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“Global since Gold” The Globalisation of Conglomerates: Explaining the Experience from South Africa, 1990 - 2009

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Abstract

The internationalisation of enterprises is one of the essential ways to strengthen the competitiveness of firms from developing countries (UNCTAD, 2005c: 3). Strong growth in outward foreign direct investment (OFDI) from developing countries has become the distinguishing feature of the twenty-first century. This OFDI flows from state-owned enterprises, sovereign wealth funds (SWF) as well as private enterprises operating as multinational companies from a home base or as free-standing companies. Multinational corporations have commenced 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 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 flow of investment funds from developed countries was expected, but the reverse trend displayed the emerging capacities in countries and firms outside the core of the international economy, which challenged the dominance of developed countries and companies from developed countries. These developments have prompted several questions: how do developing country firms succeed in entering global markets? Do these firms improve their competitiveness through OFDI? This paper investigates this phenomenon from the experience of South Africa. The emergence of EMNC (Emerging Market Multinational Corporations) prompted extensive analysis and debates about the nature of and motives for EMNCs, but has also led to more in-depth analysis of specific country characteristics and firm-specific reasons for OFDI.

Keywords overseas foreign direct investment internationalisation business history conglomerates competitiveness industrial protection management strategy

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1 Introduction

The internationalisation of enterprises is one of the essential ways to strengthen the competitiveness of firms from developing countries (UNCTAD, 2005c: 3). Strong growth in outward foreign direct investment (OFDI) from developing countries has become the distinguishing feature of the twenty-first century. This OFDI flows from state-owned enterprises, sovereign wealth funds (SWF) as well as

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private enterprises operating as multinational companies from a home base or as free-standing companies. Multinational corporations have commenced 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 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 flow of investment funds from developed countries was expected, but the reverse trend displayed the emerging capacities in countries and firms outside the core of the international economy, which challenged the dominance of developed countries and companies from developed countries. These developments have prompted several questions: how do developing country firms succeed in entering global markets? Do these firms improve their competitiveness through OFDI? This paper investigates this phenomenon from the experience of South Africa. The emergence of EMNC (Emerging Market Multinational Corporations) prompted extensive analysis and debates about the nature of and motives for EMNCs, but has also led to more in-depth analysis of specific country characteristics and firm-specific reasons for OFDI.

Is South African an "emerging economy"? The most commonly used definition of emerging markets in management literature is that emerging economies are "low-income, rapid-growth countries using economic liberalisation as their primary engine of growth" (Hoskinsson, 2000: 249). This definition includes 51 rapid-growing developing countries in Asia, Latin America and the Middle East (as identified by the International Finance Corporation), as well as another 13 economies in the former Soviet Union and China (as identified by the European Bank for Reconstruction and Development), but excludes South Africa. Eden describes the core characteristics of these economies "as dynamic economies, with fundamentally changed institutional environments after the early 1990s when liberalization, privatization and deregulation were experienced as policy shocks, and as economies suffering from weak market-based institutions, especially property rights and legal infrastructure" (Eden, 2008: 333–334). Amighini et al. (2009) use "developing" and "emerging" country interchangeably when assessing the origin of MNEs. Other authors place South Africa squarely in the category of "emerging markets". Goldstein and Prichard (2009) and Goldstein (2008) include South Africa in the discussion of emerging market MNEs. The UNCTAD literature refers to South Africa as an "emerging market" and a "developing" economy (WIR09: 22). The World Bank classifies South Africa among "upper middle income" countries (World Bank, 2000: 334). South Africa does not fit comfortably into these categories and should be described as a "unique" example of an "emerging" or "developing" market because of its peculiarities (Klein and Wöcke,2007; Goldstein,2009).

The permanence in the reversal of the direction of MNC activities since the beginning of the twenty-first century has prompted a growing literature on emerging market MNCs or EMNCs. (See Sauvant (2008); Ramaruti & Singh (2009); and Dick and Merrett (2007).) While the United Nations Conference on Trade and Development (UNCTAD) shows an increase in European contribution to OFDI stock from 49.5% in 1990 to 57% in 2006, and a decline in USA contribution from 24,3% to 19.1%, the contribution by emerging markets/ developing countries rose from 8.3% in 1990 to 12.8% in 2006 (Ramuruti & Singh: 15). By 2008 the OFDI from developing countries rose to 16%, the largest share of global OFDI (UNCTAD WIR09: 16–17). While Africa was a net recipient of FDI amounting to US$86,7 billion in 2008, OFDI rose to US$9,2 billion in 2008 (UNCTAD WIR09: B1, 247). The rising trend in OFDI from developing countries is explained by reference to global market liberalisation and privatisation in developing countries. In seeking solutions to the economic problems of developing countries, including Africa (Madison, 2007: 231–237), OFDI is explored as a mechanism to enhance the profitability and efficiency of EMNCs (UNCTAD, 2005b: 4–5).

In the discourse on why and how EMNC rose so rapidly, the *OLI* hypothesis of firm expansion was used widely. *Ownership (O)* advantages (firm specific resources) and *Location (L)* (host country natural resource endowments) are *Internalised (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 *O* and the *L* advantages in the *OLI* model, determined international expansion of firms. Dunning later adjusted the *OLI* model by incorporating alliance capitalism and firm networks in ownership advantage – ownership is augmented by incorporating knowledge shared in networks and alliances (Dunning, 1995, 2000, 2006). The organisational structure of internationalising firms subsequently displayed new organisational forms – no longer only the hierarchical mode of integration, based on the transaction cost theories, but through alliances and networks constructed new forms of ownership domains. Utilising these networks and alliances, firms internationalised their operations by seeking strategic assets to augment their existing proprietary resources. Institutions' importance in strengthening CSAs into each variable of the *OLI* hypothesis, was gradually acknowledged (Dunning & Lundan, 2008; Dunning & Zhang, 2008).

The "static" approach to EMNCs was amended by the view 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 Mattthews (2002) called a more dynamic acquisition of capacity and experience to overcome latecomer effects and technology gaps (see Aulakh, 2007: 237; Goldstein, 2007: 81). This is an evolutionary view of the internationalisation process (Amighi et al., 2009: 5; Matthews, 2002a, 2002b) in which Matthews show how firms without O that they could exploit abroad, find resources, internalise them and finally develop linkages or partnerships or networks to leverage against the risks involved in such outward strategies. This led to the amended *OLI* framework, the *LLL* framework – *Linkage, Leverage and Learning* framework. Amighi explains the new *LLL* model as follows: "Within this framework, the global economy is described as a set of resources available to firms and internationalization is defined in a broader sense, as: '*the process of the firm's becoming integrated in international economic activities*"'(Amighi et al., 2009: 6). EMNC operations are thus explained not as asset-exploiting at the outset, but as asset-exploring.

The *LLL* framework linked 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 acquired 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 could then 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 as fast as possible through linkages, collaboration and the leveraging of resources.

The internationalisation of South African enterprises displays some idiosyncrasies as well as alignment to international trends. The South African economy by 1950 was more advanced than that of several nations included in the emerging market category, such as South Korea, China, India, Ghana, Kenya and Tanzania (Buchheim, 2006: 53–54). The growing international isolation of South Africa since the country walked out of the Commonwealth in 1960, right up until the early 1990s when political changes took place, limited the development of international linkages. South Africa was never entirely isolated from the global environment. The internationalisation of business enterprises was contained by political isolation, sanctions, exchange controls and ownership restrictions, but the domestic development of commerce and industry in an incubated space developed an adequate platform for internationalisation once political and economic restrictions were removed. The case of South Africa justifies a careful analysis of the country-specific conditions (CSAs) that enabled strong economic growth and internationalisation capabilities (FSA) unmatched by any other African state.

2 The South African context

Since the nineteenth century the different colonies which later formed the Union of South Africa in 1910 had been integrated into the international economy through trade with Europe (Netherlands, Germany, France), Britain and the USA (Müller, 1977: 86–90; 139–141; Schuman, 1951: 166–167; Jones & Müller, 1992: 117). These relations characterised South African trade throughout the twentieth century, despite the sanction years. The most important characteristics of the South African economy, which impacted on the ability of South African firms to globalise operations, are sustained relations with the European metropole and Britain, concentration of ownership and sector control, and state intervention. The mineral discoveries integrated the emerging modern South African economy closely to British and European capital. Diamond mining was consolidated in Cecil John Rhodes's De Beers Consolidated Mines in 1888 and the 124 gold mining companies converged into four dominant companies by the early 1920s (Newbury, 1995: 3–29). The Anglo-American Corporation (AAC), established in 1917, acquired the majority stake in De Beers in 1927, leading to a dominant position in the mining industry ever since. Diversified investments by the mining industry stimulated the development of the industrial sector in South Africa. The mines also needed capital and financial services. The mines established their own finance houses and bought stakes in banks. Mining, finance and industry were closely interlinked, and primarily to British and other European capital (Yudelman, 1983: 258, 278–279). By 1938 Afrikaner business control was small: 8 percent of total turnover in commerce, 3 percent of manufacturing, 5 percent of finance, 1 percent of mining and 5 percent of aggregate turnover of the entire economy – the rest had been in English-speaking control (Sadie, 2001: 28). By 1910 the South African economy was nevertheless still a primary mining and agricultural economy (Schumann, 1940: 81, 88; Jones & Müller, 1992: 11; Feinstein, 2005: 115).

The third characteristic of the economy was state intervention and protection. In the context of protectionism in the Cape Colony and the ZAR during the late nineteenth century, the South African government introduced union-wide tariff protection from 1912 to 1993. This protection by means of tariffs, import quotas and sectoral subsidies protected local industries. These industries were primarily in the hands of foreign capital, which stimulated domestic policies of the South African state to put "South Africa first!" This implied that South African interests were to be paramount to Commonwealth interests in all respects, and not subject to Britain. The sense of independence, despite alignment to the Commonwealth, served as a unique incentive towards economic self-sufficiency. Protection boosted industrialisation, but so did the establishment of several state-owned industrial enterprises (SOE). In 1928 the Iron and Steel Corporation of South Africa (ISCOR) was established to ensure the production of affordable, accessible steel and iron for the growing industrial economy. In 1923 the Electricity Supply Commission of South Africa (ESCOM) was established to ensure sufficient energy supplies for the growing economy. In 1940 the Industrial Development Corporation (IDC) was established to assist industrial development through capital, expertise and management consultancy (Jones & Müller, 1992: 168–172; Feinstein, 2005: 120–121). In 1950 the South African Oil and Gas Corporation (Sasol) was established to produce petroleum from coal. International pressure was mounted against South African domestic policies at the United Nations by the Non-Aligned Movement led by India (Verhoef, 2003: 88–90). International pressure intensified the drive towards self-sufficiency and protection[1]. An advanced industrial sector, dependent on

[1] Goldstein (2009:248) is misleading readers by blaming domestic protectionist policies and the rise of SOEs on policies "to create jobs for Afrikaner workers". Economic self-sufficiency through structural diversification demanded state involvement. This strategy was closely followed in Japan and several countries in South East Asia.

protection, state involvement, a steady supply of labour, foreign exchange earnings of the mining sector and FDI, developed. Business and industry developed with close reciprocal ties to the former colonial power, Britain, and other Commonwealth and European countries. In the period of rapid international economic growth between 1945 and 1970, South African firms increasingly operated within the *LLL* paradigm by leveraging resources from outside and slowly becoming integrated in international activity, learning from developed country firms doing business in South Africa. While in Australia and New Zealand the settler populations were more content with the British connection, the "South Africa first" policies drove demands for political sovereignty and South African ownership of a meaningful portion of the South African economy. This had a profound impact on economic and industrial development. Until the 1950s industries in South Africa were still inefficient and heavily dependent on the foreign exchange earnings of the mining sector (especially gold) to finance vital industrial raw materials imports. Lumby noted: "Consequently, the massive and diversified industrial structure that has been developed in South Africa was unable to finance its own expansion. The significantly higher price for gold during the late 1970s provided South Africa with a windfall which enabled her to delay the process of substituting secondary industry for the primary sector, but did not obviate the ultimate need for such substitution. Hence the pronounced emphasis upon the need to stimulate the development of export industries became part of the major strategy whereby the government hoped to cut the Gordian knot which tied the expansion of South African industry to the primary sector" (Lumby, 1983: 244; also see Feinstein, 2005: 180).

Protection, concentration and state intervention nurtured the development of the most diversified industrial economy in Africa, but by the 1970s it had become inefficient and uncompetitive. The growth between 1940 and 1973 could not be sustained in a relatively isolated domestic market without a comprehensive policy on human capital development to supply in the needs of a technologically advanced industrial sector. By the 1970s a "structural break in economic performance" became visible: real GDP per capita, real output in gold mining and the mining of other minerals, agriculture and manufacturing declined. Output per worker, output per unit of capital and real fixed capital formation dropped from 1973. The average annual rate of growth of real manufacturing output dropped from 7 percent between 1948 and 1974 to 1.6 percent between 1974 and 1994 (Jones, 2002; Feinstein, 2005: 180, 202, 221; Van Dyk, 2003: 127–133). By 1979 the manufacturing sector imported R7 billion worth of goods and exported goods valued at R3 billion – the shortfall of R4 billion was financed by mining earnings abroad (Yudelman, 1983: 278). Attempts to reform the labour market by legalising trade unions, improving access to training and scrapping employment reservation in the early 1980s could not overcome the structural inefficiencies in manufacturing. Global market liberalisation (see Yegin & Stanislav, 1998: xv–xvi) and strong export-led growth from emerging markets dwarfed the South African industrial sector.

Ironically, by 2007 South Africa had become the leading OFDI nation in Africa, with nine companies in the top 100 non-financial MNCs from developing countries (ranked by foreign assets). South Africa is the only African state in those ranks. The top performer is Sasol at number 22 (WIR, 2009: A.11: 231–233; UNCTAD, 2005c: 6). What is the explanation for this?

*Gwynne,1990:63,175-198;Hewitt et al,1992:110,132)The leading industrialists such as W J Laite, who put pressure on the government to introduce protectionist policies, were Englishmen, the main beneficiaries of industrial protection were both entrepreneurs and employees. Afrikaners never dominated the industrial sector (Lumby,1983: 200–201). By the late 1970s Afrikaner-controlled enterprises contributed 18 percent to the mining sector, 15 percent to manufacturing, 16 percent to commerce, 25 percent to finance and 38 percent to professions. The aggregate Afrikaner contribution to the private sector economy, including agriculture, in 1975 was 27,5 percent and excluding agriculture 20,8 percent (Sadie, 2001:28).

3 Internationalisation of South African enterprises: general trends

The need to enhance competitiveness was the most significant driver of the globalisation of South African enterprises. Macro-economic motives stem from the termination of political isolation in 1990 and economic liberalisation, which commenced with monetary liberalisation in the mid-1980s (Verhoef, 2009: 172–176). Liberalisation offered enterprises opportunities to internationalise operations and gain access to more and cheaper capital to finance expansion, for example through dual listings on international bourses, and to expand outward from a saturated domestic market. Access to the global value chain, markets, natural resources and technology, the possibility of diversifying operations and participating in global trade channels and taking advantage of global investment opportunities all drove internationalisation (UNCTAD, 2005a: 3, 8; UNCTAD 2006b: 5; Gelb, 2005: 202; Klein & Wöcke, 2007: 320).

Official SARB data on OFDI does not reflect reinvested earnings or long- or short-term capital invested abroad, but the trend of investment in equity is clear: SOE OFDI had risen sharply between 1998 and 2000, but since then declined. SOE from South Africa invested primarily in infrastructure projects. The IDC acquired minority equity stakes in joint ventures with the Mozal Aluminium smelter in Mozambique; Escom entered in joint ventures with the Mozal project as well as telecommunications service providers in Lesotho; and Transnet's subsidiary South African Airways acquired a 49 percent stake in privatised Tanzania's national airways (UNCTAD, 2005a: 9). Expansion of the banking sector followed actively after banks were permitted in 1994 to invest abroad (Singleton & Verhoef, 2010). The growth in direct equity investment by the banking sector rose dramatically to R8,6 billion in 2000, representing an annual average growth of 278,8 percent. Since the initial strong outward performance, this OFDI had slumped to well below the 1990 levels. The only sustained OFDI activities were those of the private non-bank sector. In 1990 a substantial OFDI was made, but then OFDI showed a gradual and steady increase until 2007, after which a slight reduction was posted for 2008. The contribution of SOEs and the banking sector is insignificant compared to the OFDI by the non-bank private sector. Market liberalisation occurred in the domestic market after South Africa signed the Uruguay Round of world trade negotiations in 1993, and removed tariff and quota protection, which had protected South Africa's industrial sector. Only enterprises well positioned with competitive advantage in production efficiency, and access to capital, technology and management, could benefit from this. A limited number of private sector enterprises were favourably positioned to sustain and expand operations. Despite the inherent weakness of the industrial sector referred to above, some enterprises were capable of extending their operations internationally. OFDI by the non-bank private sector rose by 6,98 percent annual compound growth between 1990 and 2008, compared to negative growth of ODFI by the banking sector.

The rising ratio of OFDI to GDP since 1990 shows the growing internationalisation of South African business. Total direct equity investment as a proportion of GDP rose gradually from 3,53 percent in 1990 to 25,52 percent in 2008 (see Table 1). This represents an 86 percent increase, and does not reflect the full position, since the OFDI of companies listed in London as their primary listing do not submit to the SARB. The internationalisation of South African business compares well with that of Australia. In 1990 Australian outward stock was 9,8 percent of GDP and in 2003 26,4 percent. South African OFDI was 3,53 percent of GDP in 1990, but by 2003 the SA ratio was still well below the Australian figure at 12,64 percent. By 2008 South African ODFI had reached the level of Australian OFDI in 2003, namely 25,52 percent (Dick & Merrett, 2007: 25).

The most important aspect of OFDI by the non-bank private sector is that the bulk of these investments target developed markets, not developing markets, as was explained by Khanna and Palepu (2006). The historic links with the UK and Europe made them the preferred markets. By 2005 European markets were the recipients of 81,24 percent of direct equity investments from South Africa, while the OECD accounted for 87,48 percent. Africa received only 8,19 percent of OFDI equity investments, although this ratio is increasing. This distribution had changed to the following by 2008: OFDI in direct equity investments to the UK comprised 24,5 percent of total OFDI in direct equity investments; 54,8 percent went to European nations, 7,35 percent to North and South America, 21,7 percent to Africa, 10,7 percent to Asia and 4,6 percent to Australia (SARB, 2006, 2009). South African business is therefore beginning to expand into the emerging markets of Asia, Oceania and Africa. The historic network of the OECD/UK is slowly diverging into a new network of the emerging markets in the South-South alliance and the "comrade/liberation struggle" network in Africa. The geographic direction of EMNCs from South Africa does not comply with the Uppsala model of Johansson and Vahlne (1977), which argued that firms from developing countries expand first through exports to neighbouring ethnically similar countries, then to neighbouring non-ethnically-related countries and only much later to more distant "developed" markets. This was also the Investment Development Path (IDP) thesis of the 1980s (Dunning, 1981, 1986). If the former colonial power and the European base of the white minority population is seen as the "ethnically similar" entity to which South African enterprises exported, then the theory holds for the period before 1994, but the theory does not hold for the post-1994 South Africa. Perhaps the fact that South African firms were primarily in the hands of white owners explains the geographic direction of OFDI immediately after 1994. South African OFDI is currently displaying expansion into countries further away from their home base and "those further away in terms of psychic distance" (Tolentino, 1993: 364). The "neighbours" of South African enterprise are African markets, which are different in character from the UK/OECD markets historically targeted by them. The change in the dominant "culture" in South Africa after 1994 has had a profound impact on internationalisation strategies of enterprises.

Most OFDI from South Africa takes place by means of mergers and acquisitions (M&A) (Goldstein, 2009: 253–257; Klein & Wöcke, 2007: 324–330; UNCTAD, 2005a: 6). New investments are made, but this is a minority strategy. New investments in Africa were relatively small (below R7m – or US$1m) and primarily market seeking, taking commodities in demand to communities deprived of properly functioning markets (Grobbelaar, 2008). The M&A wave was stimulated by the international unbundling trend of the late 1980s and 1990s. In South Africa the first major conglomerate unbundling exercise was the unbundling of Gencor by Sankorp in 1993 (Verhoef, 2009: 154–157; UNCTAD, 2005a: 3). Subsequent unbundling exercises to improve focus and strategic direction, opened up more M&A opportunities in the domestic market. Better-focused business groups set their eyes on acquisitions in expanded markets, which led to international M&As. The dominant South African outward M&As by conglomerates were by Anglo American Corporation (AAC), South African Breweries (SAB) and Old Mutual, but smaller deals were concluded by Sappi, Sasol, Billiton, the MTN Group and Dimension Data (E&Y, 1998-2009). The most transactions and the largest OFDI transactions occurred between 2000 and 2001. Since 2005 more inward FDI has occurred (E&Y, 2009: 14, 23). AAC, SABMiller (after 2002) and Old Mutual secured primary listings on the London Stock Exchange (with a secondary listing on the Johannesburg Stock Exchange) (*Economist*, 10/12/98). The strategy of this move was to display managerial and performance professionalism, improving focus by selling off non-core assets and thus gaining international investors' acceptance as sound, not too risky investments and a profoundly better track record than EMNCs from competing emerging markets. Further OFDI by London primary-listed companies were no longer captured in SARB statistics and therefore official SARB OFDI statistics do not reflect the entire spectrum of globalisation by South African enterprises.

4 Case studies

Some brief analyses were conducted on internationalisation strategies of leading South African OFDI enterprises, SAB Sappi and Barloworld (Klein & Wöcke, 2007). Goldstein (2008) and Goldstein and Pritchard (2009) offered a general overview of the globalisation trend of South African companies. The general assessment is that CSAs existed in each case, which, coupled with FSAs, provided South

African enterprises with a competitive advantage in globalisation.

The first big business from South Africa to move across the borders was SAB. In 1993 SAB acquired a stake in the loss-making Tanzanian national brewer and then entered into an agreement with the Castel group. A pan-African strategic alliance was formed. SAB operated in the south and eastern parts of the continent and Castel in francophone or central, west and north Africa. The expansion into African markets absorbed excess capacity and improved efficiency. SAB then targeted the eastern European markets, starting with Hungary. In 1994 SAB moved into China and established a dominant presence in five African countries, as well as in Poland, Russia, Romania, Slovakia and the Czech Republic by 2000. In 2001 SAB expanded into Central America. By 2002 SAB was represented in 24 countries. In May 2003 SAB acquired a 100 percent interest from Phillip Morris in the Miller Brewing Company in the USA. Since then, SAB has been registered as SABMiller. In 2005 SABMiller became the second-largest brewer in Latin America after the acquisition of Grupo Empresarial Bavaria, the largest drinks firm based in Colombia (*Economist*, 20/07/05; 21/07/05). SABMiller moved its primary listing to London in March 1999, to access more hard currency for further expansion. The depreciation of the South African currency since 2002, political instability in Zimbabwe and a lack of confidence in African leadership were all reasons to grow the business in global markets. UNCTAD ranked SABMiller in 2003 as a TNC from a developing country in position 20 in terms of foreign assets and 18^{th} in TNI (Transnationality index),[2] with a score of 55 percent. SABMiller's foreign assets in 2003 were US$2,785 billion, foreign sales US$2,433 billion and 15 450 employees in foreign employment (WIR, 2003). By 2008 SABMiller was no longer ranked as a developing country TNC in the non-financial sector, but as a TNC among the world's top 100 non-financial TNC's. SABMiller is ranked in the 76^{th} position, with a TNI of 76 percent, foreign assets of US$25,139 billion, foreign sales of US$12,585 billion and 56 195 foreign employees (WIR, 2009: 229). SABMiller used the protected South African market to develop expertise and excess capacity, but the limitations of scale and scope in the isolated domestic market resulted in massive diversification into non-core industrial activities. Once isolation was ended, SAB sold off non-core assets, and globalised through M&As. SABMiller used its expertise to expand into developing markets in Africa and Eastern Europe, and then, after listing, made the leap into developed markets. By 2008 SABMiller was no longer a South African company, and earned the bulk of its income from outside South Africa – *The Economist* refers to SABMiller as a "British-based firm" (*Economist*, 21/07/05).

While SABMiller initially moved into developing markets and then excelled in developed markets, South African enterprises engaged in rapid globalisation, and entered primarily into developed markets. Some, such as Sappi, have a minority exposure in developing markets. The exposure to OECD and other developed markets has remained remarkably stable since 2000 (Goldstein & Pritchard, 2009: 257–260). AAC unbundled its industrial assets, strengthened its focus and then merged with Minorco in 1998. AAC then listed on the London Stock Exchange as AAC Plc. The subsequent restructuring of AAC entrenched the company more firmly in the OECD market and reduced exposure to the troublesome, politically volatile, South African mining industry. In 2008 AAC Plc was ranked 56th among the world's top 100 non-financial TNCs, with a TNI of 83,7 percent. The only other former South African company on that list was SABMiller. AAC internationalised easily because of its sophisticated technological and managerial expertise since the 1920s. AAC was by far the dominant listed company in terms of market capitalisation on the JSE since the 1930s, until its exit to London. Superior resource endowments facilitated the development of a strong mining/industrial sector in South Africa in which AAC was the most powerful. As soon as political power shifted in South Africa, AAC sought less threatening and more stable markets, with less exposure to the militant labour unions firmly entrenched in political power in South Africa. In the words of Moletsi Mbeki, Deputy-Chairman of the South African Institute of International Affairs, the internationalisation of large companies can be seen as "political risk management" (*Financial*

[2] The Transnationality Index 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.

Mail, 9/4/10).

In the case of Sappi (South African Pulp and Paper Industries) the company benefited from industrial protection policies, but the limited domestic market restricted opportunities for production efficiencies on economies of scale. Organic growth in the domestic market made Sappi the market leader. After acquiring Saiccor, the world's single-largest producer of chemical cellulose in 1987, Sappi needed manufacturing expansion. Excess domestic capacity required market-seeking expansion. Sappi commenced exports in the mid-1980s and in 1986 established Sappi International to manage foreign sales, which rose to 50 percent of production. (www.sappi.com; *Financial Mail*, 6/2/04). Sappi embarked on aggressive international expansion through M&As: in 1991 five fine paper mills were acquired in the UK, specialised pulp services in Hong Kong were acquired, and in 1992 the company acquired control of Hanover Papier in Germany and listed on the London and Frankfurt Stock Exchanges, followed by a listing on the Paris bourse. In 1994 Sappi acquired 75 percent of S.D. Warren, the world leader in coated paper in the USA and by 1997, after acquiring Europe's largest coated paper producer KNP Leykam, Sappi was the world's largest producer of coated paper and market leader in Europe, North America and Africa. In 1998 Sappi listed on the New York Stock Exchange as well, but never shifted its primary listing overseas. In 2004 the expansion into the Asian market occurred: Sappi acquired 34 percent in a Chinese joint venture Jiangxi Chenming to build paper machines, a mechanical pulp mill and a de-inked pulp plant. By 2008 Sappi was the world leader in the manufacturing of coated wood free paper (Economist, 13/07/06; www.sappi.com/Sappi web). In 2008 Sappi was ranked in the 50^{th} position of non-financial TNCs from developing countries, with assets of US$4001 million, foreign sales of US$3 898, foreign employees numbering 9 802 (or 65%) out of a total of 15 081 employees in the group. Sappi's TNI is 67,2 percent – thus acknowledged as a truly global company. Sappi still has substantial operations in South Africa, but utilised its managerial expertise and market leadership in the technology of coated paper production developed and refined in South Africa as an internationalisation strategy – first into the developed markets of Europe, the UK, Hong Kong, Germany and the USA, and finally into China. Sappi did not expand into other developing markets, but operated in line with the Dunning (1981) theory of *world-class ownership advantages.*

A similar internationalisation strategy was displayed by Barloworld, the industrial brand management company. Barlows was established in 1902 as a family business in England. The company sold woollen goods and later expanded into engineering goods. In 1927 Barlows sold the first Caterpillar tractor and soon other heavy engineering Caterpillar equipment. Barlows listed on the JSE in 1941 and soon diversified industrial operations in a way similar to other South African enterprises in the 1960s and 1970s. Barlows listed on the London Stock Exchange in 1969 and acquired trading operations in the UK, Botswana and Namibia. In 1970 Barlows acquired Rand Mines, which led to a rapid diversification into extensive mining, industrial, property and electrical equipment. This was the characteristic of all the large mining and industrial concerns in South Africa in the 1970s – international expansion was restricted, but domestic M&As allowed rapid organic growth. Barlows' international expansion had commenced as early as the 1980s, when acquisitions were made in Belgium, Spain and Portugal. These global exposures provided the springboard from which Barlows catapulted itself internationally after 1990. Following the international trend of conglomerate unbundling and refocusing on core business, Barlows disposed of its mining interests and embarked on further international acquisitions in the engineering equipment brand sector. New acquisitions were made in Australia and the USA and distribution networks extended to Siberia. Barlow Rand changed its name to Barloworld in 2000 to reflect the global footprint of the enterprise. The opportunities for expansion had already run out for Barlows in South Africa in the 1970s and in the twenty-first century Barloworld set itself the target of 75 percent income and 66 percent sales from international markets by 2003 (Business Report, 2000; Klein & Wöcke, 2007: 328–329). Since 2000 Barloworld expanded operations in the USA, Australia, the UK and China. Barloworld remained a South African company, but it "owns and maintains the British Ministry of Defence's entire fleet of more than 4500 pieces of material-handling equipment worldwide" (Business Report, 2003). By means of a clear company vision to achieve three goals, Barloworld established itself as a global enterprise. The three goals are: co-branding activities in which leading international brands are marketed and distributed, manufacturing, marketing and distribution of its own brands, and financial services operations (leasing and insurance) to support the distribution function (Klein & Wöcke, 2007: 329). In 2005 Barloworld was ranked 21^{st} on the TNI index for non-financial companies from developing countries, with transnationality at 51,6 percent, but 32^{nd} in terms of foreign assets. Barloworld's foreign assets rose from US$409 billion in 2001 to US$2,030 billion in 2008. Barloworld's ranking in foreign assets had dropped to 83^{rd} in 2008 and its transnationality to 68^{th} position, with 41, 1 percent. In 2008 Barloworld's foreign assets as a proportion of total assets was 45,1 percent. Foreign sales as a proportion of total sales were 43 percent (WIR, 2009: 233).

The performance of Barloworld underlines the observation that most South African MNCs' globalising conduct conforms with that of MNCs from developed countries, i.e. seeking markets for advanced industrial commodities and services in developed markets. The other rapidly internationalising South African MNCs listed under the top 100 non-financial TNCs from developing countries are Gold Fields Limited, Naspers Limited, Steinhoff International, the MTN Group Limited, Datatec and the Bidvest Group. Gold Fields is a gold mining group expanding into gold and precious minerals mining in other parts of the world; Naspers is the oldest Afrikaans company in media and communication technology; Steinhoff International is a diversified consumer goods company; MTN is the mobile telecommunications company and Datatec is the information technology company. All of these enterprises utilise and distribute advanced technology, commodities aimed at the middle- and higher-income consumer markets – or, in the case of Gold Fields, expanded on the strength of its competitive advantage in deep-level mining. None of these enterprises are seeking to access developing markets with low-technology, high labour-intensive commodities, or seeking to access low-cost markets. All of these enterprises engaged in market- as well as capital-seeking strategies to overcome the limitations of the domestic capital market in order to develop growth capacities. These enterprises internationalised rapidly – within the scope of three and five years.

Financial services enterprises were slow to internationalise. FDI inward into the financial sector was slow after foreign banks were allowed to invest in local banks or establish operations in South Africa. The price of these enterprises as well as the political risk discouraged foreign investors. The financial enterprises actually engaged in OFDI from this market into global markets, but on a comparatively limited scale. By 2009 revenue from foreign operations by South African banks and financial services was less than 10 percent. Their foreign loans and advances rose from 4,3 percent of total loans and advances in 1994 to 11.8 percent in 2008. Foreign banks' business in South Africa remained below 9 percent of total loans and advances of the entire banking sector. South African banks opened international offices very quickly: ABSA established new subsidiaries or bought financial services companies in Jersey and the British Virgin Islands. First National Bank established offices overseas and obtained trade and financial services subsidiaries in the British Virgin Islands, in Guernsey Island, Ireland and Hong Kong. Investec Bank obtained foreign interests in financial services companies in the British Virgin Islands, Kenya, Zimbabwe, Botswana, Hong Kong, Australia, the Jersey Islands and other parts of the UK, the Netherlands, the USA and Mauritius. Nedbank extended interests beyond its long-standing London office to Hong Kong, Malta and Mauritius. Standard Bank spread its interests to the UK, Hong Kong, Liberia, the United Arab Emirates and Russia. Rand Merchant Bank invested in Plessey Australia Pacific. These new ventures represented a wide variety of financial services companies, investments subsidiaries and some other related concerns such as health care companies. By the end of 1999 South African banks had established further interests in Latin America (Standard Bank established offices in Argentina, Brazil, Peru and Colombia), The People's Republic of China, Singapore, Germany, Switzerland Italy and Iran (SARB, 1999: 116–117). The foreign expansion in 2000 included establishment of interests by Nedbank in India and by Standard Bank in seven African countries, Turkey and Australia. Nedbank, First Rand Bank and PSG Investment Holdings established subsidiaries or representative offices in Australia (SARB, 2000: 120–121). The most notable trend in the foreign expansion of

South African banks between 2000 and 2005 was the expansion into Africa (Botswana, Uganda, Nigeria, the DRC and Angola), the Cayman Islands, Canada and Australia and more extensively into Guernsey Island. In Ireland the proliferation of South African banks led to the signing of a Memorandum of Understanding between the Department of Bank Supervision of SARB and the banking regulatory authority of Ireland in 2000, on the regulation of such operations (SARB, 2000: 26). The number of approvals by the SARB for the acquisition of foreign banking interests by South African banks rose from 40 in 1997 to 68 in 1999, then dropped to 43 in 2000, 34 in 2003 and 19 in 2005. The Barclays Bank acquisition of a 51 percent interest in ABSA in 2005 was primarily motivated by the Barclays desire to gain access to the ABSA footprint in Africa. Despite the global presence of South African banks, the bulk of their revenue remains firmly rooted in the domestic market (Verhoef, 2009b: 185–195).

Even broad-based financial services concerns struggle to internationalise. After demutualisation Old Mutual (OM) moved its primary listing to London. OM proceeded rapidly with M&As in Europe, the USA and in 2005 in Scandinavia. OM relied on its capital strength, but failed to achieve profitability, because the company did not have unique technical abilities to add value to the market. Expansion into the USA market was a failure and OM withdrew in 2009 (E&Y: Mergers and Acquisitions, 2009: 23; Old Mutual Annual Reports, 1998–2009). A much more cautious approach was taken by Sanlam, the life assurer that also demutualised in 1998. Sanlam waited until 2001 before embarking on an explicit internationalisation strategy. Sanlam cautiously expanded into the UK, Africa and India by distributing financial products appropriate to those markets. (Sanlam Annual Reports, 2000–2009).

The highest-ranked South African conglomerate in the top 100 non-financial enterprises in 2008 is Sasol, the chemical giant. In 2008 Sasol was ranked 22^{nd} in terms of foreign assets of the top 100 non-financial TNCs and 82^{nd} in terms of its TNI (31,6 percent) (WIR, 2009: 231). This company has a unique dimension, which justifies more systematic and detailed attention: i.e. Sasol was an SOE, but privatised itself and then developed into a leading international player and world leader in the synthetic fuel (CTL and GTL technology) industry.

5 SASOL – from national champion to global player

Sasol was established in 1950 to adapt the German Fischer-Tropsch process for the production of fuel from coal for the South African climate, quality of coal and stage of technological development. Sasol chemical engineers registered the unique Sasol Synthol process in 1953, developed the technology commercially and applied it without much adjustment until the 1970s (Rahmim, 2003). The first fuel from coal was produced in 1955 at the initial Sasol plant in Sasolburg. Production technology was expensive and highly subsidised by the South African government.[3] Sasol was a strategic industry

[3] The protection afforded to Sasol consisted of an allowance paid to Sasol for every litre of fuel manufactured from local raw materials (coal). After 1979 the oil price rose substantially to a level in January 1985, when the payment of the subsidy was suspended. Another protection mechanism was introduced in 1989, for 70% of Sasol's petrol and 30% of its diesel production. This was based on an internationally desired floor price for crude oil. Should the floor price of crude oil drop below the protection level fixed in the agreed $/barrel price, Sasol would be compensated 0,78 US cents/litre for every dollar the dollar price settled below the protected level. After the expansion into Sasol 2 and Sasol 3 the state had to create space for the expanded production capacity of Sasol. The government struck a deal with the oil companies whereby they shut down some capacity at their refineries and bought 91% of Sasol's output in order to let Sasol into the market. In return Sasol was not allowed to own any petrol stations and could only market the remaining 9% directly into the market. The companies would buy the synthetic fuel from Sasol at the prevailing In-Bound Landed Cost (IBLC – the set price at which refineries sold refined products to the liquid fuel wholesaling and marketing companies). Product-swapping between the companies to reduce costs already existed. The PBLC was also set artificially high by using the Bahrain and Singapore markets. This effectively acted as a tariff on all refined fuels – synthetic or not. The IBLC included a 6c/litre transport cost for piping crude from the coast to the interior. Sasol did not have to pay this, since it was located in the interior. This gave Sasol an advantage over other refineries. The lower returns suffered by the other oil companies meant that they negotiated a levy of 3c/litre , which was rebated to the oil companies for buying Sasol synfuel (Lambrechts, 1998: 60-63; Engineering News, 19-25/6/98):

to South Africa, since international sanctions put pressure on the country's access to international oil reserves. The fuel production at Sasol remained cost-inefficient until late in the 1980s, but state subsidies protected the industry (Verhoef 2003: 188, 196–199; Lambrechts, 1998: 5).

Two factors have influenced the operational focus of Sasol since the early 1970s. The first was the OPEC decision to increase the oil price from $3 to $12 per barrel. Secondly, the threat of isolation and sanctions following the UN Security Council threat of mandatory sanctions against South Africa posed a very real geo-political problem. Sasol expanded into Sasol 2 and Sasol 3 by the mid-1980s. Simultaneous diversification in downstream chemical production opened the doors to the globalisation of Sasol research, technology and business operations. The restructuring of Sasol was effected by its listing on the Johannesburg Securities Exchange in 1979. Privatisation freed the company from protection by government (Bates, 1981), and accessed capital for expansion. The listed status enabled Sasol to formulate an expansion strategy outside the sheltered SOE context. Sasol diversified operations into downstream chemicals production, mining and related activities, oil refining and fuel marketing and the production of synthetic fuel. A fundamental restructuring of operations into five subsidiary companies followed. Sasol Chemical Industries (Pty) Ltd (SCI) was the chemicals vehicle; Sasol Synthetic Fuels (Pty) Ltd (SSF) was the vehicle for the production of synthetic fuels; Sasol Mining (Pty) Ltd was the vehicle co-ordinating the diversified mining activities of Sasol, and Sasol Oil (Pty) Ltd was responsible for oil refining and fuel marketing. Research and development activities were housed in Sasol Technologies (Pty) Ltd (ST). International expansion of synthetic fuel operations led in 2000 to the establishment of Sasol Synfuels International (SFI) and Sasol Petroleum International (SPI).

The research by chemical engineers in ST at the synthetic fuel division of Sasol was ultimately responsible for the development of leading strategic technology that provided Sasol with its competitive and environmental advantage. Sustained expenditure on R&D since 1951, but more aggressively since the 1970s, in collaboration with international research institutions, kept Sasol abreast of CTL and petrochemicals technology. Annual provisions for R&D averaged about R5 million, but by the early 1990s this provision leapt to in excess of R55 million and reached R66 million in 1995 (Annual Report, 1995: 70). In 1996 Sasol declared that the company engaged increasingly in "projects aimed at improving Sasol's international competitiveness, at an approved cost of R1 800 000" (Annual Report, 1996: 16).

Sasol's R&D expenditure rose steadily from the mid-1990s and reached a peak of 1,3 percent of total expenditure in 2001, when the synthetic fuel GTL technology was developed and refined. R&D expenditure as a proportion of total expenditure declined until 2004. In 2009 the R&D expenditure stood at 1,3 percent of total expenditure, showing the supportive role of new technological development in the company.

In 2008 yet further international accreditation was received for the innovative research by ST in developing fully synthetic jet fuel (Sasol Review, 2009: 26). Sasol's R&D expenditure made the company the largest R&D institution in South Africa. The benefits of the R&D were exported to the global market via the global operations of Sasol. This constituted the competitive advantage of Sasol and facilitated its internationalisation, a strategy usually characterising developed market MNCs.

6 New technology for international fuel competitiveness.

The privatisation of Sasol and the political changes after 1990 opened international markets to Sasol's commodities and intellectual property. The first step was a conscious and strategic business decision to improve profitability by reducing its dependence on synthetic fuel production, the international

"Everything you wanted to know about South Africa's energy policy, but were afraid to ask Minister Maduna." The Star: Business Report, 10/12/98: "Sasol terminate supply pact."; Business Day, 10/12/98: "Sasol to end supply deals." Chemical Marketing Reporter (1996). New York, 6 May, 249 (19): 9-10 "Sasol talks deals on its technology."

oil price and the limited domestic market. The Fisher-Tropsch adapted technology was modified by means of a new Sasol Advanced Synthol (SAS) reactor, which was easier to operate, cheaper to run and more efficient in producing clean gas. The SAS reactors were installed at Sasol 2 and Sasol 3 in Secunda in 1992 and by 1996 all synthol reactors at Secunda were replaced by SAS reactors (Collins, 2007: 123). This technology-improved efficiency reduced production costs when tariff subsidies were phased out.

When South Africa signed the Uruguay Round of GATT negotiations in 1993, the government appointed the Liquid Fuels Industry Task Force (LFITF) to investigate the tariff protection awarded to SASOL since listing in 1979. Soon the highly regulated domestic fuels industry was deregulated. Sasol welcomed this development and announced in December 1999: "Such an approach will afford all participants in the industry, particularly the small players and previously disadvantaged groups, the opportunity to grow and transform in order to become more competitive" (*Engineering News*, 17-25/6/98; *The Star Business Report*, 10/12/98; *Business Day*, 10/12/98). A confluence of the impacts of the domestic political transition, global market transformation and international trade deregulation thus helped shape the business strategy of Sasol by the beginning of the twenty-first century.

A conscious business strategy of globalisation of operations emerged at Sasol at the beginning of the new millennium. The chairman, Mr Paul Kruger, announced in the 1999 Chairman's statement that, "Sasol has clearly signaled that it is becoming more of an international player and events in the rest of the world are therefore of greater importance to it" (Sasol Annual Report, 1999: 6). The new business strategy was twofold: develop new international business and joint ventures in collaboration with international partners, diversify operations into established former markets and develop new markets offshore. This aspect of its new vision was based on the distribution of the existing product base. The second aspect of Sasol's business strategy was to use its ground-breaking Slurry Phase Distillate (SPD) technology) (Chemical Marketing Reporter, 1996: 9) to manufacture new-generation diesel from gas. This unique Sasol gasification process was the most efficient in the world (Van Dyk, Keyser, Coetzer, 2004: 3–4). From May 1993, Sasol plants in South Africa produced 3,2 million m^3/synthetic gas per hour in 9 gassifiers (Van Dyk, Keyser, Coertzen, 2004:5). The significance of this gassification process was that Sasol produced the world's purest diesel – a major environmental advantage over conventional diesel products (Rahmim, 2003: 9; Sasol Annual Report, 2000: 56–57). This was a major competitive advantage to Sasol internationally.

In May 1996 Sasol announced that it would advance its SPD technology internationally (Chemical Marketing Reporter, 1996: 10). 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).

The worldwide search for new fuels to minimise waste and pollution (Chemical marketing report, 1996: 9) made the GTL technology attractive but it needed sufficient stocks of natural gas. New unexplored natural or "stranded" gas deposits were located outside the developed world (Taylor, 2007: 51–53; *Economist*, 20/04/06). The leading Sasol technology was internationally acknowledged and offered a unique advantage, since it converted methane gas to synthetic gas. Methane gas is one of six gases targeted under the Kyoto Protocol (Taylor, 2007: 35; Wilhelm, Simbeck, Karp, Dickenson, 2001: 145–146). The main problem in the application of this innovation lay in the high cost. Fleisch et al. argued that the cost of the chemical conversion process was high, and therefore inhibitive for its development as a serious alternative to oil (Fleisch et al., 2002: 3–8), but the Sasol SPD reactor has been widely acclaimed for improving the economics for producing Fischer-Tropsch diesel fuel (Norton et al., 1998: 4–5). Sasol partnered with the Danish Haldor Tropsøse company (Wilhelm et al., 2001: 145; Fleisch et al. 2002: 6–8) and with cash-rich Chevron Texaco to perform the process commercially (Engineering News Round, 242 (24); 22; Pump Industry Analyst July

1999: 2; Oil and Gas Journal, 98(51): 46). Sasol Chevron (incorporated in London), a joint venture and exclusive vehicle for the application of the Sasol SPD technology, then pioneered commercially efficient applications of GTL technology on a global scale.

The first application was the Oryx GTL plant in Ras Laffran in Qatar. A joint venture was signed with Qatar General Petroleum Corporation and Phillips Petroleum of the USA for the construction of a new-generation plant (Sasol Annual Report, 2000:47; Sasol Press Release: http://www.sasol.com, 16/04/02). The GTL Oryx plant went into production in 2007 (Sasol Annual report, 2009:2; Economist, 6/01/05). The next initiative was the construction of the 34 000 bpd GTL plant at Escavros River in Nigeria using the same technology applied in Qatar. Sasol also entered into an agreement with the government in Mozambique to transport natural gas by means of a 865-kilometre pipeline from Mozambique to Secunda (at the Sasol 2 and Sasol 3 plants in Mpumalanga) to use gas as primary feedstock in the production of synthetic fuel. The Sasol Mozambique Natural Gas Project saw the construction of a central processing facility at Temane in Mozambique. Natural gas has been imported from Mozambique since 26 March 2004 (DME, 2005: vii; Sasol Annual Report, 2004: 36; 2002: 43). Sasol also took its global pioneering coal-to-liquid (CTL) technology to China and India, where CTL plants are planned for future use of coal deposits (Sasol Annual report, 2009: 51).

7 Chemicals international

Sasol used the increased capacity at Sasol 2 and Sasol 3 to diversify into sophisticated chemicals production to develop a niche area as a platform for international expansion (Verhoef, 2003: 193). Sasol diversified its downstream chemical production by establishing a separate chemicals division, Sasol Chemicals. Sasol Chemicals' contribution to the total operating profit increased from 20% in 1991 to 31,2% in 1995 (Sasol Annual Report; 1992: iv; 1996: 9). The breakthrough came in 1995 when SCI acquired Schümann Waxes in Hamburg, Germany, to form Schümann Sasol AG. By 1998 this company controlled 10 percent of the world waxes market. The second strategic acquisition was in 1997: Sasol acquired DHB Holdings Inc of Rosemount, Minnesota, with its wholly owned subsidiary Continental Nitrogen and Resources Corporation (CNR). Sasol then developed new explosives for DHB, the so-called EXPAN products, which improved safety in mines by virtually eliminating air-pollution fumes during blasts (*Mining Weekly*, 1997: 13).

SCI's acquisition in 2000 of Condea transformed SCI from a South African-based chemicals group into a global player in the chemicals industry. Condea was the largest global producer of raw materials and intermediaries for the detergent industry and had seventeen production facilities in the USA, Netherlands, Germany and Italy. The acquisition of Condea increased the Sasol Group's non-African revenue from 21 percent in 2000 to 47 percent in 2001. The new entity was Sasol Wax GmbH. Sasol wax offered the synergies needed for increased production and distribution of chemical products to the East Asian markets which SCI had developed since the late 1990s. Dedicated sales and marketing offices were opened in Dubai to grow Sasol's solvents business in the Middle East (Sasol Review, 2001: 33; Gulf News, 30/5/99). Sasol Polymers entered into three joint ventures with Asian companies in Malaysia and China to increase the production of polymers. These joint ventures were highly successful and by 2008 supplied an outlet to new products flowing from South Africa into the growing Chinese market. In November 2007 an ethane cracker was established as a joint venture with the Iranian National Petroleum Company to supply new polymers and ultimately to export them to the rest of the world. By 2009 the SCI cluster contributed more than 40 percent to the Sasol Group's total turnover (Sasol Review, 2009: 57–71).

The efficiency and profitability of Sasol improved since active internationalisation. Table 3 shows the strong performance in profitability ratios since 2000. The severe downturn in international business in 2008/2009 is reflected in the profitability of Sasol in 2009, as shown in Table 3. Two important observations are reflected: the global downturn impacted negatively on Sasol's operations and profitability as a global player in 2009. The profitability of Sasol improved markedly since

2000, when internationalisation gained momentum. ROE increased from 24,2% to 32,7% before it slumped in 2009 to 17%. ROA (net) rose from 38,1% in 2000 to 42,6% 2008 before the slump down to 35,8 percent in 2009. Sasol succeeded in maintaining a fairly stable operating margin between 2000 and 2008 – around 24,4 and 26 percent (excluding 2009). The extensive international operations contributed to safeguarding the Group's operations.

As the leading South African-based TNC in the top 100 non-financial companies of the developing world, Sasol realised that global competitiveness in technology, productivity and entrepreneurial drive were the keys to sustained performance. After privatisation R&D drove technological development and diversification to strengthen the platform for global expansion. In 2006 Sasol listed on the New York Stock Exchange to access USA capital markets. Sasol did not relinquish its primary listing on the JSE, but acted "like a multinational enterprise and transfer(ed) its technology and services abroad with its investment" (Wilkins, 1974: 166–167). As a true national champion, Sasol utilised the country-specific advantages of state ownership, protection, capable management and access to sufficient natural resources to establish itself and grow domestic competitive advantage. State regulatory protection was removed after 1994, but Sasol had established itself as a private enterprise long before that and expanded operations globally through the transfer of its unique internationally leading technology.

8 Internationalisation of successful big business from South Africa

A strong, well capitalised and concentrated mining industry, well connected to the European metropole, formed the demand for industrial goods. The industrial sector thus developed in close connection to the mining industry and the European metropole. After the formation of the Union in 1910, strong domestic nationalism and demands for sovereignty, "South Africa first" policies stimulated protectionist industrial and agricultural policies, which favoured the development of local industries. Protectionism, tariffs and state intervention through the state-owned industrial and utilities sector mutually dependent on the foreign exchange earnings of the mining sector, characterised the South African economy. This sectoral subsidisation of the industrial sector in South Africa is not unique to this country. It was not the case in resource-scarce South East Asian countries, but definitely happened in Australia. The co-existence of the mining and industrial sectors in South Africa led to concentration of business, which was exacerbated from the 1960s when international political pressures mounted. The highly concentrated domestic business sector encouraged the development of managerial capacities conducive to big business operations in developed markets. Isolation suppressed competition, but it did not in South Africa lead to stagnation and backwardness. International sanctions intensified from the 1980s. The South African state intervened further by means of exchange controls to protect the economy. This behaviour Jones describes as "Government as Home", where the strategic importance of an economy serves as justification for state intervention and protection (Jones, 2005: 218–221). The political and institutional environment favoured the development of domestic conglomerates. The inward-looking economic policies encouraged economic development in the home economy that would later serve as a precondition for domestic firms to compete abroad (Dunning, 1981).

The isolation of South Africa, although never comprehensive or completely paralysing, offered business the opportunity to take advantage of the Rugman FSAs such as ownership of the core industries, CSAs such as natural resources (minerals, land, labour, relatively favourable climate) entrepreneurship and long-standing exposure to the global market to establish itself. International sanctions impacted negatively on domestic production efficiency, technological development and international competitiveness, but business gained by investing in manufacturing facilities, marketing systems and modern management, which ensured ultimate success after the end of "isolation" (Dosi, Nelson and Winter, 2000). Advanced managerial capacity was developed in big SOEs and big business a result of "incubated concentration" in the economy and sustained international links. This served as a CSA which developed FSAs in all the conglomerates discussed. Although inhibited from global expansion through domestic regulation, South African businesses developed important ownership advantages or FSAs in the form of entrepreneurship, production innovation (Sappi, SAB Miller, Sasol) and R&D capacities, market knowledge of and historic links to developed markets and advanced managerial skills. This contradicts the conventional view of developing country firms expanding primarily into "low and medium research-intensive industries" (Barnard, 2008: 52; Dick & Merrett, 2007: 5–6). The nature of globalisation and target markets of South African MNCs correspond with the globalisation trends of OECD and other developed economies' MNCs (Goldstein, 2009: 141).

The opening up of South African markets after 1990 gave South African business the opportunity to capitalise on the international market participation of mining and financial industries since the nineteenth century. Only the manufacturing sector was a latecomer to international participation. Sappi, SABMiller and Sasol needed global expansion and access to capital and markets to develop production efficiencies in the competitive advantages of their businesses. These companies then developed "alliance" capitalism and networks as described by Dunning in his adaptation of the OLI-model, to develop manufacturing capabilities and innovative modern management structures based on FSAs for globalisation when markets opened. The excess capacity built up during isolation and sanctions, created a strong need for supply opportunities in international markets. This development signified the dynamic approach to the OLI model: internationalisation became strategy for firms to strengthen themselves by accumulating resources formerly inaccessible to them, such as markets, capital, technology and more favourable labour markets. Strong management was cultivated in trying domestic contexts, such as discriminatory government policies, cultural and racial diversity and social unrest and violence. Management acquired experience in dealing with political risk by developing a foreign presence. The exceptional ability of management to transform critical domestic conditions into positive firm performance was rapidly recognised internationally (Klein & Wöcke, 2007: 332). The good management of South African firms facilitated the establishment of more and closer linkages, leveraging of resources and technology as well as learning frameworks (the new *LLL* model), exactly what Sapppi, SABMIller and Sasol had done to globalise operations. Firms observed the global economy in the words of Amighi as a set of resources available to assist in the process of becoming integrated in international economic activities (Amighi et al., 2009:6)

The opening up of the South African market after 1990 also posed a serious threat of inward competition by foreign business, but the companies discussed in this paper relied on their ownership advantages to develop themselves into leading global players, primarily into high-income developed markets. The concentration of South African business, the protectionism of the past and isolation nurtured the development of core skills and knowledge, thus providing the initial advantage for international expansion. These advantages could not sustain that expansion indefinitely, but the capacity to adapt to global markets and new demands (the dynamism of the *LLL* model) ensured sustained international success and further expansion. Innovative technologies or proprietary production processes were the prime drivers in both Sappi and Sasol. The strategies were similar: M&As in their narrowly defined industrial sectors, starting with small take-overs and followed by more substantial transactions.

Two factors were most important in the internationalisation decisions of South African conglomerates: access to capital for expansion and minimisation of risk. Witt and Lewin described this as "misalignment between firms' needs and home country institutional environments in spurring outward foreign direct investment (OFDI)" (Witt & Lewin, 2007). Dual listings on international bourses emerged as a strategy for South African conglomerates to achieve both. The established international networks of South African managers and business assisted globalisation. The existing alliances with business in developed countries, as well as the subsequent listings, facilitated internationalisation and minimised risk. The Black Economic Empowerment policies of the current regime constitute a serious infringement of market forces and place a burden on local business. The successes with the foreign listing strategies were embedded in existing competitive advantages, such as technology (Sappi and Sasol), managerial expertise (Sappi, SABMiller, AAC, Sasol) and marketing capacity (Sasol, SABMiller). These characteristics compare favourably with those of developed country MNCs since the 1970s.

It is ideological populism to ascribe the success of South African conglomerates in post-1990 global markets to discrimination, the dualistic nature of the economy and the privileged position of the mining industry (Goldstein and Pritchard, 2009). The history of these firms show that an entrepreneurial spirit and good business leadership manifested in the successful management of enterprises capable of dealing with market imperfections. Not all South African enterprises that engaged in international operations were successful. The SOEs, such as Transnet and Escom, and some SMMEs only expanded their business activities into neighbouring countries or SADC members (Gelb, 2007: 202–203). Conglomerates were successful in developing a critical mass in the protected isolated domestic market, which developed management capabilities, innovative technologies and distributive capacities capable of entering global markets the moment political restrictions were removed. Home market protection developed domestic "monopolies" that expanded into markets with similar levels of development and demand characteristics. Networks based on history, language, culture and family ties contributed to the familiarity and accessibility of those markets. No single homogeneous internationalisation strategy emerged for all successful South African conglomerates, but the common denominator was excellent entrepreneurial and management capacity. The most important aspects of South Africa's historical entrepreneurship culture that enabled the successful internationalisation of diversified conglomerates can be identified as visionary idealism of individual managers; the ability to combine the specific competitive advantages of specific firms in foreign markets; the ability to assess risk in foreign markets; the ability to adapt strategies to deal with cultural diversity, racial differences and class stratification in consumer demand; the ability to assess the nature of the market correctly; the ability to find synergies with foreign businesses; the ability to capitalise on technological advantages developed under protection for new applications; the ability to instil confidence in investors to attract capital and the ability to manage a diverse labour force effectively. OFDI from domestic EMNCs enhanced their efficiencies and competitiveness, which stimulated further operational globalisation. Sasol is the local "champion". The Sasol Group of companies operates in some 30 countries on all continents, but maintained its primary listing on the JSE. The next decade of business globalisation outward from the South African market will depend on whether domestic economic policies accommodate the openness of global business or contain them by the ideological bias of the current regime as had been the case under the pre-1990 political dispensation.

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Table 1: South Africa Outward Foreign Direct Investment , 1990–2008 (Rm)

	Direct Investment By public corporations – Equity capital	Direct Investment by banking sector – equity capital	Direct Investment by Private non-bank sector- Equity capital	Total direct equity Investment (1)	1 as % of GDP
1990	0	299	36,912	38,463	3,53
1991	0	175	5,574	44,171	4,11
1992	0	196	7,348	54,329	5,16
1993	0	206	8,630	61,020	5,72
1994	0	285	12,911	67,698	6,15
1995	0	473	18,746	84,991	7,49
1996	0	1,039	25,809	114,013	9,63
1997	23	1,349	33,539	113,170	9,31
1998	302	4,946	38,233	157,385	12,88
1999	714	6,683	48,419	203,036	16,24
2000	870	8,636	61,754	244,653	18,79
2001	50	3,588	65,917	213,184	15,94
2002	75	2,364	55,331	189,911	13,69
2003	81	2,605	58,909	180,507	12,64
2004	78	1,972	75,773	220,036	14,74
2005	108	745	82,756	238,490	15,17
2006	141	651	121,907	354,254	21,35
2007	187	267	140,839	448,629	25,63
2008	202	127	116,314	463,143	25,52

Source: South African Reserve Bank, Time Series dataset.

Table 2. R&D Cost,1994-2009: percentage of overall expenditure (Rm)

Year	R&D	Capex spent	Cash to suppliers & employees	Total spent	%
2009	1,325	15,672	96,776	112,448	**1.2%**
2008	818	10,855	88,712	99,567	**0.8%**
2007	745	12,845	68,907	81,752	**0.9%**
2006	309	13,296	55,694	68,990	**0.4%**
2005	188	12,616	49,080	61,696	**0.3%**
2004	358	11,418	44,801	56,219	**0.6%**
2003	461	10,968	48,699	59,667	**0.8%**
2002	350	8,742	40,592	49,334	**0.7%**
2001	380	4,095	25,294	29,389	**1.3%**
2000	230	2,171	17,124	19,295	**1.2%**
1999	147	2,348	14,438	16,786	**0.9%**
1998	150	2,927	12,146	15,073	**1.0%**
1997	108	2,617	11,229	13,846	**0.8%**
1996	91	1,998	9,185	11,183	**0.8%**
1995	66	1,480	8,052	9,532	**0.7%**
1994	54	1,272	6,655	7,927	**0.7%**
	5,780	**115,320**	**597,384**	**712,704**	

Source: Sasol Annual Reports, 1994-2009.

Table 3: Sasol Profitability, 2000–2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Return on Shareholder's equity*	24,2	34,5	35,6	23,7	16,9	24,0	21,6	29,8	32,5	17,0
Return on total assets**	24,1	26,6	25,5	17,77	13,3	18,2	18,5	24,2	26,9	18,7
Return on net assets***	38,1	52,6	54,5	36,7	27,4	37,1	36,5	46,2	48,9	32,4
Operating margin****	24,4	25,9	24,6	18,2	15,2	20,8	20,9	26,1	26,0	17,9

Source: Sasol Annual Financial Statements, 2009:31.

* Attributable earnings ÷ average shareholders' equity
** Net profit before finance expenses and taxation ÷ Average non-current assets ÷ average current assets
*** Net profit before finance expenses and taxation ÷ Average total assets – average total liabilities.
**** Operating profit ÷ turnover

Figure 1