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Entering the door to Africa

A qualitative study on the obstacles and facilitators of the southern African market

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Abstract

Title: Entering the door to Africa: A qualitative study on the obstacles and facilitators of the southern African market

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Background: Sub-Sahara Africa has seen tremendous economic growth the last years. Between 2001-2011 six of the world's fastest growing economies were in Sub-Sahara Africa. This makes the region a very attractive market for firms and investors interested in growing their business.

Purpose: The purpose of this thesis is to identify the key factors that affect growth for firms that are active or planning to become active in the Sub-Sahara region. This thesis aims on highlighting some of the challenges and opportunities that exist in the region and further help to bridge over some of the differences that exist in these markets.

Delimitations: This thesis will be delimitated to southern Africa. The thesis will however cover questions concerning issues that stretch beyond theses geographical limits as well in order to try to paint as a full picture as possible.

Method: The thesis is based on qualitative interviews with 15 persons with extensive insights in the southern African economy. The results from the interviews will be filtered through a theoretical framework that has been constructed based on a thorough literature study.

Conclusions: From the interviews four threshold factors could be identified. These were:

- Culture - Cultural differences is something that is impossible to learn from distance; knowing the culture allows the firm to tailor their offer to the specific market and learn the ways of doing business in the region.
- Skills – The skillset in the southern African region is very low and there is a scarcity of highly educated people. Planning for this problem is essential to minimize its impact.
- Financial Capital – There is a scarcity of capital in the southern African region affecting both the demand in the market and the possibility to find funding. Providing creative financing solutions is key.
- Broad-Based Black Economic Empowerment - This regulatory system only exist in South Africa with the purpose to change the inequalities that emerged during the apartheid era. BBBEE pervades the entire South African economy and not having a strategy for this will be a huge disadvantage.

To overcome most obstacles a firm should use one of two alternative strategies. The first strategy is for firms with limited experience and financial muscle. These firms should joint venture with a more experienced partner in order to gain experience and someone to share risks with.

The second strategy is for experienced and financially strong firms. These should engage in direct investment. This allows the firm to more efficiently exploit all the opportunities in the local market and to become embedded in the local culture.

Keywords: Africa, Southern Africa, Sub-Sahara Africa, Export, Globalization, Foreign Direct Investment, Strategy, Culture, Growth Strategies, Factors.

Sammanfattning

Titel: Glänta på dörren till Afrika: En kvalitativ studie om hinder och möjligheter i den södra afrikanska marknaden.

Författare: Per Fernström, Industriell ekonomi 2009, LTH.

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Problem: Subsahariska Afrika har sett en väldig ekonomisk tillväxt de senaste åren. Mellan 2001-2011 var sex av världens tio snabbast växande ekonomier i subsahariska Afrika. Det här gör att regionen har blivit en väldigt attraktiv marknad för företag och investerare som är intresserade av att ta del av denna tillväxt.

Syfte: Syftet med denna uppsats är att identifiera nyckelfaktorer för tillväxt för företag som redan är aktiva eller som planerar att bli aktiva i subsahariska Afrika. Uppsatsen ämnar belysa några av de hinder och möjligheter som finns i regionen samt föreslå strategier för att överkomma de skillnader som finns i dessa marknader.

Avgränsningar: Denna uppsats är avgränsad till södra Afrika. Uppsatsen kan däremot komma att behandla ämnen som sträcker sig utanför dessa nationsgränser.

Metod: Denna uppsats är baserad på en kvalitativ undersökning med 15 personer vilka samtliga har djupa insikter i den södra afrikanska ekonomin. Resultaten av undersökningen kommer att filtreras genom ett teoretiskt ramverk som har konstruerats utifrån en djupgående litteraturstudie.

Slutsats: Utifrån intervjuerna kunde fyra tröskelfaktorer identifieras. Dessa var:

- Kultur – Kulturella skillnader är något som är omöjligt att lära sig på distans. Att känna kulturen i den specifika marknaden tillåter företaget att skräddarsy sitt erbjudande och lära sig hur man blir framgångsrik i den regionen.
- Färdigheter – Arbetskraften i södra Afrika har låg utbildning och låga färdigheter. Det finns en brist på högutbildade människor. Att planera för detta är väldigt viktigt.
- Finansiellt kapital – Det finns en brist på finansiellt kapital i södra Afrika vilket påverkar efterfrågan på produkter samt begränsar möjligheterna till att hitta finansiering för den egna verksamheten. Att erbjuda kreativa finansiella lösningar är essentiellt.
- Broad-Based Black Economic Empowerment – Det här är ett regelverk som bara existerar i Sydafrika och är till för att utjämna de ojämlikheter som fanns kvar efter apartheideran. BBBEE genomsyrar hela den sydafrikanska ekonomin och att inte ha en strategi för detta regelverk är en stor nackdel.

För att komma över de flesta hinder kan företag använda en av de två följande strategier. Den första strategin är för företag som har begränsad erfarenhet och finansiella muskler. Dessa företag bör ingå ett samriskföretag med en erfaren partner för att snabbt få tillgång till erfarenhet och för att få någon att dela risker med.

Den andra strategin är för erfarna och finansiellt starkare företag. Dessa borde göra en direktinvestering. Detta tillåter dessa företag att på ett effektivare sätt exploatera de lokala möjligheterna i varje marknad samt att bli inbäddade i den lokala kulturen.

Nyckelord: Afrika, Södra Afrika, Subsahariska Afrika, Export, Globalisering, Utländska Direktinvesteringar, Strategi, Kultur, Tillväxtstrategier, Faktorer.

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Further we would like to thank every person that has let themselves be interviewed for this thesis. They have selflessly taken time out of their often tight schedules to help us and for that we are highly indebted.

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Lund, June 2014

Per Fernström

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Abbreviations

BBBEE	Broad-Based Black Economic Empowerment
BOT	Build-Operate-Transfer
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communications Technology
MNE	Multinational Enterprise
NGO	Non-Governmental Organization
PPP	Public-Private Partnership
SA	South Africa
SME	Small and Medium Enterprises
SSA	Sub-Sahara Africa
UN	United Nations

1. Introduction

This chapter will introduce the reader to the problem of this thesis. It will contain the purpose of the thesis along with the research questions. Finally it will conclude with the delimitations of the thesis.

1.1 Problem background

Doing business in new markets is a big challenge for any company and often there are many unknown unknowns that will hinder the expansion. This is even more significant on the African market because it contains many challenges that do not exist in many companies' home market. By knowing and understanding these challenges we believe that the opportunities in this region are lucrative.

The Sub-Saharan (SSA) region has the highest poverty in the world today, in 2010 48.5% of the population was living on under 1.25$ a day (World Bank 2014). In the last years the extreme poverty has started to decline in the SSA-region but this is still happening at a glacial pace and the goal for the World Bank which declares that it "works for a poverty free world" is still far away (World Bank 2012). At the same time as SSA has the highest poverty it also has some of the fastest growing economies in the world; between 2001-2011 six of the world's ten fastest growing countries were in the SSA-region (The Economist 2011). Also, according to the IMFs forecasts the SSA-region will take seven out of the top ten spots between 2011-2015, for fastest growing economies and it is very likely that the African countries will outpace the Asian within a near future. This shows that the potential for growing a business in this region is huge.

A big part of today's growth is based on natural resources and there is a common preconception that this is almost all of the growth, but actually it only stands for 32 % of the GDP-growth in Africa (Leke & Lund 2010). This shows the potential for creating business in other areas; there is no need to be locked in the ideas of making business within the resources field. SSA has a very fast growing middle class and they are spending more money than ever and this opens up many business opportunities within a wide range of industries.

The SSA-region is in many cases shaped by its history which has created huge inequalities and drained many countries of their resources. Many western countries have during a long time been very active to work on overcoming these problems by giving aid to the SSA-region, with a big focus on helping countries to create political stability, infrastructure and education (SIDA 2014). We believe that western firms can be an effective complement to this by ensuring an inflow of investments that will create economic development.

Today many of the SSA-countries are in a situation where they do not have the same need for aid as they had in the past. There are actually countries today that do not accept aid any more since they want more independence and do not think that the upsides are big enough to give other countries influence over them[1]. This is something that really opens up for investments in this

[1]Alexander, Muigai, Programme Coordinator / Teacher at Sida Partnership Forum. Lecture on the 14th of January 2014.

region. Many of the SSA-countries are more interested in creating new jobs and getting foreign investments into the country.

Because of the situation and the massive growth that is occurring in the SSA-region we wanted to write a master thesis that addresses the opportunities with doing business in the SSA-region. We believe that many firms are afraid of doing business in this part of the world, and in some cases it is only based on a lack of knowledge. With this master thesis we wanted to address the facilitators and the obstacles that lie ahead for an entry or expansion in the SSA-region.

1.2 Purpose of thesis

The purpose of this thesis is to identify the key factors that affect growth for firms that are active or planning to become active in the SSA-region. This thesis aims on highlighting some of the challenges and opportunities that exist in SSA-region and further help to bridge over some of the differences that exist in these markets.

1.3 Research questions

These are the main question we will try to find an answer to in this thesis:

- What are the biggest challenges doing business in the SSA-region today?
- How is it possible to overcome these challenges?

1.4 Delimitations

Since the SSA-region is a very big region and has many different regions with different conditions, we have chosen primarily to focus on the southern part of the SSA-region (South Africa, Botswana, Namibia, Mozambique, Angola, Zimbabwe and Zambia). The primary reason for this is because we are based in Johannesburg and most of the companies have their headquarters for the southern SSA-region here. For eastern SSA many companies have their headquarters in Nairobi, Kenya and for western-SSA many are based in Lagos, Nigeria. Therefore our delimitation in form of region comes quite natural. Furthermore the southern part of Africa has more similar history and conditions when compared to other parts of Africa.

Our geographical delimitation will sometimes be looked beyond, since we are looking at companies that are conducting business in all of SSA. In some cases we have found information that goes beyond this area but has significance for our thesis. We will not limit ourselves by boarders; we will primarily let were the business activity is conducted decide the delimitation.

While it is important to address the fact that the countries in southern Africa are all very different, we will search for the common shared problems firms face in the region. We will create a recommendation based on these general learnings.

2. Research Methodology

This chapter will describe the research methodology that has been used in writing this thesis. The different choices will be discussed. Finally a discussion on the credibility of the thesis will be made as well as an evaluation of the sources.

2.1 Methodological approach

When conducting research it is important to choose with which approach the survey should be conducted. Different approaches are suitable for different types of studies. Basically, the two main approaches are inductive and deductive research.

An inductive approach consists of collecting data and from this data try to find patterns and draw conclusions. The data should be collected in a reasonably unconditional way. This is the appropriate methodology when there is limited previous research on the subject and the researcher has a hard time making hypotheses and predicting the results. The results will be quite general and theoretical. This approach has received criticism because it can be argued that it is impossible to collect data unconditionally, there has always been a choice in what data one chooses to investigate. Also, the research does not produce an outcome that did not already exist in the data before. Therefore it can be questioned what value inductive research brings (Wallén 1996, p.47).

A deductive approach is more tightly bound to existing theory. This approach is trying to empirically test a hypothesis that has been made from earlier existing research. The ambition of this approach is to try to create a system made out of proven theories with rules for derivation of new theories. Within the system it will therefore exist a logical structure and complete non-contradiction. To be able to use a deductive approach it is necessary to have a quite developed earlier knowledge of the subject at hand (Wallén 1996, p.48).

For this thesis an inductive approach has been chosen. The reason for this is because there is limited existing research on the subject and an inductive approach is more suitable when forming new science. Furthermore, the situation in southern Africa is ever changing and therefore new research needs to be conducted constantly. Our subject gives an explanatory thesis and therefore an inductive approach is more suitable than a deductive since we are not trying to form any kind of logical system or trying to test an earlier hypothesis.

2.2 The work process

This thesis was made in a very linear process. The process was divided into five main parts that were done sequentially, although with iteration. Iteration was done in order to fill in gaps or to improve earlier parts when our understanding of the problem had improved.

After deciding our area of research very broadly we researched the subject in order to formulate a research question. At first we read up on available literature, both on theories concerning expansion strategies and globalization theories as well as the general situation in southern Africa. In order to validate and get input on our initial thinking we conducted interviews with Kaj Persson at the Ministry for Foreign Affairs, Africa Department as well as with Olov Hemström at

Business Sweden in Johannesburg. With their input and with help from our supervisor we formed our research questions and our interview guide. They also helped us choose what factors were interesting to analyze about the southern African business climate. With the help from Business Sweden we found our survey population. After the data collection had been made, we analyzed the results to see if we could find any patterns and draw any conclusions in order to answer our research question. The whole process has been illustrated in figure 1.

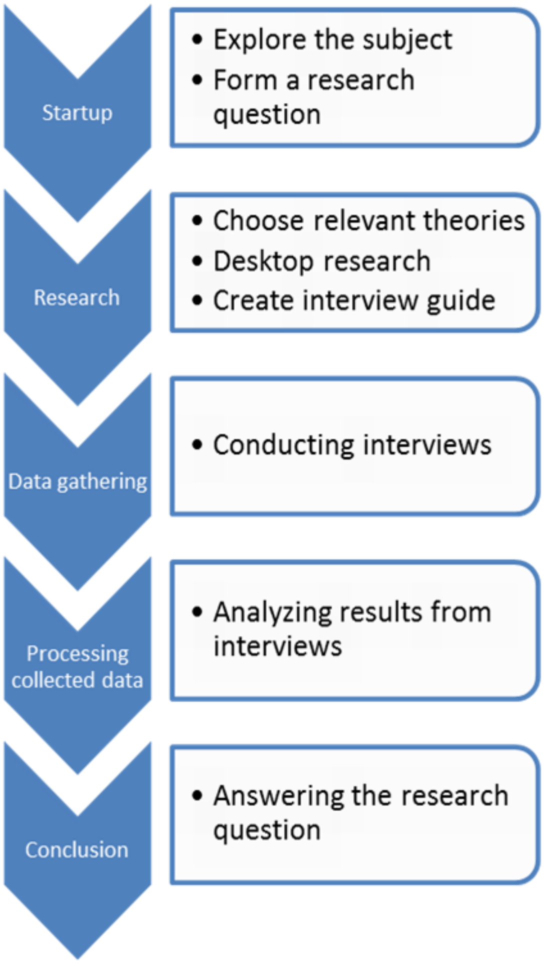

Figure 1: The research process

2.3 Data gathering

When discussing data one distinguishes between quantitative and qualitative data. Quantitative data is data that lets itself easily be captured in statistics. Qualitative data is data that is hard to express in numbers. Naturally, the way to analyze the two kinds of data is very different, where quantitative data is analyzed in a more statistical way while qualitative data is analyzed in a more contextual, literary way.

2.3.1 Choice of qualitative approach

A quantitative approach is suitable when one can make systematic and structured observations (e.g. using questionnaires) or when one is interested in many separated variables. Conversely, qualitative approaches are better suited when one has unsystematic and unstructured observations (e.g. in depth interviews or when one has a very loose interview form) or when one is interested in contexts and structures (Holme & Solvang 1997, p.78).

In this thesis a qualitative approach will be used. Qualitative approaches are better suited for painting a general picture and enable an understanding of social processes and contexts. They are often used to get a starting point for creating theories and hypothesis that can later be tested in a deductive and quantitative research. A qualitative approach is also better suited when the data is subjective, vague, ambiguous and not directly measurable as is the case in this thesis. Since our objective is to get a general picture of the obstacles and facilitators of doing business in the southern African region based on interviews with persons with relevant experience of the problem, clearly a qualitative approach is preferred.

2.3.2 Interviews

When one is interested in the opinions of different persons, the best way of accessing this information is by simply asking them. To be able to get informed and developed answers it is best to use a loose interview form. It is most of the time only possible to get the deep answers through follow up questions and letting the interview take ways that perhaps was hard to anticipate beforehand (Wallén 1996, p.76). When analyzing the answers it is important to include all of the interviewees' nuances and meanings in order to really use the strength of the qualitative approach.

It is this approach that will be used in this thesis. The interviews will be semi-structured with certain topics that we want to discuss. We will not steer the interviews more than setting certain topics. The reason for this is to allow the interviewed persons to share their unique experiences and opinions. It will be necessary to remain somewhat critical to some of the responses we might get since some topics can be viewed as personal and controversial. If a topic is controversial there is a higher risk that the answer will be too colored by the respondents own personal feelings and wishes. In these cases it is important to relate the answers to the existing knowledge in order to remain critical. For the interview form, see Appendix A1. For a list of the interviewed persons, see 6.1.

2.3.3 Exploratory study

Before the interviews were conducted an extensive literary study was conducted. We were careful not to arrive to the interviews too opinionated but the literary study was an important step in order to choose the topics we wanted to discuss. It was also necessary to educate ourselves in order to be able to conduct the interviews on a meaningful level. Without prior knowledge it is difficult to ask the follow up questions that are needed in order to get a developed answer.

It was also a good way to get a picture of earlier research. By this we avoided doing research that has already been done by others. Furthermore we were able to get a view of what were relevant questions and factors. This is an essential part of every survey (Backman 2008, p.24). In order to really make sure that we had interesting and meaningful topics to research we conducted informal interviews with Kaj Persson at the Ministry for Foreign Affairs, Africa Department and Olov Hemström at Business Sweden. They could, as experienced persons with a broad overview, point us in the right directions and make sure that our survey was kept relevant.

2.4 Credibility

In all research it is critical that the results have a high level of credibility. This is ensured by having:

- well-developed conclusions founded on a sound logic
- that what is the objective of the research is really what is being researched
- that the results are general.

This is measured with reliability, validity and representativity (Höst, Regnell & Runesson 2008, p.41).

2.4.1 Reliability

The reliability of this thesis is ensured by using a wide amount of sources as well as an honest retelling of the methods used when conducting the interviews. When choosing literature for the thesis, academic sources have been chosen as far as possible. When using non-academic sources the selection was made with high criteria of credibility. Examples of these sources are the International Monetary Fund, the World Bank, McKinsey Global Institute and The Economist.

For the interviews the interview guide is provided in order to let the reader evaluate the process.

2.4.2 Validity

Validity is the measure of the connection between the object that is supposed to be measured and what is actually being measured (Höst, Regnell & Runesson 2008, p.42). Validity is often not an issue in qualitative studies such as this one since there always is a high level of connection to the studied object when conducting in-depth interviews. What is important is that the interviewee can feel free to steer his or her contribution. It is important though for the researcher to remain critical of his object, especially when questions are sensitive or controversial. In those cases the interviewee can be too colored by his own experiences and become less objective in his answers (Holme & Solvang 1997, p.94).

In this thesis a loose structure has been used for the interviews in order to let the interviewee himself steer the answers. We have also been aware of the sensitive nature of some of the questions and are prepared for answers that might become excessively emotional.

2.4.3 Representativity

Key for ensuring a good representativity is a carefully selected survey population (Höst, Regnell & Runesson 2008, p.42). Good representativity has been ensured by choosing a wide range of companies to interview. We have tried to get a good mix of different companies in different areas of industry. The representativiy could surely have been improved by interviewing more companies from yet different industries but this was not possible due to time constraint.

2.5 Evaluation of sources

Evaluating the sources that have been used is of utmost importance. If the sources are not reliable the result of the research will stand on weak ground.

2.5.1 Literature

The literature that has been used is of high quality. Most of it is from organizations that have a certain degree of academic audit. Articles and research made by organizations rather than a single author guarantees that a more rigid scientific process has been used. That goes without saying for academic sources. Furthermore, a wide selection of sources has been used reducing the risk of using badly researched literature. We have tried to avoid information from sources that are too ideologically influenced and we have tried to use as contemporary sources as possible.

Most of the authors of the literature that has been used are well established in the academic field. The scientific articles have been found through the search engine of Lund University, LUBsearch.

2.5.2 Interviews

Interviews are good sources because they provide a primary source as opposed from literature that most of the time provides secondary sources. However, interviews always run the risk of being biased. To try to improve the quality of the results of the interviews we have let all of the interviewed persons see the results before publishing the thesis. For more critique of the interviews, see the analysis chapter.

3. Theory

This chapter will introduce the theoretical framework with which this essay is written and present the models with which we will analyze our results. We will try to explain how companies grow and which location specific factors that affect the choice of growth strategy for a firm. The chapter will start with a description of the different ways it is possible for companies to grow. After that a focus on internationalization as a way to grow will follow, starting with the OLI-paradigm describing why companies choose to go international followed with a very concrete description of the different modes of how to enter a market. After that the Uppsala model and Root model will follow, both offering explanations of how firms go international. Lastly an introduction to the different categories that we think will affect companies' growth strategies will be presented.

3.1 Ansoff's model of growth strategies

Growth is often a central factor in a firm's strategy. It is not always advisable for a firm to grow but often growth is associated with increasing revenues. The most classic model for growth is the Ansoff diversification matrix that states four broad strategies for growth (Ansoff 1957). The most obviously relevant strategies for companies willing to establish themselves or grow in the SSA-region are market development and diversification. Often the line between these two are quite blurred as new markets almost always demand a little tweaking of the product, if only in packaging, service, financing etc. The market for most products in the SSA-region should be quite different from western markets seeing has how the customer needs naturally are quite different.

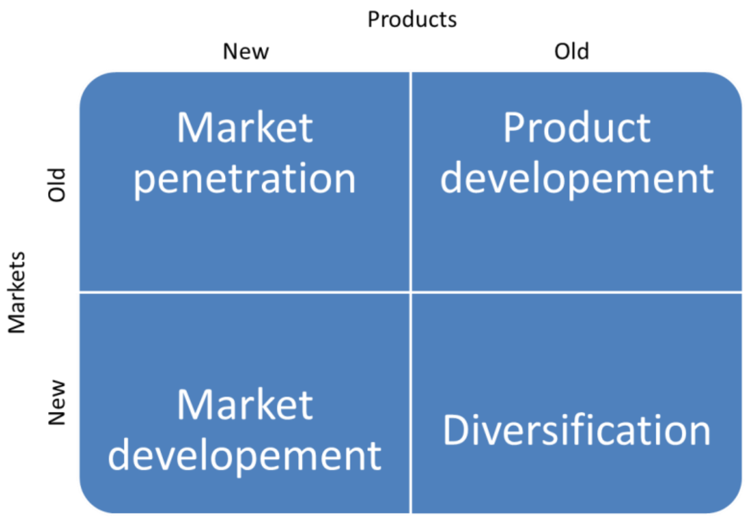

Figure 2: Ansoff's matrix of growth strategies

The model is based on the realization that growth either can come from further penetration of existing markets and products, new products, new markets or both new products and new markets. For a company venturing into new markets, products or both, new competences are required; the further from the current position of the company the more the company has to acquire new skills.

3.1.1 Market penetration

This strategy is based on growth in the current market with the current products. This is the most basic strategy and it does not require that the company acquires any new skills. However, growth in this way can be hard to achieve and the threat of retaliation from other competitors is high. This can cause a price war that destroys the margins and thus the attractiveness of the market. One way of growth in this strategy is by acquiring other competitors in the market. This can give rise to synergy effects by increased economies of scale and reducing buyer and supplier power. However, acquiring a competitor is often met with resistance from the legal system with regards to completion law.

3.1.2 Product development

Growth in the current markets can be done by offering new products. This demands a lot more of the company than market penetration in terms of new competencies. This implies a bigger risk for the company as it needs to do things it has no earlier experience of. Expensive research and development may result in products that are not appreciated in the market and it can lead to increased project management complexness that may result in overshooting budgets and timeframes.

3.1.3 Market development

Another way of growth is to offer existing products to new markets. The new markets can be either new customer segments or new geographical markets. For this strategy to succeed it is essential that the products that are offered meet the critical success factors in the new market. This demands that the firm tweaks its offer to the new market, something that can be quite difficult since the firm have no experience of the new market. It also implies rising management complexness as the need for coordination between different markets is required.

3.1.4 Diversification

Diversification is a strategy where the firm expands to a new market with a new product, thus combining market development and product development. This is the most complex strategy since it demands that the firm moves the furthest from its existing competencies. It is also probably the most relevant to companies wishing to conduct business in the SSA-region. As stated earlier, there is no clear distinction between the different strategies and indeed most of the time companies will pursue a number of the four in parallel and in combination.

The diversification strategy does not have to be an internationalization strategy but in this thesis that will be the focus.

3.2 Internationalization

The first question to ask is why firms choose to go international. There are many different reasons but some academics have tried to provide frameworks that explain the reason to internationalize.

One theory about why firms choose to go international is the OLI-paradigm by John H. Dunning (also known as the "eclectic" paradigm). This paradigm dictates that for a firm to go international it must have:

- Ownership-specific advantages (O). This could for example be knowledge, technology, brands, firm-size and market power. These are features that no competitors of domestic or foreign nationality possess.
- The willingness to internalize (I) the ownership-specific advantages mentioned above. This is especially likely to be the case with knowledge since this is a very expensive asset to acquire.
- Location-specific factors (L) that make it better for the firm to exploit its assets in foreign locations rather than in domestic locations. This can be markets, resources, production costs, cultural factors and so on.

If a firm only have the first condition, ownership, it is likely to only engage in licensing. If it has both ownership and the willingness to internalize it is likely to engage in exporting. If it has all the three of the above it is likely to engage in full foreign direct investment (Dicken 2007, p.109).

3.2.1 Location specific factors that motivate internationalization

Breaking down the OLI-paradigm there are basically two motivations for a firm to go international. It is either that they want to capture a new market or to gain access to new assets. On the market side there are basically three dimensions that decide the new markets attractiveness. First off is the market size. This is the purchasing power on the market and is a good estimate how much the firm will win from establishing itself there.

Second is the structure of the demand in the market. Poorer countries have a large demand for basic goods while richer countries have a stronger demand for more advanced products. Poor countries can still be very attractive markets since they can have a very poor but large population that makes up a huge market (the so called "bottom of the pyramid").

Third is the accessibility of the market. In countries with poorly developed infrastructure it can be hard to set up a smoothly functioning supply chain; there can be political hinders, a culturally very different market that demands that the firm changes its offer and so on.

The asset motivation for a firm to internationalize is very old and very significant. The most obvious reason is for a firm to gather natural resources that are only available in foreign locations. Often the processing of these resources take place closer to the market where the final product is being sold and the value to the host country of having this kind of industry can be debated. Today many claim that the most important assets for a firm to internationalize are knowledge and labor.

Knowledge is often thought to be located in different clusters, often centered on a university. Examples are Silicon Valley, the city in London and so on. The knowledge is encapsulated in persons, (labor that is) which means that knowledge really is a subcategory of labor. In an international perspective labor differentiates itself in a couple of important factors such as the knowledge of the labor, the cost, the productivity, controllability (e.g. the power of unions) (Dicken 2007, p.112).

3.3 Modes of entry

When a company has decided that it wants to enter a new market there are three different ways to choose between. They are exporting, joint venturing and direct investments (Armstrong & Kottler 2011, p.519). Which one the firm will choose is decided from the OLI-paradigm. Following is a theoretical breakdown of each strategy.

3.3.1 Exporting

Exporting is the easiest way to enter a new market since the risk is lower than other options. A company can easily and at a low risk start to export surpluses when they accumulate in stock. In all cases of exporting, the goods are produced in the company's home country or production country. This is one of the big advantages with exporting because it allows the company to keep the same structure. There are two different ways of exporting goods to a new market and they are through indirect and direct exporting.

Indirect exporting is the most common way to start an export to a new country because of the low risk and low initial costs. When using indirect export you are working together with international or national intermediaries to conduct business on your new market. This simplifies things a lot since you do not have a need for an overseas marketing organization, and also the intermediaries decrease the risk by adding knowledge of the new market and contributing with already existing relations.

The other way to conduct export is via direct exporting. This increases the risks and the initial costs since you will need to handle the process and contacts on the new market, but at the same time this increases the potential return. There are many different ways to handle direct exporting; one way is to have an overseas sales branch to handle sales and distribution. One other way is to only use a domestic export department that handles all the export activities on the new market. There is also the possibility to use foreign-based distributors that sell the goods or use an agent that sell the product for the company.

3.3.2 Joint venturing

Joint venturing is another way to enter a new market. The big difference between exporting is that you join together with a host country partner to conduct your business together with them. The big advantage with this is that you get the local know-how included when you find a local partner, and you do not stand all alone on your new market. There are four different types of joint ventures:

One type is licensing which means that a company enters a foreign market by making an agreement with a local company to use their manufacturing process, brand, patent or trade secret. Often this is paid with some kind of royalty or fee. The advantages with this strategy are that you know what you will get paid and you take a limited risk. The negative side of this strategy is that it is hard to find a good partner and also you do not have the same control over quality and this can affect your brand.

One other type of joint venturing is contract manufacturing. This means that a company makes a contract with a company in a foreign market to produce a product or provide a service. Some of the benefits with this strategy are that you can cut your cost because you do not have to own the production facilities and also that you can benefit from skills that you do not have. This means that you are actually outsourcing your manufacturing process to another company and you therefore do not have the same control over the process both in consideration of deadlines and quality.

The third type is management contracting. This means that the domestic company supplies a foreign company with the know-how and management staff. The foreign company is paying for the management to run the business or one specific part of it. This is something that is very common when a company lacks certain skills. It is often a good investment for the domestic company since the pay-off normally is high and the risk is quite low.

The fourth and last type of joint venture is the joint ownership. This is when a company finds investors in a foreign market to create a local business with. This means that they will own the company together and share both the profits and the losses.

3.3.4 Foreign Direct investment (FDI)

When entering a market through an FDI the company acquires or constructs a foreign based manufacturing or assembling facility. This type of investments gives the company full control of their entry and also makes it much easier to integrate the FDI into the company's organization. If the FDI is done as an acquisition it will open up for a fast market entry and if the FDI is a greenfield investment this will often open up for government funding, especially if the FDI will provide more jobs or state-of-the-art technology to the host country. At the same time the FDI comes with greater risk since there is a need of a big initial investment that can expose the company economically and if the FDI is done as an acquisition it might be difficult to integrate it into the company.

3.4 The process of going international

Following below are the two most common models of explaining the gradual process of internationalization for a firm. The two models differ in their outset; the Uppsala model being very ad hoc while the Root model conversely is a much planned process. Lastly follows a different viewpoint that has been more popular in recent times that describes firms as being global already from their birth.

3.4.1 The Uppsala model of how firms go international

The Uppsala model describes the internationalization of a firm as a gradual evolvement in four general steps based on the firm's involvement in the foreign market. The steps are:

- Sporadic export
- Export via independent representatives (distributors or agents)
- Establishing a foreign sales subsidiary
- Foreign production and manufacturing

What the Uppsala model emphasizes is that becoming international is a very gradual process. The more the firm does business in a foreign market the more it will learn. When the firm has more knowledge of the market it is able to increase its activities there. The choice of market and strategy is much unplanned. The model also stresses the fact that internationalization often starts in a country that has a culture similar to the home market, which makes it easy for the company to understand the place it is doing business in (Johanson 1977).

3.4.2 Root's entry strategies for international markets

The Root model is a model of internationalization that describes the process as very planned and strategic unlike the more ad hoc nature of the Uppsala model. It argues that all companies can afford to plan its international strategy and indeed that all firms that want to internationalize should plan their international activities (Root 1987).

The modell describes four destinct phases of the strategy but these are in reality never that clear as they seem in theory. In fact, they are constantly revised and updated as the firm gains more experience from the market.

The first step of the modell is to assess the products that you are going to sell and in which market you are going to be present. This should be selected carefully, the choice of market can for example be influenced by the factors in Porters famous diamond (factor conditions, demand conditions, firm strategy, structure and rivalry and related and supporting industries), cultural distance and so on.

The second step is to set objectives and goals for the international project. This is a important part of making a serious and long term international staking.

The third step is to choose the entry mode.

Finally is the step of deciding the marketing plan which will be based on the 4 P's (price, product, place and production) as well as other factors influencing the marketing strategy.

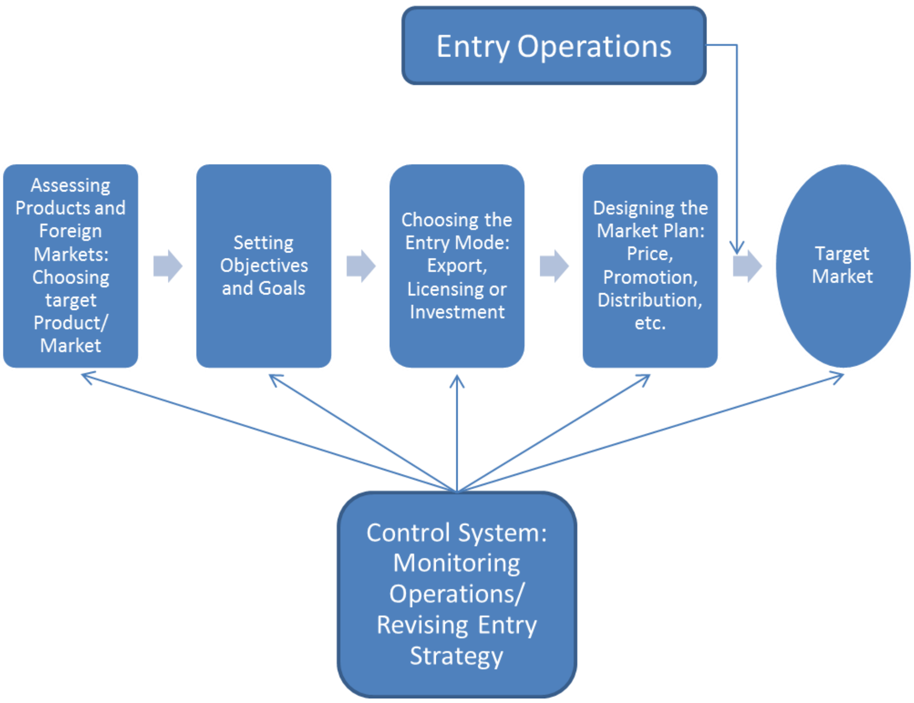

Figure 3: Root's model of the internationalization process

3.4.3 Beyond Uppsala and Root

Both the Uppsala model and the Root model are quite old and there is currently a debate in academic circles about if these views have been overtaken by a view of companies that are "born global", meaning that they start out as global firms from the start (Tamer Cavusgil & Knight, p.1).

Examples of this is Skype that is founded by a Swede and a Dane. Skype was global from the start with development being done in Estonia. Within three years the company had 54 million users in 225 different countries (Jacobsson 2011).

3.5 Summarizing the theory

Firms wishing to grow do this in four different ways as set out in the Ansoff matrix. This thesis focuses on internationalization and therefore places itself in the market development and diversification squares of the model. The reasons why firms go international are explained in the OLI-paradigm. This paradigm also set out which strategy the firms will use, either exporting, joint venturing or direct investment. Once a firm has decided it wants to become international it can take different routes to achieve this. This process can either be improvised or planned and these two approaches are explained by the Uppsala and Root model respectively. In the last decade there have been firms that have been highly international from the outset and therefore the Uppsala and Root models have been complimented by a third view that is called born global.

4. Geographical introduction

This chapter will give a brief introduction to the different countries in the region. Emphasis will be put on aspects of the countries that affect businesses.

Figure 4: Map of Africa (Maps for Design 2014)

4.1 Country information

4.1.1 South Africa (SA)

South Africa	
Population	48,4 million
GDP per capita	$11,500
Unemployment rate	24,9%
Population below poverty line	31,3%
Corruption index	42 (72nd)
GINI-index	63,1 (2nd)
Urbanization	62%
Median age	25,7y

SA was colonized in 1652 by Dutch (Boer) traders. In 1806 the British took the control of Cape Town and forced the Boer north. During almost 100 years there were a constant conflict between these two groups and this intensified when diamonds and gold were discovered in the end of the 19th century. In 1948 the national party was elected and introduced apartheid which is a policy that separates white from black/colored people and limits their possibilities. The opposition against apartheid was led by the African National Congress (ANC) with their leader Nelson Mandela who spent decades in South African prisons. After a massive internal pressure and international boycotts, the leading regime agreed to make a transmission into a democracy in a peaceful way and in 1994 Nelson Mandela was elected president.

SA is the largest economy in the SSA-region and a middle-income emerging market driven by natural resources. This makes SA very sensitive for changes in commodity prices which was shown during the financial crisis 2008 when GDP fell with almost 2%. SA has a modern infrastructure that supports a quite efficient distribution system but unstable electricity supplies limit the economic growth. SA is one of the countries in the world with highest unemployment, poverty and inequality rates which continues to be a major problem for the country's development (CIA 2014).

The three most problematic factors for doing business in SA according to the World Economic Forum are inadequately educated workforce, restrictive labor regulations and inefficient government bureaucracy (Schwab 2013).

4.1.2 Botswana

Botswana	
Population	2,2 million
GDP per capita	$16,400
Unemployment rate	17,8%
Population below poverty line	30,3%
Corruption index	64 (30th)
GINI-index	63 (3rd)
Urbanization	61,7%
Median age	22,9y

Botswana is a former British protectorate and got its independence in 1966. With democracy, social policies and capital investments Botswana has become one of the most stable countries in Africa. The economy is driven by mineral extractions, especially diamonds. This has made Botswana very dependent on the price of diamonds since it stands for almost a third of the GDP. In later years the tourism industry has seen a major increase because of strict policies regarding natural conservation. Botswana has had one of the highest economic growth rates since their independence and this has taken them from one of the world's poorest countries to a middle-income country (CIA 2014).

The three most problematic factors for doing business in Botswana according to World Economic Forum are poor work ethic in the national labor force, inefficient government bureaucracy and a poor access to financing (Schwab 2013).

4.1.3 Namibia

Botswana	
Population	2,2 million
GDP per capita	$16,400
Unemployment rate	17,8%
Population below poverty line	30,3%
Corruption index	64 (30th)
GINI-index	63 (3rd)
Urbanization	61,7%
Median age	22,9y

Namibia is a former German colony that got occupied by South Africa during World War I. The occupation lasted until 1988 when South Africa agreed to end its administration of the country according to a UN peace plan. Namibia's economy is driven by minerals and mostly diamonds and uranium. Namibia has a high per capita income but as the GINI-index shows, they have one of the highest inequalities in the world. Drought forces Namibia to import around 50% of their grain consumption and often the lack of food is a major problem in rural areas (CIA 2014).

The Namibian economy is closely connected to the South African with their currency tied at a one to one ratio to the South African Rand.

The three most problematic factors for doing business in Namibia according to World Economic Forum are inadequately educated work force, corruption and poor access to financing (Schwab 2013).

4.1.4 Zambia

Zambia	
Population	14,6 million
GDP per capita	$1,800
Unemployment rate	14%
Population below poverty line	64%
Corruption index	38 (83rd)
GINI-index	50,8 (19th)
Urbanization	39,2%
Median age	16,7y

Zambia is an old British colony former known as Rhodesia and it got its independence in 1964. Zambia's economy has for a long time been dependent on mining and furthermost copper. In the 80's and 90's the mines were run down and this, together with declining copper prices, caused the government great losses. This led to the privatization of the mines which together with increased copper prices turned Zambia's economy around (CIA 2014).

The three most problematic factors for doing business in Zambia according to World Economic Forum are poor access to financing, corruption and inadequately supply of infrastructure (Schwab 2013).

4.1.5 Zimbabwe

Zimbabwe	
Population	13,8 million
GDP per capita	$600
Unemployment rate	95%
Population below poverty line	68%
Corruption index	21 (157th)
GINI-index	50,1 (23rd)
Urbanization	38,6%
Median age	20,2y

Zimbabwe is a former UK colony that declared its independence in 1965, but did not get recognized until 1980. This was because the constitution favored the white in power and did not allow voting rights for the black majority. Robert Mugabe, the country's first prime minister and president since 1987, has been the only ruler since free elections were introduced and he has dominated Zimbabwe's political system ever since. In 1997 Mugabe launched a land distribution campaign with the goal to change the balance of land ownership. This caused mass emigration of white farmers, damaged the economy and made the country that before was called "the bread basket of southern Africa" unable to feed its own population.

Until 2009 Zimbabwe printed money to fund their budget deficit which caused hyperinflation. The inflation has been slowed down by a dollarization and is now below 10%. Zimbabwe's economy has started to show positive figures in recent years even though the political instability still is significant and their most important sectors are still agriculture and mining. Zimbabwe has a huge problem with unemployment and the official unemployment is one of the highest in the world at 95% (CIA 2014).

The three most problematic factors for doing business in Zimbabwe according to World Economic Forum are poor access to financing, political instability, inadequate supply of infrastructure (Schwab 2013).

4.1.6 Angola

Angola	
Population	19,1 million
GDP per capita	$6,300
Unemployment rate	N/A
Population below poverty line	40,5%
Corruption index	23 (153rd)
GINI-index	43
Urbanization	59,2%
Median age	17,9y

Angola is a former Portuguese colony that got its independence in 1975. Angola is still rebuilding itself after the 27 year long civil war that ended in 2002. This has damaged the infrastructure and even though major investments are being done it is still underdeveloped. Angola has had some of the highest growth figures in the world in the last 10 years and between 2004-2008 it was 17% per year. This has mainly been driven by oil production which stands for 85% of the GDP and the export of diamonds which stands for 5%. This makes Angola extremely reliant of the price of oil which was shown in the global recession 2008/2009 when the GDP growth almost halted. Oil export has created an economic boom which has led to high growth rates for the construction and agriculture industries (CIA 2014).

The three most problematic factors for doing business in Angola according to World Economic Forum are corruption, inadequate educated work force and inefficient government bureaucracy (Schwab 2013).

4.1.7 Mozambique

Mozambique	
Population	24,7 million
GDP per capita	$1,200
Unemployment rate	17%
Population below poverty line	52%
Corruption index	30 (119th)
GINI-index	45,6 (37th)
Urbanization	31,2%
Median age	16,9y

Mozambique is a former Portuguese colony that got its independence in 1975. Mozambique was one of the world's poorest countries when they got their independence and the Marxist government together with a civil war that ended in 1992 aggravated the situation. In 1989 the government officially abandoned Marxism and implemented macroeconomic reforms that drastically improved the country's growth rate. Mozambique is still dependent on foreign aid but structural reforms and the ability to attract large investments are moving the country towards a self-sufficient economy. Their revenues are mainly based on natural resources with natural gas, coal and titanium as the most important (CIA 2014).

The three most problematic factors for doing business in Mozambique according to World Economic Forum are poor access to financing, corruption and inefficient government bureaucracy (Schwab 2013).

5. Factors affecting businesses in Sub-Sahara Africa

This chapter is the result of a desktop research with the aim to provide a basic understanding on how a number of chosen factors are affecting firms that want to grow in the SSA-region.

The processes of picking out the factors have been long and extensive. It all started about a year before the actual study was performed. At that time we got an interest for the region and decided on writing our thesis somewhere in southern Africa. At that time we read up on the region and closely followed media reporting from SSA. That gave us a good general knowledge and introduction to the business climate. After starting the actual thesis we conducted a thorough literature study after which we selected the factors. These were also bandied around with Kaj Persson, Minister Counsellor at the Africa Department of the Ministry for Foreign Affairs and Olov Helmström, Area Manager Sub-Sahara at Business Sweden. It must be emphasized however, that in last instance the selection was entirely done by us.

5.1 Financial Capital

Access to financial capital is crucial in any economy. On the supply side, without financial capital businesses cannot exploit opportunities that arise and thus innovation and employment will be hampered and growth will be subdued. On the demand side, lack of capital means a lack of buying power and thus less demand and less business opportunities and slower economic growth. This includes consumers as well as governments. A government with capital to invest can build the infrastructure that is crucial to businesses and at the same time create employment that will generate a middle class and an internal demand, further boosting the business climate in the country.

In Africa there has recently been a comparatively high influx of capital. There are many explanations for this; one is that there has been a lot of aid and debt forgiveness in some of the poorer countries (IMF 2013). Debt forgiveness enriches the government and thus facilitates government spending (instead of paying old debts which may have been taken by an old regime that is now considered illegitimate). Another source of capital has been foreign direct investments (FDIs). The conventional understanding of FDIs is that it is primarily a benefit to a country in the short run, because ownership and the right to the profit is retained abroad. FDIs however increase a country's productivity by externalities and productivity spillovers which can produce a endogenous long term growth (Luiz 1997, p.2). There is a debate among academics as to whether FDIs always are beneficial for a recipient country but McKinsey Global Institute have found evidence that in Africa FDIs have been very beneficial for the recipient economies (Roxburgh et al 2010, p.18).

A third source of capital is remittances which provide an important cash injection on the customer side. These cash injections from abroad helps boost internal demand in the receiving country. Liberalization and digitalization of the capital markets make money transfers ever more affordable meaning that a bigger portion of the remittances end up in the receiving country as opposed to the financial service provider. Remittance fees can still come up to 25% in the worst cases (South Africa) (African Economic Outlook 2014).

Furthermore, capital is being provided through bank lending and debt and equity purchases, although in comparison to FDI, to a very small extent (Masetti 2013). Another important source of capital is money raised through African exports, mainly from raw materials. If resource rich countries can use the money raised in this way in a productive way it is possible to create a growing domestic middle class that would drive up demand and thus create domestic business opportunities. That very poor countries can take advantage of an abundance of resources is however far from given, in fact, historically this has most of the times not been the case. This well-known phenomenon is called the resource curse and it states that poor countries will fail to use their resource abundance in a way to grow the economy. Key factor to overcome the resource curse is the quality of governance in the country (Iimi 2006), something that varies widely in the African continent. Thus it remains to be seen how fast the economies will grow, affecting demand of products and services provided by international firms.

A lack of capital in the African economy suggests that international companies will have to find other business models than the conventional in order to build a viable business, since many customers simply cannot afford much else than the bare essentials. In Africa it is for example common to purchase electricity pre-paid. M-Pesa, a service that provides basic banking through a cellphone, is another example of a way to get around the lack of capital in the market. Business deals with poor governments often include public-private-partnerships (PPPs) in order to enable the government to avoid making big investments that they cannot afford. Another financing option is build-operate-transfer deals (BOTs) in which a private company will build and operate a project for a leasing time before transferring the project to the government. These projects demand companies with big financial muscle and thus exclude a lot of domestic players in Africa. The PPPs and BOTs can however be promising opportunities for companies with an easier access to financing.

Regionally South Africa and Botswana are the countries where firms have the easiest access to finance if measured as percent of firms financing themselves through banks, according to the World Bank (World Bank 2013). Botswana is the country in the region with the highest GDP per capita suggesting a higher demand for products and services than the rest. Zimbabwe has the lowest GDP per capita (CIA 2014).

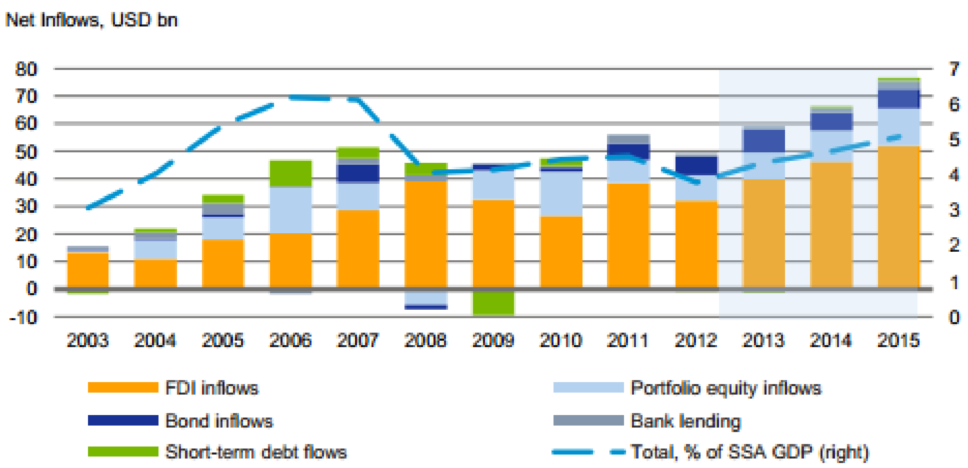

Chart 1: Private capital inflows to Sub-Sahara Africa. (Masetti 2013, p.1)

5.2 Infrastructure

Infrastructure can be divided into two different areas, social infrastructure such as hospitals and schools and economic infrastructure such as energy, transport, water and ICT constructions (Stewart 2010). In this thesis we will look more on the economic infrastructure.

Many studies show a clear correlation between investments in infrastructure and growth. According to the World Bank every 10 % increase in infrastructure provisions leads to an increase of approximately 1 % in the long term GDP growth (World Bank 2011).

There are two different ways in which infrastructure projects promote growth. First there is the direct effect; investment in infrastructure projects will create jobs and a lot of other business around it that will directly lead to an increase in GDP. Secondly it will increase the productivity and reduce transaction costs. This will also lead to a more efficient way of connecting and using existing technology (Bottini & Coelho 2013, p.7). But one thing that is very important to be able to benefit from the indirect effects is that the infrastructure is properly connected. If you invest in excess infrastructure without connecting it with the existing systems the potential effects will diminish.

50% of the GDP growth in Africa comes from infrastructure projects but even though the investments are large in percentage it is still small in real numbers, and has great potential to further increase the growth. If all SSA-countries would raise their infrastructure level to the same as the region-best Mauritius it would lead to an increase in per capita growth of around 2.2 % (Foster & Briceño-Garmendia 2010, p.2).

In many SSA low-income countries infrastructure is a big hinder when doing business and in general it reduces the national GDP-growth by 2 % per year and is decreasing the firms' productivity of about 40 % (Escribano, Guasch & Pena 2009, p.7). In many countries the negative effects of poor infrastructure is equal to those of crime, corruption, red tape and financial markets constrains, together. But one big problem that remains is that the countries that have the most urgent needs of infrastructure investments also are the ones that have the most difficulties to attract investors (World Bank 2013). In what part of the infrastructure the needs lie varies a lot between countries. In a measure of countries logistic performance (taking quality of roads, rails, customs processes and many other variables in consideration) done by the World Bank, South Africa scored 3.67, almost the same as Sweden, while Angola scored 2.28, almost the same as Afghanistan, Iraq and the DRC (the scale ranked from 1 to 5).

One of the biggest challenges is power supply and around 30 countries in Africa are affected by frequent power shortages and only 25% of the African population has access to electricity. Together, the 48 countries in SSA have a combined energy production of only 68 gigawatts, equal to that of Spain (African Development Bank Group 2008).

Another aspect that is important to bear in mind is that many of the African countries are landlocked (15) with a low population density which makes it very expensive to supply them with good infrastructure. This is one reason to the fact that Africa's infrastructure services are twice as expensive as elsewhere (Foster & Briceño-Garmendia 2010, p.4). Other things that affects this is the small capacities that makes the cost very high, for example small power grids mainly driven by diesel generators and also monopolies in some markets that causes high prices due to lack of competition.

5.3 Labor relations

Having good labor relations is of great importance to any company. A good relationship between management and labor increase efficiency and quality while it decreases absenteeism, grievances and strikes. For a good labor-management relation, cooperation between management and labor is essential. That means that there have to be a power-sharing between the parties as well as a strong and autonomous organization of the workers. Without a strong worker organization the labor has no representation, just as there are political parties to represent the people in a representative democracy (Rothstein 1993, p.15).

For this to work it is important that both sides collaborate and do not see each other as adversaries. Management has to work not only for direct, higher productivity per worker-hour and increased labor flexibility but also for job and income security, the prerequisite for worker commitment. Labor has to realize that there are mutual benefits of an effective production and thus not only view management with suspicion and work for a wider goal than just higher salaries and fewer working hours (Rothstein 1993, p.15). If good labor-management relations can be had, the company will become effective and thus highly competitive, which is good for both parties.

When considering labor-management relations in Africa there are a few issues that are of a higher importance than elsewhere. One crucial question for multinational enterprises (MNEs) is whether to give the local laborers the same conditions as workers in the rich part of the world. Many companies respond that worker productivity is lower in the Sub-Saharan region which would justify a lower compensation. It is often the case that the labor force in Sub-Sahara is less educated and trained and therefore has a lower productivity than labor in the west. For example, 80 % of the members of NUM (National Union of Mine Workers, a South African union of about 300 000 members) is functionally illiterate. Many unions in South Africa have a confrontational and aggressive style while the employers treat labor organizations with a stern hand, keeping wages low and actively shifting towards sub-contracting labor instead of real employment (Eweje 2009). It is clear that both sides need to change in order to facilitate a more constructive relationship.

Another question that is important in Sub-Sahara is the question of MNEs using expatriates to fill managerial positions. In doing so, the MNEs limit knowledge spillovers that would otherwise have occurred. Knowledge spillovers are recognized as a key factor in raising African competiveness and thus raising wages and standards of living. Using expatriate managers also reduces the legitimacy of the company to the local employees. Governments and labor unions have both been highly critical of MNEs using expatriate managers (Eweje 2009).

In South Africa, labor relations in general have been unstable in recent years. One example is BMW who has announced that it will not expand its production in South Africa due to bad labor relations resulting in frequent strikes. Demands for higher salaries have not been matched by a raised productivity according to BMW. One reason of this condition of aggressive labor might be the tripartite alliance between COSATU (the largest of the South African trade union alliance), ANC and the South African Communist Party, resulting in exceedingly labor friendly legislation.

World Economic Forum ranks South Africa the 116th nation when it comes to labor market efficiency. In contrast Botswana is ranked 47th, Namibia 59th, Angola 134th and Mozambique 125th (Schwab 2013).

5.4 Political stability

There is an academic consensus that political instability in a country has a negative effect on that country's economy. Political instability shortens the horizons of the incumbent politicians leading to suboptimal economic policies. Political instability can also mean a higher frequency of regime changes leading to volatile policies that make it hard for businesses to invest and make plans for the future. Whatever the policies of an incumbent regime, as long as they are stable companies can plan their operations for those conditions but should the regulatory frameworks and taxation vary widely it scares off investors since they cannot calculate the profits and risks appropriately. Political instability is shown to negatively affect GDP growth, private investment and inflation. Furthermore political instability negatively affects the main drivers of economic growth, namely total factor productivity and physical and human capital accumulation (Aisen & Vega 2010, p.4).

Political risk is a loose term that is defined somewhat different among different scholars. In broad terms the concept is about the frequency and disruptiveness of regime change. However, things such as a failed coup d'état can result in a massive change of state policy without any change in the actual regime. Political stability has nothing to do with whether a regime is democratically elected or not. Saudi Arabia for example is rated as a very politically stable country despite scoring extremely bad in democracy and human rights ratings.

For Africa specifically, there are some factors that increase the political risks. Many of the African countries have very undiversified, resource driven economies. This makes them very vulnerable to the global economic climate. When the global economy went into a troubled state in 2008 this was very hardly felt in many African countries resulting in higher food and gasoline prices which in turn resulted in social uprisings. Riots occurred in Cameroon, Ethiopia, Haiti, Ivory Coast and Senegal (The Economist Intelligence unit 2009, p.18). Furthermore, many countries depend heavily on remittances from Africans working in other parts of the world. When these dry up, as a consequence of a declining global economy, an already high income inequality is further increased. Income inequality is a key factor increasing political instability and Africa has some of the highest income inequality in the world (African Development Bank Group 2012, p.2). Furthermore, many African countries suffer from weak political institutions that make them highly corrupt which even more increases inequality and public discontent and as a consequence political instability.

In South Africa the incumbent political party, ANC, is unthreatened in its leading position. However, instability has recently been on the rise with a lot of companies fearing changes in regulation and taxation.

According to the business magazine The Economist, as of 2010 Zimbabwe had the highest level of political instability in southern Africa, followed by Zambia and Angola. South Africa was the 39th least political stable country in the world having worsened its placement in the ranking since the last survey in 2007. Botswana was by far the most stable country (The Economist 2009).

5.5 Skills/Education

One very important factor to be able to grow a business is the possibility to find an educated and skilled workforce, and education is well acknowledged as a powerful tool for growth. The theoretical studies points to three different mechanisms that can affect economic growth. First education can increase the human capital and productivity for a work force and that will in turn lead to a higher economic growth. Second, education can increase the innovative capacity of the population and that will lead to new knowledge in technology, products and processes that will grow the economy. The third mechanism is that education facilitates to understand new technology and processes invented by others. This gives a possibility to easier adapt new innovations from third parties and implement that into the economy, and this skill will also lead to increased economic growth (Hanushek & Woessmann 2010, p.245).

In SSA, where economic growth is essential for the whole continents survival because of the fast population growth, education has a crucial role (Bloom, Canning & Chan 2006, p.1). In many SSA-countries this is still one of the biggest challenges to overcome. According to the millennium goals all children should have the right to a primary education (UNESCO) but in SSA, this is still not the reality, and even if in many regions this goal is met, there is often a lack of quality.

Africa has taken huge steps when it comes to education, though growing from a very low level. In Africa in total, the net primary school enrollment was 76% in 2008 having increased 14% since 1999. For secondary school the enrollment was at a low 35% in 2008 with an increase of 10% since 1999 (Roxburgh et al 2010, p.20). When looking at these figures more in to depth it is clear that there are many flaws with the current education system.

Of around 128 million school-aged children in the SSA-region, 17 million will not participate in any education and 37 million of the children who will go to school will have so poor education that they will be on almost the same level as the children that did not go to school (Fleet, Watkins & Greubel 2012).

This fact addresses the importance of the quality of the education. In the research done in this area there are still very mixed opinions on how education actually affect growth and the most crucial question is not if the children goes to school, but what they will learn. School is not the only place where you can find knowledge and in many societies it might be even more effective to learn important skills from your tribe or community. This said we now live in a smaller world where everybody is expected to have the same basic set of skills such as writing, reading and calculating. To be able to grow the economy it is necessary to adapt to this system and be able to talk to the world.

The investments varies a lot between countries, for example in Botswana almost 10% of the GDP is invested in education, also Namibia invest a lot in education with 8%. But on the lower side there is Zambia that invests around 1.5% and Zimbabwe that invests 2.5% (World Bank 2012).

Furthermore, there are today large investments being done in primary and secondary education. Many studies show that there might be an even greater advantage in spending more funds on tertiary education to grow the economy out of poverty. The enrollment ratios stand at around 5%

in the SSA-region for tertiary education (Bloom, Canning & Chan 2006, p.3) and this is the lowest in the world today. Recent studies show that tertiary education can provide both public and private benefits. On the private side this can be for example in better employment prospects, higher salaries and better savings and investments strategies. On the public side this can help the society to become more adaptable to new technology and new innovation that gives spill-over effects to the economy as a whole and can create many new jobs for the rest of the population (Bloom, Canning & Chan 2006, p.3).

5.6 Competition

The level of competition in the market can be deciding if the market is attractive or not. Competition is famously one of the factors in Porters five forces model about market attractiveness. A high degree of competition presses down margins. However, too low competition can be harmful as well if it leads to companies getting lazy and ineffective.

It is hard to generalize about the competitiveness in Sub-Sahara since it is very different between different countries. South Africa for example is characterized by a high level of competition in most sectors. Some countries are on the other side of the spectrum, with Zimbabwe being in practice more or less closed for business and thus has no competition. Furthermore, competition has been rising lately with Africa attracting more and more FDIs, not least from China. These FDIs have mostly been directed at natural resources as well as supporting industries to that (ie infrastructure and utilities) (Zafar 2007). Mozambique has the highest net inflow of FDIs in the region, probably reflecting an inflow of heavy investment in their mining and oil sectors, followed by South Africa. The government in Botswana has been trying to diversify the economy away from their diamond dependency in the last decade. They have opened up the economy to foreign investment and as a result the level of competition has been rising in Botswana, if still on a lower level than South Africa. Having stated that, most African markets are still relatively immature and underdeveloped.

5.7 Corruption

Corruption is in general defined as ”the abuse of trusted power for private gain” (Transparency International 2014) and can be divided into three different categories: grand, petty and political depending on where in the society it occurs and to what extent. The most comprehensive form of corruption is grand corruption which is when high government officials use their power to benefit from the assets of the people and the country. The second type of corruption is the petty corruption that is the everyday corruption that occurs between low and mid-level officials in their interactions with the citizens. This will often be about getting access to basic functions in the society like schools, hospitals and other governmental institutions. The last one, political corruption is when people in power manipulates institutions, rules and regulations to be able to keep their wealth, status and power (Transparency International 2014).

It has been shown in many empirical studies that corruption has a negative effect on growth. Firstly, there is a correlation between corruption indexes and economic development measured in per capita GDP. Secondly, there is a strong correlation between low per capita GDP growth and corruption. This confirms that countries with a low per capita income and low per capita growth tend to have a higher amount of corruption (Tanzi & Davoodi 2000, p.3-4).

In many highly corrupt countries, the corruption will be integrated in the societal structure. Many companies that accept or have to accept corruption often see the cost for corruption as an extra tax for the company, albeit a tax that has no guarantees and has to be treated with secrecy. The uncertainty that comes with the handling of this kind of corruption often scares away investors and this is something that is hugely affecting the economic growth since investments is a big factor to company growth (Mauro 1996).

According to Transparency Internationals corruption perception index, SSA is the most corrupt region in the world with many of the countries classified as highly corrupt (Transparency International 2013). To understand the scope of the corruption in SSA an African Union study estimated the corruption cost for SSA to $150 billion. That should be compared with the foreign aid given to the SSA-region of $22.5 billion in 2008 (Hanson 2009). This shows that the problem of corruption is a problem that is integrated in almost all parts of the society in many of the SSA-countries and something that cannot be avoided easily.

There is only one country in SSA-region that scores above 50 on the Transparency Internationals corruption index (0= highly corrupt 100=very clean) and that is Botswana, which scores 64 putting them on place 30 on Transparency Internationals rating. On the other side are Angola and Zimbabwe on 153th and 157th place with a score of 23 and 21. South Africa scores 42 and is on 72th place with a negative tendency in the last years which indicates that the corruption is increasing (Transparency International 2013).

In the last ten years the pressure from foreign countries has increased on the SSA-governments to take actions against the corruption, and in some countries as Tanzania and Rwanda big progress has been accomplished. Many countries like Nigeria, Kenya and South Africa have established anti-corruption agencies sought to investigate, prevent and prosecute corruption, though in reality due to lack of control and political abutment this have had close to no real effect (Hanson 2009).

5.8 Sustainability

Sustainability and sustainable development is a principle that aims to create a society where living conditions and resource use meet the human needs without undermining the sustainability of the earth's natural systems and environment. Sustainability as a concept got awareness after the publication of the UN- Bruntland report, "Our Common Future". According to this report the definition of sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Bruntland 1987).

In 1994 the triple bottom line was introduced by John Elkington. This is a principle that expanded the companies' bottom lines to include more than only the financial result. The result should include firstly, the common profit account, the second is the people account that shows how socially responsible a company has been in their operations and the third is the planet account that show what environmental impact a company has done. According to Elkington this aims to take financial, social and environmental factors into calculation over a longer period of time, and first when a firm is following these three principles they take all cost for their business into account.

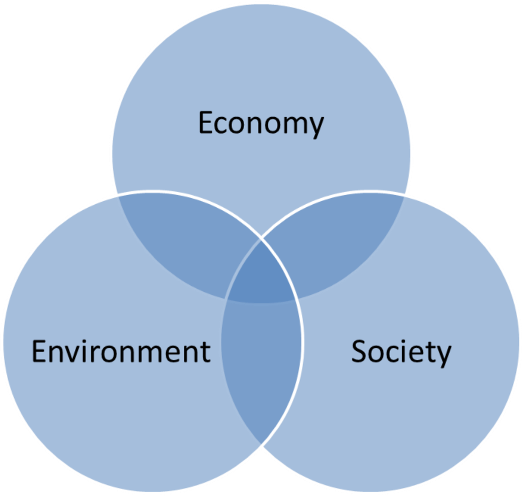

Figure 5: The triple bottom line

These views on sustainability are not represented in a large scale in the SSA-region and this can easily be seen when looking at the energy production. In Botswana 0% of the energy comes from alternative or nuclear energy and in South Africa and Angola around 2.5% (World Bank 2011). This highlights the fact that countries with high poverty prioritize to use the energy source available at a low cost (coal and oil) and do not have the resources to take the environment into account, as is being done more and more in the western world.

Social responsibility and sustainability on the other hand gets a bigger focus since there is a huge focus on creating jobs in SSA. In many of the countries within this region there is a high unemployment rate. In South Africa, Angola and Namibia the unemployment rate is around 25% (Trading Economics 2014) and many governments try to stimulate job creation. One example is Botswana (unemployment rate of 18%) where a company that provides a lot of employment will receive favorable financing terms from the government.

5.9 Broad-Based Black Economic Empowerment

In 1994 South Africa's first democratic government was elected and one of the first things that government did was to create new policies to reduce the inequalities that the former apartheid government had caused. This was particularly obvious within the business environment and therefore the first Black-Economic Empowerment regulation (BEE) was created. This legislation had its problem since it was quite narrow and only enriched a small amount of persons, which is why the Broad-Based Black Economic Empowerment (BBBEE) was created in 2003 with the goal to redistribute the country's assets to a wider part of the population (Trade and Industry Republic of South Africa 2013).

The BBBEE-act includes seven core elements with the purpose to broaden the empowerment (BBBEE-act 2012). They are:

- **Ownership –** Do the company have black shareholders?

- **Management Control –** How many black people within the company has operational and strategic control?
- **Employment equity –** How many black people are employed in the company?
- **Preferential procurement –** How much of products and services are purchased from black suppliers?
- **Skills development –** How the company invests in training for black people?
- **Enterprise development –** How the company is contributing to black business development in the country?
- **Corporate investments –** How the company is supporting black beneficiaries?

By fulfilling and complying with these elements the company gets a rating. This rating will affect a company's possibility to do business with government and parastatals. This becomes very important when competing with other companies for government tenders.

There are a lot of criticism on the BBBEE-act that states that its brain-draining the economy when the most qualified person do not get the jobs because they will not provide the best BBBEE-rating. This makes many white people leave South Africa for other countries in search of employment (NSA Watch 2014). Desmond Tutu has warned that the BBBEE-regulations only will benefit a small elite and leave a big part of the population still living in poverty (South African History Online 2004).

Discussions about BBBEE is on the table in more SSA-countries, such as Botswana, Namibia and Zambia (Chiwunze 2014). There they are still called citizen economic empowerment policies, having less emphasis on race, but there are voices being raised about going more in the direction of South Africa.

5.10 Culture

When conducting business in different markets the local culture will be different in each culture. These cultural differences have been shown to be very important when putting together the marketing mix for a foreign market (Dahl 2004, p.25). There have been some researchers who have tried to break these differences down into theoretical frameworks, of which the most famous is Geert Hofstedes model of cultural dimensions. This model explains cultural differences as a combination of six factors (Hofstede 2014):

- Power distance: This factor is a measurement of how unequal a society is and to what extent this inequality is accepted by the less powerful of that society. If the less powerful part of the population in a country, to a high degree expects that there should be a power distance, that country will score high in this category. Managers in countries with low power distance often take a more participatory management style while organizations are more hierarchical in countries with high power distance.
- Uncertainty avoidance: This factor measures to what extent members of a society feel comfortable with unstructured situations. Countries that score low in this try to avoid unstructured and surprising situations through strict laws and regulations and are less accepting of new, untested solutions.

- Individualism: This measures how much individuals of a country seek themselves to groups. For individualist countries, ties between individuals are loose and people are expected to take care of themselves whereas in countries with more collectivism people are already from birth integrated in strong groups, such as extended families. Note that collectivism has no political connotation in this context.
- Masculinity: This factor measures the level of what traditionally has been called masculine values in contrast to traditional feminine values. Countries scoring high in masculinity also have bigger cultural differences between the sexes. Examples of masculine values are competitiveness, materialism and power while feminine values are quality of life and relationships.
- Long term orientation: This factor was added to the model by researcher Michael Bond in 1991. Long term orientation means that societies value "pragmatic virtues oriented towards future rewards". This also means valuing persistence and adapting to changed conditions. Short term orientation value things such as national pride and respect for tradition.
- Indulgence versus restraint: This factor was added by Michael Minkov in 2010 and represents to what extent societies allow for their members to indulge in fulfillment of basic human drives.

In the regions the countries score according to table 1 (The Hofstede Centre 2014):

	Power distance	**Individualism**	**Masculinity**	**Uncertainty avoidance**	**Long term orientation**	**Indulgence**
South Africa	49	65	63	49	34	63
Botswana	no data	no data	no data	no data	no data	no data
Angola	83	18	20	60	15	83
Mozambique	85	15	38	44	11	80
Zambia	60	35	40	50	30	42
Zimbabwe	no data	no data	no data	no data	no data	no data
Sweden	31	71	5	29	53	78

Table 1: Hofstede's scoring of the countries in southern Africa

Apparent from this is that there are some very vast cultural differences between the countries, and indeed between these countries and Sweden. According to theory these differences should be considered when conducting business in the region. One should expect that these findings will be confirmed in the interviews.

6. Results/Data

This chapter will summarize the results of the interviews that have been conducted. The chapter will be divided in accordance with the categories that have been introduced earlier, summarizing what has been said about each category. Before going on to the results a brief presentation of the survey population will be provided as well as a data table summarizing the results of the interviews numerically in order to provide an overview of the results. The interview guide that has been used can be found in Appendix A1.

6.1 Survey population

The companies interviewed were chosen in a quite ad hoc fashion based mostly on the contacts we could get at Business Sweden. In Botswana the following persons have been interviewed:

- Mrs Gracious K Hule, CEO at Pandion Solar, a company selling solar panels to consumers in the whole region.
- Ms Bogolo Kenewendo, economist at consultancy firm Econsult.
- Mr Kenneth Molosi, CEO of management consultancy firm EOH Consulting.
- Mr Kent Nilsson, the Swedish Honorary Consul in Gaborone.
- Mr Gift Nkwe, Country Manager at ABB, a company that in Botswana is specializing in utilities and selling supporting solutions to the mining industry.
- Mr Patrik Olsson, manager at Business Sweden in Gaborone.
- Mr Tshepo Tsheko, ICT program manager at Botswana Innovation Hub (BIH).

In Johannesburg the following persons have been interviewed:

- Mr Roy Alves, Country Manager at Axis Communications South Africa. Axis Communications is a Swedish provider of digital surveillance systems.
- Mr Torbjörn Christensson, President at Volvo Group Trucks Southern Africa and Jan Henriksson responsible for Business Development at Volvo Group Trucks Southern Africa. Volvo has 940 employees in SA.
- Mr Marcus Lindroth, VP Africa Sales at SMSgrupp. SMSgrupp is a Swedish ICT company supplying a service to mobile telephone operators allowing their customers to send group text messages.
- Mr Shiletsi Makhofane, VP Marketing & Strategy at Ericsson Sub-Saharan Africa. Ericsson is a provider of services, software and infrastructure to mostly telecom operators and other actors in telecommunications.
- Mrs Beth O'Connor, senior business intelligence advisor at the state owned electricity provider Eskom, Africa's biggest electricity producer and the 7th biggest worldwide, providing 95 % of all electricity in South Africa.
- Mr Karel Pienaar, Chief Strategy Officer at MTN Group, a mobile communications company focused on the African continent with more than 40 million subscribers. Mr Pienaar has extensive experience of much of the continent, having earlier presided over MTN's expansion into Nigeria.

- Mr Göran Söderholm, Chairman at Nordic-South African Business Association (NSBA). Mr Söderholm have extensive experience of business on the African continent after having held several high positions at Ericsson Sub-Saharan Africa before chairing NSBA.
- Mr Gawie Van der Merwe, Managing Director at IFS South Africa. IFS is a Swedish provider of ERP programs.

Table 2 gives a very brief summary of the importance the interviewed persons gave to each category according to our interpretation. 0 signifies no importance, 1 signifies some importance while 2 signifies high importance. The grading has been done by the authors exclusively without involving the interviewed persons. This allows for all of body language, accentuations, hints etc. to make their way into the results. It also means that the results will be subjective and it must be emphasized that the interviewed persons have not been able to approve the scoring.

	Competition	Corruption	Financial Capita	Infrastructure	Labor relations	Political stability	Skills	Sustainability	BBBEE	Culture
ABB - Botswana	2	0	2	2	0	0	2	1	0	1
Axis	2	1	0	1	0	1	2	0	0	2
BIH	0	0	2	1	0	0	2	0	0	2
Econsult	0	0	2	2	0	0	2	2	1	2
Ericsson	1	0	0	2	0	1	2	0	0	2
Escom	0	2	2	1	2	2	2	2	2	0
NSBA	2	2	2			1			2	2
IFS	0	0	0	0	0	0	2	0	2	2
Swedish Consul in Botswana	2	1	0	2	0	0			2	1
EOH - Botswana	0	0	0	2	0	2	1	1	0	2
MTN	0	0	0	2	0	2	2	0	0	2
Pandion Solar	2	0	2	2	0	1	2	2	1	2
Business Sweden - Botswana	0	0	1	2		2	2	1	1	2
SMSgrupp	0	2	2	1	0	2	2	0	0	2
Volvo	2	1	2	1	2	2	2	2	2	2
Sum	**13**	**9**	**17**	**21**	**4**	**16**	**25**	**11**	**13**	**26**

Table 2: The results displayed numerically

6.2 Factors

6.2.1 Financial Capital

Financial Capital as a factor affecting business scored 17 which makes it the fourth most important in the interviews. There was however some variation in how important the respondents thought it was with many reporting it as not important at all. There were many different ways in which the access to financial capital affected businesses in southern Africa.

Financial Capital affects business both on the supply side (available investment capital) and on the demand side (customers having money to spend). One view was that because most African economies are so dependent on the price of commodities, something that is highly volatile and dependent on the demand on the world markets, it is important for African businesses to be very flexible and to minimize fixed costs and have a flexible labor force. This can be achieved through having as a small labor force as possible and trying to outsource as much as possible for domestic firms.

Since many companies are weak financially and cash strapped, payment discipline is somewhat different from what is customary in Sweden. It can sometimes take up to as long as six months before companies pay their invoices. This can of course be quite a restraint on businesses' cash flows and makes it necessary to plan the cash flows thoroughly. Another solution is to use letters of credits but this of course mean extra bank fees to pay.

In Botswana there is quite a lot of accessible capital for entrepreneurs; a substantial part of which is provided by the government in subsidized credits earmarked for entrepreneurs. In Botswana if you have a good enough idea there is capital available, according to one respondent. There is also quite a substantial middle class in Botswana driving a comparatively strong demand. Of course, its small population limits its potential as an export destination.

Most governments in the region lack funds which is why many companies that sell to governments, such as infrastructure companies, use business models such as public private partnerships where the government can be a guaranteed customer. That enables companies to plan ahead and justify expensive investment necessary to for example infrastructure projects that the government cannot afford on its own.

One way of tackling low levels of capital in the market is to have business models that avoid big investments. This is the case with SMSgrupp that uses a business model that demands no investment from the telephone operators that they cooperate with. The telephone operators can see revenues instantly which make the business very much easier to sell. In general it is necessary for most business to adapt their products to a cheaper, no frills offer. Companies that sell to businesses might find that demand is very unevenly distributed through the year with a lot higher demand just before the balancing of the books.

Another thing that was mentioned in the interviews was the African customers' lack of financial capital, purchasing power that is. This means that in order to be successful in selling to the African lower and middle classes cost efficiency is key. Competition is highly cost based with cheaper products selling better than high quality, more expensive products. This means that it can be necessary to adapt the offer to better suit a customer base with lower purchasing power. Solutions can be to sell products in smaller packages, with fewer frills. Eskom, the South African utility company sells electricity with prepaid cards; much like it is possible to buy prepaid telephone subscriptions in Sweden. Pandion, a distributor of solar panels, says it has a hard time to convince customers that its solar panels are cheaper than other electricity in the long run, with the customer being very adverse to big investments.

When discussing bottom of the pyramid markets, the opinion was that it is still quite a difficult market. The purchasing power in these segments is extremely low and the room for consumption on things other than the bare essentials is very limited. Most actors in these markets are still nonprofit NGOs. This shows that it is a difficult market to exploit profitably but also that the lack of competition is a huge opportunity if it is possible to find a business model that works. There is a huge debate about if the African middle class is growing or not. Our interviewees differed significantly in their answers to this question, with some being very optimistic while others where more pessimistic and stressed that if the African middle class will grow it will take a very long time and from a very low base. The synthesized impression was that right now it is a couple of years away and actors still need to be very cost concerned when doing business in southern Africa.

6.2.2 Infrastructure

Infrastructure was mentioned by all companies as a factor that affects business and scored 21 which places infrastructure as the third most important factor affecting growth. Even though all companies mention infrastructure as a factor they were not all unison, and many companies highlighted different parts of the infrastructure. In general all companies mention the importance of improvements in infrastructure in the SSA-region. They say that there are countries that are strong in some parts of the infrastructure, like SA, but many that are very weak, like Zimbabwe and Zambia, and that there is a big need of investments in basic infrastructure such as healthcare facilities, electricity, roads, rails and water; the things that enables the economy to grow.

The level of the infrastructure is very different depending on where the company is active. According to some companies there are no problems in SA with the roads, since they are shipping to Durban and after that use the SA-road system that holds a quite good level. Some companies though mention the problem with deliveries and long shipping times because of the poor roads in the SSA-region. Many companies state that logistics is one of their biggest challenges; when a customer orders a product it is both expensive and difficult to deliver it. To get around this problem they try to work with companies that are more streamlined with their own airplanes and trucks to minimize the bureaucracy and by that also lowering the costs.

According to most of the companies, in general there is a big problem with the road network and only 5% of the roads in Africa are paved. This makes maintenance of trucks more crucial since the roads are running the vehicles down. For Volvo this is a big opportunity since it makes service a huge business area but at the same time a big challenge since they have over 600km between some of their resellers and service stations. Volvo competes with service and therefore invests a lot in their network of resellers.

Many of the companies operating in the southern Africa are using Durban as a port and this makes it congest with a too small capacity to service the need within this region. There are currently new ports being constructed in both Namibia and Mozambique that will facilitate transports in the long term but according to many of the companies this is not a solution for them since they are importing most of their products to SA. If they would use ports in other countries they would have problems with red tape since there is no working free trade area in this region.

One other issue with the infrastructure is the frequent power cuts occurring all over this region. To overcome this problem many invest in their own infrastructure to make sure that they can deliver their services. This is of great importance for MTN since they need to make sure that they have electricity to their base stations. MTN sees themselves as not only a telecom firm but also a road, electricity and a security firm because they need to build their own infrastructure to operate.

Internet connectivity is something that is mentioned in the interviews and the problem is that the internet is too slow and expensive in the southern parts of Africa. In Kenya for example, the internet speeds are on a very high level ever since they built a high capacity connection to the Emirates. The southern parts of Africa have now been plugged into a cable to Kenya and a new ocean cable is being connected to Namibia. This project has yet to show results but hopes are that this will change soon. This is something that BIH really thinks will affect the business opportunities in Botswana. Botswana has a well educated population with a good level of English, but since internet speeds are too slow it is impossible to run outsourcing operations such as call-centers, which could be a great opportunity to create growth.

When talking infrastructure in Africa almost all companies mentions the Chinese. Many respondents report that the Chines are doing big investments in Africa and a lot of it in infrastructure. Often they build new ports, roads and airports in exchange for fishing and mining rights. The big difference to western countries today is that the Chines are involved in almost all big infrastructure projects and that they have come to Africa to invest, while the Europeans and Americans are more reluctant after the financial crisis. There are two contrasting opinions about the Chinese; some mention that have a bad reputation since many of their projects have poor quality and because they bring their own workforce which is creating minimal local employment and knowledge spillover. The other side claims that the quality used to be poor but that this is steadily getting better while the price is remains cheaper than most western companies. The reason is that the Chinese can use their own workforce which is the most important factor for determining the price in infrastructure projects.

6.2.3 Labor relations

Labor relations scored only 4 points making it the least mentioned factor. Two companies mentioned labor relations as being of very high importance to their business, Volvo and Eskom, with the rest not discussing it at all.

Volvo pointed out that labor disruptions disturbed many different parts of their business. They have recently had a strike in their workshops lasting for an entire month. They have also had problems from strikes affecting their business indirectly. One example of this was when there was a long strike in the harbor in Durban making it impossible to get new parts into the country. According to Jan Henriksson at Volvo the labor disruptions has been especially difficult in the mining industry. The lack of educated job applicants also drive up salaries resulting in mechanics being paid 25 – 30 000 rands a month while still being estimated to be 40 % less effective than a Swedish mechanic. The low paid part of the South African labor force has salaries of about 5 – 6000 rand a month but they have a low productivity. At Volvo, if they were to demand higher salaries those jobs would probably have to be cut.

Eskom have a highly nonunionized labor force but is considered an essential service which makes it illegal for their employees to strike. As a consequence they have very few strikes but that does not mean that they are unaffected by labor disruptions. One example that was given was the building of their newest power plant. The subcontractors at the building site were doing frequent strikes and actively prolonging the project time in order to create employment for themselves. Beth O'Connor estimates that they have lost half a year to strikes at the plant. Another example is the coal mining side of the business where they have had quite a few strikes. In order to tackle this challenge they have been forced to increase their coal inventory quite significantly, resulting of course in higher costs and more capital being tied up in inventory. Mrs O'Conner also goes further to point out the risk to the whole economy of a major labor disruption in the energy business since the rest of the economy is dependent on a stable delivery of electricity.

6.2.4 Political stability

Political stability scored 16 making it the fifth most important factor when making business in southern Africa.

Many of the respondents stressed that consistency and stability in the government is the most important factor. Business unfriendly policies are more or less acceptable if they are stable because then the businesses can make predictions and plan their actions. They can make informed choices on whether to invest or not. If they cannot do this the risks get unacceptably high. This is truer the higher the initial investments are to a company, since they risk that investment if war should break out or if the investment would be nationalized and so on.

Mr Molosi of EOH Consulting in Botswana shed light on the fact of how political instability has affected the region in the past. Investors tend to view Africa as one big country and when there is political instability in one part of the region it spreads a bad reputation on the whole region. One example he gives is how political instability in Zimbabwe has had a bad effect on Botswana as an investment destination even though Botswana has not been affected at all. If there is an effect it has a lot to do with the immigration that political instability creates. In the Zimbabwean case again, political conflict creates illegal immigration that pushes down salaries (especially in the mining industry) and creates tension between the immigrants and the locals in both Botswana and South Africa. Business unfriendly decisions being made by the South African government also give the whole region a bad reputation. The flashpoints in southern Africa are most of all Zimbabwe but also South Africa to a certain degree. Many respondents also point out the opportunities that will appear if Zimbabwe would have a democratic development. The country has an educated population and a high work ethic that will make it a very interesting investment destination once the political situation has become more favorable.

Locally in South Africa the opinion whether the political climate was stable or volatile differed somewhat. There was a strong consensus that ANC would win the upcoming election but some of the interviewees expressed concerns that even though it is quite certain which party will be in power in the coming years, there is an uncertainty which policies that party will pursue. ANC is a party compromised by a lot of different fractions with very different views of what direction the country should take. There are communists as well as free trade advocates under the same umbrella and who will have the upper hand is never certain. With Julius Malema breaking out of ANC and forming his own left wing, populist party Economic Freedom Fighters, some interviewees expressed concern that this may affect ANC to take a left wing populist turn as well. One example of this was retold at Volvo concerning the price of the rand. The rand had been stable at 0.7 to the Swedish krona but sank to 0.6 to the krona after president Zuma had declared that the state of the economy was not a big concern to the government. That of course put a huge pressure on Volvos margins since they import their trucks in SEK.

When discussing the political risks quite a few interviewees had the attitude that in emerging markets in general, the potentially high reward comes with a big risk. This is unavoidable and a fundamental part of doing business in emerging markets everywhere. It is key to have the board and management accept this fact and be prepared to take loses. Mr Pienaar of MTN states that, when discussing their lost business in Syria, they have always accepted that they might lose one or two countries and in fact where surprised that it had taken them as long as it had. Risks like these are hard or impossible to insure against and Mr Pienaar states that a way to deal with this is to diversify and have a business model that is easy to replicate so as to spread the risks over a large number of countries. When Nigera became a too heavy weight in the MTN portfolio they felt that they had to diversify their revenue streams and thus went into Iran. Another way to deal in highly dangerous countries is to use a lot of local people that will not be targeted in the way expatriates will be targeted. Because MTN was so integrated in the local society in Ivory Coast, relying almost entirely on local employees, they were in fact able to generate quite a good profit, even during the war. In Afghanistan when conducting business there they make deals with the Taliban because the Taliban is part of the afghan society. In fact, Mr Pienaar suspects some of his staff to be Taliban and this is natural because they try to have a labor force that is as representable of the local population as possible. This lowers their risks when conflicts arise in the countries where they are active.

6.2.5 Skills

Skills was the second most important factor affecting business growth according to our interviews and scored 25 in our survey. Every company that we interviewed mentions this factor as a very big challenge when growing a business in the SSA-region. The lack of skills in the SSA-region has two different aspects; one aspect is the lack of skill and knowledge of the costumer, where some companies lose business since they cannot get their costumers to understand how to use the product, due to illiteracy. The other aspect is the lack of an educated and experienced work force. Almost every company reports that technical personnel are the hardest to find, both craftsmen and engineers. Often they can find people with the right education but with sub-standard quality and they also lack experience and need training before being able to work. To overcome this problem almost all of the larger companies have their own training programs to ensure that they get the right competence into the company. Volvo has started a program called "star for life" which support 10 000 students in SA. This is a way to do something good for the society whilst also creating a recruitment pool for future mechanic and technical personnel.

Many of the companies say the lack of skill will take a long time to overcome. The education is poor and many companies react to this by funding their own schools in order to secure a future supply of educated personnel. According to Volvo this is one of their biggest challenges, and in a country like SA with big unemployment numbers they still have more than 50 vacancies, since they cannot find people with the skills needed. This has also lead to very high wages for trained personnel, since all truck companies try to attract the people with the right training and experience.

According to MTN the lack of skills forces them to bring external people to a new country to train their new employees. They have as one of their strategies to be local and therefore they work hard to handover the skillset to the local personnel. Also MTN mentions this as one of the key success factors to succeed when expanding to a new country. Many companies mentions that it is very important for them to have local staff; people in SSA does not want to be helped by someone sitting in a call center in Sri Lanka, they demand local help, and this make it crucial to educate and handover skillsets to local personnel.

Some companies mention that the lack of skills also affects the productivity on a large scale. There is a much lower wage level in SSA than in Europe but since the skillset is so much lower the productivity is also lower and this affects both cost and quality.

Many companies also mention the low work ethic as a big challenge for business, with some respondents reporting it as the biggest. They state that this is due to the lack of good managers, leaders and supervisors. They think that it is needed for all companies, both public and private, to have a formal program to develop managers and leaders. Only once this is in place is it possible to execute all of the plans that many SSA-countries and companies already have. Mr Molosi of EOH consulting says that: "the same person that will not execute a good work ethic will go to his farm on Friday and work like hell". This is because he does not want to align with the modern way of work; for him work is what happens on a farm. SSA and Europe have very different views on work ethic and productivity; therefore it is even more important that you have good management as an international company if you want to ensure that you get the work culture that you expect.

Some respondents also declare that the lack of entrepreneurial attitude is a problem in SSA. Many of the people with an education are afraid or incapable to see business opportunities and needs a more "go get" - attitude like seen for example in the Emirates. There is also the view that they are not developers in the SSA-region, they are just resellers of products and because of this many people that have an education lacks experience. Today many parts of the value chain are outsourced which leads to little knowledge spillover.

6.2.6 Corruption

Corruption scored 9 in our survey and is placed at 9th place of factors that affect business and the possibility to grow. Many companies mention the problem with corruption and the indirect effects it has on their business, however most of the companies do not see this as an important problem since they have a zero corruption policy within their company. This means that they will not deal with customers or suppliers that demand bribes. They also try to be very open with their codes of conduct in order to make sure that other companies and persons know that they do not accept bribes. This is the best way to get around a situation with employees getting temped by bribes, since other people know that they will not accept bribes and therefore will not offer them. In general most of the companies state that company values are of great importance for minimizing corruption. That top management adheres to this and lead by example is crucial.

These policies have their costs and Axis, for example, estimate that they lose around 10% of their business every year to corruption, both by losing tenders and refusing to work with customers that demands bribes to buy from them.

Some companies state that it is sometimes hard to see the difference between corruption and "consultancy services". Often you can meet people that can put you in contact with the right people but this will come at a high cost.

A few respondents state that they use a partner to ensure that things gets done faster and one company says that they have a partner that makes things that would take the company one year happen in one week. This company has a zero corruption policy but does not see any problem in using a third party to agree to things that could compromise the company's values. One other company says that they have a zero tolerance policy but when they have sold their product to their resellers they do not have responsibility for the consequences and do not know if corruption is common within their distributions channels.

Even though many companies have zero tolerance this is in many cases just a façade since they find other ways around this problem. What they see as zero corruption might when looked on from outside definitely be corruption.

One issue that is highlighted in many of the interviews is the problem with tenderpreneurs in many African countries. A tenderpreneur is a company or a person that compete for public tenders and because of their contacts and bribes they get the tender. This is destructive because they do not create sustainable jobs and many of these companies just take the down payment and do not complete the project. Many of the companies that work with these tenders state that they lose a lot of business and that there is little you can do if you do not want to pay bribes.

Almost all companies report that corruption is a big problem in SSA but that the problem is different in different countries. Botswana which has low corruption get a lot of benefits. It is for example easy to have a headquarter there since the firms do not need to take corruption into account in the same way as in other SSA-countries, according to BIH. All of the respondents stated that it is possible to do business in SSA without paying bribes and emphasized that it is important never to start giving them. If you have once started it is hard to stop. Furthermore, the risk of corruption increases with the size of the transaction. Also there are big risks with giving bribes as a company representative; if you bribe a person that will not accept bribes you jeopardize the reputation of your company.

Many of the respondents tells us that the Chinese are known for offering bribes and that this is one of the reasons why they win so many tenders in Africa.

6.2.7 Sustainability

Sustainability scored 13 and is placed as number 8th on factors affecting businesses to grow. This factor is mentioned by many of the companies when it comes to social sustainability, but not seen as an important factor to grow. Sustainability is more seen as an opportunity to create possibilities for the population and by that creating good will that will benefit the company in the long term.

The social sustainability is a factor that many companies think is important but the environmental sustainability is not seen as an important factor at all. Many respondents share the view that poverty is the prime issue in the region and therefore environmental issues get a lower priority. They rather harvest all the resources they have then starve.

Pandion Solar states that even for them environmental sustainability is not important. When they market their product they use price as the key argument and the environmental benefit is seldom discussed. Most customers in their markets are very poor and being environmental friendly is not something they can afford to prioritize. Sustainability in SSA today is more about charity than working with sustainability integrated in the business process; the most important thing for the companies is to show that you give something back to the society.

Almost all of the big companies have some kind of charity organization or host charity events to give back to the society, but almost none work with the same kind of standards on sustainability that are demanded in Europe. By paying for some new houses in a village or helping with vaccine they get enough goodwill because that is the kind of things that are valued by the local population. They do not know or care about emissions and other issues related to sustainability as being done in the western world.

One big problem in SSA is sick leave because of HIV/AIDS and this affect the productivity on a large scale. This was a big problem in SA and Botswana before but thanks to new medicines the sick days have gone down, though in other parts of Africa this is still a huge problem to bear in mind.

6.2.8 Broad-Based Black Economic Empowerment

BBBEE as a factor to grow a business gets a score of 13 and a place as number 6 as the most important factor. It is important to bear in mind that this is not a regulatory system that exist in all countries and is most relevant in SA. It has been seen in the interviews that opinions on this topic is not always related to what kind of company that is responding. It seem to be somewhat related to what color the respondent had on their own skin. White persons seem to have in general a more negative attitude towards BBBEE than black/colored people.

BBBEE becomes more important if you trade with the government according to most of the companies and with new regulations the demand of BBBEE moves further out in the value chain. This gives companies new conditions to adapt to and it makes it harder to find the right skilled staff since the firm has to take the color of the skin into account.

For a country like SA where apartheid has given black/colored people a major disadvantage there is still a lack of black/colored people with tertiary education and this makes it difficult to hire a person with the right skill, stated a few of the companies. Black/colored people with the right skills are in short supply and this makes them very expensive to hire.

The companies that use exporting and distribution via resellers as their strategy say that BBBEE regulations do not really affect them since they do not do any direct transactions with the costumers.

There are many companies that try to find ways to get around the regulations to keep the costs down and to avoid changes in the organization. One company says that they are planning to start a customer service subsidiary and then make the subsidiary do the tenders and business with the clients. By doing this they can window dress the subsidiary and make sure that it has a high BBBEE-rating without losing ownership of the mother company.

For many of the companies that already are locally established this is not a big problem since they already have a good representation of the population. MTN declares that they always try to be local and to represent the population of a country. By being local they find it easier to get accepted in new countries and this has given them an advantage in SA since they have employees from all SA-tribes within their company. For MTN BBBEE has not led to any major changes in their strategy.

A few respondents believe that these kinds of regulations have a negative impact on the business climate. One respondent says that it is hindering innovation and puts limitations on the agricultural sector. He also states the problem with this regulation's duration. He means that this is something good in short term to make the societies more equal but that it lacks a long term strategy. In the long term this could make it very hard for white people to run a business in a successful way.

6.2.9 Culture

Culture ranked the most important factor to consider when conducting business in Sub-Sahara Africa. Almost all respondents stated that culture was very important for a firm to take into account when conducting business in the region. The view of how much and in what ways the cultural differences affected business differed somewhat, but there was a strong consensus for not seeing Africa as one big homogenous market. This means that just because a business model was successful in one country does not mean that it is possible to replicate it in another country, due to vast cultural differences between the countries. This is especially important for firms that are working B2C, because it means that they will have to change their marketing and the appearance of their brand to suit the different tastes in different markets. To be able to learn the culture many of the respondents stressed the importance of being local and spending a lot of time in the country. Even though it is possible for a firm to translate their advertising and user manuals and so on, it is impossible for them to predict how a foreign customer will read and interpret the texts. This can only be done by a person from the concerned culture, which could justify a joint venture or some kind of direct investment.

Many respondents state that it is important for firms to redesign their offer to make them sellable in markets where technological knowledge and even literacy may be very limited. Providing a user manual is of little use if the customer cannot read or has an extremely limited technological experience. A way in which a firm may get past the cultural and illiteracy barriers is by the use of product ambassadors; people the firm sponsor in order for them to teach people how to use the product. The lack of technological experience might also be a problem when it comes to finding technicians to install your products. A way to get past this can be to have some kind of monetary reward for people learning to use your products such as a product rebate.

Even though culture seem to be most important in B2C businesses there are some significant differences in corporate culture as well. This view was supported by almost all of the respondents. Some felt the differences were bigger in some parts of Sub-Sahara Africa than in others. In South Africa and Botswana the opinion was that the business climate is quite similar to Europe, with some minor differences. In the rest of Sub-Sahara Africa the business culture is more different. One respondent reported that when talking to different operators, sometimes he found that they lack the standard business nomenclature that is used in Europe. Other differences are how pushy or humble one should be in negotiations. Nigeria for example is a highly hierarchical society and this is important to be aware of in order not to be perceived as rude.

Creating business relations was also something that was reported as a bit different as from how it is done in Sweden. In Nigeria for example you might shake hands for an entire business meeting. Two thirds of that meeting might consist of talking about family and other personal matters. This is important to understand and it is a huge faux-pas to try to skip this part of the meeting and go straight to the matter. Furthermore people in Africa tend to prefer to do business in their own language, which is resulting in some companies using their Paris office when taking meetings in West Africa rather than their Johannesburg office. This was the case for both Axis and IFS.

On the customer side there are some cultural differences that are a bit foreign to a European. The tribe culture is one example of this. For example if a firm sells their products to one tribe, the rivaling tribe might not buy from the same firm simply because it has sold to their rivals. This mentality was reported to be strong in Angola that has recently been going through a long civil war. The civil war has eroded trust and created suspicion between citizens there. Another example where tribe culture affects business is in land that belongs to a tribe rather than to a person. That affects persons and businesses when it comes to using land as collateral for credits making it harder for entrepreneurs to get credit.

When doing business in foreign cultures it is essential to have an understanding of people's different value systems. One cannot expect people of other cultures to have the same cultural value systems as oneself. One recommendation was to always stress emotional intelligence when hiring new people for assignments abroad. It is important for early employees in an expansion to have encountered different cultures before, because that makes them more open to other people's value systems.

Another thing that was stressed by several respondents was the importance of good and thorough management. In Africa there are sometimes very little laws and regulations which means that it can be difficult to get people to do as you want. Also, the cultural view of work is different and this affects the work ethic. Empathetic management is key to overcome this and to motivate the employees.

When it comes to things that can be uncomfortable in a foreign culture it is important never to judge. Rather one should try to understand the foreign value system and try to explain how that conflicts with one's own value system.

7. Analysis

In this chapter the results that have been found from the interviews will be analyzed through the theoretical frameworks. We will compare our found results with the desktop survey to find if our findings confirm, reject or complement the existing view. Emphasis will also be put on examining the reasons why we have found the results we have found. Possible reasons for divergent answers may be:

- size of the company
- maturity of the company
- different chosen market
- different chosen strategy
- level of experience in the field

Possible biases in the survey population will also be examined to try to value the validity of the research.

The chapter is outlined with each category analyzed in turn. Concluding is a subchapter in which we will make a general analyze that would not otherwise fit into any particular category.

7.1 Financial capital

The findings of our survey suggest that financial constraints play a somewhat big role in the African markets. The results were not that strong with some respondents down playing the extent of financial constraint.

There is some tendency in the answers for Botswanan respondents to downplay the role of financial capital. This could be because of the larger role that the government plays in the Botswanan economy.

We thought that bigger companies would not state financial constraints as an important factor but this was not the case. Many of the bigger companies emphasized the financial constraints on the customer side. Because many customers have small budgets it is important to make your business highly cost conscious in order to be able to keep prices low. This is also important because of the highly fluctuating levels of demand in the African economies.

One surprising finding was the high level of uncertainty about the rise of the African middle class. This seems to perhaps be somewhat of a pipe dream of global investors seeking new investment destinations in an otherwise stagnating global economy. The economic growth that has been a fact in Angola and Mozambique is paired with extreme inequality which makes the demand in these markets still very small, especially for businesses that are targeting private consumers. It should also be considered that the very high growth is from extremely low levels and even if the markets continue to grow at the same rate it would still take many years before these markets become attractive to many western companies. The conclusion is that these markets still are mostly interesting for business in the resource industry and possibly the infrastructure industry.

The different importance put on the financial scarcity probably also reflects a difference in what mode of entry the business have used. Axis for example did not find financial constraints a big problem. They also entered the African markets through exporting, first indirect then direct through acquiring their distributor in South Africa. This mode of entry requires the least investment and thus it is not surprising that they do not consider lack of financial capital a major issue to discuss. Furthermore, their customers are mostly large companies and institutions. Conversely, Volvo who has made a major direct investment, found lack of financial capital a much bigger issue.

The fact that many global investors view Africa as the final frontier poses many new opportunities since it makes it drastically easier for African entrepreneurs to find investment capital than before. Together with the opinion that it is highly possible to make a lot of money in the African markets by simply copying successful business ideas from the west makes Africa an interesting market. The conclusion is that the opportunities are vast but come with a high risk.

The validity of the answers is good. The differences in answers are expected since the survey population is quite varied.

7.2 Infrastructure

Infrastructure is seen as a major challenge for all companies active in the SSA-region. It is clear from the interviews that infrastructure is getting better but it is still improving from a low level and therefore it is compromising businesses and countries in many ways. This view is also in line with the results from the desktop study that gave a similar image. By having a poor infrastructure a country will lose a lot of opportunities and a company that has a functional business plan for a region will not be able put this into action. This creates a downward spiral since when a country cannot provide sufficient infrastructure the companies will do their investments in other regions and this will lead to even worse infrastructure.

There are some tendencies in the results that indicate that the type of company affects the extent of its challenges.

The first tendency is that larger companies are having lesser problems with infrastructure than smaller companies. The reason for this is financial resources; a large company with more resources can bridge over some of the challenges by creating their own infrastructure and by being able to hold higher inventories. If a smaller firm wants to start their business on a new market with poor infrastructure that can sometimes be a too great hinder for them to overcome; the barriers of entry will be too high.

The second tendency is that companies that are selling products rater then services are having more challenges with infrastructure. When selling services the infrastructure becomes a more isolated problem because the firm is not as dependent on the infrastructure. One good example on this is SMSgrupp who sell a service provided in existing cellphone networks. They need mobile networks but other parts of the infrastructure are irrelevant to them.

This shows that for growing a business within the SSA-region it is important to have financial resources when faced with problems in utilities and logistics. Hinders that are affecting small companies with an ambition to grow are apparent when investigating the infrastructures effects. In all over SSA there is a grand debate about creating jobs and a lot of these jobs should come from the SME segment, but many of the basic conditions are actually hampering the SMEs. Many of the businesses that could execute great innovations get lost because of high barriers of entry.

When doing business in the SSA-region it is crucial to have a clear strategy for the whole supply chain, since the challenges a firm will face will be of a whole other dimension.

7.3 Labor relations

Labor relations was the least discussed problem in our interviews. This does not correspond well to our desktop survey in which we found that bad labor relations is a big problem in Africa, not least in South Africa. The reason for this is fairly obvious; the firms that responded that they did have problems with labor unrest were the firms with the largest blue collar work force, Eskom and Volvo. Volvo is especially interesting since it is a foreign firm in South Africa. The fact that they have encountered substantial problems with the labor force illustrates the extra risk that firms engaging in direct investment as an entry mode take on. The fact that the South African labor force in Volvo is less paid than their western counterpart reflect their lower productivity.

It is interesting that Eskom reported that they have problems with bad labor relations even though they have a largely nonunionized labor force. This sheds light on the fact that the labor situation in South Africa can be an issue even to firms that would not expect this. The labor situation is forming higher barriers of entry for some firms due to the fact that it forces firms to keep larger inventories in order to keep service levels high, in face of frequent strikes and disruptions. It is clear that the labor relations is not a very big issue for firms that sell more intellectual products or services, as is the case for the majority of the interviewed firms.

The fact that neither MTN nor Ericsson mentioned bad labor relations is disturbing the view that labor relations is a problem in South Africa. One reason for this finding could be that these firms have a better educated and higher paid labor force. Another reason could be that they simply are not willing to admit that they have this problem since this could possibly present the company in an unfavorable light.

On this topic it is possible to draw parallels to the discussions on work ethic. There is less motivation in the African work force according to a number of interviewees. The reason for this lack of motivation is hard to speculate about but the African labor force is low paid and live hard lives compared to the western labor force. This, in combination with the colonial past, could be contributing to a view that the employer is exploiting the labor force instead of a view that the employer is providing jobs and opportunities. This is a management issue where good leadership is key. This leadership is probably difficult for an expatriate to provide since the cultural differences are big and complex. Cultural differences are presumably bigger in the less educated part of the population as well.

Questions can also be raised about the validity of the answers. It is not hard to imagine that firms would like to downplay the level of bad labor relations in order to paint a favorable external picture of their own firm. Then again, the most respondents have a very small labor force in

Africa, keeping most of their functions in the country in which they started. The "born global" view seems to apply at a very low extent in Africa.

7.4 Political stability

From the interviews it is clear that political stability is an important factor to take into account in southern Africa, if still not among the most important. As many have pointed out, political risk is almost always a factor when doing business in emerging markets. These countries seldom have stable and well-functioning political institutions.

However, the high political risks can also work as an opportunity in the way that they scare off more careful competitors. The fact that the high political risks have given the whole region a bad reputation scares off competition from markets that in reality have very low political risks, such as Botswana. This is one of the reasons that "copy paste"-strategies can be quite successful in some Africans markets.

As shown, it can be highly profitable to get into markets with high political risks. A way to limit the risks is to try to keep initial investment as low as possible. Strategies that are favored by this are exporting and limited forms of joint venturing. Some of the interviewed firms make good business in Zimbabwe, the politically most challenging country. All of those firms are doing business through indirect exporting or joint venturing.

One other conclusion that can be drawn is that South Africa is perhaps a riskier market than many think. There are high risks that programs like BBBEE will be expanded making business harder for foreign firms. There are also worrying talks of nationalizations and a political climate that is stoking labor unrest.

The validity on the answers regarding this category is quite high. The Botswanan, without exception, downplay the political risks while South African actors emphasize it. This is a highly expected outcome, seeing as how Botswana is the most politically stable country in Africa. Our feeling is also that foreigners tend to think that the political risk in Africa is bigger than it actually is. When we have talked to people who have done business in risky countries they tend to think it is less risky than the people who have not been there. Many of the respondents in our survey had spent very little time outside Guateng. The arguably most experienced person of our survey, Karel Pienaar of MTN, was also probably the one that downplayed the political risk the most.

7.5 Skills

Skill is the factor that has been discussed the most in all interviews. The reason for this is that the problem is very obvious and hard to solve in an easy way. As seen in the desktop survey the countries in SSA have vast inequalities with a few holding the most of the power and money. This has had the effect that the majority of the population cannot afford an education which has led to the current situation where the need for an educated work force cannot be satisfied. The challenge of skill has been in line with the results of the desktop study, but the severance of the challenge has been even more pointed out in the interviews.

One aspect that is interesting is that every company states that it has a difficulty of finding educated employees while simultaneously there are a lot of people with an education that lacks employment. There are some reasons why this could be; one is that the education holds to poor quality, another is that the education is not adapted to the need of international firms. There could also be a lack of good managers and leaders that can give complementary education to a new employee. The lack of managers and leaders is something that is mentioned in many interviews but not pointed out as the big problem. It is possible that the problem with lack of skill could have one explanation in the lack of good managers and leaders. If the companies would have had good managers they could have ensure more knowledge spillover. The colonial past that many countries share might have had the effect of fostering a work force not used to taking responsibility and therefore it might be even more important to focus on the training of managers and leaders.

It has been seen in the interviews that the lack of skill is affecting all companies, small as large. There is a vast difference in how large and small companies tackle this. The large companies in this study have their own training programs and academies to train their personnel in order to ensure that they can operate with the right staff. The smaller companies cannot afford to launch these programs and have to rely more on the existing system with all its flaws which gives them a severe disadvantage. It is also necessary for many companies to educate the customers when introducing a new product to the market which makes it very hard for the smaller companies to effectively launch a new product.

There is also a clear tendency that companies that have a greater need for employees with a specific skill sees this as a bigger challenge, one example being Axis that needs operators that can install their cameras. The lack of skills in the work force will lead to higher salaries since the demand of educated employees is growing faster than the supply.

In order to tackle the problem with a poorly educated work force many expanding firms bring a lot of expatriates. This will lead to higher costs but this might be the only short term solution. If a company brings a lot of expatriates it is important to handover the skills to the local work force to ensure the long term strategy.

7.6 Corruption

The results from the interviews indicate that corruption is not seen as a factor that is compromising the firms to a great extent. This does not correlate well with the desktop survey which states corruption as an important problem for businesses in almost all SSA-countries. There could be a few reasons for that.

Firstly there is a possibility that since the respondents in this survey are well established companies with a good understanding of the region and the business climate, they are more used to handle these problems. It is possible that many of these companies have major problems with corruption but since the way they tackle them is well integrated in their processes, corruption is not seen as a difficult hinder for them. This assumption is strengthened by the fact that the companies that were newly established in the region had more severe problems with corruption. That might be explained by a lack of routines for solving these issues.

Secondly there is a correlation between the size of the company and the problem the company states it has with corruption. Large companies have stronger negotiation power and it is much harder for other persons and companies to put pressure on them. It is also often the case that these companies have vast financial resources and can afford to lose some business compared with the smaller companies that cannot take the same risks. Furthermore, there are more stakeholders for a big company that makes it harder for them to be corrupt since they are scrutinized from many different angels. According to MTN they were actually encouraged by governments to expand into their countries and when you are in this position you have a very favorable starting point for negotiations.

Finally there is the possibility that some of the companies do not want to admit their problems with corruption for two master students since they think this could present their company in an unfavorable light. Because of this they might have taken the easy way out by stating that they have a zero tolerance against corruption and do not see corruption as a major problem. In fact there is a possibility that some of these companies are active in a grey area dangerously close to corruption.

A few of the companies do mention ways of getting around corruption by using of a third party that deals with issues that are complicating their business. It is hard to say if this is actually corruption or just a consultancy service were you find persons that can help you find shortcuts in a complicated system. In the interviews it becomes quite clear that if you want to succeed when expanding to a new market this help will give you a major advantage. At the same time as this is a good way to keep your hands clean you might be nurturing corruption and in the long term this can strike back on the firm, especially when having a strong, outspoken anti-corruption policy.

7.7 Sustainability

Sustainability was one of the factors that showed a similar result in both the desktop study and the interviews. Sustainability as a concept was something that was quite low on the agenda for many companies and one of the reasons for this is the high poverty within the SSA-region. In accordance with Maslow's hierarchy of needs, survival comes before caring for a healthy environment. In Africa, when speaking about sustainability, people talk about providing food, shelter and jobs.

This is why the social aspects of sustainability are important for many companies, however mostly in a superficial way. Many companies states that it is important for them to give back to the community, but it seems more as it is important to show that they give something back. They use this as a way to marketing the firm and to create goodwill. The environmental part of sustainability gets very little attention in the interviews. Many of the international firms that expand to the SSA-region have to comply only with the local legislations and they are rarely as strict as in their home market. By having lower regulations for emissions and toxic substances they can use old technology that are forbidden in other markets and by doing this they introduce less sustainable systems and influence SSA with a less environmental mentality.

One tendency seen in the results is that sustainability as a factor to grow a business is more important for larger companies and companies which have a lot of interaction with the government. For larger companies this could be because of more stakeholders that scrutinize the company and puts higher claims on them than the legislation in the host country. Companies with more governmental connections are more dependent on government tenders and therefor they have more reason to comply with governmental regulations.

Another tendency that has been found is that companies in Botswana tend to find this factor more important than other firms. There are a few possible reasons for this. Firstly it is a country with stronger governmental control and therefore it is needed to comply with regulations for the companies to succeed. Secondly, it could be that the people that were interviewed in Botswana were more academic and therefore more informed about problems related to sustainability then other interview objects.

7.8 Broad-Based Economic Empowerment

The result shows that this factor is the one factor that is mostly affected by self-interest. The persons that see this as the biggest challenge are also white. This can be explained by the effects the BBBEE might have on their own jobs and also the long term effects on their children's chances to find a good job. The same goes for black/colored people since they will have better chances in the future both for themselves and for their children. This makes this factor very hard to analyze since it is difficult to separate the private from the professional opinions. Though it is clear that the companies have to adapt their strategy to these new regulations, some companies with a white management team might be more defensive since they risk losing their own jobs. This is seen when discussing ownership that it is the most important and bothersome part of the BBBEE-regulation for many of the companies.

The effects of this could be that it will scare away international firms that are used to control their companies and are not willing to give away ownership. This will lead to less FDI and reduced investment stream to the country. This might also have the effect that there will be less expatriates in the region that will lead to less knowledge spillover. With less knowledge spillover it will be even harder for companies to find the right skill.

At the same time the companies might lose great opportunities if they get scared away by these regulations. If they get too stuck in how they always have been controlling the company they might risk losing many business opportunities in these markets. It is also many advantages that come with getting a local owner into the company and the most important for a company is to make profit. By being to defensive they might lose a chance to make a large profit in these markets.

BBBEE-regulations are only active in SA but many of the respondents talk about more defensive stance in many other SSA-countries and it might be possible that other markets get similar regulations. There is the possibility that the black majority in many SSA-countries are starting to get more fractious about the inequalities. This makes it tempting for politicians to implement some kind of BBBEE-regulation and win easy political points. It is also important to bear in mind that many western companies and countries have a lot of influence in this region. That might lower the probability of these regulations to spread since it could have large economic effects for some countries.

7.9 Culture

As expected from the desktop survey cultural differences did indeed play a big part for almost all respondents. There were many different ways in which culture affected business; on the consumer as well as on the management level. The reasons for the vast cultural differences are hard to comment; history of course plays a big role. In South Africa the remnants of the apartheid years can still clearly be felt in a way that contrasts a lot to Botswana for example. Angola has recently come out of a long civil war surely leaving a big mark on the culture.

After the interviews it was apparent that the general culture was more hierarchical than in Sweden. This resonates with Hofstede's findings on the power distance factor. The lower individualism, long term orientation and indulgence in these countries also suggest that marketers would be wise to adapt their offer to the African markets. The same goes for the higher level of masculinity and uncertainty avoidance. The need for adaptation was emphasized in the interviews, however a possible connection to different cultural factors was unclear and hard to determine. Our findings confirm Hofstede's findings, albeit somewhat superficially.

Apparent however, is that firms wishing to expand to the African continent will have to adapt their offer and it is thus impossible to speak of only market development from the Ansoff matrix. Complete diversification is a necessity and as stated in the Ansoff matrix this demands that the expanding firms will have to learn a lot of new competences. Many respondents stressed the importance of having local personnel, with preferably as little expatriates as possible since it is almost impossible for them to understand the local culture as good as an inborn local.

Discussing culture in South Africa is complex since it is a divided country with several cultures living in parallel with each other. This is an advantage since it is possible to try your offer to several cultures within one market. Many respondents emphasized that one reason that South Africa is a business hub is because many foreigners find it an easy and attractive country to live in.

The finding that culture has a big importance probably has quite a high validity since almost all of the respondents emphasized this and this answer confirms existing theory.

7.10 Patterns in the results

In the results from the interviews some obvious patterns could be seen that require a mentioning. It can be seen that companies that have similar strategies and backgrounds also tend to encounter similar problems. Analyzing the result-matrix horizontally can give some clues about which companies that find the factors most important and/or have a significant exposure to their business. It should be noted however, that the scoring is done by the authors of the thesis and not by the interviewed persons, and therefore is subjective. One should be careful not to take the conclusions based on the scores of the result-matrix too definitive.

7.10.1 Firms targeting small businesses and private persons

One pattern that was easy to recognize was that firms that have customers that are either small businesses or private persons have more complex challenges. This is because small businesses and private persons are the customers that are the least similar to the customers in the home market. This implicates that the firm will be in the diversification corner of the Ansoff matrix, and will have to move furthest from its current competencies. A big need for adaptation to the new market is a significant barrier to entry and makes it hard to start in the new market in an ad-hoc way similar to the Uppsala model. This is because it will be impossible to start through simple exporting, without adapting the product. Being forced to work in accordance with the Root model will implicate bigger initial costs further raising the barrier to entry.

7.10.2 Firms with experience in the market encounter fewer problems

Another evident pattern in the data was that firms that have been in the market for a long time have fewer problems than firms that are new in the market. This result is to be expected but the lesson to be learned from this is that different markets indeed are different. This demands that a firm takes the time to learn the conditions in the new market in order to be successful. It also discredits the born global perspective that a firm can be highly global already from the start. If a firm aims to be international from the get go it is advisable to start in markets that at least are quite similar.

7.10.3 Local management know the conditions

The last pattern that was found was that a local management in general reported fewer problems than expatriate management. However, this result might be due to a Swedish management finding it easier to highlight significant differences from the Swedish business environment. Either way, many of the respondents reported that minimizing the number of expatriates was a part of their strategy. This is key to overcome the cultural barriers in a new market.

This is also advisable for firms engaging in direct investment. These firms have done a direct investment in order to exploit location specific factors, according to the OLI-paradigm. To be able to see these factors and know how to exploit them, a solid knowledge of the local conditions is necessary.

7.11 Closing analysis

This chapter has analyzed the answers from the interviews with regard to each category. Concluding, it seems that firms that have a more structured plan, similar to the Root model, about entering the African market can be scared off by the many challenges that exist in the African market. If the management reads about the many challenges in southern Africa it will be easy for them to think of the challenges as more insurmountable than they actually are.

Firms that have a more ad hoc approach in accordance to the Uppsala model seem not to get scared off by the challenges that exist, perhaps because they are not aware of them. When they progressively get more experience in the market they find ways to tackle most problems and progressively increase their operations. This has been the case for most of the firms we interviewed, probably because most firms we have interviewed have been quite small and perhaps not able to construct advanced entry strategies.

A seemingly shared view has been the importance of having a local presence in order to be successful. Furthermore, there has been quite a strong consensus about the importance of trying to use as a domestic management and labor force as far as possible in order to properly understand the local conditions. Domestic management is better at realizing the local opportunities, risks and has experience of managing these. Most firms have used more expatriates in the beginning of the expansion and then tried to cut down on expatriates as much as possible.

8. Discussion

This thesis has been conducted with the help of different factors to determine the most influential aspects when doing business in the southern African area. This approach has been effective to get a clear understanding of some specific areas. It is important to understand that these factors sometime will blend together since the reality is complex and not always possible to divide into different specific areas. Also, it is important to treat them together when doing actions to overcome obstacles since one factor might affect many others. In this discussion we will give a clearer image of how some of these factors correlate and which that are the most important to be able to grow/conduct business.

One thing that is in common for entry/expansion in the SSA-region according to our factors is the need of planning and awareness of the situation on these markets. Therefore the Root model is better to use when entering the SSA-market compared to the Uppsala model. This is because of the vast differences in these markets compared to western markets. Something that is important when planning and forming a strategy in advance is to not be scared away by the region's bad reputation. It is clear in many cases that this reputation is incorrect and acts as a barrier of entry that benefits already active companies in this region.

8.1 Threshold categories

This part of the discussion will highlight the most important categories that are crucial to overcome when doing business in the SSA-region. If a company fails on overcoming these threshold categories the company will also fail in the SSA-region. The threshold categories are barriers of entry that are needed to be overcome in order to be able to do business, while the other categories will rater make your business more profitable. Some of these categories can be dealt with through good financing and planning. As an example infrastructure is very important but if you plan ahead and are able to pay extra you can overcome this. Conversely, if a company does not understand how the culture works they will not get any business and therefore fail in this region; therefore culture is a threshold category.

8.1.1 Culture

Cultural distance is an important threshold for new entrants in these markets. The cultural distance is very significant and bridging it is something that cannot be missed. Neglecting a cultural due diligence can prove costly. The reason for cultural distance being a threshold category is that it is putting demand on the firm to adapt its offer. This is necessary in order to appeal to the new market and there are big differences in how to bring that offer to the market. Managing a labor force in many southern African countries is a lot more demanding than in Europe. Social networks are important and impossible to take part in without local presence. Concluding, without understanding the cultural distances a firm will not be able to sell its products or services, it will not be able to manage its employees and it will not be able to make essential connections to other businesses.

The difficulty of bridging the cultural distance should not be downplayed. The cultural differences are complex and vary from country to country and sometimes even within countries. The only way of bridging the cultural distance is by establishing a presence in the targeted market and this can be expensive and take long time. A new approach to conducting business is necessary and that approach is hard to learn from home. Plan ahead before coming to Africa but be prepared to change the strategy when you have acquired experience.

The impact of cultural distance is larger outside SA. The least difference is within B2B in SA while the largest is for B2C-companies outside of SA employing a large labor force. The difficulty of managing a labor force depends on its educational level, where university graduates have a mindset that is more similar to a Swedish mindset. Establishing a presence through direct investment is more risky and puts greater demand on the company to change its approach.

8.1.2 Skills

This is a threshold category because the lack of skill is a severe problem in the southern African region and if a firm cannot overcome this obstacle they will fail on this market. This is a threshold category since a company cannot overcome it by only paying high salaries as is possible in Europe since in many sectors the skills are non-existent. Therefore a company needs a strategy to ensure that this obstacle will be solved, either by finding and attracting the right work-force in the region, training own personnel or bringing expatriates from other markets.

Something that is important to keep in mind is that this category is impacted by labor relations as well. If a company has a strategy that is based on uneducated and cheap labor the risks of strikes will increase, so this is one example on how solving one obstacle might create another. Therefore these categorizes cannot be treated individually, but should act as starting points for firms interested in expanding to this region.

This threshold category also put high demands on a company's offer since the skill is low among the population. If a company does not adapt their offer to the new market it might be a disaster since the costumers does not know how to use the product and a good product on other markets might completely fail in this region.

It is clear that this obstacle is more severe for larger companies with many employees. For small companies it is often easier to find a few persons in the country or to bring an expatriate. For the larger companies which have a need for a larger number of skilled employees, this demand will be very hard to satisfy. One advantage for the larger companies is that they have more financial resources and can therefore create their own training programs. This solution is not easy since it takes a long time to setup a well working and efficient program and this requires a bridge-over strategy before it is operational. The problem is even greater for companies that are technology intensive.

8.1.3 Financial Capital

Financial capital is a definitive threshold category. The reason for this is that a venture in southern Africa is expensive and risky. Having a sound financing buys you more time in a difficult market and allows you to tackle big initial costs. In southern Africa there is a general scarcity of financial capital. This affects companies different depending on their strategy and their targeted markets. To be sure, there is a very wealthy minority in the region which creates a demand for expensive luxury goods. Companies targeting resource extracting firms will also find financing a less important factor. However, the big opportunities are in the larger segments where the purchasing power is very limited. To be successful it is important to offer cheap products or creative financing solutions such as BOT, PPP when targeting governments and institutions and different prepaid solutions when targeting private consumers. Cost effectiveness is key and without it a new entrant will be put out of business.

The financial scarcity is creating larger barriers of entry for smaller firms without big financial buffers that can absorb a turbulent start. Smaller firms also cannot afford to extensively plan their operations making it more risky. For this reason it is less likely that a small firm will make the greenfield investments needed to exploit all the location specific factors that will maximize the ventures profitability.

8.1.4 Broad-Based Black Economic Empowerment

BBBEE is a threshold category because it is necessary if a company wants to be active on the SA-market. If a company chooses to not involve in BBBEE they will in the long term be left behind and this will lead to severe consequences. This is a regulatory system that only exists in SA, but since this is the largest economy in the region and the market most companies choose for their SSA-offices it affects more countries indirect. By being active on the SA-market a company will have access to a wider network of competences and experiences of the whole SSA-region. Furthermore SA is a very complex market where you can test your business model in both poor rural and modern urban areas at the same time, which can give you a good introduction to the region. It is also important to adapt to these regulations since a company will otherwise give away a part of its profit and that part might be so considerable that the company will lose their profitability and therefore will be unsuccessful on this market.

One more reason that contributes to make BBBEE a threshold category is the rising demands of similar regulatory systems in many other SSA-countries. By having a strategy and an experience on how to work with these types of regulations a company will have a first mover advantage in other potential markets if they change their laws.

This threshold category is of course most important for companies with a large part of their business in SA where it is an active regulation. It is more crucial for large companies that cannot avoid any of the requirements in the BBBEE-regulations because of their size. Furthermore, it is more important for companies that work with government tenders or is a supplier for a company that works with government tenders. For these companies it becomes essential to have a clear and adaptable strategy. If a company wants to avoid being forced to comply with these regulations exporting is the strategy that gives the least impact for the company.

8.2 Thoughts on the research methodology

In general the research methodology used has been effective. When covering a wide and non-researched field loosely structured interviews have proved very beneficial since it allows for the interviewee to give developed and enlightening answers. There are however a couple of things that we would have done differently, had we had the chance to redo the thesis.

One thing that would have improved the thesis would have been to make some changes in the way the interview population was chosen. In our thesis the population was chosen in an ad hoc manner. The reason for this was entirely pragmatic; we simply interviewed the companies that we could get hold of. Had the population been chosen in a way to better reflect the structure of the southern African business environment the representativity might have been improved. This is of course very hard and would make the project a lot larger. However, going the opposite way and delimiting the thesis to only one industry might also have improved the representativity. In our defense it should be pointed out that this thesis is to be seen as a first glimpse of the subject and we think this thesis provides a good and objective introduction to the area.

Another aspect that might have improved the thesis would be to delimitate the thesis to only one or two countries. This might have further increased the validity but this is also a difficult decision. The countries in the region have very different conditions and what is true for one country might not be true for the other. To be able to talk about the whole region we have been forced to be quite general. It would have been interesting to only focus on one or two countries and conduct a more thorough analyze for these. The problem however, is that most of the interviewed companies are active in the whole region which makes it hard to only talk about South Africa. Volvo for example has their base for southern Africa in Johannesburg and to talk to them about only the South African market would have been difficult.

Regarding the methodological choices we made analyzing our data, there are some aspects that deserve some reflection. The scoring matrix is perhaps the most important. The scoring was done in a very subjective way reflecting how we perceived the interviewed persons emphases. We might very well have perceived them in a faulty way. Furthermore, when comparing the results of different interview persons the different scores might only reflect a different rhetorical style of the different persons. Some people might emphasize everything they say more than some. In our research this might come out looking as they have more trouble in the market than a more restrained person. One way of getting around this could have been to put the same amount of points per interviewed person. We decided against this since we thought it would distort the answers too much.

8.3 Further research

This is an ever changing region where new research needs to be done continuously. It is clear that both companies and countries are growing at a fast pace and therefore the conditions will change fast. This will provide many new lookups for further research.

We recommend studies in the following areas:

- To do a quantitative study on the impact of the four threshold categorizes for companies in this region and confirm the correlation that has been showed in this study
- To do a more specific qualitative study and look into one industry or a more delimitated region to see clearer correlations and patterns.
- Developing firm strategies that take our findings into account.

9. Conclusion

The final conclusion and the most important findings for growing a firm in the southern African region will here be presented. For a company that wants to grow its business in this region there are two main paths that we recommend to take:

- The first path is for a firm with limited experience and financing. For these kinds of firms a joint venture is advisable since this is a way to tap into somebody else's experience. Collaborating with somebody who has experience in the market and who is embedded in the culture is a way to leapfrog the most significant threshold barriers. Initial costs are shared with the partner and the risk is thus lowered.
- The alternate path is to establish a presence through direct investment. Direct investment allows for the company to become truly embedded in the market and culture. Being embedded in the culture allows the company to perfectly tailor their offer, establish essential social networks and more effectively exploit the location specific opportunities. To be able to do this it is advisable for the firm to rely on as much local employees as possible since they are better at understanding the environment. Firms need to be aware that the learning curve in southern Africa can be long and expensive. The southern African markets are very different from European markets and this makes them hard to plan for. Therefore it is important to be ready to adapt ones strategy as ones experience grows.

The most important factors to adapt the strategy to are:

- **Culture**- Cultural differences is something that is impossible to learn from distance; knowing the culture allows the firm to tailor their offer to the specific market and learn the ways of doing business in the region.
- **Skills** – The skillset in the southern African region is very low and there is a scarcity of highly educated people. Planning for this problem is essential to minimize its impact.
- **Financial Capital** – There is a scarcity of capital in the southern African region affecting both the demand in the market and the possibility to find funding. Providing creative financing solutions is key.
- **Broad-Based Black Economic Empowerment** - This regulatory system only exist in South Africa with the purpose to change the inequalities that emerged during the apartheid era. BBBEE pervades the entire South African economy and not having a strategy for this will be a huge disadvantage.

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Appendix

A1. Interview guide

Following is the interview guide that has been used when conducting the interviews. The guide was loosely followed, being slightly adapted for each interviewee. Quite often the conversation would stray quite far from the guide, but this was desired in order to properly explore the subject.

Introduction:

- Presentation of our thesis.
- Who are you?

Main questions

1. Tell us a little about your business.
2. How did you enter the SSA-market?
    - Did you use export, licensing or direct investment?
    - Was the entry improvised or planned?
    - What were the biggest challenges with entry?
3. What are the biggest challenges operating a business in the region today?
    - What would you say are the three biggest challenges for you conducting your business?
    - What do you think is needed to overcome these challenges?
4. Do the challenges in the past differ from the challenges today?
5. How does the political instability in SA and SSA in general affect your business?
6. How does the general lack of capital in SA/SSA affect your business in the region?
    - Customer side: Have you changed strategy to adapt to the lack of capital?
    - What is the solution to overcome the lack of capital?
7. Do you find it difficult to find skilled labor?
    - How do you solve this problem?
8. How much is sustainability integrated in your daily operations?
    - How important is sustainability to you?
9. What is your opinion of the infrastructure in SSA?
    - How does it affect your business?
    - How do you solve this problem?
10. Is corruption a big problem for you and how do you work with it?
11. What is your view of BBBEE and how is it affecting your business?
12. What do you think of the labor relations in SSA?
    - How are you working with labor relations?
13. Are there any big cultural differences from the SSA-region and the west? If so, how do these differences affect business?
14. What are the biggest opportunities in the SSA-market?
    - How do you take advantage of these opportunities?
15. What are your plans for the future?

- Challenges expanding in this region?
- What strategy will you use to get there?

16. What do you think would be interesting for us to look at when we are writing our thesis?

Finishing questions

- Are you interested in reading the final report?
- Can we get back to you if we have further questions?
- Can you think of anyone else that would be interesting for us to interview?