

# ERSA Research Brief

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## **Latecomer challenge: African Multinationals from the periphery**

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### **Introduction**

Multinationals from emerging markets display different characteristics from the early multinationals from the first world. The growing trend of internationalisation of business from Africa trails the trend from East and South East Asia. Recently outward foreign direct investment (OFDI) flows from Africa is rising. The OFDI from Southern Africa constitutes the largest proportion of OFDI from the continent, with OFDI from North Africa in the second position. South Africa is the single largest contributor of OFDI in 2013. The policy context of East Asia has encouraged entrepreneurship and provided a policy context conducive to the development of corporations able to seek access to global markets. In Africa East Africa is the fastest growing market outside South Africa, from where business globalisation occurs. The domination of South African firms globalising will increasingly come under threat as conducive policy contexts in East Africa may attract investors desirous of utilising that environment.

### **Key results of research:**

The international expansion of business from Africa occurred primarily by means of mergers and acquisitions. Expansion occurred incrementally as part of corporate entrepreneurship venturing into Africa. Market and asset-seeking strategies were primarily conducted through M&As. New investments were relatively small – below US\$ 1 million in most transactions – and were stimulated by the unbundling strategies of big conglomerates and the simultaneous refocussing strategies of businesses, as well as the privatisation policies of African governments after the early 1990s. The geographical direction of business internationalisation of African enterprises was at first not aligned to the Uppsala model which predicted exports into neighbouring ethnically similar countries and only later into non- ethnically related countries and developed markets. The history of African EMNC expansion, of which most were South African companies, into foreign markets shows more than half of OFDI entering European and UK markets (56 percent in 2013), 17.5 percent into North and South American markets, 16.2 percent into Asian markets and only 8.2 percent into the neighbouring markets of African countries. During the last few years a marked increase in regional economic integration and cross-border business transactions is occurring. The official OFDI from South Africa into other African countries remain below ten percent.

The internationalisation strategies of the EMNC from Africa were different and in response to firm specific advantages, which varied between sectors. As the semi-globalisation literature argues, not only conditions in the home-market impact on internationalisation decisions, but also the nature of the markets into which expansion is planned. The nature of developed markets in terms of similarity of demand, structure and operations, was an important consideration in the direction of South African corporate internationalisation strategies. The semi-globalisation literature points

out that global expansion must be understood not only as a country-level analysis, but also as determined by conditions in the entire region. The region which consists of a number of geographically proximate countries becomes a determining level of analysis when explaining EMNC globalisation. In Africa the lack of effective regional economic integration and political stability resulted in globalisation strategies directed at markets outside Africa. The earliest and most successful globalisation strategies were by South African conglomerates that have established competitive market position in South Africa early in the twentieth century – AAC, SABMiller, Sappi, Sasol. The competitive facilitated internationalisation. The successful EMNCs from other African countries are either SOEs or private enterprise, which points to the fact that well managed enterprise, irrespective of ownership, can succeed in global expansion. From the rest of Africa oil and resources companies, construction and IT companies top the recent EMNCs. Recent South African successful globalisation strategies were driven by advanced technology (Sasol), innovative electronic media diversification (Naspers) and medical services (Mediclinic).

**Policy implications:**

- Successful EMNCs globalisation requires a conducive policy environment – private ownership, non-state intervention in management strategy, such as employment and ownership choices and a stable democratic socio-political context. Current statutory enforced empowerment or indigenisation policies undermine these managerial choices and have hampered globalisation from other African countries.
- Short-sighted protectionist policy frameworks undermine optimal exploration of the most lucrative, and developmentally logical, regional business expansion. A lack of liberal market policies in Africa, South Africa included, undermine regional integration.
- African EMNCs are primarily driven by market, asset and efficiency seeking motives. These can be met by dedicated African market development, on condition that inefficient political market intervention is terminated. Politicians are bad businessmen.
- Statutory enforced empowerment policies constitute market distortion by driving up production costs and undermining productivity.
- EMNCs from South Africa are seeking access to global markets to escape the growing compromise of successful enterprise in a country where the state has no clear understanding of liberal market economic policies. The strong growth in East African OFDI points toward the emerging success of liberal market economic policies. The lag by oil rich West Africa illustrates the dampening effect of non-liberal market economic policies and endemic corruption. The same trend is manifesting in South Africa.