



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA



GORDON INSTITUTE  
OF BUSINESS SCIENCE

**Multinational subsidiary evolution:**

**Vodafone and its South African subsidiary, Vodacom**

Sherelle Schmulian

Student No. 2858054

Cell: 082 561 3388

E-mail: [Sherelle.Schmulian@vodacom.com](mailto:Sherelle.Schmulian@vodacom.com)

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

## **Abstract**

Multinational Corporations (MNCs) increasingly realise the importance of acknowledging their dispersed subunits as individual organisations with the potential to formulate strategies and implement autonomous decision making in order to ensure the MNC's competitive viability. As MNCs need to remain responsive to the distinctive host markets' needs in order to retain and grow their market share, knowledge of the evolution of its subsidiaries becomes vital.

Vodacom's new role as a subsidiary of Vodafone since its acquisition by the MNC in 2009, make it an ideal test subject to evaluate the roles of a subsidiary's mandates and its evolution in relation to the parent company from a South African perspective. The study summarised in this paper highlights a theoretically-based evaluation of the subsidiary-role frameworks, and presents new knowledge gained from in-depth interviews conducted with key personnel.

The investigation suggests Vodacom is becoming an Active Subsidiary, showing high decision-making autonomy, operating and executing its decision making within the Vodafone procedures, policies and strategy. This has a marked effect on all business functions. Further research could focus on the processes of evolution of the subsidiary roles, and the contribution and strategic positioning of Centre of Excellence in the MNCs.

*Keywords:* Multinational Corporation, subsidiary, mandates,

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination at any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

---

Sherelle Schmulian

10 November 2009

## Acknowledgements

Working on this ambitious project has been enormously challenging and deeply rewarding. I have thoroughly enjoyed the task set before me by the Gordon Institute of Business Science, Sandton. I am eternally grateful to:

My supervisor, Dr Helena Barnard for her invaluable patience, support and expert guidance.

Each individual who participated in the research for offering up their precious time to complete the questionnaires and to participate in the interviews.

Juan Jurgens, my wonderful husband, as well as other dear friends, especially Nadia Botha, who were always so patient, supportive and understanding of this endeavour.

My family for their precious support and understanding.

Thank you,

Sherelle



## Contents

<b>Declaration</b> .....	<b>iii</b>
<b>Acknowledgements</b> .....	<b>iv</b>
<b>Chapter 1</b> .....	<b>1</b>
1.1 Introduction to the research problem .....	1
1.2 Aim of research .....	3
1.3 Research problem .....	4
<b>Chapter 2</b> .....	<b>5</b>
<b>2. Literature Review and Framework</b> .....	<b>5</b>
2.1 Introduction.....	5
2.1.1 Definition of a MNC .....	7
2.1.2 Definition of a subsidiary .....	7
2.1.3 Definition a subsidiary mandate .....	8
2.2 Contextual Overview .....	9
2.3 Subsidiary Review Frameworks.....	15
2.3.1 Integration and Responsiveness (I-R) Framework.....	15
2.3.1.1 Receptive Subsidiaries .....	16
2.3.1.2 Active Subsidiaries .....	17
2.3.1.3 Autonomous Subsidiaries.....	18
2.3.1.4 Quiescent Subsidiaries.....	19
2.3.2 Product Scope Framework.....	20
2.3.2.1 Miniature Replica.....	20
2.3.2.2 Marketing Satellite .....	22
2.3.2.3 Rationalised manufacturer .....	23



Product Specialist.....	23
2.3.2.4 Strategic Independent .....	24
2.3.3 The knowledge-related framework.....	25
2.3.3.1 Contributor subsidiary .....	26
2.3.3.2 Specialised Contributor .....	27
2.3.3.3 Strategic Leader .....	28
2.3.3.4 Black Hole .....	29
2.3.3.5 Implementers.....	30
2.3.3.6 Local Implementers .....	31
2.3.4 Autonomy and Procedural Justice (PJ) Framework.....	32
2.3.4.1 Partner Subsidiaries .....	33
2.3.4.2 Collaborator Subsidiaries .....	34
2.3.4.3 Militant Subsidiaries .....	35
2.3.4.4 Vassal Subsidiary .....	36
2.3.5 Subsidiary Evolution.....	37
2.3.5.1 Generic Subsidiary Evolution Processes .....	38
2.3.5.1.1 Process 1: Parent-Driven Investment (PDI) .....	38
2.3.5.1.2 Process 2: Subsidiary-Driven Charter Extension (SDE) .....	38
2.3.5.1.3 Process 3: Subsidiary-Driven Charter Reinforcement (SDR) .....	39
2.3.5.1.4 Processes 4 and 5: Parent-Driven Divestment (PDD) and deteriorate through subsidiary neglect (ASN) 39	
<b>Chapter 3.....</b>	<b>43</b>
<b>3. Research Questions .....</b>	<b>43</b>
<b>Chapter 4.....</b>	<b>47</b>
<b>4. Research design and methodology .....</b>	<b>47</b>



4.1	Research Design.....	47
4.2	Secondary data .....	47
4.3	Qualitative research .....	48
4.4	Unit of analysis .....	48
4.5	Population .....	49
4.6	Sampling and size .....	49
4.7	Procedure.....	51
4.8	Data Analysis .....	51
	Chapter 5.....	54
5.	Results.....	54
5.1	Analysis of Results.....	55
5.1.1	Theme 1: The nature of the Vodafone/Vodacom relationship .....	55
5.1.1.1	Secondary Data .....	55
	Vodafone’s strategy and key facts.....	55
	Vodacom’s strategy and key facts .....	57
	The Vodacom/Vodafone Unity.....	58
	The partnership in Africa .....	60



5.1.1.2	Qualitative Data .....	61
5.1.2	Theme 2: Response to Vodafone’s controlling share in Vodacom.....	65
5.1.2.1	Secondary Data .....	65
5.1.2.2	Qualitative Data .....	67
5.1.3	Theme 3: The benefits that Vodacom will derive from the Vodafone subsidiary relationship .....	75
5.1.3.1	Secondary Data .....	75
5.1.3.2	Qualitative Data .....	77
5.1.4	Theme 4: The key challenges in the Vodafone/Vodacom relationship.....	81
5.1.4.1	Secondary Data .....	81
5.1.4.2	Qualitative Data .....	84
Chapter 6	.....	88
6.	Discussion of Results.....	88
6.1	Global Integration and Local Responsiveness .....	89
6.2	Product Scope .....	94
6.3	Knowledge.....	97
6.4	Autonomy .....	100





<b>6.5</b>	<b>Subsidiary Evolution Processes .....</b>	<b>103</b>
	<b>Chapter 7.....</b>	<b>106</b>
<b>7.</b>	<b>Conclusion .....</b>	<b>106</b>
<b>7.1</b>	<b>Introduction.....</b>	<b>106</b>
<b>7.2</b>	<b>Key Findings .....</b>	<b>107</b>
<b>7.2.1</b>	<b>Literature.....</b>	<b>107</b>
<b>7.2.2</b>	<b>Results .....</b>	<b>109</b>
<b>7.2.2.1</b>	<b>Subsidiary review frameworks.....</b>	<b>109</b>
<b>7.2.2.1.1</b>	<b>Global Integration and local responsiveness.....</b>	<b>109</b>
<b>7.2.2.1.2</b>	<b>Product Scope.....</b>	<b>111</b>
<b>7.2.2.1.3</b>	<b>Knowledge.....</b>	<b>112</b>
<b>7.2.2.1.4</b>	<b>Autonomy .....</b>	<b>113</b>
<b>7.2.3</b>	<b>Subsidiary Evolution.....</b>	<b>114</b>
<b>7.3</b>	<b>Potential Risks .....</b>	<b>115</b>
<b>7.4</b>	<b>Potential Benefits .....</b>	<b>116</b>
<b>7.5</b>	<b>Recommendations.....</b>	<b>117</b>
<b>7.5.1</b>	<b>Building organisational skills.....</b>	<b>117</b>



<b>7.5.2</b>	<b>International Trends</b> .....	<b>118</b>
<b>7.5.3</b>	<b>Vodacom’s Strengths</b> .....	<b>118</b>
<b>7.5.4</b>	<b>Build Managerial Skills</b> .....	<b>119</b>
<b>7.6</b>	<b>Limitations of the research</b> .....	<b>121</b>
<b>7.7</b>	<b>Further Research</b> .....	<b>122</b>
<b>7.8</b>	<b>Closing remarks</b> .....	<b>123</b>
	<b>Appendix A</b> .....	<b>124</b>
	<b>Interview Guide</b> .....	<b>124</b>
	<b>Details attended to before the onset of the interview process:</b> .....	<b>124</b>
	<b>Example of email to each subject</b> .....	<b>127</b>
	<b>Script for interviews conducted</b> .....	<b>128</b>
	<b>Appendix B</b> .....	<b>130</b>
	<b>VODAFONE</b> .....	<b>130</b>
	<b>Introduction to Vodafone</b> .....	<b>130</b>
	<b>Vodafone Business Segments</b> .....	<b>131</b>
	<b>EMAPA</b> .....	<b>131</b>
	<b>Europe</b> .....	<b>133</b>



<b>Partner Markets .....</b>	<b>135</b>
<b>Vodafone’s History and Development .....</b>	<b>136</b>
<b>Appendix C.....</b>	<b>139</b>
<b>VODACOM.....</b>	<b>139</b>
<b>Introduction.....</b>	<b>139</b>
<b>Vodacom’s business segments .....</b>	<b>140</b>
<b>South Africa .....</b>	<b>140</b>
<b>International.....</b>	<b>141</b>
<b>Gateway.....</b>	<b>141</b>
<b>History and Development .....</b>	<b>142</b>
<b>References .....</b>	<b>143</b>

## Chapter 1

### 1.1 Introduction to the research problem

South Africa, like several other emerging markets, is seen by Multinational Corporations (MNCs) as providing a sophisticated business environment for achieving a global competitive advantage. The acquisition of a majority share in Vodacom by Vodafone, the world's largest communications company in 2009, has seen Vodacom becoming a fully-owned subsidiary. The transaction highlights the second largest inflow of foreign direct investment (FDI) into South Africa. The largest ever investment in the country was the transaction in 2005 between Absa and Barclays Bank. Commenting on the Vodafone – Vodacom transaction in 2008, Vittorio Colao, Chief Executive of Vodafone, said:

*“As a long-term investor in South Africa, we are delighted to increase our shareholding in the Vodacom Group, the country’s leading mobile operator with a presence in four additional African markets. We will continue to support the management team in their strategy of transforming Vodacom into a full service provider in Africa, and also look forward to playing a greater role in delivering the broader social benefits of mobile telecommunications in the continent. We are confident that the transaction will deliver value to our shareholders.”*

Leveraging capabilities through FDI is a fundamental challenge for MNCs. As multinationals seek to respond to the simultaneous effect of the increased globalisation of industries, and the need for responsiveness to distinctive host markets' needs (Collis *et al.*, 2007, Jarillo and Martinez, 1990), they must attain the appropriate balance of their internal resource deployment and the potential opportunities and risks in different countries.

According to Ghoshal and Nohria (1998), this is mainly achieved by ensuring that each subsidiary adapts its strategy both to the environmental contingencies of its main market, and the resource configuration of the MNC. Having placed subsidiaries at the centre of examination, recent literature conceives these dispersed subunits as organisations with the potential to formulate strategies and implement autonomous decision making (Birkinshaw *et al.*, 2001).

Vernon (1996) argues that headquarters of MNCs are the central source of its competitive advantages and capabilities. MNCs consist of intertwined connections of relationships among different organisational units (Ghoshal and Bartlett, 1990) while subsidiaries have internal- and external networks to cultivate their competitive strengths (Birkinshaw and Fry, 1998). 'Subsidiary' refers to a unit which is semi-autonomous outside the home country, but which is controlled by the MNC. Moreover, the reality of the competitive environment for most subsidiaries is both internal and external.

Subsidiaries build up specific competencies to deal with all local business affairs (Anderson *et al.*, 2002). Consequently, a subsidiary can be a centre of advantages that help a MNC to grow and compete with competitors for market position.

Considering this, it seems that the Vodafone/Vodacom relationship from a MNC/foreign subsidiary perspective is a worthy research subject. This research project will strive to enhance both the conceptual explanation- and the methodological rigor of prior research which studied subsidiary mandates and how these mandates influence the evolution of a subsidiary.

The literature and theoretical analysis will focus on the research tools created to classify and sort the various mandates that subsidiaries may take within the MNC, as well as how the mandate of the subsidiary might contribute its evolution.

## **1.2 Aim of research**

The aim of this research project is to evaluate Vodacom's mandate as a subsidiary of Vodafone. Therefore, the research strives to conduct a theoretically-based evaluation of the subsidiary role frameworks to understand the factors that influence Vodacom's mandate as a Vodafone subsidiary, and consequently its evolution.

### **1.3 Research problem**

This research project will attempt to gain an understanding of the nature of the relationship between Vodafone (MNC) and Vodacom (subsidiary). This will be done by evaluating Vodacom's subsidiary role and how that relates to the mandate from Vodafone by identifying the major existing literature framework in order to classify and sort Vodacom's mandate, and how this mandate impacts on Vodacom's subsidiary evolution.

## Chapter 2

### 2. Literature Review and Framework

This chapter highlights the existing body of work on the subject matter. The major findings from leading academics in the field will be presented in an abbreviated form to illustrate the theoretical framework on which the study reported in this paper rests. The section will be discussed in two parts. The first section is an introduction, evaluation and definition of the constructs to understand the subsidiary-mandate review frameworks. The second section is an overview of how the subsidiary mandates change, by defining the processes of subsidiary evolution.

#### 2.1 Introduction

The management of the multinational subsidiary has emerged as a distinctive field of examination for international business researchers. As MNCs are confronted with the simultaneous need for global standardisation and local adaptation, subsidiaries may differ in the scope of their operations, the extent of the responsibility they take, the importance of the markets they serve, their level of competence and their organisational characteristics (Manolopoulos, 2008). These developments manifest themselves decisively in the emergence of a range of different mandates that subsidiaries can assume in the wider context of MNC strategy (Manolopoulos, 2008). In order to facilitate understanding of the vast amount of existing literature on subsidiary mandates, Figure 1 illustrates the key overarching research streams that define the subsidiary mandate.



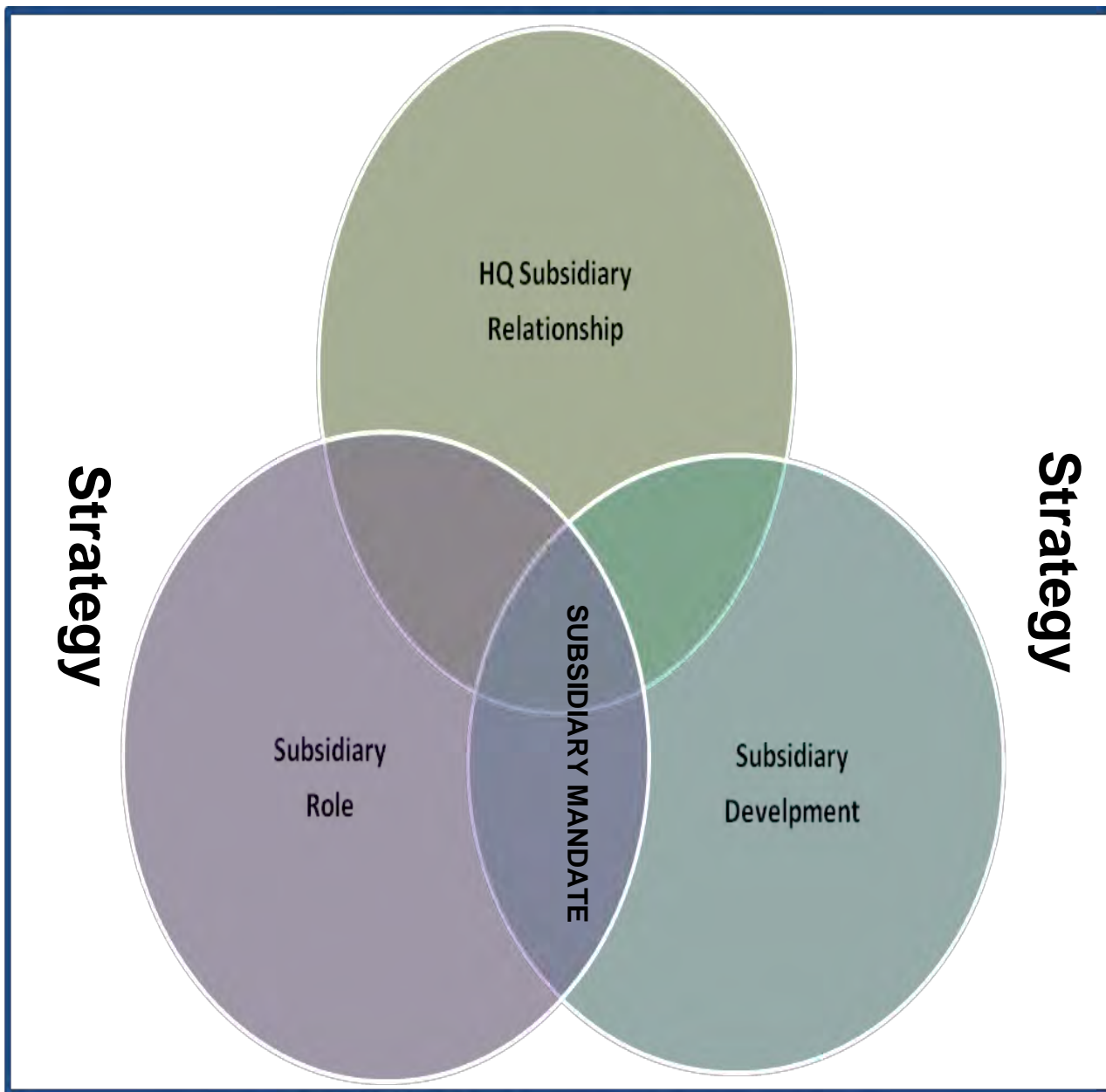


Figure 1 Subsidiary Mandate Research Streams

## **Part I: Evaluation and definition of Subsidiary Mandate Review Frameworks**

Part I will provide an introduction, evaluation and definition of the constructs to understand the subsidiary-mandate review frameworks.

### **2.1.1 Definition of a MNC**

MNCs are defined as “enterprises that have a network of wholly, or partially (jointly with one or more foreign partners) owned producing, marketing or research and development affiliates located in a number of countries” (Phatak, 1989). MNCs must function in more than one external environment. They respond to a complex set of factors such as the diverse nationalities of employees, floating exchange rates, geographically imposed problems of communication and others (Phatak, 1989; Toyne and Kuhne, 1983). In this research “host country” will refer to the country where subsidiary is located and “home country” will refer to the country where the MNC Headquarters is located.

### **2.1.2 Definition of a subsidiary**

According to Muringaseril (2007), a foreign subsidiary is defined as “any operational unit of a MNC at company level, which is situated outside the home country”. The environment of a foreign subsidiary comprises not only of a multitude of external linkages, but also of a large deal of vertical- and lateral linkages within the MNC network (Bartlett and Ghoshal, 1990). Birkinshaw and Hood (1998) define a subsidiary as a value-adding entity in a host country.

This definition reflects the reality that a given host country will sometimes have several subsidiaries (of the same parent) that are independent of one another and that, consequently, will have a separate evolutionary path. A subsidiary can perform a single activity (e.g. manufacturing) or an entire value chain of activities.

### **2.1.3 Definition a subsidiary mandate**

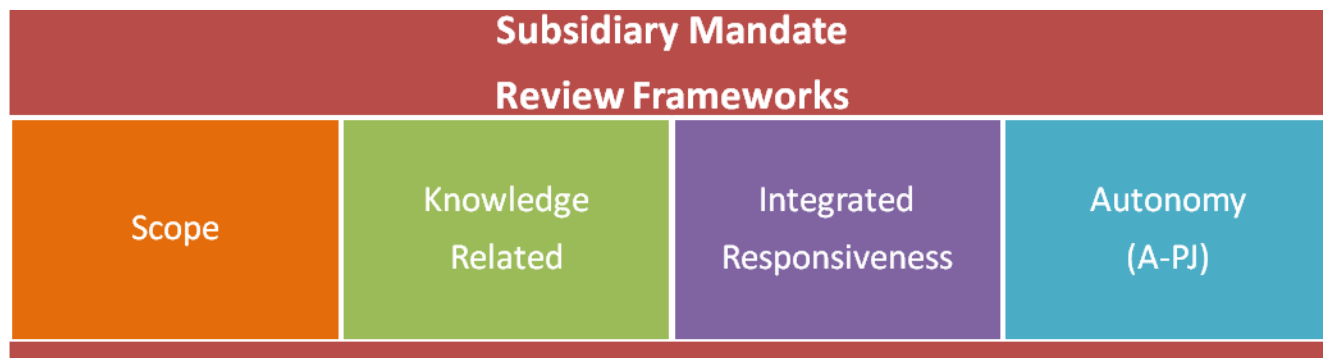
The literature framework provides a clear definition of the various constructs used to determine the role of a subsidiary. It is important to note that these characteristics ultimately determine the mandate of the subsidiary. A subsidiary mandate is defined as “the business, or element of a business, in which the subsidiary participates, and for which it has responsibilities beyond its national market” (Birkinshaw, 1996).

Another concept introduced by the literature is the subsidiary charter. A charter is defined as the “businesses (i.e. the product- and market arenas) in which a division participates, and for which it is responsible within the corporation” (Birkinshaw, 1996). Subsequent work by Birkinshaw and Hood (1998) defines a charter as “a shared understanding between the subsidiary and headquarters regarding the subsidiary’s scope of responsibilities”.

The concept of a subsidiary mandate correlates with the definition of a charter. For the purpose of this research project, the term ‘mandate’ will be used to ensure consistency and to provide the range of mandates that a subsidiary can assume in the broader MNC-strategy.

## 2.2 Contextual Overview

This research project will present a review of the evolution towards the differentiated mandates of MNC subsidiaries. It will use the framework illustrated in Figure 2 to define the contextual factors of subsidiary mandates.



**Figure 2 Subsidiary Mandate Review Frameworks**

The theory reviewed in this section defines and describes the major subsidiary mandate frameworks of MNCs to illustrate how they contribute to the different perspectives that inform subsidiaries' strategic- and organisational issues. This will consequently lead to the distinctive contributions regarding the investigation and evaluation of MNC activities (Manolopoulos, 2008). Each of the frameworks illustrated in Figure 3 will be closely evaluated in order to better understand the essence of the subsidiary mandates and the respective conceptual literature contributions, this has been done by providing both a theoretical overview and an illustration of each framework and its variants (Manolopoulos, 2008).

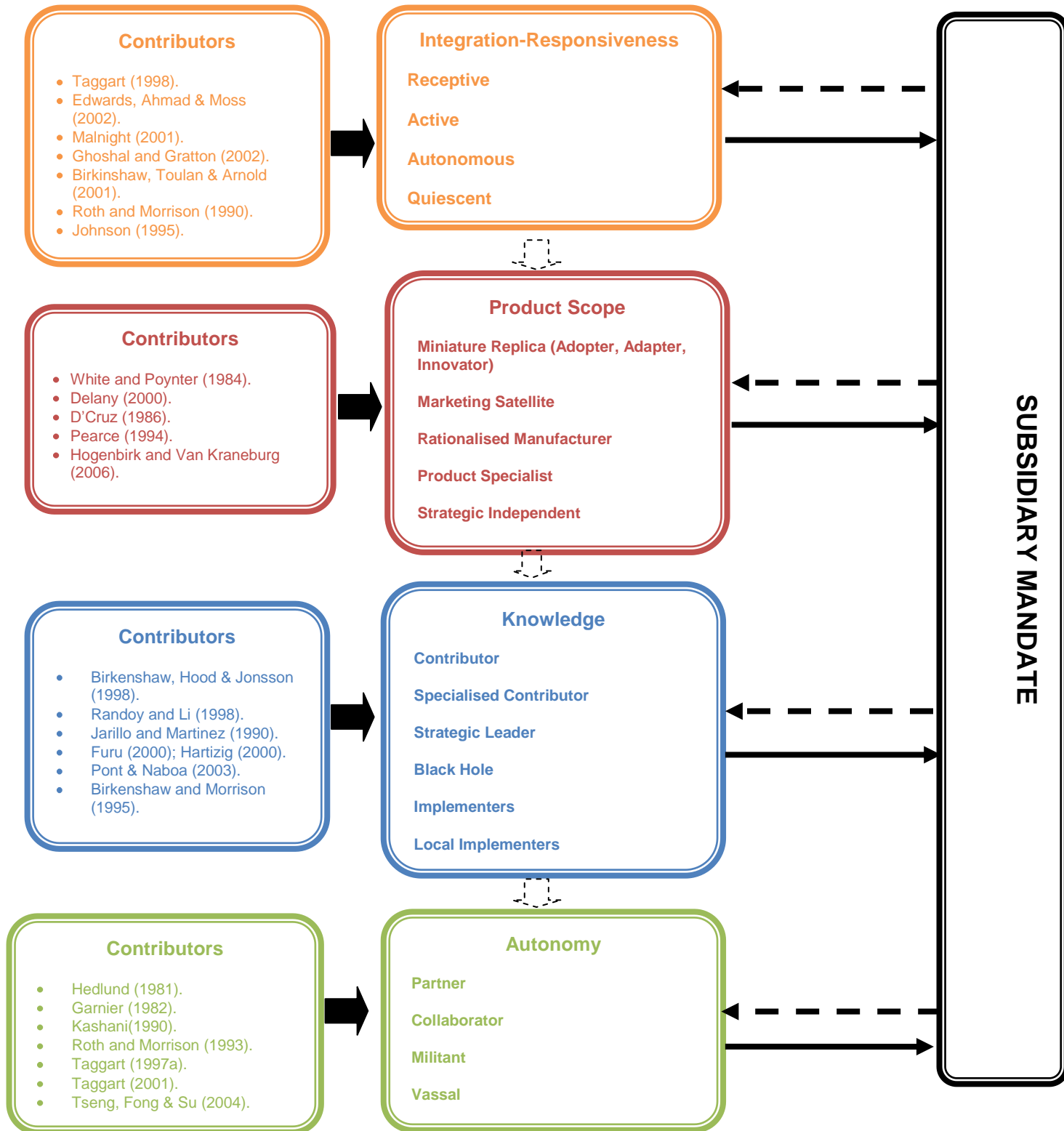


Figure 3 Organising Literature: Subsidiary Evolution Frameworks

Early research indicates that MNCs focused on their headquarters as the pivotal point in the multinational system. It also reports on how MNCs considered the parent-subsidary relationship from a traditional hierarchical perspective (Bartlett & Ghoshal, 1989; Birkinshaw & Morrison, 1995; Daniels et al., 1984; Dunning, 1995; Roth & Morrison, 1990). As a result, headquarters were revered as the sole source of capabilities within the MNC (Birkinshaw & Hood, 1998; Birkinshaw, Hood & Jonsson, 1998; Lipparini & Fratocchi, 1999).

Later research starts to acknowledge that foreign subsidiaries could also contribute to the MNCs wealth of capabilities, with desirable benefits for the entire multinational system. Figure 3 illustrates how researchers devised a variety of frameworks to classify the various mandates subsidiaries may undertake within the MNCs' operations.

Subsidiary mandates can be assigned by the parent (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1981); may be assumed through subsidiary initiatives (Birkinshaw, 1997), or be determined by environmental influence (Ghosal & Nohria, 1989). In practice, they are often defined through a combination of these.

The "subsidiary role classification" stream of research as illustrated in Figure 1 represents a change of theory in the hierarchical organisations toward strategically-networked differentiated heterarchies (Bartlett & Ghosal, 1989; Hedlund, 1994). Subsidiaries are assigned different mandates in order to achieve a wide range of objectives.

White and Poynter (1984) were the first to differentiate between the different roles of subsidiaries. They observed substantial asymmetry in strategic importance-, product development activities- or other value-adding activities for subsidiaries.

A different view on the subsidiary-focused contribution to MNC-evolution and subsidiary roles emerges from the work of Bartlett and Ghoshal (1986; 1989). They focus on the knowledge competencies in the global economy, proposing a more direct impetus (compared to the product scope framework) on the subsidiary's creativity and their access to important resources.

The research reveals a change from 'hierarchical' towards 'heterarchical' conceptualisation of the MNC; and from a parent-based toward a subsidiary-based focus. This trend is characteristic of the view that autonomous subsidiaries can increase their authority within the MNC organisation and contribute to definite subsidiary advantages (Birkinshaw *et al.*, 1998).

In a heterarchical structure, subsidiaries with critical resources and authoritative positions can manipulate not only their own activities, but influence other subsidiaries of the MNC (Doz & Prahalad, 1989). Subsidiary autonomy is considered to be both a requirement and a desirable result of subsidiary evolution (Birkinshaw, 1997; Birkinshaw & Hood, 1998; Hood & Taggart, 1999; Paterson & Brock, 2002).

The literature study also reveals that the nature of the subsidiary mandate is a critical determinant of subsidiary evolution. According to Birkinshaw and Hood (1997), the characteristics of the subsidiary's role create a cyclical process through which the subsidiary's mandate changes over time.

This research project supports this concept expressed by Birkinshaw and Hood, but makes the following adaptations to their Subsidiary Evolution Framework (SEF):

- The HQs and the subsidiary (the extent of procedural justice).
- The subsidiary's characteristics (the extent of subsidiary's scope of value and its technological competencies).
- The network characteristics (the extent of integration and local responsiveness) to the constructs namely:
  - Product Scope.
  - Knowledge.
  - Global Integration.
  - Local Responsiveness.
  - Autonomy to demonstrate the development process as subsidiary's roles change as illustrated in Figure 3.



Some of the most authoritative researchers in the field argue that these drivers interact to determine the role of a subsidiary in a cyclical process of action and reaction, which may lead to subsidiary development (Paterson & Brock, 2002).

The frameworks further address directly or indirectly, how the global distribution of knowledge and technological capabilities have motivated MNCs to assign lead responsibilities to specific subsidiaries in order to take advantage of this occurrence (Ambos & Reitsperger, 2004).

Technological knowledge provides an invaluable foundation for the aggressive business environment. Foss and Pedersen (2004) state that “it has become almost obvious that knowledge and learning are the root of understanding how competitive advantage is gained and sustained.” Dispatching key competencies of the MNC’s operations to subsidiaries enables them to fulfil enhanced strategic roles while maintaining possession of vital production resources.

## **2.3 Subsidiary Review Frameworks**

The section below will define and explain the frameworks and its subunits referred to in Figure 3.

### **2.3.1 Integration and Responsiveness (I-R) Framework**

The I-R framework concentrates on both the supply and demand of MNCs. Global integration concerns the coordination of activities across multiple countries in an attempt to build operations-networks and to take the maximum advantage of similarities across locations. In contrast, local responsiveness concerns those attempts to respond to specific needs within a variety of host countries (Luo, 2001). MNC subsidiaries should be differentiated enough to successfully confront cultures, markets, and business practices that contrast markedly with those of the host country. This flexibility must be accommodated within a structure that provides maximum contribution to corporate performance (Jarillo & Martinez, 1990; Prahalad & Doz, 1987). Jarillo and Martinez (1990) developed this framework in which each subsidiary operates along two dimensions, and Taggart (1998) expands it further.

The first dimension is the degree of localisation or responsiveness, and includes the performance extent of activities such as research and development, purchasing, manufacturing and marketing in the host country.

The second dimension refers to the ‘degree of integration’ and ranges from ‘very autonomous’ to ‘highly integrated’ with the MNC. On the basis of these two dimensions, Jarillo and Martinez identify three types of subsidiaries, namely receptive, active and autonomous. Taggart (1998) adds the fourth type of subsidiary to this classification, namely the quiescent subsidiary.

### 2.3.1.1 Receptive Subsidiaries

Receptive subsidiaries are the oldest type and possess a high level of export tendency indicating an appetite to supply a wider regional market area, but possessing a low level of decision-making autonomy. They operate in the low-R, high-I position as illustrated in Figure 4. They have the lowest complexity of technology-generated procedures, which typically confines them to adaptation of manufacturing technology. Receptive subsidiaries work in an environment where important skills and resources tend to be concentrated at the MNC level. Typically, they are not characterised by a focused local market strategy (Manolopoulos, 2008).

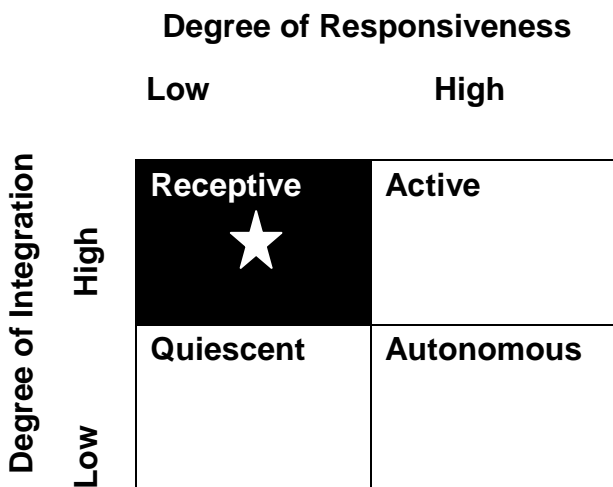


Figure 4 Receptive Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.1.2 Active Subsidiaries

Active subsidiaries partially support Bartlett and Ghoshal's (1989) theory about 'transnational' global strategies. According to the I-R framework, these subsidiaries experience relatively high decision-making autonomy as illustrated in Figure 5, although they operate in close relation to other subsidiaries' procedures. Because of their intense network responsiveness, the contribution of active subsidiaries not only consists of product adaptation, but also includes innovative activities beyond the local market needs. They have the potential to develop new products not only for the host countries where they operate, but also for wider geographical areas. This ascribes to them an extended market scope, which can be combined by an upgrading, value-added scope derived from their well-developed and sophisticated research- and development capabilities (Manolopoulos, 2008).

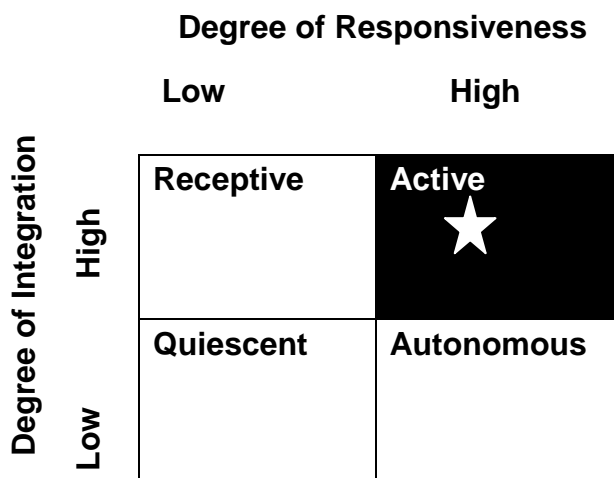


Figure 5 Active Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.1.3 Autonomous Subsidiaries

Autonomous subsidiaries operate in the high-R, low-I quadrant of the model as illustrated in Figure 6. They are primarily established to serve the local marketplace and enjoy high decision-making autonomy. They have a narrow market scope (focusing mainly on the host country), but because they have fairly well-developed research- and development facilities, they may generate value-added activities that serve other parts of the MNC-network. Autonomous subsidiaries enjoy the lowest level of management coordination within the MNC-network, and the highest level of purchasing activities relative to all other types of subsidiaries (Young, Hood, & Dunlop, 1988).

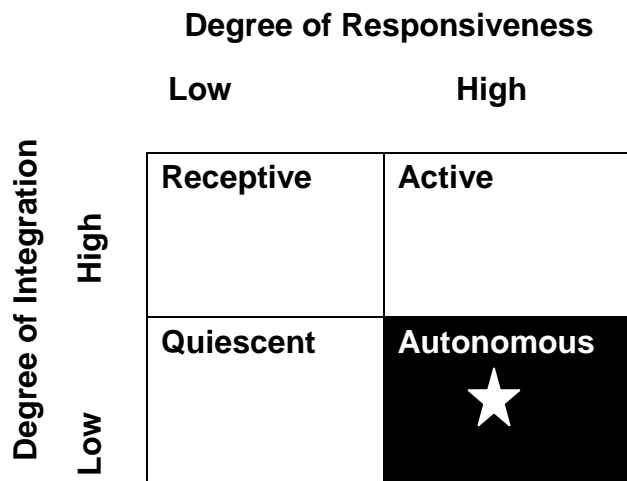


Figure 6 Autonomous Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.1.4 Quiescent Subsidiaries

Quiescent subsidiaries have fewer value-chain activities than other subsidiaries and significantly fewer linkages with their internal network than receptive subsidiaries. They have a low degree of integration and a low degree of responsiveness as illustrated in Figure 7. Such subsidiaries do not have manufacturing capabilities on a global scale and do not differentiate their product or operations nationally. This lack of integration inhibits the transfer of technology, knowledge and products, while the lack of responsiveness does not allow the subsidiary to adjust its activities to best serve local needs, create new knowledge or innovate. It is expected that this type of subsidiary experiences less autonomy and has a limited impact on the economy of the host country (Taggart, 1998).

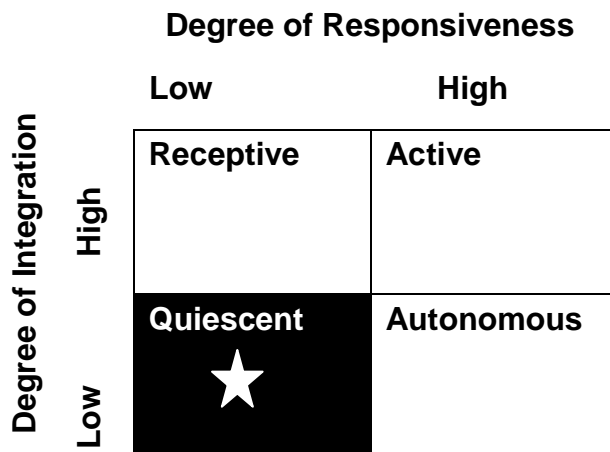


Figure 7 Quiescent Subsidiary Quadrant (adapted from Manolopoulos, 2008)

## 2.3.2 Product Scope Framework

The scope of a subsidiary's activities is determined by the local- and global forces driving industry competition; the indigenous capabilities of the subsidiary and the resources from the multinational parent (White & Poynter, 1984). White and Poynter, 1984 classified four variants namely Miniature Replica (Adopter and Adapter), Miniature Replica (Innovator), Rationalised Manufacturer and Product Specialist:

### 2.3.2.1 Miniature Replica

A miniature replica-business produces and markets some of the MNCs' product lines or related product lines in the home country (White and Poynter, 1984). Depending on the degree of product- and marketing modifications performed by the subsidiary, there are three subcategories that define this relationship, namely adopter, adapter and innovator (White & Poynter, 1984).

- **Adopters** take products and marketing programmes from the MNC and introduce them into the host country, as illustrated in Figure 8.
- **Adapters** take a product from the MNC, but change the product-characteristics and marketing programs to suit the local conditions. Naturally, additional costs are incurred as a result of this process, as illustrated in Figure 8.

**Scope of Activities**

		Limited Value Activities	Broad Value Activities
Level of Competence	High	Rationalised Manufacturer	Product Specialist
	Low	Miniature Replica (Adopter & Adapters) ★	Miniature Replica (Innovator)

Figure 8 Miniature Replica (Adopter & Adapter) Subsidiary Quadrant (adapted from Manolopoulos, 2008)

- **Innovators** develop new, often related products. Generally, these are product line extensions able to optimally exploit a local distribution network or production capacity, as illustrated in Figure 9.

**Scope of Activities**

		Limited Value Activities	Broad Value Activities
Level of Competence	High	Rationalised Manufacturer	Product Specialist
	Low	Miniature Replica (Adopter & Adapters)	Miniature Replica (Innovator) ★

Figure 9 Miniature Replica (Innovator) Subsidiary Quadrant (adapted from Manolopoulos, 2008)



There is a natural progression from adopter to adaptor to innovator, although not all miniature replica-businesses progress through all three stages.

### 2.3.2.2 Marketing Satellite

Businesses with a marketing satellite strategy, market into the local environment, trading area-products manufactured centrally. Process- and product development also occurs at central locations. This strategy is viable when a standardised global product serving multiple markets, has tangible characteristics corresponding closely to the local market's preferences as illustrated in Figure 10 (White & Poynter, 1984).

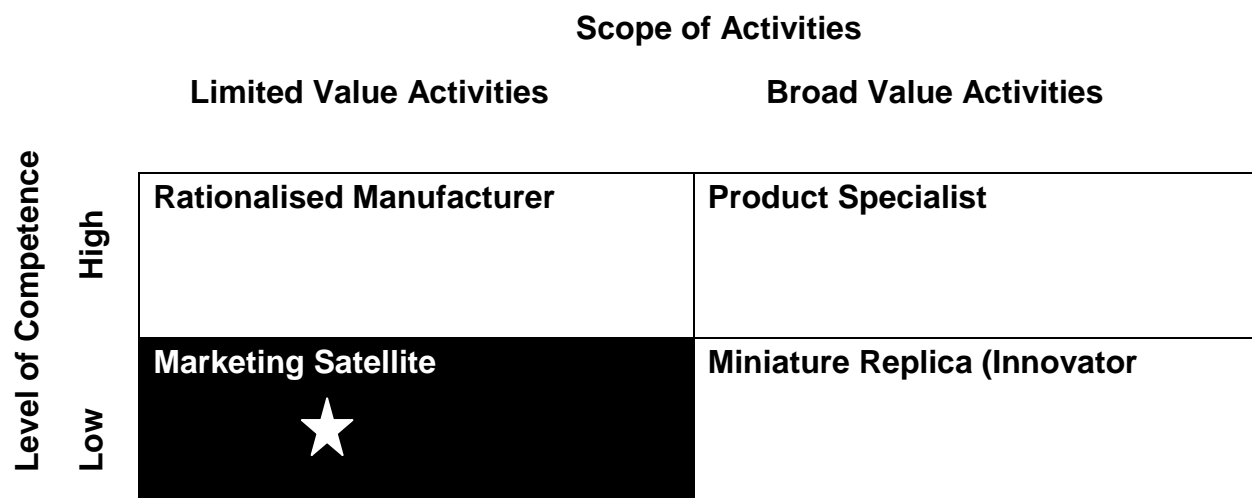


Figure 10 Marketing Satellite Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.2.3 Rationalised manufacturer

Rationalised manufacturer describes the strategy of a business producing a designated set of component, parts or products in a country for a multi-country or global market. Product scope and value-added scope is limited, as illustrated in Figure 11. The output may be further processed by other parts of the MNC. Marketing is done by the MNC, often through a constellation of marketing satellites (White & Poynter, 1984).

		Scope of Activities	
		Limited Value Activities	Broad Value Activities
Level of Competence	High	<b>Rationalised Manufacturer</b> ★	<b>Product Specialist</b>
	Low	<b>Miniature Replica (Adopter &amp; Adapters)</b>	<b>Miniature Replica (Innovator)</b>

Figure 11 Rationalised Manufacturer Subsidiary Quadrant (adapted from Manolopoulos, 2008)

#### Product Specialist

Product specialists develop, produce and market a limited product line for global markets. The products, markets or basic technologies are comparable with the parent company's, but exchanges between the subsidiary and the parent company seldom occur. The subsidiary is generally self-sufficient in terms of value added by way of applied research and development, production and marketing.

The subsidiary has strategic control over its established products as illustrated in Figure 12 (White & Poynter, 1984).

		<b>Scope of Activities</b>	
		<b>Limited Value Activities</b>	<b>Broad Value Activities</b>
<b>Level of Competence</b>	<b>High</b>	<b>Rationalised Manufacturer</b>	<b>Product Specialist</b> ★
	<b>Low</b>	<b>Miniature Replica (Adopter &amp; Adapters)</b>	<b>Miniature Replica (Innovator)</b>

Figure 12 Product Specialist Subsidiary Quadrant (adapted from Manolopoulos, 2008)

#### 2.3.2.4 Strategic Independent

Strategic Independent subsidiaries have the freedom and resources to develop lines of business for a local-, multi-country- or a global market, as illustrated in Figure 13. The subsidiary is allowed unimpeded access to global markets and the freedom to follow any new business opportunities it identifies. Administrative- and financial relations are the principal link with the parent. In most ways, it assumes the role of passive investor (White & Poynter, 1984).

**Strategic Importance of Host Country**

		Low	High
Level of Competence	High	Contributor Specialised Contributor	<b>Strategic Independent</b> ★
	Low	Implementer Local Implementer	<b>Black Hole</b>

Figure 13 Strategic Independent Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.3 The knowledge-related framework

Knowledge-related typologies imply that intra-group knowledge flow is a key element in contemporary MNCs, and that the extent and nature of subsidiaries' involvement in such knowledge flow, is one factor that determines their mandate (Manolopoulos, 2008). This knowledge-based approach is based on the assumption that as MNCs seek to achieve global competitiveness, they are forced to manage dispersed activities across diverse continents and cultures, simultaneously highlighting the need for inter-unit management as a crucial activity. White and Poynter (1984) note that while subsidiaries may face diverse challenges and necessitate different administrative practices, knowledge-related frameworks extend this approach. It takes into consideration the extent of subsidiaries' discretion in respect of managerial authority – a decisive factor contributing to various strategies.

This framework is further developed by Gupta and Govindarajan (1991), who approach MNCs as networks of transactions that comprise capital-, product- and knowledge flows. According to them, the flow of knowledge is regarded as a critical element of MNC-performance. Bartlett and Ghoshal (1989) argue that subsidiaries can be classified into four types:

### **2.3.3.1 Contributor subsidiary**

A contributor subsidiary has considerable expertise in specific functions or processes, but its activities are closely coordinated with those of other subsidiaries (which indicate the high degree of interdependence), as illustrated in

Figure 14. Contributors operate in a strategically-peripheral market, possessing significant competencies. They attract a large amount of investment in competence building, and these competencies are widely used within the corporation's procedures. Their importance for the MNC's strategic orientation is highlighted, since some contributors may be involved in projects aimed at global markets (Bartlett & Ghoshal, 1990).

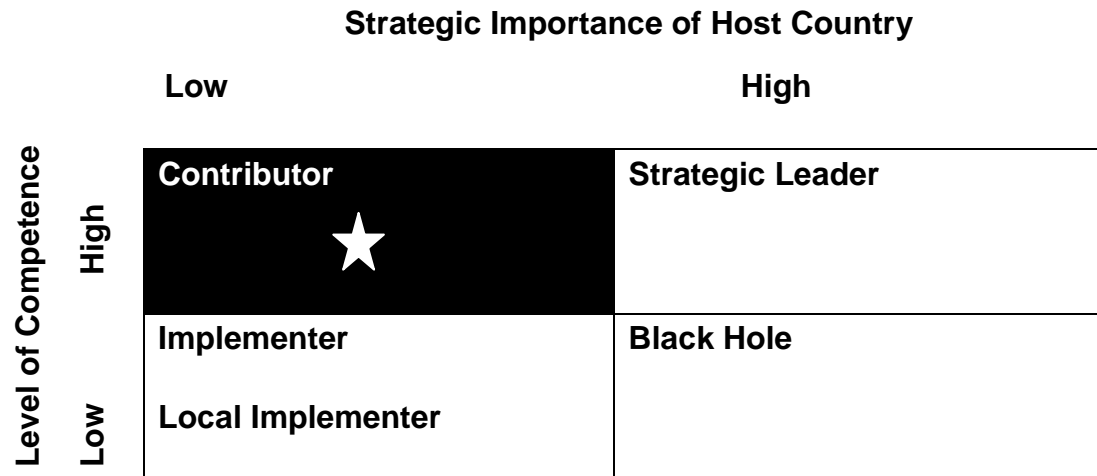


Figure 14 Contributor Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.3.2 Specialised Contributor

Specialised contributor-subidiaries are ‘highly dependent on the MNC and highly interdependent with the other subsidiaries within the MNC’ (Kim, Prescott & Kim, 2005). As illustrated in Figure 15, it must implement any strategies directed by the MNC. Its actions and outputs are closely coordinated within the MNC network (Roth & O’Donnell, 1996).

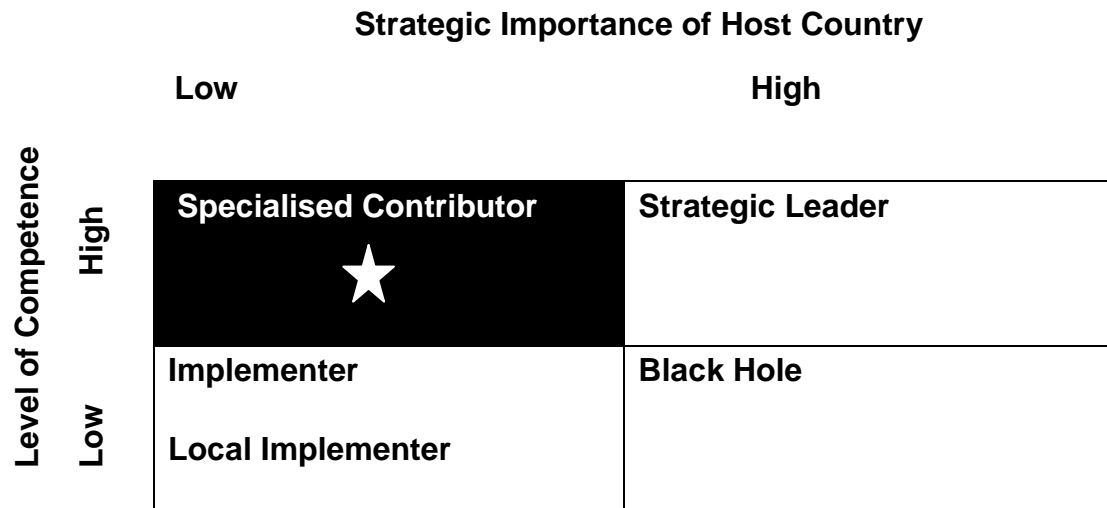


Figure 15 Specialised Contributor Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.3.3 Strategic Leader

Strategic Leader-subsidaries possess considerable competencies while operating in a strategic market, as illustrated in Figure 16. These subsidiaries units tend to act as equal partners to MNCs, rather than as mere extensions of MNC functions, or as simply receivers and implementers of MNC- decisions and actions. They correspond to “national organisations with high internal competences and must be legitimate partners with the MNC in developing and implementing broad strategic thrusts” (Bartlett & Ghoshal, 1989). Strategic leaders may provide high value-adding activities to the MNC group by generating sophisticated technological capabilities, which may not be employed to the host country only, but may be expanded to a global scale as well. Birkinshaw and Morrison (1994) characterises the value-added role of subsidiaries as one that is explored by ‘world mandates’.

### Strategic Importance of Host Country

		Low	High
Level of Competence	High	Contributor Specialised Contributor	<b>Strategic Leader</b> <b>World Mandate</b> ★
	Low	Implementer Local Implementer	<b>Black Hole</b>

Figure 16 Strategic Leader Subsidiary Quadrant (adapted from Manolopoulos, 2008)

#### 2.3.3.4 Black Hole

Black Hole-subsidiaries operate in a highly competitive host environment, but experience a narrow degree of organisational competencies, as illustrated in Figure 17. The nomination of this type of subsidiary implies that a significant market for the MNC is under-supplied, while the potential to make medium-term contributions to the group's knowledge development is also underestimated. These subsidiaries possess a focused market orientation, yet they lack the capabilities to explore the potential that exists in their environment (Manolopoulos, 2008).



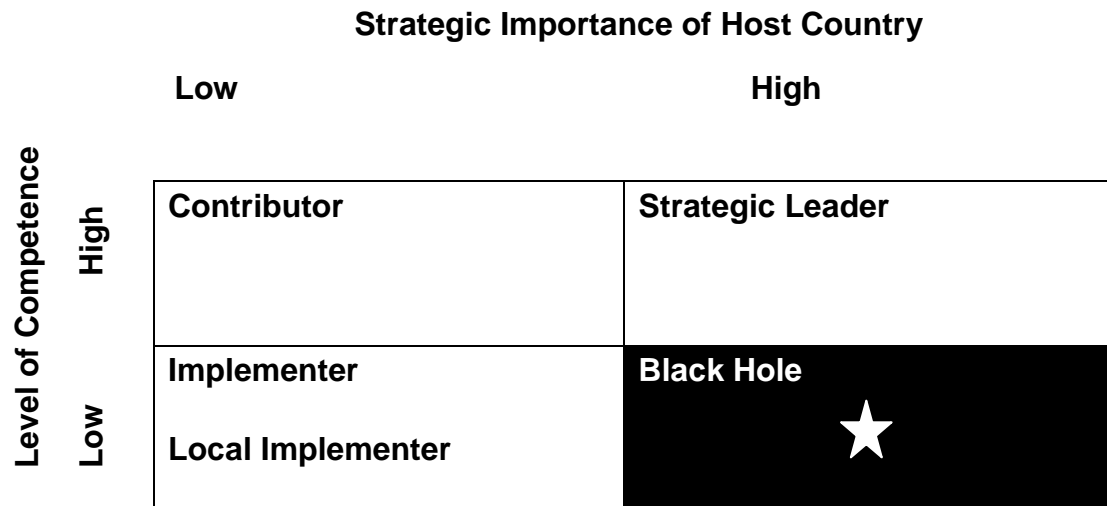


Figure 17 Black Hole Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.3.5 Implementers

Implementers deliver value-added activities to the MNC group, yet their market-potential and local competencies are rather limited, as illustrated in Figure 18. Subsidiaries assigned this role do not receive significant investments for the development of their own competencies, nor are they embedded to their local markets. On the contrary, they receive most of their competence capabilities from the parent multinational, or from other parts of the MNC-network. According to Bartlett and Ghoshal (1997), “without access to critical information, and having control of critical resources, these national organisations lack the potential to contribute to the company’s strategic planning.” Nevertheless, they play a major role in the efficiency of the MNC, having the opportunity to capture economies of scale and scope that are critical to the network’s global strategies.

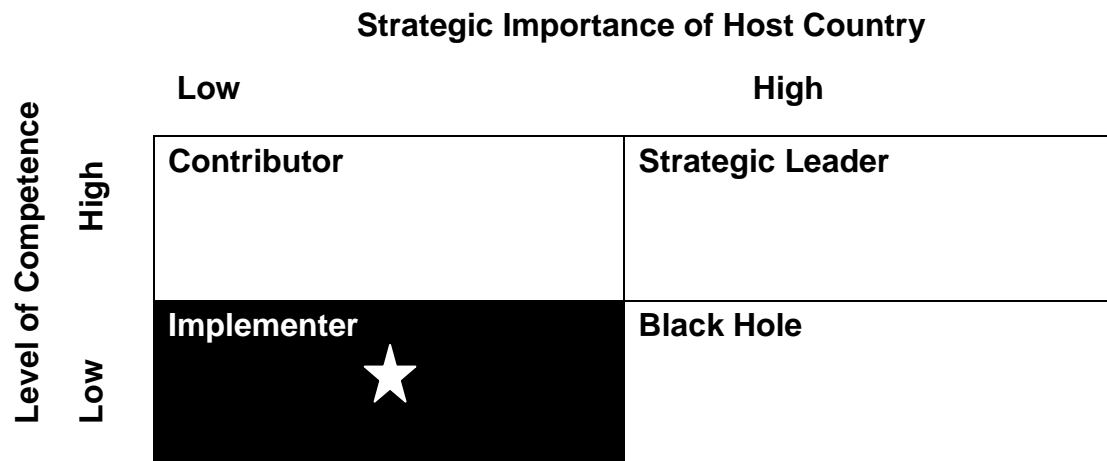


Figure 18 Implementer Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.3.6 Local Implementers

Local implementers constitute the MNC's response to the individuality of host markets' characteristics being strategically independent, and having the potential to develop specific competencies (Manolopoulos, 2008), as illustrated in Figure 19.

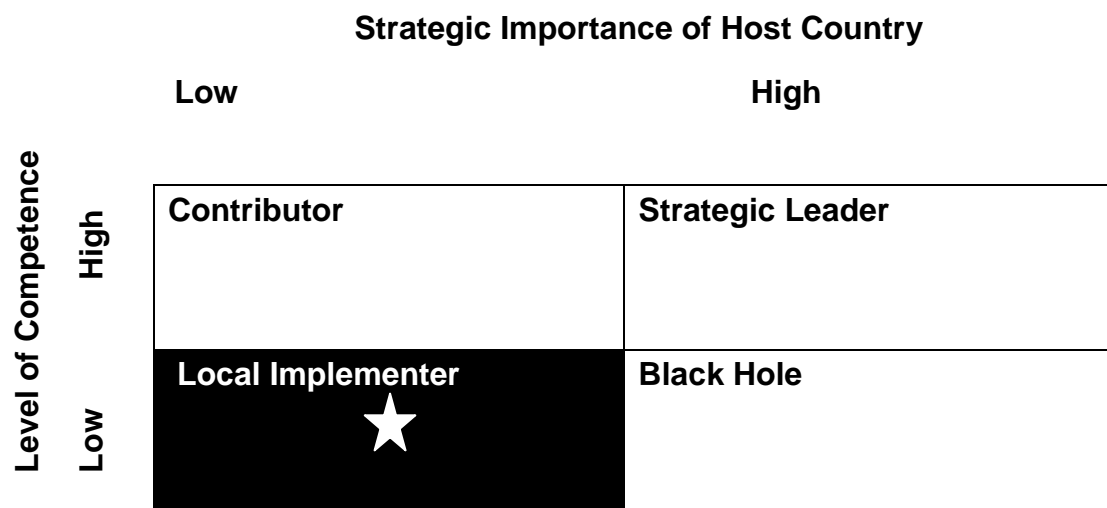


Figure 19 Local Implementer Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### **2.3.4 Autonomy and Procedural Justice (PJ) Framework**

Early research on the management of subsidiaries relates autonomy with decentralisation. However, recent theorists suggest that these constructs do not have the same attributes. Centralisation is connected with decision-making diffusion – the extent to which decision making is concentrated in a single issue or is diffused throughout the organisation (Paterson & Brock, 2002). Conversely, autonomy measures the extent of the decision-making authority (Brock, 2003).

Accordingly, in the broad context of subsidiary management, autonomy is defined as: “the freedom or independence of a subsidiary that enables it to make decisions on its own behalf” (Young & Tavares, 2004). Garnier (1982) as well as Martinez and Jarillo (1991), indicate that local market-oriented subsidiaries tend to have greater autonomy, establishing a positive correlation between local responsiveness in delegating decision-making authority. In the same argument, Bartlett and Ghoshal (1989) note that in the multi-domestic MNC, adaptation to local market-needs requires a degree of flexibility, which implies more autonomy.

Reversing the argument, Taggart and Hood (1999) suggests that globally-integrated subsidiaries tend to have low autonomy. Vachani (1999) finds a positive correlation between MNCs with high related geographic diversification, and the extent of autonomy they grant to their subsidiaries. Conceptual work and empirical evidence correlates the extent of autonomy with subsidiary initiative (Birkinshaw, Hood & Young, 2005; Burgelman, 1983).

The concept of procedural justice is introduced in international management thinking through the work of Kim and Mauborgne (1991; 1993). They define it as “the context in which the dynamics of the multinational’s subsidiary strategy process are judged to be fair regarding decentralised decision making, embeddedness, and autonomy”. Taggart’s framework defines the role of the subsidiary as the following:

### 2.3.4.1 Partner Subsidiaries

Partner-subsubsidiaries operate with high autonomy (high-A) and within a group environment of high procedural justice (high-PJ), as illustrated in Figure 20. Therefore, these subsidiaries are treated as active partners of the parent multinational in the evolution of MNC operations. They have the potential to make creative development- and implementation decisions in a secure corporate environment, revealing these scopes and ambitions to group-level decision makers (Manolopoulos, 2008).

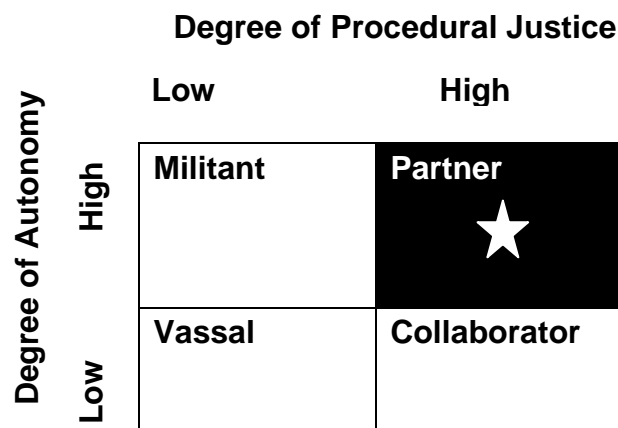


Figure 20 Partner Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.4.2 Collaborator Subsidiaries

Collaborator-subsubsidiaries operate in the low-A, high-PJ quadrant, as illustrated in Figure 21. A collaborator has little real bargaining power with the MNC, but retains its place in the network through flexibility, cooperation, and delivery of acceptable performance as part of a closely inter-linked group of subsidiaries (Taggart, 1997c). Collaborators possess the highest market scope among all other types of subsidiaries, but have a fairly narrow product scope and a considerably restricted value-added scope, often limited to adaptation of existing technology (Papanastassiou & Pearce, 1999). Technological dependence seems to be a key characteristic of the collaborator-subsubsidiary with its generally high levels of coordination, particularly in intra-network transfer of technological- and production knowledge. This is a result of research- and development activities mainly located in MNCs and centralised technology development.

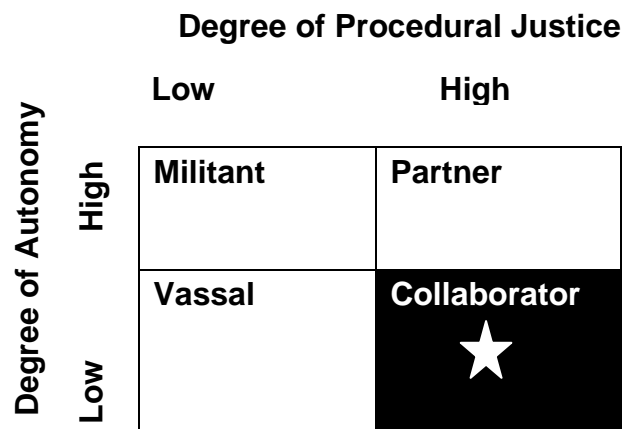


Figure 21 Collaborator Subsidiary Quadrant (adapted from Manolopoulos, 2008)

### 2.3.4.3 Militant Subsidiaries

Militant subsidiaries reflect the highest level of subsidiary responsiveness, characterised by considerable localised individuality. It operates in the high-A, low-PJ quadrant of Taggart’s analytical framework (1997c), as illustrated in Figure 22. This subsidiary embodies high value-added scope – the highest product scope – but has a relatively limited market scope. Militant subsidiaries can improve the efficiency of the MNC group and generate technologically sophisticated procedures adapted to the host-country’s specific requirements. An improved corporate PJ-environment allows militant subsidiaries to turn themselves into partners, thus contributing to the overall evolution of the MNC network.

		Degree of Procedural Justice	
		Low	High
Degree of Autonomy	High	<b>Militant</b> ★	<b>Partner</b>
	Low	<b>Vassal</b>	<b>Collaborator</b>

Figure 22 Militant Subsidiary Quadrant (adapted from Manolopoulos, 2008)

#### 2.3.4.4 Vassal Subsidiary

Vassal subsidiaries operate in the low-A, low-PJ quadrant, as illustrated in Figure 23. This is the most dysfunctional subsidiary type, characterised by narrow value-added scope, very low product scope and very restricted market scope. Vassal subsidiaries are characterized by highly-centralised management. According to Taggart (1997c), these subsidiaries provide no positive or stable input into an MNC's global strategy. Moreover, the low PJ-condition is likely to preclude any subsidiary-initiated move towards a more credible contribution. To reverse this situation, subsidiaries require major changes at the MNCs-level in leadership-, strategy-, and operational proficiency.

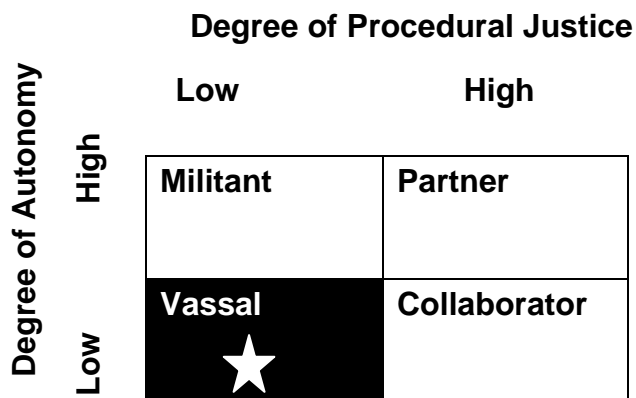


Figure 23 Vassal Subsidiary Quadrant (adapted from Manolopoulos, 2008)

This concludes Part I of this Chapter which provided an introduction, evaluation and definition of the various literature constructs namely, Product Scope, Knowledge, Global Integration, Local Responsiveness and Autonomy.

## **Part II: Defining the processes of subsidiary mandate evolution**

Part II of this Chapter will provide an overview of how subsidiary mandates change, this will be done by defining the processes of subsidiary evolution.

### **2.3.5 Subsidiary Evolution**

In order to arrive at an understanding of subsidiary evolution, it is important to assess the elements that contribute to a subsidiary's mandate evolution. The first section expands on the various frameworks that determine the mandate of a subsidiary, and the second will provide an overview of how the subsidiary mandates change by defining the processes of subsidiary evolution. The research reviewed in Part 1 focused on the substantial body of literature concerned with various aspects of multinational subsidiary mandates (Birkinshaw & Morrison, 1995; Jarillo & Martinez, 1989). However, the literature does not explicitly address the question of how a particular subsidiary's mandates might change over time (minor exceptions are Jarillo & Martinez, 1990; Papanastasiou & Pearce, 1994; White & Poynter, 1984). The contextual factors as illustrated in Figure 3 are critical determinants of subsidiary evolution, and are the key mechanisms responsible for driving the process. A basic definition of subsidiary evolution is that these contextual factors interact to determine the subsidiary's mandate at any given point in time. This creates a cyclical process through which the subsidiary's mandate changes over time (Birkinshaw and Hood, 1998). Figure 3 illustrates the process.



### **2.3.5.1 Generic Subsidiary Evolution Processes**

In order to demonstrate subsidiary evolution, the theoretical frameworks as illustrated in Figure 3 and discussed in Part 1, will be used to put forward the five generic processes of subsidiary evolution as developed by Birkinshaw and Hood (1998). The theoretical frameworks will be used to propose a series of causal relationships as demonstrated in Figure 24 linking the contextual factors of the frameworks to the following five subsidiary evolution processes illustrated in Figure 25:

#### **2.3.5.1.1 Process 1: Parent-Driven Investment (PDI)**

In this scenario, the mandate extension leads to an enhancement of the subsidiary's profile. Take into account that the mandate assignment is the MNC's responsibility and that the mandate is not yet in existence. Although subsidiary managers may have some influence over the process, they are actively competing for the mandate with other subsidiaries, so the development of the equal mandate begins only once the mandate has been assigned (Birkinshaw & Hood, 1998).

#### **2.3.5.1.2 Process 2: Subsidiary-Driven Charter Extension (SDE)**

In this scenario, the mandate enhancement leads to an extension of the subsidiary's mandate. In essence, it represents a strategic move by subsidiary managers, who identify an opportunity to gain a new- or enhanced mandate if they can demonstrate that they have the necessary capabilities. However, change of mandate in this case is not guaranteed (Birkinshaw & Hood, 1998).

#### **2.3.5.1.3 Process 3: Subsidiary-Driven Charter Reinforcement (SDR)**

This process refers to a scenario in which the subsidiary sharpens or strengthens its existing capabilities and maintains its mandate. Although this is not a pure case of subsidiary evolution, it is included to describe the situation in which the subsidiary selects to intensify its capabilities in one specific area (i.e. its current mandate), rather than seek out new mandates. As part of a long-term strategy of subsidiary development, mandate reinforcement is an important phase for the subsidiary to go through as it ensures that the subsidiary has leading-edge capabilities, comparable to both internal- and external competitors. In this instance, it becomes more difficult, albeit not impossible, to identify when evolution has occurred as the mandate is maintained rather than enhanced (Birkinshaw & Hood, 1998).

#### **2.3.5.1.4 Processes 4 and 5: Parent-Driven Divestment (PDD) and deteriorate through subsidiary neglect (ASN)**

Processes 4 and 5 are the opposite of processes 1 and 2. A scenario where PDD occurs is where the subsidiary loses its mandate for a certain product, technology or market and then gradually, the corresponding capabilities depreciate. ASN occurs where the subsidiary's capabilities gradually fade away over time, the subsidiary's performance (for that particular mandate) suffers, and ultimately the MNC takes away the mandate (Birkinshaw & Hood, 1998).

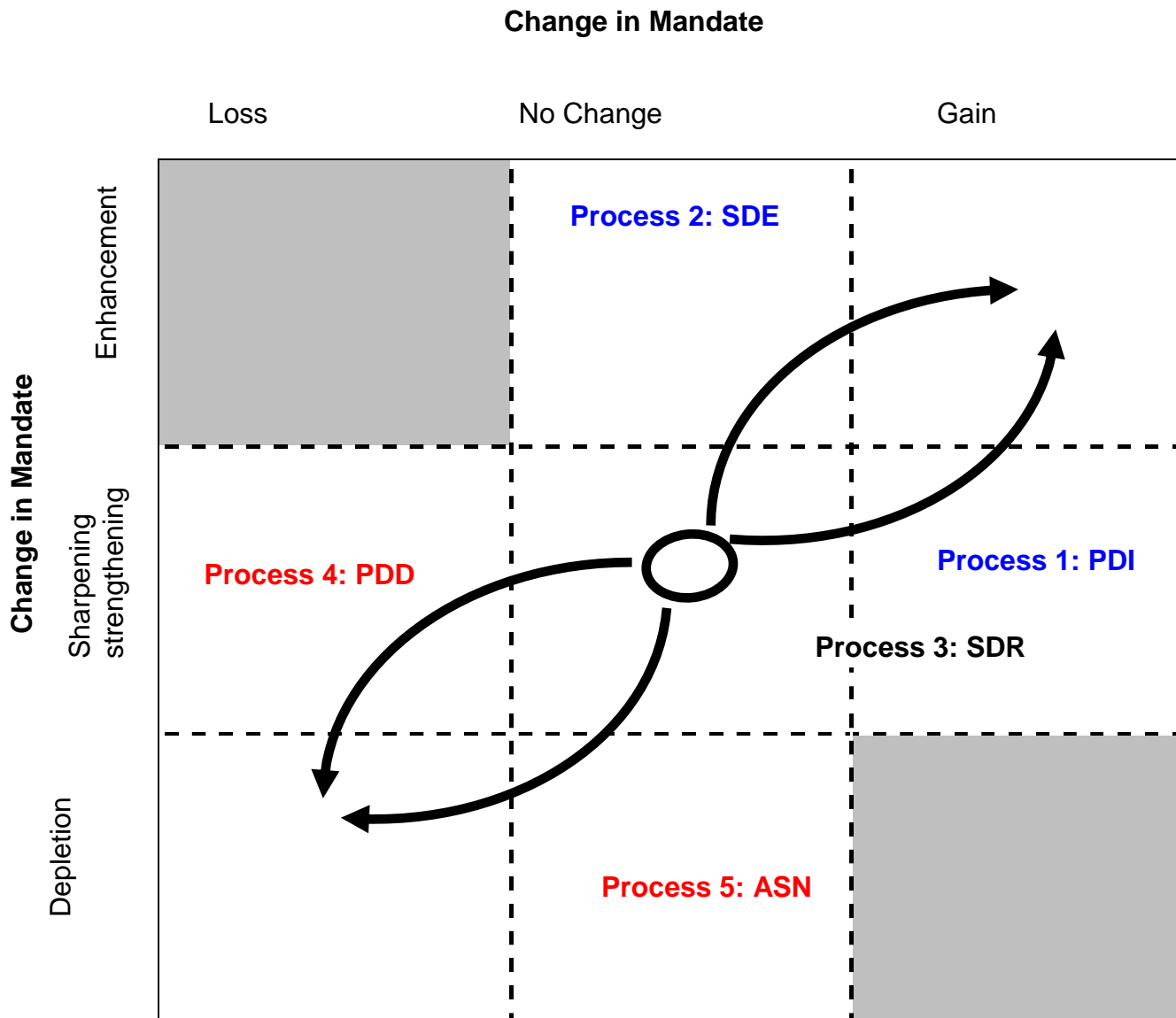


Figure 24 Subsidiary Evolution as a function of Mandate change, adapted from Birkinshaw and Hood (1998)

It should be noted that each process represents a separate phase that may have developed over time, either over short- or long periods. Over long periods of time, it is anticipated that multiple phases of development, including positive and negative steps as well as subsidiary- and parent- driven ones will occur.

Figure 25 sets out a contextual factor-framework in order to consider the impact that each of these factors have on the five generic processes as defined above. It will be used to evaluate the major actions taken by MNC management, subsidiary management and any other factors involved, as well as the anticipated outcome (Birkinshaw & Hood, 1998).

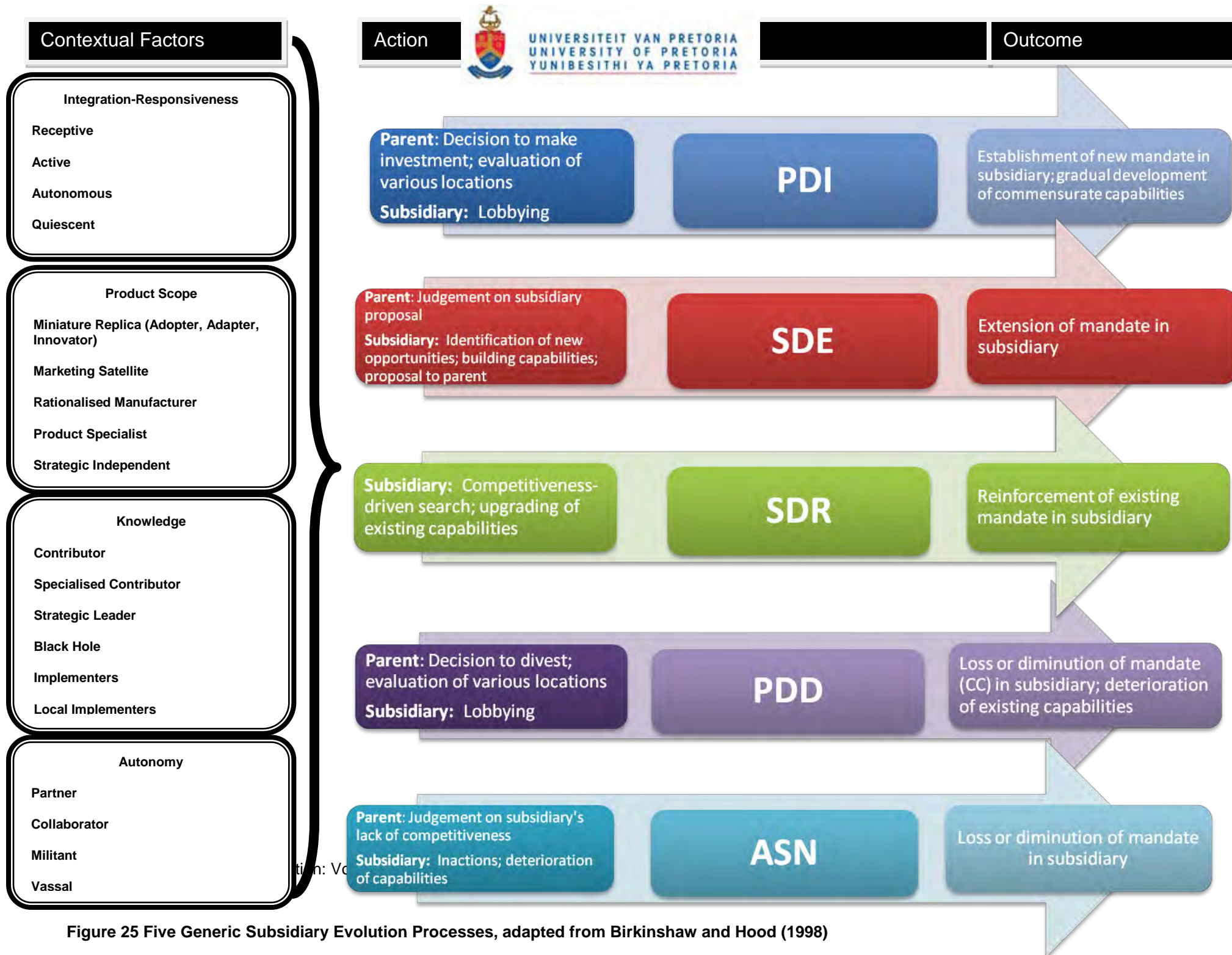


Figure 25 Five Generic Subsidiary Evolution Processes, adapted from Birkinshaw and Hood (1998)

## Chapter 3

### 3. Research Questions

This chapter looks at the conceptual method that was used for the research reported in this study. A thorough review of the existing literature on the subject was evaluated in the preceding chapter, and the major findings that form the departure point to this research study, was presented. Based on various shortcomings identified in the existing body of knowledge on the subject area, a number of research questions were developed with the purpose to generate answers in the form of new research, to meaningfully contribute knowledge to the field of study. These research questions will be posed in this chapter.

The literature reviewed confirmed that there is already extensive recognition that subsidiaries evolve over time through certain contextual factors, namely Product Scope, Knowledge, Global Integration, Local Responsiveness and Autonomy (Manolopoulos, 2008). The literature provided an overview of the key definitions, contextual factors, actions and the outcomes that drive subsidiary evolution. In order to explain the phenomenon subsidiary evolution the contextual factors Product Scope, Knowledge, Global Integration, Local Responsiveness and Autonomy will be used to demonstrate the impact of these factors in the five generic development processes as subsidiary's roles change as illustrated in Figure 25.

Three research questions are formulated relating the contextual factors and the extent to which the five generic processes occur. The following research questions have been formulated in response to the criteria as illustrated, theoretically and empirically, in the preceding sections:

Through research, data-gathering and a conceptual analysis of the results obtained, this research study aims to add to the existing body of knowledge pertaining to the evolution of subsidiaries in MNCs. It will attempt to determine **firstly** what the major characteristics of Vodacom's mandate as a subsidiary of Vodafone is. The objective was to identify the range of subsidiary contextual factors that contribute to the development of mandates, recognizing that some characteristics would be critical in driving subsidiary evolution while others would have little impact (Morrison & Roth, 1993).

**Secondly**, it will explore how Vodacom's subsidiary mandate has evolved from being a Vodafone Partner Market to a subsidiary-owned entity of Vodafone. Vodafone's relationships with other networks are defined on three levels:

- Partner Markets, where Vodafone does not hold a majority equity stake and the relationship is governed by a Partner Network Agreement enabling a range of Vodafone's global products and services to be marketed in that operator's territory.
- Opco, or Operating Company in which Vodafone does hold a minority equity stake and the relationship is governed by a Shareholders agreement.
- Subsidiary, where Vodafone holds a majority stake and the relationship is governed by a shareholders agreement.

In this study, the subsidiary evolution model illustrated in Figure 25 is used to explain the contextual factors that drive changes in a subsidiary's mandate. Subsidiary evolution is seen as the enhancement/depletion of capabilities in the subsidiary, coupled with an explicit change in the subsidiary's mandate. Building on this definition, the interaction between capability and mandate change is analysed by using the Five Generic Subsidiary Evolution Processes model developed by Birkinshaw and Hood (1998).

**Thirdly**, attention has to be paid to how, if at all, Vodacom's autonomy will be impacted by Vodafone in order to demonstrate how Vodacom's current decision making freedom has been impacted by Vodafone. The notion of autonomy is supported in the literature, as indicated in Chapter 2, and is defined as the freedom or independence of a subsidiary that enables it to make decisions on its behalf (Young & Tavares, 2004). Garnier (1982), Martinez and Jarillo (1991), and Harzing (1999) indicate that local market-oriented subsidiaries tend to have greater autonomy, establishing a positive correlation between local responsiveness in delegating decision-making authority. In the same argument, Bartlett and Ghoshal (1989) note that in the multi-domestic MNC, adaptation to local market needs required a degree of flexibility, which implies more autonomy. Reversing the argument, Taggart and Hood (1999) suggest that globally-integrated subsidiaries tend to have low autonomy. Vachani (1999) finds a positive correlation between MNCs with high related geographic diversification, and the extent of autonomy they grant to their subsidiaries.



In summary, therefore the three research questions posed as underlying impetus for this study are:

- What are the major characteristics of Vodacom's mandate as a subsidiary of Vodafone?
- How has Vodacom's subsidiary mandate evolved from being a Vodafone Partner-Market to an owned subsidiary of Vodafone?
- How, if at all, will Vodacom's autonomy be impacted by Vodafone?

## **Chapter 4**

### **4. Research design and methodology**

In this chapter, the research processes followed as part of this study will be explained. The research reported on in the following chapter is in answer to three research questions posed in Chapter 3. The research design, sampling, unit of analysis, secondary data and other research elements will be defined in order to ascertain the validity of the research protocol followed and in order to allow for replication and evaluation of the findings that follow from analysis of the data gathered.

#### **4.1 Research Design**

The methodological paradigms followed in this study were exploratory in nature and involved the collection of both secondary data- and qualitative research. The area of research was exploratory in nature, and was expected to provide valuable insights into subsidiary mandates and the consequential evolution of subsidiaries, with specific reference to Vodacom and Vodafone.

#### **4.2 Secondary data**

The purpose of conducting a literature review was to study the existing body of research, theories and models. This provided the researcher with a thorough understanding of the subject area, encouraged the development of new ideas and served as a stepping-stone for the planned future primary research (Zikmund, 2003).

The information sources included archives, internal communications, books, newspapers, journals, magazine articles and annual reports containing information on Vodacom and Vodafone.

### **4.3 Qualitative research**

Qualitative research focuses more on quality of understanding and insights, rather than on the quantity of sample size (Holliday, 2008). This study utilised semi-structured, face-to-face interviews with senior management personnel within Vodacom and Vodafone. These were held with senior managers with a minimum of five years of experience working for Vodacom or Vodafone. The use of interviews allowed the interviewer to establish a rapport with the interviewees and allowed the interviewer to ask probing questions to increase the correctness and the meaningfulness of the data. The interviews were semi-structured, in that all the interviewees were asked the same open-ended questions to allow for easier analysis of the results (See Appendix A for interview guide). Open-ended questions allow more depth and value to the research process.

### **4.4 Unit of analysis**

The unit of analysis was single foreign subsidiary operating in South Africa (Vodacom) of a British MNC (Vodafone).

#### **4.5 Population**

The population can be defined as those individuals, groups, organisations, human products and -events, aggregate of items and the conditions to which that population is exposed (Holliday, 2008). Therefore, the population of relevance for this study was senior management within Vodacom and Vodafone with a minimum of five years' experience working for Vodacom or Vodafone.

#### **4.6 Sampling and size**

The sample size is defined as “the number of elements that will be included in the sample” (Zikmond, 2003). The research sample size was lower compared to that of quantitative research, the focus being on understanding rather than measuring, and also in order to gain deeper and more penetrating insights (Holliday, 2007). Given the nature of this study, influenced by time constraints, resource availability and the availability of respondents complying with the research criteria, a sample size of eight was considered adequate to obtain valuable results.

For the eight targeted interviewees, two types were included: namely Vodafone executives or senior management responsible for the business operations in South Africa, and/or Vodacom executives or senior management see Table 1. Four of these executives were on level 3 and the other four were on level 2. In order to understand these levels it is important to note that Vodacom has a hierarchical structure or pyramid structure with level 1 being the most senior person within Vodacom i.e. the CEO. The combination of both levels 2 and 3 provided expert insight and facts, by some of Vodacom's most senior management executives.

The in-depth expert interviews helped the interviewer probe deeper, and provided valuable insights about the nature of the relationship between Vodafone (MNC) and Vodacom (subsidiary). Most of the respondents are experts in their fields and are enthused about Vodacom as a company, and ensuring a successful relationship between Vodacom and Vodafone. The participants shared their insights freely and demonstrated profound knowledge of the subject area and those issues affecting the relationship between Vodacom and Vodafone.

Interviewees	Designation	Working Experience	Gender
Interviewee 1	Senior Management	15 years	Male
Interviewee 2	Senior Management	11 years	Male
Interviewee 3	Senior Management	05 years	Female
Interviewee 4	Executive Management	05 years	Male
Interviewee 5	Executive Management	11 years	Male
Interviewee 6	Executive Management	15 years	Male
Interviewee 7	Executive Management	15 years	Male
Interviewee 8	Executive Management	15 years	Female

**Table 1 Summary of Interview Subjects**

#### **4.7 Procedure**

The researcher identified the eight interviewees based on experience and seniority in the organisation. Thereafter each interviewee received an email requesting a meeting with details of the nature of the interview inclusive of the questions (a copy of the said email is attached as part of Appendix A). Interviews took place during working hours, after appointments with each individual manager was made and confirmed. Each interview lasted just under an hour. The interview commenced with a brief introduction as set out in the Interview Guide, followed by each subject signing the questionnaire. Two of the subjects confirmed their responses in writing via email after an initial discussion with each. During the interviews, extensive field notes were taken by the researcher, and these notes and comments were typed up soon thereafter before any detail could be lost.

#### **4.8 Data Analysis**

According to Zikmund (2003:73), data analysis is “the application of reasoning to understand and interpret the data that has been collected”. Secondary data analysis involved a review of existing literature or desk research, which helped in identifying shortcomings and issues that still required explanation in the qualitative phase. The researcher initiated the data analysis as soon as the first interview was finished (Silverman, 1993). Every recorded interview was listened to twice in order to capture more meaning based on interview semantics, use of language, body language and the expert’s experiences. The process was followed by summarising the key highlights from each interview.

Each interview was reviewed in light of the research questions, researcher's notes and the literature review. All interviews were compared with- and contrasted to each other, also examining interview-specific what each interviewee said, in order to allow broad and key themes to emerge. The grounded theory approach research method of analysis was used. The grounded theory approach is defined as "a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon" (Strauss & Corbin, 1998). There are three distinct, yet overlapping processes of analysis involved in the grounded theory, namely:

- **Open coding.** Based on the concept of data being 'cracked open' as a means of identifying relevant categories.
- **Axial coding.** Used when categories are in an advanced stage of development.
- **Selective coding.** The 'core category' or central category that correlates to all other categories in the theory is identified and related to other categories.

This analysis, in combination with an analysis of the secondary data, allowed the development of key themes which emerged from the data. This process further enabled the development of a theory from the data, and that data's relationship to the existing theory.

Furthermore, this research study does not adopt the MNC's point of view, but rather the subsidiary's. This approach, as other authors note (Birkinshaw & Morrison, 1995), has its limits and advantages. By taking the subsidiary's point of view, the analysis does not consider, or does so only partially, the strategic choices made at the corporate level. The subsidiary's point of view has been analysed by some authors (Martinez & Jarillo, 1991; Andresson, Forsgren & Holm, 2002; Frost, Birkinshaw & Ensign, 2002) by means of quantitative analysis.

This chapter provided an in-depth overview of the specific research procedures followed in the course of answering those research questions posed in Chapter 3. Careful account was given to the methods used for gathering qualitative and secondary data, the unit of analysis, the sampling size and other research barometers that validate the authenticity of the data gathered, and subsequently the academic soundness of the findings in the following chapter.



## Chapter 5

### 5. Results

This chapter will report on the results obtained by the researcher in answer to those research questions posed in Chapter 3. The three research questions motivating the need for the research will be reported on chronologically, highlighting any sub-questions that arose as part of the data gathering process and the form of interview used. Preliminary conclusions based on these results obtained will be drawn, as well as possible recommendations made that the researcher feels will contribute significantly to the field of study.

The results of the research study conducted will be analysed in accordance with the order of the research questions, including an initial analysis of the information obtained from the interview process, supported by the secondary data collected. The evaluation of the secondary data as well the results from the interviews revealed the following key themes:

- The nature of the Vodafone/Vodacom relationship.
- The response to Vodafone's controlling share in Vodacom.
- The benefits that Vodacom will derive from the Vodafone subsidiary relationship.
- The challenges posed by the Vodafone/Vodacom relationship

Following from these key themes, the sub-themes are:

- Ownership
- Autonomy
- Brand
- Culture
- Product
- Financial
- Structure
- Strategy

## **5.1 Analysis of Results**

### **5.1.1 Theme 1: The nature of the Vodafone/Vodacom relationship**

#### **5.1.1.1 Secondary Data**

##### **Vodafone's strategy and key facts**

Appendix B provides a comprehensive overview of Vodafone as invaluable background to this study. Vodafone is focused on four key objectives: to drive operational performance, to pursue growth opportunities in total communications, to execute in emerging markets and to strengthen capital discipline. These objectives are illustrated in Table 2.

Highlighting Vodafone’s strategy is important from two perspectives. Firstly, as Vodacom is a subsidiary of Vodafone, its role and evolution will largely be determined by Vodafone in terms of strategy. Secondly, as part of its current strategy, the objective ‘execute in emerging markets’ places specific emphasis on Vodacom as it is deemed to operate in an emerging market. In this regard, Vodafone is already represented in a number of attractive emerging markets. Vodafone’s principal focus is now on execution in these markets, particularly India, Turkey and the existing African footprint, following the acquisition of a controlling interest in Vodacom, which is based in South Africa. Where possible, Vodafone will also seek to maximise the mobile data opportunity. While new markets are of interest, Vodafone will be cautious and selective in its choice of future expansion. The primary focus will remain on driving results from the existing footprint.



**Table 2 Vodafone's Strategic Objectives**

## **Vodacom's strategy and key facts**

Appendix C provides a comprehensive overview of Vodacom the company as background information to this study. As indicated, in order to demonstrate the relationship between Vodacom and Vodafone, it is important to highlight each company's respective strategy. Vodacom's strategy is to be the leading provider of total communications in sub-Saharan Africa and is based on four interlinking objectives:

- To grow the core mobile business.
- To lead in broadband- and connectivity services.
- To develop ICT-converged solutions.
- To expand its reach in sub-Saharan Africa.

Vodacom's strategic direction is underpinned by ongoing investments in key areas:

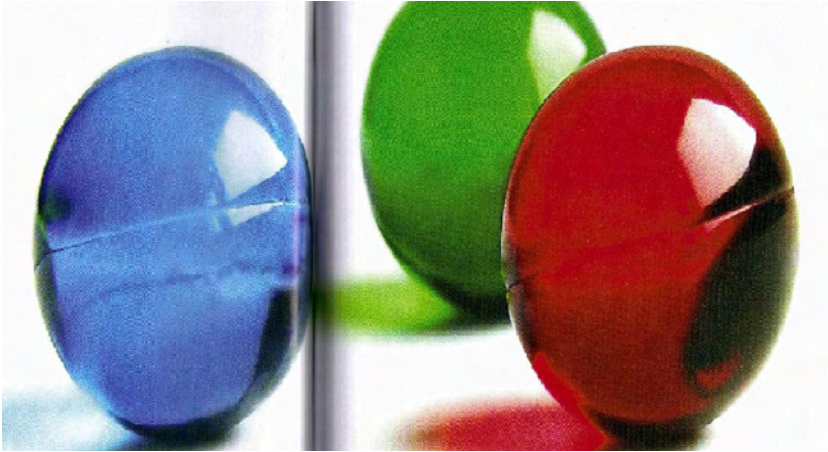
- Maintaining brand leadership.
- Enhancing customer care and deepening customer loyalty.
- Developing distribution platforms and supply chain management capability.
- Continually improving the coverage, quality and efficiency of the network infrastructure.
- Inspiring, developing and supporting the sustainable wellbeing of employees and communities.

Vodacom has joined Neotel and MTN in installing 5 000 kilometres of fibre-optics cable to service South Africa's major cities. The cable will be fully installed by 2011 and will cost between R1,7-billion and R2-billion.

### **The Vodacom/Vodafone Unity**

Vodacom was founded in 1993 as a joint venture between 3 companies: Telkom SA Ltd (50%); Vodafone Group Plc (35%) and VenFin Ltd (15%). In November 2005, Vodafone agreed to acquire VenFin for approximately 16 billion Rand (about 2 billion Euros). It then shed VenFin's other assets, but retained the 15% Vodacom stake, making it a 50% joint owner with Telkom. In 2008, Telkom accepted a R22.5 billion offer by Vodafone to buy an additional 15% in Vodacom, and so increased its stake to 65%. The remaining 35% of shares was offered to Telkom Shareholders and the public in the form of a JSE listing. The transaction resulted in Vodacom moving from being a partner-network, to a full subsidiary network of Vodafone that gave it far more scope for growth into the future.

In a booklet published by Vodacom entitled *Our Vodacom*, the following statement was published, accompanied by the image in Figure 26 Image reflective of the Vodafone/Vodacom unity:



**Figure 26** Image reflective of the Vodafone/Vodacom unity

*“By the end of the day on 18 May 2009, a new picture of Vodacom will emerge. In the same way as red, green and blue are the primary colours that enable the electronic transmission of the world in full technical colour, the green and blue of Vodacom, and the red of Vodafone will combine to form the perfect picture. The union of red, green and blue symbolises the way Vodacom will join forces with Vodafone ... Now Vodacom and our customers can join the seamless world of Vodafone, whose mission is to “be the communications leaders in an increasingly connected world.*”

*Like Vodacom, the Vodafone corporate culture is customer- orientated, competitive and fast. The Vodafone brand has strong local roots in its countries of operation, yet also has the international appeal of a global operator. The African ingenuity and resilience of Vodacom, combined with the global power of Vodafone will create a new force. Now red, green and blue will come together to create a future that is brighter than ever before.”*

## **The partnership in Africa**

In 2006 Vodafone and Telkom agreed to amend a long-standing shareholder agreement which had prevented Vodacom from investing in operations north of the Equator. Subsequently Vodacom Group has expanded into the following African countries:

- Tanzania
- Democratic Republic of Congo
- Mozambique
- Lesotho

Vodafone has agreed to use Vodacom as its exclusive investment vehicle in sub-Saharan Africa. Vodafone is expected to use Vodacom as its key vehicle to expand into developing markets in Africa now that it has secured control of the company. Vodacom will continue to selectively evaluate further licence- and acquisition opportunities within sub-Saharan Africa.

Vodacom's operations outside South Africa represent attractive growth markets due to these markets' relatively lower levels of mobile penetration, and the less-mature stages of development of the ICT sector in these regions. Vodacom is likely to seek to expand horizontally its existing operations in Tanzania, the Democratic Republic of Congo, Lesotho and Mozambique, where it already has more than ten million subscribers.

### 5.1.1.2 Qualitative Data

All the respondents confirmed that the Vodacom/Vodafone relationship is not new, as the companies have approximately 15 years of history working together as Partner-Networks with Vodafone owning 50% of Vodacom. One respondent defined it as being “*neither fish nor fowl*”.

Other respondents stated that:

*“The relationship is still at arms-length, but as time goes on their involvement will increase more and more”.*

*“Need to convince them [Vodafone] to keep things at arms length”*

*“Realistically Vodafone will not get involved in the day to day running of the organisation, except for financial control or if something goes horribly wrong.”*

Respondents drew attention to the fact that the relationship was now based on well-defined legal parameters, namely that Vodafone’s shareholding was increased from 50% to 65%, converting Vodacom’s status from a partner-network to a fully-owned subsidiary. Respondents also indicated an apparent lack of understanding at a management level regarding what precisely majority-ownership entails. Respondents stated that:



*“Vodacom has always been extremely autonomous in its decision making, in what it wants to do and where it needs to go, and this change feels like decisions are now being second-guessed (sic).”*

*“The biggest feeling I guess, would be that people want to second guess every decision that you want to make or they [Vodafone] want to be involved in the decisions that you make (sic).”*

*“The change is dramatic for certain people, in that Vodacom was very autonomous in what it needed to do and where it needed to go.”*

*“Vodacom will have less autonomy.”*

*“Sad in a way that the autonomy that has been built up will be undermined (sic).”*

*“When you move from being an autonomous business into a business or branch of a multinational company, then things do change drastically.”*

*“If Vodafone has a light touch approach, things will run much smoother.”*

*“The negative of it is that if the Company [Vodafone] feels that it [Vodacom] is strongly run then the changes will result in certain managers feeling disempowered. If the company is weakly run then it will add a lot of impetus to get things done and achieving things (sic).”*

*“Vodafone needs to define the broad strategies, goals and targets and leave the execution (thereof) to the local management team.”*

Respondents indicated that although Vodacom was previously a Partner-Network, the conversion into a subsidiary will require integration from a people-, process- and technology perspective. Respondents indicated that:

*“Vodafone was not a controlling party in the past, but Vodacom was largely treated as a subsidiary.”*

*“The impetus will move from management being very autonomous, to management following the decisions made by Global. These decisions are made to the benefit of the group, not to the benefit of the local company. The approval process disappears locally. This, of course, is not unusual for companies having a majority stake in a subsidiary (sic).”*

*“Vodafone is the owner of Vodacom and the changes are not unusual for transactions of this nature.”*

*“These changes, however, are not unique to the Vodafone/Vodafone relationship, but symptomatic of multinational companies and their subsidiaries.”*

*“The relationship with Vodafone in the past mainly had benefits, only with no specific reporting requirements or target setting.”*

*“Vodacom will be told what the goals are.”*

*“Vodacom will be accountable to Vodafone for targets, objectives and goals.”*

*“You have all the global people wanting to steer the way things need to happen.”*

*“There is a general sense that the excessive requirements from Vodafone will lead to a change in the culture of Vodacom.”*

*“The culture of the business starts to change – moving from autonomous decision making to an organisation that follows decisions made at some other group level to the benefit of the group and not to the benefit of the local subsidiary (sic).”*

*“Vodacom has a very strong DNA and Vodafone is not part of this DNA (sic).”*

*“If they are going to stick their fingers and noses into everything we do, that will not be good for Vodacom. If however, they are only going to set up broad goals and targets as well as control the finances there is potential for a great partnership – but only time will tell (sic).”*

*“(I’m)...worried about the carrot-and-stick approach by Vodafone (sic).”*

*“Vodacom will loose a hell of a lot of flexibility (sic).”*

Respondents indicated that the new relationship from a product perspective is interesting. This attitude is captured by the final comment: *“Their system – our environment”*.

## **5.1.2 Theme 2: Response to Vodafone’s controlling share in Vodacom**

### **5.1.2.1 Secondary Data**

#### **Congress of South African Trade Unions’ (COSATU) response:**

The listing of Vodacom on the Johannesburg Securities Exchange (JSE) was in doubt, following the legal proceedings instituted by ICASA and COSATU. The Pretoria High Court judge did not issue the interdict, and dismissed the urgent application with costs. If the Congress of South African Trade Unions (COSATO) had been allowed to prevent the listing, it could have triggered a contagious sell-off of shares in other sectors of the economy as foreign investors lost their faith in South Africa as a sound investment destination.

Although political pressure from government was said to have fuelled COSATU’s action, the government’s official stance was to oppose COSATU’s plea for an interdict. The Department of Communications said the government had given its commitment to supporting the deal. COSATU opposed the deal on the grounds that it would cause job losses, and gave control of a major South African company to a foreign corporation.

Both Telkom and Vodacom have on many occasions assured stakeholders that the restructuring of the companies would not lead to job losses.

The listing of Vodacom was part of a series of transactions that the companies claimed could not be unscrambled without severely injuring the financial standing and reputations of the respondents and the government. Vodacom had proceeded in good faith, based on an earlier decision by ICASA that it did not need to approve of the unbundling. The Independent Communications Authority of South Africa (ICASA) defended its comments and the court action aimed at preventing or delaying the listing of Vodacom, and the associated transfer of a controlling stake in the company to Vodafone.

The eleventh-hour decision was widely regarded as a sign of undue political influence in the country's communications regulator, as it had previously given the deal the green light. ICASA's transgression occurred because it was concerned that the transaction was being done under a controversial atmosphere, and felt the move to rescind its earlier decision was in the public interest. ICASA's primary function is to regulate the electronic communications sector in the public interest.

It is for this reason that the Authority deemed it fit, in the interest of transparency, that a public process be followed to allow all interested parties to be heard on the transaction before a decision was taken on the matter. At no point did the Authority seek to deny Vodacom the right to list on the Johannesburg Stock Exchange.

### 5.1.2.2 Qualitative Data

Respondents stated that there are some significant differences ‘*these days*’ that can be disassembled as follows:

- Traditionally, there has always been some major board-level deadlock between Vodafone and Telkom, which resulted in difficulty with strategic decision making. However, since Venfin sold its stake to Vodafone, and Telkom sold 15% of its stake to Vodafone, Vodafone possesses the necessary control to drive through its own strategy. This view was supported by one executive manager, who stated that:

*“Previously, Venfin was a very good balancing factor between Vodafone and Telkom, while also bringing a wealth of experience in building brand value, gained from its experience in FMCG and luxury goods. I believe that Vodafone sees the value of a strong brand, but are sometimes guilty of overestimating this value, particularly in the Internet sector (sic).”*

- The other significant change is that Vodacom moved from being a private company to its new status as a public company. It now has to deliver strong quarterly results and key messages to maintain a healthy share price –“*A key driver for Vodafone will be ROI and the share-price*”. This change implies a vast overhead for any company, the effects of which are visible in the day-to-day operations.

A respondent notes:

*“The net result is far greater pressure being felt all around the organisation, and a number of structural changes to the Vodacom business. In this current changed relationship, Vodacom will typically find it a lot more difficult to access working capital and will see reduced OpEx budgets being imposed by Vodafone moving forward (sic).”*

Other respondents commented that:

*“Clearly, Vodafone will wish to maximise its returns from the South African market, so Vodacom is a prime opportunity while it is still able to charge higher rates than the rest of the world for calls, (relative to the average South Africans earning power) (sic).”*

*“This was a R22.5 billion investment. For sure they would like to see how it is running (sic).”*

*“Vodafone has invested a substantial amount of money in Vodacom and would like to see a return on their investment.”*

- In order to keep Vodacom innovative and competitive with these newly-reduced budgets, the group function of Vodafone will have to take a lot more responsibility for product innovation:

*“However this is a big risk to Vodacom. By taking a central approach to product development, there is likely to be far more of a ‘one size fits all’ outlook, which could struggle in the South African market (sic).”*

*“Vodafone’s approach of ‘one size fits all’ has resulted in documentation and information being too generic and not being localised.”*

*“Vodafone has a tendency to centralise everything in Europe, hosting in Germany and in the UK and this is not realistic for the South African market.”*

*“Centralising product development is a blessing in disguise, as it will severely impede flexibility to meet local market requirements (sic).”*

*“Vodafone has its list of product deployment- and release schedules and South Africa is seldom a priority.”*

*“Their system – our environment.”*

All respondents stated that, like any relationship, the change implies both positive and negative aspects to be considered. Respondents agree that Vodafone has brought some good changes, particularly with regards to attempts to reduce and control costs.



The negative aspects relate to an increase in unnecessary reporting requirements. There also appears to be a jockeying for position within senior management in an effort to impress the new parent (which is not necessarily negative but does serve to increase corporate politics). These sentiments were confirmed by the following statements:

*“Lately, I felt a greater assertion of power – bosses want to keep their positions, therefore they did not want to rattle any cages (sic).”*

*“Vodafone is driving for alignment with all its other subsidiaries.”*

*“Vodafone will have a dotted line into operational areas such as Finance etc. (sic).”*

*“Vodafone will ensure complete alignment of areas such as HR, Brand and Marketing and will be most prescriptive in these areas (sic).”*

*“There will certainly be a tighter control in operations.”*

Other changes included:

- Significant budget cuts.
- Many structural changes, including internal changes as well as several Vodafone employees taking up seconded positions in strategic areas within Vodacom:

*“Vodacom had a very stable structure for the last 15 years, which has undoubtedly benefited the company greatly. By contrast, the Vodafone business which has largely grown by acquisition has been extensively restructured on a regular basis, which is a big overhead for any large company (sic).”*

*“Nothing has changed substantially as Vodacom is still meeting its financial targets. (I’m) not sure that it will continue in that way, as there is definitely more involvement in areas such as finance and several staff have taken up Vodafone seconded positions in Vodacom (sic).”*

*“Rumours are that Vodafone have concerns about the Vodacom structure.”*

*“Concerns around the approach taken in communicating these changes have left people feeling very uncertain around how we engage and what is it that we need to do?”*

*“The changes have not been well orchestrated – need a clear message to say this is how it should be done (sic).”*

*“There is a great sense that something is about to happen, people feel uncomfortable with what has not been communicated – either they do not want us to know or they are not telling (sic).”*

- Vodacom is now in the risky position of following the Vodafone innovation and new product strategy:

*“If this turns out to be unsuccessful, Vodacom could start to find themselves to be an industry laggard rather than a leader.”*

*“This will severely impact our [Vodacom’s] competitive advantage in the local market, where our competitors will have the flexibility to address any competitive issues.”*

- Increasing pressure to move to Vodafone-branded products and services is becoming evident:

*“While this is potentially a good strategy for (the) Vodafone group in some aspects, the Vodafone brand is not necessarily seen as cool by youngsters in some developing sectors, so caution needs to be applied (sic).”*

*“Vodafone has a very Eurocentric focus and there is a concern around the relevance of Vodafone’s products and services in the South African market.”*

The majority of respondents indicated that since Vodafone acquired an additional 15% stake in Vodacom, there has been a marked increase in the involvement of Vodafone in the day-to-day running affairs of Vodacom. In the experience of the respondents, for the most part this is perceived within Vodacom, to be *“unnecessary interference”*. All respondents agreed with the above sentiments, which were confirmed by the following statements:

*“However, the more accurate truth is probably simply that people are generally uncomfortable with change, and will therefore find reasons to dislike it. At the moment, however, I would describe the relationship from my perspective (which is based to some extent on my own experience but more so on what I hear in the corridors) as uneasy. The relationship is not working particularly well at the moment and will probably take several months (perhaps even another year or two) to settle down to a point where both parties not only have common goals, but they are able to both also agree on how best to achieve those goals. This is no easy challenge, given that even within Vodacom itself (and presumably also Vodafone) there is little consensus on how to achieve its goals (sic).”*

*“Thus far, we have been lucky in that they [Vodafone] have not yet said that ‘thou shall do it whether you like it or not’. They are still willing to supposedly discuss matters but in those meetings I get the feeling that they have made their minds up – they do not want to listen (sic).”*

*“If I were Vodafone, I would not implement the changes to the level that we are experiencing them – I will keep the things running they way they were, see how it goes before I implement those changes (sic).”*

A typical view expressed by all of the respondents was that Vodacom ran things successfully for the years prior to Vodafone increasing their stake, and there is therefore no reason to mess with a ‘winning formula’.

There was also a view that history indicates that whenever Vodafone takes control of a successful operating company in any particular territory, soon afterwards the target company falls from the number one spot to the second or third place in its particular territory.

Vodacom is a truly South African company and its culture is very different to European companies:

*“I personally think that a big risk exists that Vodafone will essentially alienate the domestic market, unless attention is paid to this point (sic).”*

*“Vodafone is very Eurocentric in their approach and in their attitudes”*

*“Vodafone has a very Eurocentric focus and there is a concern around the relevance of Vodafone’s products and services in the South African market.”*

*“What is annoying is that they [Vodafone] do not understand our pricing structure, Vodacom’s local regulatory challenges and our market, yet they insist on us following what they say (sic).”*

An executive manager who has worked for Vodacom for more than 10 years, stated:

*“The decision making process is greatly reduced, so in many ways it is very sad to see power being lost by the local Vodacom management who are responsible for building the company into what it is today (sic).”*

### 5.1.3 Theme 3: The benefits that Vodacom will derive from the Vodafone subsidiary relationship

#### 5.1.3.1 Secondary Data

On 17 April 2009, Pieter Uys, CEO of Vodacom published the following statement:

*“Vodacom will continue to build on the strong foundations of our values, principles and business models, which have positioned us as the leading cellular network. We will adopt the wisdom and processes that Vodafone can give us to realise our vision of transforming into a total communications company. Of course this reciprocity of ideas will work as a two-way stream, and Vodafone may well adopt some of our key learnings and practices.”*

Besides exclusive access to new product launches and global research- and development capabilities, the benefits of Vodacom’s relationship with Vodafone extend to benchmarking Vodacom’s operations against global standards of excellence. The benefits of being a subsidiary of Vodafone are central to Vodacom’s value proposition and growth strategy, and include:

- Shared communications expertise and experience.
- Access to world-class research and product innovation.
- Procurement-savings through global economies of scale.
- Benchmarking operations against global standards of excellence.
- Powerful brand association.

Some examples of the benefits already derived from the Vodafone relationship include:

- Being the first to market products (see Figure 27) such as:
- The iPhone
- BlackBerry



**Figure 27 Vodacom's first to market handsets, Blackberry and iPhone**

- Introduction of innovate products such as
  - Vodafone Live!
  - Vodafone My Web
- Attractive Roaming Rates as illustrated in Figure 28.



**Figure 28 Vodafone Passport**

- Vodacom's partnership with Vodafone provides customers with access to the Vodafone World of predictable and transparent international roaming costs.

- Customers can use their Vodacom cell phone in more than 158 countries and receive a minimum discount for roaming on Vodafone partner-networks.
- As a Vodafone World customer, customers also will benefit from standard fixed-rate call and SMS tariffs, at no additional cost.
- Introduction to affordable Vodafone phones as illustrated in Figure 29.



Figure 29 Vodafone phones distributed by Vodacom

### 5.1.3.2 Qualitative Data

Respondents agreed that the single biggest benefit that Vodacom should derive from Vodafone is economies of scale and the purchasing power that Vodafone will bring to the table. *“This should serve to drive costs down, which is vital given the downward pressure on tariffs and revenues”*. Other benefits include access to a world-leading brand as well as its research and development, and access to products that Vodacom may not otherwise have had (for example the iPhone). All of these are benefits that should come with a multi-national corporate giant like Vodafone being the parent-company.



Respondents stated:

*“Vodacom has seen the benefits of the Vodafone buying force - Vodacom is now able to offer certain handsets at substantially reduced prices.”*

*“The deal will result in cost-saving in infrastructure, and there will be a lot of efficiencies (sic).”*

*“The Vodafone deal has made me feel extremely positive about being part of a global organisation and it will be good for business (sic).”*

*“Vodafone has a very innovative and new way of thinking.”*

*“Vodafone’s culture, presence and outlook has been very refreshing.”*

*“Vodafone has a very strong brand which will re-invent Vodacom.”*

*“Holly cows naturally will fall away... (sic).”*

*“(The) distribution channels are full of shit and Vodafone will not stand for it (sic).”*

*“Innovation requires us to think globally and Vodafone will push us to the edge of our seats (sic).”*

*“There is a perception that they do not understand our market, but they are eager to make what we are unique (sic).”*

Other benefits to be derived as indicated by the respondents included:

- Easier board approval processes, without multiple-shareholder conflict:

*“The Vodacom Way will make way for Vodafone’s speed, simplicity and trust.”*

- Vodafone may be able to bring economies of scale in equipment and terminals purchasing through the globally centralised VPC (Vodafone Procurement Company).

However:

*“Vodacom has been very good in this area, compared to the rest of the group, so do not expect a vast improvement. Vodacom has typically used different infrastructure providers to Vodafone. This will have quite a significant impact on future network upgrades, potentially giving economies of scale as Vodafone harmonises its global infrastructure via the VPC (sic).”*

- Vodacom should also benefit from sharing best practice and experience from all in the Vodafone group. This applies mostly to aspects of running the business:

*“As the business matures, we [Vodacom] will have to have access to global expertise (sic).”*

*“We [Vodacom] can greatly benefit by learning from the experience of others (sic).”*

*“Vodafone has experience and a strong track record (sic).”*

*“Vodafone will ensure a lot more accountability, and there will not be deals that do not make sense (sic).”*

*“I feel extremely excited that the Vodafone changes will bring more accountability (sic).”*

*“Vodafone can help us to be first to market (sic).”*

*“Vodafone will provide access to Best Practises and have well developed SOP [standard operating procedures].”*

*“Benefits include the fact that staff can rotate within the Vodafone Group. This is real development (sic).”*

*“Once Vodafone has made a project a priority, there is real commitment from them to assist and drive the project.”*

*“Project teams locally usually mirror Vodafone’s operational teams globally, which is great from an experience and knowledge perspective (sic).”*

*“Vodafone is extremely effective in communicating to all levels of staff. We need that for Vodacom.”*

#### **5.1.4 Theme 4: The key challenges in the Vodafone/Vodacom relationship**

##### **5.1.4.1 Secondary Data**

In October 2009, the following statement was published:

*We realise that in a fifteen-year old company, we have to get the right balance between building on what has made us successful, but also leave behind the things that are holding us back. In addition, Vodafone is developing their **Vodafone Way** and want us to be able to benefit from their process as well. In essence we are all working towards creating a better company where our behaviours match our values, and we deliver to our expectations, and those of our clients and shareholders.*

*The Exco and Management teams will be doing some change management work over the next two months, and we will be focusing in the future on tackling our challenges and delivering meaningful and visible change. But remember – we can’t do it alone and it’s up to all of us to be the change we want to see in our company.*

In an article published in *MyBroadband*, on 1 October 2009, Pieter Uys also stated the following:

*“... working on shifting the culture of the organisation in reaction to global changes and also to my leadership style. The change in shareholding is something that we have been working towards for a long time, so to see that come to fruition was very good. Vodafone brings such huge benefits to our organisation in terms of scale, efficiencies and best practice. We are teaching them a few things as well!*”

*We want to continue to grow our mobile business and to continue our leadership role in Broadband. We are developing new ICT solutions within the converged space and we will grow the reach of the business. We need to transform the organisation into a lean and efficient one to meet these challenges and of course we will continue to build Vodacom into a strong local and relevant brand in all of our markets.*

*Bridging the digital and information divide across Africa will make a significant difference to our continent and this is why we continue to invest significant sums into terrestrial and undersea cabling. We are the leading broadband provider in SA with over 1 million customers and over 5 million of our customers accessing data over their mobile phones. We are focused on driving the cost of broadband capable handsets and devices down, and developing relevant content, both through our relationship with Vodafone.”*

In an attempt to better understand Vodacom’s ethos that drives its culture and behaviour it is significant to include the Vodacom Way. The Vodacom Way epitomizes what Vodacom wants, and captures its Vision and Mission and to understand all references to the Vodacom Way.

## The Vodacom Way

**ALWAYS REMEMBER THERE IS THE VODACOM WAY** - Vodacom will be one of Africa's most admired companies.

### ***The pride of Africa.***

**VODACOM is a winning company**, where everyone is imbued with a spirit to win, to be passionate in whatever we do, to be the best, to never give up, to work harder than anybody else, to know that our best is better than anybody else's best. Losing is not an option. We are a team and competition is our sport.

**VODACOM is a respected company** where honesty, trust, good faith and professionalism are the cornerstones of how we do business. Everyone we deal with is an equal partner, and we deal straight.

**VODACOM is a caring company**, which cares about what it does and how it does it, which is always fair and which respects every single person. Sincerely caring about everything we do every minute of every day, is our way of life.

**VODACOM believes that it can** enhance people's lives and empower them by making it possible for all people in Southern Africa to have access to mobile telecommunications. We have the will and the means to do so, and we will strive to do so in a sensible manner. We will democratize telecommunications.

**VODACOM will seek out the impossible to do.** Mobile communication has been made possible by the most innovative technology in the world. This technology will continue to develop and make possible things we cannot even dream of today.

*We will remain the most competent and innovative of all in this technology, to not only make every dream come true, but to dream the dreams. We will use our passion and our common sense to do the impossible. Indeed we will seek out the impossible to do.*

***And in everything we do, we will always also make sure that our shareholders remain happy with, and proud of their investment in Vodacom.***

#### **5.1.4.2 Qualitative Data**

Respondents agreed that the key challenges faced in the relationship relate to the following:

- Being able to bring the two separate companies' cultures as close together as possible.
- Being able to get the individuals in each company to understand and accept the culture of individuals in the other company, and to show each other, and their cultures, mutual respect.

*“Experiencing the Vodafone culture was awesome, in that teams work much more coherently – (that) they even all sit together is great (sic).”*

*“Vodafone is a lot closer to its staff. They want to interact with staff and involve all levels when working on a project – meetings aren't held according to rank (sic).”*

*“Vodafone brings a sense of integration – they are very people-centric and inclusive, they are pushing people and cultures, ensuring that they bring out the best in people (sic).”*

- Being able to consolidate and dovetail the approach by which Vodafone wants Vodacom to go about achieving its strategy, with the approach by which Vodacom itself wants to go about achieving that same strategy.

*“A good thing that will come out of (the relationship with) Vodafone is a long term strategy, which we will have to follow (sic).”*

*“Vodafone indeed has a strategy. Whether it is applicable to our market remains to be seen (sic).”*

- Vodafone accepting that Vodacom is not the ‘*poor African child*’ that needs constant assistance and attention.

*“If you bundle South Africa and India together, you are missing the point (sic).”*

*“Yes, they are talking about emerging markets, but emerging markets have their own idiosyncrasies. You can not bundle India and South Africa together under the banner ‘Emerging Markets’ and think that they are the same (sic).”*

*“Generalisations around the African market are worrying. You can not assume that all the countries in Africa are the same.”*

- Vodacom accepting that Vodafone (hopefully) has Vodacom’s best interests at heart.



- The possibility that moving under the covering of the Vodafone giant, that:  
*“Vodacom may lose its entrepreneurial spirit, individuality and ability to respond to challenges quickly (something that in recent years has already been under pressure) (sic).”*
- The possibility exists that when Vodafone acts in the interest of the overall, greater good of the Group of Companies in the Vodafone stable:  
*“Vodacom as an individual company within that (the Vodacom) Group, may actually be prejudiced against (sic).”*
- Africa is not Europe and the way business is done is vastly different to Europe:  
*“Too much interference by Vodafone in the day-to-day operation of Vodacom will be extremely detrimental to the future success of the company.”*
- The VPC in Luxembourg is very aggressive in dealing with all of the major global suppliers.  
*“While a demanding approach within supply chain is admirable, the VPC's actions are now bordering on damaging these supplier relationships and the good will that has been developed over many years. Once eroded, this will potentially damage the group relationship with Vodafone and drag Vodacom down too (sic).”*

Another sentiment echoed by the majority of respondents was that:

*“(Our) First-mover advantage in the local market is eroding very fast. Vodacom is fast slipping behind its local competition and are reluctant to invest in new markets for fear of missing the Vodafone corporate quarterly revenue targets (sic).”*

The respondents also indicated that:

*“The sale of the Telkom shares to Vodafone has given Telkom a huge cash pile introducing a competitor in the mobile telephony and broadband market. (sic.)”*

Another concern highlighted by the respondents were, that:

*“Big global companies are not always as effective and agile as fast moving local companies who know their customer base (sic).”*

## Chapter 6

### 6. Discussion of Results

In this chapter, the results obtained by the research conducted (as reported in Chapter 5) will be discussed in answer the research questions posed in Chapter 3. The specific results obtained will be extrapolated to contextualise the Vodacom/Vodafone relationship. These results are judged to be academically sound and reliable based on stringent quality evaluation throughout the research process followed and the manner in which data was obtained and analysed.

The aim of the research conducted was to evaluate Vodacom's mandate as a subsidiary of Vodafone. Therefore, the purpose of this research was to conduct a theoretically based evaluation of the subsidiary-role frameworks to understand the factors that influence Vodacom's mandate as a Vodafone subsidiary, and consequently its evolution.

The three research questions posed as underlying impetus for this study are:

- What are the major characteristics of Vodacom's mandate as a subsidiary of Vodafone?
- How has Vodacom's subsidiary mandate evolved from being a Vodafone Partner-Market to an owned subsidiary of Vodafone?
- How, if at all, will Vodacom's autonomy be impacted by Vodafone?

The results of the research process will be discussed and synthesised into a number of broader themes. It is clear from the results that the acquisition of a majority stake by Vodafone in Vodacom has had a profound effect on Vodacom. This chapter will further examine the subsidiaries' response to this change according to the following contextual factors responsible for subsidiary evolution:

- Global Integration and Local Responsiveness.
- Product Scope.
- Knowledge.
- Autonomy.

The results will then be interpreted according to the Five Generic Evaluation Processes as illustrated in Figure 25 to understand how the contextual factors, actions and processes have impacted the mandate of Vodacom to drive subsidiary evolution.

### **6.1 Global Integration and Local Responsiveness**

Global integration is the harmonisation of performance across countries, in an attempt to build operations networks and to take maximum advantage of similarities across locations. However, MNC subsidiaries' should be distinguished enough to profitably confront any cultures, markets, and business practices that contrast markedly with those of the MNC. This flexibility must be contained within a structure that provides maximum contribution to the MNC's performance (Jarillo & Martinez, 1990; Prahalad & Doz, 1987).

The recent changes in Vodacom provided evidence supporting the notion that there is a marked move towards increasing global integration. Vodafone advocates increased coordination across countries in order to build operational networks and to capitalise on advantage of similarities across the Vodafone.

Decisions are now made by Vodafone to benefit the entire group, not only Vodacom. This results in decision-making disappearing locally. From a structural perspective, there have been several Vodafone employees taking up seconded positions in strategic areas within Vodacom. These include the Chief Officer Corporate Affairs and several Executive Managers. Vodafone has already commenced with active steps to ensure more integration by Vodacom into Vodafone in various departments. These include the following:

- **Human Resources** have embarked on a process to align Vodacom to the policies, procedures and principles of Vodafone, with a specific emphasis on Employee Communication, Performance Management, Talent Management and Vision and Values.
- **Products and Services.** With certain key product teams such as Roaming working closely with the Vodafone Roaming Company to ensure that Vodacom's International Roaming, customers can start to benefit from Vodacom becoming part of Vodafone.
- **Marketing.** Each of the Operating Companies within the Vodacom Group have been tasked with evaluating the benefits and strength of the Vodacom brand in their countries of operation. This was done in order to determine if and when Vodacom should switch over to the Vodafone brand.

- **Engineering.** The technology-teams from Vodacom and Vodafone are working together closely, investigating those areas where Vodacom can benefit from Vodafone's experience and scale. The teams are also identifying areas where Vodafone can similarly gain knowledge from Vodacom.
- **Procurement- and Supply Chain Management.** Vodafone's procurement-benchmarking and purchasing power will be used to source and acquire terminals. Not only will Vodacom be able to benefit from Vodafone's global economies of scale, but will in turn be able to assist Vodafone with procurement on the continent in order to cater for other African markets.
- **Finance.** Vodacom must now adopt the financial reporting- and audit models of Vodafone to ensure that as a subsidiary of Vodafone, all financial reporting can be compared by Vodafone.

Local responsiveness is concerned with the specific needs of the local subsidiary and is mainly influenced by situational incidents at subsidiary level (Manolopoulos, 2008). A key local incident that sparked international headlines occurred when COSATU opposed the acquisition of organisational control by Vodafone of Vodacom. The appeal was made on the grounds that it would cause job losses, and further that it would give control of a major South African company to a foreign corporation. Vodacom assured stakeholders that the restructuring of the companies would not lead to job losses. These assurances aside, Vodafone's focus on cost-containment is fuelling concerns around headcount costs. Similar unease on other fronts is being experienced, as is evident from the following statements:

*“Vodacom is an extremely successful company and therefore there is no need to mess with a ‘winning formula’ (sic).”*

*“Vodacom has a very strong South African culture, which is dissimilar to Europe and an Eurocentric approach to the South African market will isolate the domestic market (sic).”*

*“Vodafone’s approach to act in the best interest of the Group Company might not be in the best interest of Vodacom.”*

The Vodacom culture is defined by the Vodacom Way, a strong ethos of how Vodacom has driven its winning spirit. Developing a Vodafone Way must therefore incorporate the elements of customer orientation, competitiveness and agility. Respondents stated:

*“Vodafone’s culture, presence and outlook has been very refreshing.”*

*“Vodafone has a very strong brand which will re-invent Vodacom.”*

Local responsiveness also emphasizes host-country location advantages that can contribute to the development of subsidiaries, these advantages include:

- Operational control of Vodacom Group, an attractive asset.
- The leading mobile network operator in South Africa, with a market share of 55%.

- A portfolio of growing operations: the number one operator in Tanzania, Lesotho and the Democratic Republic of Congo and the number two operator in Mozambique.
- The leading mobile broadband service provider in South Africa with an expanding total communications service offering across sub-Saharan Africa.
- Vodacom is well positioned to capture the growth from the fast-growing enterprise market in Africa following the acquisition of the telecommunications assets of Gateway Telecommunications.

The results revealed that Vodacom's mandate had characteristics of an Autonomous Subsidiary, with Vodacom having high-decision making autonomy. It is, however evident that there is a definite movement activated by the Vodafone changes, that will see Vodacom becoming an Active Subsidiary as illustrated in Figure 30. These changes include:

- Vodafone taking a 65% share in Vodacom.
- Decisions being made by Vodafone to benefit the Group, not specifically Vodacom.
- The influx of several Vodafone employees taking up seconded positions in strategic areas within Vodacom.
- Vodafone taking active steps to ensure the integration of Vodacom into Vodafone in various departments, such as Human Resources, Products and Services, Marketing Engineering, Finance and Procurement and Supply Chain Management.
- Changing Vodacom's culture by changing its behavioural ethos is captured in the Vodacom Way now being prescribed.



### Degree of Responsiveness

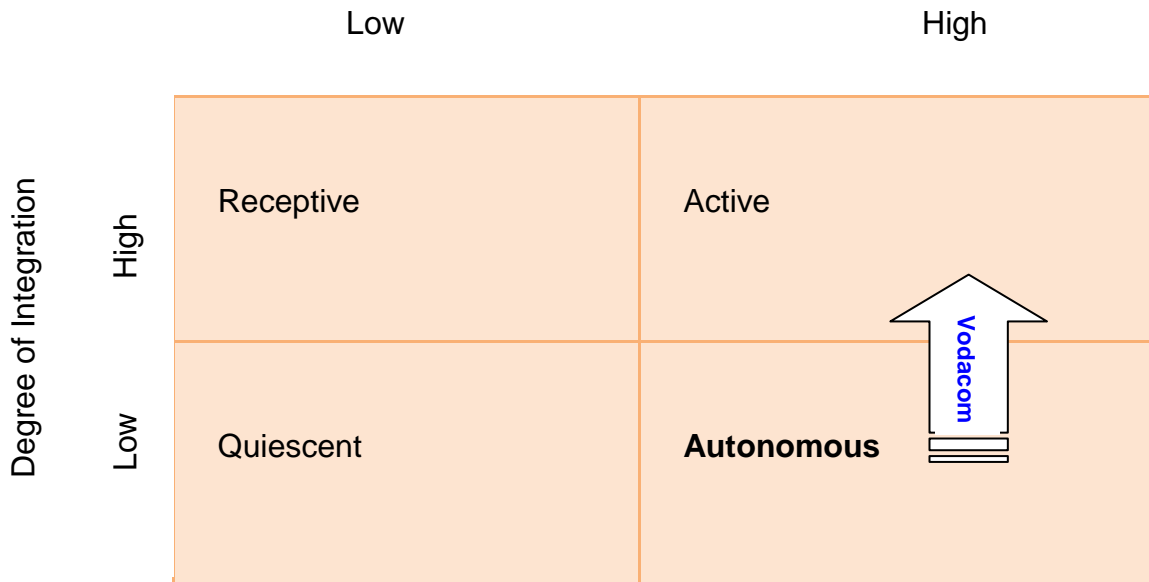


Figure 30 Vodacom's Integration and Responsiveness Evolution

## 6.2 Product Scope

Vodacom, like any other South African company, is confronted by a changing environment, both local and internationally. However, Vodacom is in a unique position as its new status as a subsidiary of Vodafone sees them forming part of a larger multinational organisation. The challenge facing Vodacom is how to best utilise the Vodafone-relationship to assist in managing an ever changing competitive environment. These challenges include:

- Decrease protection of the local environment.
- Globalisation of customer preference.
- The emergence of new international competition.

Therefore, Vodacom will have to adjust its strategies, products, market and value-added scope in order to successfully deal with these challenges. Vodacom, through its continued development of local capabilities, can contribute to the evolution of its own strategy as well as to the overall strategy of Vodafone. Vodafone has commenced with a central approach to product development, namely *'one size fits all'*, and related product strategies. One concern is that this approach will impede Vodacom's innovation-capabilities. The feeling is that: *"if this turns out to be unsuccessful, Vodacom could start to find themselves as an industry laggard rather than a leader."*

The leverage-power of Vodafone's ability to bring economies of scale in equipment and terminals, is a key factor that significantly benefits Vodacom. Vodacom already counts a number of successes in this regard, including the procurement of BlackBerry and iPhone. This allowed Vodacom to be the first mover as well as the initial exclusive dealer of these coveted products in the South African market.

Vodacom has been tremendously successful in its own acquisition of infrastructure equipment, having partnered with other companies before Vodafone. The challenge now is on how this situation will impact future infrastructure upgrades.

There has also been a tendency to provide more Vodafone produced products to the South African market, such as Vodafone Passport, Vodafone Live!, MyWeb and the soon to be released Vodafone Now+ (360). Although these products form part of the MNC products, characteristics and marketing programmes are modified to suit the local South African market.

Having the muscle of Vodafone could lead to a situation where Vodacom loses its entrepreneurial nature, individuality and ability to respond to challenges quickly, however at this stage no evidence of this could be found to substantiate this notion.

Vodafone products such as Vodafone Passport, Vodafone Live!, MyWeb and the soon to be released Vodafone Now+ (360), have all been adapted with product characteristics and marketing programmes to suit the South African market. The leveraging power of Vodafone's ability to bring economies of scale in equipment and terminals is a great advantage to Vodacom with successes such as BlackBerry and iPhone already proven. These results support the view that Vodacom's activities when evaluated against the Scope Framework revealed characteristics indicative of the fact that Vodacom's subsidiary role can be defined as Strategic Independent, as well as some attributes reflective of moving toward a Miniature Replica in the Adapt Stage as illustrated in Figure 31.

### Scope of Activities

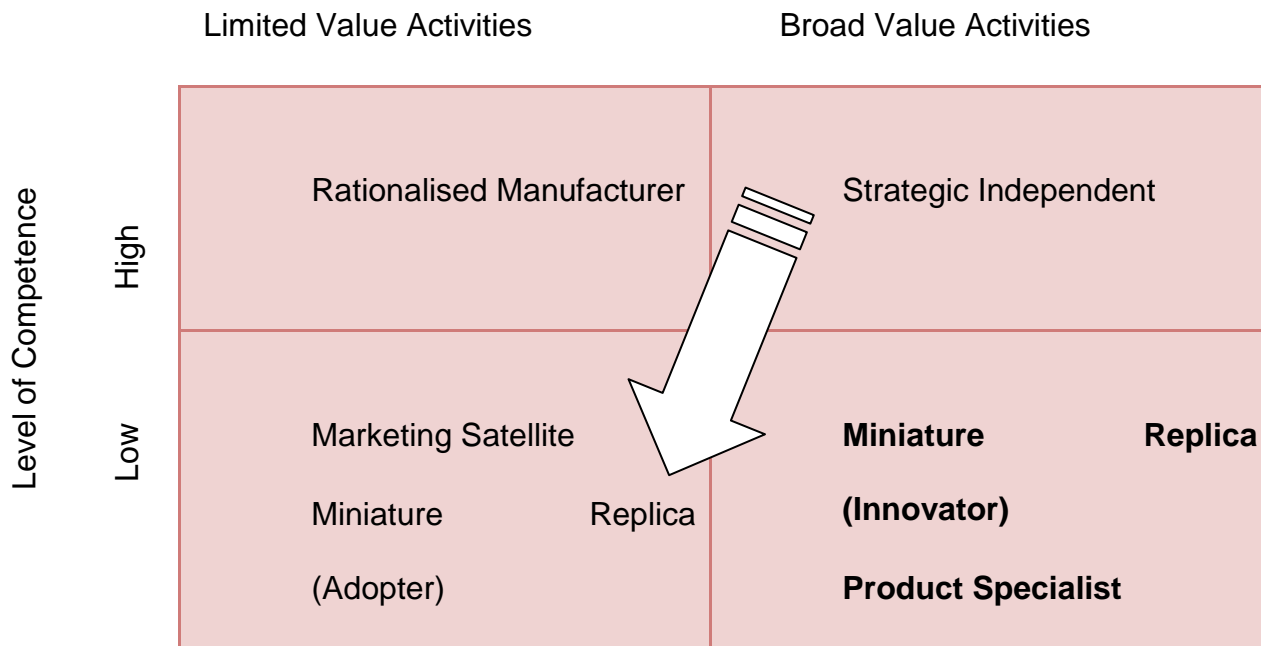


Figure 31 Vodacom's Product Scope Evolution

### 6.3 Knowledge

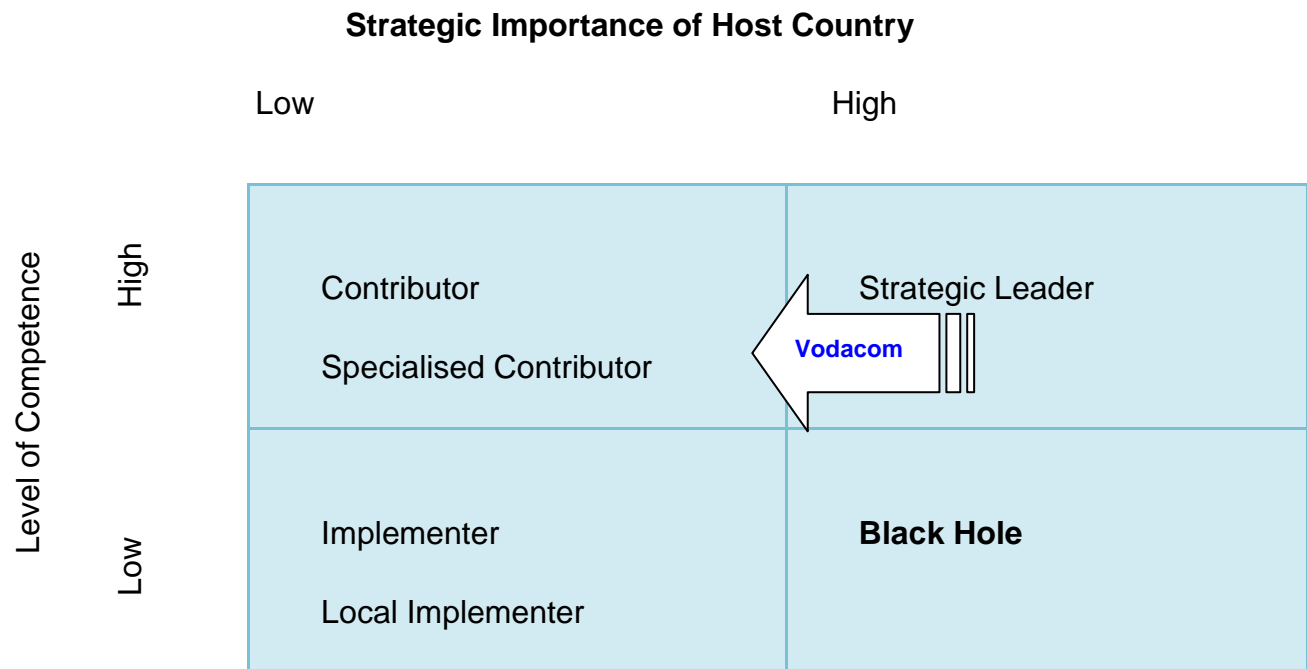
According to Foss and Pedersen (2004), "it has become almost axiomatic that knowledge and learning are the root of understanding how competitive advantage is gained and sustained." Moving core competencies to the periphery of MNC's operations enables some subsidiaries to have enhanced strategic mandates while still possessing critical production resources. In the evaluation of the results the following supported that knowledge and learning is also key in the Vodafone/Vodacom relationship, in that:

- The relationship with Vodafone (with a global presence in 25 countries through equity interests and a further 42 countries through partner market arrangements) will enable Vodacom to reach more customers (303 million) with access to solutions and innovation, brand power and capabilities, which include the added purchasing power of an operator that has invested in network infrastructure in more than 30 countries around the world and Vodafone being the biggest and most dominant customer of suppliers selling handsets and network infrastructure.
- Vodafone will use Vodacom as its exclusive investment vehicle in sub-Saharan Africa. Vodacom has demonstrated capabilities in that its mobile network covers a total population of approximately 182 million people in South Africa, Tanzania, the DRC, Lesotho and Mozambique.
- Vodacom's competence in Africa was strengthened by the acquisition of Gateway, a leading provider of communications services to multi-national companies and telecommunications network operators.
- Vodacom Business launched in 2008, which offers converged business networks and related IT services to the enterprise market, further demonstrates Vodacom's capabilities and capacity in Africa.

- Vodacom's partnership with Neotel and MTN in installing a 5 000-km fibre-optics cable, to service South Africa's major cities by 2011 will significantly add to Vodacom's technical capabilities.

Vodacom has demonstrated that it possess considerable competencies operating a telecommunications business in South Africa and to some extent in Africa. It is clear that Vodafone will maximise these capabilities in order to further drive the Vodafone strategy of driving growth through emerging markets.

However, the sentiments "*Their system – our environment*", the centralised approach to product development, the difficulty in accessing working capital, the demand by Vodafone to reduce operational budgets, unnecessary reporting requirements, the secondment of Vodafone staff to Vodacom as well as the pressure to implement more Vodafone Branded products have made it evident that there is a shift from operating independently to becoming an extension of Vodafone. It is apparent that Vodafone is driving Vodacom to implement strategies directed by the Vodafone and that all Vodacom's actions and outputs are now being closely coordinated within Vodafone as illustrated in Figure 32.



**Figure 32 Vodacom's Knowledge Evolution**

#### **6.4 Autonomy**

Autonomy relates to whether strategic decisions are made directly by the subsidiary or by the MNC. In this regard, in order to determine whether Vodacom is autonomous it is important to consider how strategic decisions are reached and to evaluate them rather than their mere approval. In order to evaluate the level of decision making the following areas were identified to enable some analysis:

- Hiring of the Vodacom's management.
- Internal organisational changes.

- Starting up of new businesses within South Africa.
- Entry into foreign markets, specifically Africa.
- Introduction of new products.

The results revealed that:

*“Vodacom has always been extremely autonomous in its decision making in what it wants to do and where it needs to go and this change feels like decisions are now being second guessed.”*

*“The impetus will move from management being very autonomous to management following the decisions made by Global- these decisions are made to the benefit of the group not to the benefit of the local company.*

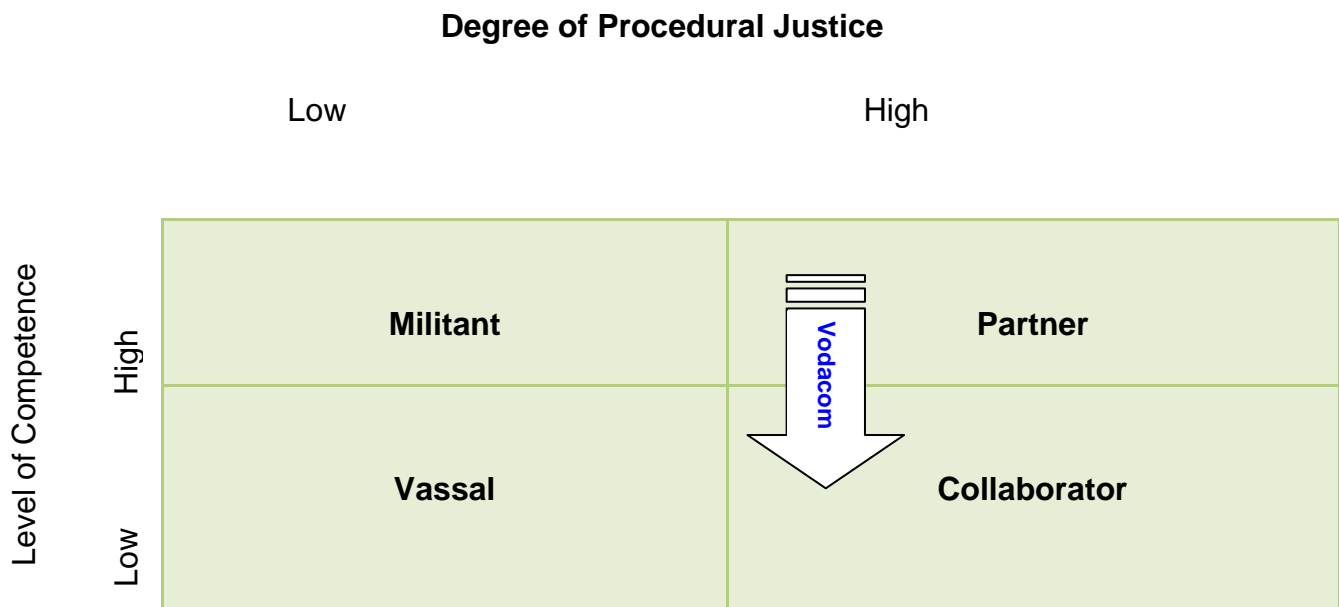
*“The approval process disappears locally. This, of course is not unusual for companies having a majority stake in a subsidiary.”*

The majority of respondents indicated that since Vodafone acquired an additional 15% stake in Vodacom there has been a marked increase in the involvement of Vodafone in the day to day running affairs of Vodacom. In the experience of the respondents, for the most part this is perceived within Vodacom, to be *“unnecessary interference”*: *“The decision making process is greatly reduced, so in many ways it is very sad to see power being lost by the local Vodacom management who are responsible for building the company into what it is today.”*



It would appear that decisions are taken autonomously by Vodafone (especially regarding the launch of new products or the entry into the African markets), or in some cases after consulting with Vodacom (in the case of new businesses within the country as well as potential African expansion). On the other hand, decisions regarding the hiring of personnel (even in non-managerial positions) and internal organisational decisions are left to the subsidiary, though Executive appointments require the final approval of Vodafone.

A review of Vodacom revealed that it resembles a lot of the Partner Subsidiary characteristics. Vodacom has enjoyed great levels of autonomy, however there is a sense that with greater levels of Vodafone integration, Vodacom's autonomy has become severely diluted and Vodafone is becoming a Collaborator as illustrated in Figure 33.



**Figure 33 Vodacom's Autonomy and Procedural Justice Evolution**

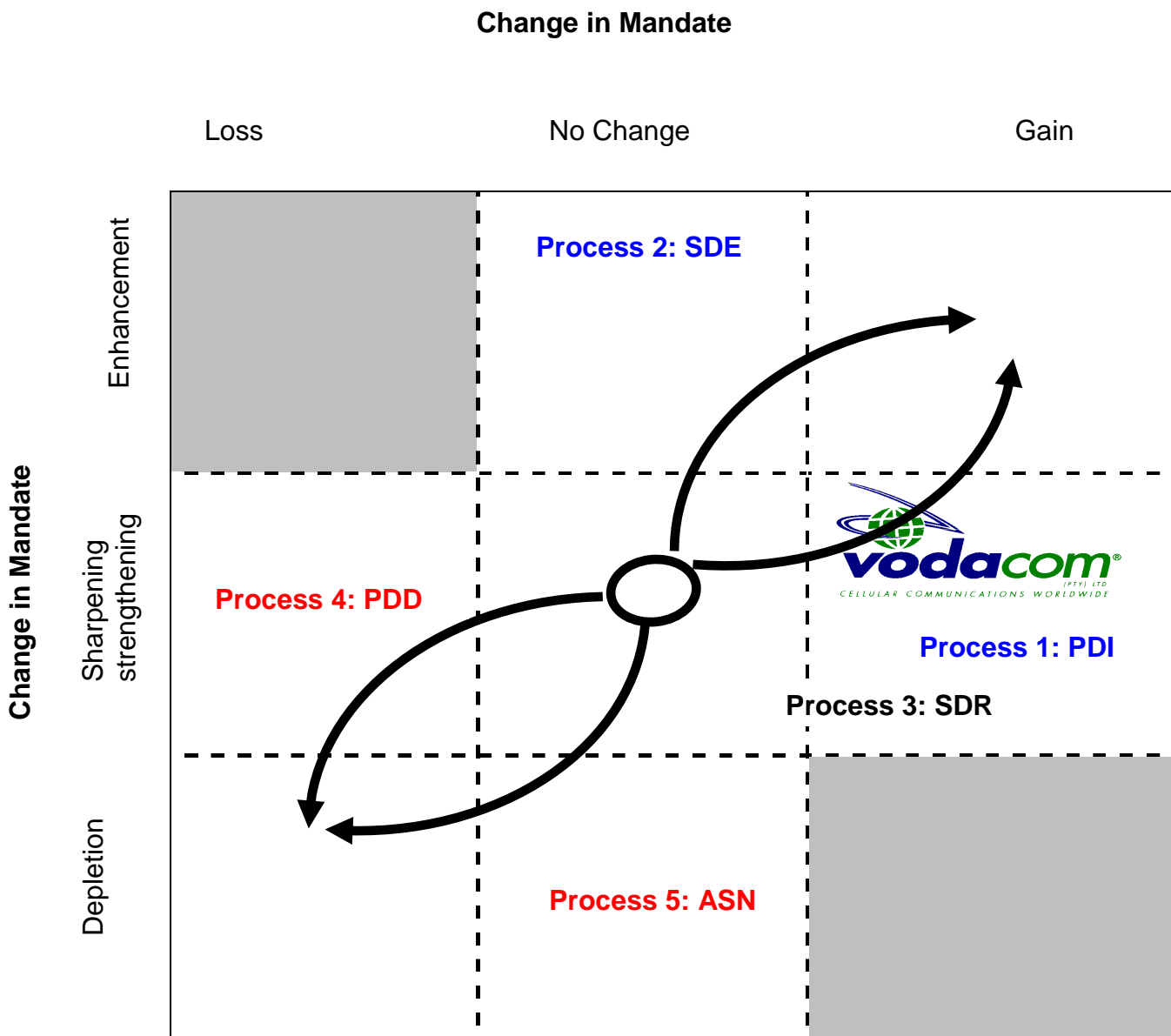
## 6.5 Subsidiary Evolution Processes

Taking into account the contextual factors mentioned above it is now relevant to evaluate to the casual relationship between these factors and the respective subsidiary evolution processes to determine the nature of how Vodacom's mandate has evolved. Vodacom's mandate has been extended by being appointed as Vodafone's *exclusive investment vehicle in sub-Saharan Africa*, which has resulted in an enhancement of Vodacom's profile. Therefore Parent Driven Investment (PDI) process did take place as the mandate assignment is Vodafone's responsibility.

It could also be argued that Vodacom's subsidiary status has accelerated Vodacom's subsidiary mandate evolution not only in respect of being appointed the exclusive vehicle for Africa, but also in respect of alignment with Vodafone's strategy, structure, process and procedures. These activities as demonstrated above are actively driven by Vodafone to ensure that it maximises its returns from the South African market and also to harmonise its reporting structures worldwide. There is a definite impetus towards gradual development of commensurate capabilities.

There is no evidence to support the Subsidiary-Driven Charter Extension Process (SDE), where Vodacom's managers have made a strategic move by demonstrating that an opportunity exist to gain a new or enhanced mandate through the exhibition of Vodacom's capabilities (see Figures 34 and 35).

Subsidiary-Driven Charter reinforcement (SDR) has been demonstrated in that Vodafone expects Vodacom to continue its success in the South African market. Vodacom has demonstrated that it would maintain its leadership position in the South African market with 55% market share reinforcing its current mandate (see See Figures 34 and 35).



**Figure 34 Vodacom's positioning in the Five Generic Subsidiary Evolution Process**

In summary Figure 35 demonstrates the current characteristics of Vodacom's mandate evolution.

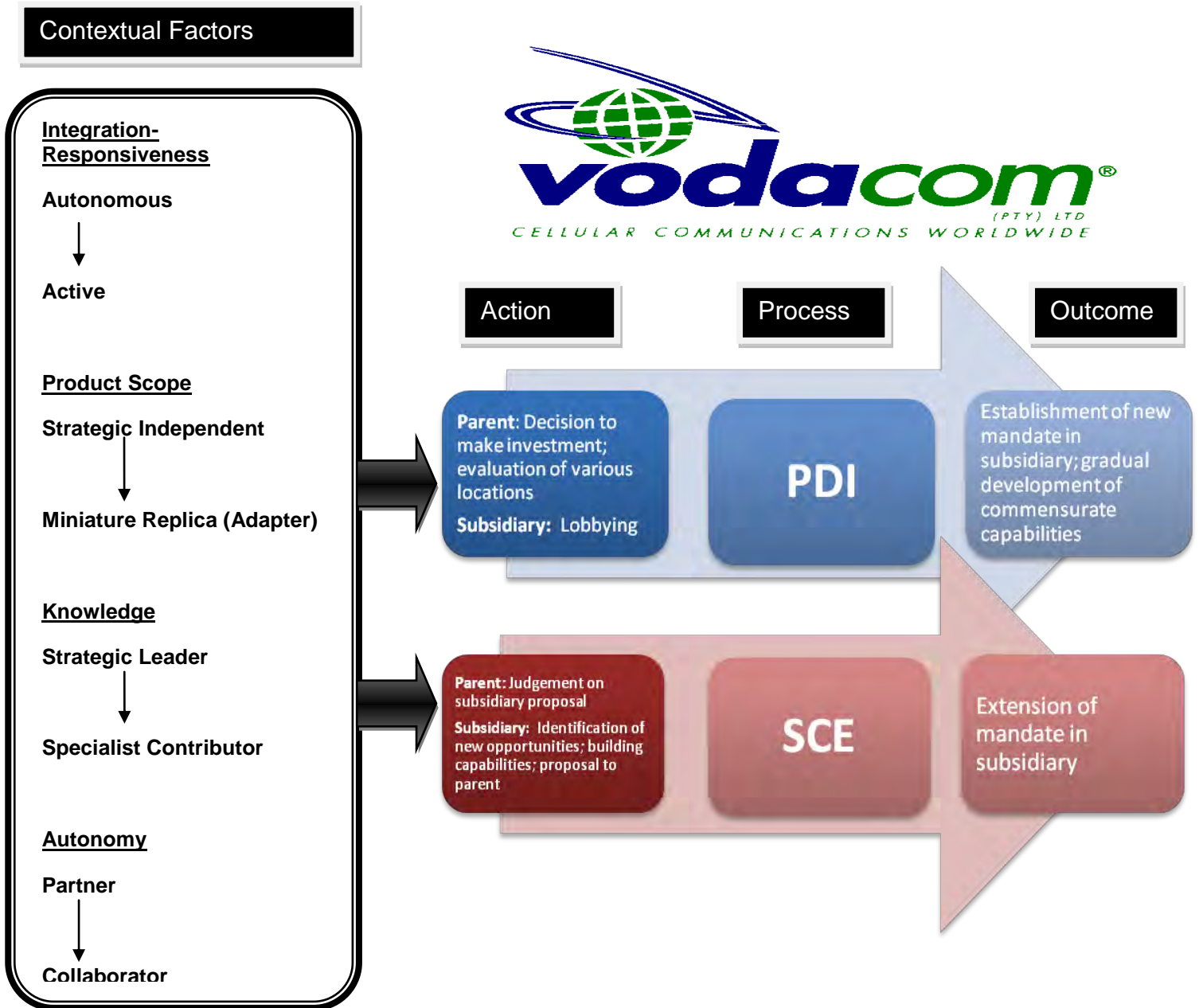


Figure 35 Vodacom's Mandate Evolution

## Chapter 7

### 7. Conclusion

#### 7.1 Introduction

The research conducted in this study included a theoretically-based assessment of the subsidiary mandate frameworks to understand how the contextual factors, namely Global Integration and Local Responsiveness, Product Scope, Knowledge and Autonomy influenced Vodacom's mandate as a Vodafone subsidiary, and consequently its evolution. The results of the research study conducted were analysed in accordance with the order of the research questions, including an analysis of the information obtained from the interview process, supported by the secondary data collected. The evaluation of the secondary data as well the results from the interviews revealed the following key themes:

- The nature of the Vodafone/Vodacom relationship.
- The response to Vodafone's controlling share in Vodacom.
- The benefits that Vodacom will derive from the Vodafone subsidiary relationship.
- The challenges posed by the Vodafone/Vodacom relationship

It was clear from the results that the acquisition of a majority stake moving ownership from 50%-65% by Vodafone in Vodacom and converting its status from Partner Network to Subsidiary has had a profound effect on Vodacom. This chapter will provide:

- Key findings of the literature and the results pertaining to the Subsidiary Review Frameworks and consequently subsidiary evolution;

- Highlight some potential risks associated with specifically Global Integration;
- Potential Benefits gained by Vodacom in converting its status from a Partner-Network to a majority owned subsidiary of Vodafone;
- Recommendation in preparing Vodacom for the global environment;
- An outline of the research limitations;
- Suggestion for further research; and
- Lastly, some closing remarks.

## **7.2 Key Findings**

### **7.2.1 Literature**

This study has demonstrated that researchers have created numerous frameworks as illustrated in Figure 3 in order to classify and sort the various mandates that subsidiaries may take within MNCs. The frameworks challenged the perception that foreign subsidiaries are merely distant tools of the MNCs management, but rather supported the view that instead of accepting predetermined roles, MNC subsidiaries actively engage in developing their operations and explore procedures that would increase the overall efficacy of the entire MNC (Birkinshaw & Hood, 1998; Birkinshaw, 1997). The frameworks also provided useful insight in understanding the respective research themes namely HQ relationship, Subsidiary Roles, Subsidiary Development and Strategy and how these streams interact to formulate the subsidiary mandates, as illustrated in Figure 1.

Furthermore, the Subsidiary Mandate Review Frameworks illustrated in Figure 2, provided a functional means to understand and conceptualise the theory reviewed. This helped to demonstrate the individual subsidiary characteristics and how these characteristics contribute to the different perspectives that inform subsidiaries' mandates.

This research study further relied on the subsidiary evolution-model developed by Birkinshaw and Hood (1998) to provide insight on the processes that drive changes in a subsidiary's activities and its underlying capabilities (see Figure 24 ) and consequently the subsidiary's mandate. Subsidiary evolution is seen as the enhancement or depletion of capabilities in the subsidiary, coupled with explicit change in the subsidiary's mandate (Birkinshaw & Hood, 1998). The reality is that a single evolution process for subsidiaries cannot be readily identified. Subsidiary mandates contract or die out, as well as become larger or more specialized. This study demonstrated that the contextual factors Global Integration and Local Responsiveness, Product Scope, Knowledge and Autonomy can influence these processes.

The implications for the subsidiary evolution process in general are:

- Autonomous subsidiary behaviour (Burgelman, 1983b) appears to be a potent force for subsidiary mandate development as it leads to the planned-rather than fortuitous-development of resources and capabilities.
- Head-office support appears to be a necessary, but not sufficient condition for subsidiary-driven mandate development. Many of the failed cases of initiatives appear to have been the result of weak parent-subsidiary relationships, or a somewhat ethnocentric attitude among parent managers (Birkinshaw, 1997; Perlmutter, 1969).

- Subsidiary decline receives limited attention in the existing theoretical or empirical literature. Clearly, it is meaningless to suggest that subsidiary managers might develop their own demise, but it may allude to a process by which inaction by subsidiary managers leads to the atrophy and eventual demise of the subsidiary and its resources (Birkinshaw & Hood, 1998).

The literature reviewed confirmed that subsidiary mandates are determined by the MNCs' pursuit of global integration and efficiency, local sensitivity and differentiation, and worldwide innovation and differentiation (Kim, Prescott & Kim, 2005). Facing increasing demands to globalise operations, MNCs are increasingly developing a global standpoint in formulating and implementing strategy. Ultimately, a global strategy under which activities are coordinated globally (mainly to benefit from differences in comparative advantage), is based on controlling and configuring key activities. To achieve maximum synergies as well as economies of scale, the actions of subsidiaries are incorporated across countries (Morrison & Roth, 1993).

## **7.2.2 Results**

### **7.2.2.1 Subsidiary review frameworks**

#### **7.2.2.1.1 Global Integration and local responsiveness**

As highlighted earlier, the strategic influences of integration and localisation are of critical importance in driving Vodacom's subsidiary mandate and in consolidating Vodacom's position in Vodafone.



The review of Vodacom's mandate revealed characteristics of an 'Autonomous Subsidiary' (Jarillo & Martinez, 1990), with Vodacom having high-decision making autonomy and limited coordination within Vodafone. Vodacom's mandate is showing evidence of change, triggered by:

- Vodafone taking a 65% share in Vodacom.
- Decisions being made by Vodafone to benefit the Group, not specifically Vodacom.
- The arrival of several Vodafone employees taking up seconded positions in strategic areas within Vodacom.
- Vodafone taking active steps to ensure the integration of Vodacom into Vodafone in various departments, such as Human Resources, Products and Services, Marketing Engineering, Finance and Procurement and Supply Chain Management.
- Changing Vodacom's culture by changing its behavioural ethos is captured in the Vodacom Way now being prescribed.

The implications are that Vodacom is becoming an 'Active Subsidiary' (Bartlett and Ghoshal, 1989) (see Figure 30), resulting in Vodacom still enjoying high decision-making autonomy, but now operating and executing its decision making within the Vodafone procedures, policies and strategy.

### 7.2.2.1.2 Product Scope

A review of Vodacom's activities against the Scope Framework revealed characteristics indicative of Vodacom's subsidiary role as being 'Strategic Independent' (White & Poynter, 1984), meaning that Vodacom had and still has the ability to design and implement new technologies, products and procedures. It is evident, however, that there is a definite move to alter Vodacom's subsidiary status. Nevertheless, Vodafone's authority is seeping through Vodacom in that Vodafone has commenced with a central approach to product development, a *'one size fits all'* approach, and a related centralised product strategy.

Vodafone products such as Vodafone Passport, Vodafone Live!, MyWeb and the soon to be released Vodafone Now+ (360), have all been adapted with product characteristics and marketing programmes to suit the South African market. The leveraging power of Vodafone's ability to bring economies of scale in equipment and terminals is a great advantage to Vodacom with successes such as BlackBerry and iPhone already proven. These results support the view that Vodacom is now displaying attributes of moving towards a 'Miniature Replica' in the Adapt Stage (White & Poynter, 1984) (see Figure 31). More Vodafone-products are taken from Vodafone, with the products characteristics then being adapted to suit the South African market.

### 7.2.2.1.3 Knowledge

The statement '*Their system—our environment*'; the centralised approach to product development; the difficulty in accessing working capital; the demand by Vodafone to reduce operational budgets; unnecessary reporting requirements; the secondment of Vodafone staff to Vodacom as well as the pressure to implement more Vodafone-branded products have made it evident that there is a shift from operating independently to becoming an extension of Vodafone. It is apparent that Vodafone is driving Vodacom to implement strategies directed by Vodafone, and that all Vodacom's actions and outputs are now being closely coordinated within Vodafone.

These results mooted a shift in Vodacom's current position as 'Strategic Leader' (Bartlett & Ghoshal, 1986), which is defined as a subsidiary that possesses considerable competencies while operating in a strategic market (South Africa), acting more as a partner of Vodafone to an 'Implementer' (Bartlett & Ghoshal, 1986). An Implementer is a subsidiary that constitutes the MNC's (Vodafone's) response to the individuality of the host (South African) markets' characteristics being strategically independent, and having the potential to develop specific competencies (see Figure 32).

#### 7.2.2.1.4 Autonomy

*“The impetus will move from management being very autonomous, to management following the decisions made by Global. These decisions are made to the benefit of the group, not to the benefit of the local company.”*

A thorough review of Vodacom revealed that it resembles many of the ‘Partner Subsidiary’s’ Taggart (1997a) characteristics, which include the fact that these subsidiaries are treated as active partners of the parent multinational in the evolution of MNC operations. They have the potential to make creative development and implementation decisions in a secure corporate environment, later revealing these scopes and ambitions to group-level decision makers. Vodacom has enjoyed great levels of autonomy, however, there is a sense that with greater levels of Vodafone integration, Vodacom’s autonomy has been severely diluted and Vodafone is becoming a ‘Collaborator’ (Taggart, 1997c) as illustrated in Figure 33.

Collaborators possess the highest market scope among all other types of subsidiaries, but fairly narrow product scope and considerably restricted value-added scope, often limited to adaptation of existing technology (Papanastassiou & Pearce, 1999). Technological dependence is a key characteristic of the collaborator subsidiary with its generally high levels of coordination, particularly in intra-network transfer of technological and production knowledge, as a result of R&D activities mainly located in HQs and centralized technology development.

### 7.2.3 Subsidiary Evolution

It could be argued that Vodacom's subsidiary status (Vodafone's acquisition of a 65% share in Vodacom) has accelerated Vodacom's subsidiary mandate evolution not only in respect of being appointed the exclusive vehicle for the group's trade in Africa, but also in respect of alignment with Vodafone's strategy, structure, process and procedures. These factors have resulted in an enhancement of Vodacom's profile. Therefore Parent Driven Investment (PDI) process did take place as the mandate assignment is Vodafone's responsibility (see Figure 35).

These activities as demonstrated above are actively driven by Vodafone to ensure maximum returns from the South African market, and also to harmonise its reporting structures worldwide. There is a definite impetus towards the gradual development of commensurate capabilities. There is no evidence to support the Subsidiary-Driven Charter Extension Process (SDE), where Vodacom's managers make a strategic move by demonstrating that an opportunity exists to gain a new or enhanced mandate through the exhibition of Vodacom's capabilities.

Subsidiary-Driven Charter reinforcement (SDR) has been demonstrated in that Vodafone expects Vodacom to continue its success in the South African market. Vodacom has demonstrated that it would maintain its leadership position in the South African market with 55% market share – reinforcing its current mandate (see Figure 35).

### 7.3 Potential Risks

The drive for global integration includes risks (Morrison and Roth, 1993) and from a Vodafone/Vodacom perspective cognisance should be taken of the following:

- Notwithstanding all advantages that flow from global strategies, Vodafone as well as Vodacom could face considerable costs in centrally controlling and integrating Vodacom. These costs include added bureaucracy and overheads at headquarters, branding change as well as added transportation and communication expenses.
- The implementation of a ‘*one size fits all*’-approach means that Vodafone could direct Vodacom to focus on a single dimension of a value-adding process.
- Vodacom has a very strong South African culture and making it more Eurocentric could be fatal.
- Vodafone’s approach to act in the best interest of the Group Company might not necessarily be in the best interest of Vodacom.
- Vodacom is now in the risky position of following the Vodafone innovation and new product strategy, and if this turns out to be unsuccessful, Vodacom could start to find themselves to be an “*industry laggard rather than a leader.*”
- Over time, Vodacom’ proficiencies, derived from being close to customers, could deteriorate and the overall responsiveness to the local context could reduce.

- The fact that “*approval processes are disappearing locally*” and managers feeling “*like decisions are now being second-guessed,*” could result in managers feeling that they do not have the authority to make strategic decisions – resulting in talented managers leaving Vodacom, impacting negatively on company morale.
- The South African government’s support could decline as core activities, such as research- and development, strategic management and elements of the production processes are carried outside South Africa.

#### **7.4 Potential Benefits**

Besides exclusive access to new product launches and global research- and development capabilities, the benefits of Vodacom’s relationship with Vodafone extend to benchmarking Vodacom’s operations against global standards of excellence. The benefits of being a subsidiary of Vodafone are central to Vodacom’s value proposition and growth strategy, and include:

- Shared communications expertise and experience “*As the business matures, we [Vodacom] will have to have access to global expertise (sic).*”
- Access to world-class research and product innovation- “*Vodafone has a very innovative and new way of thinking.*”
- Procurement-savings through global economies of scale. “*Vodacom has seen the benefits of the Vodafone buying force - Vodacom is now able to offer certain handsets at substantially reduced prices.*”

- Benchmarking operations against global standards of excellence. *“The Vodafone deal has made me feel extremely positive about being part of a global organisation and it will be good for business (sic).”*
- Powerful brand association. *“Vodafone has a very strong brand which will re-invent Vodacom.”*

## 7.5 Recommendations

Preparing for the globalisation of competition a few recommendations (Morrison & Kendall, 1993) are put forward to ensure Vodacom’s position as a market leader in South Africa and as a key strategic African subsidiary of Vodacom. The recommendations are:

### 7.5.1 Building organisational skills

- Historically, Vodafone was seen as a mere shareholder, but now Vodafone is the majority owner of Vodacom. Vodacom and Vodafone would have to guard against patterns that could create an ‘us versus them’ attitude, and both parties need to give way to greater cooperation and increasing flexibility.
- Globalisation changes Vodacom’s benchmark for success and the focus is no longer other domestic competitors or Vodacom’s extremely successful past performance, but how Vodacom’s skills compare with the best in the world.
- Where Vodacom’s skills are below world standards, Vodacom must compensate by excelling in other areas as the customers expects no less.



- Vodacom managers should pay attention to Vodacom's capabilities. Capabilities need to be honed and improved in the face of competition from other subsidiaries, as well as external firms. New opportunities need to be proactively sought out in areas that are close to the existing strengths of Vodacom, and that are aligned with the priorities of Vodafone as a whole.
- Vodacom needs a certain level of decision-making autonomy to be able to pursue mandate enhancing- and reinforcement initiatives. This autonomy has to be earned through a strong track record and a positive relationship with Vodafone managers.
- Vodafone should consider carefully competitive resource allocation procedures and the locus of decision-making as mechanisms for improving Vodafone's ability to allocate mandates to the appropriate subsidiaries. Interesting implications exist in terms of the mix of subsidiary managers (e.g. entrepreneurs versus risk adverse managers) and Vodafone should select to keep the subsidiary's options open in the future.

### **7.5.2 International Trends**

- Vodacom managers must be constantly in tune with the broader competitive environment, keeping abreast of all major world markets, not just those in South Africa. The notion that information is power should filter through managerial thinking.

### **7.5.3 Vodacom's Strengths**

- Vodacom's strengths should be assessed according to its core activities rather than products. Vodacom's managers should ask what it is that Vodacom can do especially well, rather than what products it can make or which services it can perform.

- Vodacom has an extremely strong culture, driving performance and excellence. This is captured in the ‘Vodacom Way’. Great prudence should be taken “*on shifting the culture of the organisation in reaction to global changes*” and “*Vodafone is developing their Vodafone Way and wants Vodacom to be able to benefit from their process as well.*”
- Vodacom’s strengths are inherently rooted in organisational systems. They should not be viewed as mere technologies or acquired products or services.
- By thinking in terms of integrated skills, Vodacom could substantially sharpen its conceptualisation of new product applications. The resulting creativity is critical for the fast adaptation to changing global opportunities.
- Vodacom should guard against the assumption that Vodafone fully understands what is going on in Vodacom and the complexities of the South African environment, together with the tendency by Vodafone managers to believe that the world revolves around what happens in the home country. Vodacom must therefore understand its own strengths and develop new methods of communicating these skills to Vodafone.

#### **7.5.4 Build Managerial Skills**

Key to the success of a global subsidiary like Vodacom is the competence of its managers.

Vodacom’s executive managers must be:

- Sensitive to local customer needs and be responsive to South African and African specific market opportunities.
- Sensitive to global opportunities to the degree that they ultimately empower business or divisional managers within Vodacom to pursue specific objectives.

- Strong strategic thinkers, as well as experts at positioning and coordinating remote operations.
- Well-respected and properly positioned within Vodafone to best look after the interest of Vodacom.
- Able to renew skills and create a heightened awareness of globalisation, which must transcend hiring, promotion and reward decisions, as well as executive training and development decisions.
- To stretch their skills and those of their subordinates to create a desire for world class quality, leading edge skills that must ultimately permeate Vodacom.
- Able to deal effectively with ambiguity and complexity, and have a predisposition to act entrepreneurially. In imposing structure, the unity of the top management team is essential.
- Unity in the top management team frees managers from office politics that restrict critical thinking about complex issues and business relationships. In addition to a unity of purpose, top managers must be action-oriented in designing and implementing strategic initiatives.
- Promote entrepreneurial behaviour through the development of loyalty to Vodacom. Ownership and responsibility for initiatives must be both encouraged and rewarded to bring out the full potential of managers.

## **7.6 Limitations of the research**

Apart from those authors who first contributed to developing the model (Prahalad & Doz, 1987; Bartlett & Goshal, 1989; White & Poynter, 1984), most of the existing literature on the subject area focuses on the use of quantitative analysis methodologies based on questionnaires (Leong & Tang, 1993; Harzing, 2000).

In addition to the quantitative analysis, an in-depth analysis such as the one presented in this research report, is necessary to evaluate if and how these frameworks are implemented in practice. This research study differs from most of the existing studies as it is the analysis of a MNC and a single subsidiary.

Furthermore, this research study does not adopt the MNC's point of view, but rather that of the subsidiary. This approach, as other authors note (Birkinshaw & Morrison, 1995), has its limits and advantages. By taking the subsidiary's point of view, the analysis does not consider, or does so only partially, the strategic choices made at the corporate level. The subsidiary's point of view has been analysed by some authors (Martinez & Jarillo, 1991; Andresson, Forsgren & Holm, 2002; Frost, Birkinshaw & Ensign, 2002) by means of quantitative analysis.

## 7.7 Further Research

Some topics that require further investigation are the processes of evolution of the subsidiary roles, and the contribution and strategic positioning of Centre of Excellence (subsidiaries with unique resources) in the MNCs. It is not clear whether the different theoretical conceptualisations are empirically confirmed in other settings. The expectation is that they have been confirmed, but this remains to be investigated. Also, the four key analytical blocks presented in this review assume that subsidiaries' strategy is collaborative with other MNC subunits and HQs.

However, Birkinshaw, Hood & Young (2005: 246) argue that this is not always the case, because “the relationships between subsidiaries and their sister plants in other countries ... but ultimately they are in competition for new investment or even (in some cases) for survival.” The perception of intense competition among different units of the same MNC network should also be considered by future researchers to obtain a more detailed description of the field.

Another point that requires further investigation concerns subsidiaries' autonomy. As Young and Tavares (2004) argue, there is still the goal of trying to distinguish subsidiary mandates according to the significance of the autonomy variable. In this regard, much work needs to be done to identify the nature and extent of autonomy. The implication of the different mandates of subsidiaries in the policy making of host countries is another theme that has received less attention. A notable exception is the work of Pearce and Tavares, (2000). Linked to this should be how the change in autonomy impacts on organisational culture.

## 7.8 Closing remarks

Vodafone, like other MNCs, seems eager to exploit organisational competences in an attempt to address the increasing demands to globalise operations and improve global competitiveness. A key challenge is ensuring that the contextual factors, global integration, local responsiveness, knowledge, product scope and autonomy are used to drive new and expanded mandates while simultaneously enhancing the MNC investment in a subsidiary.

For subsidiaries approaching globalisation, a key issue is determining which subsidiary characteristics are most critical in developing mandates. Developing these characteristics and seizing the strategic initiative may mean the difference between renewed autonomy and emasculation (Morrison & Kendall, 1993). By recognizing the importance of key subsidiary mandate characteristics, both parents and subsidiaries can work more effectively in improving overall global competitiveness.

## Appendix A

### Interview Guide

#### Details attended to before the onset of the interview process:

- The researchers ensured that they are familiar with the setting in which the interviewee works or lives, or where they engage in the behaviour of interest to the research purposes. This will assist in understanding what the respondent is saying in their own terms.
- Obtained a quality tape recorder and microphone. Qualitative researchers nearly always tape-record and then transcribe their interviews. This procedure is important for detailed analysis required in qualitative research and to ensure that the interviewees' answers are captured in their own terms.
- When taking notes, it is easy to lose the phrases and language used. Also, because the interviewer is supposed to deviate from a strictly-formulated schedule of questions of the kind used in structured interviewing, they will need to be responsive to the interviewee's answers so that it is possible to follow them up. A good microphone is crucial as many interviews become invaluable due to poor quality of the recordings.
- Ensuring that the interview takes place in a setting that is quiet (reducing outside noise that might affect the quality of the tape recording) and private (so the interviewee does not have to worry about being overheard).
- Preparing for the interview by cultivating as many of the criteria of a quality interviewer as follows. Kvale (1996) lists the criteria of a quality interviewer:

- *Structuring*: implies giving purpose to the interview, rounding it off and asking whether the interviewee has any questions.
- *Clear*: asks simple, easy, short questions and avoid jargon.
- *Gentle*: allows people to finish, gives them time to think and tolerates pauses.
- *Sensitive*: listens attentively to what is said and how it is said and is empathetic in dealing with the interviewee.
- *Open*: responds to what is important to the interviewee and is flexible.
- *Steering*: knows what they want to find out.
- *Critical*: is prepared to challenge what is said, for example when dealing with inconsistencies in interviewees' replies.
- *Remembering*: relates what is said to what has previously been said.
- *Interpreting*: clarifies and extends the meanings of interviewees' statements, but without imposing meaning on them.
- *Balanced*: does not talk too much, which may make the interviewee passive, and does not talk too little, which may result in the interviewee feeling they are not talking along the right lines.
- *Ethically sensitive*: is sensitive to the ethical dimension of interviewing, ensuring the interviewee appreciates what the research is about, its purposes, and that their answers will be treated confidentially.



The main ingredient of the interview is listening—being very attentive to what the interviewee is saying or not saying. It means that the interviewer is active without being too intrusive—a difficult balance. But it also means that, just because the interview is being tape recorded (the generally recommended practice whenever it is feasible), the interviewer cannot take things easy. In fact, an interviewer must be very attuned and responsive to what the interviewee is saying and doing. This is also important because some things like body language may indicate that the interviewee is becoming uneasy or anxious about a line of questioning. An ethically-sensitive interviewer will avoid placing undue pressure on the interviewee, and is prepared to cut short that particular line of questioning if it is clearly a source of concern.

Interviews involve questions on a number of topics, such as:

- Values—of the interviewee, the group or the organisation.
- Beliefs— of the interviewee, the group or the organisation.
- Behaviour— of the interviewee, the group or the organisation.
- Formal and informal roles— of the interviewee, the group or the organisation.
- Relationships— of the interviewee, the group or the organisation or others.
- Places and locales.
- Emotions—particularly of the interviewee, but possibly of others as well.

## After the interview, it is necessary to make notes about:

- How the interview went (was the interviewee talkative, cooperative, nervous, well-dressed, scruffy, etc.).
- Where did the interview take place?
- Other feelings about the interview – did it open up new avenues of interest?
- The setting (was it busy or quiet, was there many or few other people in the vicinity, is the buildings new or old, the use of computers etc.).

## Example of email to each subject

Dear \_\_\_\_\_

*Thanks so, so much for agreeing to meet with me tomorrow. Herewith some information as background as well as the questions. My interest in the relationship was triggered by the fact that the acquisition of a majority share in Vodacom by Vodafone was the second largest inflow of foreign direct investment since 1994 in South Africa (the largest investment in the country was the deal, earlier in 2005, between Absa and Barclays Bank). Commenting on the transaction, Vittorio Colao, Chief Executive of Vodafone, said:*

*“As a long-term investor in South Africa we are delighted to be increasing our shareholding in Vodacom Group, the country’s leading mobile operator with a presence in four additional African markets. We will continue to support the management team in their strategy of transforming Vodacom into a full service provider in Africa and also look forward to playing a greater role in delivering the broader social benefits of mobile telecommunications in the continent. We are confident that the transaction will deliver value to our shareholders.”*

*On 17 April 2009, Pieter Uys made the following statement:*

*“Vodacom will continue to build on the strong foundations of our values, principles and business models, which have positioned us as the leading cellular network. We will adopt the wisdom and processes that Vodafone can give us to realise our vision of transforming into a total communications company. Of course this reciprocity of ideas will work as a two-way stream, and Vodafone may well adopt some of our key learnings and practices.”*

*Against this background I decided to conduct my MBA research paper on this topic i.e. Multinational subsidiary evolution: The case of Vodafone and its South African subsidiary, Vodacom. From an academic literature perspective the readings are both informative and relevant I have decided to deploy qualitative research method and respectfully request your response to the questions listed below:*

*Please explain from your perspective how the Vodacom/Vodafone relationship works?*

*What changes, if any, do you feel have been implemented as a consequence of the convergence of Vodacom into a majority owned subsidiary of Vodafone?*

*How do you feel about these changes?*

*What benefits do you feel Vodacom has derived or will derive from Vodafone subsidiary relationship?*

*Why do you think this?*

*What do you think are the key challenges in the Vodafone/Vodacom relationship?*

*Why do you think this?*

*Should you have any queries please do not hesitate to contact me.*

*Thanking you in advance.*

## Script for interviews conducted

I want to thank you for taking the time to meet with me today.

My name is Sherelle Schmulian and I would like to talk to you about your views on the role of Vodacom as a subsidiary of Vodafone and the subsequent evolution of Vodacom. The interview should take an hour. I will be taking some notes during the sessions and the session will also be recorded.

All responses will be kept confidential. This means that your interview responses will only be shared with the research team members, and we will ensure that any information we include in the report does not identify you as a respondent, should you so wish. Remember, you don't have to talk about anything you don't want to and you may end the interview at any time.

Are there any questions about what I have just explained? Are you willing to participate in this interview?

Please can I get your name, organisation and your position in the organisation and the years in this position?

1. Please explain from your perspective, how the Vodafone/Vodacom relationship works?
2. What changes, if any, do you feel have been implemented as a consequence of the convergence of Vodacom into a majority-owned subsidiary of Vodafone?

3. How do you feel about these changes?
4. What benefits do you feel Vodacom has derived, or will derive from the Vodafone subsidiary relationship?
5. Why do you think this?
6. What do you think are the key challenges in the Vodafone/Vodacom relationship?
7. Why do you think this?

Is there anything more you would like me to add?

## **Appendix B**

### **VODAFONE**

#### **Introduction to Vodafone**

The Vodafone Group is the world's leading mobile telecommunications company, with a global presence in 25 countries through equity interests, and a further 42 countries through partner market arrangements. Vodafone Group Plc (Vodafone) is a public limited company incorporated in England under the registered number 1833679. Its registered office is Vodafone House, The Connection, Newbury, Berkshire, RG14 2FN, England.

On 31 March 2009, based on the registered customers of mobile telecommunications ventures in which it had ownership interests at that date, Vodafone had 303 million customers, excluding paging customers, calculated on a proportionate basis in accordance with the Vodafone's percentage interest in these ventures.

Vodafone's ordinary shares are listed on the London Stock Exchange and Vodafone's American Depositary Shares (ADSs) are listed on the New York Stock Exchange. Vodafone had a total market capitalisation of approximately £66.9 billion at 18 May 2009.

Vodafone believes its leading market position is demonstrated by a strong level of free cash flow, with some £18 billion generated over the last three years, a resilient structure based on a diverse portfolio of assets in both mature- and emerging markets, and a number one or two ranking in most countries in which it operates.

Vodafone has also been a pioneer in data products and services, developing high speed mobile broadband networks and providing simple-to-use and attractive devices with features such as touch screen technology.

Vodafone has a recognised brand in consumer markets and a strong position in the enterprise segment. In addition, Vodafone is already well placed to benefit from growth in emerging markets, with a presence in a number of the countries where significant growth is expected.

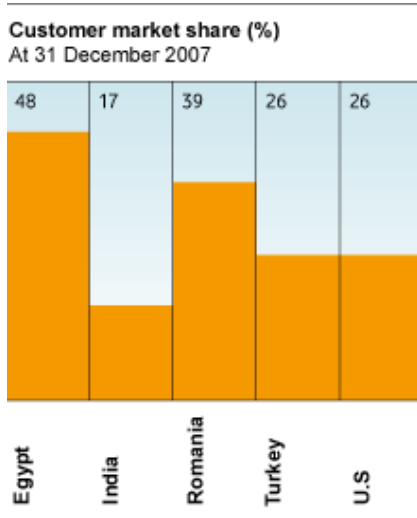
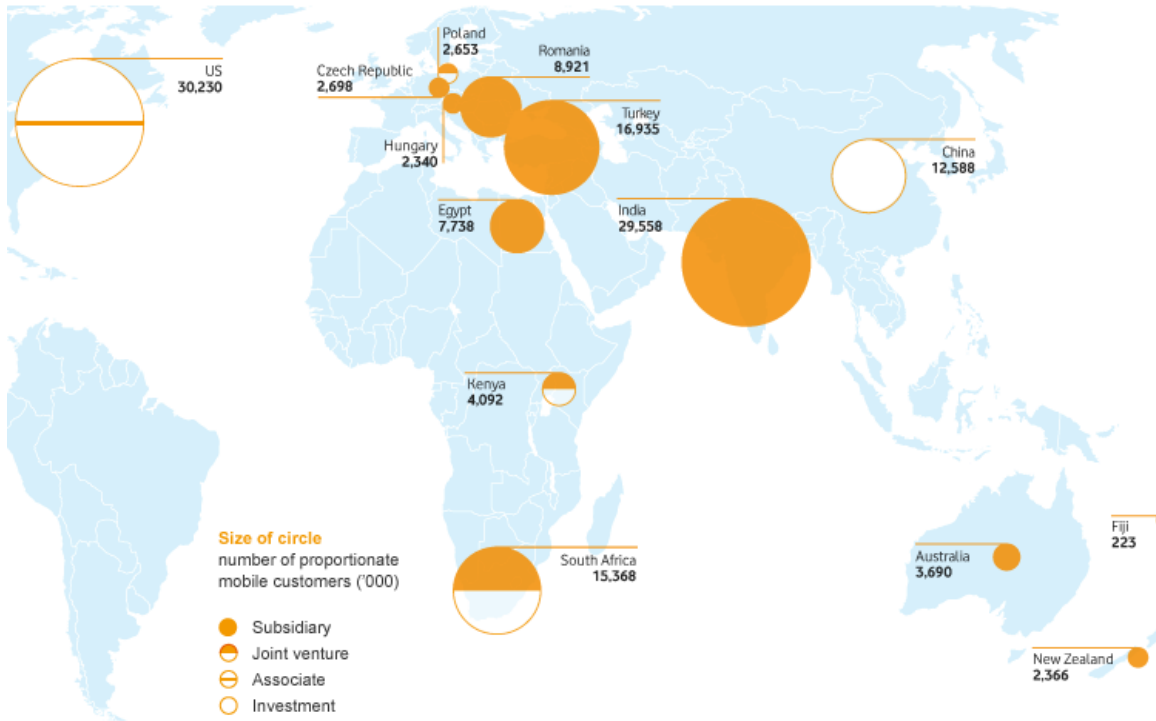
### **Vodafone Business Segments**

Vodafone is organised into two geographic regions – Europe and EMAPA – with the objective of aligning operations with Vodafone’s strategy, and focusing Vodafone’s businesses according to different market- and customer requirements.

### **EMAPA**

The EMAPA region covers Eastern Europe, the Middle East, Africa and Asia, the Pacific and Affiliates and includes the Vodafone’s subsidiary operations in the Czech Republic, Hungary, Romania, Turkey, Egypt, India, Australia and New Zealand, joint ventures in Poland, Kenya, South Africa (now a subsidiary) and Fiji, an associated undertaking in the US and the Vodafone’s investments in China and India.

Vodafone’s focus is to build on its strong record of creating value in emerging markets where average market penetration is relatively low, offering significant customer and revenue growth potential.



The joint ventures, associated undertakings and investments operate under the following brands:

Multinational subsidiary evolution: Vodafone and its South African subsidiary, Vodacom

- China – China Mobile;
- Fiji – Vodafone;
- India – Airtel;
- Kenya – Safaricom;
- Poland – Plus;
- South Africa – Vodacom;
- US – Verizon Wireless.

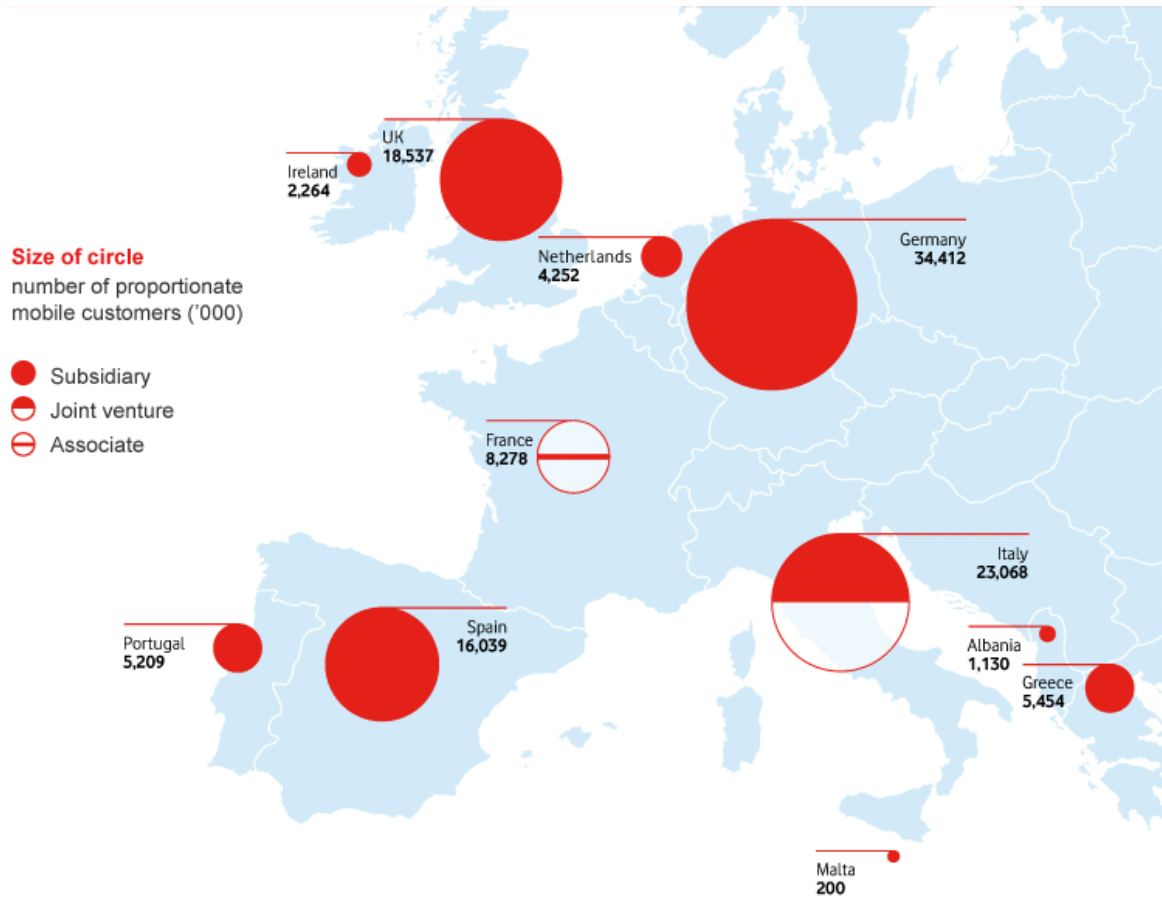
Vodafone's mobile subsidiaries operate under the brand name 'Vodafone'. In the United States, Vodafone's associated undertaking operates as Verizon Wireless.

## **Europe**

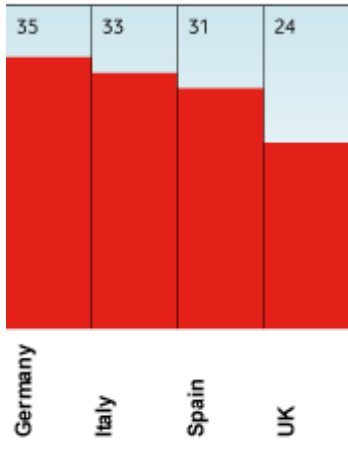
Vodafone's strategy is to drive additional usage and revenue from core mobile voice and messaging services, which represent around 80% of its revenue in Europe, and to reduce its cost base. The European region includes Vodafone's principal mobile subsidiaries located in Germany, Spain and the UK, its principal joint venture in Italy, as well as Vodafone's principal fixed line telecommunications subsidiary in Germany. Other businesses in the European region comprise Albania, Greece, Ireland, Malta, the Netherlands and Portugal, as well as its associated undertaking in France.

All Vodafone's mobile subsidiaries in Europe, and the joint venture in Italy, operate under the brand name 'Vodafone'. Vodafone's fixed line subsidiary operates as Arcor, and Vodafone's associated undertaking in France operates as SFR and Neuf Cegetel.





Customer market share (%) At 31 December 2007



## **Partner Markets**

Vodafone has also entered into arrangements with network operators in countries where Vodafone does not hold an equity stake. Under the terms of these Partner Network Agreements, Vodafone and its partner networks co-operate in the development and marketing of global services under dual-brand logos. Partner-markets are operations in which Vodafone has entered into a partnership agreement with a local mobile operator, enabling a range of Vodafone's global products and services to be marketed in that operator's territory.

Under the terms of these partner market agreements, Vodafone and its partners cooperate in the development and marketing of certain services, often under dual-brand logos. Vodafone's partner-market strategy enables Vodafone to implement its global services in new territories, extend its brand reach into new markets and create additional revenue without the need for equity investment. Similar arrangements also exist with a number of the Vodafone's joint ventures, associated undertakings and investments.

The results of partner-markets are included within common functions, together with the net result of unallocated central costs and recharges to Vodafone's operations, including royalty fees for the use of the Vodafone brand.

## **Vodafone's History and Development**

The Company was incorporated under English law in 1984 as Racal Strategic Radio Limited (registered number 1833679). After various name changes, 20% of Racal Telecom Plc capital was offered to the public in October 1988. The Company was fully demerged from Racal Electronics Plc and became an independent company in September 1991, at which time it changed its name to Vodafone Group Plc. Since then, the Group entered into various transactions, which consolidated the Group's position in the United Kingdom and enhanced its international presence. The most significant of these transactions were as follows:

- The merger with AirTouch Communications, Inc., which was completed on 30 June 1999. The Company changed its name to Vodafone AirTouch Plc in June 1999, but then reverted to its former name, Vodafone Group Plc, on 28 July 2000.
- The acquisition of Mannesmann AG, which was completed on 12 April 2000. Through this transaction, the Group acquired subsidiaries in Germany and Italy, and increased the Group's indirect holding in SFR.
- Through a series of business transactions between 1999 and 2004, the Group acquired a 97.7% stake in Vodafone Japan. This was then disposed of on 27 April 2006.
- 11 May 2005 – France. Following a transaction completed by the Group's associated undertaking, SFR; the Group's effective shareholding in Neuf Cegetel became 12.4%.

- 31 May 2005 – Czech Republic and Romania. 79.0% of the share capital of MobiFon S.A. (MobiFon) in Romania and 99.9% of the share capital of Oskar Mobil a.s. (Oskar) in the Czech Republic were acquired for \$3.5 billion (£1.9 billion). In addition, the Group assumed approximately \$1.0 billion (£0.6 billion) of net debt.
- 18 November 2005 – India. Acquired a 5.60% interest in Bharti Airtel and on 22 December 2005 acquired a further 4.39% interest in Bharti Airtel. Total consideration for the combined 10.0% stake was Rs. 67 billion (£858 million).
- 5 January 2006 – Sweden. Sold Vodafone Sweden for €970 million (£660 million).
- 20 April 2006 – South Africa. Increased its stake in Vodacom Group (Pty) Limited (“Vodacom”) by 15.0% to 50.0% for a consideration of ZAR15.8 billion (£1.5 billion).
- 24 May 2006 – Turkey. The assets of Telsim Mobil Telekomunikasyon (Telsim) were acquired for \$4.67 billion (£2.6 billion).
- 29 June 2006 – Greece. The Group’s interest in Vodafone Greece reached 99.9% following a public offer for all outstanding shares.
- 3 November 2006 – Belgium. Disposed of 25% interest in Belgacom Mobile SA for €2.0 billion (£1.3 billion).
- 25 November 2006 – The Netherlands. Group’s shareholdings increased to 100.0% following a compulsory acquisition of outstanding shares.
- 3 December 2006 – Egypt. Acquired an additional 4.8% stake in Vodafone Egypt bringing the Group’s interest to 54.9%.

- 20 December 2006 – Switzerland. Disposed of 25% interest in Swisscom Mobile AG for CHF4.25 billion (£1.8 billion).
- On 8 May 2007, the Group acquired companies with interests in Vodafone Essar for \$10.9 billion (£5.5 billion), following which the Group controls Vodafone Essar.
- 9 May 2007 – India. A Bharti group company irrevocably agreed to purchase the Group's 5.60% direct shareholding in Bharti Airtel (see note 29 to the Consolidated Financial Statements).
- 3 December 2007 – Italy and Spain. Acquired Tele2 Italia SpA and Tele2 Telecommunications Services SLU from Tele2 AB Group for €775 million (£537 million).
- 11 December 2007 – Qatar. A consortium comprising Vodafone and The Qatar Foundation was named as the successful applicant in the auction to become the second mobile operator in Qatar.
- 19 May 2008 – Arcor. The Group increased its stake in Arcor for €474 million (£377 million) and now owns 100% of Arcor.

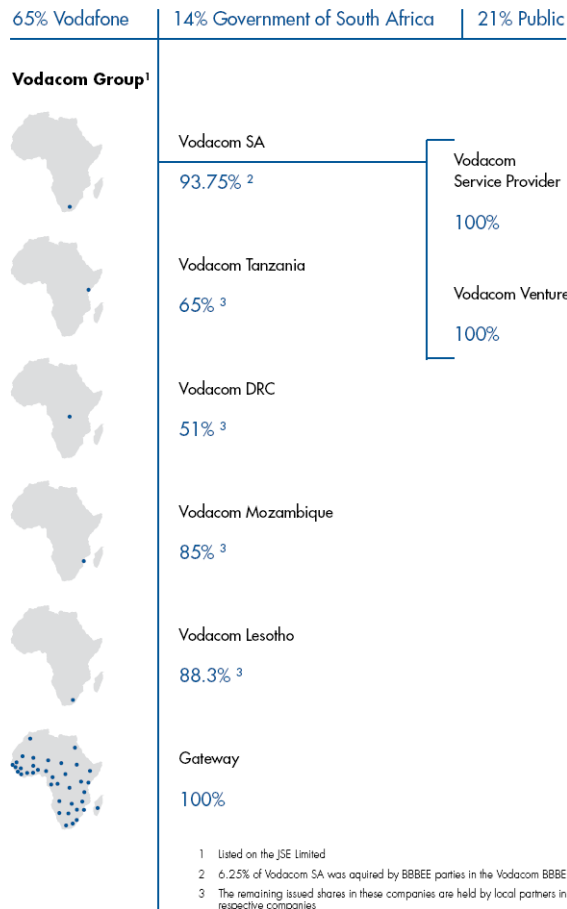
## **Appendix C**

### **VODACOM**

#### **Introduction**

The Vodacom Group (Vodacom) provides a wide range of communications products and services, including voice-, messaging-, broadband- and data connectivity, and converged services. Vodacom is a leading African communications group providing mobile communications and related services to 39.6 million customers as of 31 March 2009.

Vodacom's mobile network covers a total population of approximately 182 million people in the five countries as illustrated in Figure 2: South Africa, Tanzania, the DRC, Lesotho and Mozambique. Vodacom's presence in Africa was strengthened by the acquisition of Gateway, a leading provider of communications services to multi-national companies and telecommunications network operators. Vodacom's launch of Vodacom Business in 2008 offers converged business network and related IT services to the enterprise market. A detailed overview of Vodacom's history and development is set out in this appendix.



**Figure 2 Vodacom Group**

**Vodacom’s business segments**

**South Africa**

Vodacom SA is the largest mobile network operator in South Africa with an estimated 53% market share as of 31 March 2009. Vodacom SA had 27.6 million customers as of 31 March 2009, or 69.7% of the Group’s customer base. Vodacom SA contributed 86.0% to group revenue and 94.7% to group operating profit for the year ended 31 March 2009.

## **International**

Vodacom owns mobile network operations in Tanzania, the DRC, Mozambique and Lesotho, with a combined 12.0 million customers. The international operations cover a total population of approximately 134 million, which have a blended mobile penetration rate of less than 25%. The international operations contributed 30.3% to group customers as at 31 March 2009.

## **Gateway**

Gateway is Africa's largest provider of satellite and terrestrial network infrastructure and interconnection services for African and international telecommunications companies. Gateway also provides an extensive range of high quality, end-to-end connectivity solutions to multinational corporations operating across Africa. Gateway services customers in 40 countries. The acquisition of Gateway provides the thrust for the strategic objective to expand in sub-Saharan Africa. The acquisition has given Vodacom a much larger international footprint and a springboard for further expansion. Gateway provides Vodacom with new market entry points and local market understanding, and offers attractive synergies. Gateway continued to extend its network with two new offices in Kenya and Uganda, and launched IPJetDirect, a new offering to provide high-speed low-latency internet connectivity.

Significant progress has been made in identifying synergies between Vodacom and Gateway, specifically in international voice and carrier data services. As the leading provider of managed network IT solutions to blue-chip multinational clients on the continent, Gateway is expected to provide growth impetus particularly in the enterprise market.



## History and Development

- 1993 Vodacom Group incorporated in South Africa.
- 1994 Vodacom launches GSM network in South Africa.
- 1996 Sale of 5% stake in Vodacom Group to BEE shareholders and Launch of world's first prepaid service on an IN platform. Vodacom launches GSM network in Lesotho.
- 2000 Vodacom launches GSM network in Tanzania.
- 2001 Launch of Vodacom's youth product 4U in South Africa.
- 2002 First to launch GPRS and MMS in South Africa Vodacom launches GSM network in the DRC.
- 2003 Vodacom launches GSM network in Mozambique.
- 2004 First to launch 3G in South Africa.
- 2005 Launch of Vodafone Live! in South Africa.
- 2006 Vodacom Ventures formed and First to launch HSDPA in South Africa.
- 2007 Acquisition of an interest in WBS (iBurst).
- 2008 Sale of 6.25% in Vodacom SA to BBBEE shareholders. Vodacom Business launched and Acquisition of Gateway.
- 2009 Acquisition of 51% of StorTechSale of Telkom's 15% interest to Vodafone, Unbundling of Telkom's Vodacom shares and Listing on the JSE Limited.

## References

Ambos, B. & Reitsperger, W. D. 2004. Offshore centres of excellence: Social control and success. *Management International Review*, 44(2): 51–65.

Birkinshaw, J. 1997. Entrepreneurship in multinational corporations: The characteristics of subsidiary incentives. *Strategic Management Journal*, 18: 207–229.

Birkinshaw, J. & Hood, N. 1998. Multinational Subsidiary Evolution: Capability and Charter change in Foreign-owned subsidiary companies, *The Academy of Management Review*, 23(4): 773–795.

Birkinshaw, J., Hood, N., & Jonsson, S. 1998. Building firm-specific advantages in multinational corporations: The role of subsidiary initiative. *Strategic Management Journal*, (19): 221–241.

Birkinshaw, J., Hood, N., & Young, S. 2005. Subsidiary entrepreneurship, internal and external competitive forces and subsidiary performance. *International Business Review*, 14(2): 227–248.

Birkinshaw, J. & Morrison, A. 1995. Configurations of strategy and structure in subsidiaries of multinational firms. *Journal of International Business Studies*, 26(4): 729–753.

Birkinshaw, J., Toulan, O., & Arnold, D. 2001. Global account management in multinational corporations: Theory and evidence. *Journal of International Business Studies*, 32(2): 321–348.

Brock, D. 2003. Autonomy of individuals and organisations: Towards a strategy research agenda. *International Journal of Business and Economics*, 2(1): 57–73.

Brock, D. & Birkinshaw, J. 2004. Multinational strategy and structure: A review and research agenda. *Management International Review*, Special Issue, 1: 5–14.

- Burgelman, R. A. 1983. A model of the interaction of strategic behaviour, corporate context and the concept of strategy. *Academy of Management Review*, 8: 61–70.
- Collis, D., Young, D., & Goold, M. 2007. The size, structure and performance of corporate headquarters. *Strategic Management Journal*, 28(4): 383–405.
- Foss, N. & Pedersen, T. 2004. Organizing knowledge processes in the multinational corporation: An introduction. *Journal of International Business Studies*, 35(5), 340–350.
- Garnier, G. H. 1982. Context and decision-making autonomy in the foreign affiliates of U. S. multinational corporations. *Academy of Management Journal*, 25(4): 893–908.
- Ghoshal, S. & Nohria, N. 1989. International differentiation within multinational corporations. *Strategic Management Journal*, 10(4): 323–337.
- Gupta, A. K. & Govindarajan, V. 1991. Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, 16(4): 768–792.
- Harzing, A. W. 2000. An empirical analysis and extension of the Bartlett and Ghoshal typology of multinational companies. *Journal of International Business Studies*, 31(1): 101–120.
- Hedlund, G. 1986. The hypermodern MNC: A Heterarchy?. *Human Resource Management*, 25: 9–35.
- Jarillo, J. C. & Martinez, J. I. 1990. Different roles for subsidiaries: The case of multinational corporations in Spain. *Strategic Management Journal*, 11: 501–512.
- Kim, B., Prescott, J. E., & Kim, S. M. 2005. Differentiated governance of foreign subsidiaries in transnational corporations: An agency theory perspective. *Journal of International Management*, 11: 43–66.

- Kim, C. W. & Mauborgne, R. A. 1991. Implementing global strategies: The role of procedural justice. *Strategic Management Journal*, 12: 125–143.
- Kim, C. W. & Mauborgne, R. A. 1993. Making global strategies work. *Sloan Management Review*, 34(3): 11–27.
- Luo, Y. 2001. Determinants of local responsiveness: Perspectives from foreign subsidiaries in an emerging market. *Journal of Management*, 27: 451–477.
- Manolopoulos, D. 2006. The Concept of autonomy in the subsidiary management research: A conceptual investigation. *Journal of Transnational Management*, (11): 45–63.
- Manolopoulos, D. 2008. A Systematic Review of the Literature and Theoretical Analysis of Subsidiary Roles. *Journal of Transnational Management*, (13): 23–57.
- Morrison, A. J & Kendall, R. 1993. Developing Global Subsidiary Mandates. *Business Quarterly*. 57(4) 104-110
- Paterson, S. L. & Brock, D. M. 2002. The development of subsidiary-management research: Review and theoretical analysis. *International Business Review*, 11(2): 139–163.
- Prahalad, C. & Doz, Y. 1981. An approach to strategic control in MNCs. *Sloan Management Review*, 22(4): 5–14.
- Roth, K. & Morrison, A. J. 1990. An Empirical analysis of the integration-responsiveness framework in global industries. *Journal of International Business Studies*, 21(4): 541–564.
- Roth, K. & O'Donnell, S. 1996. Foreign subsidiary compensation strategy: An agent theory perspective. *Academy of Management Journal*, (39): 678–703.
- Taggart, J. H. 1997c. An evaluation of the integration responsiveness framework: MNC manufacturing subsidiaries in the U.K. *Management International Review*, 37(4): 295–318.

Taggart, J. H. 1998. Strategy shifts in MNC subsidiaries. *Strategic Management Journal*, 19: 663–681.

Taggart, J. H. & Hood, N. 1999. Determinants of autonomy in multinational corporation subsidiaries. *European Management Journal*, 17: 226–236.

Vachani, S. 1999. Global diversification's effect on multinational subsidiaries' autonomy. *International Business Review*, 8: 535–560.

White R. & Poynter, T. 1984. Strategies for foreign-owned subsidiaries in Canada. *Business Quarterly*, 48: 59–69.

Young, S. & Tavares, A. T. 2004. Centralization and Autonomy: Back to the future. *International Business Review*, 13(2): 215–237.

Available from <<http://fds.oup.com/www.oup.co.uk/pdf/0-19-874204-5chap15.pdf>> (accessed 4 September 2009).

Available from <[http://www.idrc.ca/en/ev-56614-201-1-DO\\_TOPIC.html](http://www.idrc.ca/en/ev-56614-201-1-DO_TOPIC.html)> (accessed 4 September 2009).

Available from <<http://www.engineeringnews.co.za/article/icasa-wont-oppose-vodacom-ruling-independence-questioned-2009-05-18>> (accessed 4 September 2009).

Available from <<http://www.businessday.co.za/articles/Content.aspx?id=71759>> (accessed 26 May 2009).

Available from <<http://www.itnewsafrika.com/?p=2694>> (accessed 27 May 2009).

Available from <<http://www.cellular-news.com/story/37598.php?s=h>> (accessed 7 May 2009).

Available from <<http://www.itnews.co.za/sections/telecoms/2009/0903051042.asp?O=FPTOP&S=Career%20Moves&A=MOV>> (accessed 22 May 2009).

Available from <<http://www.engineeringnews.co.za/article/may-5-set-down-for-vodacom-s-jse-debut-2009-03-03>> (accessed 22 May 2009).

Available from <<http://www.engineeringnews.co.za/article/newly-listed-vodacom-to-enter-period-of-review-and-renewal-ceo-2009-05-18>> (accessed 22 May 2009).

Available from <<http://mybroadband.co.za/news/Business/9831.html>> (accessed 01 October 2009).