



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

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# Latecomer challenge: African Multinationals from the periphery

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## Abstract

Multinational corporations have commenced foreign direct investment (FDI) activities since the 1960s by moving operations to resource-rich, low-cost labour and capital markets (Wilkins, 1970; 1974; 1988; Jones, 1994; 2005). The first wave of outward foreign direct investment (OFDI) during the 1960s and 1970s was motivated by efficiency and market-seeking factors. This wave was dominated by firms from Asia and Latin America. A second wave of OFDI followed in the 1980s, led by strategic asset-seeking enterprises from Hong Kong, Taiwan, Singapore and South Korea (Dunning et al., 1996; UNCTAD, 2005b: 3s). Since the 1990s China, Brazil, India, Russia (the so-called BRIC countries) Malaysia, Turkey and South Africa are among the countries expected to add significantly to OFDI growth (UNCTAD, 2005c: 4). The emergence of EMTNCs (Emerging Market Transnational Corporations) makes up a growing proportion of outward FDI and they acquire an increasing share in foreign affiliates from developed markets conducting business in their regions. This paper reflects on the transformation of businesses and business practice in Africa from isolated peripheral actors to global players. A growing number of African multinational corporations extended business operations from behind marginalized peripheral operations to global markets. This paper investigates the history of leading emerging market multinational corporations from Africa since the 1980s.

**Keywords:** globalization, strategy, market seeking, state, change management

## 1 Introduction

Global FDI has been characterised recently by the rising proportion of OFDI from developing countries. By the first decade of the twenty-first century the United Nations Conference on Trade and Development (UNCTAD) acknowledged the importance of the internationalisation of enterprises as essential to strengthen the competitiveness of firms from developing countries (UNCTAD,

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2005c: 3). The OFDI growth trend from developing economies continued, growing by 8 percent since 2012, culminating in 32.2 percent of total global OFDI by 2013 (WIR, 2014:xiv; 6; 39). African OFDI of US\$ 12 billion or 0.9 percent of global OFDI, lagged dismally behind the contribution by developing countries in Asia, Latin America and other transitional economies. Transnational activities commenced in the 1960s as multinational enterprises moved operations to resource-rich, low-cost labour and capital rich markets (Wilkins, 1970; 1974; 1988; Jones, 1994; 2005). The first wave of OFDI during the 1960s and 1970s was motivated by efficiency and market-seeking factors. This wave was dominated by firms from Asia and Latin America. A second wave of OFDI followed in the 1980s, led by strategic asset-seeking enterprises from Hong Kong, Taiwan, Singapore and South Korea (Dunning et al., 1996; UNCTAD, 2005b: 3s). Since the 1990s China, Brazil, India, Russia (the so-called BRIC countries) Malaysia, Turkey and South Africa were among the countries that made significant contributions to OFDI growth (UNCTAD, 2005c: 4). The growing involvement in international investments by more and more African companies follows from slightly more open markets in Africa, a more positive inclination towards private business by African Governments as well as the sustained economic growth of the continent. This paper investigates the latecomer challenge presented by African TNCs, their globalization strategies and the direction of globalization.

This paper will explain the state of African business globalization or OFDI as it developed since the beginning of the 1990s and will then consider the tendencies in emerging market globalization strategies. The focus will then shift to the actual strategic African EMTNCs that have challenged the global markets. I will discuss the major sectors in which these OFDI activities occurred and the direction of globalization envisaged for the future.

## **2 Africa rising to global markets.**

Since the launch of the New Partnership for African Development (NEPAD) in the early 1990s (Luiz, 2007; Grobbelaar, 2008) and the acceptance of the Lagos Plan for regional economic integration in Africa, the actual economic integration of regional economies was less than impressive. OFDI by African economies was delayed as governments struggled to transform their economies. The strongest drive towards globalization came from South African businesses that sought to enter the world markets after many years of sanctions and isolation which ended in 1990 as the country prepared for its first democratic election in 1994. As illustrated in Table 1 below, OFDI from Africa commenced from low levels of US\$659 million OFDI in 1990 compared to Asia OFDI which already stood at US\$11 024.3 million in 1990. African OFDI showed stronger growth off the low base than the rest of the world: world OFDI grew by 8.36 percent, Africa by 14.2 percent and Asia by 16.6 percent between 1990 and 2013 (WIR, 2014, Web Annex Table 2).

The strongest growth in African OFDI occurred in East Africa, with 118 percent growth (coming off a very low base as is reflected in Table 1 above).

Central Africa posted 112 percent growth, Southern Africa 25.1 percent annual compound growth between 1990 and 2013 (with South Africa leading the growth rate by 27.3 percent), while West Africa grew only by 7.8 percent and North Africa by 11.4 percent. The GFC affected OFDI trends from Africa adversely, but with the exception of North Africa, which grappled with the aftermath of the ‘Arab Spring’, all the regions in Africa surpassed pre-2007 levels of OFDI by 2013. These developments were supported by the sustained growth of Africa’s economy at a rate of 7.1 percent between 2004 and 2008, and 5.3 percent between 2008 and 2014 (World Bank, 2014: 63).

An analysis of the composition of African OFDI since 1990 shows a doubling of outward stock as a percentage of gross domestic product. OFDI stock in Africa rose from 4.8 percent of GDP in 1990 to 8.6 percent in 2013, but in North Africa the ratio only rose beyond 2 percent during the late 2000s to reach 4.4 percent in 2013.

In North Africa Nigeria was most active in OFDI stock acquisition, while in East Africa Kenya was the leading nation, although Mauritius (13.1 percent in 2013) and the Seychelles (19.4 percent in 2013) transacted higher ratios than the rest of the regional economies. In Southern Africa the OFDI by South African companies was the highest in African OFDI stock acquisition, illustrating the dominance of South African business in OFDI on the continent. The important aspect of the stock acquisitions is the cross-border merger and acquisitions which points towards the business acquisitions outside the home country.

South African businesses have dominated the cross-border M&As throughout the period. Only in 2008 were North African M&As higher than South African M&As. No M&A activity was recorded of significance in southern Africa, except for Mauritius, where business sustained M&A activity throughout the period. Moroccan companies became more involved in M&A since 2009. In West Africa Nigerian companies were active in expanding their operations, but Ghanaian companies did not engage in such M&A of any significance. Egyptian companies were relatively active between 2007 and 2010, but the only sustained activity was that of South African companies. The level of cross-border M&As of African businesses was nevertheless significantly lower than that of companies in Asia and South-East Asia. The M&A activity in that region increased from US\$98 606m in 2007 to US\$107 915m by 2013, which surpasses the African achievement significantly (WIR, 2014: 214).

The domination of South African conglomerates is further substantiated by the ranking of South African, and African, companies on the list of the world’s top 100 non-financial TNCs, ranked by foreign assets in 2013. Only two African corporations are listed on the 2012 ranking list - they are Anglo American Corporation Plc (ranked 43<sup>rd</sup> in terms of foreign assets, with a TNI of 2), which currently holds a primary listing on the London Stock Exchange, and is no longer assigned to South Africa as its home economy. The other company is SABMiller Plc (ranked 55 in terms of foreign assets, with a TNI of 7), which has the same domicile (United Kingdom) after acquiring its primary listing in London, although the company originated in South Africa. There are no African companies ranked under the world’s top 100 non-financial TNCs (WIR, 2014:

web table 28). Both AAC and SABMiller maintained their ranking among the world's top 100 corporations since 2008 (UNCTAD, 2009; Verhoef, 2011), but with substantially reduced TNIs. African companies are better represented on the list of the top 100 non-financial TNCs from developing and transitional economies, ranked also by foreign assets, in 2012. There are eight South African companies, one from Egypt and one from Algeria.

\*TNI = Trans National Index, which is calculated as the average of the following three ratios: foreign assets to total assets; foreign sales to total sales; foreign employment to total employment.

The world ranking of some of these South African corporations is changing consistently. In 2008 Sasol was the highest ranked South African conglomerate on the top 100 ranked list of non-financial corporations – at the 22<sup>nd</sup> position, with a TNI of 31.6 percent (UNCTAD, 2009:231). In 2012 the company failed to make the ranking of the top 100 non-financial corporations in the world, but increased its TNI significantly to 74 percent. New corporations entered the top 100 non-banking companies in developing countries since five years ago and this list keeps changing. When the largest companies in Africa in 2014 are compared to the top 100 rankings of UNCTAD, South African companies made up 71 percent of the top 50 companies. Based on market capitalization in 2014 the largest African company is BHP Billiton, a mining and metals company, followed by SAB Miller, then Sasol, Naspers (the media conglomerate) and MTN. The Africa Business Magazine listed under the top ten African companies by market capitalization, nine South African and one Nigerian company in 2014. The top non-South African conglomerate is the Dangote cement group of Nigeria, with a market capitalization of US\$22,7 billion ([www.africabusinessmagazine.com/sector-reports/africa-top-250-companies](http://www.africabusinessmagazine.com/sector-reports/africa-top-250-companies)). These are the private conglomerates, but the largest company on the continent, are still SOE's. The African Business Review ranked Sonatrach an Algerian petroleum company, as the largest with a turnover of US\$58.7 billion, followed by Sonangol, an Angolan petroleum SOE with US\$22.2 billion turnover. The third largest company in Africa by turnover is Sasol, with a turnover of US\$18.3 billion, followed by the MTN Group at US\$17.2 billion ([www.theafricareport.com/top-500-companies-in-africa-2013](http://www.theafricareport.com/top-500-companies-in-africa-2013); [wwwafricanbusinessreview.co.za](http://wwwafricanbusinessreview.co.za)). Twenty-six percent of the top fifty conglomerates in Africa conduct their business in finance and insurance, 22 percent in consumer goods and retailing, 14 percent in mining, 12 percent in media and telecoms, one percent each in diversified enterprises, health care and construction respectively, and 3 percent in manufacturing. When considering the 'globalisation' of African business OFDI does not only refer to OFDI outside the African continent, but also OFDI outside the African home market into neighbouring countries or into more distant regions in Africa: the African continent is home to 56 countries and comprises a land mass of 30 221 532 km<sup>2</sup>.

### **3 How do we explain business internationalisation? Theory and experience.**

The interest in the expansion of EMNCs commenced more than 25 years ago when it became apparent that firms from emerging markets were gradually penetrating global markets. Matthews noted that the accelerated internationalisation of latecomer firms from the periphery, as well as the innovative strategies through learning and resource acquisition (Matthews, 2006c) added a dynamic nature to the EMNCs participation in global markets. The interest became more systematic as the trend in OFDI reversed the dominant position of the developed markets' MNCs to OFDI from developing markets. Internalisation theory developed from the initial economic model (Hymer, 1976) with the emphasis on economic cost considerations of doing business abroad, such as transaction costs and uncertainty in markets (Buckley and Casson, 1976; Andersson, 2000), to the eclectic paradigm of the successive Dunning models depicting components or phases of internationalisation (Dunning, 1986), to the process model of the Uppsala school (Melin, 1992; Oesterle, 1997; Andersson, 2000; Goertzen and Makino, 2007). The 'economic man' was gradually replaced by the 'behavioural' man in the process model by explaining internationalisation based on organisational theory (Andersson, 2000; Liesch et al, 2002). Dunning's OLI model of firm expansion through ownership (O) advantages (firm specific resources) and location (L) (host country natural resource endowments) allows for the internalisation of those advantages (I) to improve firm efficiency and competitiveness, rather than exploiting those advantages in other markets through arms-length transactions. From this enhanced position of strength, Dunning (1993: 2000) identified a set of motives for OFDI. These include: market-seeking investments targeted to access to third markets; efficiency-seeking investments to improve efficiency through specialisation; resource-seeking investments seeking natural resources unique to specific foreign locations; and strategic asset-seeking investments to add to the existing proprietary resources of the firm. Rugman (2007) argued that firm-specific advantages (FSA), complemented by country-specific advantages or CSAs (Rugman, 2006), which resembled the ownership and location advantages in the OLI model, determined international expansion of firms. Rugman & Verbeke (2005) added the advantage of proprietary knowledge as contributing to FSA. Dunning later added alliance capitalism and firm networks that augment ownership advantages by incorporating knowledge shared in networks and alliances (Dunning, 1995, 2000, 2006). The organisational structure of internationalising firms subsequently displayed new forms – no longer only the hierarchical mode of integration, based on the transaction cost theories, but new forms of ownership domains were created through networks and alliances. Utilising these networks and alliances, firms internationalised their operations by seeking strategic assets to augment their existing proprietary resources. The Dunning followers later on also acknowledged the importance of institutions in strengthening CSAs at each variable of the OLI-hypothesis (Dunning & Lundan, 2008; Dunning & Zhang, 2008).

The “static” approach to EMNC internationalisation moved on to an understanding that “. . . internationalization becomes a strategy aimed at strengthening the firms themselves thanks to the accumulation of resources previously not available” (Amighini et al., 2009: 5). Internationalisation is explained by firms’ supplementing existing O by what Matthews (2002a; 200b) called a more dynamic acquisition of capacity and experience to overcome latecomer effects and technology gaps (Matthews, 2006a; Aulakh, 2007: 237; Goldstein, 2007: 81). Internationalisation now becomes an evolutionary process (Amighi et al., 2009: 5; Matthews, 2002a, 2002b) in which firms without O to exploit abroad, find resources, internalise them and finally develop linkages or partnerships or networks to leverage against the risks involved in such outward strategies. Matthews thus suggested an LLL framework – Linkage, Leverage and Learning framework. Firms become increasingly integrated in international economic activities through not only asset-exploiting but also by asset-exploring, thus linking OFDI with the EMNC strategies. Firms in emerging markets establish networks with foreign producers and learn from them (capability enhancement) – this amounted to “experiential learning”. Firms in the developing country thus acquire knowledge, experience in equipment manufacturing, joint ventures and participation in GVC. Depending on the ability of the emerging market firm to internalise or “absorb” (“identify, assimilate and exploit”) the new skills, technology or resources, the EMNC is able to venture into the global market (Li, 2007; Lou and Tung, 2007; Cohen and Levinthal, 1990). Renewed emphasis is hereby placed on country-specific analyses and the Gerschenkron effect, i.e. the ability of late-comers to access and take over advanced technologies and catch up faster through linkages, collaboration and the leveraging of resources.

The dominant process model of internationalisation does not explain the entire set of internationalisation strategies of emerging market firms, since the latter are often reactive, incremental and opportunistic. EMNC often act to avert constraints in the domestic market. EMNC internationalise operations for other reasons such as the efficient utilisation of resources, to generate economies of scale, market expansion, diversification, risk reduction, cross-subsidization of markets, learning, flexibility in operations, market share protection, and avoiding domestic competition (Elango and Sethi, 2007; Pattnaik and Elango, 2009). Recently Arndt et al (2012) also added possible friction in factor markets (labour markets) and financial constraints as possible push factors towards internationalisation strategies. Ibeh et al found that emerging market firms in Africa did ‘quota hopping’ – relocated from certain locations to areas where favourable quotas incentivised the setting up of export firms (Ibeh, et al: 2012) These views place new emphasis on managerial capabilities such as leadership, strategy formulation and implementation and organisational change. These are the critical endogenous factors firms need to venture into multiple complex contexts (Minzberg et al, 1998).

Internationalisation has also benefitted from the insights of new growth theory, which explores the endogenous sources of growth. Here the entrepreneurial capabilities are emphasised as the critical factor in growth and expansion the enterprise (Cortright, 2001). The focus on entrepreneurial orientation (EO) and

international entrepreneurship (IE) (see Autio, 2005; Keupp & Gassmann, 2009; Edmund & Wiklund, 2010; Covin & Miller, 2013; Covin & Lumkin, 2011). EO is mostly associated with corporate entrepreneurship, which is the set of firm activities. These include venturing into new businesses, exploring and implementing innovation and elements of self or strategic entrepreneurship. EO is less explicit than IE – EO refers to the qualities of risk taking, innovative and proactive behaviour. Some theorists also see EO as a multidimensional construct where each of the elements of EO is an independent behavioural construct that define the space in which EO operates (Covin & Miller, 2013:4) IE is discovering, enactment, evaluation and exploitation of opportunities across national borders. Some of the research focusses on international new ventures (INVs) or the so-called ‘born globals’, while others explore the international activities of established firms. According to Freeman and Cavusgil (2007:3) “International entrepreneurial orientation’ is the behaviour elements of a global orientation and captures top management’s propensity for risk taking, innovativeness, and pro-activeness.” The attention thus shifts to the vision of management as an important driver of internationalisation, strengthening the EO and EI explanation. Singal & Jain (2013) found that clear corporate vision and strategic focus in Indian firms contributed to the successful development of globalisation strategies and successful international operations of Indian MNCs.

But the question remains: whereto? Into which markets are MNCs expected to expand their operations? The literature developed explanations around the importance of institutions in the host market in providing stability, minimizing market failures, reducing uncertainty, and alleviating information complexity in economic exchanges (North, 1990; Williamson, 2000). The notion that institutions matter, has become axiomatic, particularly those formal institutional structures that, through written laws, regulations, policies, and enforcement measures, prescribe the actions and behaviour of people, systems, and organizations. In terms of geography – which geographical location will be optimal? The semi-globalisation literature noted the importance of not only considering conditions in the host market, (Ghemawat, 2003; Rugman and Verbeke, 2004) but also institutional strengths in region into which expansion is contemplated. The semi-globalization approach suggests that a firm’s foreign investments follow patterns exhibiting regional aggregation and arbitrage logic to cope with the opposing pressures of globalization (i.e. integration) and local markets (i.e. localization) (Arregle, Beamish, and Hebert, 2009). Semi-globalization involves partial cross-border integration whereby barriers to market integration are high but not inhibitive. These situations cannot be fully understood through purely country-level analyses but require an evaluation of operations across multiple locations (e.g. within a region) that are distinct from but not entirely independent of each other (Ghemawat, 2003). Therefore, the region composed of geographically proximate countries becomes an important level of analysis when examining MNEs’ internationalization and institutional influences (Arregle et al., 2009; Ghemawat, 2003). This perspective has become increasingly relevant to the expansion of South African firms into Africa

## 4 The nature and direction of African business globalisation.

The international expansion of business from Africa, and specifically from South Africa, occurred primarily by means of mergers and acquisitions (UNCTAD, 2005; Klein and Wöcke, 2007: 324-330; Goldstein, 2009: 253-257) as expansion occurred incrementally as part of corporate entrepreneurship venturing into Africa. As South African OFDI constituted the overwhelming part of African mergers and acquisitions between 2007 and 2013 (between 63 percent in 2007, to a low of 34 percent in 2008 and then to 97 percent in 2011 and 74 percent in 2013), market and asset-seeking strategies were primarily conducted through such means. 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 (Grobelaar, 2008:16-18). The geographical direction of business internationalisation of African enterprises was at first not aligned to the Uppsala model of Johansson and Vahlne (1977). This model predicted the direction of internationalisation of firms from developing countries through exports into neighbouring ethnically similar countries and only later into non-ethnically related countries, but only as a much later strategy into developed markets. The history of African EMNC, of which most were South African companies, expansion 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 (SARB Quarterly Bulletin, 2015: S96-S99). During the last few years a marked increase in regional economic integration and subsequent cross-border business transactions are occurring, but 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 that not only conditions in the home-market impact on internationalisation decisions (Ghemawat, 2003; Rugman and Verbeke, 2004), that is the FSA and CSAA considerations for globalisation, but also the nature of the markets into which expansion is planned, it is apparent that 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. As pointed out by Ghemawat and the semi-globalisation literature, global expansion must be understood not only as a country-level analysis, but 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.

Among the early globalising companies the eclectic process model of Dunning explains the market-seeking and asset-seeking activities, but not the timing or direction of globalisation. The relatively rapid political changes in South Africa

unleashed opportunities to overcome the restrictions of the domestic market – the limited size of the market (slow GDP growth and low *per capita* GDP), the stratified nature of demand and the necessity of risk aversion strategies considering the history of the country, the alliance between die new ruling party and the Communist Party of South Africa, the official policy of ‘Reconstruction and Development (RDP), as well as the cost-spiralling potential of a rigid labour dispensation. Efficiency-seeking motives also ran high, since operations outside the restrictions of the domestic market offered opportunities to reduce costs (or be more cost-effective) *inter alia* through flexible employment policies and enhanced productivity strategies (Miller, 2006:236-240; Grobbelaar, 2008: 24-26). The small domestic markets, unsophisticated demand, institutional instability and physical infrastructure limitations mitigated against expansion into neighbouring and regional markets in Africa at the beginning of globalisation initiatives. An important explanation was grounded in the FSA and CSA nurtured in endogenous growth. These were the entrepreneurial and managerial capabilities displayed in the EO and IE of the first movers. These capabilities were developed in the domestic market under conditions of international isolation and sanctions (Verhoef, 2011), which were applied strategically towards globalisation.

When considering the globalisation strategies of Anglo American Corporation (AAC) and SABMiller, both companies had developed diversified conglomerate structures since the mid-1960s, whereby the mining company ventured into a number of different business activities, as did SAB. By the late 1970s AAC as a group consisted of more than 656 companies operating in mining of a wide variety of metals and minerals, finance, exploration, property development, administration of businesses, housing, industrial manufacturing, food production, engineering etc (Innes, 1984:273-324). Even before the political changes of the 1990s, entrepreneurial management had already established AAC operations in Australia Canada, Indonesia, Malaysia and various African countries, which shows the degree of IE in place. After 1994 AAC unbundled its diversified holdings in non-mining sectors and moved the headquarters of De Beers (the diamond mining and distribution company controlled by AAC and the Oppenheimer family) to Switzerland and Luxemburg and in 1998 after the merger with Minorco, listed on the London stock exchange as AAC Plc. The restructuring of the group with a firm focus on international mining operations, entrenched the company in the OECD and is currently no longer seen to be a South African TNC (Verhoef, 2011; Goldstein, 2010; Financial Mail, 2010). AAC is currently ranked among the top 100 non-financial TNCs globally by UNCTAD on the World Investment Report, which is an improvement of 13 positions on that ranking since 2008. The ‘globalisation’ of AACs business operations has not improved the company’s TNI index, since it fell from 83.7 percent in 2008 to 20 percent in 2013. In the case of AAC the initial CSA of the abundance of natural resources, was reversed by the new political dispensation. Mines were not nationalised as in other African countries after independence, but ownership of natural resources was returned to the state, who with a system of licenses regulated access to mining opportunities based on so-called ‘transfor-

mation charters'. These charters were 'negotiated' with the mining companies to secure compulsory transfer of ownership and management control to blacks. Large domestic enterprises that sought the internationalisation of their operations, were described as instituting 'political risk management' (Financial Mail, 2010). The move to London and other OECD locations despite being involved in mining operations in developing regions, is not as predicted by the Uppsala model, but underlines the FSA advantages in managerial expertise, access to capital and advanced mining technology. The AAC group has appointed a non-South African chairman in 2002 and an American CEOs in 2004 to display the true global non-South African nature of its business (Goldstein, 2010:558). This entrepreneurial orientation (EO) enhanced the market and asset-seeking operations of the group and the international entrepreneurship (IO) of the new leadership escalated the evaluation and exploitation of opportunities outside the original home country.

In SABMiller globalisation strategy was driven by the EO of its management, who despite being locked into the domestic market until the 1990s, strategically embarked on asset-seeking internationalisation. The first breweries acquired were in neighbouring countries such as Zimbabwe, Tanzania, other East African breweries and finally into Central America after 2001, China and the United States of America. The success of SABMiller's globalisation was grounded in the FSA of SABMiller's managerial global orientation, the knowledge of the African market (both beer and soft drinks) and subsequent ability to integrate its knowledge of both developed markets (in South Africa) and developing markets (also in South Africa and the other African locations) into a successful management and marketing strategy. The SAB decision to list in London in 1996 was a resource-seeking move – to raise capital towards further international acquisitions. It is not a case of the company having benefitted from its experience in 'overcoming institutional voids' (such as the absence of specialised intermediaries, regulatory systems, or developing unique contract enforcement mechanisms - Khanna and Palepu, 2006), which gave it its competitive advantage and facilitated global expansion. The FSA lay in the incremental nature of mergers and acquisitions of the asset-seeking internationalisation strategies of SABMiller, which ultimately secured global market access. The disadvantage of the domestic political dispensation prior to 1990, was transformed into a distinct CSA – business was protected from foreign competition, could accumulate capital resources and diversify operations into different sectors, thereby building managerial capabilities in managing diversified conglomerates. The expansion on the African continent was effected through an alliance with the Castle Group, which had vested interests in West Central and North Africa (primarily francophone countries – Klein and Wöcke, 2007:326). The globalisation strategy was used to manage the growing domestic risks (inflexibility in factor markets, empowerment costs, HIV/Aids, brain drain) and relocate to London. In 2004 SAB was 20<sup>th</sup> on the UNCTAD non-banking company ranking, with a TNI of 55 percent, but by 2013 SABMiller was ranked 55<sup>th</sup> with a TNI of 70 percent. SABMiller has enhanced its TNI, but was overtaken by other TNC in the global ranking position. The company has nevertheless migrated out of the developing

country ranking list and is no longer perceived as a South African company.

## 5 Internationalisation strategies from the developing market

The diversity of operations among the African companies on the UNCTAD top 100 non-banking companies from developing countries complicates the identification of general globalisation strategies. The list is dominated by seven South African companies followed by two companies from other parts of Africa – Sonatrach, as the SOE from Algeria, and the Orascom Construction Group from Egypt. The globalisation of Sonatrach is purely driven by market-seeking strategies, since the oil and gas deposits of the country mandate distribution outside the borders of Algeria. The company was established in 1963 after the independence of Algeria and extracted oil, built pipeline infrastructure to transport oil and later also gas, conducted explorations, distributed petroleum products and finally monopolised the market for the production and distribution of all related production after the nationalisation of the industry in 1967. Sonatrach acquired critical mass in the domestic Algerian petro-chemical industry, because in 1971 all hydrocarbon resources were also nationalised. Algeria joined OPEC in 1969. In 1986 legislation was passed to allow joint-ventures by local or foreign businesses with Sonatrach, on condition that companies are incorporated and maintain head offices Algeria. Foreign investment and expertise infusion in Sonatrach changed the inward-looking SOE perspective towards opportunities outside Algeria, such as the construction of the Pedro Duran Farell pipeline delivering 11 billion cubic metres gas per annum to Spain and Portugal via Morocco. Since 2000 Sonatrach engaged in operations outside the home market – in Portugal, Spain, Italy, Britain, Peru and the USA ([www.sonatrach.com](http://www.sonatrach.com)). Sonatrach is ranked 51 by its foreign assets, but only 72<sup>nd</sup> by TNI (WIR, 2014: 39). Sonatrach did not expand operations outside Algeria to link, leverage and learn from companies outside its borders (As suggested by Matthews, was the strategies of the ‘Dragon Tigers’ - Matthews, 2002, 6006a, 2006d), but the SOE allowed foreign expertise to enter operations in Algeria, under government control, and transfer skills and experience to the SOE, which ultimately allowed Sonatrach to expand into foreign markets.

The other ranked African company on the developing country list, is Orascom, a building materials and chemical industry business in Egypt, especially noted in the WIR 2014 as engaging increasingly in OFDI in Africa (WIR, 2014:39). Orascom started as a family owned construction company of the Sawiris family in the 1950s, but nationalisation caused the migration of the founder to Libya in 1961, where he continued his career in construction. On Onsi Sawiris return to Egypt in 1976 he re-established Orascom Onsi Sawiris & Company. The EO of Onsi Sawiris took him to Virginia in the USA in 1985 to establish his company, Contrack, on American soil, hoping to benefit from USAID and winning building contracts from the USA Government in Egypt.

Under close family control Orascom developed into the leading private sector building materials and construction contractor in Egypt. The Sawiris family collaborated with local and foreign partners to establish building materials outlets across Egypt. As the founder stepped down in 1995, the successor son, Nassef Sawiris, embarked on extensive diversification into related enterprises. In 1998 the name was changed to Orascom Construction Industries (OCI S.A.) and listed on local bourses in 1999 (currently the Egyptian Stock Exchange). The order book of the company expanded significantly and OCI had acquired the BESIX Group with extensive operation exposure in Europe and the Gulf. Business expansion occurred as suggested by the Uppsala model – into neighbouring ethnically similar countries. Further operational expansion led to the establishment of OCI subsidiaries in Saudi Arabia, as well as the acquisition of USA construction companies (Watts Construction in 2013 and Weitz Company in 2012) and in 2015 OCI listed on the Nasdaq Dubai the EGX. OCI’s initial international expansion was aimed at escape from risks and limitations in the home market, but operational efficiency resulted in business expansion across North Africa as well as the Middle East, the UK and the USA. The market distortion in the home market served as a push towards internationalisation, but globalisation was only actively pursued from the beginning of the twenty-first century. The initial market targeted were Tunisia, Algeria and Qatar. The OCI Group diversified into the chemicals industry, fertilizer production, hotel industry, recreational facilities and financial services (mortgage lending, leasing and insurance) ([www.forbes.com](http://www.forbes.com); [www.orascom.com](http://www.orascom.com)). During the 2011 uprisings the company listing was moved to Euronext in Amsterdam. The globalisation strategy consisted primarily of expansion into neighbouring markets as part of the market and asset-seeking strategies of management – still firmly in the hands of the Sawiris brothers.

The globalisation of the South African companies was motivated by a range of factors. At first FSAs developed in production sophistication, management and product innovation which mandated expansion beyond the confines of the small domestic market. Market constraints as a result of the political circumstances before 1990 as well as the conditions after 1994 made risk to enhance efficiency. In contrast to the Asian experience described by Matthews, South African companies did not seek access to new technology, but owned advanced production methods and implemented new technology, which they exported into the new markets, especially in Africa. The globalisation of Gold Fields Limited is a case in point.

Gold Fields was one of the first gold mining companies in South Africa, established in 1887 in London and by 1892 consolidated its operations in South Africa under the name of Consolidated Gold Fields of South Africa Ltd (CGFSA). CGFSA operated in the gold mining sector, but like all other mining houses in South Africa, also diversified operations into manufacturing, finance and property. After the AAC relocation to London, Minorco (owned by AAC) acquired the London-based Consolidated Gold Fields Ltd in 1989. This left the South African CGFSA an independent company, firmly rooted in the Witwatersrand. The South African company then expanded its gold mining operations by the

acquisition of the Tarkwana Gold mine in Ghana, in 1998 merged its gold interests with the gold interests of Gencor after that mining house's unbundling and acquired a 21.6 percent share in the former AAC Driefontein Gold Mine in South Africa. The new gold mining company was renamed Gold Fields Ltd. Gold Fields used its superior managerial skills and technology in gold mining to expand into other gold mining operations, primarily in West Africa. The company explained the mergers and acquisitions as occurring '...against the background of a tough commercial environment where costs are outstripping the price of finished gold' (Gold Fields Annual Report, 1999: 4). By 2000 Gold Fields was the largest gold mining company in the world. The company acquired more gold mines in Ghana (Aush Agnew mine, St Ives mines) To gain access to international capital Gold Fields listed on the New York Stock Exchange in 2002 and subsequently expanded operations into Venezuela (acquired in 2006 but sold again in 2009 – managing contextual risk), Peru and the Philippines. In 2011 Gold Fields bought out minorities in Ghana , Philippines and in 2013 expanded operations into Western Australia through the acquisition of three gold mines ([www.goldfields.co.za/au-history.php](http://www.goldfields.co.za/au-history.php)). Gold Fields remained active in the South African gold mining industry, but restructured its ownership by unbundling some mines and listing them separately as Sibanye Gold in 2012 and listing Sibanye separately in the JSE as well as the NYSE. Gold Fields was leading in cyanide technology, which was introduced at all the gold extraction plants at its mines world-wide. In 2009 Gold Fields was the first gold mining company to sign the Cyanide Management Code, of which the company had been a leading compiler. Therefore globalisation of Gold Fields occurred to seek new markets and assets in response to the limitations in the domestic market, but also because the company owned FSA in mining technology.

The role of leading technology as driver of globalisation was also critical in the globalisation strategies of Sasol and Sappi. Sappi (the South African Paper and Pulp Industries) acquired an international footprint utilising its locally developed knowledge base. Industrial protection policies implemented since the early 1920s assisted Sappi, which was established in 1936, in acquiring market domination. In 1987 Sappi acquire Saicor, then the world's largest producer of chemical cellulose and developed excess production capacity. Sappi commenced paper exports to European markets towards the late 1980s, an initiative which gained sufficient momentum to justify the establishment of an international selling subsidiary. Sappi International was formed in 1986 to manage international the sales and product distribution. International sales rose to half Sappi sales even before the international acquisition drive. Since 1991 Sappi embarked on M&As in the UK (five paper mills), Germany (Hanover Papier), Hong Kong (specialised pulp services), a majority stake in the USA company SD Warren, the world leader in coated paper and in 1997 the largest coated paper company in Europe, KNP Leykam. By 2000 Sappi was the world leader in the manufacturing of coated wood free paper. Sappi listed on the London, Paris and the New York stock exchanges, but maintained its primary listing in Johannesburg (*Economist*,13/7/2006; [www.sappi.com](http://www.sappi.com)). In 2004 Sappi expanded into the Chinese market by acquiring a 34 percent stake in a joint venture with

Jiangxi Chenming. The reason for the joint-venture was technology and expertise transfer: Sappi assisted with the building of paper machines, a mechanical pulp mill and a de-inked pulp plant (Verhoef, 2011). Sappi was ranked 50<sup>th</sup> on the list of the top 100 non-financial companies in the developing world in 2008, with foreign assets of US\$ 4 001 million and by 2013 was ranked 98<sup>th</sup> by foreign assets and 33<sup>rd</sup> in terms of its TNI (WIR, 2014: web table 29). The market and asset-seeking strategies of Sappi were facilitated by the company's ownership of proprietary knowledge and its ability to establish networks and alliances (joint ventures) to map out its global footprint.

The South African synthetic fuel producer, Sasol, could use its ownership of advanced leading technology to drive its globalisation strategy. Sasol was established in 1951 as a SOE to develop the German Fischer-Tropsch process of manufacturing synthetic fuel from coal commercially. Pioneering technology was developed and South Africa became the first country in the world to produce fuel from coal commercially since the last half of the 1950s. In 1979 Sasol was privatised and listed on the JSE, because by the early 1980s expansion was mandated by the threatening international oil crises unleashed by the OPEC price hikes of the early 1970s. Sasol built two additional manufacturing plants, Sasol 2 and Sasol 3. Sasol soon developed an extensive downstream chemical by-product business and by the turn of the century was a diversified chemical conglomerate. Sasol diversified operations from the start, e.g. into mining, in order to supply in its coal demand, it ventured in chemical products, oil, and the development of chemical technology. In 1996 Sasol announced its SPD technology internationally (Slurry Phase Distillate - SPD) and by 2001 its world leading Gas-To-Liquid (GTL) technology. By 2008 international accreditation was received for the innovative research by Sasol Technology, in developing fully synthetic jet fuel (*Sasol Review*, 2009:26). The global positioning of Sasol was inevitable: businesses built around natural resources are usually global, because they serve international customers in advanced markets, they seek alternative sources of resources due to the saturation or cost of domestic materials, and because such "companies move up the value chain, selling branded products or offering solutions to niche markets" (Khanna and Palepu, 2006: 67). The improved SPD technology offered the opportunity for the global development of gas-to-liquid technology (GTL). Sasol pioneered the first GTL plant in Qatar, another in Nigeria and works in JVs around the world to apply its GTL as well as its coal-to-liquid (CTL) technology. Sasol was a strategic industry for South Africa during the international sanction era and developed a competitive advantage in the chemical industry through innovative technology. Early in the new millennium Sasol started global acquisitions and joint-ventures, following the Dunning (1986) model of expansion driven by OLI advantages. An added reason for globalisation was the limitation of the domestic market considering the advanced nature of the technology developed. Domestic market constraints also added further motivation for globalisation. The application of joint venture type of expansion strategies was often motivated by the ownership by the local interests of resources, such as oil, gas or coal. Sasol then contributed its technological expertise to the project in a joint venture. By 2009 Sasol was ranked the

highest of the South African companies in the WIR top 100 non-banking companies (Wir, 2009: 223) With a market capitalisation exceeding ZAR317,687million (or US\$30,89 billion) by 2013, Sasol added a second listing on the New York stock exchange in 2006, but maintained its primary listing in Johannesburg. By 2013 Sasol ranked 53<sup>rd</sup> on the top 100 non-financial companies in the developing world and ranked 74 in terms of its TNI.

In the telecommunications industry, two South African EMNCs have established an undisputed global footprint. The first is Naspers. This company was established in 1915 as the holding company of an Afrikaans newspaper *De Burger*. The Afrikaans language newspapers would not be expected to lead the way towards media internationalisation in South Africa, but innovative business strategies made that possible. The much older English Argus Group of newspapers in the Cape sold out to the Irish Independent Group in the 1980s. As international sanctions and isolation of South Africa placed serious restrictions on expansion ambitions of the print media, the electronic media opened opportunities to the early birds. Naspers started the first pay television business, M-Net in 1985 and listed it on the JSE in 1990, but that alone could not salvage the media company. In 1993 M-Net split into two companies: M-Net, which was the pay television company, and MultiChoice Limited, which took over subscriber management, signal distribution and cellular telephone services. In 1994 Nasionale Pers listed on the JSE and changed its name to Naspers in 1997. In 1995 Richemont S. A. Switzerland and MultiChoice merged their pay-television operations into NetHold B.V, held through the Naspers subsidiary MIH Ltd.

These changes into the electronic media occurred because a Naspers a manager in the newspaper division, JP “Koos” Bekker disagreed with the old fashioned management style of the company. Bekker completed an MBA at Columbia University, with a short dissertation on the electronic media, resigned from Naspers and started his own electronic commerce/news company. The Naspers management called him in 1997 to address the problems at the ailing company - falling profits and drastically declining market share. Bekker transformed the newspaper and book print company into a multi-media company. At first the pay-television interests of NetHold were merged with pay-television interests of Canal+ In France, Irdeto Access in France, 30.1 percent of UBC, the Thia pay-television company and ended up managing NetHolds Africa, Mediterranean and Middle East pay-television business. In 1997 MIH Ltd listed on the NASDAQ. MIH Ltd then established an internet service provider M-Web and then ventured in a shopping spree of acquisitions in the instant messaging and internet services sectors in China (TenCent in 2001 – currently owns 34 percent of TenCent), in Brazil, Russia (Mail.ru in 2007) and in other Eastern European countries. Naspers also acquired a controlling interest in, and media groups in Brazil (Editora Abril in 2006), a 9,1% stake in the Chinese Beijing Media Company, in March 2008, the Tradus company (formerly QXL and listed on the London Stock Exchange), which provides an online auction platform and internet portals in Central and Eastern Europe. The company owns Allegropl, which is the leading online auction site in Poland. In 2008 Naspers also acquired

a controlling stake in BuzzCity, a mobile media company providing access to a global advertising network on the mobile internet for brand owners and agencies (Naspers Annual Report, 2012). In November 2009 Naspers bought BuscaPé, provider of comparison shopping systems for more than 100 portals and Web sites in Latin America, including Microsoft, Globo and Abril. Soon the company expanded into eMag, a major e-commerce portal in Romania, a 79 percent stake in Netretail in the Czech Republic in June 2012 and in November 2012 a minority stake in Souq.com, a similar portal in Iran. In 2013 Naspers acquired a stake in Konga.com, the largest Nigerian online marketplace and in 2013 redBus, the largest Indian bus ticket portal.

These massive expansions in the electronic media, electronic technology, internet services, online classified services and various e-commerce made Naspers the leading emerging market electronic communications company. The focus of Naspers had shifted to electronic trade, communication and is the largest emerging market company with a market capitalisation exceeding US\$40 billion. Naspers is still listed on the JSE, from where it generates more than 70% of its revenue. Naspers occupies the 63<sup>rd</sup> position on the top 100 non-financial developing country companies, with a TNI of 35 percent (WIR, 2014). Naspers owned innovative leadership, who engineered strategic business repositioning and eCommerce acquisitions. Naspers operates on all the continents of the world in eCommerce. The strong growth flows from the emerging markets in Asia, Central and Eastern Europe, India, the Middle East and Latin America.

In highest ranked emerging market non-financial company is the Mobile Telephone Network (MTN) MTN is 72.1 percent owned by the Johannesburg Stock Exchange listed company M-Cell, 23 percent by Transnet and 4.9 percent by black empowerment groupings. It runs a GSM 900 technology in its mobile telephone network and grew to a market share in South Africa of approximately 40 percent by 2001. As 62.5 percent owner of M-Cell, black empowerment grouping Johnnic is the largest shareholder in MTN. Government held a 24.1 share through the stake of the parastatal, Transnet. By 2005 MTN was locked in a slow growing South African cellular market with two competitors, Vodacom and Cell-C. MTN had expanded its services to Cameroon, Nigeria, Rwanda, Swaziland and Uganda by 2005 through joint ventures and independent operations. The South African market was relatively stable and expansion outside the domestic borders was vital. The expansion strategy in Africa often led to the use of local partners' branding. This reduced the recognition of the MTN brand and management embarked on a brand consolidation strategy to cut marketing costs and develop a global brand. To deliver a single quality global brand a new logo was accepted as "Y'ello" – the MTN logo on a bright yellow square. The single brand logo was negotiated with all stakeholders in each of the countries where MTN operated. A new marketing concept was developed: *glocalisation*. The meant regional communication which focussed on local needs and culture, but nevertheless still reflected the MTN global brand essence, the brand greeting, the brand personality and the brand values (Singh, 2008; Townsend, Luiz and Bick, 2006: 306). The innovative brand marketing strategy proved highly successful, both as a marketing strategy as well as a management tool, since the

South African management strengthened managerial control and the working relationship with the local partners in the different countries.

Within only ten years MTN expanded operations to 28 countries in Africa and the Middle East. Its TNI is 31 percent and it's ranking on the top 100 non-financial companies in the developing world, is 31 – the highest of all South African companies in the ranking list in 2013. This includes African countries such as South Africa, Cameroon, Swaziland, Uganda, Rwanda, the Ivory Coast, Sudan and Nigeria, as well as the Middle East in Syria and Iran. The South African and USA shareholder disagreed on the strategic vision of the company. The USA partner did not regard expansion into Africa as a responsible growth path. The USA shareholder sold its stake and MTN pursued further penetration into the African market through joint ventures with mobile operators. MTN eventually sought and emerged as the leading operator in Africa. MTN's market expansion was driven by FSA based on ownership advantages in exceptional management strategic vision, knowledge of the African market, the innovative application of brand marketing and use of leading technology. The control of the company is in the hands of black South African businessmen, who integrated a loose network of single country operators into a single emerging market cellular phone giant.

The health care expansion of both the Mediclinic Group as well as Netcare was driven by the FSA of medical expertise, the advantage of proprietary knowledge, in seeking new markets. Serious shortages in medical services and the rise of the middle class in Africa, alerted medical doctors to the opportunity to expand private health care outside South Africa. The entrepreneurial opportunity was observed and both health care groups, established in the early 1980s, established hospitals in Namibia, the Middle East and the UK. These health care groups target the higher end of the market and have therefore also penetrated the UK and Middle East markets.

The position of Steinhoff International among the top 100 companies in developing regions, follows a long history of retail expansion since 1964. Bruno Steinhoff established the company *Bruno Steinhoff Möbelvertretungen und Vertrieb* in Westerstede, Germany, but expanded through mergers & acquisitions outside Germany until the decision to list in South Africa. Retail furniture operations were expanded into Eastern Europe, Australia and South Africa. The strategy was to establish itself at the lower end of the market in new developing regions, such as the former Eastern European countries and Africa. Steinhoff soon expanded manufacturing, sourcing and logistics businesses into Asia, Australia, Europe and also large parts of Latin America. Beginning as a furniture manufacturer, the company diversified operations into logistics, raw material sourcing (wood for furniture manufacturing) and listed on the JSE in 1998. Since then the group was active in market and asset seeking mergers and acquisitions outside South Africa. By 2003 the group had already achieved R2.6 billion in market capitalisation and established Steinhoff Europe as a separate subsidiary. In Australia Steinhoff assisted the management buy-out of the listed Freedom Group, delisted the group and managed Freedom Group in Australia. The Steinhoff Group expanded rapidly into Germany, the UK and South

East Asia through the Steinhoff Asia Pacific, formerly the South East Asian interests of the Freedom Group. This expansion was made possible by the utilisation of the relatively affordable and productive local labour and exporting from Africa (Moodley, 2003). A decade later in 2008 Steinhoff International had a market capitalisation of R21.5 billion. The competitive advantage of the group was its managerial capabilities. In 2008 Steinhoff converted its European retail interests into its equity European Retail Management (ERM). By 2013 all the industrial assets were restructured into a separately listed entity KAP Group and Steinhoff International managed the global retail businesses ([www.steinhoffinternational.com](http://www.steinhoffinternational.com)).

A growing number of African enterprises started business expansion outside the borders of the home markets. Most of these companies rose to the opportunities posed by market liberalisation in Africa, privatisation of SOEs and public/private partnerships. From small beginnings, often family businesses, cautious expansion into neighbouring countries placed these firms on the internationalisation path. The Comcraft Kenya Group Ltd, started in 1915 as a small aluminium cookware manufacturer, but has expanded into a diversified steel industry in Kenya, Uganda and Tanzania ([www.blomberg.com/research/stocks/private/](http://www.blomberg.com/research/stocks/private/)) The Sameer Group is also a diversified group operating in construction, tyre manufacturing, information technology and property finance. The businesses started in Kenya, but are now part of Sameer Africa Ltd, with subsidiaries in Tanzania and Uganda ([www.businessdailyafrica.com](http://www.businessdailyafrica.com)). Access Kenya Group was started in 1995 as an internet solutions enterprise, which has now expanded operations across East Africa, but not yet beyond the African markets ([www.accesskenya.com](http://www.accesskenya.com)). In Algeria the Rehab Family started the Cevital Group in 1971, focussing on food processing, especially sugar, vegetable oils and margarine, and is currently the largest private business conglomerate in Algeria. The Cevital Group is not listed and operates across the North of Africa ([www.cevital.com/en/](http://www.cevital.com/en/)). In a similar fashion the Dangote Group from Nigeria, the Simba Group from Nigeria, the MeTL Group from Tanzania, and the Madhvani Group from Uganda, have all expanded operations extensively in their home countries and neighbouring countries, but have not listed on a major bourse to allow international investor participation. The MeTL Group has diversified its food processing operations into telecommunications and information technology and ventured into markets in the Middle East, the USA and south Asia ([www.thetradebeat.com](http://www.thetradebeat.com)). Auldon Limited, toy manufacturer from Nigeria, started the manufacturing of toys in 1996 and has expanded into neighbouring African market since, but not outside Africa yet ([www.auldontoyworld.com](http://www.auldontoyworld.com)).

Expansion by South African retail chain stores into the rest of Africa, falls within the same category. The most successful group, the Shoprite Holdings Limited (SHL), has exported its grocery store concept into Africa since the late 1990s to establish a presence in seventeen countries, including South Africa. The SHL has expanded from 704 stores in 2004 to 1246 in 2010. The stores serve the needs of different LSM segments (Living Standards Measures – LSM, 1-4 being low income, 4-7, middle income and 8-10 high income) and include food, furniture, liquor, pharmacies and financial services. By 201 more than 10%

of the group income is flowing from its operations in Africa outside of South Africa. The SHL started expanding into South Africa's immediate neighbouring countries in 2002 by opening stores resembling the South African store outlets. This assisted penetration, since many citizens from neighbouring countries enter the South African market for bulk food and consumer supplies. The company policy was to source supplies from the local markets and in Zambia more than 80% of goods in the SHL stores were sourced from the local market – in Nigeria this figure is almost 60%. The SHL group was the first South African retailer to open stores in the DRC, in Kinshasa. While entry barriers are high in African countries (familiarity with products, knowledge of the supermarket concept, infrastructure to secure regular deliveries, security of money transfers, inadequate banking services, civil institutions, access to banking services to the ordinary population), the SHL business model offered solutions to many of these limitations. The grocery stores offered access to mobile phones, which were linked to the safe and easy transfer of money. The SHL group developed a sophisticated central distribution system, with its own delivery fleet, operating supplies from centralised depots in Madagascar and Angola. The group employs more than 11 000 people from the local communities to serve the consumers in their own languages. (SHL Annual Integrated Report, 2012). Other retail stores such as Pick 'n Pay has also commenced expansion into neighbouring countries, but Shoprite has a strong market lead.

African conglomerates have diversified business activities and explored the opportunities outside the home market, primarily in the immediate neighbouring markets, as suggested in the Uppsala model of internationalisation. Expansion into developed country markets remains limited to the South African corporations owning advanced proprietary knowledge, technology and strategic management capabilities.

## 6 The trend emerging

In contrast to the internationalisation of the Asian Tigers described by Matthews, the internationalisation strategies from the African periphery were motivated primarily by market, asset and efficiency-seeking strategies and less by resource seeking motives. The observation of the internationalisation of the leading corporations that have diversified operations significantly to gain revenue from operations outside the home country, as discussed in this paper, the following are the dominant trends.

Internationalisation of the first movers was motivated by **market and asset-seeking** considerations. The long period of international isolation resulted in 'pent-up' capacity at South African firms. The size of the domestic market is small - GDP growth has slumped from 5 percent to below 2 percent the last few years and is not likely to improve any time soon as a result of domestic political constraints. Market-seeking strategies offered access to the new fast growing markets in Africa, with competitive labour resources. The market-seeking strategies were coupled by the mining companies' asset and resource-

seeking strategies. The diversification of mining operations from South Africa by BHP Billiton, AAC and Gold Fields were motivated by resource seeking and efficiency-seeking considerations. Access to new mineral resources and new mining companies outside South Africa assisted in reducing the risks associated with empowerment policies, domestic labour market rigidities and associated cost pressures. New explorations uncovering mineral deposits outside South Africa offered potentially higher efficiency and links to emerging markets. The expansion of Sasol into Mozambican gas fields, was both motivated by resource-seeking considerations as well as the proprietary technology advantage of its GTL technology.

The expansion of the retailer Shoprite and MTN, into African markets were purely market-seeking, but facilitated by strategic managerial capabilities and knowledge of the context and complexities of the African market. In this respect South African companies possess a competitive advantage over non-African multinationals aspiring to enter the fast growing African markets. Knowledge of the African cultural diversity, the different languages and consumption patterns were key to the success in the consumer market, but also in the mobile telephone market and money transfer market. Therefore Shoprite linked up with MTN, and later also Vodacom, in supplying access to mobile telephone services and money transfer facilities at the shop outlet.

The export driven international operations of most African firms is market-seeking without exception. The exports by Sonatrach (Algeria) and Sonagol (Angola) are purely market-seeking. The large number of medium sized African firms engaging in purely commodity exports described by Ibeh (2012), only represent the beginning of business globalisation. It is the beginning of revenue stream diversification through foreign sales, but not yet the expansion of operations outside the home market. This type of emerging internationalisation occurs in the exports of food, flowers, wood and textiles. An important observation in this category of emerging internationalisation, is the tendency of foreign investment in local enterprise, which then results in export initiatives. This is particularly the case in the floriculture operations in East and Southern Africa, the coffee exports from Ethiopia and Mozambique and the textile exports from East Africa and Mauritius. In this category the so-called 'quota hopping' practice by foreign firms seeking to diversify the location of their operations to bypass USA export quota restrictions, resulted in South East Asian textile manufacturers establishing subsidiary operations in African countries in order to export from 'Africa' and not from their home markets (Ibeh,2013: 418). These collaborative efforts may well in future build local enterprise and result in extensive internationalisation.

The second trend is that market and asset-seeking initiatives were driven by the competitive advantage of FSAs, found in **proprietary knowledge and managerial capabilities**. The proprietary knowledge of the locally developed technologies, such as the world leading CTL and GTL technology developed by Sasol, or the mining technology of the mining conglomerates AAC and Gold Fields, or the mobile telephone technology MTN injected into the African and Middle East markets. The expansion of the health care companies Netcare

and MediClinic, are also representative of advanced health care technology as a vehicle for internationalisation. These technologies provided a strategic tool to access new markets and simultaneously address the growing constraints in the domestic market.

Technological advantages were underpinned by **strategic managerial capabilities**. The managerial capabilities of South African corporations constitute a vital element of the successful globalisation of their operations. Strategic leadership and, dynamic capabilities in change management placed them in an advantageous position with respect to expansion into global and neighbouring developing markets. The diversified conglomerates of pre-1990 South Africa were multi-division firms, managed by professional managers and not only family members (as is still the case in most of the emerging African conglomerates in other African countries such as Uganda, Tanzania, Ethiopia and Kenya). These competitive advantages were enhanced through the international orientation of South African management. Local managers are well travelled, have extensive business network links outside the country, possess ability to manage operations under conditions of political instability and social turmoil – as persisted in South Africa during the 1980s and 1990s - and take and manage risk in such markets (Ibeh, 2012; Bakunda, 2004). The internationalisation of Sappi, the paper conglomerate was both motivated by market seeking considerations as well as the Asian Tigers type of learning and leveraging motives where Sappi acquired advanced fine paper production technology through the acquisition of the European and USA paper corporations. The success of the sustained internationalisation operation was dependent on the management of the integration of the newly acquired technology into the existing knowledge base of the conglomerate. The opening up of markets offered strategic options conditioned by contextual constraints.

In this category of internationalisation the fast growing e-commerce and e-business markets are penetrated by innovation managerial activity. The cases of the expansion of Naspers and MTN were engineered by strategic management vision. Innovative management proactively sought to leverage existing knowledge in the media and mobile telephone business to penetrate the e-commerce market. Naspers restructured the company and used organisational capabilities at firm level to refocus the media company to emerge as the largest emerging market conglomerate by 2013. Naspers' restructuring enabled the MTN expansion and the electronic technology of the mobile company was leveraged by the retail company Shoprite, to offer electronic money transfer and payment services. Market-seeking strategies are strengthened by the international orientation of management.

On the back of the trends identified, it is to be expected that **efficiency-seeking** motives will in future become a stronger consideration for South African firms. The emerging diversified corporations from African countries will join those ranks as soon as professional management replaces or supplements family control and acquires a strong international orientation and develop alliances or networks outside the home country. As the bulk of private enterprise in Africa still falls within the category of SMMEs (up to 40 percent of Africa's GDP is

still contributed by informal economic activity – Marsden, 1990; McDade and Spring, 2005), African enterprises are growing in size and capabilities to challenge competitors on the basis of cost and resource advantages. The strongest private African corporations expanding across African home borders are the Simba Group, the Dangote Group and the Orascom Group.

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**Table 1: OFDI, Africa by region and South Africa, 1990 – 2013. (\$m)**

	1990	1995	2000	2005	2007	2008	2010	2011	2012	2013
Africa	659.0	2 975.7	1 533.9	1 925.3	9 115.5	4 974	6 659.4	6 772.9	11 999.7	12 418.1
North Africa	135.2	132.5	222.9	288.6	5 415.4	8 751.9	4 846.6	1 575.3	3 273.4	1 481.3
West Africa	411.5	189.2	964.9	418.1	1 275	1 708.7	1 292.3	2 730.8	3 155.2	2 184.9
East Africa	3.7	38.6	20.4	90.6	110.8	108.9	140.5	174.2	204.7	147.8
Central Africa	51.2	34.9	33.5	173.6	81.4	148.6	590.4	365.9	222.1	634.1
Southern Africa	57.4	2 580.5	292.2	954.3	2 232.8	-5 771.0	-210.4	1 926.8	5 144.3	7 970.1
South Africa	27.4	2 497.7	270.6	930.3	2 965.9	-3 133.7	-75.7	-256.8	2 987.6	5 619.9

Source: UNCTAD WIR, 2013: p.214; WIR 2014 Web Annex Table 2.

**Table 2: OFDI stock as percentage of Gross Domestic Product, 1990 -2013 (%).**

	1990	1995	2000	2005	2010	2013
Africa	4.8	6.7	7.2	4.7	8.2	8.6
N Africa	1.1	0.9	1.3	1.4	4.4	4.4
W Africa	3.4	7.9	8.2	2.0	3.1	3.7
Nigeria	3.5	9.7	8.9	0.3	2.2	3.0
C Africa	1.7	2.5	2.8	1.5	2.0	2.7
E Africa	1.0	1.6	1.8	1.8	2.1	2.3
Kenya	0.9	1.0	0.9	0.7	0.9	0.7
Sd Africa	10.8	13.5	16.7	10.3	17.9	19.8
South Africa	13.4	15.4	20.6	12.6	22.9	27.3

Source: WIR 2014 Web Table 8.

**Table 3: Value of cross-border M&As, by region of purchaser, 2007 -2013 (US\$m).**

	2007	2008	2009	2010	2011	2012	2013
Africa	10 356	8 266	2 577	3 792	4 393	629	3 019
N Africa	1 401	4 729	1 004	1 471	17	85	459
Egypt	1 448	4 678	76	1 092	-	16	-
Morocco	-	-	324	-	17	101	147
Other Africa	8 955	3 537	1 573	2 322	4 376	543	2 560
Mauritius	253	136	16	433	173	418	65
Nigeria	196	418	25	-	1	40	241
South Africa	8 646	2 873	1 504	1 619	4 291	825	2 246

Source: WIR, 2014: Annex Table 3, pp. 213-214.

**Table 4: African Top 100 non-financial TNCs, ranked by foreign assets, 2012.**

Ranked by Foreign Assets	Ranked by TNI*	Corporation	Home economy	Industry
31	31	MTN Group Ltd	South Africa	Telecommunications
43	27	Steinhoff International Holdings	South Africa	Other consumer (furniture and home ware)
49	25	Gold Fields Ltd	South Africa	Metal and mining products
51	72	Sonatrach	Algeria	Petroleum
53	74	SASOL Limited	South Africa	Chemicals
63	35	Naspers Limited	South Africa	Other consumer services (Media)
67	34	Orascom Construction Industries SAE	Egypt	Construction
83	41	Med-Clinic Corp Ltd	South Africa	Other consumer goods (health care)
97	60	Netcare Ltd	South Africa	Other consumer goods (health care)
98	33	Sappi Ltd	South Africa	Wood and paper products

Source: WIR , 2014: Web table 29.