

KEY SUCCESS FACTORS FOR BUSINESS OPERATIONS IN EMERGING MARKETS: QUALITATIVE RESULTS FROM SUB-SAHARAN AFRICA

Ernst Neuland, Johan Hough***

Abstract

As the world economy is emerging from the global financial crisis, it is generally expected that economic recovery will be slow, with emerging economies, including those of sub-Saharan Africa (SSA), expected to be the leading economic performers for some time to come. As economic prospects improve and global competitiveness intensifies, multinational companies (MNCs) will increasingly explore these opportunities that emerging markets offer, despite the higher inherent risks associated with the attractive profit potential that these markets offer compared to developed country markets. More specifically, the focus of MNCs in recent times has shifted to capturing a share of the market at the bottom of the economic pyramid (BOP) in emerging markets, estimated to be in excess of 4 billion people worldwide who are poor and underserved by the private sector, which includes MNCs. However, many MNCs have approached emerging and especially BOP markets within these markets based on flawed analyses, inappropriate strategies, and with existing portfolios of products and services developed and priced for Western markets which are often out of reach of both existing and potential customers in BOP markets. Based on qualitative research using a multiple case study approach, the purpose of this article is to identify strategic and operational key success factors for MNCs operating successfully in selected SSA country markets.

Keywords: Bottom of the pyramid, emerging markets, emerging economies, global economies, international strategies, key success factors, multinational companies, sub-Saharan Africa.

* *Professor in Strategic Management and International Business, Graduate School of Business Leadership, University of South Africa, Johannesburg, South Africa. Tel: +27-116709000, email: neulaew@unisa.ac.za*

** *Professor in Strategic Management and Corporate Venturing, Department of Business Management, University of Stellenbosch, Stellenbosch, South Africa. tel: +27-218082214, email: jhough@sun.ac.za*

1. Introduction

As the world economy is emerging from the global financial crisis, it is generally expected that economic recovery will be slow, with emerging economies expected to be the leading economic performers for some time to come. As economic prospects improve and global competitiveness intensifies, multinational companies (MNCs) will increasingly explore these opportunities offered by emerging markets despite the higher inherent risks associated with the attractive profit potential that these markets offer compared to developed country markets. More specifically, the focus of MNCs in recent times has shifted to capturing a share of the market at the bottom of the pyramid (BOP) within emerging markets, estimated to be in excess of 4 billion people worldwide who are poor and unserved or underserved by the large private sector, including MNCs (Pralhad 2010:6). However, during the last two decades, many MNCs have approached emerging and especially BOP markets based on flawed analyses, inappropriate strategies, and with existing portfolios of products and services

developed and priced for Western markets which are often out of reach of both existing and potential customers in BOP markets.

Markets in selected sub-Saharan African (SSA) countries, the latter largely representative of BOP markets in the context of emerging markets, provide the frame of reference for and scope of this study, based on qualitative research completed during 2009, using a multiple case study approach, non-probability judgment sampling and in-depth interviews. The purpose of this research is to identify and evaluate strategic and operational key success factors (KSFs) for MNCs operating successfully in selected SSA country markets.

The literature survey includes a brief review of global and emerging market environments, opportunities, challenges and risks in SSA markets in general and BOP markets within these markets in particular, and prospects of successful business operations in these markets. This is followed by an overview of the research design and sampling method for this study, the research findings and conclusions.

2. Emerging market environments in a global context

As the world economy gradually recovers from the global financial crisis, it is generally expected that economic growth will be subdued during 2010 and for some time to come. By July 2010, the Economist Intelligence Unit (EIU) expected the world economy to grow by 4.2 percent (at purchasing power parity) during 2010, primarily as a result of the higher than expected economic growth of 6.6 percent for non-OECD economies compared to 2.5 for OECD economies, despite the potential of high recovery-related risks inherent in the former. SSA was expected to grow at 5 percent during 2010 (International Monetary Fund (IMF) 2010). Of importance, however, is that the IMF expects emerging market and SSA economic growth to be more than double that of developed economies in 2010. While China is leading the emerging market sector with growth expected to reach 8.6 percent in 2010, a forecast by the Economist Intelligence Unit (2009:91) placed four SSA countries in the top 12 countries based on expected economic growth during 2010. These countries are Congo (Brazzaville) (3rd), Ethiopia (5th), Djibouti (7th), and Madagascar (11th), with expected economic growth rates of 8.0, 7.0, 6.5, and 6.2 percent respectively. Only oil-rich Qatar (1st) at 24.5 percent is expected to outperform China during 2010. In recent decades, emerging markets have become increasingly attractive international business destinations for various reasons.

Firstly, they present increasingly attractive market opportunities to international companies wishing to expand business and operations to foreign markets. Secondly, they reflect the potential for increasing levels of demand for internationally

recognised brands and relatively more sophisticated products and services than before and thirdly, they could serve as manufacturing bases, and lastly, serve as sourcing destinations (Brews,2006:379; Cavusgil et. al. 2008:265-266; Grobbelaar,2006:55; Harvey,2006:487-89).

For emerging economies, however, benefits are the potential for accelerated economic development, gradually increasing income levels of populations in those countries, increased competition for local firms to the ultimate benefit of local consumers, the creation of employment opportunities through inward foreign direct investment, transfer of technology and skills, the provision of entrepreneurial and outsourcing opportunities, and the encouragement of and contribution to infrastructure improvement in those countries (Hough & Neuland 2006:13-17). Despite their attractive growth prospects, emerging economies typically involve high inherent risks, which apply even more so to sub-Saharan Africa (SSA), a vast 'developing' region with a population of more than 800 million people in 48 countries, .(Peng et. al., 2008:920-936; Ricart et. al., 2004:175-200; Venaik et. al.,2005:655-675). SSA comprises all the countries in Africa excluding Algeria, Egypt, Libya, Morocco, Sudan and Tunisia. (UNCTAD 2008). Figure 1 illustrates the position of SSA on the African continent.

Emerging markets in general, and markets in sub-Saharan African (SSA) countries in particular, the latter largely representative of BOP markets in a global context, provide the context for the current study. South Africa is excluded from sub-Saharan Africa in this study because it does not share the underdeveloped characteristics of the rest of SSA.



Figure 1. Map of the continent of Africa

Source: UNCTAD (2008)

3 Opportunities that exist at the Bottom of the Pyramid (BOP)

Of the estimated world population of some 6,77 billion in 2009 (Internet World Stats:1), more than 4 billion aspiring poor consumers at the bottom of the pyramid (BOP) who are joining the market economy for the first time represent the new untapped source of market promise. According to Prahalad (2010:6-7) "the four billion poor can be the engine of the next round of global trade and prosperity." However, this untapped source is virtually uncharted territory in terms of MNC understanding of the strategies required to capture this opportunity (Prahalad 2010; 10), an observation that has particular relevance for SSA, the world's most impoverished region.

4 Africa and sub-Saharan Africa – opportunities, challenges and risks

In general, countries in Africa have traditionally figured at the wrong end of most of the acknowledged ranking systems and indexes such as the Human Development Index (UNDP 2008), Freedom of the World Survey, the Index of Economic Freedom, and Transparency International's Corruption Index (UNDP 2008; Luiz 2006:14; Hough & Neuland 2007:124-25). SSA has been plagued by perennial problems such as self-serving governments, weak institutions, poor infrastructure, skills shortages, ethnic induced civil wars, weak property rights, low productivity, the scourge of bureaucratic red tape, and corruption (Parker, 2009:54-60; Moss et al, 2005:8). Research conducted by AT Kearney, as well as by Collier and Gunning (cited in Luiz 2006) reveals that Africa has traditionally been seen as a high-risk investment environment with a resultant expected rate of return higher than anywhere else on the globe. Although actual returns on African FDI during 1990 to 1994 were 60% higher than in other developing regions, these have been insufficient to offset the perception of unacceptably high risk, which explains SSA's unenviable position as the world's least attractive investment destination.

It has been argued that the reasons for Africa's malaise are contentious and often over-emphasised. However, the following are worth mentioning as context:

- The negative impacts of colonialism that include the formation of sub-economic country units, reliance on commodity exports and subsistence farming, as well as a negative mindset towards globalisation.
- Continuous flare-ups of ethnic-induced civil unrest resulting in governments that are distracted from improving conditions for economic recovery.
- A disastrous flirtation with socialism during the cold war years in the latter half of the 20th century, which not only destroyed the fledgling private sector that existed in these countries, but also resulted in the

current dearth of managerial skills in most SSA countries.

- The failure of donor aid which, according to Arnold (as cited in Venter, 2007) was seen as the panacea for Africa's economic ills in the 1960s.

- Transparency International's Corruption Index which places Africa at the bottom of its global list (Luiz 2006).

Throw in a hostile business environment characterised by the scourge of bureaucratic red tape, exorbitant administrative costs and delays, as well as weak property rights as highlighted by the World Bank (cited in Luiz 2006), and one begins to understand why most investors decide to stay away. However, there are many encouraging signs of a dramatic recovery and continent-wide opportunities.

4.1 Growth opportunities

From the foregoing, one may be tempted to side with those that view Africa as a 'basket case'. But Thaker (2008:87) sees SSA as "the final frontier for emerging market investors", and the following examples are ample evidence that SSA 'has turned the corner' and is on an encouraging road to recovery:

- By 2006 GDP growth for SSA had overtaken the average of all developing regions, second only to Asia and ahead of Eastern Europe and Latin America (The Economist 2006: 65).

- Apart from sizeable contributions from oil producing Nigeria and Angola, SSA had begun to receive massive capital inflows as the last frontier market. "What sets 21st century Africa apart from its moribund 20th century self is its improved financial management with many of the continent's bad boys cleaning up their act" (The Economist 2008: 80).

- Preece (2008:54) quotes an IMF survey which recorded US\$50 billion worth of private equity inflows into SSA during 2007, exceeding the total value of foreign aid into the region for the second year running.

- Following the perceived end to conflict situations in Mozambique, Angola, the Democratic Republic of Congo, Rwanda and Burundi, the region is embarking on a period of relative peace and stability.

- Initiatives such as NEPAD may be flawed, but have moved the African debate beyond politics towards good governance, regional co-operation and economic development. So too, have attempts at forming regional trade associations in order to overcome the problem of fragmented markets.

However, there are exceptions, with the Zimbabwean situation continuing on its 'downward trend' with potentially new disastrous acts that could emerge at any time. Also, the largely agriculturally-dependent SSA region remains at the mercy of increasingly erratic weather conditions. But this is a vastly improved Africa when compared to the latter half of the 20th century as illustrated by a relatively

recent opinion poll which revealed that SSA inhabitants are extremely optimistic about their future, to an extent where 'indomitable optimism permeates the region' (Gallup poll 2007).

The Economist put the case for growth in Africa eloquently, "Companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephones. The region's economy is growing steadily.....In part this is because of the commodities boom and debt forgiveness. But more peace, political stability and better economic management have done their bit, too" (The Economist 2006: 65).

4.2 Profit potential

Base of the economic pyramid (BOP) markets, consisting of the billions of aspiring poor have been described by Prahalad (2010:3-11) as the "new untapped source of market promise". Peng et. al. (2008: 930) observe that a fundamental challenge that confronts MNCs originating from developed countries is whether their traditional strategic recipe of standardised products and services can be extended and adapted with minimal change to meet the demands of emerging economies. This recipe is built on business models profiting from the one billion or so people who find themselves in the top of the global economic pyramid, whereas a focus on emerging markets calls for new business models built on how to profit from the bottom of the global economic pyramid, that is, the more than four billion people each earning less than US\$ 2 000 per year. Despite country differences, emerging economies may have enough common underlying logic to justify developing an alternative business model based on innovative, price-value trade-offs that are different from those in developed economies (Prahalad 2010:82-83). MNCs therefore need to develop specific strategies to meet the needs of the different consumer classes that make up the national markets in emerging economies, including SSA. This is especially relevant for those potential consumers that find themselves at the BOP.

However, capturing the opportunity that exists at the base of the economic pyramid is virtually uncharted territory for MNCs and academics alike (Ricart et al, 2004:194). It's hard and risky work and there aren't many signposts or shortcuts. A popular myth that there is no money to be made in Africa due to her constrained and impoverished markets, therefore, needs to be dispelled, as confirmed by the following examples:

- Heineken and Diageo have been making world-class returns in West Africa since the 1930's (Parker 2009)
- More recently, South Africa's MTN has revolutionised Nigerian telecoms and earned a rich reward for its efforts: 16,5 million subscribers at US\$17 revenue per user (McLeod 2008: 36).

- SABMiller plc earns its best world-wide margins in Africa (SABMiller 2007: 19,27).

- Blakeney Investment had seen its net asset value (NAV) per share move from US\$5,80 to US\$35,00 over the last 5 years (Moreland 2007). This performance has been substantially driven by listed African equities operating in the telecommunications, banking, beverage and retail sectors.

- Imra's Africa Opportunities Fund had almost doubled in value in less than three years, while the Investec Africa Fund returned 40% per annum since November, 2005 (Cranston, 2008: 77). It should be noted that these examples do not fully reflect the full effect of the global financial crisis that only started gaining momentum during 2008.

Grobelaar (2006: 35) identified a number of companies that have demonstrated beyond any doubt that good business can be done on the continent. It should be obvious that not all business ventures have or will in future prove to be successful. This statement relates directly to the purpose of this study, that is, to identify key success factors for selected, successful business operations in a number of SSA markets.

According to Deresky (2002:161-162), proactive reasons for internationalisation are closely linked to the growth imperative of organisations in mature markets to look for new opportunities in the global marketplace. According to Hill, many MNCs that have to deliver superior earnings growth in order to meet shareholder expectations, expanded into Eastern Europe, Asia and South America 10 to 15 years ago, with the result that these investments are now quite mature. In addition, the returns on many of these investments have disappointed (Hill 2005: 218). Thus the more recent attractiveness of SSA markets as alternative investment destinations also reflects the following view by SABMiller's CEO, Graham Mackay: "If there was more of Africa, we'd be investing in it" (The Economist 2006: 65).

4.3 Sub-Saharan Africa host country views of Multinational Companies

Although all SSA governments are keen to attract FDI provided by MNCs, there seems to be a lingering suspicion of the private sector that is best described as follows by Ramachandran & Shah (2007: 17): "While the situation on the ground is changing, and sometimes quickly, what governments still seem to fear the most is a private sector which generates wealth independent of government controls, and which makes its own, unfettered decisions." The reasons for SSA governments displaying such behaviour are varied, but include the region's brush with colonialism and, more recently, socialism.

There is much that a well-run MNC affiliate can offer a developing country, including the generally-accepted notion of setting the free market system at work to the benefit of all stakeholders.

Grobbelaar (2006: 55) sounds a note of warning, however. In the case of Mozambique, the superior technology, business knowledge and financial strength of South African businesses appear to have contributed to an element of dominance in the economy, creating local resentment. This fear of a wave of South African 'economic colonialism' sweeping through SSA is not unique to Mozambique, and needs careful and sensitive management by the relevant MNCs and their affiliates.

4.4 Operating conditions in Sub-Saharan Africa

The business environments in selected SSA country markets represent significant challenges, typically characterised by poor infrastructure, utility shortages, an ill-equipped talent pool and unsympathetic authorities. It is also true that the scourge of corruption is still alive and well in some countries. (Grobbelaar 2006:55; Luiz 2006:14; Moss et. al. 2005:8; Parker 2009). In addition, the lack of physical infrastructure on the continent is a legendary obstacle for private investors doing business in Africa in general and in SSA the region, for example:

- Despite phenomenal growth of 1 810 percent in Internet users in Africa from 2000 to 2009, Internet use in Africa was only 8,7 percent of total world Internet use by 2009 (World Stats 2010).
- Only the Democratic Republic of Congo features in the top 40 list of countries with the longest road networks and only Nigeria and Congo-Brazzaville in the top 40 for longest railway networks (The Economist 2008: 70 & 75).
- Per capita consumption of electricity in African households was limited to a tenth of that in developed countries. Eskom, the South African state-owned electricity provider which generated 60% of the continent's power used in 2004, already experienced problems in meeting demand in its home country by 2006 (Nkomo & Cook, 2006: 84).

4.5 Meeting the challenges

However, business in Africa is far from a hopeless situation, as proven by the early-mover MNCs that have achieved various degrees of success in the region. Luiz (2006: 27) agrees by observing that it is not to say that the environment of business is impossible in Africa, but rather that it's different and often requires more patience.

In addition, a more co-operative stance from the authorities that allows, amongst others, for the importation of expatriate skills, coupled to the communication revolution brought about by the Web, Internet and mobile 'phone technology, have meant that MNCs are able to overcome many environmental challenges prevalent in SSA, including skills shortages.

The combination of seasoned expatriates and technological advances in communication means that committed MNCs can more readily roll out their globally proven systems and processes, appropriately adapted for local circumstances where necessary. State-of-the-art business programmes including world class manufacturing, integrated budgetary systems, advanced management accounting applications, performance management and appropriate reward systems, sound strategic planning and strategic marketing initiatives may thus be swiftly inculcated into the local affiliate, but obviously adapted for local environments, industry conditions, market needs and consumer preferences.

MNC's are further well poised to steer clear of the temptation to corrupt. Most have strict and visible ethical codes of conduct which ensure that both their local employees as well as the potential corruptible know that no approaches in this regard will be tolerated. Celtel set the perfect example in entering the DRC when it refused to bribe its way into the country, which delayed negotiations by two years, but eventually the company was able to enter successfully (The Economist 2006: 67).

On the issue of distance, Ghemawat (2001:4-5) states that companies pursuing global expansion routinely overestimate the attractiveness of foreign markets, losing sight of the major difficulties of entering new, often unexplored and vastly different market environments. He argues that the basic problem can be traced to the analytical tools and approaches that managers rely on in making decisions about international investments or to trade in foreign markets. According to him, traditional methods to assess country attractiveness such as country portfolio analysis (CPA), and generally-accepted information on national gross domestic product (GDP), levels of consumer wealth, and people's propensity to consume, effectively ignore the real costs and risks of doing business in a new market, many of which are the result of barriers created by distance, over and above purely geographic distance, which obviously is of importance.

Based on the work of Frankel and Rose (cited in Ghemawat 2001:4-9) on the impact of various factors on a country's trade flows, distance has geographic, cultural, administrative or political, and economic dimensions that can make foreign markets significantly more or less attractive. While not negating the usefulness of traditional economic data like GDP and economic growth rates, the critical question for a MNC that envisages entering a new foreign market and especially an inherently high-risk emerging market, is how much more attractive or unattractive would the effect of each of these dimensions, singularly and in combination, make the foreign market concerned? While not empirically investigated, it was evident from the research interviews that the factors of geographic distance, knowledge of the African culture, South African

expatriates being fluent in French, Portuguese and Dutch, as well as some of the indigenous languages of the African countries concerned could well be regarded as elements of competitive advantage compared to competitors from the North America, South America, Europe and the Far East.

5 Strategies for emerging markets

It is imperative that MNCs understand the structure of markets in emerging economies, and for the purposes of this research, SSA market structures for any degree of success. While this requirement obviously applies to local companies it is of critical importance for foreign MNCs wanting to compete in these economies. While not intended to be representative of all emerging market situations, the market structures in typical emerging economies as identified by

Khanna and Palepu (2006:62-70) reveal strategically important considerations in this regard (see Figure 2).

The authors maintain that most product markets in emerging economies, and arguably also in SSA markets, comprises of four distinct tiers (Figure 2):

- A 'global' customer segment that wants products of global quality and with global features – offerings with the same qualities and attributes that goods in developed countries have – and customers willing to pay global prices for them.
- A 'glocal' segment that demands products of global quality but with local features at less-than-global prices.
- A 'local' segment that wants local products with local features at local prices.
- A bottom-of-the-pyramid (BOP) segment that can afford to buy only the most inexpensive products

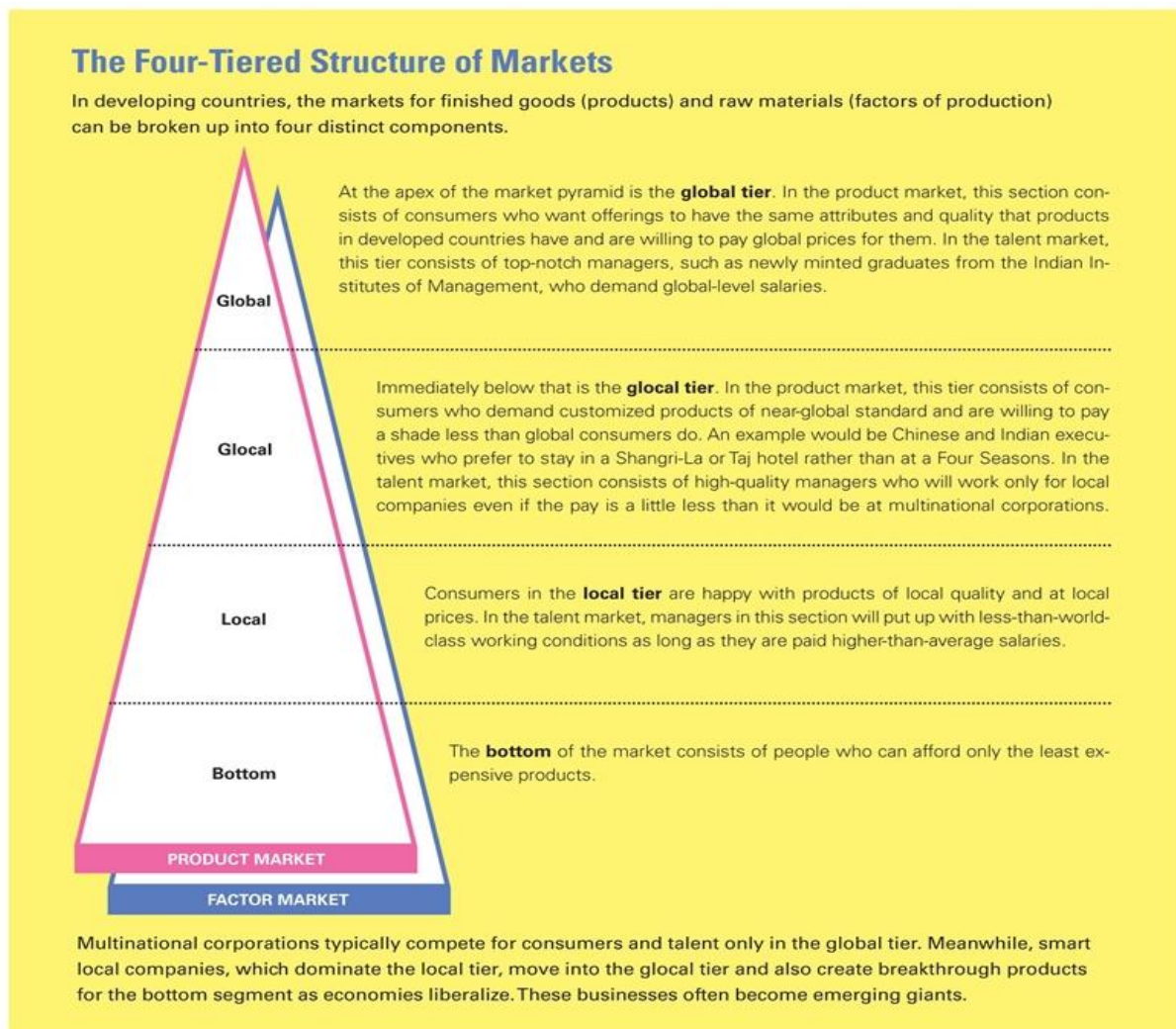


Figure 2. Four tiered-structure of markets

Source: Khanna & Palpu: 2006 Emerging giants. Harvard Business Review. p. 65

The above four-tiered structure of markets in emerging economies poses significant challenges for local as well as rival foreign firms. From the perspective of foreign MNCs, which would include

South African companies venturing into emerging markets and SSA country markets in particular, the first imperative is to realise that emerging markets differ in structure compared to developed country

markets, and require MNCs to decide where, and how, to compete. Due to 'institutional voids' in most emerging economies, foreign MNCs find it difficult, at least initially, to serve anything but the global tier in emerging product markets as a result of the following:

- A lack of market research and absence of reliable market intelligence which makes it difficult for MNCs to identify and understand local customers' preferences and tastes.
- The generally poor distribution networks that make it largely impossible to serve customers in rural areas effectively.
- The MNC's deficient knowledge about the local talent pool (at least initially) and inability to attract competent local employees at the four different market levels, posing an enormous challenge.

According to the authors, MNCs typically rush into the global tier, while local companies dominate the local and, to an extent, the BOP tiers. However, immense opportunities exist at the bottom (BOP) tier, but MNCs, both local and foreign, need radically different competitive as well as marketing strategies to compete successfully at this level. Over time, the global tier becomes the battleground between local and foreign rivals.

With their superior knowledge of local conditions, local companies tend to serve global customers (requiring global products with local features) better than their foreign counterparts. Companies depend on the extent of their competitive advantage for their success. For local firms, being able to circumvent institutional voids, tailoring their strategies to local markets better than foreign MNCs, and being able to tap into capital and talent markets in developed countries often give them the competitive edge in serving the global, local and BOP market tiers. Identifying key success factors to successfully engage in emerging markets and, accordingly, SSA markets is the focus of this study.

6 Research strategy

6.1 Research questions

The following research questions in support of the research objectives flow from the relevant literature survey:

First, what are the key success factors (KSFs) that have allowed early-mover MNC affiliates to achieve success in SSA? Second, is it possible for MNCs to commercially explore the considerable potential that exists at the base of the economic pyramid in SSA? And thirdly, what strategic and competitive approaches would need to be employed in this regard?

6.2 Target population, research sample and scope of the research

This study is based on qualitative research and a case study approach (Yin 2003) involving the selection of

a relatively small sample of senior executives from which data was collected by way of personal interviews. More specifically, purposive sampling, a sampling framework that allows the researcher to identify participants on the basis of their particular knowledge has been adopted for this qualitative research study (Miles and Huberman 2004:27). The unit of investigation comprises the affiliates of MNCs who have a meaningful presence in selected sub-Saharan Africa countries with a proven track record of efficiently supplying goods and services to consumers in the region, their selection based on convenience and ease of access to eighteen past and current senior executives, whose affiliations determined the MNC affiliates that have been included in the research.

The sample has been structured to include the following twelve MNCs, head-quartered in three different countries (United Kingdom (UK), United States (US) and South Africa), with affiliates in selected SSA member countries:

The Coca-Cola Company; Diageo plc; SABMiller plc; MTN; Coca-Cola Sabco; Standard Bank; Shoprite; Game; Promasidor; Game Stores; Ogilvy.

The selected affiliates are active in the following industries/sectors;

- fast-moving consumer goods manufacturers (soft drinks, milk, beer and spirits);
- service providers (banking, advertising and mobile phone call time);
- retailers.

The study focuses explicitly on the role, experience, and performance of the in-country affiliates or subsidiaries of the selected MNCs, through their current and/or past managing directors, and their contribution to overall MNC performance, and does not include the functioning and performance of the MNCs' headquarters, important as this may be. While the twelve MNCs provide limited industry diversity, it does allow for pursuance of the stated objectives.

The study adopts a South African perspective, despite the fact that some affiliates included in the sample are from foreign or non-South African MNCs. Furthermore, the South African market has been excluded from the relevant SSA countries, because of its relatively well-developed economy, generally accepted business-friendly environment, developed infrastructure and business skills.

The purposive sample of twelve MNC affiliates located in the SSA region allows a convenience sample of eighteen senior executives (current or past Managing Directors of affiliates or regions) of MNC affiliates selected according to the above criteria, who were readily accessible to capture in-depth knowledge, expertise and thought regarding SSA's business challenges. The names of the selected executives appear in Appendix 1.. Blumberg et. al. (2008:202) confirm that in-depth elite or expert interviewing that combine secondary data analysis

and experience surveys is appropriate in a case study approach. However, the limited sample of respondents surveyed means that the research findings are not generalisable or representative of all like firms operating in the SSA region.

Limiting the research to a relatively small group of top executives (as opposed to a larger sample that would necessitate including middle-managers) is supported by Tsui (2004: 508) where a need exists to build new theories of management and organisations in emerging economies where businesses are largely regarded as developing phenomena. This goal is best achieved by gaining the views from a panel of experts at the very top of their organisations who have a complete view of the complexities and challenges of doing business in the region, from strategy all the way through to the most mundane of operational challenges.

6.3 Primary research process elements

Data were collected through face-to-face and telephonic interviews with eighteen current and past executive managers who had or still have a proven track record in SSA of managing affiliates of the twelve selected MNCs. Although an unstructured interview process had been chosen over a structured approach in order to extract in-depth insights from the senior executive respondents, a questionnaire had to be developed in order to lead the interview process towards delivering answers to the research survey questions.

Five basic themes were developed in order to guide each interview towards achieving the relevant information in relation to the research goals and allow for qualitative testing for the convergence of views amongst respondents as a means of assuring validity. The findings and their managerial implications from both an emerging market perspective and a strategy perspective for MNCs conclude the research. The fact that the sample only includes successful MNC affiliates could be interpreted as a factor of bias and thus a limitation to the research, since the experiences of unsuccessful businesses in the SSA region are not included in the investigation.

Our approach was to identify significant commonality in both strategic and operational key success factors related to the sample organisations as a basis for recommendations aligned to the objective of this study.

7 Results and discussion of findings

7.1 Introduction

The findings result from a combination of relevant primary and secondary information in relation to the objective of the study. The findings and resultant recommendations flowing from objective are combined to provide a basic frame of reference for managerial decisions on country attractiveness,

entering emerging markets and adapting strategies, products and services to emerging market needs in a competitive business environment, taking into account the typical four-tiered market structures that could characterise emerging markets and markets in SSA countries, inclusive of BOP market segments.

Time and space constraints allow only a brief discussion of or reference to selected research findings related to the evaluation of common key success factors identified by all the respondents in the study. The findings and the recommendations are combined to provide a basic frame of reference for managerial decisions when entering emerging markets, and successfully adapting strategies, products and services to emerging market needs in a competitive business environment. The questionnaire, full complement of transcribed in-depth interviews, findings and recommendations in response to the survey questionnaire appear in the study by Parker (2009). The following eight key success factors (KSFs) were identified and grouped under strategic and operational headings:

Strategic Key Success Factors

- Choosing the appropriate strategies and organizational architecture
- Making trade-offs in order to share benefits
- Partnering with government
- Bulking up for critical mass
- Investing ahead of demand
- Readiness to capture the opportunity at the bottom of the pyramid (BOP)

Operational Key Success Factors

- Using expatriates effectively
- Flawless execution of strategies and operations

These key success factors will be briefly discussed.

7.2 Strategic Key Success Factors

7.2.1 Choosing the appropriate strategy and organizational architecture

Choosing and implementing the right strategy or strategies for the company's products and/or services and the emerging market tier(s) of the economic pyramid that the company has targeted, deciding on the appropriate organisation structure for the company's chosen strategies, and deciding on the most appropriate business model for the company is imperative for any degree of success. The MNC affiliates in the sample, especially those in the retail and beverage sectors, had successfully adapted the relevant products and pricing policies to the lower of the four market tiers, and especially to the BOP tier..

7.2.2 Making trade-offs in order to share benefits and risks

"Globalisation 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

(Behrman 2006:440) MNCs in emerging economies have to bridge both the formal and informal economies, with the relationships in the latter grounded primarily on social, not legal contracts. Paradoxically, MNCs in emerging economies need to be effective and profitable, yet contribute to people development, poverty alleviation, and environmental protection. All of the surveyed MNC affiliates were involved in some social programme(s) and community investments ranging from training and development, education, entrepreneurial initiatives including new business start-ups, and combating HIV/Aids.

7.2.3 Partnering with government

The research confirmed the importance of MNC affiliate executives going out of their way in communicating clearly and frequently with all relevant levels of in-country government – a time-consuming but very necessary task. Assisting governments *inter alia* with infrastructural projects produces goodwill which in turn could benefit the company, as SABMiller Africa experienced when consumption taxes on alcoholic beverages were reduced in Mozambique. Standard Bank found that in-country governments play a dual role in the bank's life, both as key stakeholder/regulator and potential customer, which requires continuous and cordial relationships.

7.2.4 Bulking up for critical mass

A fundamental obstacle that stands in the way of companies wishing to invest profitably in a typical SSA country market is that of constrained market size. Apart from only adapting their products to meet emerging and BOP market needs, the surveyed companies innovatively diversified and differentiated their product lines, product functioning, packaging, distribution, and promotion. For example, advertising had to fit the available communications infrastructure and geographic reach. Bulking up translates to expanding the business step-by-step to increase the firm's market size and profitability.

7.2.5 Capturing the opportunity at the bottom of the pyramid

Exploring the BOP opportunity raises the challenge for those doing business in Africa to new heights. Unless the MNC is able to ensure an affordable and profitable version of its existing product and/or service offering, it will have to consider the more risky option of developing a new affordable offering, from scratch that is capable of generating acceptable returns, apart from being acceptable to the discerning customer. As mentioned under the first KSF above, the research confirmed that all twelve MNC affiliates were successful in penetrating BOP market segments, at least with some if not all of their product lines and/or services. Of importance was that a unique combination of the eight identified KSFs was often

instrumental in the companies' success in BOP market segments.

7.3 Operational Key Success Factors

7.3.1 Using expatriates effectively

Expatriates ensure consistency between headquarters and affiliates in terms of strategy, managerial practices and operational policies. They also provide the corporate view and cohesion when making key decisions at affiliate level. However, it is as facilitator of knowledge transfer between affiliates as well as between affiliates and headquarters that an expatriate has the greatest role to play. All the surveyed MNC affiliates agreed on the importance of top class expatriates, but were also unanimous that at some stage locals have to be incorporated into the organization – tending towards a polycentric and geocentric staffing orientation.

7.3.2 Flawless execution at all levels

The unanimous response from the surveyed affiliates was that “doing well in Africa requires relentless focus on superior executing – doing it right every time. Poor infrastructure, skills shortages, and the need to adapt to local circumstances, among others, all contribute to an extremely challenging environment. The ability to execute flawlessly is valued above all else, even above the smartest strategies and the best laid plans” (Parker 2009). Interestingly, the arguments of the respondent affiliates related to a combination of flawless execution and using expatriates effectively, which seemed to favour decentralisation to centralisation where possible, and included the following considerations:

- Top management does not become overburdened and can therefore focus on critical and strategic issues in the challenging business environments
- More rapid response to environmental changes and, therefore, greater competitive flexibility
- More effective decision-making as a result of employees being ‘closer to the action’
- Increased control through the establishment of autonomous, self-contained organisational sub-units

While all these considerations could be regarded as general and given in business today, the views of respondents were unanimous in that any neglect of these considerations could be disastrous in uncertain and demanding emerging market environments. Furthermore, the importance of knowledge transfer (also referred to in relation to expatriates) and process reliability were seen as key to superior execution (Faull 2006:318), but SABMiller Africa cautioned that global processes need to be clarified and simplified in order to develop an execution-based business approach for emerging markets that was understood and shared by all staff members,

7.3.3 Investing ahead of demand

This KSF was not discovered during the literature search, but emerged as a common theme from the empirical survey research. The respondent senior executives warned against the understandable, but costly mistake of not investing in sufficient production capacity to meet the increased demand when a business lifts off from its relatively low consumer base – the cost of not meeting demand can be enormous (Parker 2009). Diageo realised this early on, and have reaped long-term benefits through timely action in this regard, while MTN and SABMiller Africa were conservative in the past, and only recently adopted a more aggressive approach to long-term yet flexible capacity planning. The same arguments could apply to the current situation where pre-empting emergence from the global financial crisis appears imminent

8 Summary

Evidence presented in this paper suggests that emerging markets, and sub-Saharan Africa in particular, represent attractive business opportunities for MNCs in search of growth, especially those willing to explore BOP opportunities, notwithstanding the higher potential risks. The research findings further suggest that the challenging SSA business environments could prove to be profitable for visionary companies that are well prepared and willing to adapt to local emerging economy industry and market needs..

The study also highlights the current and prospective opportunities that exist in SSA for companies setting out from South Africa, who, being African and based in Africa's most dynamic economy, should have an advantage over MNCs from outside the African continent. The set of key success factors (KSFs) identified and developed from the research, while not intended to be exhaustive, could serve as a frame of reference for companies already active in the region, as well as those intent on entering the SSA region for the first time.

Due to identified advantages for early-mover entrants, a degree of urgency is suggested for companies considering new investments in the region. However, evidence suggests that the window of opportunity for early movers will remain open for the foreseeable future as a result of the global financial crisis which, at least for the time being, has forced MNCs to focus inwards restructuring their business models, rather than investing in new high-risk markets.

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APPENDIX 1

List of executives who were interviewed for this research

- Mr ATO AFFUL – MD Ogilvy Africa (interviewed telephonically)
- Mr PHIL GUTSCHE – Chairman, Coca-Cola Sabco (interviewed personally)
- Mr FANUS NOTHNAGEL – Coca-Cola Sabco CEO (interviewed telephonically)
- Mr MURRAY LOGGIE – MD Coca-Cola Sabco Tanzania (interviewed telephonically)
- Mr NATHAN KAMBULU – East & Central Africa President for The Coca-Cola Company (interviewed personally)
- Mr JACKO MAREE, Chief Executive, Standard Bank Group Ltd (interviewed telephonically)
- Mr CLIVE TASKER – Chief Executive, Standard Bank Africa (interviewed telephonically)
- Mr KEITH RICHARDS – MD of Promasidor Nigeria (interviewed personally)
- Mr JAN POTGIETER (MD) and RICHARD FULLER (Director – Africa) for Massdiscounters (Game Stores & Dion) (interviewed personally at the same time)
- Mr ROB NISBET – Financial Director of the MTN group (interviewed personally)
- Mr CHRIS FREER – former MD of Castle Brewing Kenya and Guinness Cameroon. (interviewed personally)
- Mr DANIE NIEMANDT – retired Operations Director of SABMiller East Africa (interviewed personally)
- Mr ROGER SMITH - MD Cervejas de Mozambique (completed the questionnaire electronically, after an explanatory phone call)
- Mr MARK BOWMAN – SABMiller MD for Africa (interviewed personally) Mr NICK BLASQUEZ – current MD of Diageo Africa (interviewed telephonically) Mr DAVID HAMPSHIRE