that need to be solved e.g. high HIV prevalence, high unemployment rates and problems with segregation, which might be one of the most important challenges for South Africa (Tapflo Interview, Ekstrand 2014; HemoCue Interview, Nobréus 2014). The black population is still less educated than the white population, which is one of many effects sourcing from apartheid. Even though both black and white children go to school together, it is still easier for white children to move on to higher education, gain more competencies and skilled jobs. This results in difficulty to recruit a black person with the right skills and competencies and it was just recently that Tapflo hired its first black sales man (Tapflo Interview, Ekstrand 2014). Regarding recruitment this is not a problem for all firms but is an issue for firms within e.g. high-tech industries (HemoCue Interview, Nobréus 2014). HemoCue mainly educates their own employees, which is why they do not experience these kinds of problems. Propel Africa experienced difficulties in finding local employees where the main issue is lack of knowledge in the Swedish language and the Swedish culture, something they considered important when hiring (Propel Africa Interview, Landstedt 2014). The issue of BEE compliance can cause some hassle for firms and it is complicated although small firms are generally not affected by these regulations (Travelstart Interview, Ekbergh 2014; Propel Africa Interview, Landstedt 2014). To be able to supply large companies, like Unilever, the demand for BEE compliance might be a requirement. It is a challenge to find skilled staff from the various ethnicities. This can result in that the firm cannot just employ the most competent person but the person who fills the

diversity criteria. In this case a firm can miss out on important competence (Tapflo Interview, Ekstrand 2014). One way to cope with the pressure to comply with BEE is to outsource to external providers that are BEE compliant, which Nynas does (Nynas Interview, Meyer 2014). The labor regulations are somewhat even stricter in South Africa compared to Sweden with strong unions. It is a good initiative to improve the labor market especially for the black community, but it comes with limitations. Finding competence is hard and expensive, due to high demand on a limited supply of competent black labor. BEE is also causing problems due to requirements of local ownership, which might scare Swedish firms of investing in South Africa (HemoCue Interview, Nobréus 2014). Another problem is that high-skilled black employees are more eager to move for higher salary since they are in high demand (Business Sweden Interview, Holst 2014).

The risk of strikes and riots are not that imminent in most industries. However, the mining industry has experienced major strikes and Swedish firms relying on the mining industry could be affected (NSBA Interview, Söderholm 2014). It is more difficult to fire employees since it requires a legal case against the certain employee. South Africans are usually harsher in these matters than Swedes, which might be a difficult adjustment. Another problem is the difficulty for foreigners to obtain work permits, which can obstruct FDI. However, if the firm hires locally these problems can be avoided (Travelstart Interview, Ekbergh 2014).

5.4.5 Crime rates

South Africa has crime rates considerably higher than in Sweden and this could potentially be a threat for Swedish firms. However, the opinion of South Africa as dangerous and a threat for business is not shared among all interviewees. Several of them point out that it is different from Sweden but not as dangerous as many might think. The country is often described in a more alarmist way than what people who live there recognize from their daily lives (Embassy of Sweden Interview, Aulin 2014). For a Swede it is new to see wired fences and armed responses around houses but it is seldom that anything serious happens. If one is careful it is usually no problem and much of the reputation as a dangerous country is based on historical events, and especially apartheid. The risk of losing business due to security aspects is therefore insignificant (Tapflo Interview, Ekstrand 2014; Nynas Interview, Meyer 2014). The risk also diminishes if the firm avoids keeping assets in South Africa (Nynas Interview, Meyer 2014). Yet, this can be more important for a firm dependent on its customers' safety. E.g. Propel Africa considers safety as one of the most important issues and put a lot of emphasis on ensuring a safe environment for its customers (Propel Africa Interview,

Landstedt 2014). Regardless, it is always important to understand that South Africa is different and it is crucial to know your environment (NSBA Interview, Söderholm 2014). E.g. employees of both Tapflo and HemoCue have experienced carjacking and robbery but there have not been any serious crimes or personal injuries. None of the firms interviewed believe that crime rates have affected the business activities directly.

5.4.6 Other risks

Long payment cycles, especially within the public sector, can cause problems and firms need to cope with these by e.g. holding deliveries until payment is completed (HemoCue Interview, Nobr us 2014). Propel Africa experienced problems with late payments and the firm has been acclaimed for paying on-time, which is rather uncommon in South Africa. In addition to this, South African suppliers might see the possibility to charge higher prices to foreign firms and this need to be carefully surveyed and sometimes requires negotiation (Propel Africa Interview, Landstedt 2014). Furthermore, the infrastructure is a challenge sometimes with poor public transportation, dysfunctional traffic lights, Internet- and electricity shortage etc. (Travelstart Interview, Ekbergh 2014; HemoCue Interview, Nobr us 2014).

5.5 Summary of empirical findings

Market size and growth were among the most important factors for choosing South Africa as a location. Recognition of a slowdown in growth and the fact that South Africa might have reached its peak did not seem to discourage the firms. South Africa was described as similar to many Western countries but with an African twist. These similarities were mentioned as creating positive opportunities to obtain a good understanding of the country in general and the market in particular. Furthermore, the relatively simple system when running a business has also been an important factor for the firms. Sweden has traditionally had good relations with South Africa and Sweden as a brand is highly valued in the country. The passion and personal preference for South Africa had played an important role for some of the firms interviewed and was highlighted as essential for the choice of location.

Another aspect of importance for some of the firms was the closeness to the SSA since part of the business plan was to enter other SSA markets. This perception of South Africa as a gateway into SSA was a strategic choice for some and a natural growth for others.

Being present in South Africa is associated with certain risks. One important challenge for the interviewed firms was social issues such as inequalities that could result in difficulty of

finding competent employees. Corruption, fluctuating currency and political instability were discussed issues but the concerns were moderate according to most firms. High crime rates could also be of some concern, although primarily for employees.

6. Analysis

In this chapter the theoretical framework as well as the empirical background and findings will be reflected upon. Based on this a discussion and analysis will be provided in order to later answer the research questions.

6.1 Internationalization

As discussed in the theoretical framework, there are many different theories attempting to explain why and how firms internationalize. Hill, Hwang and Kim (1990) discussed different types of international involvement. The interviewed firms have similar involvement degree, which is subsidiaries, in South Africa. However, two of the firms, Travelstart and Propel Africa, have their HQ in South Africa whereas Tapflo, HemoCue and Nynas all have their HQ in Sweden. The first version of Travelstart in South Africa was intended to replace the HQ in Sweden. However, it was difficult to run the firm from South Africa.

6.1.1 Internationalization patterns

According to Johansson and Vahlne (1977) firms gradually increase their resources in a foreign market as market knowledge increase. Two of the interviewed firms have followed this pattern. Tapflo and HemoCue started with sales through agents and gradually increased their resources to eventually establish sales offices in South Africa. HemoCue stated that the firm obtained market knowledge through the sales agent. In this way, HemoCue increased market commitment as learning and experience of the South African market increased. However, just as other researchers have pointed out, not all firms follow this pattern. E.g. Propel Africa and Travelstart both internationalized at inception and did not follow the pattern by Johansson and Vahlne (1977). These firms can instead be considered ‘Born Globals’ (Madsen & Servais 1997). Propel Africa and Travelstart operate in niche markets characterized by a higher level of specialization as well as technological development. These are identified as explanatory factors for ‘Born Globals’. Another factor discussed by Madsen and Servais was entrepreneurial attributes and knowledge of the founder. The founders of Propel Africa had previous experience in destination management as well as knowledge in tourism. This trait of character is also applicable for Travelstart where the founder had established several travel agencies in the past. The experiences of the interviewed firms indicate that some firms do indeed follow the internationalization pattern proposed by Johanson and Vahlne (1977) while other firms take a different approach. The interviewed

firms that follow the Uppsala-model are manufacturing firms while the firms that internationalize from inception provide specialized services, which is in line with ‘Born Globals’.

6.2 Location-specific factors

According to the empirical findings in this study, location-specific factors are essential for Swedish firms that establish in South Africa. One reason for firms to internationalize is if they have owner-specific (O), location-specific (L) or internalization-specific (I) advantages. Location-specific advantages refer to beneficial factors in a particular location (Dunning 1988). However, location-specific factors have been neglected in comparison to the other ones (Dunning 2009).

6.2.1 Market size and growth

The interviewees discussed several location-specific factors that were essential for deciding to establish in South Africa and not somewhere else. All interviewees emphasized market size and growth rate of South Africa as one or maybe even the most important reason for investments. This is supported by several researchers, such as Chakrabarti (2001) and Rolfe, Ricks, Pointer and McCarthy (1993), that brought up market size and growth rate as two of the most important reasons when choosing the destination for investments. South Africa’s recent inclusion into the BRICS further indicates the country as being an important market (EIU 2014). South Africa was seen as the driving market in Africa by both Business Sweden and NSBA. The most important factor for investment for Tapflo and Nynas and one of the main reasons for HemoCue and Propel Africa was market potential. According to Ghemawat (2001) differences in income increase economic distance. However, an increasing number of South Africans are classified as middle-class with higher income, which decreases economic distance and thereby reduce costs and risks for Swedish firms in South Africa. Most interviewees acknowledged that South Africa has experienced slower growth in the last few years but they still consider it to have future market potential. E.g. a growing middle-class in South Africa will generate continued private and public consumption, which can benefit most Swedish firms but perhaps especially B2C firms and firms dealing directly with the public sector.

6.2.2 Business environment

Jensen and Pedersen (2011) discussed four different groups of location attributes; cost levels, human capital, business environment and interaction distance. However, the empirical

findings only show support for the business environment as crucial when deciding on investments. Travelstart highlighted the business environment as generally easy to do business in and Tapflo brought up the developed banking system, functioning judicial system and simplicity of registration online as essential. None of the firms interviewed considered cost levels to be of significance. One reason for this could be that none of the firms have manufacturing or assembling in South Africa, which might involve more costs. Tapflo stated that cost levels have risen but the effects of increasing costs might depend on whether it is production or sales, since it is usually more expensive and difficult to establish production. Firms operating in labor-intense industries might be more affected by increased costs. However, there are some shortcomings in the business environment. Nynas mentioned tighter tax policies and sudden changes in regulations as problematic. HemoCue discussed the problem of long payment cycles while Propel Africa experienced risks of being charged a higher price. In general, the interviewed firms seem to have faith in the South African business environment. South Africa is the best-ranked country in SSA in the 'Ease of Doing Business Index' (World Bank 2013). The ranking has fluctuated, which corresponds to the experiences of the interviewed firms.

According to Du, Lu and Tao (2008) infrastructure is an important factor for the choice of location. This was a positive factor according to all interviewees but one. In general, the infrastructure in South Africa is considered efficient although there are some challenges. On the one hand, roads and flight transportation are as good as in Sweden. On the other hand, there is electricity shortage as well as poor public transportation. However, the positive aspects of infrastructure seem to outweigh the negative aspects.

6.2.3 Relations between Sweden and South Africa

Ghemawat (2001) proposed that positive historical and political relations decrease the distance to a particular market, which reduces many costs and risks for firms. Sweden and South Africa have since apartheid established a strong relationship, which has resulted in trade agreements and a binational commission. This has further deepened the relationship between the countries (Sellström 2002; SIDA 2006). According to the rationale by Ghemawat (2001), historical relations should be beneficial for Swedish firms. However, none of the interviewed firms believed they have benefitted from historical relations between Sweden and South Africa, although Business Sweden argued that it was an important factor for Swedish firms up until five or six years ago. Despite not benefitting from historical relations during apartheid, positive political relations between the countries seem to be more important.

Sweden is e.g. known for providing financial aid to South Africa and other countries in SSA as well as having stable politics. Sweden is also said to be associated with quality and trustworthiness (Tapflo Interview, Ekstrand 2014). These associations with Sweden seem to provide Swedish firms with a good reputation that is beneficial in South Africa. Making use of Sweden's reputation might create new business opportunities since, according to Nynas's experiences, South Africans rather do business with Swedish firms than with American ones. However, it is crucial to be associated with Sweden in order to use Sweden's reputation. Two of the firms did not experience that they had benefitted from the good reputation of Sweden although they agreed that Sweden does indeed have a good reputation (Travelstart Interview, Ekbergh 2014; HemoCue Interview, Nobréus 2014). Travelstart argued that they were not associated with Sweden and did therefore not benefit from the reputation. This indicates that Swedish firms can benefit from the positive reputation although they need to be associated with Sweden in order to benefit. These firms might use the good reputation as a competitive advantage against other foreign firms lacking the same reputation. Historical relations seem to be irrelevant while political relations might be more important. The strong Swedish brand seems to be more important than historical and political relations. However, prior historical and political relations with South Africa might indirectly influence the strong Swedish brand.

6.2.4 Political influences

Wang and Swain (1997) suggested that political instability would have a negative influence on investments while Piper (1972) believed political instability would be of minimal concern for investors and not affect the investment. Business Sweden and Embassy of Sweden discussed the potential problem of political instability and exemplified nationalization as a possible threat within certain business segments. NSBA shared this concern, however the perception was that large firms were at greater risk to be affected by political changes than smaller firms. Tapflo, Propel Africa and Nynas were aware of potential problems with the political instability but did not consider this an imminent threat. This indicates that political instability could have a negative effect on investments especially in the long run and for certain business segments. The firms seemed to be aware of potential political instability but did not consider it to have an impact on their business activities, which is in line with Piper (1972) but contradictive to Wang and Swain (1997). However, none of the interviewed firms operate in industries, such as mining and security, which are exposed to current political problems. Swedish firms that operate in these industries are more likely to be negatively affected by political instability and should pay more attention to this issue.

6.2.5 Socio-economic influences

Gilroy (2005) studied the determinants of political structure, crime rates and labor relations amongst firms in South Africa. His findings showed that the majority of firms had confidence in the South African market and the economic and political environment but increased crime rates and corruption had a negative effect on firms. Experiencing high unemployment and other increasing socio-economic problems creates a growing tension in the South African society (EKN 2013). Segregation, poor education amongst the non-white community, labor regulations and BEE were factors expressed by all interviewees as challenges. Similar to Tuomi (2011) the firms considered BEE to be constraining and complex. Tapflo stated that the issue of poor education resulted in difficulties of recruiting black persons with the right skills and competences, which sometimes is a requirement according to BEE. NSBA argued that BEE created other constraints such as that high-skilled black employees are more eager to move for higher salary as well as increased requirements of local ownership. Nynas avoided some of these problems by outsourcing to external providers that are BEE compliant.

6.2.6 Crime rates

High crime rates are a remaining problem in South Africa (OSAC 2013). Owusu and Habiyakare (2011) mentioned crime rates as one of the most imminent risks for foreign firms considering investing in South Africa. This is somewhat contradictive to the interviewees' opinion on crime rates' effect. The general perception among the interviewees was that crime rates are overrated and by just being careful most dangerous situations can be avoided. Therefore, high crime rates were not considered as that big of a risk for business activities. According to both Tapflo and Nynas, the risk of losing business due to crime was minimal, e.g. lack of assets diminishes the risks. The crimes that have occurred have affected employees and not business directly. This could make it more difficult for Swedish firms to recruit expatriates that are affected by South Africa's reputation as criminal. However, this difficulty might be avoided by recruiting local employees. Only Propel Africa considered crime rates as a potential problem for business since guaranteeing the clients' safety is of high priority and reducing the risk of crime is an ongoing work. Still, NSBA highlighted that it is crucial to know your environment and understand that South Africa is different from Sweden. The different opinions could perhaps be explained through different customers. Propel Africa deals mainly with Swedish customers and if crimes were to occur to these customers it could be hurtful for the business. The other interviewed firms are dealing primarily with South African customers that are well aware of high crime rates in society.

6.2.7 Corruption

According to Asiedu (2006) corruption could negatively impact investments. Thus, low corruption plays an important role (Du et al. 2008). Corruption could be a problem in South Africa, which is ranked as the 77th most corrupt country in the world (Transparency International 2014). The opinion on corruption did somewhat differ between the interviewees. Travelstart and HemoCue felt that they avoided this problem since they are B2C firms. Tapflo argued that corruption is more common on higher levels in politics and in society. All interviewed firms claimed to have strict anti-corruption policies that were in line with Business Sweden's experiences as well. The consequences of engaging in corruption would have a negative influence and possibly result in bad publicity (NSBA Interview, Söderholm 2014). In conclusion, the interviewees did not believe that corruption negatively affected their business activities although it exists in South Africa. None of the interviewed firms can be considered to operate on higher levels in politics and society and might therefore not be as affected as other firms might be. Further, their anti-corruption policies have compelled them to avoid corruption.

6.2.8 Culture

Cultural proximity can play a crucial role affecting how well firms adapt to the host environment. Du, Lu and Tao (2012) emphasized this factor and stated that cultural proximity is essential. Furthermore, unfamiliarity with the environment can cause 'liability of foreignness' and if not addressed firms can face competitive disadvantage (Zaheer 1995). A diverse population and large cultural differences across the country could be a potential threat (Sweden Abroad 2008). However, all interviewees shared the perception that the South African culture is favorable for Swedish firms, e.g. regarding knowledge in the English language. The country was described as similar to Western cultures in many aspects and Cape Town was depicted as an African California. The cultural similarities between South Africa and Sweden have with high probability promoted Swedish investments in the country. According to Ghemawat (2001) cultural differences can result in increased costs and risks for Swedish firms. Several of the interviewees stated that it takes considerably more time to establish relationships, which is essential in South Africa. They stated that it usually requires more trust building to establish business relationships in South Africa than in Sweden. This can be considered a cultural difference, which could create additional costs for Swedish firms. E.g. firms need to meet potential business partners several times to establish trust, which is

time-consuming and generate extra costs for travel. Nevertheless, all interviewees consider culture to be an overall positive factor for Swedish firms.

6.2.9 Personal preferences

Propel Africa, Tapflo and Travelstart emphasized personal affection for South Africa as a crucial factor when deciding on investing in the country. Travelstart stated that if considering only general business opportunities, other markets would have made more sense. Few researchers have discussed personal preferences as a factor. Ström and Schweizer (2012) concluded that choice of location is ‘people-dependent’, which indicates that the choice is influenced by personal relationships and values. The empirical findings partly support this theory and show that personal values can indeed have an influence on choice of location. However, not all firms considered this to have an impact. Plattner (2012) proposed that personal preferences are based on whether the location has livable local environment, manifold city life and the local information network. For Propel Africa and Travelstart a livable environment as well as a comfortable lifestyle was important aspects since both firms are based, have HQ and the founders are permanent residents in South Africa. However, Nynas and HemoCue did not consider personal preferences to have any impact on their decision to invest in South Africa. These firms had the objective to later expand in SSA whereas the other firms invested in South Africa on a more random basis. A South African businessman approached Tapflo, which resulted in partnership, while Propel Africa and Travelstart chose South Africa partly due to personal affection for the country.

6.2.10 Investment year

The interviewed firms invested in South Africa in different years, from the late 1990s to the late 2000s. Rolfe, Ricks, Pointer and McCarthy (1993) proposed that year of investment affect the decision to establish in a particular country. This might be especially applicable in this study since South Africa has experienced many changes since the end of apartheid. Tapflo, Nynas and Propel Africa established in South Africa around 2000. At this point, both growth and inward FDI increased rapidly in South Africa, which created opportunities for foreign firms (IMF 2014; UNCTAD 2014). E.g. Propel Africa visited South Africa in the late 1990s and saw potential in tourism where many areas were still unexploited. Tapflo and Nynas, both concentrating on B2B, established when inward FDI was rapidly increasing. Travelstart’s services require sufficient information infrastructure and income-levels and these have increased in the last years. Travelstart established in 2006 when the South African market was

young and with an expected future demand of technological products. In 2006, there were no clear substitutes to Travelstart's products and the firm could obtain an early-mover advantage. The nature of Travelstart's products makes the firm heavily dependent on computer and Internet access, which has increased since 2006 (DTI & Deloitte 2013). Thus, the empirical findings indicate that year of investment affected the firms' decision to locate in South Africa, supporting Rolfe, Ricks, Pointer and McCarthy (1993).

6.3 Sub-Saharan Africa

6.3.1 The gateway to sub-Saharan Africa

Owusu and Habiyakare (2011) argued that an important factor for FDI in South Africa was the closeness to other markets in SSA and Tuomi (2011) concurred that one of the main attractions was the possibility to use South Africa as a base to move into neighboring countries. The empirical findings, on the other hand, indicate different perceptions. For three of the interviewed firms, Tapflo, Propel Africa and Travelstart, further expansion into SSA was an insignificant factor when establishing in South Africa. More than ten years after establishing in South Africa neither Tapflo nor Propel Africa have immediate plans to expand into SSA. Travelstart, however, expanded into SSA on random basis after gaining experience in the South African market. That experience indicates that South Africa can provide a base into SSA although this might not be an essential factor in the beginning. According to Nynas and HemoCue, closeness to promising markets in SSA was indeed an important factor that attracted the firms to South Africa. These firms expected a future demand in SSA. Business Sweden believed that since South Africa is the hub of SSA it is rather easy to grow from there into SSA. The empirical findings show that for some firms, SSA can act as a gateway into SSA whereas for other firms this is a less important factor.

6.3.2 Risks and challenges in sub-Saharan Africa

Many firms perceive SSA as inherently risky and unsuitable for business activities. Due to lack of knowledge of this region many firms do not base their decisions on country-specific factors but instead they evaluate Africa as one big country (Asiedu 2002). To enter these markets it is essential to gain market knowledge since these markets might be very complex (Business Sweden Interview, Holst 2014). The firms with presence in SSA seemed to possess substantial country-specific knowledge of this region. All interviewees mentioned several risks when doing business in SSA but they also mentioned many opportunities. According to Asiedu (2006) corruption is a large risk, which negatively impacts FDI. The interviewees

considered corruption to be a rather small risk in South Africa, but it was considered a major risk in SSA, which discouraged Nynas and HemoCue to increase involvement from sales agents to sales offices in SSA. Nynas stated that despite great potential it is too risky to establish in corrupt countries, such as Nigeria and Kenya. Even though discouraged of corruption Travelstart has offices in Nigeria and Kenya. However, Travelstart believed that it did affect the firm negatively. Clearly, corruption in SSA discourages firms since it involves many risks as well as negatively affects foreign firms already established in SSA. Nynas and HemoCue saw great potential in SSA but considered it to involve too many risks. They seem to rather operate from South Africa even though this might generate other risks through e.g. difficulties finding a trustworthy partner in SSA and less control.

Asiedu (2002) argued that improved infrastructure in SSA has no direct effect on inward FDI. However, Nynas experienced large logistical challenges that obstruct business activities in many countries. UNDP (2013) mentioned that insufficient infrastructure is a considerable risk in many countries, which require action to create further development. According to Nynas, poor road quality in land-locked countries is an issue. This is in line with Gallup, Sachs and Mellinger (1999) that argued that land-locked countries in SSA have higher transportation costs, which negatively affect FDI. In contrast, Naudé and Krugell (2007) claimed that geographical location has no direct effect on FDI. However, Nynas experiences support Gallup, Sachs and Mellinger (1999). Darley (2012) also concluded that poor physical, financial and information infrastructure negatively impact FDI to SSA. It might be important to note that Nynas operates in an industry that is heavily depending on physical infrastructure due to the bulky nature of oil. Thus, Nynas is negatively impacted by poor physical infrastructure, especially in land-locked countries where shipping is not an alternative. This is not considered a major issue for Travelstart and HemoCue, which might be explained by their less dependence on physical infrastructure. E.g. Travelstart is more affected by poor information infrastructure, which is improving in SSA. Thus, the impact of poor infrastructure depends to a large extent on what kind of product or service that a firm offers.

Krugell (2005) argued that previous successful FDI proves that a country is safe and beneficial to invest in. This indicates that previous but unsuccessful FDI negatively impacts FDI. Since it did not work for Nynas's competitors to establish in SSA, the firm assumed that it would not work for Nynas either, which supports Krugell (2005). Competitors' experiences in SSA can act as an indicator how the focal firm would perform since they are selling similar products. Further, Embassy of Sweden stated that presence of other firms imply security in a

country. Bartels, Alladina and Lederer (2009) concluded that political and economic stability are crucial factors for firms investing in SSA, which indicates that political and economic instability negatively affects FDI. E.g. Business Sweden argued that the most promising economy in SSA is probably Zimbabwe but as long as Mugabe is president it is impossible for most foreign firms to establish in the country. Several of the interviewed firms mentioned Nigeria as very promising but many firms are discouraged to invest due to widespread corruption in society. Despite great opportunities for Swedish firms they have more to lose than gain if establishing in Nigeria.

6.3.3 A negative image of sub-Saharan Africa

A problem in SSA is that many countries are not even considered to be potential markets (Morriset 2000). Many foreign investors are skeptical towards FDI to SSA due to the negative image, where the continent is associated with e.g. political and economic instability, and diseases (Bende-Nabende 2002). This seems to be an image that some of the interviewed firms share. Two firms argued that these factors imply low demand for their products while others expected an increasing demand in many industries. Tapflo mentioned that the demographic characteristics in many SSA countries indicate low demand for the products. Even though many social issues have improved, there are still high poverty and disease rates in SSA that needs further improvement (UNDP 2013; World Bank 2014a). Travelstart claimed that most countries are not even emerging countries and there is limited Internet access, which results in low demand for the product. However, a rapidly increasing number of people in SSA have access to telephones and Internet (World Economic Forum 2013). Therefore, Business Sweden considered ICT in SSA to be an opportunity for Swedish firms.

Nynas and HemoCue had positive expectations on sales in SSA. The increasing need for electricity in SSA will most likely increase the demand for Nynas's products. HemoCue shared the positive view and expected growth in SSA to result in enhanced sales. However, the interviewed firms operate in very different industries that impacts future demand of the products in SSA. Tapflo produces pumps for consumer products while Travelstart operates in the travel industry towards end-consumers. Private consumption is still rather low in SSA but the growing middle class indicates that demand for consumer products and services will increase in the future (Bjerström 2013). Healthcare is crucial for development in SSA and many efforts are required in the future (UNDP 2012). Since HemoCue provides blood tests for many common diseases in SSA, it will likely create a demand for these tests in SSA. Nynas also expected an increasing demand in SSA. The use and demand of electricity has

quickly increased in the 2000s and the type of products Nynas offers is essential when producing electricity (Dowden 2008). There is a somewhat negative image of SSA although this image can in many ways be supported. However, there is also support for development in SSA, which can create future opportunities for Swedish firms.

7. Conclusion

In this chapter the answers to the research questions will be presented as well as concluding remarks. Finally, the contribution of this study will be highlighted and suggestions for future research will be given.

7.1 Answering the research questions

This study has aimed at providing a deeper understanding of the location-specific factors that Swedish firms find most important when investing in South Africa post-apartheid. South Africa is considered the most developed country in SSA and it could be an attractive factor to use South Africa as gateway into SSA. Investments also generate risks, and consequently it is of essence to explore potential risks and challenges when investing in South Africa. Thus, three research questions were formulated and these will be answered below.

- What location-specific factors attract Swedish firms to invest in South Africa?

There were several location-specific factors that were essential for the interviewed firms' decisions to establish in South Africa. Similar to Chakrabarti (2001) and Rolfe, Ricks, Pointer and McCarthy (1993) the firms stated that market size and growth were essential reasons when choosing South Africa. However, despite slower growth they still considered South Africa to have future market potential. The growing middle-class in South Africa will generate continued private and public consumption, which can benefit Swedish firms in the future. A crucial factor for several of the firms was personal preferences. This is not as researched as other factors but the impact of personal preferences should not be underestimated. This factor is likely difficult to measure since it is embedded in a person and depends on personal attributes and values. Other factors that attracted Swedish firms was the business environment and general ease of doing business, which corresponds to the ranking in 'Ease of Doing Business Index', as well as a mostly efficient infrastructure. According to Ghemawat (2001) Swedish firms should be able to benefit from historical and political relations, partly due to the Swedish support to the anti-apartheid movement. The historical relations were not considered an advantage for the firms. Political relations might be more important although most important was the strong Swedish brand, which can provide Swedish firms with a competitive advantage in comparison to other foreign firms in South Africa. Other beneficial factors were cultural similarity in many aspects, sufficient English skills as well as being located in the same time zone as Sweden. Furthermore, location-specific factors

can differ depending on year of investment due to changes in the South African business environment.

- Is South Africa considered a gateway into other markets in sub-Saharan Africa?

In line with Tuomi (2011) and Owusu and Habiyakare (2011), South Africa can indeed act as a gateway for Swedish firms that aim to enter SSA. In order to expand, it could be beneficial to have a base in South Africa and gain an understanding of the SSA business environment. Business Sweden stated it might be easier to expand from South Africa through local partners or customers that are more used to the environment. However, there are considerable risks involved when doing business in SSA. Corruption seems to be a major risk that discourages firms from establishing subsidiaries in these countries and those that have can be negatively affected by widespread corruption. It is important to acknowledge that SSA might not have the demand for all products and therefore South Africa does not act as a gateway for some firms. Many firms have a negative image of SSA, in some cases it is supported but in other it is exaggerated.

- What challenges and risks do Swedish firms experience in South Africa?

Although many attractive factors in South Africa, it is important to consider potential risks and challenges involved. Researchers, such as Wang and Swain (1997) and Piper (1972), have discussed the impact of political instability on foreign investments. According to this study, firms are aware of potential problems with political instability but it is of little concern. According to Owusu and Habiyakare (2011) crime rates in South Africa is one of the largest risks for foreign firms. However, this study indicates that this risk is exaggerated and could to a large degree be avoided by being careful. Further, crimes have not affected business activities directly but instead impacted employees, which could make it more difficult to recruit e.g. expatriates. The risk that seems to be most imminent is segregation, which has resulted in difficulties in recruiting black competent employees. Since this is often required in order to comply with BEE, this creates a challenge when recruiting. Finally, previous research, e.g. Tuomi (2011) and Gilroy (2005), mentioned several risks for foreign firms in South Africa and how these negatively affect investments. The interviewed firms and organizations discussed several risks and challenges but did not see them as damaging to their business activities. They argued that most of these risks can be alleviated and does therefore not pose a threat to Swedish firms.

In conclusion, there are certainly factors that attract Swedish firms to South Africa, including easier access to SSA, but also potential risks and challenges to cope with that can negatively affect business activities. South Africa is complex and it is important to have knowledge of both the business environment as well as the South African society in general. Even though many risks and challenges in the society do not directly affect Swedish firms, they are still crucial to understand.

7.2 Contributions and suggestions for future research

We believe that our study has contributed to existing research by providing a deeper and more thorough understanding of the choice of South Africa as an investment location for Swedish firms established post-apartheid. This study has provided personal insights into what factors these firms consider important when establishing. As expected, market size and growth were very important although it was noteworthy that despite slower growth firms still consider the country to have market potential. More interestingly, this study has shed light on the importance of personal preferences when choosing location for investments. The limited amount of research within this area creates a future opportunity for further studies regarding the impact of personal preferences, even though this might be difficult to measure. This can be important to investigate not just in South Africa but in other markets as well. Another contribution is the influence that random occasion has on investments. This indicates that investments can also be affected by this phenomena and not solely an outcome of thorough analysis, which creates an opportunity for future research.

Another suggestion for further research is the process of Swedish firms when expanding from South Africa into other markets in SSA. There are many promising markets in SSA that create opportunities for Swedish firms. Some Swedish firms are already established in these countries and it would therefore be beneficial to study this process, which could be useful for both academia and business actors.

Furthermore, an additional area for research is the impact that political changes can have in the future. According to this study political instability is of little concern. However, tendencies point towards more instability in the long run and shifting government. Therefore it would be of interest to observe the political situations' effect on Swedish firms, both in South Africa as well as SSA.

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Appendix

1. Interview guide – firms

1. General information

- What is your name and position? Years in the firm? Other positions?
- What is your firm's business idea?
- When did you establish in South Africa?
- What type of firm do you have in South Africa? E.g. sales subsidiary/head office/production unit etc.

2. The investment in South Africa

- In what way have your firms internationalization process developed in South Africa?
- What location-specific factors do you consider most important for the decision to invest in South Africa? Why are these important?
- How did you decide on where to locate in South Africa?

3. South Africa, do you consider it a gateway in to sub-Saharan Africa?

- Is your firm established in other sub-Saharan African markets? If yes, how large share of total sales/production in Africa does South Africa account for?
- Do you consider South Africa a gateway into other sub-Saharan African countries?
- What nearby countries are most attractive to enter? Why?
- Do you consider South Africa as an easier country to establish in than other sub-Saharan African markets?

4. What are the risks for your firm?

- Have you experienced problems in South Africa due to location-specific factors?
- What are the greatest risks for your firm?

5. Concluding questions

- What are your expectations for future business in South Africa? Opportunities? Challenges?
- What lessons have you learned from the establishment in South Africa? Any advices to other Swedish firms that consider investing in South Africa?

2. Interview guide – organizations

1. General information

- What is your name and position? Years in the organization? Other work experience in South Africa?
- What is your organization's main idea?
- When did you establish in South Africa? Why?

2. Investments in South Africa

- What location-specific factors do you consider most important for Swedish firms' decisions to invest in South Africa? Why are these important?
- How do Swedish firms decide on where to locate in South Africa?

3. South Africa, do you consider it a gateway in to sub-Saharan Africa?

- Is South Africa the main market for Swedish firms? Do you believe South Africa is a gateway into other sub-Saharan African countries?
- What nearby countries are most attractive to enter? Why?
- Do you believe South Africa is an easier country to establish in than other sub-Saharan African markets?

4. Risks for Swedish firms in South Africa

- Have you experienced problems in South Africa due to location-specific factors?
- What are the greatest risks for Swedish firms?

5. Concluding questions

- What are your future expectations for Swedish firms in South Africa? Opportunities? Challenges?
- What lessons have you learned from working in South Africa? Any advices to Swedish firms that consider investing in South Africa?