Internationalisation of enterprises

Sasol SASOL, Sanlam

Grietjie Verhoef

Multinational operations

- Motives for internationalisation from developing countries - strengthen competitiveness.
- Direction change 1990s – outward from developing countries. How can EMNCs be explained?
- OFDI by Europe : 1990 49,5% ↑ 2006 57%
  - USA 1990 24,3% ↓ 2006 19,1%
  - Developing countries 1990 8,3% ↑ 2006 12,8%

Theoretical explanation

- Old theories: Ownership – Location – Internalisation considerations.
- O = own firm specific resources to exploit externally
- L = host-country advantages in natural resource endowments, L productivity, skills
- I = internalisation of from firm-specific advantages rather than at arms length in foreign markets.
- Dunning – motivation typologies.

'New' theories – EMNCs from developing coun tries

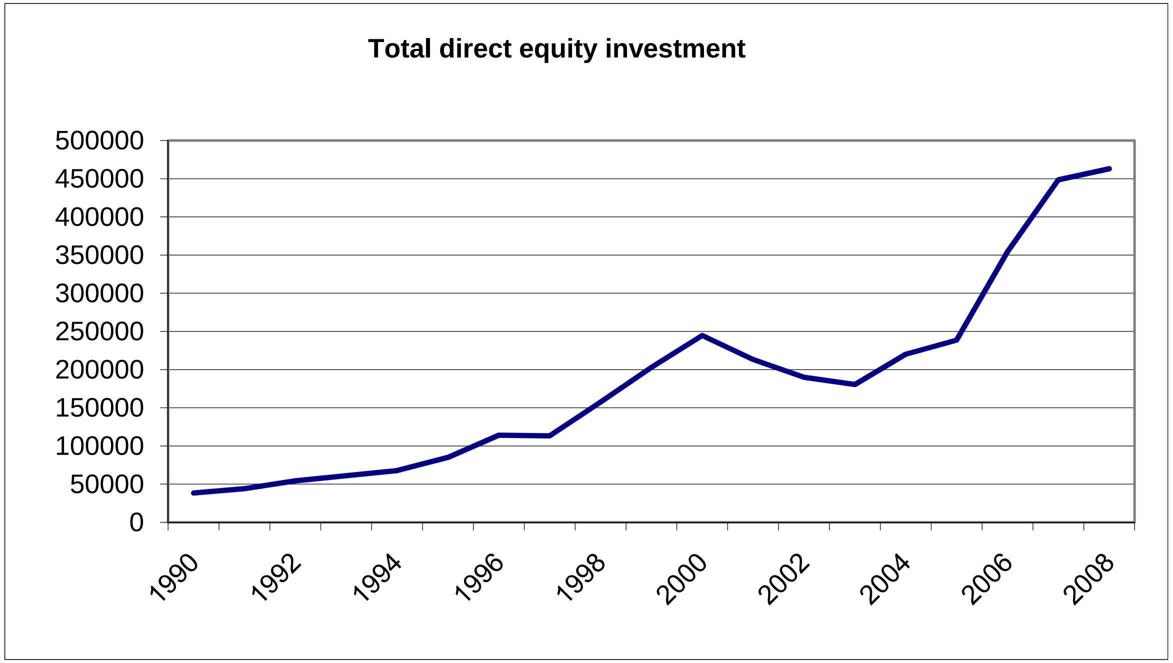
- Overcome late-comer effects and bridge technology gaps – learn strategies to strengthen O. OLI = static.
- LLL framework = evolutionary perspective - accounts for acquisition of capacity through internalisation .
- Joint-venture and collaboration in global value chains, leverage of resources and learning in international markets. Links OFDI to EMNCs.

South African context

- International economic integration since mining industry. Mining/finance/industry under English control - protectionist policies since 1912.
- SOE – 1923 ESCOM; 1928 ISCOR; 1940 IDC; 1950 SASOL. Advanced industrial sector under protectionism.
- "South African First" – most advanced industrial economy in Africa developed.
- Decline since 1970s.

Internationalisation of SA enterprises
General trends

- Competitiveness enhancing after liberalisation.
- 2007 SA leading OFDI nation in Africa.



...general trends

- Private sector OFDI sustained growth – Uruguay Round trade agreement 1993
- 86 % ↑ total direct equity I as proportion of GDP – not full picture.
- Target markets – developed countries. Not compliant with Uppsala model.
- 2005 : 87% to OECD – 2008 ↓ 54,8%
- In 2008 = 21,7% to Africa; 10,7% to Asia; 4,6% to Australia.
- M&A dominant mode of OFDI – stimulated by post-1990 international unbundling trends

Case study: Sasol

- Fuel from coal since 1950 – state protection, as strategic industry.
- Exogenous incentives – OPEC price hikes and UN sanctions. Sasol technology R&D.
- 1979 JSE listing = capital for expansion from the market to end state protection. Massive expansion mid-1980s (Sasol2 and Sasol3)
- Diversification in downstream chemical industry.

…Sasol

- Sasol Group structure : SCI – chemicals
  SSF – synthetic fuels
  Sasol Mining – resources
  Sasol Oil – oil refining and fuel marketing
  Sasol Technologies – R&D.
- ST develop strategic technology – vehicle for international expansion= management strategy since 1990s
- CTL, GTL synthetic jet fuel 2008.

…Sasol

- New technology developed to overcome domestic market limitations.
- GTL technology used to develop most efficient high quality environmentally superior diesel in the world. FT diesel = most cost –efficient. JV with Danish Haldor Tropsøe. Sasol Chevron – Qatar GTL 2007. Escavros River Nigeria.
- CTL in China and India.
- Global positioning inevitable – resources firms serve international customers.

…Sasol

- Chemicals international – 1995 Schümann Waxes in Hamburg. 1997 DHB Holdings Inc, Minnesota with CNR – explosives manufacturing. Condea 2001- SCI transformed into global chemicals concern.
- Internationalisation improved efficiency and profitability of Sasol. NYSE listing 2006.
- Leading SA TNC intop 100 non-financial company = 22nd assets; 82nd TNI –31,7%

Sanlam

- International investments – foreign exchange restrictions = product based
- Demutualisation – 1996 repositioning financial services group.
- Management strategy –' internationalisation after fitness' Use FSA –'unique history of empowerment and innovation to become the leading financial services group in the developing world'

Sanlam continued…

- Steady, confident, organised evolution into financial services group.
- Develop internationalisation strategy 2002. Must facilitate sustainable earnings growth.
- Macquarie Bank Australia – investment products and systems. Market Sanlam brand
- Investigate Mozambique, Malaysia, India. – compare CSA a and FSA .
- Not M&A – target developed world. Cautious strategy. Use FSA.

SA Business internationalisation trends

- Nationalistic protectionism develop strong local industries.
- Co-existence of mining and industry → concentration, exacerbated by political isolation → managerial capabilities conducive to developed markets. “Government as Home”. Dunning – development in home economy as precondition for international competition.
- Domestic conglomerates.

…trends

- Isolation never complete – develop CSA and FSA or O advantages through managerial capacity and technology.
- Historic links with developed markets.
- Deregulation favoured and threatened SA firms.
- Two factors key to SA firms' global expansion: access to capital and minimisation of risk.