AN EVALUATION OF THE ROLE AND CONDUCT OF MULTINATIONAL CORPORATIONS (MNCS) IN SUB-SAHARAN AFRICA

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Abstract

“Africa’s not for sissies” is what one often hears when discussing business conditions in sub-Saharan Africa (SSA). However, the good news is that the new millennium increasingly exhibits significant trends in support of the notion that a reversal of SSA’s fortunes is underway: annual GDP growth in the region is well ahead of the global average, civil wars in the region have largely come to an end and, for two years running, private equity investment flows into the region have surpassed that of foreign aid, Africa’s traditional ‘crutch’. Importantly, a small band of early-mover Multinational Corporations (MNCs) are making their presence felt in the region and beginning to make good profits. These firms include the likes of Diageo, The Coca-Cola Company, MTN and SABMiller.

The purpose of this article is to research the nature and the changing face of the MNC, impact on globalization and Foreign Direct Investment (FDI), and some MNC strategies to enter foreign markets.

Keywords: Multinational Corporation, Globalisation, Foreign Direct Investment, Multinational Corporation Strategies

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1 INTRODUCTION

This article is devoted to understanding the factors surrounding the emergence of the Multinational Corporation (MNC) to the position of prominence that it enjoys in today’s global economy. The article consists of the following sections:

- an introduction to the rationale for the emergence of the MNC and its characteristics
- the globalization process as driving force for the growth in MNCs
- the role of the MNC as efficient provider of foreign direct investment (FDI)
- a review of strategic options available to MNCs.

2 THE MULTINATIONAL CORPORATION (MNC)

This section defines the unique characteristics of, as well as rationale for the existence of the MNC that sets it apart from other enterprises. The section then goes on to explore the changing face of the modern MNC, including a discussion of the international institutions that regulate the environment in which today’s MNCs operate.

2.1. Defining the MNC

Multinational corporations (MNCs) are also referred to as multinational enterprises (MNEs), multinational firms, multinational companies and transnational corporations in business literature. For sake of consistency, this study only refers to these firms as MNCs, whereas the literature reviewed also includes the use of these synonyms.

As the name above implies, MNCs conduct business and earn income across a number of foreign countries. Hill (2007: 21) defines a MNC “as any business that has productive activities in two or more countries”. Although Hill’s views are generally regarded as being authoritative when it comes to international business, this definition has been rejected for purposes of this study as being too broad to be useful (for instance, any South African firm who had made two small investments in neighbouring Lesotho and Swaziland would qualify as a MNC according to this definition).

The Daniels et al definition is more conceptual in nature and has also been rejected as not being definitive enough for purposes of this study: “A MNE takes a worldwide view of markets and production; in other words, it’s willing to consider

market and production locations anywhere in the world" (Daniels et al,2011).

At the turn of the century, a more complete definition was provided by Root (1994) who described a MNC as a parent company that (1) engages in foreign production through its affiliates located in several countries, (2) exercises direct control over the policies of its affiliates, and (3) implements business strategies in production, marketing, finance and staffing that transcend national boundaries.

A corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they co-ordinate global management. Very large multinationals have budgets that exceed those of many small countries. Sometimes referred to as a "transnational corporation".(see www.investopedia.com)

A more recent and comprehensive definition states that: "a multinational firm or MNE is an enterprise that engages in foreign direct investment and owns and controls value-adding activities in more than one country. It typically has multiple facilities across the globe, derives a substantial portion of revenues from foreign operations, manages subsidiaries with a common strategic vision and resource pool and often places foreign nationals or expatriates in key management posts." (Erwee,2007: 176). This definition has been chosen as being most complete for purposes of this study.

2.2. The rationale for 'going global'

Although success can by no means be guaranteed (indeed, it may be *risky business* for a domestic firm to expand beyond the confines of its familiar home market), Hill (2005: 416) states that expanding globally allows firms the opportunity to *increase their profitability* in ways not available to purely domestic enterprises. Firms that take the plunge into international markets are able to:

1) realize location economies by spreading value creation activities to those locations across the globe where they can be performed most effectively

2) realize greater economies of scale by serving an expanded global market from a central location

3) earn a greater return from the firm's core competencies by rolling out these skills to new markets and

4) leverage any valuable skills developed in foreign operations by transferring them to other entities within the firm's global network.

A firm's ability to realise increased profits by going global is, however, not as simple as merely rolling out a winning business formula and/or its brands to all the corners of the world. Consumer preferences, legal requirements and infrastructural realities differ from country to country, requiring MNCs to make the necessary adjustments to meet these local requirements, without which success will remain elusive. This requirement to incorporate *the impact of local differences* into its business model, compounded by the paucity of local business skills, is especially challenging for MNCs operating in SSA, thereby reducing the opportunities identified by Hill above to one only, which is the MNC's ability to profit from the leveraging of its *core competencies* in the markets of SSA.

In fact, the process of transferring core competencies amongst an MNC's affiliates is difficult in itself. Harvey (2006: 422) mentions the following as being the main challenges faced in this regard: culture, language, attitude, developing a 'common language', the 'not invented here' syndrome, time zones and resistance to change.

According to Deresky (as cited in Hough, 2007), firms consider international expansion for reactive and proactive reasons. The former includes trends such as the globalization of competition and the saturation of domestic markets, while the latter is aligned with the growth imperative of firms in mature markets, compelling them to continually look for new opportunities on the global stage.

The US retailer, Wal-Mart, serves as a successful example of a firm that expanded internationally because:

- its growth opportunities at home were becoming constrained;
- it thought it could create value by transferring its value proposition to foreign markets;
- it wished to pre-empt other retailers who were also starting to expand globally.

Despite some early to-be-expected setbacks in the 1990s, Wal-Mart achieved the growth it was searching for. By 2004 it had established 1 500 stores outside the US, generating revenues in excess of US$ 50 billion. In addition, by expanding internationally, Wal-Mart was able to reap significant economies of scale from its expanded global buying power, as well as benefitting from the flow of ideas from the new international markets in which it now competes (Hill,2007: 407 – 408).

The SABMiller story serves as example of a successful South African firm which went in search of profit growth on the international stage by leveraging its core competencies. Up to the end of apartheid in 1994, the then SAB was precluded from investing overseas due to political pressures and was forced to look for growth within the borders of South Africa, which it did by diversifying away from its core beverage business into retail, hotels, furniture manufacture and the like. This strategy did not have the desired results because of management's inability to come to grips with these non-core assets (for instance, SAB

eventually sold its supermarket chain, the OK Bazaars, to Shoprite for one Rand – the latter has subsequently successfully turned OK Bazaars around, while maintaining many of the original OK store locations to this day.)

Once it was politically acceptable for SAB to enter the global stage (following the birth of a democratic South Africa), the firm sold off the bulk of its non-core South African assets, preferring to purchase brewing assets internationally, including in SSA. SAB's core competencies as low cost beer manufacturer, coupled to a robust set of systems and processes that had been proven in South Africa with its unique mix of first and third world characteristics, stood the firm in good stead internationally. It became SABMiller after purchasing the number two brewer in the US and has today become the world's second largest brewer, recognised for its management excellence.

2.3. The changing face of MNCs

According to The World Investment Report,2004 (as cited in Hill,2007), global business activity was dominated by MNCs originating from the USA in the three decades after World War Two. In 1973 almost half of the world's largest MNCs were US firms. By 2000, the US share of the top 100 MNCs had dropped to 24%, with Japanese firms taking up the slack, reaching a share of 16%, with Britain weighing in at 14%. In 2002, only three firms from developing countries made it onto the top 100 list.

However, Van Hoesel (as cited in Daniels & Radebaugh,1995) confirms that as far back as the 1990s considerable FDI growth was beginning to be contributed by MNCs from the newly industrialized countries, while Chetty (as cited in Hill,2007) observes a further trend in favour of developing country participation in the internationalisation of business, being the explosive growth of mini-multinationals, many of whom originate from these countries. This trend of greater outward investment by *MNCs originating from developing nations* is expected to accelerate, thus further shifting the axis of the world economy away from North America and Western Europe and threatening the long dominance of Western Companies (Hill,2005: 20).South African firms, too, have started to spread their wings on the global stage, notably Anglo-American, BHP Billiton, SABMiller and MTN.

Daniels and Radebaugh (1995: 307 – 308) further observed that trends in the distribution of FDI by MNCs generally conform to long-term economic changes in both home and host countries, explaining why MNC investments in manufacturing grew steadily from the 1920s to the early 1970s. Thereafter the trend swung to investing in the services sector (banking and finance), as well as technology-intensive (hi-tech) manufacturing. By 1990, as much as 50% of the world stock of FDI was accounted for by services. They further predicted (correctly, as it turns out)that in future *resource-seeking investments* might grow more rapidly than market-seeking investments as international trade barriers continue to fall and MNCs become more experienced in manufacturing abroad.

This trend has been boosted by sharply increased demand for the world's raw materials due to the tremendous levels of economic growth achieved by China and India, and is borne out by the recent spate of massive mergers and acquisitions in the resources sector by the likes of Mittal, Rio Tinto, BHP Billiton and others.

2.4. The emergence of International Institutions

According to the United Nations Conference on Trade and Development (UNCTAD) (as cited in Fredriksson,2003), MNCs accounted for two-thirds of world trade and employed 53 million people across the world in 2003. Daniels &Radebaugh (1995: 424) further illustrated the sheer size of MNCs in the 1990s by observing that the sales turnover of MNCs such as General Motors, Exxon and Mitsubishi exceed the GNP of many medium-sized economies, including Argentina, Indonesia, South Africa and Poland.

Data generated by the World Trade Organisation (WTO) (as cited in Hill,2007) shows that the volume of world merchandise trade has outstripped that of world economic growth between 1970 and 2004 to the tune of 26 times versus 7,5 times.

Due to the sheer size of the above phenomena, it's clear to see why international institutions have emerged to help manage the global business system. De Lange (2007: 19) singles out 'the Bretton Woods Trinity' as the three main institutions that govern globalisation:

- The International Monetary Fund (IMF), whose task it is to maintain order in the international monetary system.
- The World Bank, established in order to promote economic development.
- The World Trade Organisation (WTO), whose responsibility it is to police the world trading system, essentially by freeing it up.

MNCs operating in SSA would do well to acknowledge the substantial, if somewhat controversial, role played by the Bretton Woods institutions in shaping national legislation and policies, including:

- taxation;
- duties and trade barriers;
- infrastructural finance;
- fiscal and monetary policy;

- privatisation.

Diageo sets the best example of opening up channels of communication with these institutions through regular visits to Washington aimed at presenting their view of the impact of potentially harmful policies, such as excessive taxation, on their operations throughout the world, including those in SSA.

In summary, the emergence of the MNC as a dominant force in the global economy has come about as an appropriate and *efficient reaction by business to the globalisation trend* that has swept the world, particularly post - World War Two. The establishment of the Bretton Woods institutions should be viewed as an enabling factor towards creating a more conducive environment for the growth of MNCs.

3. GLOBALISATION: FUEL FOR THE GROWTH IN MULTINATIONAL CORPORATIONS (MNCs)

From the afore going, it is clear that the growth in importance of the MNC in the global economy is closely linked to the process of globalisation, a not uncontroversial phenomenon, details of which are discussed hereunder.

3.1 Defining globalization

Hill (2007: 4) describes the process of globalization as follows: "A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones and language; and by national differences in government regulation, culture and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over and national economies are merging into an interdependent, integrated global economic system. The process by which this is occurring is commonly referred to as globalization."

MNCs have emerged as the private sector's response to the opportunities inherent in the process of globalization. In doing so, MNCs have contributed to the process gathering momentum, to the extent that even the furthest flung corners of the world, including SSA, are being integrated into the global economy.

3.2. Empire building

Contrary to popular belief, globalisation is not a new phenomenon. It is a fact that governments and companies have busied themselves in economic activities that stretched beyond their home boundaries for many centuries, mostly to access raw materials in order to fuel growth in their home countries. A fact supported by Ellwood (cited in de Lange,2007) who asserts that the integration of the global economy began in earnest with the launch of European colonialism around five centuries ago.

The emergence of the likes of 'The British Empire' and 'The Dutch East Indies Company' are both early examples of multinational organisations at work in order to unlock new growth opportunities for their respective constituents.

From the outset, these multinational organisations *left a controversial mark on history*:

On the one hand, making hugely positive contributions towards progressing the lot of mankind through, amongst others, the discovery of new types and sources of raw materials, products, trade routes and manufacturing methods. In short, laying the foundation for wealth creation and improved living standards, albeit mainly in their home countries.

On the other hand, however, history also tells a sorry tale of land grabbing, greed, exploitation of host countries and their citizens, as well as numerous wars fought in the name of securing sources of wealth. An example, close to home, is that of the Anglo – Boer wars which were really fought because of the British desire to own South Africa's gold and diamond fields.

MNCs operating in SSA, in particular, would do well to *heed the lessons of the sub-continent's colonial past*, bearing in mind that all of the region's countries, other than Ethiopia, were colonised by a European country in the not-too-distant past. MNCs should be sensitive to local perceptions that often equate foreign investment in a SSA country with the exploitation and repression of local people and their talents, as experienced in their previous brush with colonialism. The MNC should make every effort to be seen to be different from the erstwhile colonisers and should strive to be seen as a *force for good by local stakeholders*, through the way in which it acts, develops local citizens and shares in the benefits of its endeavours.

3.3. The post-World War Two era

Today's MNCs have flourished because of, and contributed to, the era of globalisation that followed the end of World War Two. Although unrecognisable as far as management methods are concerned when compared to the likes of 'The Dutch East Indies Company' or the manner in which Britain ruled her Empire, *the modern MNC shares in the controversial nature* of the benefits reaped by its forerunners such as unquestionable benefits for the largely developed home countries, while the case for the host countries often remains

unclear, especially where they happen to be of a less-developed nature.

Globalization has numerous facets, including globalized markets (the merging of separate national markets into one global marketplace) and the globalization of production, as well as the sourcing of goods and services from around the world in order to take advantage of cost and quality advantages in terms of labour, energy and capital. (Hill,2007: 5-8).

Because of its poor infrastructure and low skills levels, SSA has not to date interested MNCs in search of production globalization benefits, although it is true that the world's large extractive and mining MNCs are well-represented in the region due to its relative wealth in natural resources. As a rule, however, these MNCs do not invest in beneficiating assets in the region. However, SSA is starting to attract MNC attention in terms of the potential it holds on the market globalization front. With the help of global media and the Internet, a great number of international brands are making their presence felt in the region, including Ford, Toyota, BMW, Sony, Hitachi, IBM, Coca-Cola, Heineken, Marlboro, Colgate, Nokia and many others.

Stonehouse et al (as cited in de Lange,2007) identified the following factors as being the main drivers of globalisation:

- Political forces, including reduced trade barriers, the recognition of intellectual property rights, privatisation, regional co-operation and the establishment of trading blocs with common technical standards.
- Economic forces, including increased world trade, rising income levels, efficient financial markets, growing free market forces, increasing competition and reducing government intervention.
- Social forces, including growing consumerism, increasing affluence, converging consumer tastes and improving lifestyles, education and skills.
- Technological forces, including the continued industrialisation of nations, improved transportation networks and the influence of the information and telecommunications revolution.

The drivers of globalisation listed by Daniels et al (2011) are similar:

- Expanded technology.
- The liberalization of cross-border trade and resource movements.
- Development of support services for international business.
- Increased pressure from consumers.
- Increased global competition.
- Changing politics.
- Improved cross-border co-operation.

Small wonder, therefore, that it is a derivative of the modern-day MNC, as opposed to a stand-alone in-country firm, that increasingly represents the most appropriate business model to profit from the opportunities and deal with the challenges presented by the current wave of globalisation. This fact is borne out by UNCTAD estimates that the number of transnational corporations of 14 OECD countries increased from some 7,000 in the late 1960's to 24,000 by 1990 and 64,000 at the turn of the century. According to UNCTAD, these firms controlled 870,000 foreign affiliates, accounted for two thirds of world trade and employed 53 million workers in 2003 (Fredrikson,2003: 8).

A cautionary note comes from Hill (2007: 16) who rightly warns against over-emphasizing the 'global village' phenomenon. A firm that ignores differences between countries does so at its peril – a message that Hill repeats throughout his writings. Even earlier on, Daniels and Radebaugh (1995: 25) had observed that when a company goes abroad, it faces conditions very different from those it encounters at home and may need to engage in national responsiveness, that is, make operating adjustments in order to achieve success in a particular country.

The *need for local responsiveness* applies equally to MNCs wishing to do business in SSA. In fact, as a result of differing histories, cultures and languages, countries within the region also display very significant differences from each other. Although most are poor, there is no such thing as a 'typical' African consumer.

3.4. Anti-globalization sentiment

Globalization has encountered some stiff opposition, as commented on by various international business writers, including Hill (2007: 25) who observes that globalization has its critics, despite the existence of a compelling body of theory and evidence that increased international trade and cross-border investment stimulate economic growth, create jobs and raise income levels.

As early as the 1970s, MNCs were perceived in many quarters to be huge economic powers, being beneficial in some cases, but necessary evils at best. Their actions in developing countries were often interpreted as a threat to the sovereignty of recipient economies which, if not controlled, could be detrimental to their welfare. The policy response was to seek ways for national and international bodies to monitor, restrict and regulate the activities of MNCs (Fredriksson,2003: 4).

Searching amongst the rhetoric of various anti-globalization voices such as Hood and Young, as well as Sweezy and Magdoff (as cited in Hill,2007), one is struck by *a deep underlying fear and suspicion of the growing dominance of 'big*

business', making it an easy target for populist radicals to blame as the cause of many of today's evils, including poverty, the exploitation of labour, pollution, unemployment and the like. Unfortunately, too, there have been a few high-profile cases of wrongdoing by MNCs (Nike's use of child labour, as example) that fuel these radical claims.

Hill (2007: 27 – 33) identifies the following 'ills' currently being laid by various interest groups at the door of globalization:

- The outsourcing of jobs from developed countries in favour of poorer paid jobs in developing countries.
- Manufacturing firms that move from well-regulated environments in advanced countries to less developed countries that lack the necessary controls to protect labour and the environment from exploitation.
- The shift in economic power away from national governments towards international organisations such as the United Nations, WTO and European Union.
- The widening gap between the rich and poor nations of the world.

The latter two arguments, in particular, enjoy a sympathetic audience amongst the governments of SSA.

The threat to national sovereignty is a further concern keenly felt by SSA governments and their citizenry, especially during the process of privatisation. Generally, governments have put state-owned assets up for sale only in those instances where the enterprise concerned had fallen into a desperate state of ill repair and bankruptcy.

Anup Shah's personal website for global issues contains an example of the outpouring from radicals that helps shape the largely undeserved poor press that MNCs enjoy amongst anti-globalisation forces: "Some options that corporations take to make profits can affect people all over the world. Sometimes fatally....As profits are naturally the most important goal, damaging results can arise, such as violation of human rights, lobbying for and participating in manipulated international agreements, environmental damage, child labour, driving to cheaper and cheaper labour, and so on" (Shah,2007).

Although many of the above charges made in the name of the anti-globalization lobby may be watered down or even discounted in the face of well-researched evidence and reason, the point is that MNCs should face up to the fact that *the capitalist system does not have a great track record ofself-discipline in its pursuit of profit-maximization and wealth creation*. Global issues such as food security, protection of the environment, sustainable resource development and poverty alleviation have to be addressed as an integral part of the system. The days of 'business as usual' are long gone. MNCs, in particular, need to clean up their act in this regard or else they'll invite others, such as developing world governments, NGOs, Green Peace and the like, to do so on their behalf. The profit motive has to remain at the centre of any firm's endeavours. However, in addition, MNCs need to develop a new set of tools towards system sustainability that are acceptable to an array of legitimate external stakeholders.

Behrman (2006: 440) summarises as follows: "Globalization will never be acceptable to any given country unless there is a sufficient community of interest to permit the making of trade-offs and compromises necessary to permit reform and change. This, in turn, is dependent on a harmonisation of value systems that include the extension of respect and dignity to others as well as a willingness to seek an equitable distribution of benefits and burdens."

It is clear that the debate that surrounds the impact of globalisation as force for good versus the negative views of its detractors is by no means over. Behrman's expression of *the need for MNCs and other key players to compromise and search for trade-offs in order to extend the positive outcomes of globalisation, especially to the world's poorer nations,* has relevance.

4. MULTINATIONAL CORPORATIONS AS PROVIDERS OF FOREIGN DIRECT INVESTMENT (FDI)

One of the primary functions provided by MNCs in the global economy is that of an efficient provider of FDI which, in turn, generates economic growth and its resultant benefits, also in the poor countries of the world. Because of the importance of this outcome, a closer analysis of the interplay between MNCs and FDI is required.

4.1. An introduction to FDI

FDI occurs when a firm invests directly in facilities to produce and/or market its products in a foreign country. When a firm undertakes FDI, it becomes a MNC (Hill,2010). According to Daniels et al (2009: 63) FDI occurs when an investor takes a *controlling interest* in a foreign company, else an overseas investment is known as a portfolio investment.

Vertical FDI occurs when a firm ventures abroad to secure either inputs (backward) for its domestic production processes or sells the outputs (forward) of its domestic production processes (Hill,2010).

This study is focussed on *horizontal FDI*, defined by Hill (2010) as when firms expand by investing in the same industry abroad as at home due to one or more of the following reasons:

- transportation costs;

- market imperfections, including impediments to exporting and the sale of know-how;
- strategic behaviour, where firms decide to compete in the global market place in order to find new sources of profitable growth;
- the product life cycle, which makes local production of a product in a foreign destination viable once export-led demand has grown sufficiently;
- location specific advantages, where the location of essential raw materials or specialist skills dictate.

The key enabling factor for horizontal FDI is the transfer of knowledge within the firm – knowledge transfer being the primary expression of growth of the firm (Kogut and Zander,1993: 639).

FDI occurs either through a greenfield investment (the establishment of a new operation in a foreign country), or by acquiring or merging with an existing firm in the foreign country. Firms generally prefer the latter entry route as it is quicker to execute, acquired firms usually come with valuable strategic assets and because the acquirer believes that he can improve the efficiency of the acquired unit by transferring capital, technology and management skills (Hill,2007: 238).

4.2. FDI trends

The US accounted for two thirds of world-wide FDI in the 1960s. This dominance was such that it caused acute concern in Europe, including calls for limiting US-sourced FDI flows into countries such as France. From the 1970s onward, Japanese and European firms joined the bandwagon, shifting their production activities in order to lower labour costs, build a permanent presence in foreign markets and to hedge against both possible government intervention from host countries and potential unfavourable currency moves (Hill,2007: 19).

The World Investment Report of 2004 (as cited in Hill,2007) contains the following relevant facts:

- Between 1992 and 2004, cumulative FDI flows grew by 260% to US$8,1 trillion, well ahead of world trade which grew by 100% and world output growth of 32% over the same period.
- In 2003, the existence of at least 61 000 MNCs was recorded, operating more than 900 000 affiliates in foreign markets, employing 54 million people and generating value equal to 10% of global GDP. With global sales of $17,6 trillion, these MNC affiliates almost doubled the value of $9,2 trillion recorded for global exports.

The table below further highlights the extent of rapid growth in global FDI. Between the 1970's and the 7 years ended in 2006, average world annual FDI inflows grew from US$ 24 billion to $ 930 billion, having exceeded the $ trillion mark in 1999, 2000 and 2006 on the back of spikes in the level of cross-border mergers and acquisitions.

Table 1. FDI inflows in $ billion: SSA versus the World

FDI $bn	70's	80's	90's	2000	2001	2002	2003	2004	2005	2006	7yrs
SSA	0,9	1,3	4,6	6,2	14,5	9,6	13,3	11,4	16,1	12,2	11,9
World	24,4	93,9	403,8	1411,3	832,6	622,0	564,1	742,1	945,8	1305,9	930,5
SSA share	3,9%	1,4%	1,1%	0,4%	1,7%	1,6%	2,4%	1,5%	1,7%	0,9%	1,3%

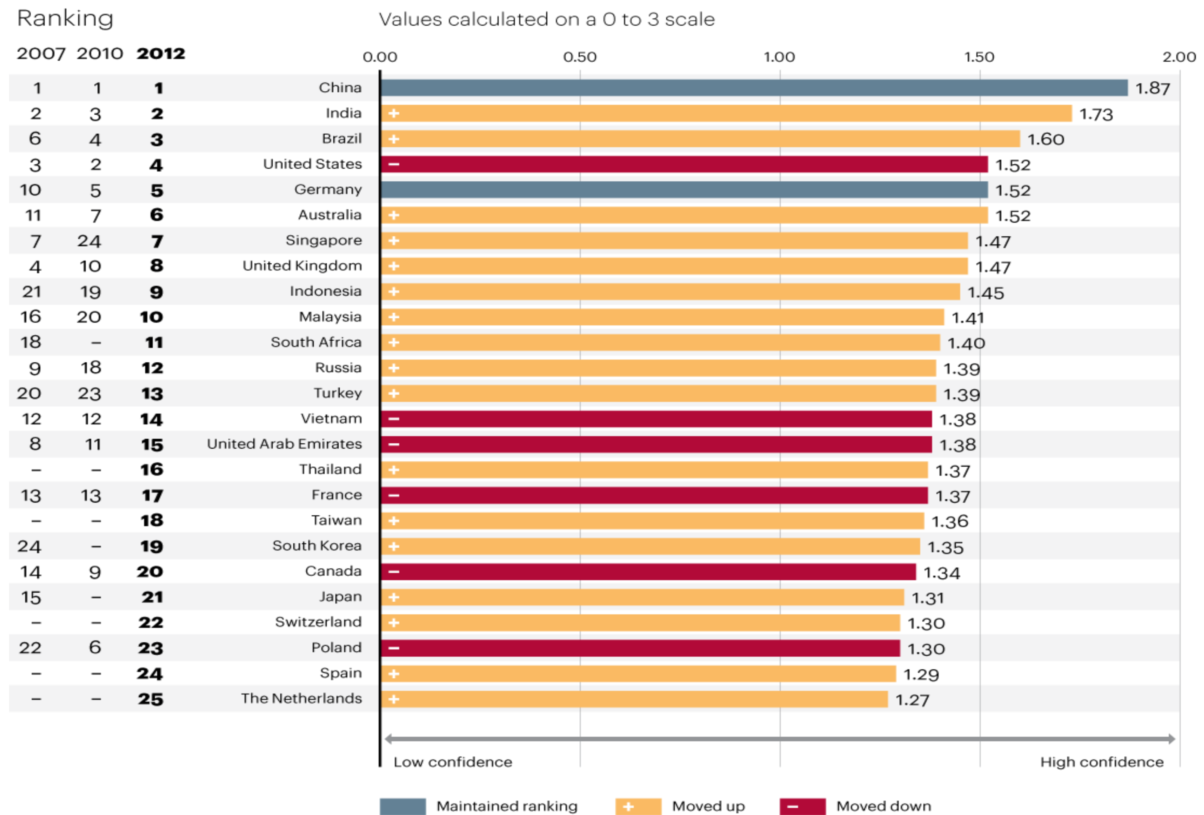
Source: UNCTAD, FDI/TNC database (UNCTAD World Investment Directory, volume X, Africa 2008).

It further confirms the view of SSA as an unattractive FDI destination, with a mere $12 billion per annum flowing into the region over the 7 years ending 2006, despite a sharp increase in investments in the extractive industries.

Luiz (2006:7) confirms that although both SSA and worldwide FDI inflows have risen dramatically since the 1980's, SSA's share has remained stagnant at a paltry 1%.Only the Democratic Republic of Congo, Namibia, Zambia and Botswana were listed among the top 70 out of 141 countries included in The United Nations Conference on Trade and Development (UNCTAD)'s Inward FDI Performance Index for 2004 – 2006 (UNCTAD,2007).

Consultants AT Kearny's list of top 25 economies in their FDI Confidence Index includes only South Africa from the African continent at number 18, despite a marked influx of developing economies onto the list (Kearny,2012).Figure 1 explains this in more detail.

Figure 1. 2012 FDI Confidence Index



It is an unfortunate fact that SSA, the economic region that forms the subject of this study, is the *world's least favourite investment destination,* the reasons for which will be dealt with when discussing the prevailing business environment in the region.

4.3. FDI costs and benefits to host countries

It is generally accepted that the benefits of FDI to home countries far outweigh the limited costs, be they in the form of capital outflow or outsourced jobs. However, the impact of FDI on host countries is often a controversial subject, hence the need to objectively evaluate the pros and cons:

Daniels et al (2011) confirm that an inflow of investment by MNCs can bring both gains and losses to the host country. The host country undoubtedly gains through the *transfer of CapitaLand technology.* Critics have claimed, inconclusively, that there are examples where the MNC uses its muscle to make investments that local companies could otherwise have undertaken, thereby displacing local entrepreneurs and entrepreneurial talent.

Hill (2010 identifies four main benefits to host countries:

- Through the supply of capital, technology and management resources that boost the local economy's growth rate.
- By bringing new jobs, both direct and indirectly through the multiplier effect.
- By positively impacting on the host country's balance-of-payments (BOP) via the initial investment capital inflow, by substituting imports and by generating new exports.
- By increasing competition in instances when a greenfield investment is made, thereby unlocking the resultant benefits of greater consumer choice, lower prices, etc.

SSA countries strongly desire the first three benefits above, whereas the desire for increased levels of competition is less of a priority because of the constrained nature of their markets which often results in only one local manufacturer per product category.

Fear of loss of independence and potential negative BOP impacts are what concerns many governments in SSA.

The concern over loss of independence is further exacerbated in countries whose economies are dominated by overseas investors from one particular country, as is the case in Mozambique which has been overrun by South African investors (Grobbelaar,2006: 55).

In fact, de Lange (2007: 30) mentions a number of arguments in favour of host country government intervention in the free flow of trade and investment, including the protection of selected industries from foreign competition. As example, the global brewing giant, SABMiller has, despite its best efforts over many years, been unsuccessful in its attempts to obtain a brewing licence in Namibia where government has acceded to the incumbent brewer's request for protection.

4.4. Host country views of FDI

Hill (2007: 264 – 266) summarizes the various ideological stances taken on the subject as follows:

- The radical view, which traces its roots back to Marxist policy and economic theory. MNCs are seen as an instrument of imperial domination, exploiting host countries to the exclusive benefit of their home countries. This view was widely held, also in Africa, until the collapse of communism in 1989 when it was abandoned in favour of the capitalist model.
- The free market view, which argues that international production facilities should be distributed among countries according to the theory of competitive advantage. Countries should specialise in producing those goods and services that they can produce most efficiently. The MNC becomes the instrument for ensuring overall efficiency of the world economy. Although it is true that the world tide is running in favour of the free market view, no country on earth embraces it fully. Even the US and British governments maintain their rights to intervene, for instance, should local companies become take-over targets for foreign MNCs.
- Pragmatic nationalism, an approach somewhere between the above two extremes, which acknowledges that incoming FDI has both benefits and costs, and designs policies that maximise the positive impact on the host country economy.

Many SSA countries nationalised MNC affiliates during their flirtation with socialism in the mid-1900s, but have subsequently changed their views as a result of the dismal performance of their economies while under government command, contrasted by the strong performance of the Asian Tigers, as example, who had gone the free-enterprise route instead.

A comparison of the economic fortunes of Ghana and South Korea by Hill (2005:306) vividly illustrates the case in point:

In 1970, Ghana's GNP per capita was US$ 250, while that of South Korea amounted to $ 260.

By 1998,Ghana continued to struggle at a lowly $ 390 per capita, whereas South Korea had shot up to $8 600,in the process, becoming the world's 12th largest economy.

Virtually all SSA countries today find themselves in the *'pragmatic nationalism'* camp, determined not to fall back into the socialist trap and going out of their way to attract FDI. However, they are also implementing laws and regulations that are clearly aimed at advancing the national interest. The fear of foreign domination by SSA countries possessed with a colonial past is a fact that remains to this day – one that MNCs operating in the region would do well to bear in mind.

5. MULTINATIONAL CORPORATION STRATEGIES

Multinational Corporations (MNCs)come in various guises. It is therefore useful to discuss various strategies employed in response to the extremely complex challenge of operating in a multitude of countries across the globe.

5.1. Strategic options

According to Bartlett and Ghoshal (cited in Hill,2005),MNCs generally follow one of the following strategies:

- Multidomestic, where the MNC focuses on the need for local responsiveness and decision-making through an extremely decentralised organisational structure. This is an attractive option from an organisation perspective because of its simplicity. The need for co-ordination is low, so headquarters only have to intervene on a by exception basis. However, these firms cannot profit from the transfer of core competencies or the realization of location and experience curve economies.
- International, where the MNC creates value by transferring its core competencies (typically R&D and/or marketing) to foreign affiliates by retaining centralised control over the source of these competencies, while decentralising all other operating decisions to affiliates. The need for co-ordination is limited to the transfer of core competencies and the level of complexity is low.
- Global, where the MNC leverages location and experience curve economies of scale through a world-wide product division structure, while headquarters co-ordinates diverse activities

around the world through ultimate control over most operating decisions. The need for integration is high and is best served by a centralised organisation that is quite complex in its nature.

- Transnational, where the MNC endeavours to capture the unique advantages of all of the above, including local responsiveness, global learning and the attainment of location and experience curve economies through matrix-type structures. This requires a complex organisation, capable of mixing high degrees of centralization for some decisions with high degrees of decentralization for others. A strong corporate culture is a requisite for these firms to prosper, given the existence of considerable performance ambiguities.

5.2. Choosing the right international strategy and organizational architecture

With regard to strategy, Hill (2007: 422 – 426) states that MNCs face two counter-pressures. On the one hand, he cites Prahalad and Doz in singling out *the pressures for cost reduction*, which is increasing because of increased international competition resulting from the liberalization of the world trade and investment environment in recent decades. On the other hand, *pressures for local responsiveness* arise from national differences in consumer preferences, infrastructural development, accepted business practices, distribution channels and host country demands.

Hill (2007: 441) further cites Naidler et al in describing organizational structure as being the totality of a firm's organization, including the organizational structure, control systems, incentives, culture, processes and people.

The art in choosing the strategy and organisation that will best suit a particular MNC lies in its ability to strike a balance between the need to lower the cost of value creation on the one hand (generally best served by standardisation of processes and products, the establishment of best practice communities within the organisation and greater central control), and being able to differentiate its product and service offerings to best meet consumer needs within a local context on the other (an objective best met through a decentralised business model that values having capable and autonomous in-country executives and lets them get on with it.)

"It is therefore important to note that industry characteristics, the type of product and related consumer needs will largely determine the type of pressure that a firm will have to contend with and hence the appropriate strategy to be adopted in a specific instance" (Neuland and Hough,2007: 215).

The need for MNCs to 'act local' in SSA countries cannot be over-emphasised, as the national differences referred to by Hill above are accentuated due to the prevalence of quite different histories, cultures, languages and levels of economic prowess. The really successful MNCs are able to carefully *overlay their global recipe for success with local flavour* in order that the operating unit may capture the best of both worlds when meeting the challenges of any particular country.

"There's a paradox at play here: on the one hand we are all participants in a global market, whereas the explosion of products and the technology revolution are making all international markets more local, catering to local tastes" (Peters,1987: 152). In fact, Mr Peters already held the view during the late 1980s that the organisation should decentralize information, authority and strategic planning (Peters, 1987: 609).

Even the experience curve does not necessarily result in success in developing markets due to their dynamic nature. A quote from Kotter (1999: 9) has relevance:"The better a hammer has served in the past, the more all problems look like nails. People often get into trouble when they try to apply the tactics that worked previously."

On the other hand, it is generally accepted that deviations from the global recipe should be limited to the bare necessities, as much of the value of a MNC parent (as opposed to a number of stand-alone independent businesses) lies in the power of its common brands, processes and systems, including the ability to share standardised information and move its people in between jobs and places. In fact, Porter (1998: 332) argues that MNCs should penetrate international markets with a consistent positioning."Efforts to internationalise based on opportunistic modifications of a company's competitive positioning from country to country rarely succeed.....Without a consistent position, the company lacks a real competitive advantage, and its reputation does not cumulate."

According to Bartlett and Ghoshal (as cited in Hill, 2005), a *transnational strategy* is the way to go for most MNCs as it allows them to exploit both experience-based cost economies and location-based economies by transferring core competencies within the firm while paying attention to pressures for local responsiveness. Hill (2005: 430) supports this way of reasoning in asserting that a transnational strategy makes sense when a firm faces high pressures for cost reductions, high pressures for local responsiveness and where there are significant opportunities for leveraging valuable skills within a MNC's global network of operations.

The transnational model is compelling, but Bartlett and Ghoshal (as cited in Hill,2005) warn that building an organisation capable of supporting a transnational strategic posture is a *complex* and

difficult task due to conflicting organisational demands.

As all MNCs operate in competitive markets on the international stage, Porter (1998: 45) rightly adds a further complication by emphasising the competitive imperative. "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value."

Kristensen and Zeitlin (as cited in Moore,2005) further caution against the view of MNCs as possessing static forms which change in more or less predictable ways at predictable points in their development. Their image of today's MNC is that of an agent of development and as an integral part of local regions rather than as a detached, goal-focussed global network. They further stress that MNCs are, in fact, *volatile, unstable and constantly changing in a state of continuous experimentation.* This view of MNCs as dynamic organisations is exacerbated when they operate in the volatile environments of emerging economies, where the key question is one of "how to play the game, when the rules of the game are changing and not completely known?" (Peng,Wang and Jiang,2008: 924).

5.3. Entry strategies

A critical sub-set of the MNC's foreign expansion strategy has to do with decisions regarding entry options available to the MNC.

5.3.1. Country, timing and scale

According to Hill (2007: 480 - 485), there are three basic decisions that a firm contemplating foreign expansion must make:

- Which foreign markets to enter?
- Timing of entry.
- The scale of entry.

Firstly then, *the decision on which markets to enter:*

The deciding factor may be summarised as being the MNC's assessment of a nation's long-term profit potential – a really difficult task as this means interpreting current trends in order to form a view of the future benefits, costs and risks associated with doing business in a particular country. Such an analysis generally favours countries that are politically stable, have free-market policies in place, as well as also having inflation and private-sector debt levels under control. Low levels of indigenous competition are a further favourable factor (Hill 2007: 480 – 481).

Although SSA countries may be less politically stable than their counterparts vying for inward FDI, they rate reasonably well on the rest of the above factors, especially with regard to the existence of *low levels of local competition*.

Secondly, *the timing of entry:*

According to Hill (2007: 481) the first-mover advantages available to an early entrant into a new market are obvious in that the MNC is able to settle into the local way of doing business without the distractions of having to deal with a meaningful competitor. In particular, the firm is able to build a loyal market for its brands well before the competition arrives. However, there are possible first-mover disadvantages, or pioneer costs, associated with learning the rules of the game in a foreign market. Shaver et al (as cited in Hill,2007)further states that research results prove that the probability of survival improves when the MNC enters a national market only after others have done so. The case for entering today's constrained markets of SSA, however, calls for *early entry* where possible, as well as a MNC mindset that views the existence of potentially hostile local rules of the game as an opportunity for it to engage with local stakeholders in order to arrive at more equitable solutions that benefit all participants.

Thirdly, *the scale of entry:*

Broadly speaking, the larger the resources committed by a MNC when entering a new country, the more rapid the entry, especially if a strong competitive position had been established through the acquisition of a successful local company. However, the flip side also holds true in that the cost of potential failure also increases with the increased scale of entry, to the point where failure could damage the performance and reputation of the parent company (HIill,2007: 484 – 485).

Fortunately, the investment levels required in order to enter any SSA market at this moment in time are still small enough not to affect the risk profile of any medium or large-sized MNC.

5.3.2. Entry modes

Hill (2007: 486 - 493) identifies six options available to MNCs once they've decided which country to enter:

- Exporting their products as a means to an end. A manufacturing MNC may choose to establish a market for its products in this low-risk way before committing itself to the next step once demand has been proven.
- Turnkey projects, where a contractor completes all aspects of a greenfield entry on behalf of the foreign client.
- Licensing agreements, allowing MNCs to license the rights to intangible property (trademarks, inventions, formulas, processes) to local firms in return for a flow of licence fees or royalties.
- Franchising, which goes further than licensing, as the franchisor also sets rules and assists the franchisee in the running of his business.

- Joint ventures, which typically occur where the MNC teams up with a local company by means of shared ownership in order to best explore the local market.
- Wholly-owned subsidiaries, which are 100% owned by the MNC, either through a greenfield entry or acquisition of a local firm.

He goes further in identifying a seventh entry strategy that has become increasingly popular in recent times, which is the formation of strategic alliances where cooperative agreements are reached between actual or potential competitors (Hill,2007: 499).

All of the above options have their advantages and disadvantages, and may be found in SSA. As a rule, the limited market sizes of SSA countries tend to render the potential income–flow to be earned through licensing, franchising and long-term exporting as marginal and, therefore, uninteresting. On the other hand, *the joint venture (JV) route is attractive in the SSA context* in that it offers up much greater potential rewards, while also introducing a strong element of local participation in the fortunes of the MNC affiliate which, apart from delivering local knowledge benefits to the JV, also establishes the firm as being local in the minds of key stakeholders. The MNC is also able to partially compensate itself for the loss of earnings shared with the local partner by concluding exclusive licensing agreements for its brands and formulas with the local affiliate.

5.3.3. Greenfield entry or acquisition?

The World Investment Report,2004 (as cited in Hill,2007) reveals that between 50 and 80% of all FDI inflows over the last decade have been in the form of mergers and acquisitions (M&A).

Hill (2007:495-496) mentions three reasons for this trend:

- M&A is quicker to execute.
- It pre-empts entry by global competitors.
- It is also less risky as the MNC is able to share in an existing profit flow from day one.

However, many acquisitions fail because the MNC overpaid for the firm acquired – a common occurrence where more than one international suitor pursues a particular target, as is commonplace these days. Other reasons for failure include an irreconcilable clash of culture between the two firms and the inability of the MNC to realise anticipated synergies. A greenfield entry, on the other hand, allows the MNC the luxury of building the local affiliate from scratch according to its own specifications. However, such an entry takes longer and is extremely risky because of the untested nature of its revenue streams, especially in cases where incumbent competitors exist (Hill,2007: 496 - 498).

In the case of SSA, the above observations generally apply. If the MNC is able to *acquire an established local company at a fair price,* either outright or in the form of a JV, this is by far the preferred way to go, even if the acquired firm has some flaws (which any effective MNC should be capable of fixing.) Quite often, however, no such option exists due to the tiny industrial bases that typically are to be found in SSA countries, forcing the MNC to go the greenfield route, in which event, it would do well to heed the cautions mentioned above, key of which is the risk surrounding future revenue streams. Where it exists, it is a good option to prove a potential revenue stream through building the MNC's exports until levels are reached that could justify putting down an in-country greenfield plant.

5.4. Further strategic considerations

5.4.1. Leadership and management

A critical strategic consideration should be the realization by any prospective MNC that it requires a pool of managers capable of dealing with the *complexities of an international business*, as opposed to successfully managing a purely domestic business. This is often an elusive prize in the early years of a firm's internationalisation, as it generally starts out with the pool of managers at the helm that brought it success when it was still a unitary country business.

Daniels et al (2011) comment that when operating abroad, firms have to adjust their usual methods of doing business. This is because foreign conditions often require more suitable methods and the operating modes for international business differ somewhat from those used domestically. In order to operate effectively within a MNC's external environment, its managers must have knowledge not only of business operations, but also a working knowledge of the basic social sciences: history, political science, law, anthropology, sociology, psychology, economics and geography.

Hill (2007: 34) cites the following factors that contribute to the complexity of doing business internationally:

- Differences in country characteristics, requiring the MNC to modify its practices accordingly. The MNC is faced with a wider range of issues, including the co-ordination of globally dispersed production units, deciding on which new countries to enter and how to do so, dealing with the ethical dilemmas of low wage levels and poor environmental standards in developing countries and the like.
- The need to understand and work within the rules imposed by governments intervening in the international trade and investment systems.

- The ability to deal with international transactions that involve converting money into different currencies.

Whereas the above factors apply to any MNC contemplating a SSA entry, it is especially the demanding need to *interface with governments* that has particular relevance. So too, the currency issue because the MNC affiliate will be trading in local, mostly soft, currencies It has quite a challenge on its hands in order to *deliver hard currency earnings growth* to its MNC parent (who typically reports to its shareholders in US$, Pounds or Euros.) This is a complex and risky matter requiring, amongst others, managers capable of treasury management across a range of currencies.

5.4.2. Competitive advantage

Porter (1998: 331) stresses the need for a MNC to possess a *unique* competitive advantage as the most fundamental building block in developing its global or multi-location strategy, stressing the fact that a company will not be able to overcome the barriers to penetrating unfamiliar markets unless it brings a meaningful advantage in either cost or differentiation or both. Companies should go international first in those businesses and product lines where they have the most unique advantages.

MNCs in SSA have their work cut out to maintain such an advantage in the face of increasing levels of competition. *Building loyalty to a MNC's brands* among local consumers probably offers the most enduring advantage against its competitors.

5.4.3. Culture

Hill (2007: 116 – 118) warns that MNCs should not underestimate the importance of *cultural differences* when entering a foreign country, including the ways in which these differences manifest themselves in how business is transacted in a specific country. Apart from recruiting competent local citizens into the local affiliate (at senior levels in order for them to have impact), MNCs should also work hard at building a cadre of cosmopolitan executives, experienced in working in different countries around the globe. MNCs should further guard against the dangers of ethnocentric behaviour (a belief of superiority in one's own ethnic group) developing in the organisation, when it very easily becomes the MNC's home country culture which dominates those of others, causing potential conflict and loss off key local personnel.

Cultural differences also have a bearing on national competitive advantage or the cost of doing business in a particular country, for instance, Japan's emphasis on group affiliation, loyalty, reciprocal obligations, honesty and education contributes towards lowering the relative cost of doing business in that country. On the other hand, Pacific Rim nations who boast a combination of free market economics, Confucian ideology, group orientated social structure and advanced education systems, have become fierce cost-efficient competitors in international markets (Hill,2007: 117 – 118).

Porter (1998: 155) agrees, arguing that in a world of increasingly global competition, nations have become more important. Differences in national values, culture, economic structures and histories all contribute to competitive success. According to him, nations ultimately succeed in particular industries because their home environment is the most forward-looking, dynamic and challenging.

The poor infrastructure and low levels of education that currently prevail in SSA combine to ensure that *the cost of doing business in the region is relatively high*. However, there's every reason to believe that once governments come to grips with providing appropriate education to its citizens, existing traits, including ubuntu and entrepreneurship visible in the flourishing informal sector, will eventually play a positive role in the emerging business environment of the region.

5.4.4. Ethics

Finally, MNCs should be made aware of their *responsibility* to operate in an ethical manner throughout their operations. Recent fraudulent disasters such as occurred at Enron, coupled to pressures from governments, NGOs and the media concerned at the sharp increase in the global influence of MNCs, place an unenviable responsibility on MNCs to ensure that their strategies, practices and actions are able to withstand the most intense scrutiny from a vast array of stakeholders, some of whom are extremely difficult to please. This is no simple matter for MNCs operating across a vast array of countries, especially those in the developing world where tough trade-off decisions await their affiliates around every corner.

Take the imposition of minimum wage levels as a case in point:

A US MNC manufacturing beverages in India (Pepsico or The Coca-Cola Company, for example) has to decide if it is willing to pay locally acceptable wage levels of about US$ 2 per day (rupee equivalent) for seasonal workers, in order to maintain cost competitiveness against aggressive local cost-driven competitors in an extremely price sensitive market, thereby opening itself to charges of worker exploitation from stakeholders comparing these levels to those back home.

Daniels et al (2011) go further in asserting that: "A major challenge facing MNEs is the globalization of the supply chain and the impact on

workers, especially in the areas of fair wages, child labour, working conditions, working hours and freedom of association". The complexity of the environment in which the MNC finds itself is exacerbated by their statement that "the law is an important basis for ethical behaviour, but not all unethical behaviour is illegal".

MNCs face many such dilemmas in the fields of unfair employment practices, human rights violations, environmental pollution, corruptive practices and also their responsibility to give something back to the communities in which they operate (social responsibility) (Hill,2007: 127 – 133).

Today's best-in-class MNCs have adopted the principle of *triple bottom line accountability* to stakeholders and regularly report on the following, in addition to financial results:

- the results of the impact of their actions on the environment in which they operate;
- the results of the impact of their actions on the communities in which they operate.

The pressures and dilemmas facing MNC affiliates operating in SSA are substantial due to:

- the high levels of corruption still prevalent in the region;
- dysfunctional legal systems;
- incompetent and poorly paid civil servants;
- unscrupulous and well-connected local competitors.

The challenge to operate freely, yet ethically, should not be under-estimated. And yet it can be done, as proven by existing MNCs in the region that are both successful in financial terms, while upholding the requisite ethical standards as prescribed by their parent companies, as is the case with The Coca-Cola Company, Nestle', Unilever, SABMiller, Diageo and others.

Key enablers of ethical behaviour include:

- a clear and unambiguous code of conduct;
- thorough communication of the above to both internal and external stakeholders;
- a reputable local business partner, if possible;
- recruiting executives with a strong ethical bias;
- rewarding ethical behaviour;

Also, the affiliate should seek considered opportunities where it is able to *make an ethical stand, even at the cost of short-term profitability,* such as refusing to bribe officials in order to get containers released from port and escalating the problem to the appropriate ministry.

6. CONCLUSION

The literature review found that firms that expand into international markets are able to generate profitable growth in ways not available to domestic firms, including the realization of location and scale economies, as well as leveraging their core competencies by rolling out these skills to new markets (Hill,2005: 416). The emergence of *the MNC as a dominant force in the global economy* has come about as an appropriate and efficient reaction by business to the *globalisation* trend that has swept the world, particularly post - World War Two. The establishment of the Bretton Woods institutions should be viewed as an enabling factor towards creating a more conducive environment for the growth of MNCs.

The growth of MNCs has gone hand in hand with the rising tide of globalisation that has gathered momentum post-World War Two. It is clear that the debate that surrounds the impact of globalisation as force for good versus the negative views of its detractors is by no means over. Behrman's expression of the need for MNCs and other key players to compromise and search for trade-offs in order to extend the positive outcomes of the process, especially to the world's poorer nations, has relevance (Behrman,2006: 440)

The role of MNCs as efficient providers of foreign direct investment (FDI) was confirmed, including encouraging FDI trends towards developing countries whose governments today go out of their way in order to attract FDI in order to stimulate economic recovery.

It is an unfortunate fact that SSA, the economic region that forms the subject of this study, is the *world's least favourite investment destination*, the reasons for which will be dealt with when discussing the prevailing business environment in the region.

The good news is that virtually all *SSA countries wish to attract FDI today*, determined not to fall back into the socialist trap. However, they are also implementing laws and regulations that are clearly aimed at advancing the national interest. The fear of foreign domination by SSA countries possessed with a colonial past is a fact that remains to this day – one that MNCs operating in the region would do well to bear in mind.

Various strategic options and considerations exist that MNCs need to bear in mind as they plot their course of action in a complex environment that stretches across country borders. From the afore going it is clear that MNCs are faced with a greater number of strategic choices when compared to a less complex unitary country enterprise. Bartlett and Ghoshal's *transnational approach* (cited in Hill,2005)seems to be the most appropriate model for the modern MNC in that it potentially captures the widest range of advantages, including: global learning, local responsiveness and location and experience curve economics. However, it is a complex solution, relying as it does on matrix-type structures in order to be effective and may, therefore, not be suitable for a fledgling MNC setting out on the path of internationalisation of its business. Kristensen and Zeitlin's view (cited in Moore,2005) of MNCs as being volatile and

unstable organisations in a constantly changing state of continuous experimentation may, in fact, hold most relevance when plotting the strategic direction that a MNC should take.

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