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Global Multinational Companies Expansion into Africa: A Study of Marketing Strategy

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Abstract

The primary objective of this study was to understand what marketing strategies global multinational companies should follow and how those strategies could be effectively implemented. A quantitative approach with the use of an electronic questionnaire was adopted. As part of the research strategy, a positivism approach was also adopted due to the principle that truth and reality are free and independent of the viewer and observer. This study followed a probability approach as it includes any selection method where sample members were selected from the targeted population on a purely random basis. For this research study, primary data collection and the use of a self-administered questionnaire to gather data were the most preferred options. The literature review investigated the general institutional framework on the African continent and highlighted many disparities with developed markets where the majority of the global MNCs come from. Global enterprises have great ambition for growth and they have identified Africa with exceptional potential in their expansion plans. This study accentuates the significance of institutions as critical mechanisms in the regulatory framework of any country, as well as the potential implication for foreign MNCs wishing to enter that market. It is hoped that this research will assist in enhancing the growing research interest within the context of international business theory.

Keywords: globalisation; marketing strategies; global multinational companies; African emerging markets

Introduction

Global multinational companies (MNCs) continue to face unique challenges in expanding into African emerging markets (AEMs). The biggest contributor to this is their lack of understanding and unwillingness to embrace the exceptional dynamics that exist in these countries, which has resulted in the majority defaulting to execute their own country's domestic market strategies and thereby failing to realise sustainable businesses. In the previous years, corporate leaders and investors globally have pinned their hopes on the African growing story of promise becoming a reality. With youthful, urbanising inhabitants, plentiful natural resources and a rising middle class, it looks like the continent has the correct components required for long-standing growth, possibly outshining the so-called tiger economies of East Asia a generation ago. The McKinsey Global Institute report titled Lions on the Move 2010 report forecast consumer spending within the continent would grow by 40% and move GDPs by $1 trillion between 2008 to 2020 (McKinsey Global Institute 2016).

However, there are plenty multinationals that have become disheartened in their pursuit due to the strain of operating in Africa. For instance, many African nations always feature in the list of the lowermost in terms of World Bank's ease of doing business and Transparency International's Corruption Perceptions Index. A lack of infrastructure and widespread skills shortages have also been found as key challenges. It has also been identified that business establishments are always excited about finding new talented personnel who possess strong organisational competencies, such as the impetus to initiate change and construct a crew of capable people. However, there are companies that are competing successfully in Africa and some that fail to develop a competitive advantage. A number of business experts maintain that appropriate strategy is crucial; winner companies deploy the right game plan for respective markets. Nevertheless, for an enterprise to progress with real commercial plan, it is vital to identify the right person with right skills to design and implement the relevant strategy (Mendenhall et al., 2015).

African emerging economies' upsurge has provided new business gaps as well as trials to global enterprises. Access to global markets has opened up the markets for trading and thereby decreased barriers to entry (De Haaff & Urban, 2013; Singh, 2012). Multinationals from established global economies are repeatedly subject to institutional voids and, therefore, are exposed to unusual strains (Urban, 2015; Javalgi et al., 2009). The socio-political and commercial undercurrents in the continent vary enormously from those in advanced markets and, therefore require a certain level of flexibility from the MNCs working in Africa (Roxburgh et al., 2010; Luiz & Charalambous, 2009; Adjei et al., 2008). Global multinationals trading in African economies need to appreciate and embrace the institutional contexts of these markets and learn to adapt in order to prosper (Urban & Hwindingwi, 2016).

Africa is made up of many diverse markets with plenty opportunities for global MNCs willing to invest. The less they understand about the in-market dynamics, the more they will miss these opportunities. The risk of trading in Africa is high, but so are the rewards. Companies that prepare themselves for long-term sustainable projects will benefit better than those looking for short-term gains. For any company to thrive in Africa, not only do they need to adopt an appropriate strategy, but must also have the stamina to maintain a long-term commitment of five, 10 or even 20 years to create more shareholder value (PwC, 2016). The main reason of institutions is to diminish ambiguity, which can potentially be devastating. They signal which behaviour is real and which is not, and therefore limit the range of acceptable actions. It is believed that improving transparency will make the picture much clearer and allow all relevant key stakeholders to make better informed decisions; for instance, political uncertainty is more likely to lead to financial uncertainty, like failure to honour predetermined commitments, which, therefore, leads to economic losses (Juho & Turcan, 2014). The institution-based view is significant as it suggests two key propositions; firstly, business leaders and companies logically hunt their interests and make decisions within market institutional limitations. Secondly, while official and social institutions combine to govern firms' behaviour, in cases where formal constraints are not clear, the opposite informal constraints automatically adopt a chief role in reducing indecision and providing reliability to the company (Peng, 2014).

Africa has seen growing investment by global MNCs; however, accessibility to up-to-date, relevant information has proven to be an exceptional challenge. Most of the research, including by leading authors, has been benchmarked on BRIC countries and very little on AEMs. This study seeks to gain valuable insights and contribute much-needed market-specific knowledge, which may assist existing or new MNCs to determine key institutional factors that have an impact on the success of their expansion strategy in AEMs. Having determined this, they can then tailor-make their strategies to be more effective and relevant for these markets. This research contributes to the existing gap in the international business field about MNCs that wish to enter AEMs and add to the body of knowledge. As part of the investigation, a conceptual framework is proposed to give more insights into the causal relationship between the success of the global MNCs' expansion strategy into African countries and institutional factors. Ultimately, perceptions from this body of work are geared towards global MNCs and global investors who have a keen interest in African emerging economies and policymakers with the influence to outline the commercial climate to encourage the extension of MNCs (Urban & Hwindingwi, 2016).

Literature review

Africa is a huge continent with a diverse wealth in terms of geographic, national, ethnic, economic, legal and many other factors. Factors, such as the growing youth population and considerable technological revolution, are some of the positive trends that are likely to have a substantial impact on future prospects. Additionally, there are many African governments assuming a more proactive role in terms of policy development, which will facilitate a more attractive business environment for foreign investors. Opportunities now are evolving and becoming diverse (Economist Intelligence Unit's Growing Africa Cities Report, 2013).

Since the years of political instability, armed conflict and military rule, the continent has become more peaceful, and democracy seems to be the latest wind of change. Half of the continent's population below the age of 20 are rapidly moving to cities and this has made urbanisation a big factor. At least 40% of the African population live in city areas. In line with increasing democracy and the slow strengthening of institutions, there are signs of improved governance as leaders are becoming more accountable. Chinese companies are investing in building and improving infrastructures and encouraging signs for economic development. In 2010, mobile subscribers in Africa exceeded 500 million users, which afforded companies greater access to consumers. In spite of the numerous encouraging trends, the continent remains an intricate mixture of marketplaces with various features to take into consideration. Political turmoil still remains a unique challenge for potential entrants into the continent. Labour efficiency and inadequate skill levels remain opportunities for further progress, with youth unemployment being problematic. General infrastructures remain underdeveloped with bribery and corruption still prevalent in most cases. It is very clear that global multinational companies (MNCs) are not underestimating the enormous potential and are, therefore, paying closer attention to the possibilities on the African continent (Cook, 2013).

According to Urban and Hwindingwi (2016), market structures are the products of idiosyncratic historical, political, legal, economic and cultural forces within any country. All emerging markets feature institutional voids; however, the particular combination and severity of these voids vary from market to market. In their assessment, emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together. The institutional voids make a market 'emerging' and are a prime source of the higher transaction costs and operating challenges in these markets.

Multinationals need to understand that there has been a long requirement of proper skills that can handle an establishment's personnel efficiently, leading to its prosperity. They need the right person with the right skills at the right time and the right place to frame a well-developed strategy to penetrate as well as compete in the emerging economies, such as those of Africa (Mendenhall et al., 2015). Due to the emergence of globalisation, these multinationals are indirectly facing setbacks. Globalisation has led African countries to access the global markets easily through trade relaxation norms and this has acted as a hindrance in the entry of global MNCs in African emerging markets (AEMs). Multinational companies are facing exposure to unusual strains because they need to address institutional voids, different from their developed markets. The socio-cultural as well as political factors pose a great impact in restraining global MNCs in African markets, thereby, restricting MNCs to cope with the flexibility of AEMs (Roxburgh et al., 2010; Luiz & Charalambous, 2009; Adjei et al., 2008).

Global MNCs are well aware of the operations of economic activities. The unique obstacles from the AEMs are not only hampering the economic activities of MNCs, but are also threatening their existence in the market. These challenges are forcing MNCs to adopt a matrix model for the functioning of their operations cost-effectively (Peng, 2014). There are various macro-factors, such as unstable political turmoil, which affect the potential entry and operation of the global MNCs in AEMs. Labour efficiency and inadequate skill levels remain opportunities for further progress, with youth unemployment being problematic. General infrastructures remain underdeveloped with bribery and corruption still prevalent in most cases. However, the constant efforts from the global MNCs prove that they are not ready to underestimate the potential that African markets hold (Cook, 2013).

Various studies have showed that the customers usually prefer a foreign brand especially from developed economies over the local brand for a particular product or service. Customers are of the view that products from developed economies provide them better quality, good worth as well as present an aspirational lifestyle. Therefore, Chinese brands are the most popular because they sound foreign to local customers. Some researchers also claim that the customers are biased towards domestic brands because of the socio-political and demographic factors (Luping et al., 2017).

In terms of global MNCs, there are various international brands in developing economies that understand the need to go global and develop strategies through sales. These international brands may use the strong association and affinity to the original country in their marketing plans. This competitive advantage may be used to realise financial performance. At the same time, international brands should take care that they do not overpromise about the product's attributes and mislead customers (Luping et al., 2017). Various institutes are realising the need to understand the concept of international business (IB). Internationalisation is the need of the hour because of its risk-taking behaviour in the competition. This is dependent on various expectations, which include (1) the prospect to generate and realise commercial worth, (2) the decision-making process supporting the assessment of international entrepreneurial opportunities (IEOs), and (3) the period, against which all decision-making processes can be explained (Chandra, 2017).

To enter African markets, MNCs are finding new potential opportunities to identify the business gaps so as to compete in the market. There are three different views amid the various opportunities that the business will adopt to thrive under the concept of IB. These three views include empirical view, constructive view and critical realistic view. The empiricist view is founded on an unbiased opinion that gaps in the markets are available globally. The constructivist view follows a subjective understanding that opportunities are engineered by different stakeholders engaging in international business. The critical realist view believes that opportunities are unrealised potentials waiting to be achieved (Chandra, 2017).

All global MNCs must accept that it is the informal trade channel that is the main contribution channel to develop sales in Africa. Some previous studies depict that local customers still prefer open-air markets over modern trade channels. The implication for MNCs is that they will have to design their distribution structures accordingly to meet local demands and requirements. There are various successful organisations that are built on the route-to-market logistical model, which include small distributors with individual sales agents delivering products by hand from a central daily distribution point (McKinsey Global Institute, 2016). A consumer behaviour study was conducted to explore the influence of brand choice and brand switching due to the relocation of societies (social disruption) from informal to formal settlements (Govender, 2017). This is in line with the urbanisation trend currently taking place on the African continent. It is hoped that this example will provide critical insights into what is likely to happen during this type of social change, but most importantly educate business managers and marketers on the possible implications. This social disruption study focused on the impact of toilet cleaning products on brand choice and brand switching owing to the relocation of consumers to a location that was a bit more affluent. This research of toilet care products was conducted among households of Cosmo City, Johannesburg. Households were separated into three household typologies, namely 5000 RDP or freehold government houses, 3000 low income houses and 3300 high income houses. The SA toilet care product market has three different product formats, namely liquids, in-the-cistern (ITC) blocks and in-the-bowl (ITB) ring blocks, which are distributed in various channels in order to meet growing consumer needs. In 2014, the toilet care product category was worth R332.4 million, which was a 16% sales value growth since 2009 (Govender, 2017).

The primary objective of this study is to understand what marketing strategies global multinational companies should follow and how those strategies can be effectively implemented. The marketing strategies are of the utmost importance because it is the marketing of the products and services that helps customers know about the business. It is also important for the business to effectively implement these strategies to gain customer attention as well as customer retention.

Materials and methods

To study the marketing strategies and guide the global multinational companies about how to effectively implement those strategies, a conceptual framework was adopted. Although an in-depth literature review was conducted to explain the concept, the questionnaire was the main tool for data collection. This questionnaire was an online, self-administered type. The respondents were white-collar workers who were employed at MNCs belonging to different countries and companies across Africa, chosen through a probability sampling method. The initial aim was to collect the data from 200 respondents from 10 countries in Africa. The main objective of selecting these respondents was to understand the views and perceptions of these white-collar workers who are working in companies that are striving to flourish all over African emerging markets. Descriptive and inferential techniques were used to analyse the collected data.

A research population is also known as a well-defined collection of individuals or objects known to have similar characteristics and/or backgrounds. It is a body of people or collection of items under consideration for statistical purposes (Wegner, 2012). The target population for this study was employees who play a significant role in the respective global MNCs they work for in AEMs. Employees from global MNCs operating in Africa were identified and targeted for participation in a survey. The main objective was to obtain their views and perceptions on working for a global MNC that wished to grow its business operations in Africa.

A research sample is a subset of data values drawn from a targeted population. Samples are generally used because more often than not, it is impossible to record every data value of the population, mainly because of cost and time limitations. In order to produce valid, reliable and credible estimates of the population, it is crucial that a sample is a representative of its target population. A total of between 80 and 100 participants working for global MNCs in Africa were selected from a population of interest so that the results could be used to infer and generalise back to the population from which they were chosen.

It is very rare that a complete account of all elements in the universe is necessary in business research projects. It is believed that with careful planning, a sample of the universe is adequate to provide a very good representation of the entire group (Lewis et al., 2013). This study followed a probability approach as it includes any selection method where sample members are selected from the targeted population on a purely random basis. Under random sampling, every member of the target population has a chance of being selected for the sample. Simple random sampling is a subset of a statistical population in which each member of the subset has an equal probability of being chosen. The main feature is the supposition that the population is homogeneous with sampling units sharing similar characteristics and/or being influenced by the same background factors. The major advantage is that random sampling reduces selection bias and can calculate sampling error. This makes the findings of inferential analysis valid. This type of sampling is associated with science and objectivity.

The strong belief is that every sample unit has an equal chance of being selected as part of the sampling. In this research study, a survey was used as the process of collecting data from employees working for global MNCs in African markets. Surveys are considered to be the best at simple random sampling as they afford every member an equal opportunity of participating (Wegner, 2012).

There are two main methods of collecting data, namely primary and secondary data collection methods. A primary data collection method is used when information is recorded at the source for the first time and with a specific purpose in mind. It can either be internal or external to the company. The biggest advantage is that it is of high quality and accurate due to generally greater control over its collection and the focus being only on the data that is relevant to the management problem. The biggest downside is that it is time-consuming and expensive. In contrast, a secondary data collection method is information that already exists in a processed format. It is relatively quick to access and inexpensive; however, it may not be relevant to the specific problem that needs to be addressed. The data may be out of date too, making it difficult to assess its accuracy, which could lead to data distortion and introduce bias (Wegner, 2012). For this research study, primary data collection and the use of a self-administered questionnaire to gather data were the most preferred options. The survey method is able to capture attitudinal-type data, employees' opinions, their awareness, knowledge, preferences, perception, intentions and motivations on their respective companies' operations in Africa. An electronic questionnaire worked best, as the study was able to gather data from international target populations in different countries.

Results and discussion

The results show that a number of strategies are employed by global multinational companies to penetrate African markets. However, the success or failure of these strategies is dependent on a number of institutional factors and challenges. The ability of specific MNCs will also determine the ability of an MNC to penetrate the market. Therefore, the level of success in market penetration varies from one MNC to another depending on the strategies adopted and the ability to overcome some of the market penetration bottlenecks. Figure 1 shows the views of the respondents with regard to the several strategies and factors influencing market penetration of MNCs to Africa.

Figures 1a and b reveal the perception and understanding of the respondents towards the key institutional factors. It is essential to know whether white-collar workers in global MNCs are aware of these factors and their respective impact on the ability of the MNCs to successfully penetrate African markets. A majority of the respondents believe that there is a great need for market research before starting to operate business in AEMs. With regard to social upliftment programmes, most of the respondents believed that their companies contributed positively to society, while they admitted that corruption is a barrier, which prevents the institutions from entering into the market effectively.

Figure 1c demonstrates responses for some of the driving factors that motivate global MNCs' expansion to AEMs. A majority of the respondents agree that their companies were selective when selecting territories to venture into in AEMs.

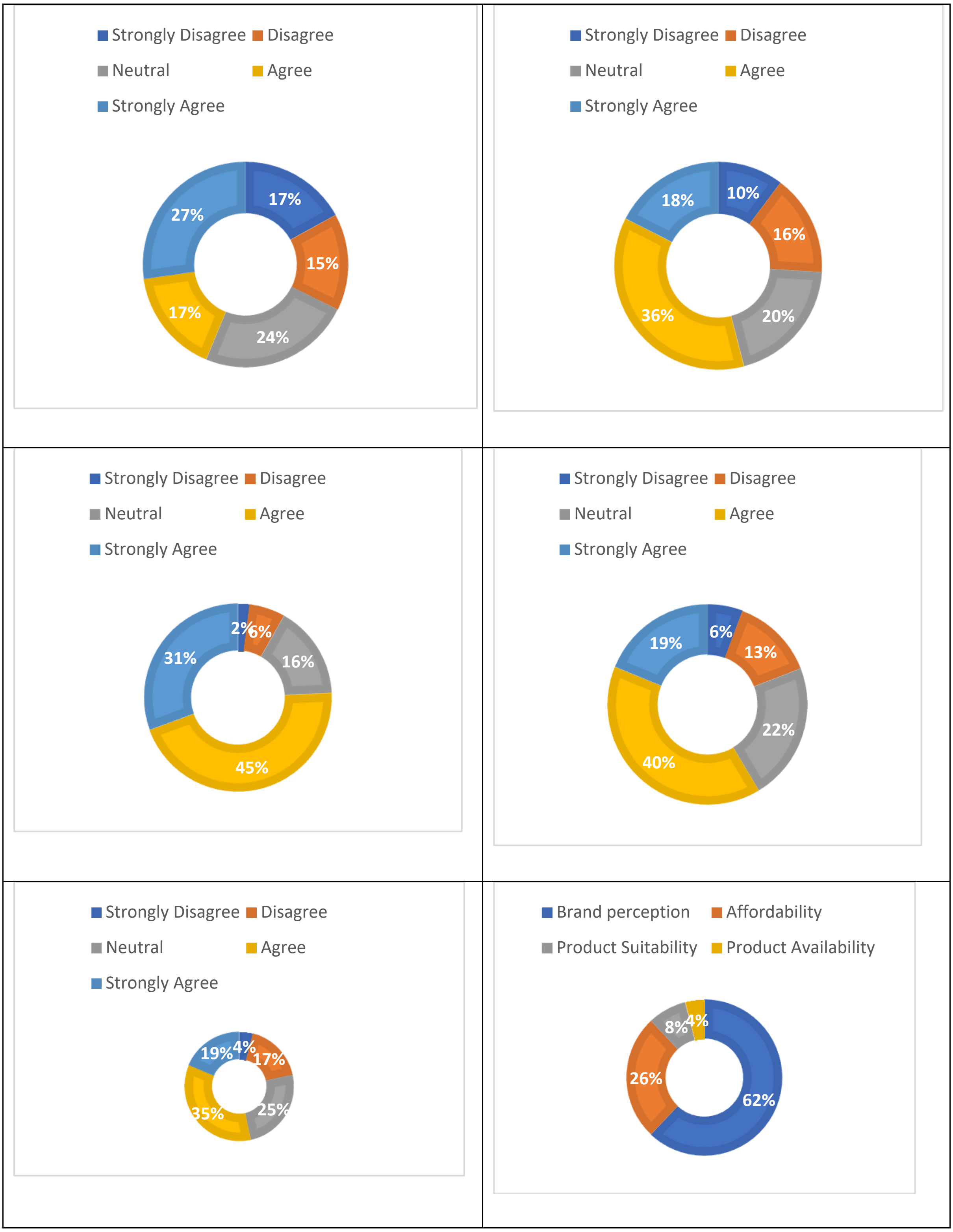

Figure 1: Respondents' perceptions: a. Company's awareness on institutional factors in African emerging markets; b. Critical institutional factors that influence success of failure of the multinational companies in African emerging markets; c. Key decision factors that motivate foreign expansion to African emerging markets; d. Key strategies deployed in the African emerging markets; e. MNCs leverage their existing global competition advantage to the African market; and f. Key motivators for consumers when buying products.

Consequently, there is a positive sentiment while reaching out to the perfect niche. Figure 1d indicates some of the critical strategies deployed when building international presence in African markets. An overwhelming majority of up to 76% of the respondents confirmed that their global company largely adopted and extended their respective global strategies into Africa. Many respondents felt that there was a good balance with the deployment of expatriate employees; however, there was a strong voice of up to 84% who believed that their local subsidiary operation should be given more authority to make market-related decisions. The use and reliance of business consultants and external service providers had come up as a potential opportunity to tap into, as up to 27% did not believe they had been used enough. Figure 1e reports on how global MNCs leverage their existing global competitive advantage to the African markets. A majority of the respondents confirmed that key innovations were being adopted from global companies, leaving very little being developed in local markets. Figure 1f shows the importance of brand perception being the strongest motivator for consumers when selecting to buy a product. This is in line with international brands being preferred over local brands. There was a strong aspiration factor among African consumers. Affordability remained one of the key motivators as it came second with 26% of the respondents confirming this case. This confirmed the suspicions of the markets being price sensitive.

As per the research conducted, many respondents confirmed that no proper market research had been conducted by their respective MNCs in the previous three years; therefore, the importance and need for market research. It was also seen that the success of any organisation does not depend on the quality and quantity of economic output only, but, most importantly, on conformity to accept rules, norms, values and beliefs. Next, it was necessary to understand that MNCs go global because of optimal use of the opportunities offered by international activities. Globalisation has removed all the barriers between the countries and made it easier for MNCs to expand their business globally (Cook, 2013).

Formal institutions drive economic activity in developed markets; however, informal institutions have developed a great deal of influence on economic activity in emerging markets. As opposed to developed countries with functioning institutions, in emerging markets "social contracts, social institutions and social performance" dominate the most (Juho & Turcan, 2014). This dominance of informal social institutions and social contracts compared to formal economic rules and legal contracts, therefore, constitutes another key distinction between emerging and developed markets (Juho & Turcan, 2014).

Given regulatory constraints and other sensitivities, it can be difficult for MNCs to fill institutional voids in emerging markets. Institutional voids invariably challenge the execution of business models in these markets. These MNCs need to weigh the extent to which they can transfer business models cultivated in developed markets to emerging economies rife with institutional voids. Research on Africa has shown that when it comes to business, government involvement is more significant and, at times, more detrimental to the internationalisation of enterprises than in other developed and emerging economies (Andersson & Berggren, 2016).

It has also been evident that most of the popular strategies and business models deployed in developed markets will not work in the tough conditions in Africa. Strategies adopted by some of the most successful multinationals in Africa have been established from a long-term outlook into the country, by investing in local infrastructure and adequate resource management. This has also created an impression that they are more than merely about profit. At the same time, creating a competitive advantage is important. Brand marketing from developed economies has created strong perceptions and influenced followers' lifestyles. This has created a strong sense of aspiration from underdeveloped markets. Global MNCs from countries that have a strong affinity with local African markets are able to influence and compete intensely with domestic brands. In local African markets, there is a strong perception that brands and products from developed markets have superior quality over domestic competitors.

Influence of institutional factors

It was strongly established that conforming to the rules and regulations of the local market was a prerequisite in order to be perceived as legitimate. This perspective suggests that organisational survival and success do not depend on the quality and quantity of economic output only, but, most importantly, also on conformity to accept rules, norms, values and beliefs. Failure to do so means that MNCs will be unlikely succeed (Juho & Turcan, 2014).

Another important aspect of these country-level factors that differentiate developed economies from emerging economies is the presence of rule-based governance versus relational governance (Singh, 2012). These two governance mechanisms are at two extreme ends of a continuum and many emerging markets can be placed around the midpoint of the continuum. In recent years, many of the emerging economies have made a shift from an environment primarily based on relational governance to one based on a combination of rule-based and relational governance. Moreover, it must be noted that institutions determine not only the rules of the game and the certainty thereof, but also the costs of action and the incentive structure facing economic agents, such as MNCs (Puffer et al., 2016).

In some cases, institutional voids drive innovation by creating a need for a company to develop new ways to solve a problem that may be standardised in developed countries. However, companies in emerging markets are often reluctant to invest in innovation and technology because of the institutional voids endemic to such markets (Amann et al., 2014). Investment in innovation, especially in emerging markets, is, therefore, highly dangerous without a firm institutional framework. Companies in emerging markets inevitably hesitate to invest in innovation, because markets have highly embedded uncertainty and weak institutions. Furthermore, innovation investments do not necessarily guarantee better performance (Juho & Turcan, 2014). External management consulting companies can then be used to address institutional deficiencies and complement available resources. These companies can provide valuable resources in the form of knowledge or legitimacy based on their expertise and experience.

Unique challenges

The unique and considerably different institutional environments compared to developed markets highlighted a number of challenges, but also offered limitless opportunities for institutional arbitrage that managers of MNCs could exploit if they gained a better understanding of these markets. The level of crime and corruption permeates the entire spectrum of societies in Africa and has eroded the public's trust. The level of corruption has been described as pervasive and blamed for the failure of most of the initiatives and institutions to achieve market reform, economic development, poverty alleviation and an inflow of foreign direct investment.

Some of the key challenges that were identified included the heterogeneous market structure that was completely opposite to what the global MNCs were used to in developed markets. The open-air market channel, for example, is the bedrock of commercial activities for most consumer-packaged goods in Africa, accounting for more than 90% of revenue. This makes it difficult, risky and dangerous to adopt a developed market business model and strategy. Culturally, African markets are diverse, and this is evident through observed consumer behaviour. From a resource point of view, it has also been identified that despite the abundant work opportunities, skilled talent remains scarce, which has forced global MNCs to deploy expatriate employees from headquarters; however, their lack of local knowledge is somewhat detrimental to the prosperity of their enterprise. In such situations, businesses become extremely cautious in investing in the local subsidiary. From a macro-environment point of view, political instability and authoritarian governments continue to adversely affect business and policymaking in many countries. Poor infrastructure has seen many African cities with underprivileged road systems, which makes travelling in the continent prohibitively expensive and difficult. The low penetration and access to electricity are constraints characterised by capacity issues and high costs.

The global marketing strategies for MNCs

It has been highlighted that popular strategies and business models deployed in developed markets will not work in the tough conditions in Africa. Strategies adopted by some of the most successful multinationals in Africa have been established from a long-term outlook into the country, by investing in local infrastructure and adequate resource management. This has also created the impression that they are more than merely about profit. The careful selection of countries to venture into is extremely important, as well as focusing on major cities to grow the business in. There is a strong inclination to undertake in expatriate employment to set the core business foundation in terms of global business strategy. In tandem to this, multinationals set up a local subsidiary operation and give them relative authority to make informed decisions. In addressing the unique and most dominant open-air market channel in Africa, multinationals co-create an operational model with their carefully selected distribution partners and then invest in infrastructure that will help sell their branded stock. They also accept the abnormal responsibility of selling the stock to their distributors, as well as developing sales and marketing plans to encourage consumers to buy their products.

Conclusion

A critical component of a successful global MNC expansion drive is to develop a strong marketing strategy to fulfil the needs of the customers. From a corporate view, Africa needs to be managed properly so that it can stand out as a profit centre by empowering the local companies with freedom to make the investments locally. Commitment from a corporate CEO and the willingness to set up a market-tailored business with its own operation model reporting to an African general manager are very important. It is also recommended that local markets develop a multicategory strategy, adopt a frugal innovation concept and custom-make products across different price bands. Multinationals must accept the responsibility of developing a push-and-pull strategy by selling to distributors, as well as putting marketing activities together to create a demand for consumers to buy the products. Furthermore, multinationals must be willing to adapt to local needs, such as trading in the OAM channel structure. The trade marketing strategy must align with the general trade structure requirement. For companies to remain competitive in this global world, they need to understand what makes consumers switch between domestic and foreign products. It can also be argued that the examination of consumer behaviour is important for global MNCs to help direction for positioning, segmenting, branding and market entry decisions (Boshoff et al., 2017).

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