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GORDON INSTITUTE
OF BUSINESS SCIENCE
University of Pretoria

GIBS MBA 2008/9

Emerging markets multinational enterprises: South African Retail Giants moving into Africa

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the business requirements for the degree of Master of Business Administration.

11 November 2009

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Table of Contents

Table of Figures

Table of Tables

Abstract

The global strategies of the three South African retail giants are examined with a view to understand what factors motivate South African multinational enterprises to move into Africa, as well as what motivates their particular choice of countries, and how the capabilities and resources are deployed and managed in their foreign operations, so as to remain competitive in both local and foreign markets. The South African retail giant geographic expansion is a way to penetrate new markets, explore new opportunities and deliver the growth they seek on the journey to high performance. Their choice of countries is determined by various factors that contribute to the competitive nature of a country, namely: national values and cultures; macro and micro economic environment; political stability; institutions, and history.

As these emerging market multinational enterprises cannot depend on country-specific advantages, the contenders accelerate their development of firm-specific advantages at a rapid rate. South African companies have developed expertise for trading in Africa as they are more familiar with the physical, regulatory and social terrain than businesses from other parts of the world. The market, the culture and realities of infrastructure, poverty, lack of skills, as well as the technology in their non-South African operations are not a shock to the South African companies. The business strategies will, therefore, not entirely be the same as those of the multinationals from the developed world.

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Declaration

I declare that this research project is my own, unaided work. It is submitted in partial fulfilment of requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before any degree or examination in any other University.

Zakhele S Mkhize ***Date***

Acknowledgements

It gives me a great pleasure to thank all of those who have helped me through this journey to the completion of this research project, and the MBA as a whole: my new friends, brothers, sisters and business partners.

Thank you to all those who participated directly by sharing their knowledge and experience of the African business development events. In addition, thank you to those who facilitated providing access to the right people.

Furthermore, I gratefully acknowledge the effort my supervisor, Dr Martyn Davies, without whose support and guidance this research would have been impossible.

Finally, I would like to acknowledge the continued love, care and support of my beautiful wife, Elisa, through her willingness to assist, as well as her unrelenting encouragement and positive attitude. She is the wind beneath my wings and, without a doubt, Elisa is God's blessing to my family and to me.

1 Chapter 1: Introduction and Problem Definition

1.1 Introduction

Businesses in South Africa operate in an increasingly complex environment – globalisation is changing the business environment to one that is characterised by a progressively deep set of interdependent relationships between countries, organisations and individuals. Globalisation refers to a world of opportunities, as well as a world of challenges. It is driven by a number of powerful forces, including the following: a reduction in transport and communications costs; a reduction in trade barriers and investments, and increased access to information and technology, to mention a few.

Globalisation has also resulted in an increase in foreign direct investment (FDI). FDI has grown rapidly across the globe, and is a major strategic stimulus for economic growth. This is especially true in Africa and other developing countries as FDI addresses some of these countries' greatest challenges concerning poverty, unemployment, sustainable economic development, infrastructure development, global competitiveness and economic growth.

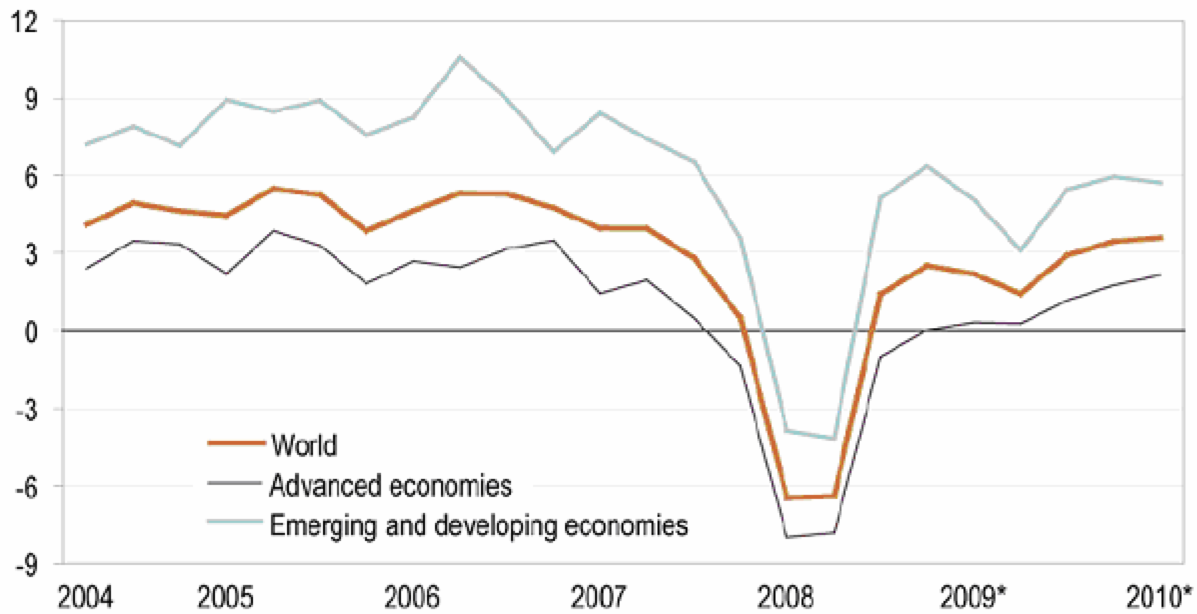
Over the past few decades, Africa has realised the need for African nations to be globally competitive, and has also realised the importance of FDI in building competitive businesses and nations. Data from UNCTAD (2008) reveals that the stock of FDI in Africa has grown by 16% to achieve $53 billion in 2007, the highest level so far. The growth was driven by booming global commodities markets, rising corporate profitability on investments and an increasing FDI-friendly environment. However, Africa's inflow of FDI is only three percent of the global foreign direct investment; this is still very low, compared to the global inflow of FDI.

The neoclassical model for economic growth, as well as an increase in investment and saving by the private sector and by individuals, will contribute to higher economic growth. Therefore, the rise in FDI will contribute to the economic growth of the country, and will also result in additional benefits to the host country, such as new technology, access to foreign markets, skill, innovation, effective management and know-how.

Like most countries in the developed world, African countries are also keen to attract FDI, both globally and within the region. African countries have taken various initiatives to attract FDI. These initiatives include: incentives, such as tax holidays; exemptions of export and import duties; subsidised infrastructure; limits of workers' rights; the signing of investment treaties, by providing assurance and guarantees to the investors, and investment promotion activities. Multinational enterprises around the globe are taking advantage of these initiatives to invest in the region, as they explore new growth opportunities.

In recent years, and prior to July 2008, the African region recorded excellent growth, despite the work economic crises and sub-prime crises. Africa is expected to grow at a low rate of 2.9% in 2009, down from 5.75% in 2008 and 6% in 2007. The global financial and economic crisis has affected the drivers of growth in Africa, and this has a direct impact on the region's growth performance. Demand for, and prices of, African commodities are falling, capital flows are declining, and promised increased aid has not materialised (ADB, WP No. 96). However, in the emerging and developing economies, the GDP growth percentage is still expected to be higher in Africa than that of the developed world, as per the IMF World economic outlook update (July 2009).

Figure 1.1-1: Global Gross Domestic Product (GDP) Quarter-over-quarter percentage change, annualised



Source: IMF World Economic Outlook Update, July 2009.

Note: Quarter-over-quarter changes in GDP differ from yearly figures.

* In all graphs, 2009 and 2010 figures reflect estimates and projections, respectively.

As the African region experienced strong, significant growth between 2000 and 2007, South African retail giants took advantage of this growth and progressed from their domestic base to become highly successful multinational enterprises. Moreover, the global financial crises proved that doing business in the developed world also has its own risks and challenges.

South African companies have emerged from a period of global isolation and trade sanctions against apartheid, which were externally imposed by the European community, the Commonwealth countries, Japan, the United States of America and numerous other countries (Levy, 1999). Throughout decades of apartheid, South Africa was characterised by minority ruling and political oppression, until the early 1990s when the sanctions were lifted. New policies were introduced, aimed at economic transformation and rebuilding the new South Africa for all of its citizens. In this new environment, South African companies had to gear up to compete globally, like other countries in the world.

Organisations are now subject to the global business environment, characterised by fierce competition and chaotic changes. As discussed by Dawar and Frost (1999), the options that local companies from emerging markets face when confronted with the threat of MNEs entering their markets, are based on the globalisation pressures in their industry and the transferability of their competitive assets. Companies are finding it increasingly important to build firm-specific advantages that are transferable between different markets.

1.2 Research Problem

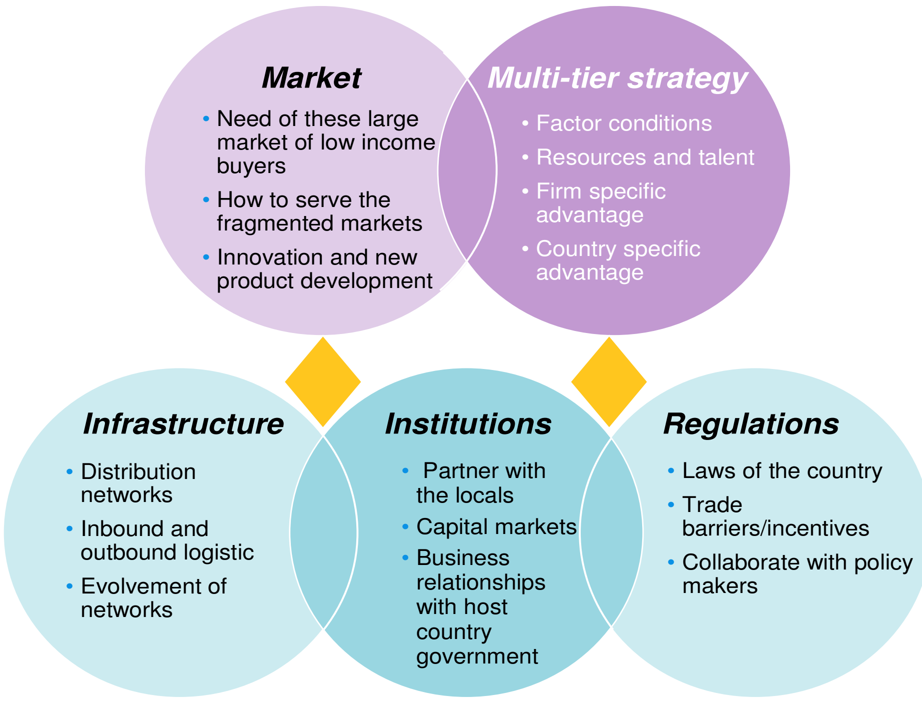
South African giant retail companies are aspired to be globally competitive, as well as to explore new globalisation opportunities. Whilst internationalisation can be a source of profit for retail firms, it can also generate huge losses and margin dilution. Previous research has provided insight into opportunities, challenges and strategies for emerging markets, and theories on multinationals enterprises. However, the research provides relatively little insight into the dynamics of the strategy formulation that may lead to long-term growth and profitability in emerging markets.

South African multinational enterprises acknowledge that competing globally is a rewarding, yet challenging experience. South African MNEs are also very aware that it has become tougher, during the past decades, to identify a winning international strategy and to choose the countries with which to do business or wherein to expand their operation. In order for the MNEs to succeed in these cross-border markets, they are required to spend time making unique, winning strategic choices.

These emerging market multinationals apply different strategies in responding to the challenges of the emerging markets, which include: low income and buying powers; fragmented markets; large populations spread over immense geographic areas, with different cultures, lifestyles and languages; lack of infrastructure and distribution networks; poor payment cycle; corruption; crime, and a general lack of a mature business environment .

As no two companies or countries are identical, there is no silver bullet for how these challenges should be addressed. The following are some of the factors that multinational enterprises must be aware of and understand in order to compete in the emerging markets.

Figure 1.2-1: Factors to understand when doing business in Africa



The home base market allows the multinational enterprises to develop competitive firm-specific advantages that are non-location based and tailored to the home country competitive advantage, so as to cater for the host country markets. The South African multinationals have to make the choice of either following the developed countries' multinational strategy or following their unique growth strategies, which are specific to the emerging market.

The emerging market multinationals have developed different business strategies and responses to the challenge of dealing with the institutional voids, as well as finding the right mix between importing from the home country and the need for local responsiveness.

Klein and Wocke (2007) argued that multinational companies from South Africa have become the world contenders in the developed markets, with firm specific advantages FSAs that are non location-based and that are more similar to the developed countries than that of the emerging markets. South African multinationals arise from a country that does not have the country-specific advantages regarded as being directly linked to the FSAs or necessary for the firm-specific advantages. Yet, these multinationals compete in the global village.

This research will seek to explore these issues through the investigation into the global business strategic formulation that South African retail giants have undertaken, with respect to their African operations. In addition, the research will also explore how resources and capabilities are developed and managed in the retails giants' foreign operations. Furthermore, the investigation will assist in gaining a deeper understanding of what the non-transferable and transferable firm-specific advantage of each country is, and how it is connected to complementary assets, external linkages and learning capabilities in the subsidiaries, in order to take advantage of location uniqueness. Finally, the research also aims to provide key insight and operational understanding of the formulation of business strategy in frontier and emerging markets economies.

1.3 Research Scope

The scope of the research will be limited to the motivation for internationalisation, and the formulation of global business strategy that the South African retail companies under investigation have undertaken when moving their operations into Africa.

Emerging markets multinationals are competing in the global market and aspire to become world leaders. South African retail giants seem to be engaging in internationalisation as an opportunity to achieve further growth and expansion, due to the high levels of local competition and saturated markets. These companies are mainly driven by opportunities in these untapped markets, such as large economic growth rate and the growing middle class markets. However, expansion into emerging markets has its own challenges, such as: the variability in consumers and infrastructure; dominant low income groups, resulting in poor profits; poor market penetration, and the lack of technical and managerial talent.

Different industries are more likely to experience and respond to global competition quite differently, as some aspects of globalisation might be generic across industries, while others might be more content-specific. Porter (1985) describes competitive strategy as a firm pursuit of a competitive position within its industry. One of the fundamental challenges that South Africa faces is building globally competitive companies.

Compounded by the fact that the global business strategies that are formulated and employed by the firms are heavily influenced by the peculiarities of the industry in which they operate and participate, this research will limit its scope to organisations participating within the retail industry in South Africa, which are moving or expanding their operation in Africa. This initiative will also limit any variability observed as a consequence of differences between industries, and will rather allow for a conclusion to be drawn based on differences observed as consequences of the firm's position within these industries.

In order to eliminate the influence of irrelevant variables as far as possible, the research will undertake to further narrow the scope by focusing on three particular retailers, namely: Massmart, Shoprite Checkers and Pick 'n Pay.

2 Chapter 2: Theory and Literature Review

2.1 Introduction

The literature review to follow covers four bodies of knowledge that have been identified as the central focus of the research. Over the past few years, the concept of global strategy has taken the world of multinational corporations by storm. Some research suggested that globalisation is a myth: instead, it is trial-based, with companies operating on a regional rather than a global level.

The following literature also includes four key bodies of knowledge that have been identified as key focus areas of the research. The research will seek to gain a deeper understanding of what motivates the South African multinational enterprises to move into Africa, as well as how their capabilities and resources are developed and managed in their foreign operations, and provide insight into the formulation of business strategies in frontier and emerging market economies.

The review of previous literature relevant to this research will begin with an overview of Foreign Direct Investment (FDI), and factors that influence both inflow and outflow of FDI in Africa. The review then leads into a discussion of global business strategy and the use of firm-specific advantages (FSAs) and country-specific advantages (CSAs). The third component of the literature review focuses on challenges faced by multinational enterprises when conducting business in Africa, and the strategies for doing business in the emerging markets. The final component of the research literature review performs an examination of the multinational strategies employed in other literature, and provides insight into the research, as well as an indication of what the research is likely to discover.

2.2 Foreign direct investment (FDI)

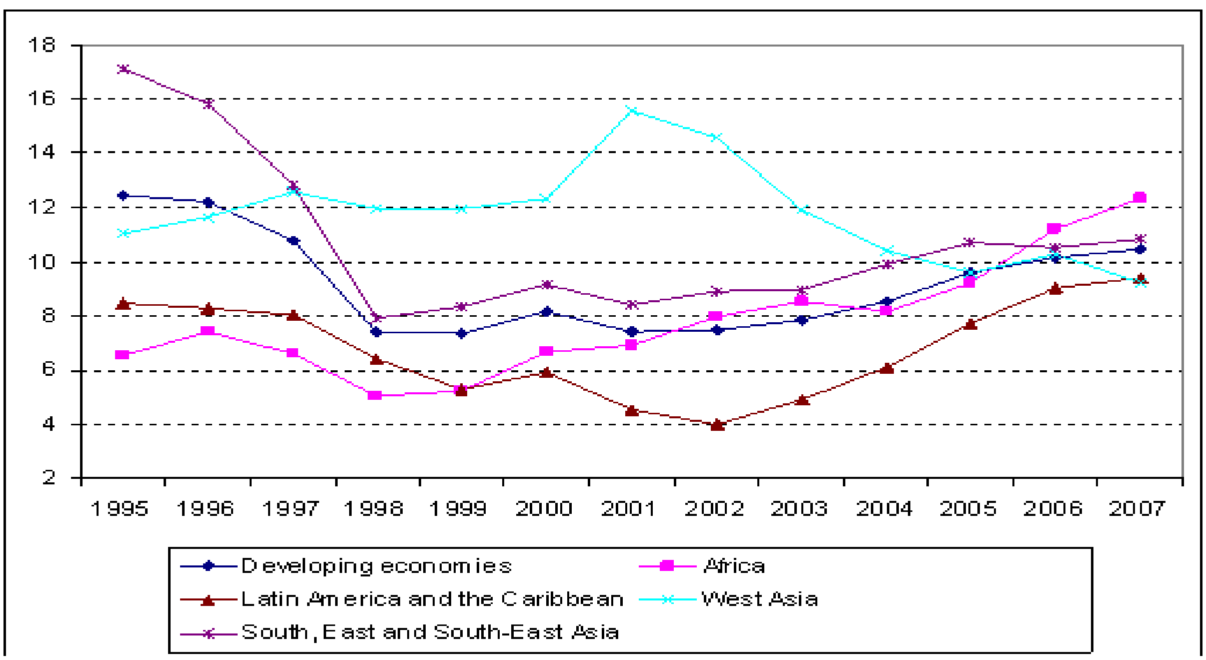
The past research has examined the link between Foreign Direct Investment (FDI) and economic growth. FDI in developing countries results in a number of benefits of FDIs to the recipient country. African nations increasingly recognise that private capital has a vital role to play in economic development; poverty alleviation; reduction of unemployment; maintaining peace, and economic stability. Therefore, Africa is calling for greater foreign direct investment. However, factors such as political and macroeconomic instability; low growth; weak infrastructure; poor governance; inhospitable regulatory environments; accelerated inflation; exchange rate fluctuations, and ill-conceived investment promotion strategies are identified as key drivers of the poor FDI record of the Africa continent.

Due to the increasing recognition that FDI plays an important role in economic development and growth, FDI is at the top of the agenda of most African countries, which are continuously engaging in competition to attract foreign investments. The continent has undergone some type of policy reform redesign – regarding tax holidays; easing of import and customs control; infrastructure development, and labour law reforms – to reduce the trade barrier between the continent and foreign investors, in order to attract investment.

2.2.1 FDI Inflow into Africa and rate of return for investors

UNCTAD's 2008 World Investment Report, reveals that Africa's Foreign Direct Investment continues to increase, but is still geographically concentrated, as only 10 host countries account for more than 80% of the continent's total FDI inflow. The Report also states that the surge in FDI to the region, and its profitability, is driven by an increase in global economic prices, as well as Africa changing its policy environment. As a result of the commodity price boom, income on inward FDI grew by 31% in 2007, and the rate of return on investment in Africa was the highest among developing regions in 2006 and 2007.

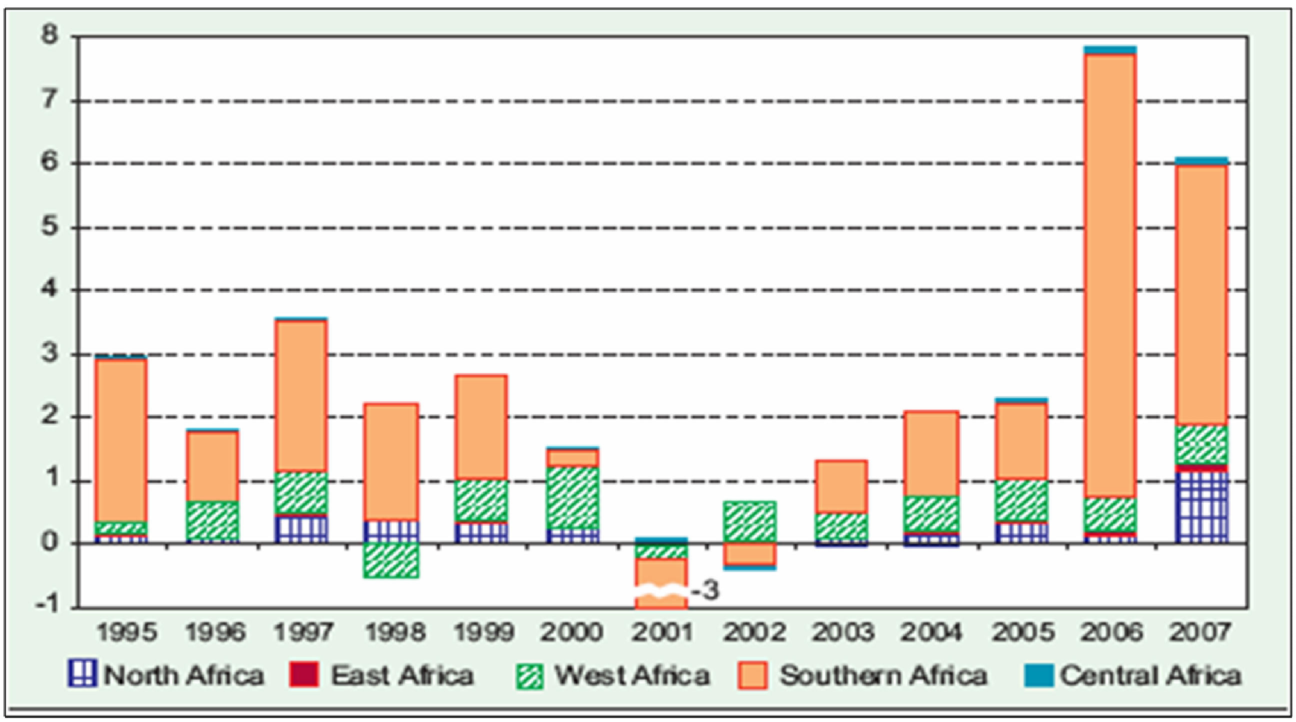
Figure 2.2-1: The Rate of return on inward FDI by developing regions (1995 – 2007)



* ***Source:*** *UNCTAD, World Investment Report 2008: Trans-national Corporations and the Infrastructure Challenge.*

Despite higher inflows, Africa's share of global FDI remained at about 3%. Transnational corporations (TNCs) from the United States and Europe were the main investors in the African continent, followed by African investors, particularly from South Africa. The Report shows that all TNCs have maintained, or even increased, their current levels of investment in Africa (UNCTAD, World Investment Report, 2008). FDI outflows from Africa in 2007 remained large compared to previous years, at $6 billion, although they were short of their peak of $8 billion in 2006.

Figure 2.2-2: Africa FDI outflow 1995 - 2007



Source: UNCTAD, World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge**.**

This was mainly due to expansion of operations by TNCs, mainly from South Africa, but also from some new home countries that benefited from revenues from high commodity prices, according to the UNCTAD World Investment Report (2008).

The African region inflow of FDI grew by 16% in 2007 to $57 billion, despite the global financial crises. The UNCTAD (2008) Report suggests that the growth of FDI inflow in the African region is due to: booming global commodity markets; increasing returns on investment, and FDI-friendly environments in the region. The FDI growth is spread over the region, and natural resource producers have attracted the FDI over the past few years,

The sub-Saharan African region is attracting more FDI compared to the North part of the region. The ratio of the FDI inflow to the region has changed slightly, according to the UNCTAD (2008) Report – 42% of the FDI to the region in 2007 was attracted by only 6 countries of North Africa, compared to 51% in 2006. The 47 sub-Saharan African countries attracted 58% of the inflows, up from 49% in 2006.

The FDI outflow from Africa remained very high, at $6 billion. The African multinational companies are demanding their share in the global market. South Africa is leading in Africa's outflow of FDI investment, within the region and globally.

2.2.2 Conclusion

This overview provides a solid foundation to investigate what motivates South African multinationals to move into Africa. The research will explore the extent to which the South African retail giants are also influenced by the good return on investment, natural resources and limited organic growth in the domestic market.

2.3 Global Business Strategy

The theory of multinational enterprises analyses the growth and foreign expansion phase of multinational enterprises (MNEs).The theory proposes that an MNE moves globally to further expand on its firm-specific advantage (FSA). The FSAs are proprietary to the firm, and they can be technology-based, knowledge-based or they can reflect managerial and/or marketing skills (Rugman and Verbeke, 2003).

2.3.1 Competitive Assets

The challenge that multinationals face is to remain competitive and increase their market share, both at home and in the foreign countries wherein they do business. Dawar and Frost (1999) suggest the contemplation of two key questions in the consideration of the competitive environment in which a firm operates when faced with global competition. The two questions are as follows: (i) how strong are the pressures to globalise in the industry? and (ii) how internationally transferable are the companies' competitive assets? The two questions will lead to a greater understanding of the requirement for competitive advantage, as well as the strength required for their operations, both at home and in their foreign operations. The multinational enterprises are coerced into either meeting the particular demands of local customers or conforming to a global set of rules governing worldwide competition (Winslow, 2007).

Competitive assets that provide an advantage within local perimeters might lend themselves to a defensive strategy, whereas assets that could hold an appeal beyond local borders might serve as a platform from which expansion into the global market may be launched (Dawar and Frost,1999).

2.3.2 Four Competitive factors

The four factors that relate to the competitive environment dictate the actions of the multinational enterprises. The four factors are as follows: cost conditions; demand conditions; history, and legal climate (Gruca and Sudharsan, 1995).

a. Cost conditions relate to the companies fixed costs, economies of scale, experience curve effects and economies of scope. Gruba and Sudharsan (1995) postulate that an incumbent should be more proactive when encountering a competitor that can benefit from perceived scope economies.
b. Demand conditions include: the size of the markets; the maturity of the market; the growth rate; demand elasticity; switching cost; stages in the products life cycles; drives of brand choice; level of penetration, and degree of segmentation (Gruba and Sudharsan,1995).

c. The historical dimension involves factors that could be reflected in the relationships that a firm has established along its value chain;.
d. The legal environment can play a role in either promoting or inhibiting competition.

2.3.3 Building blocks on FSA and CSA

Specific factors that determine the competitiveness of the firm are called firm-specific advantages or FSAs (Rugman and Li, 2007). An FSA is defined as a unique capability proprietary to the organisation. These unique capabilities may be built upon people skills; management style; leadership; product or process technology; marketing, or selling and distributional skills. The country unique factors that are specific to the business in each country can lead to country-specific advantages (CSAs). The CSAs can be based on natural resource endowments like gold, weather, minerals, energy and forests (among others), in addition to the labour force and associated cultural factors (Rugman and Li, 2007).

Michael Porter's "Diamond model" states that the national advantages in global competition influence the CSAs. The following are the determinants of national competitive advantage:

a. **Factor conditions** – the nation's position in factors of production, such as skilled labour, infrastructure, and natural conditions necessary to compete in a given industry.

b. **Demand conditions** – the nature of home-market demand for the industry's product or service.

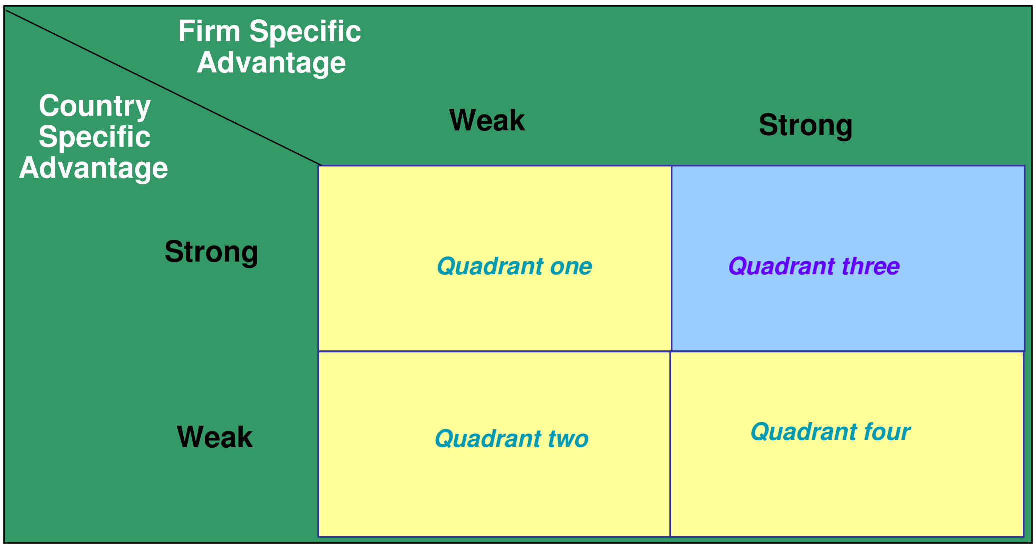
c. **Related and Supporting Industries** – the presence or absence in the nation of suppliers, industries and other related industries that are internationally competitive.

d. **Firm strategy, Structure and Rivalry** – the conditions in the nation governing how companies are created, organised and managed, as well as the nature of domestic rivalry.

Developing from the above CSAs, the firm makes strategic choices about the efficient global configuration and coordination between segments of its value chain, which include operations, marketing, R&D and logistics. The skill and capabilities in making such choices represents a strong, managerial, firm-specific advantage (FSA). MNEs' strategic choices regarding where and how to play are built upon the interactions of CSAs and FSAs. Firms make certain strategic moves in order to ensure that they can be positioned in a unique, strategic space. The CSAs represent the natural factor endowments of a nation; they are based on the key variables in its aggregate production function.

The CSA/FSA matrix below is a useful framework to identify the relative strengths and weaknesses that the CSAs and FSAs possess.

Figure 2.3-1: The CSA / FSA Matrix



Source: Based on chapter 8 Rugman (1981, 2006) in Rugman and Li, 2007

Rugman and Li (2007) classify companies in Quadrant One as cost leaders and resource-based or mature, global-oriented firms producing commodity-type products. Firm-specific advantage intangible skills are less crucial than the location of natural resources, which is the firms' competitive advantage. Quadrant Two should be avoided, as it represents inefficient, struggling firms with no strategic direction and no intention of becoming a global player. Sometimes, firms in this quadrant are preparing for restructuring or they exit the market.

Quadrant Four firms are firms with strong FSAs (such as brands), and are differentiated in marketing, innovation, R&D and customisation – basically, the opposite of Quadrant One firms. In Quadrant Four, the country-specific advantages are not long-term, strategic or crucial in the world market. Quadrant Three firms can choose to follow any of the strategies listed above, as they are strong overall.

2.3.4 Location and non-location based FSA

The international configuration of an MNE – in terms of its deployment of value-added activities across borders – fundamentally depends upon its stock of firm-specific advantages and its use of country-specific advantages (Rugman and Verbeke (1992) and Rugman (1996) in Rugman and Verbeke, 2003).

Firm-specific advantages do not merely include proprietary know-how related advantages such as people skills; management style; leadership; product or process technology; marketing; or selling and distributional skills. They also include transactional advantages: in other words, the capability to develop optimal internal coordination and control mechanisms, taking into account their costs and benefits (Dunning and Rugman (1985) and Hennart (1991) in Rugman and Verbeke, 2003).

FSAs should be seen as knowledge bundles that can take the form of intangible assets like brand names; intellectual property; learning and unlearning capabilities and even privileged relationships with outside actors (Rugman and Verbeke, 2003).

The FSAs can be either location or non location-bound, or both, depending on their nature.

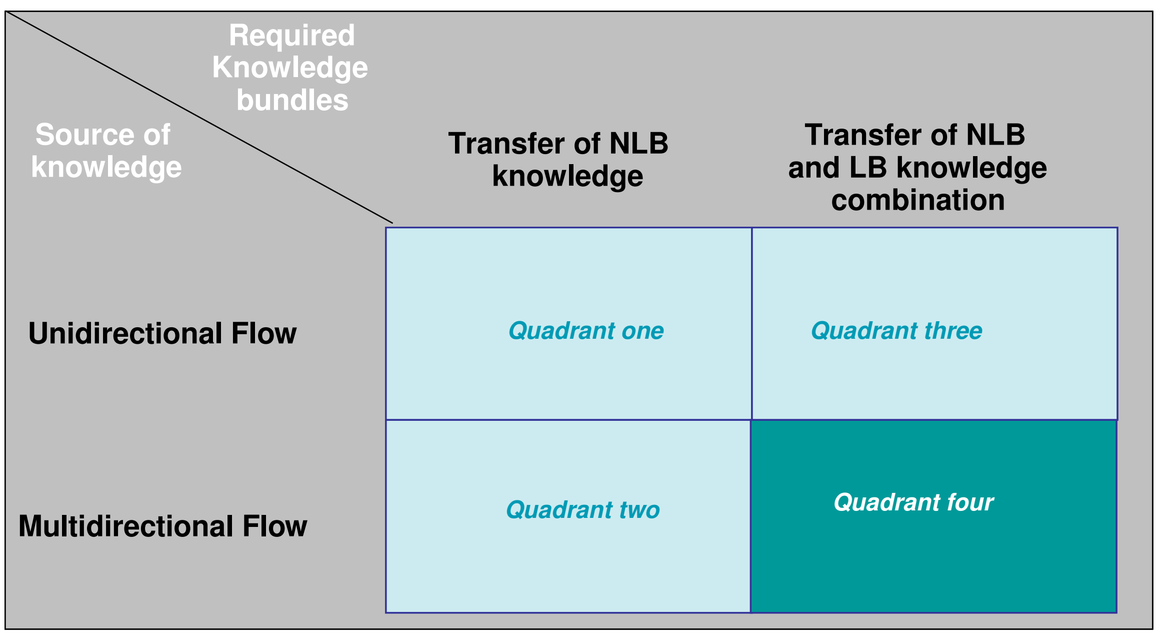
The challenge for the multinational firms is to transfer these valuable and intangible assets, learning capabilities and relationships in a very-cost effective, profitable and easy way across to foreign operations ,Location-bound FSAs limit the firm to countries that are similar to its home country, where FSAs can easily be replicated (Klein and Wocke, 2007). Non location-bound FSAs allow the firm greater opportunity to invest in many locations (Rugman and Verbeke (1991) in Klein and Wocke, 2007).

The success of the MNEs is dependent on their ability to complement the international transfer of non location-bound FSAs with the location-bound FSAs – for instance, its intangible assets, relationships, learning and unlearning capabilities – so as to allow the host country or subsidiary to reap the benefits of national responsiveness that are unique to that subsidiary (Rugman and Verbeke, 2003.). The incremental cost of transferring the internal knowledge could be insignificant. However, the benefit of transferring the non location-bound knowledge to the foreign operation or subsidiary could be very limited or close to non-existent if it is not connected with complementary assets, external linkages and learning capabilities in the subsidiaries.

Different subsidiaries may also have different roles in the MNE, depending upon their capabilities to develop non location-bound knowledge themselves, as well as the potential of their location (CSAs) to contribute to the MNE's international competitiveness (Rugman and Verbeke, 2003).

Rugman and Verbeke's (2003) Scope for economies in MNEs (Figure 2) classifies the various perspectives of the above discussion, as a function of a two-by-two matrix.

Figure 2.3-2: Scope for Economies in MNEs



Source :(Rugman and Verbeke, 2003)

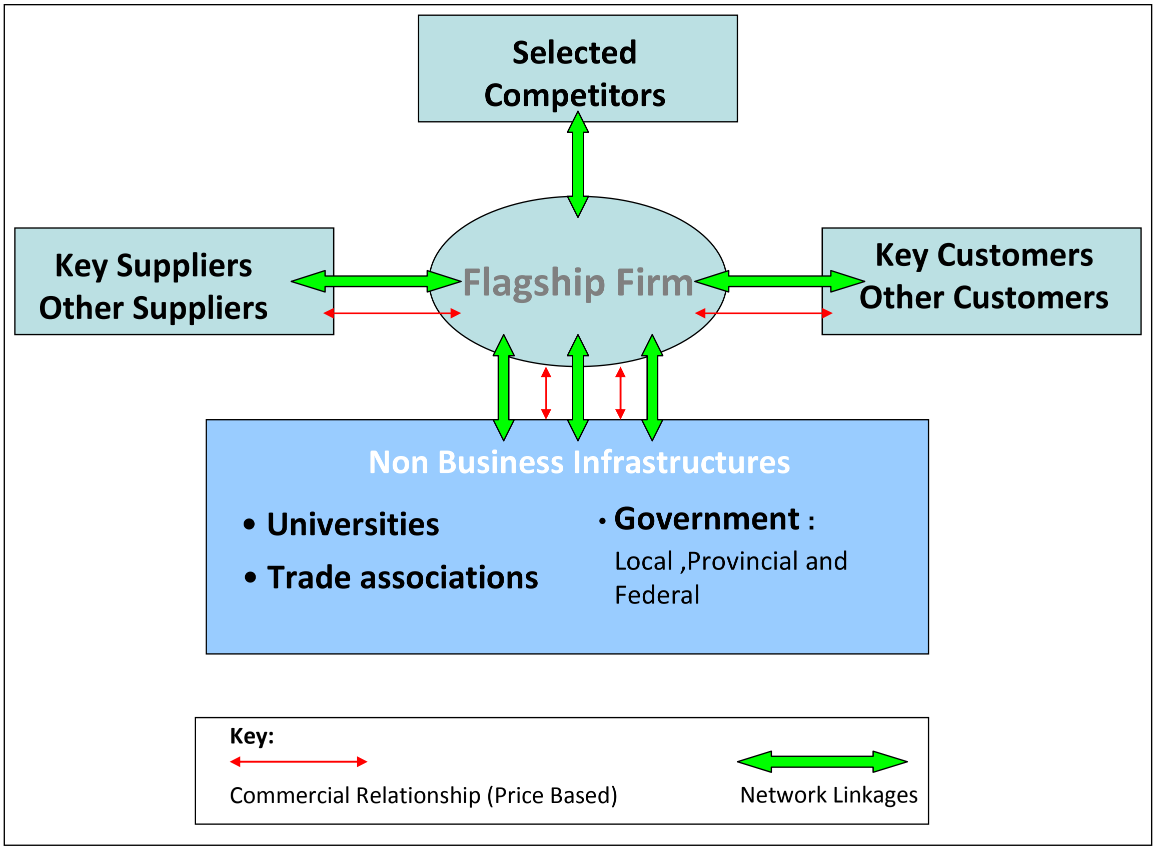
MNEs in Quadrant One focus on the international transfer of FSAs from the home country to subsidiaries, while Quadrant Three MNEs recognise the need to complement this transfer with some location-bound knowledge, at both the upstream and downstream side of the value chain. Bartlett's (1986) perspective on national responsiveness (cited in Rugman and Verbeke. 2003) is also entirely consistent with Quadrant Three thinking. Quadrant Two relates to the strategic asset-seeking FDI and the creation of new R&D capabilities abroad. Here, foreign subsidiaries perform primarily an FSA-augmenting rather than an FSA-exploiting role. In Quadrant Four, the complexity of modern MNEs as differentiated networks is recognised.

2.3.5 Flagship Strategy

Rugman and Girod (2005) proposed that multinational enterprises are facing internal and environmental constraints to their internationalisation (limits to the transfer of their competencies across borders). It is better to build networks with local and foreign partners than to adopt a do-it-yourself FDI strategy. A flagship strategy enables firms to leverage multidirectional network effects, depending on the degree of the transferability of firm resources and capabilities, and the use of country-specific advantages.

The flagship multinational enterprises provide the strategic direction and coordination performance, through multi-directional information flow, and lead the network through successful international expansion. Partners interact freely and openly with each other: long-term, knowledge-sharing agreements (memorandums of understanding) and relationships are established with an objective of achieving common goals on agreed tasks.

Figure 2.3-3: Flagship Five Partners Strategy



Source: Rugman and D'Cruz, 2000 cited in Rugman and Girod (2005)

The value of the flagship strategy is to overcome the firm-specific and exogenous barriers to internationalisation (Rugman and Girod, 2005), by entering into cooperative relationships with others in the network in order to reduce risks and uncertainty, and to increase learning.

2.3.6 Conclusion

The incumbent organisation's perceptions of the competitive environment in Africa; its firm-specific advantages and county-specific advantages; and its perception of its own capabilities, resources and of its own competitive assets all play a role in determining the direction that a strategic choice will undertake for MNEs' African operations. A flagship strategy is used to overcome the challenges of not being able to transfer the non location-based, firm-specific advantages to a host country.

2.4 Strategies for emerging markets

Multinational companies have increasingly decided to enter emerging markets in the developing world as a new source of significant growth opportunity. Previous research indicates that companies try to impose their existing business model on emerging markets and developing countries. The research on strategy for emerging markets reveals that companies do better if they adapt their operations to the norms and unique conditions of the local emerging market.

2.4.1 Business model for the emerging middle class

The increasing numbers of middle class in the emerging markets wish to improve their living standard, and to enhance the quality of their lives. These consumers are, thus, in need of consumer goods, and are willing and able to spend money.

What constitutes the middle class in Africa and other emerging markets cannot be the same as that in Europe and the United States. There is an argument that emerging markets have rapidly become more affluent, like their European and American counterparts, but the rate of change in the emerging markets is not as rapid. True consumers are more affluent than they were 20 to 30 years ago, but they are not affluent by Europe and American standards.

In most emerging markets, the mass market will remain poor well beyond the current planning horizon of most multinationals. A better strategy for any serious emerging market player is to understand and cater for local consumers' current needs, and evolve with the consumers as they grow more affluent (Dawar and Chattopadhyay, 2000).

Minor cultural adoptions or value optimisation by reducing the size and shape of the product, will not do a good job. Instead, in order to overcome the implicit imperialism, companies must undergo a fundamental rethinking of every element of their business model (Prahalad and Lieberthal, 2003). There is a trade-off between profit margins by charging premium prices to the top-end and gaining market share in the emerging mass markets by producing cost-efficient products, taking advantage of the economies of scale and earning profit through volumes.

2.4.2 Characteristics of the distribution networks

Infrastructure is one of the challenges facing Africa and emerging markets. In most developing countries at present, there are no real distribution networks and many international companies do not have the expertise to cope with this challenge. The establishment and management of relationships with local distributors is the most critical challenge for executives.

Prahalad and Lieberthal (2003) state that many multinational corporations (MNCs) have gained access to distribution networks by partnering and creating joint ventures with locals, which allow multinationals to have market and distribution access. The long-term sustainable growth and profitability of the multinational corporation is not only dependent on high volumes and low pricing, but also on understanding and building strong distribution networks which will give an organisation a competitive advantage.

2.4.3 Leadership

Leadership is crucial in strategy formulation and implementation, both at home and at the organisation's ventures in emerging markets. Executives and Organisational Members are both positioned to assume a wide range of roles and influential positions in an organisation's strategy-formulation process (Shrivastava and Nichman (1989) as quoted by Wilson, 2007).

The right balance between local leadership and an expatriate is crucial, as an expatriate often lacks the cultural understanding of the locals. However, expatriate leaders also provide credibility and confidence at the head-office when they convey the company's performance or business strategy. Meanwhile, locals understand the culture, language and political system of the local markets. Finding the right skill and expertise from the locals is, however, a challenge for the multinationals.

Prahalad and Lieberthal (2003) conclude by emphasising that multinationals need to think about how to attract and retain high-quality, experienced talent; how to maintain expatriate links to the parent company, and how to use and pass along expatriate competencies once they move on to other assignments.

2.4.4 The corporate strategy

Corporate strategy is the pattern of decisions in a firm that determines and reveals its objectives and goals. It also produces the main policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, as well as the kind of economic and human organisation it is or intends to be, in addition to the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities (Andrews, 1987).

Andrews (1987) argues that there are four main components of strategy formulation, as presented below:

a. Identification of market opportunity and threat in the environment, and measuring the risk of alternatives;
b. Determination of the firm’s material, technical, financial and human resources, and corporate competence. Before choices can be made, the firm’s strengths and weaknesses should be appraised, together with the resources available. It’s actual or potential capacity to take advantage of the perceived market needs, or to cope with risks, should be estimated as objectively as possible. An economic strategy is the strategic alternative that results from matching an

opportunity to corporate capability at an acceptable level of risk. Of all the four elements of strategic choice, the combination of resources and competence is the most crucial to success;

c. Personal values and aspirations: the determination of strategy also requires the consideration of what alternatives are preferred by the CEO or his immediate associates. Personal values, aspirations and ideals do affect the final choice of goals. Thus, what the people want to do must be considered in the strategic decision;

d. Acknowledgement of non-economic responsibility to society: strategic choice has an ethical aspect when the public good or service to society is considered. This fourth element of strategic decision encompasses what a firm should do. All four elements need to be considered together as a pattern.

2.4.5 Multi-tier strategies

One of the challenges facing the multinational companies is whether to adopt a unique strategy for all the business operations, both locally and internationally. Multi-tier strategies join global and local brands and may solve the dilemma of either not attaining a substantial market share or not capitalising on the global brand value. The crucial advantage of the multi-tier strategy in the emerging market is the ability to introduce and promote the global brand, if and when the market is ready (Klaus E and Meyer, 2006).

Multinationals have realised the need to consider both local and global strategies for their products and services. They rely heavily on proven global capabilities, as well as their competitive assets and leveraging on economies of scale and scope, to succeed in a newly competitive environment. However, this approach may lead to low market penetration, and the vast majority of the population may be excluded from this business model.

Kanna, Palepu and Sinha (2005) state that multinationals are often reluctant to tailor their product and processes to each country in which they operate, as it is too costly and cumbersome to modify their products and services to suit the idiosyncratic local taste, just to exploit what they perceive as a small and risky business opportunity in the emerging markets. Also, domestic companies do not have such constraints and they can, therefore, compete with multinationals on those bases.

2.4.6 Strategy between the firm and Government

Governments of different countries impose different economic policies that affect trade, foreign direct investment and economic development – that is the differentiating factor between the international business theory and the domestic business theory. Grosse and Behrman (1992) argue that the theory of international business must be the theory of obstruction to markets

The multinational enterprises' strategy that responds to the barriers imposed by the government intervention in the market is key to the success of doing business globally. While the local business theory is about minimising the cost of delivering customer value to the market, the international theory must show how government restrictions affect the dictations made about the location and operation of the international business. The government is satisfied that there will be gains to be generated because of the multinational enterprises entering the country; hence, the government will relax trade barriers, and no theory of international business is necessary. Instead of a competing strategy amongst the firms, MNEs should focus on strategy between the company and government (Grosse and Behrman, 1992).

2.4.7 Conclusion

While doing business in Africa can be a source of profit, it can also generate huge losses and frustrated outcomes, as international expansion is one of the most difficult experiences for retailers. Moreover, success in the home country does not guarantee success internationally. Multinational corporations need to tailor their operations to the unique conditions of emerging markets.

3 Chapter 3: Research Questions

This research will undertake to gain a deeper understanding of what motivates the South African multinational enterprises to move into Africa, as well as how the capabilities and resources are developed and managed in their foreign operations, and provide insight into the formulation of a business strategy in frontier and emerging markets economies.

In order for the research to be undertaken as an exploration with a meaningful direction, an extensive review of literature relevant to the topic was conducted. Yin (2003) uses the analogy of Christopher Columbus who explains that, as he was approaching the Queen for resources to fund his journey, he had at least a handful of well-thought-out prior to setting off on his exploration of America. As Mr Columbus did, so has this journey embarked with the review of current literature relevant to the study.

The analysis of the literature revealed several themes that were identified as potentially influencing the global business strategy that the firms choose to undertake. The research will focus on the three themes that were identified, and will specifically seek to explore answers to the following research questions, within the context of each organisation studied:

3.1 Research question 1

What factors motivate the South African multinational enterprises to move into Africa and what motivates their particular choices of countries?

3.2 Research question 2

How are the capabilities and resources of the multinational enterprises developed and managed in their foreign operations, so as to remain competitive in both local and foreign markets?

4 Chapter 4: Research Methods

4.1 Methodology

The research design process outlined the methodology for the research and directed the process to be employed, as well as the data relevant to the exploration, the data collection method, and the process of analysis (Yin, 2003).

An early stage of the research process was to identify an industry – and a selection of multinational companies within that industry – that would be earmarked as the subject of the investigation. A scan of the South African emerging multinational corporations over a number of years (pre and post the sanctions that were imposed on South Africa during apartheid) was undertaken in search for the industries that are moving into Africa.

Although a number of examples – such as MTN, South African Breweries, Standard Bank and Multi-choice, to mention a few – presented themselves as viable alternatives, the most notable were: Shoprite Checkers, who reported a 24.5% increase in turnover in 2009, while contribution from the Group's supermarket operations outside South Africa showed a positive growth of 39.9%; Massmart, who also reported a 10.7% turnover growth in 2009, and the contribution from Mass discounters outside South Africa showed a positive growth of 37%; and Pick 'n Pay, which currently has a master–franchise situation in Namibia and Botswana, and a 25% interest in TM supermarkets in Zimbabwe.

This research was undertaken to gain a deeper understanding of how emerging market multinational enterprises choose the countries in which to do business, and how the resources and capabilities are developed and managed in their foreign operations. The investigation was set out with the intention of ascertaining the process by which the strategic choices were formulated and the factors that impacted on the decisions that were made. The investigation was also set out with the intention of determining the non-transferable and transferable firm-specific advantages of each country, and how they are connected to complementary assets, external linkages and learning capabilities in the subsidiaries, so as to take advantage of location uniqueness.

Since these factors account for a number of variables – including the manner in which they are related to the subjective perceptions and network of individuals residing within organisations – an in-depth study was favourable, in an attempt to gain insight into the issues on the subject. In pursuit of an insightful interpretation of the contributing issues, a deep understanding of a small sample of subjects was chosen, instead of a shallow interpretation of a wide range of participants, as is advocated in a quantitative, survey-based research process (Leedy and Ormrod, 2001).

The case study research was used to bring both depth and insight into exploring the aforementioned research questions. This methodology allows for obtaining rich insights into processes (Yin, 2003). Three cases of South African companies that expanded into Africa were studied, namely: Massmart, Shoprite Checkers and Pick 'n Pay.

The investigation was set out with the intention of determining how the host country was selected, as well as what the non-transferable and transferable firm-specific advantages of each country are, and how they are connected to complementary assets, external linkages and learning capabilities in the subsidiaries, so as to take advantage of location uniqueness.

Following the recommendation of Yin (2003), Eisenhardt (1989, p. 534) describes a case study as a "research strategy which focuses on understanding the dynamics within single settings". Data for this investigation will be collected from various sources, including: secondary data (company documents and press articles); interviews; company documents; corporate annual reports, and press articles which will be collected to support the findings.

Semi-structured, face-to-face, in-depth interviews were conducted with executives from the companies under study. The highly-focused nature of the methodology allows for careful analysis of the order of events. Zikmund (2003) provided insight into the dynamics of the strategy formulation process, as well as the nuances inherent in each organisation, and the relationship that exists between the functions and individuals.

The rationale and direction of the research was guided largely by the research questions, which were informed by the extensive literature review described earlier.

4.2 Population and Sampling

Once a case study has been chosen and approved as an appropriate vehicle for the research, it enables the researcher to gain an in-depth understanding of the South African multinational enterprises' strategies, capabilities, deployment and management of business in their African operations. The second phase was to determine which organisations would be appropriately representative for the investigation,

Multiple case study designs were chosen, where the researcher would investigate the organisation with the intention to answer specific research questions, and seek a range of evidence that exists in the case setting, which has to be abstracted and collated in order to obtain the best possible answers to the research questions (Yin, 2003). A case study is an empirical investigation that "investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident and in which the multiple sources of evidence are used" (Yin, 2003).

Multiple case study designs were also chosen because evidence and conclusions drawn from these multiple cases are viewed to be more compelling and robust than those drawn from a single case (Yin, 2003). Analytical conclusions that arise from more than one case are seen to be more convincing than those emerging from a single case. Another reason is the fact that the positions of the firms within the industry are likely to be different from one another. The variability of observations, as a result of industry differences, was accounted for by keeping the industry wherein the multinational enterprises operate constant.

Yin (2003) describes the selection of cases to be chosen as a laboratory investigator might select the topic of a new experiment, rather than viewing them as "sampling units". In doing so, the logic sought is one of replication, where the approach to each and every case is undertaken within the same process so that the findings might be considered reliable. The case study methodology differs from survey research in that the surveys rely on statistical generalisation, whereas the case study relies on analytical generalisation (Yin, 2003). Analytical generalisation attempts to generalise a particular set of findings to a broader construct of theory.

The following three cases were explored: Massmart, Shoprite Checkers and Pick 'n Pay. These three giant retail groups were identified as exemplars, each operating on a relatively similar basis, with their focus on South Africa and other countries within the region. Based on the level of certainty to be achieved from studying the giant retail companies in South Africa – and the fact that sampling logic does not apply – it is regarded that three case studies are sufficient to provide insight into the research questions.

4.3 Unit of Analysis

Yin (2003) describes the appropriate identification of the unit of analysis as being key to the research process, as it dictates the research design and data collection method to be employed.

Since the strategy formulation was a key component of the research, it was necessary to gain insight from a broad selection of participants who were involved in the process of defining the strategy employed by the multinational enterprises. The organisation also comprised of multiple organisation levels, such as functional levels, business unit levels and corporate levels, among others. These organisational clusters comprised of multiple participants who influence the overall business strategy, including: members of the executive team; members of the business unit executives and African operations executives; and members responsible for African operation strategy formulation and implementation.

The cases will draw attention to two primary units of analysis. The first unit of analysis is defined as the strategy formulation process that the organisations have undertaken in identifying opportunities in Africa, and the strategic response to the challenges of doing business in these countries. The second unit of analysis is defined as the deployment of resources, capabilities and management of the African operations.

The retail giants were characterised by the motivation for internationalisation, which was responsible for the formulation of an African business strategy. Attention was also given to variables that were identified as having an influence on the primary units of analysis .This included the strategy formulation behaviours of the individuals within the organisations who were responsible for creating the strategy.

4.4 Discussion Guide Design

In-depth, face-to-face interviews constitute the primary method for data collection for the research. The most important tool utilised to guide this process was the Discussion Guide attached in Appendix 1.

The Discussion Guide was created to probe three distinct areas during the face-to-face interviews that were to be conducted with key individuals in each organisation. Since the research is exploratory in nature, all of the questions were open-ended, thus leaving opportunity for an extensive exploration of key issues.

The first component of the Discussion Guide positioned the interview, and probed for information that would be utilised in understanding the context of both the individual and the organisation being interviewed.

The second component of the Discussion Guide explored the following: the individual and organisational perspective of the emerging market (Dunning, 2003b, Khana and Palepu, 2006); the competitive environment of the emerging market (Dawar and Frost, 1999), and the mode of entry.

The third section sought to gain an understanding of the strategy formulation, the capabilities and resources of deployment and transfer of non location-based FSAs. Rugman and Verbeke (2003), Dunning and Rugman (1985), and Dawar and Frost (1999) all proposed a different range of potential strategies, depending on the organisation's FSAs.

The fourth and final element of the Discussion Guide explored the valuation of business performance and sustainability of the business model employed by the multinational enterprises, over a number of years.

The Discussion Guide will also be discussed in detail with the research supervisor, prior to application, in order to ensure that it sufficiently covers the landscape of the process that it is intended to explore.

4.5 Data Collection Approach

Data collection was undertaken over a period of two months, during which time senior representatives from selected South African emerging multinational enterprises were contacted. These contacts, mainly, constituted in-depth, face-to-face interviews, which were typically conducted at the interviewee's place of work, and each lasted for an hour in duration.

The process was initiated with the identification of key individuals within each organisation, who might be able to provide an in-depth point of view, based on their experience in the organisation. Key candidates from senior management, who would be able to share experiences from a decision-maker's point of view, were also identified. Each additional individual interviewee expressed his/her experience from other perceptions, which either supplemented previous data gathering or validated a perception expressed by other selected individuals.

A large number of the individuals interviewed were contacted as a result of a referral by another party in the organisation. In this manner, a broad representation of the overall organisation – with key insights and in-depth points of view – was obtained, and interviews were conducted across the African operation divisions within the organisation.

The discussion document was utilised as a guide to ensure that the central themes were covered during each interview conducted. Handwritten notes and electronic tape recordings were made as a record of the experiences shared by the participants. Within 24 hours of each interview, the researcher dictated a full-length, detailed transcript of the interviews, from memory, tape recordings and handwritten notes. These dictations were transcribed into a document as a detailed record of each interview conducted.

A second source of data, which was collected throughout the process, included company documentation that interviewees were willing to share, such as company annual reports, press releases and industry reports. This data was collected in an attempt to maintain a high level of construct validity. Information collected from individuals was also tested in subsequent interviews, as the process progressed to establish a solid chain of evidence. Where possible, multiple sources of evidence were collected to corroborate the opinions expressed by the interviewees.

4.6 Analysis

Since the challenge in qualitative analysis lies in trying to make sense of voluminous amounts of data, the researcher plays a critical part in the process of reducing volume, identifying patterns in the data, and constructing a framework that can be sensibly communicated to others (Patton, 2002). Importantly, there are no rules, but rather the process is guided by the judgment and creativity of the researcher.

Eisenhardt (1989b) describes the most fundamental building block of a case study analysis to be within-case analysis. The process of within-case analysis will begin by creating a detailed write-up for each organisation researched. This component of the research process was undertaken with the intention of making sense of the vast volumes of data collected during the collection phase. This was also the first component of the researcher's journey of taking hundreds of pages of field notes and interview transcripts, writing them down and reaching a selection of calculated and robust conclusions.

The write-up will be created with the intention of offering a descriptive series of events, incorporating the views of the actors involved in the process at the time (Eisenhardt, 1989b). The detailed write-up will initiate the generation of insight, and facilitate the reduction of the enormous volumes of data into a coherent framework and narrative of the events in each organisation.

The analysis will, ultimately, be undertaken with the intention of identifying the set of parameters which will be seen to impact each individual case. These parameters will then be analysed across the cases, in order to investigate the difference of their impact in each organisation. This process commenced with the identification of core patterns emerging within each case (Yin, 2003). These patterns were grouped through an explanation-building analysis that combined the knowledge gained from the literature reviewed and the observed emerging patterns into broad areas of the research.

The final component of the analysis allowed the researcher to identify the core elements evident in each of the cases investigated and compare these, in light of the review of the previous literature.

4.7 Potential Research Limitations

Some limitations of the research have been identified and are outlined below:

- The qualitative and exploratory nature of the research determines that the findings are representative of the parties and divisions interviewed, and are not representative of the organisation as a whole, nor do they hold a broad application outside the retail industry or the organisations studied.
- The research focuses on one country which may not be representative of all African and emerging market operations. As such, the findings may not be applicable to other African countries and emerging markets.
- A small scale of representatives will be interviewed from the organisations. Considering the size of each organisation, the views will represent only a fragment of all the retail giants in South Africa, and will not necessarily be representative of everyone within the industry.
- Shoprite Checkers' management could not comment on the research; however, secondary data was used for the case study.

5 Chapter 5: Results

5.1 Introduction

The results section includes a report of three cases describing their organisations' global business strategy, the motivation for moving into Africa and the deployment and management of resources. The first case provides the insight into the Massmart story; the second describes the initiatives taken by Pick 'n Pay; and the final one deals with the Shoprite Checkers' African operation.

5.2 Massmart

5.2.1 Business at a glance

The Massmart Group is the third largest distributor of consumer goods in Africa. It is the leading retailer of general merchandise, liquor and home improvement equipment and supplies, as well as the leading wholesaler of basic foods. The group was founded in 1990, was listed on the JSE Limited on 4 July 2000 at R12.50 per share, and is currently trading at R86.97 per share (as at 29 October 2009). The Group is, currently, a Top 40 listed company (by turnover). Massmart is a managed portfolio of nine wholesale and retail chains – each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash – operating in 14 countries in sub-Saharan Africa, through four divisions comprising of 256 stores.

The group has four business segments: Masscash, Massdiscounters, Masswarehouse and Massbuild. Masscash comprises 65 Cash Based Wholesalers (CBW) and 7 Jumbo wholesale, cash-and-carry outlets, trading in South Africa, Lesotho, Namibia and Botswana. Massdiscounters comprises 90 retail discount stores, trading as Game (82 stores) in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Nigeria and Mauritius; and as Dion (8 stores), which trades only in the Gauteng province of South Africa.

Masswarehouse comprises the 12 Makro warehouse club stores, which are situated in the major metropolitan areas of South Africa – in addition to two stores in Zimbabwe – trading in food, general merchandise and liquor. Massbuild comprises three chains of 65 stores, currently trading as Builders Warehouse (21 stores), Builders Express (15 stores) and Builders Trade Depot (28 stores). The Group reaches a diverse consumer base that extends from Living Standard Measure (LSM) 1 to LSM 10. (Living Standard Measure refers to a wealth index that is used to segment households in the South African market, in terms of standard of living rather than income).

Massmart's African operations were started in 1993, with Botswana being the first country wherein Massmart operated, besides South Africa. Massdiscounters operates 12 Game stores in ten countries outside South Africa, and most are doing exceptionally well, with sales growth strongly outperforming that of the South African stores. This prompted the company to revise its earlier policy to limit its African footprint to one store per country (with the exception of Botswana and Namibia). In 2009, the organisation has been negotiating agreements to open second stores in Malawi, Zambia, Ghana and Nigeria, while additional stores in Angola, the Democratic Republic of Congo and several other countries, will follow. The Group sees South Africa's biggest grocer, Shoprite Holdings, as a competitor in Africa, along with various other, less formal local retailers.

5.2.2 Motivation and country choice

The company's long-standing motivation in doing business in Africa is to seek growth and to gain positioning in the continent before others do. Of the 12 stores outside of South Africa, 6 of them are in the Top Ten performing Mass Discounters, profit-wise. Massmart makes about 15% return on sales in other African operations (before apportioning Head Office costs), and only about 7.5% return on sales on the South African operations. The risk may be too high, but the higher the risk, the higher the return: for example, the Lagos store is the second-highest performing store in Mass Discounters.

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When choosing a country wherein to invest, each prospective country is looked at separately, according to its specific political issues, economic issues and growth prospects, as well as past trends. These are the basic, top-line measures that are initially looked at. Once a decision has been taken to invest in a particular country and city, a deeper due diligence review is performed, where a number of factors are taken into account, namely (to mention a few):

- How easy is it to move goods into the country
- How easy is it to move money out of the country
- The investment legislation of the particular country, i.e. does the country allow Massmart to own its business 100%?
- The retail environment of the particular country and city.

A number of parties are also engaged in the process: bankers, clearing agents, investment sectors, government officials and so on. However, Massmart prefers not to engage on a political level. The investment sectors or authorities of most countries are quasi-governmental, and therefore, there will be interactions between the company and the government in working through the required legislation. However, that is the extent of the government’s degree of involvement, as political facilitation is not part of Massmart’s strategy.

The key challenges in these countries are the lack of infrastructure, logistics problems and corruption, to mention a few. However, the focus is more on the return on investment and the opportunities provided by these markets. There is an expectation that there should be at least 50% net return on an investment within the first few years of operations; thereafter, growth should be in line with inflation, year on year. In most countries, the growth that is being experienced is more than the inflation rate: as these countries’ GDP grows, the business grows.

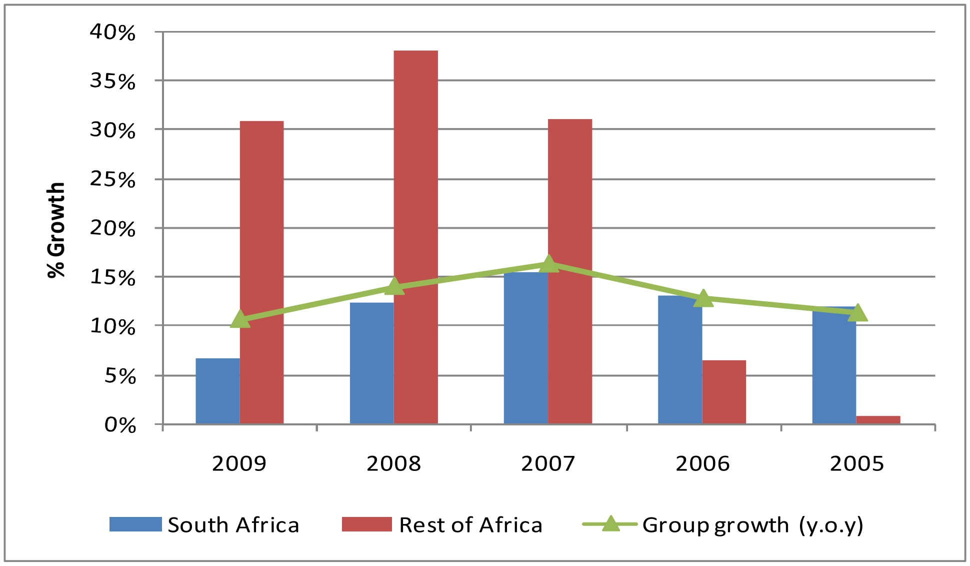
5.2.3 Strategy formulation

In the past, the initial expansion strategy was to have one store per country. However, over the years, this strategy was changed in favour of having multiple stores only in countries that have potential. Therefore, in order to be prudent and conservative, one store is initially opened and, depending on the growth opportunities in that particular country, more stores are opened if there is potential; for example, Botswana and Namibia both have two stores each. Massmart has seen continuous growth in the African operations over the past 10 years. The aim is to double this growth in the next 10 to 15 years.

The Chief Executive of Massmart, Mr Grant Pattison, stated that Massmart expects to generate between R100 million and R200 million in annual sales from its new venture in Malawi, and is on the lookout for new acquisitions. The company will use half its planned R760 million capital expenditure for 2010 on acquisitions and new stores, while the other half will be spent on maintaining current operations. "We typically acquire large independent retailers who service the lower income groups in food retail," says Pattison.

Ninety percent of Massmart's revenue is from the South African operations and about 10% is from the African operations. The group reported R43.1bn turnover in the financial year ending June 2009. Group growth for the year until June 2009 was 10.7%, with operations outside South Africa growing 31%, which is three times higher than the company average.

Figure 5.2-1: SA and Non SA Turnover (y-o-y) growth trend



Source: Massmart Annual Report

In terms of percentage investment between South Africa and other African countries, Massmart invests where there are growth opportunities. Currently, there are growth opportunities in South Africa, due to the availability of property deals and the suitability of the locations in this country. At the moment, Massmart aspires to expand its African operations. However, there are no property deals to conclude in these countries, and, therefore, Massmart is currently behind the curve in expanding its footprint in other African countries. For instance, between now and June 2010, Massmart is opening 10 new stores in South Africa, due to the aforementioned reasons.

Therefore, there is no fixed ratio as to how many stores will be opened in South Africa and how many in other African countries: it all depends on growth opportunities. Massmart prefers to rent the properties rather than buy them, especially here in South Africa. Only two properties are owned by Massmart in the other African countries.

Massmart's success in Africa began with its superior product range, competitive prices and better after-sales service than its competitors. Local conditions are researched carefully before a decision is made to open a store in Africa. An independent business plan – suited to the local market expectations and supply chain constraints is created for each site. The organisation buys locally and also imports some products directly from the countries of manufacture, while other products pass through warehouses in South Africa. There are very few differences in the African operations, as compared to the South African operations; for instance, the brands may differ according to popularity in a particular country, but other than that, the feel and the culture of the stores are the same across South Africa and Africa.

5.2.4 Firm-specific advantages

The competition in Africa is extremely limited, as there is very little form of retail in Africa. What exist are basic commodities and products, supplied by small traders in informal markets. There are no medium and large shopping centres, nor small ones. Therefore, there is very little competition for Massmart, other than the informal market and small traders. However, Massmart still regards whatever form of trade that exists in a country as competition, because before Massmart's entry into the country, the country still existed and goods were still supplied.

Massmart's competitive advantage is the offer of a formal, presentable and accessible shopping environment. It offers range and choice selection, as well as a peace of mind for the customer in terms of product and price guarantees, which they mostly don't have in Africa. Massmart's competitive advantage in South Africa is the range and choice selection, in addition to the product and price guarantee for the customer. The products in South Africa and in other African countries are largely the same, except for instances where there are country-specific product restrictions which must be adhered to. Certain brands are more popular in some countries than others, which are taken into account when stocking products.

Locals are not engaged with as joint ventures: rather, they are engaged with as service providers, e.g. lease providers, bankers, security companies, local suppliers etc. Relationships are built with all these parties, but there are neither joint venture relations nor offering of shares. Massmart retains their 100% ownership. The bulk of the goods are sourced out of South Africa via the harbour, with some direct purchases from Dubai, Turkey and the Far East, as well as local purchases, where possible, according to the country's own manufacturing capabilities.

From the business sustainability perspective, small traders do tend to get threatened by a large business such as Massmart. Sometimes there is some negative backlash experienced; however, no direct confrontation from local retailers has been experienced thus far. A study is planned to be conducted in the near future, in order to determine the extent of Massmart's impact on small retailers. However, there is a trade-off between job creation, skills transfer and the impact of a retail giant opening new, formal retail stores.

Although merchandising and administration managers are initially appointed from South Africa, they are tasked to develop local citizens to take over their positions within five years. Today, half of Massmart's African stores are run by citizens of those countries – they are headed up by experienced management, most of whom are local. Expatriates are utilised when starting up operations in those countries, and then knowledge is transferred to the local management, at which point the expatriates are then withdrawn. Most of the African operations are headed up by local management, for example Namibia, Botswana (except for one expatriate) and Zambia, to mention a few.

The knowledge that is gained – in terms of what to do, as well as the particular country's business environment is very country-specific. There has been very little learning originating from the African countries that has been translated across the business and has overall value. Generally, the direction of knowledge flows from Head Office to the operations; very rarely does it flow in the opposite direction.

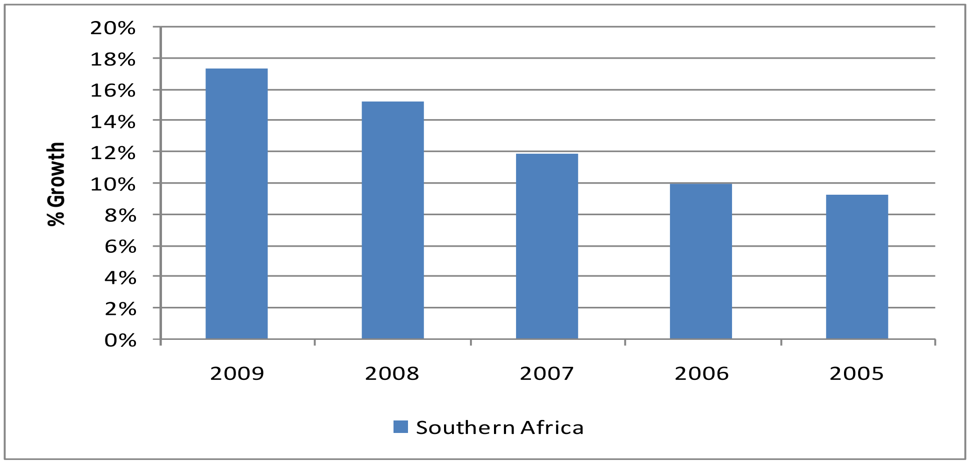
The Group is looking at new countries, such as the DRC (the Democratic Republic of Congo), Angola and Senegal. It is opening more stores in Ghana and Nigeria, and is also investigating other countries, like Rwanda and Côte d'Ivoire.

5.3 Pick n Pay

5.3.1 Business at a glance

“The Pick ‘n Pay Group is one of Africa's largest and most consistently successful retailers of food, clothing and general merchandise” (Pick ‘n Pay website, accessed on 29 October 2009). Pick 'n Pay is a family-owned business: it is a large supermarket chain store, established in South Africa in 1967. It can also be found in other regions of Southern Africa, such as Botswana, Zimbabwe, Namibia and Swaziland. The founder and current chairman of the chain is Raymond Ackerman. Other supermarket chain stores in South Africa that are part of the Pick 'n Pay group are Score Supermarkets and Boxer. The Group turnover of R49.9 billion is 17.4% above last year’s turnover, with a growth of 17.3% in the Southern African region, and 18.2% in Australia.

Figure 5.3-1: SA Turnover (y o y) growth trend



Source: Pick n Pay Annual Report

The target market is LSM 5-10 national and located mainly in urban and suburban areas.

The company has long been a champion of "consumer sovereignty", focusing primarily on the discount retail market. Pick 'n Pay operates through a number of retail formats, including 20 Pick 'n Pay Hypermarkets and 165 Pick 'n Pay Supermarkets (2009 financial statements projections). The company also operates the Pick 'n Pay Pantry Convenience Store format, as well as franchise grocery operations under the Pick 'n Pay Family format, in addition to 78 Score retail stores situated throughout South Africa, and in Botswana and Swaziland, as well as a small number of stores in Namibia (Answers.com, accessed 30 October 2009).

Pick n Pay does not have directly-owned operations in other African countries. They have master-franchise formats in Namibia and Botswana, and a 25% interest in TM supermarkets in Zimbabwe, where they have no involvement in the day-to-day running of the business. However, Pick n Pay is currently looking at expanding its footprint in Africa, with stores already planned for Lesotho and Zambia in the next few months. The company also owns the Franklin's Supermarket Group in Australia.

The company previously tried to move into Tanzania, but the move was unsuccessful. It was always about ensuring that the company obtains the correct home-base, because that is, ultimately the core of its business. Therefore, it is not a deliberate decision to stay away from Africa; otherwise, Pick n Pay would not have ventured into countries like Namibia, Botswana and Swaziland.

The company has also extended its range of customer services with the creation of the Go Banking joint venture with Nedbank. Pick 'n Pay is listed on the Johannesburg Stock Exchange, and continues to be controlled by founder and Chairman, Raymond Ackerman. In 2009, the company reported a revenues growth of 17% to top ZAR49.9 billion.

5.3.2 Motivation and country choice

Pick ‘n Pay is motivated by the growth opportunity in the African region. Africa is a massive continent with a huge population of about 800 million people (close to a billion, including South Africa), so there is unlimited opportunity. The company has been somewhat slow, but realises that it is time to start moving into Africa. Pick ‘n Pay is not a company that moves aggressively: it ensures that there is a short and medium-term plan, and then it would phase its strategic approach. For Pick ‘n Pay, it would be important to perfect three or four countries first, and then slowly phase outwards.

There is no formal plan of moving from Southern to Northern Africa: it is dependant on where the opportunity is, as well as finding a country with a stable economy. There is no fixed or rigid plan. Africa, generally, requires facilitation – things do not operate in the same way as they do here in South Africa.

The choice of the country in which to invest or with which to do business is not an easy and straight process; however, Pick ‘n Pay is not the first company to conduct business in Africa. There are numerous factors to consider, such as: travelling, articles, and economic publications – wherein they tackle Africa as a continent, and look at the state of the economic climate; the legal climate, and the growth prospects. The company is most probably one of the last companies to venture into African countries; therefore, Pick ‘n Pay is not a pioneer in choosing a country in which to invest. Various publications and media – dealing with companies such as Investec, Deloitte and KPMG – are doing the fieldwork, looking at where opposition companies are going and into which African countries international companies are moving.

CEO Nick Badminton has stated that Pick 'n Pay has also identified Angola and Mozambique as future investment areas. The Group was, however, cautious about the logistical difficulties and did not, therefore plan an aggressive rollout of stores outside of South Africa. "We need to first make sure that we can manage what we're doing here before we can go far." Badminton also said that there were opportunities in Zimbabwe, despite the current political challenges: "Ultimately, it would be nice to have a Pick 'n Pay in Zimbabwe." (Source: www.Fin24.com, accessed 23 October 2009).

5.3.3 Strategy formulation

There are various strategies for venturing into Africa: one would be acquisition; another one would be to open corporate stores, or a third one would be to engage with local businessmen and afford them the opportunity to acquire the master franchise. Thus, the locals can roll out Pick 'n Pay stores themselves, but with the benefit of Pick 'n Pay's guidance, leadership, mentorship and experience. The strategy will depend on the particular country; for instance, in Zambia the company will operate as a corporate business; however, in Angola, Mozambique and Mauritius it could be a master franchise.

Over the last 10 years, the Group has made acquisitions of Boxer, Score, the corporate stores in Australia, bottle stores, pharmacies, financial services, and clothing stores. On acquiring these businesses, the management of the businesses remains unchanged, and they continue operating as before, because the original management understands the business, while Pick ‘n Pay does not. However, Pick ‘n Pay will oversee and monitor the business, and remain accountable. Therefore, Pick ‘n Pay allows those businesses to remain as is. The same strategy would be applied in Africa.

Pick ‘n Pay does not build new stores: they believe that they are not in the property business. From time to time, the company would acquire a site, build and shortly thereafter sell to a developer. Pick ‘n Pay would prefer to focus on running supermarkets, but they would invest if they were required to do so. As many developers are moving into Africa, Pick ‘n Pay is willing to develop and invest. As an example, Pick n Pay has already signed for three sites in Zambia; finance is being provided through various government bodies, and the company will just sign a 10-15 year lease.

The company prefers the master franchise format as the mode of entry into a country. It requires low investment and also engages local businessmen and women, affording them the opportunity to operate the master franchises. Franchising within Group Enterprises is an uncomplicated formula, which uses the buying power and shared resources of the Group to assimilate and replicate its proven success. Pick ‘n Pay has been able to consolidate and grow the brands, while diversifying the financial risk often attached to this type of operation. In particular, franchising provides the company with opportunities to enter areas where a corporate store would not be warranted.

Locals have a far better understanding of the country, the language, the market, the retail market, the values, and so on. Ensuring that the local business supports the local farmers, local suppliers and the community is one of the objectives, as opposed to being seen as a corporate company that takes money out of the country and not giving anything back to the country. This is why the franchise option is seen as the most suitable strategy.

The first challenge is facilitation, and ensuring that the company employs the correct people to do the job. Logistical problems, i.e. getting goods into other countries can be difficult. Distribution networks are also a challenge; hence local distributors and local suppliers are utilised. Africa requires facilitation: you must ensure that you have the correct people to allow you to get things done, without having to bribe anybody (for instance). There is an understanding that things do not always work the way we would expect them to work in Western society; for example, the ports in Angola and Rwanda have, on average, 70 to 80 ships waiting to get inside, daily.

Pick ‘n Pay emphasises that their value system forbids them from making use of bribes or any other illegal activity in order to facilitate a business venture.

Therefore, it is crucial that the chosen partners abide by the same principles and values of not taking bribes etc. Distribution networks are also a challenge; therefore Pick ‘n Pay only sources staff from SA when it is unavailable in the host country. All other things that are available are sourced from the local suppliers.

The government contacts or relationships do not necessarily help in overcoming the challenges; however, the presidents of the intended host countries are engaged prior to doing business in those countries. This is done out of courtesy, so as to create good relations. However, the running of the business is not dependant on these relationships. It is important to behave in a trustworthy manner in the host country and adhere to local laws, such as paying the required minimum wages; ensuring that there are pensions available, and so on.

5.3.4 Firm Specific Advantage

The unselfish personal acts and sacrifices demonstrated by people within Pick 'n Pay, on a daily basis – both towards their colleagues as well as customers have strengthened their resolve to build for the future, and to restore their faith in their ability to achieve the goals they have set themselves. This is one of Pick ‘n Pay’s competitive advantages. “The building blocks of Pick n Pay's social conduct were laid down by its founder, Raymond Ackerman, more than 40 years ago at the Company's inception".(Pick n Pay Web site, Accessed on 20 October 2009)

The company's competitive advantage is its customer relations – the quality of service provided to the customer; catering the same service to different classes of people, rich or poor; looking after the staff; support of the locals etc. The growth and success of Pick 'n Pay is attributed to two fundamental principles:

- An unwavering belief in consumer sovereignty;
- The application of the "four legs of the table" principle.

The "four legs of the table" principle was put into practice at the foundation of the business, and it continues to be the cornerstone of the business. The company believes that in the application of these fundamentals, they are in effect preparing themselves for sustainability. The company uses the "four legs of the table" analogy to describe their competitive advantage: the business is a table supported by four legs (the principles), on top of which the consumer sits.

Each leg needs to be equally strong in order for the table to remain balanced and upright. The four legs of the table are: Administration, Merchandise, Promotion, and Social Responsibility and People. Each leg is equally important to the success and continued sustainability of the business. Each requires, and has received, equal focus and management support.

Skills, resources and capabilities will be transferred from South Africa to other African countries, but simultaneously, the local environment is taken into account, in terms of their needs and what the market expects. Initially, Pick ‘n Pay senior expatriates are taken from South Africa to manage the stores; however, local management would be employed and trained at the same time, so as to take over from the expatriates. At least 60% of the senior management must be local. The knowledge flows both ways: management from the different countries are always afforded the opportunity to voice out their concerns or strengths. For instance, a board meeting will be held where senior executives from other countries would be invited to come and talk about how business is doing. In this way, learning occurs both ways.

The biggest risk is protecting the brand, i.e. following the correct laws. The exchange rate risk is minimal at the moment, as major transactions such as lease agreements are US dollar-based.

5.4 Shoprite Checkers

5.4.1 Business at a glance

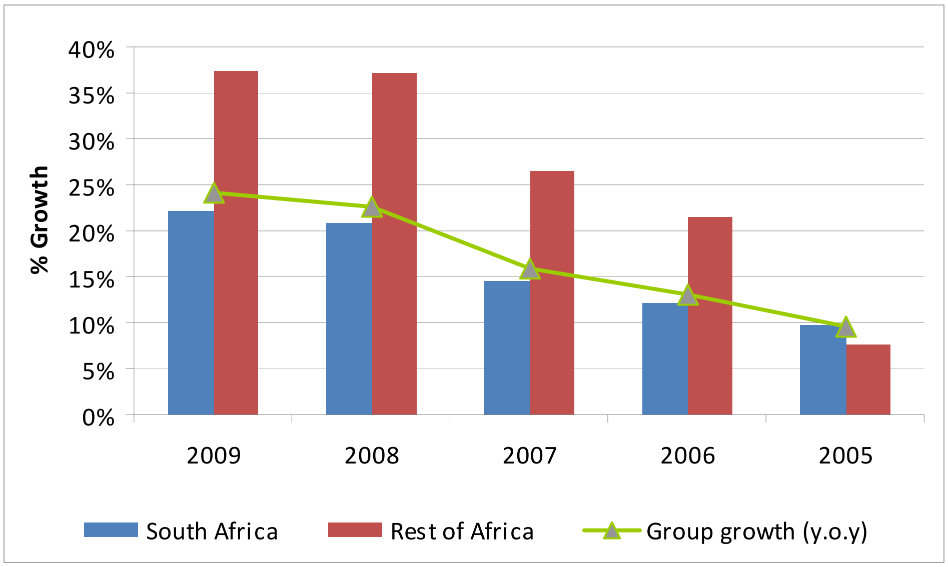
The Shoprite Group of Companies started from small beginnings in 1979, with the purchase of a chain of 8 Cape-based supermarkets, for R1 million. The next 30 years were marked by various acquisitions and innovative expansion strategies that have led to the R59 billion business that Shoprite is in 2009. The Shoprite Group of

Companies is Africa's largest food retailer, operating 1079 corporate and 270 franchise outlets in 17 countries across Africa, the Indian Ocean Islands and southern Asia. The Group reported a turnover of R59.3 billion for the year ended 30 June 2009. Shoprite Holdings Ltd is a public company listed on the JSE Limited, with secondary listings on both the Namibian and Zambian Stock Exchanges (Source: Shoprite Website accessed on 18 October 2009).

Shoprite Holdings Ltd comprises the following entities: the Shoprite Checkers supermarket group, which consists of 383 Shoprite supermarkets; 134 Checkers supermarkets; 24 Checkers Hypers; 154 Usave stores; 20 distribution centres, supplying group stores with groceries, non-foods and perishable lines; 204 OK Furniture outlets; 14 OK Power Express stores; 46 House & Home stores; and 125 Hungry Lion fast food outlets. Through its OK Franchise Division, the Group procures and distributes stock to: 27 OK MiniMark convenience stores; 22 OK Foods supermarkets; 73 OK Grocer stores; 39 Megasave wholesale stores; 27 OK Value stores, and 77 Sentra stores and buying partners.

The Group's total turnover increased by 24.5% to R59.3 billion. The combined sales of the three supermarket brands – Shoprite, Checkers and Usave, including the non-RSA operations – increased by 24.5% to R59.3 billion, up from R43.1 billion in 2008. The contribution from the Group's supermarket operations outside South Africa showed a positive growth of 39.9% to R7.3 billion. Countries that continued to perform well are Angola, Zambia and Mozambique, while a meaningful contribution was also made by Nigeria and Ghana.

Figure 5.4-1: SA and Non SA Turnover (y-o-y) growth trend



Source: Shoprite Annual Reports

The primary business of the Shoprite Group of Companies is food retailing to consumers of all income levels. Management's goal is to provide all communities in Africa with food and household items in a first-world shopping environment, at the lowest prices. At the same time, the Group, which is inextricably linked to Africa, contributes to the nurturing of stable economies and the social upliftment of its people.

5.4.2 Motivation and country choice

Business development and growth-seeking, as the local market was saturating, is the reason why Shoprite invested outside South Africa. The first Shoprite store outside of South Africa was opened in Lusaka, Zambia in 1995. A detailed analysis of the countries' political, economical, social, technological, environmental and legal factors is performed. Shoprite is focusing on markets with growth potential and rich natural resources, which will drive future economic growth and, therefore, increase GDP per capita and consumer spending figures.

In 2009, the Group's non-RSA supermarkets increased the turnover by 39.9% (in Rand terms) compared to the previous year. Its operational strategy put the Shoprite brand in an excellent position to expand into the African market outside of South Africa, where its population has grown from one store in Lusaka, Zambia in 1995, to 71 stores in 16 countries today. The South African operation comprises 309 Shoprite stores.

The Shoprite group follows countries that have natural resources, and potential for growth, with a strong consumer buying power. Massmart is Shoprite's main competitor in Africa. The Massmart brand, "Game", operates stores in Namibia, Botswana, Zambia, Uganda, Mozambique, Mauritius, Malawi, Tanzania, Nigeria and Ghana. Other South African competitors include Pick n Pay, with a presence in Namibia, Botswana and Zambia; and Woolworths which operates in Botswana, Kenya, Lesotho, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

5.4.3 Strategy formulation

Shoprite's winning philosophy is to offer customers a convenient shopping experience, in clean stores, where customers can be sure to pay the lowest prices on their basic food and household requirements.

Shoprite customers also benefit from value-added services offered in-store, such as: the Money Market counter, comprising Computicket and various third-party account payment options, as well as MediRite pharmacies, and a growing number of Liquor Stores in close proximity. The company is continuing to finance and build their own shopping centres, as property investors and developers find more attractive and secure opportunities in first world countries. This lack of development funding has slowed the Group's growth in Africa, and has led the Group to undertake more property developments itself in order to facilitate its growth strategy.

The group identifies potential new economic growth points, and then sets out to find a suitable space to accommodate a supermarket sized to the needs and profile of the surrounding community. Where such a space is not available through leasing – immediately or in future – the division will source and buy land to develop a shopping centre or a standalone supermarket. At the end of the 2009 financial year, the Group's owned portfolio consists of 58 income-producing properties (shopping centres, standalone supermarkets, offices and warehouses) with a combined book value of R2 billion. Of these, the Group owns 29 properties outside the borders of South Africa.

5.4.4 Firm-Specific Advantage

Shoprite's winning philosophy is to offer customers a convenient shopping experience, in clean stores, where customers can be sure to pay the lowest prices on their basic food and household requirements. Shoprite enjoys a reputation for offering best-value merchandise to consumers at the lowest prices, which they can trust always. Shoprite draws its customers from the middle-income consumers, in the living standard measurement (LSM) 4 to 7. In South Africa, Shoprite has two store formats, namely supermarkets and large-format superstores, while Shoprite Hypers are opening up outside the country.

Apart from corruption and other challenges in Africa – including leading with a large variety of often complex and inconsistent legislative structures, languages and cultures – running a supply chain that cuts across borders is sometimes unpredictable. The group sources some of its products from locals, like fresh produce, rather than from the South African supplier.

The Shoprite Annual Report highlights the many challenges that come with doing business in the rest of Africa. Some of these relate to the provisioning of certain stores where infrastructure is seen as below the internationally-acceptable standards. The group supply chain report also highlights that the Group's investment in supply chain related infrastructure – combined with the learning-curve it enjoys by operating some of the continent's most sophisticated centres – provides the group with a solid foundation to excel in the market place. This remains one of the Group's distinct competitive advantages.

Shoprite's supply chain general manager (Photy Tzellios) explains, in the financial statements, that the expansion of the group into Africa has extended the distribution infrastructure, and the Group can now deliver products to some of the most remote areas in the sixteen countries outside South Africa wherein the Group operates. Multiple modes of transportation are used, crossing numerous borders, each with its own complexity and supply chain efficiencies, enabling store management to reduce their inventory levels and to turn costly storage areas into profitable trading space.

The Group realises its low-price policy by continuously finding ways to reduce costs in the supply chain. Shoprite buys in bulk from both local and overseas manufacturers; it cuts out the middle-man by buying directly from suppliers; and it operates 17 technologically-advanced distribution centres, from which central delivery of grocery products, non-food and fresh produce to stores all over Africa takes place in a cost effective way.

The company core competencies can be summarised as follows

1. Scale of Operations
2. Trading in Africa and Beyond
3. Property development
4. Complimentary Services
5. The Meat Market
6. Global Sourcing

In a consolidated South African environment, expansion into Africa is perhaps Shoprite's most significant competitive advantage. Shoprite remains positive about and focused on African development, believing that 50% of its value will, eventually, derive from Africa.

6 Chapter 6: Discussion of Results

6.1 Introduction

All three of the retail giants investigated in this study have emerged from the same environment and have been subject to the same industry conditions, both in South Africa and in their non-South African operations. Thus, there are no material differences in their operations.

In the section to follow, the retail giant cases have been carefully analysed through the identification of patterns evident in each, and the mapping of a chronology of events, through a time series analysis (Yin, 2003). These processes assist in providing a description of the common and unique parameters that were utilised in the explanation of building analysis in order to identify potential explanations for the behaviours observed. Each individual case is analysed, and comparisons are then made, prior to integrating the findings with previous literature relating to the research.

6.2 Research Question 1- Incumbent Motive and Choice of countries

6.2.1 Massmart

The core business motives and factors that affect the company in choosing the country wherein to do business expressed in each case, have been captured as parameters illustrating both the differences and the similarities across the organisations. The analysis highlights the key motives and the criteria employed in the choice of countries for investment.

As the local market is saturating, the objective is to gain fair market share in the region before the competitors does. Comparing the growth percentage between South African and non-South African operations, the non-South African operation growth percentage is three times higher and is in line with the company expectation. The rate of return in the operations outside South Africa do compensate for the higher risk associated with doing business in Africa. Massmart provided the example of the Lagos store being "the second-highest performing store" in Mass Discounters; however, the risk of doing business in Lagos is still high.

Massmart is still increasing its operations in South Africa and outside South Africa proportionally, and there is no strategy behind this: it depends on opportunities within and outside South Africa. Africa, including the South African market, is characterised by low economic growth, high inflation and high interest rate. Therefore, to compensate for the risk, shareholders are asking for returns above those found in developed countries, so as to compensate for the developing countries' risk. This is regarded as a natural hedge, and Africa is still attracting significant attention for its future growth potential.

The company decision to invest in Africa, as well as the choice of the country, is decided based on the country's Political, Economical, Social, Technological, Environmental and Legal (PESTEL) factors. All these factors are considered at country level and then at the city level. However, the retailing environment, and the ability to move resources to and from the country, also play a very crucial role in deciding on the country in which the company will invest. African countries understand the need for the inflow of FDI to their countries, as FDI drives economic growth. Hence, FDI is at the top of the agenda of most African countries, which are continuously engaging in competition to attract foreign investments. However, the company prefers not to engage on a political level.

6.2.2 Pick n Pay

The company's operation is in Southern Africa and Australia, and it does not have directly-owned operations in other African countries other than South Africa. They have implemented master–franchise formats in Namibia and Botswana, and have a 25% interest in TM supermarkets in Zimbabwe, where they have no involvement in the day-to-day running of the business. However, Pick 'n Pay is, currently, looking at expanding its footprint in Africa, with stores already planned for Lesotho and Zambia in the next few months.

Pick 'n Pay is motivated by the growth opportunity in the African region. The group CEO, Nick Badminton, said that Pick n Pay has also identified Angola and Mozambique as future investment areas. Pick 'n Pay's motive is the growth opportunities in the continent. Pick 'n Pay is not the first company to do business in Africa. Their direct competition, Shoprite and Massmart, already have a share in the region. Thus, being the last to move in, Pick ‘n Pay can benefit from the mistakes that have already been made, as well as the lessons learnt by the company competitors. Even though Pick ‘n Pay is not following the competitors, there are some things that can be learnt and, therefore direct the company investment.

6.2.3 Shoprite

Shoprite’s motive for moving into Africa is growth-seeking, as the South African market is saturated. Shoprite also has the inspiration of being Africa’s retail leader, in the 2008 financial year, non-South African supermarkets increased turnover 36.9% to R5.8 billion, which is higher than the South African growth percentage. In 2009, non-South African sales represented 12.4% of total group sales.

According to CEO, Whitey Basson, the strategy for Africa is based not on sentiments, but on extensive research, as well as an understanding of what the African continent entails and what is needed for success (Trade Intelligence, 2009). The intention is to widen the gap between Shoprite and its competitors on the African continent, where Shoprite is now the largest retailer of the consumer goods. The Shoprite group’s decision to invest in the countries is based on several factors, including, but not limited to: the country’s natural resources; its potential for growth, and consumer buying powers. The PESTEL analysis is also undertaken in order to ensure that all the risks are well-understood and mitigated, where possible.

6.2.4 Comparison

Combining and contrasting the core motives and influences in a collective picture through a cross-case analysis (Yin, 2003) yields results that provide some insight into the similarities and differences of the incumbent operations, even though they are operating in the same environment. Since viability due to industry difference had been removed through researching the multinational enterprises from the same industry, these differences are only expected to be a result of the organisation's 'position within its organisation'.

	Massmart	Pick n Pay	Shoprite
Motivation for moving into Africa	• Limited organic growth in domestic market • Growth opportunities in Africa.	• Limited organic growth in domestic market • Growth opportunities in Africa.	• Limited organic growth in domestic market • Continent or Region aspiration of leadership • Growth opportunities in Africa.
Motivation for particular choice of countries	• PESTEL factors • Movement of cash and goods	• PESTEL factors	• PESTEL factors • Resources • Consumer buying powers

Table 6.2-1: Comparison of motives and a choice of country amongst South African Retail Giants

The similarities observed provide some insight into the motivation for all three retail giants: the growth opportunity in these markets, as the South African market's organic growth is limited and saturated. Political, Economic, Social, Technological, Environmental and Legal (PESTEL) factors are also common factors that all three incumbent enterprises will focus upon.

6.2.5 Implications for the literature

For South African retail giants, regional or geographic expansion is an attractive way to penetrate a new market and to seek growth opportunities – which is the incumbent's motivation for doing business in Africa. Factors like economic growth and country competitiveness inform their particular choice of country. There are other notable advantages in the already large African market: it is growing very strongly, and it is geographically close by, as compared to other markets and other developed countries.

The theory on Foreign Direct Investment (FDI) states that the surge in FDI into the African region and its profitability is driven by an increase in global economic prices, and Africa's changing policy environment. The return on investment in the African region is higher than that of the developed markets (UNCTAD's World Investment Report, 2008). For the emerging and developing economies, the GDP growth percentage is still expected to be higher than that of the developed world, according to the IMF World Economic Outlook update, July 2009.

The micro environment and economic development of the nations and regions influence business-thinking: there is a link between factors and organisations that influence the development and the competitiveness of countries, regions and firms. The difference in national values, cultures, economic structures, political stability, institutions and histories all contribute to the competitive success. The retail giants' motives and global business strategy is based on the opportunities that are presented by the African continent, and the choice of countries wherein to invest is dependant on such factors.

Michael Porter's "Diamond of National Advantage" argues that national advantages in global competition are the playing field that each nation establishes and operates for its industries. These attributes are.

1) Factor conditions – the countries' position in factors of production, such as human resources; natural resources; capital resources; physical; administrative; information, and technological infrastructures.
2) Demand conditions – Sophisticated and demanding local consumers and their needs.
3) Related and Supporting Industries – the presence of capable, locally-based suppliers and competitive related industries.
4) Firm strategy, Structure and Rivalry – the condition in the nation governing how companies are created, organised and managed.

What is most notable is that all three of the retail giants focused on these four pillars of Michael Porter's "Diamond Model". In the findings, the incumbents' motives for their choice of countries are informed by these four factors of the diamond.

6.2.6 Conclusion

Overall, Africa represents a clear business opportunity for the South African retail giants in their search of new markets, and to power their drive to achieve high performance. There are notable advantages: Africa is a massive continent, with a population of close to a billion, and with growing GDP per capita; high return on investment; and an above-average GPD growth rate, presented by some of the African countries. The choice of countries is dependant on the countries' Political, Economic, Social, Technological, Environmental and Legal conditions, as well as the diamond of national advantage, as referred by Michael Porter.

6.3 Research Question 2 – Global Strategy

The deployment and management of capabilities and resources by retail giants in their foreign operations; so as to remain competitive in both local and foreign markets.

6.3.1 Massmart – Moving into Africa

Massmart's expansion into Africa began to take off in the early 1990's. At the time, the initial expansion strategy was to have one store per country. Following the political transition to a democratic South Africa in the early 1990's, and the subsequent lifting of foreign trade sanctions, this strategy changed to having multiple stores only countries that have potential for growth. As a result, Massmart has seen continuous growth in the African operations over the past 10 years. The aim is to double this growth in the next 10 to 15 years.

Currently, 90% of Massmart's revenue is derived from the South African operations and only about 10% is from its non-South African operations. The group reported R43.1bn turnover in the financial year ending June 2009, and growth for the year until June 2009 was 10,7% with operations outside South Africa growing 31%, three times higher than the company average.

The group is confident about the growth in non-South African ventures. The Massmart CEO, Grant Pattison said: "We are responding to the short- term environment challenges, but remain confident in the underlying strengths of the group and are excited about the medium to long-term potential in our markets both in SA and the rest of Africa" (Business Day, 28/8/2009). Pattison also stated that Massmart could even consider financing its expansion into the rest of Africa from its own resources, due to the banks' reluctance to "take on risk".

The group understands that success in Africa began with a superior product range, competitive prices and better after-sales service than its competitors; the same principles apply both in South Africa and in their non-South African operations. The organisation partners with the locals, but does not offer any share of its business; for example, Massmart buys locally and imports some products directly from the countries of manufacture, while other products pass through warehouses in South Africa.

The strategy is not to replicate the South African operation entirely, but to cater for the unique conditions of the locals. There are very few differences in the African operations, as compared to the South African operations, e.g. the brands may differ according to popularity in a particular country, but, other than that, the feel and the culture of the stores are the same across South Africa and Africa.

The group strategy is to identify countries or cities where there is potential for growth, and then set out to find a suitable space to accommodate a supermarket, sized to the needs and profile of the surrounding community. Only when such a space is not available through leasing – immediately or in future – the division will source and buy land to develop a shopping centre or a standalone supermarket; however, the first option would be to lease the space.

Massmart is offering formal retailing in Africa, as there is, currently, very limited formal retail. Generally, the basic commodities and products are supplied by the informal traders. Massmart's competitive advantage is the offer of a formal, presentable and accessible shopping environment. The group focuses on high volumes, low margins, and low cost distribution of mainly branded consumer products for cash.

The products in South Africa and in other African countries are largely the same, except for instances where there are country specific product restrictions, which must be adhered to. Certain brands and products are more popular in some countries than others; the best strategy, therefore, is to cater for the local consumers' current needs and evolve with them as they grow more affluent.

Infrastructure is one of the challenges facing Africa and other emerging markets. In most countries there are no real distribution networks. The bulk of the goods are sourced out of South Africa via the harbour, while some direct purchases come out of Dubai, Turkey and the Far East, as well as local purchases, where possible, according to the country's own manufacturing capabilities.

The South African operations provide funding, brand management skills and an oversight role. Expatriates are utilised when starting up operations in those countries, and then knowledge is transferred to the local management, at which point the expatriates are then withdrawn. Most of the African operations are headed up by local management.

6.3.2 Pick n Pay – Moving into Africa

The group is one of the largest retailers in Africa, with its operations mainly in Southern Africa. The Pick ‘n Pay group does not have directly-owned operations in other African countries. However, Pick n Pay has master–franchise formats in Namibia and Botswana, and a 25% interest in TM supermarkets in Zimbabwe, where it have no involvement in the day-to-day running of the business. As discussed above, Pick ‘n Pay is currently looking at growth opportunities outside South Africa, and is expanding its footprint in Africa, with stores already planned for Lesotho and Zambia.

The Pick ‘n Pay group identifies its core competencies as customer-focused: customer relations; the quality of service provided to their customers; catering the same service to different classes of people, rich or poor; looking after the staff, and support of the local business and the community at large .

Pick ‘n Pay’s strategy depends on the particular country – they look at various methods of doing business in Africa. The three options that are employed by the group are: acquisition; opening corporate stores; and to engage with local businessmen and afford them the opportunity to operate the master franchise for a particular country, where after they roll out Pick ‘n Pay stores themselves, with Pick n Pay’s guidance, leadership, mentorship and experience.

As Pick n Pay is not in the property business, the company prefers to focus on building brands and playing an oversight role for their non-South African operations. Unlike the competition, Pick ‘n Pay prefers the master franchise model to the corporate store, as the mode of entry, as it requires low investment and also engages local businessmen and women and affords them the opportunity to operate the master franchises themselves; this in line with the company core principles.

The distribution network is one of the key challenges facing Africa and Pick ‘n Pay, with the local distributors and suppliers that will be used. Africa requires facilitation, and the company will ensure that they get the right people with the right skills, who will be able to conduct business without bribing anyone. The company also emphasised that while government relationships are important, the running of the business is not dependant on these relationships. What is important is behaving in a trustworthy manner, and adhering to local laws.

6.3.3 Shoprite – Moving into Africa

The first group store outside of South Africa was opened in Lusaka, Zambia, in 1995. The Company’s and the management's goal is to provide all communities in Africa with food and household items in a first-world shopping environment, at the lowest prices. Shoprite states that trading in Africa and beyond is one of its key competencies. The group has developed a particular expertise for trading in Africa, where the group has had more exposure and success than other South African retailers.

Keeping control over the scale of operations has sometimes been a challenge, with management having to develop strong central control through management processes. Shoprite has invested in integrating technologies that link the stores to a central database, and integrate the staff training in every relevant language, from Arabic to Malagasy, and from Sesotho to isiZulu. Hence, the scale of operation is one of the key competitive advantages of the company.

Shoprite's winning philosophy is to offer customers a convenient shopping experience, in clean stores, where customers can be sure to always pay the lowest prices for their basic food and household requirements. The complementary services are an area where the company has differentiated itself. The value-added services remain the goal of attracting consumers into the stores, for a range of product services, over and above grocery shopping.

Where markets exist but malls do not exist, the company either builds them or participates in joining their development. Shoprite continues to finance and build its own shopping centres. This lack of development funding has slowed the Group’s growth in Africa, as the property developers are more interested in first world and are not willing to take risk associated with Africa.

6.3.4 Comparison

The Key features of the three companies' histories are summarized in the table below:

	Massmart	Pick n Pay	Shoprite
Non South African operations share of revenue	• 8.8% of Turnover (R3.8 billion) • In Africa since 1993	• Not Applicable • Only in Southern Africa	• 13.7% of Turnover (R8.1 billion) • In Africa since 1995
Role of South African operation	• Controls and decision making • Source of funding • Coordination of global value chain • Source of intellectual property • Coordination and management of key relationships	• Oversight • Brand management • Coordination and management of key relationships • Market searching • Business development	• Source of capital • Central controlling • Decision making • Coordination of global value chain • Source of intellectual property • Coordination and management of key relationships
Global Business strategy	• Replicating SA model with few adjustment to accommodate the local markets • Corporate stores • Unique strategy for both local and international business	• Replicating SA model with few adjustment to accommodate the local markets • Both Corporate stores and franchising but preferable master franchise outside South Africa • Unique strategy for both local and international business	• Replicating SA model with few adjustment to accommodate the local markets • Corporate stores and franchising • Unique strategy for both local and international business

	Massmart	Pick n Pay	Shoprite
Firm Specific advantages	• Low margins and high volumes • Provision of formal retailing in Africa • Share resources • Cash Business • Presence in Africa • Supplier relations • Strategically South African	• Customer relationships • Merchandise • Promotion • And social responsibility and People	• Scale of operations • Trading in Africa and beyond • Property development • Global Sourcing • Supply chain • Technology • Complimentary services • Meat Markets

Table 6.3-1: Comparison of global business strategy

The globalisation strategy followed by all three incumbent organisations is shown in the table above. The strategy employed by the retail giants is heavily influenced by a number of variables over a period of time. The strategy could be different depending on the countries' level of maturity and competitiveness. All three companies are in the same industry, thus their markets are not differentiated. However, the company-specific advantages that are non location-based are very crucial when moving into Africa.

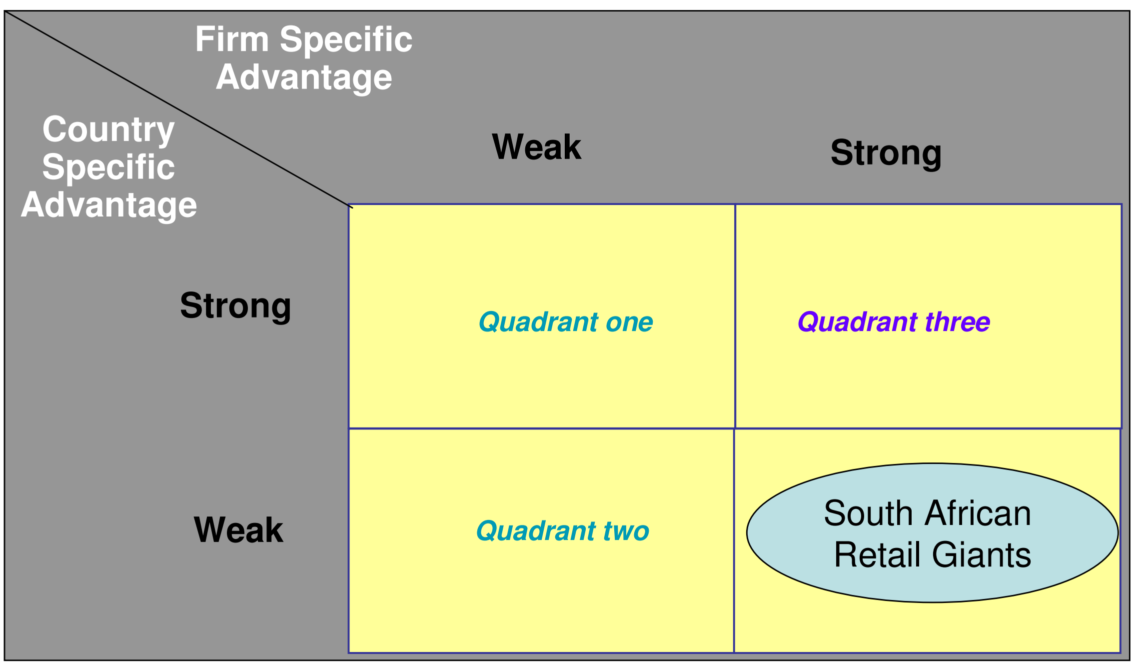
6.3.5 Implication for the literature

Rugman and Li (2007) indicate that specific factors that determine the competitiveness of the firm are called firm-specific advantages, and those are defined as unique capabilities preparatory to the organisation, such as: people skills; management style; leadership; product and process technology; marketing; selling, and distribution skills. The contenders are faced with a challenge of moving into Africa, but not at the expense of their South African operations.

As all the companies are operating within the same industry, they are faced with the same home-country challenges. Industry issues and the country-specific advantages are not strong in the South African retail industry. What determines the success of the organisation is its firm-specific advantages.

In terms of Rugman (2006), chapter 8 CSA/FSA matrix (Figure 1), the South African retail giants do not have strong country-specific advantages.

Figure 6.3-1: The CSA/FSA Matrix



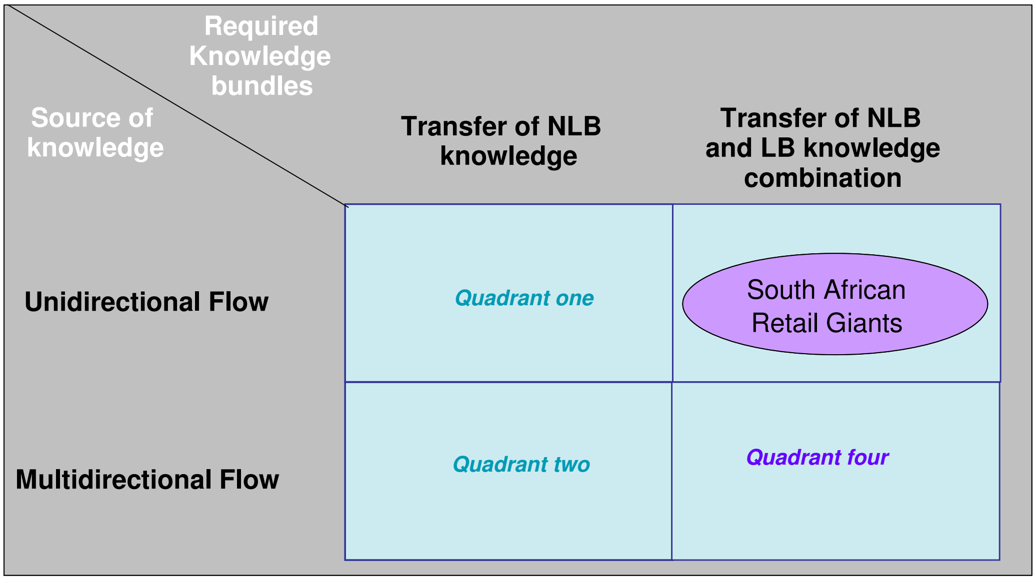
Source: Based on chapter 8 Rugman (1981, 2006) in Rugman and Li, 2007

The South African retail giants only compete on strong firm-specific advantages such as: brands; differentiation in markets; economies' scale and scope; costs; technology; supply chain and logistics, and people.

The success of the multinational companies is dependent on their ability to complement the international transfer of non location-bound FSAs (Rugman and Verbeke, 2003). In addition, each subsidiary or operation may have different roles to contribute in the development of the multinational's international competitiveness, depending on their capabilities to develop non location-bound FSAs (Rugman and Verbeke, 2003).

The Rugman and Verbeke (2003) model for internationalisation (Figure 2) describes the approach that is taken by all three South African retail giants, where the information is complemented with location-bound knowledge to allow for national responsiveness.

Figure 6.3-2: Scope Economies in MNEs



Source: (Rugman and Verbeke, 2003)

The cases exhibit that the South African retail giants originate from an environment where they are no country-specific advantages. They then develop their firm-specific advantages at home, and utilise those to compete in their home market and internationally.

The multinational enterprises facing internal and environmental constraints to their internationalisation (limitation to the transfer of their competencies across borders) should build networks of local and foreign partners, rather than adopt a do-it-yourself FDI strategy (Rugman and Girod, 2005). This is also evident in cases where South African companies are in the position to transfer their non location-based FSAs.

However, the local and international networks are being utilised for source product, distribution and logistics, and human resource.

Prahalad and Kenneth (2003) argue that in order for multinational enterprises to succeed in the emerging markets, they must spend time building a deep and unbiased understanding of the unique characteristics and needs of developing countries and their people. Furthermore, it is argued that minor cultural adoption of product is not sufficient: companies must undergo a fundamental rethinking of every element of their business model. However, from all 3 cases in this research, it is evident that South African companies have an inbuilt advantage in this new scramble for Africa. South African companies are more familiar with the physical, regulatory and social terrain than are businesses from other parts of the world.

6.3.6 Conclusion

South African retail giants operate in an environment that lacks country-specific competitive advantages. They operate in a country with high unemployment; poverty; deficiencies in human capital, market and technological resources; and lack of FDI. These three emerging market multinational enterprises have developed capabilities and competencies (FSAs) to compete beyond South African borders, and yet remain competitive in their home base.

7 Chapter 7: Conclusion

7.1 Findings

The research was initiated with the aim of exploring the factors that motivate the South African multinational enterprises to move into Africa, as well as what motivates their particular choice of countries, and how the capabilities and resources are deployed and managed in their foreign operations, so as to remain competitive in both local and foreign markets. The three South African retail giants' experiences – which comprise the essence of the study – provide some insight and operational understanding of the formulation of the business strategy in frontier and emerging markets' economies.

7.1.1 The firm's motive and choice of countries

This research shows that the three organisations share a handful of common motives for moving into Africa, and the same approach applies when deciding on the particular choice of countries. The common motivation for all three retail giants is growth opportunity in these markets, as in the South African market, organic growth is limited and saturated. Thus, for the South African retail giants, geographic expansion is a way to penetrate new markets, explore new opportunities and deliver the growth they seek on the journey to high performance.

There are notable turnover growth percentages from the enterprises' non-South African operations: they are more than double the South African turnover growth. Africa is a very large continent – with a population of close to a billion – and there are noticeable advantages to participating in an African market that is growing strongly, and is expected to continue growing at a higher growth rate than the developed markets. And, conveniently, this market is right next door to South Africa.

Once again, with regards to what motivates the South African multinationals in deciding on their particular choice of countries, all three organisations shared common criteria. The choice of countries in which to conduct business is dependent on the political, economic, social, technological, environmental and legal conditions of the country, as well as its national competitiveness. The micro environment and economic development of these African countries influence business thinking: there is a link between factors and organisations that influence development and the competitiveness of countries, regions and firms.

Factors such as national values; cultures; macro and micro economic environment; political stability; institutions, and history all contribute to the competitive nature of a country. The motives and global business strategy of the retail giants is based on the opportunities and growth potential that is presented by the African continent. The choice of countries in which to invest is dependant on such factors.

7.1.2 The firm's capabilities and resources deployment

The research has shown that all three retail giants are faced with the same challenges, both in their domestic and international markets. The country-specific advantages are weak as South Africa is faced with various challenges, for instance: fluctuating currency; high unemployment; crime; corruption; low FDI; low skills base; limited innovation, and lack of sophisticated technologies. As the South African multinational enterprises cannot depend on country-specific advantages, the contenders accelerated their development of firm-specific advantages at a rapid rate. The South African retail giants have developed expertise for trading in Africa, as is evident from the fact that sales growth in Africa continues to outperform that of the South Africa stores. They compete only on strong, firm-specific advantages that they developed, such as: brands; leadership; differentiation in markets; economies; scale and scope; costs; technology; supply chain and logistics, and people.

South African companies are more familiar with the physical, regulatory and social terrain of Africa than are businesses from other parts of the world. The market, the culture and realities of infrastructure, poverty, lack of skills, and the technology in their non-South African operations are not a shock to the South African companies. Therefore, their business strategies will not be entirely the same as those of the multinationals from the developed world.

As the contenders are moving into Africa, the South African operations play a key role as a source of funding, leadership, skills, brand management, global sources, source of intellectual property, as well as coordination and management of key relationships. These capabilities and resources are deployed strategically from their South African operations across the national boundaries.

The findings on South African Retain Giants multinational strategy reflect the behaviour of strong, well-prepared, equipped and aggressively competitive global contenders that do not want to participate or share in the African market, but instead are looking to lead it. The response and global business strategy of all three retail companies offers positive confirmation that South African retail companies are competitive and are building global companies for emerging markets.

7.1.3 Recommendation for future research

This research was undertaken as an exploration into what factors motivate the South African multinational enterprises to move into Africa, in addition to what motivates their particular choice of countries and how their capabilities and resources are deployed and managed in their foreign operations, so as to remain competitive in both local and foreign markets.

Since the research was undertaken with a focus on one industry, future research could seek to explore whether the resources and capabilities by firms in other industries reflect the outcomes found in the retail industry. A further expansion that could be undertaken – even within the same retail industry – is an exploration of the synergies that could result from the collaboration and partnership of South African Retail Giants when moving into Africa.

Finally, further research could seek to explore if the capabilities, expertise and learning gained by the South African retail giants in doing business in Africa could be utilised when venturing into other emerging markets beyond Africa, such as: Brazil, Russia, India and China (BRIC).

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9 Appendix 1: Discussion Guide

1) Background

- Please provide a brief description of your role within the organisation?
- Please provide a brief overview of the key business growth initiatives in the organisation for the past 10 years?
- What is the company revenue, by location (SA and other African operations)?
- What is the company investment in these African operations, compared to SA investment?

2) Perception and Understanding of the emerging markets

- What is the company motivation of doing business in Africa?
- How did you decide on which countries to target in Africa?
- What was the mode of entry?
- Do the countries' resources, capabilities, markets and institutions have an impact on the countries' selection?
- Did you get any support from the host countries' governments?
- What are the key challenges and threats in these African operations?
- Do you see any long-term opportunities in Africa, and why?

3) Response and Strategy formulation

- What are the firm-specific advantages (key competitive advantages)?
- How did you respond to the challenges and threats in the emerging markets?
- What percentage of SA competitive advantages is transferable to the other African operations?
- Is there any learning and location-based knowledge transfer that will assist in strategy design and formulation for the organisation?
- How different are the African operations in comparison to the South African operations?
- Do you use any local partners or do you have any joint ventures in the host countries?
- How did the locals in the host country respond to your strategy?

4) Performance and Evaluation

- How do you monitor the performance in the emerging markets?
- What is the benchmark that you use to monitor the performance of the emerging markets?
- How sustainable is business in the emerging markets?