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Emerging global contenders: The South African experience

Saul Klein & Albert Wöcke

Abstract

The global strategies of three major South African MNEs are examined with a view to understanding the applicability of existing theories to developing country firms and their emergence as global industry leaders.

Emerging market MNEs are motivated by both defensive and offensive considerations. At the same time, home market domination allows potential contenders to develop competitive firm-specific advantages that are non-location based.

We propose that successful emerging market MNEs start to build their global positions on the back of asset exploitation, but soon follow with asset seeking behavior. When country specific advantages are less important, contenders can accelerate their development of non-location based FSAs rapidly. Finally, leadership and domestic dominance may be more important than country specific advantages in explaining the success of emerging market MNEs.

Keywords: Emerging markets; Globalization; MNEs; South Africa

As more firms from emerging economies enter global markets, and strive for global leadership, questions arise regarding the applicability of existing theory and whether such firms follow the same evolutionary paths that their developed country counterparts followed in an earlier era. It is also uncertain whether they are following the same evolutionary paths as each other. The determinants of Korean FDI, for example, have been shown to be different from those of more advanced countries (Kimura and Lee, 1998); based on a strong export orientation, concentration on labor-intensive mature industries, and standard manufactured consumer markets. These

determinants, however, may be unique to particular Asian environments, and firms from other emerging markets may follow different paths.

Central to these questions of theoretical applicability and path-dependency are issues of competitive advantage, their nature, where they derive from, and how they are developed. Existing theory suggests that firm-specific advantages (FSAs) stem from asset-based ownership advantages, and that over time, as the firm evolves into an MNE, transaction-based FSAs become more important *(e.g.* Cuervo and Low, 2003, Dunning, 1998, Nachum, 1999b). Transaction-based FSAs reflect the ability of a firm to effectively internalize its separate but complementary activities across borders. The development of FSAs is widely believed to be shaped by characteristics of the home country (Merrett, 2003, Krishna et al., 1997) and builds on the view that competitive advantages accrue from the interaction between home country resource endowments, demand conditions and industry characteristics (Porter 1990).

Coming out of South Africa, however, are a number of firms who appear to deviate from the normal expectations. These firms have become world-class contenders in developed markets with FSAs that are less location bound and appear to be more in the developed country mold than that of an emerging market. They come from a country that does not have the country specific advantages regarded as necessary for their FSAs. Instead, their home country suffers from a low level of human resource development, uncompetitive and protected markets, an emphasis on natural resources and a lack of technological development.

Dawar and Frost (1999) discuss the options that local companies from emerging markets face when confronted with the threat of MNEs entering their markets, based on the globalization pressures in their industry and the transferability of their competitive assets. Where competitive strengths are transferable and globalization pressures strong, they suggest that becoming a global contender is possible. Our focus is on these contenders, firms that focus on upgrading their capabilities and resources to match multinationals globally while simultaneously protecting their home markets. We look at three firms that are clear contenders but that differ from those described by Dawar and Frost. Our firms are not in commodity industries, as would be expected from natural resource-rich emerging markets, such as South Africa. Our three MNEs have internationalized with Firm-Specific Advantages that do not appear to derive from South Africa's Country-Specific Advantages (CSAs), and appear to differ significantly from the Asian tigers. Kimura and Lee (1998) note that Korean firms are unlikely to compete directly with developed country MNEs, either in their home countries or in third countries, in situations of high technology or product differentiation. The firms that we are studying compete directly in these areas with such developed country MNEs.

Our single country focus provides some control for country differences and allows us to focus on the most relevant common factors. A selection of case studies allows us to delve into the objectives of the companies as articulated by the key decision-makers, and provides a depth to the analysis that is lacking in more quantitative research. In addition, the examination of specific firms in a longitudinal manner allows for new theoretical ideas to be tested on larger populations (Aharoni, 1993). Finally, as Sethi and Elango (1999) have proposed, MNEs' strategies may vary according to their country of origin, due to home country factors, and thus a single country perspective may be revealing.

South Africa represents an example of a country that went through a rapid transition from self-sufficiency to globalization in the 1990s. South Africa's stock of outward FDI doubled from $15 billion in 1990 to $32 billion in 2000 (UNCTAD, 2005). The internationalization of South African business has taken place in the context of economic liberalization at home accompanied by political liberalization, and pressures to transform the economic and institutional base of the country to make it more demographically representative. As a place to study the development of global strategies, South Africa offers several advantages. First, the speed of the transition is akin

to an accelerated experiment, and allows us to observe events over a short period of time, providing control over extraneous factors. Second, the fact that internationalization came off a very low base and proceeded rapidly allows us to capture a wide spectrum of activities. Third, the recency of events allows a key informant approach to tap into the views of the key decision-makers who were largely responsible for the events. Fourth, the existence of counter-intuitive cases provides a useful context in which to examine generalizability of theories and develop more contingency-based perspectives.

1. Existing theories and emerging market firm strategy

The phenomenon of FDI by emerging country firms was identified by Wells in 1983, but has only recently begun to receive significant empirical research attention. One early example is a study of Indonesian firms by Lecraw (1993). In terms of testing theories of internationalization, emerging country studies overall have been fairly limited. What research that has been done into global strategies of emerging market firms has tended to focus on the internationalization decision. For example, in examining foreign investments by Chinese multinationals, Deng (2003) found that they had similar motivations to those found elsewhere; *viz.* seeking resources, technology, markets, diversification and strategic assets. Where they differed, however, was in the role of government in shaping the country's outward investment, the importance of "pull" rather than "push" factors, and the relative unimportance of cost minimization as a driver. Another recent study examines outward foreign investment from the Czech Republic, Hungary and Slovenia (Jaklic and Svetlicic, 2001). Post-transition, these countries' firms demonstrated market-seeking motivations for international expansion, and the development of firm-specific advantages combined with specific locational drivers.

There is some evidence to suggest that existing internationalization theories are supported in the case of Korean, Chinese and Central European firms. A study of Korean multinationals, for example, tested a model based on the concept of psychic distance (*cf.* Johanson and Wiedershiem-Paul, 1975), and found support for a view of international expansion driven by an incremental approach to uncertainty avoidance during the early waves of investment, with economic factors becoming more important in later waves (Erramilli et al., 1999).

What is missing from these studies is an appreciation of the fact that some emerging market firms are becoming global leaders, and their strategies also warrant attention. An examination of the relevance of internationalization theories for such emerging market MNEs should be done in the context of two issues. First, there is the question of whether internationalization theories provide a generalizable approach to explaining firm behavior. In this regard it should be noted that others have expressed reservations about the applicability of internationalization theories to microenterprises (Fillis, 2002), services, and high technology (Axinn and Matthyssens, 2002). Second, there is the question of whether emerging market MNEs are different from their developed country counterparts with respect to their decision-making processes and outcomes. The logic of focused strategies for firms in emerging markets, for example, has been questioned by Khanna and Palepu (1997).

Buckley and Casson (1976) provide a useful starting point for looking at theories of internationalization (Rugman and Verbeke, 2003). As noted by Dunning (2003), there are two strands to this approach. One, based on an exchange paradigm, looks at why firms internalize transactions, while the other, based on a value-adding approach, looks at how firms transform inputs. The eclectic paradigm of internationalization as articulated by Dunning (1988) builds on this work, and provides a good basis to examine global strategies.

The eclectic paradigm attempts to explain how firms choose to expand globally, in terms of the interplay of Ownership-specific advantages, Locational attractiveness of countries or regions, and Internalization advantages of MNEs; the so-called OLI approach. The first of these variables directs our attention to a firm's specific competencies, and to an understanding of how they develop. The second variable points to a requirement to examine international growth opportunities and to an appreciation of the transferability of a firm's competencies between markets. The third variable reinforces the need to examine alternative modes of market entry in a competitive context, and to understand the potential for opportunism in uncertain environments. Empirical support for the OLI framework has found that it offers both descriptive and normative benefits (Brouthers et al., 1999).

The eclectic paradigm has been extended into a strategic management perspective to explain MNE activities (Li et al., 2005). In this extension, ownership advantages correspond with strategic resources and dynamic capabilities, while locational factors relate to both local adaptation to host market conditions and knowledge resources that are tied to a particular location. In terms of internalization advantages, structural decisions are both a response to market failure and a way to create further organizational advantage.

2. The development of firm-specific advantages

Firm-specific, or ownership advantages (FSAs) derive from unique firm attributes of size, monopoly power, intangible assets or superior resource usage and capability (Dunning, 1988, Merrett, 2003). FSAs are both location and non-location bound, thereby determining the type of internationalization possible. Location bound FSAs limit the firm to countries that are similar to its home country, where the FSAs can easily be replicated. Non-location bound FSAs allow the firm greater opportunity to invest in many locations (Rugman and Verbeke, 1991).

Merrett (2003) uses the Rugman and Verbeke model to explain and predict the development of FDI from Australia and finds that despite large natural resource endowments and high levels of human development, Australia lagged behind many similar or smaller countries in the numbers of MNEs that originated from it. This was attributed to Australia's economic policy, uncompetitive markets and other country specific factors (CSAs) that stilled the development of FSAs, particularly non-location bound FSAs.

Emerging market FSAs have been shown to differ from those of developed country firms. Product differentiation and high technology are found to be less important in firms from emerging markets where other advantages have been identified, such as in the use of small-scale labor-intensive technologies (Krishna et al., 1997). Firms from emerging markets may develop specific FSAs that enable them to successfully compete against developed country MNEs entering their markets (Khanna and Palepu, 2006). These FSAs result from the emerging market firms overcoming institutional voids; found in the absence of specialized intermediaries, regulatory systems, and contract enforcement mechanisms, which pose challenges to accessing capital, talent or R&D, and building global brands. Khanna and Palepu contend that emerging market firms use their local knowledge to enter similar or neighboring markets initially and enter advanced markets later, but concentrate on niche opportunities to focus their strengths and avoid head-to-head competition with developed country competitors.

With the existing literature in mind, we now turn to the case of South African firms and their moves to achieve global leadership. We begin with a description of the domestic context in which the globalization of South African firms has been taking place.

3. South Africa's re-entry into the world economy

Until 1994, South Africa was regarded as a pariah state in the global system, with externally imposed global isolation and trade sanctions against the Apartheid regime. The South African economy, in turn, became driven by the necessity for self-sufficiency. Government ownership of what was ostensibly a market-economy was extremely high, and state-owned enterprises were used as a means to protect a White electorate. Economic efficiency was seen as secondary to political stability, and domestic competitiveness was weak.

The year 1994 marked a significant change in South Africa. Following decades of minority-rule and political oppression, the first democratically elected government in the country's history was elected. The new government came to power with a mandate for, and great expectations of, major political and economic transformation. Redistribution of income was recognized both as a political imperative and as an economic necessity if the country was to prosper. It quickly became apparent that redistribution required economic growth and a strategy for the country was put in place. Labeled GEAR (Growth, Employment and Redistribution), the policy was based on trade liberalization, macroeconomic reform and budgetary conservatism (Department of Finance, 1996). Revised antitrust policy followed in 1998 (South Africa, 1998). The role of competition in general, and the private sector in particular, in generating economic growth was apparent in the thinking that sought to attract foreign investment and generate exports. This thinking is consistent with the principles outlined as part of the "Golden Straightjacket" that emerging markets face (Friedman, 2000): *viz.* making the private sector the primary engine of economic growth; low inflation and price stability; smaller government with balanced budgets; openness to international trade and investment; domestic competition; privatization and deregulation; eliminating corruption.

The end of global isolation revealed a lack of international management skills in South African business. A generation of managers had developed in a largely autarkic environment, with little understanding of and experience with demanding global customers and aggressive foreign competitors. Business had developed practices that served it well in a closed economy, but was largely unprepared for the vigorous nature of international competition. Risks were regarded as experiences to be avoided, rather than managed, and cozy, cartel-like arrangements were common domestically. International rankings of global competitiveness, as a consequence, placed South Africa at the bottom of the tables (IMD, 1996).

Despite the inauspicious beginnings, some South African businesses have made great strides in expanding internationally. While much of this expansion has been in the rest of Africa, where South African firms may have a locational advantage, a number of MNEs have also emerged to contest global leadership positions in some industries. An examination of UNCTAD's "Top 50 TNCs from developing countries" reveals that seven South African companies are ranked in the 2004 report, while there were none in 1994. Three South African companies have consistently appeared on the list in recent years: Sappi Limited, South African Breweries (hereafter SAB), and Barloworld. From 1996 to 2001, the foreign assets held by these three firms combined increased from $5.2 billion to $7.7 billion, an increase of 46%.

These three companies provide a broad industry cross-section of the South African economy, covering paper, food and beverages, and diversified industries respectively, and their foreign assets accounted for 26% of all South African outward foreign investment stock in 2001. As such, these three firms represent a good foundation on which to examine the global strategies of successful firms from this developing country.

4. Sappi Limited[1]

Sappi is a pulp and paper manufacturing company, ranked 11th in terms of foreign assets and 10th in terms of the Transnationality Index (the average of the foreign/total ratios for sales, employment and assets) for companies from developing economies, with a score of 70.4% (UNCTAD, 2005). Sappi has grown from being a domestic South African company in the late 1980's, albeit exporting about half of its total capacity, to an international organization with manufacturing facilities on three continents today. Sappi is currently the global market leader in its core businesses of coated wood free paper and dissolving pulp. By the end of 2003, 24% of Sappi's operations were based in South Africa, 44% were in Europe and the balance of 32% was in North America. Sales for 2003 were US$4.3 billion and operating profit was US$286 million (Sappi, 2004).

5. Sappi in a closed economy

South African Pulp and Paper Industries Limited was registered in 1936, and established their first paper mill in 1937. The late 1970's and 1980's were characterized by rapid growth from acquisitions, concentric diversification, organic growth and new product development. In the Apartheid years, the South African government protected its large domestic industries through import controls, but Sappi came to realize, during the early 1980's, that this protection was unsustainable. To achieve requisite production efficiencies, Sappi needed to run its plants at a scale that was larger than the South African market could accommodate, creating a necessity to export. In building excess capacity during the 1980's Sappi was able to cover the bulk of its capital expenditure while enjoying protection, leaving room for price reductions to occur later.

Sappi's original growth plan was based on the South African economy growing at an average rate of about 4% per annum, and exporting about 20% of production. The anticipated economic growth, however, did not materialize during the turbulent 1980's, and average GDP growth in the 1990's remained at or below 3%. Excess capacity forced Sappi to become a large exporter, and in 1986 Sappi International was established to handle foreign sales that had grown to about 50% of production (Financial Mail, 2004).

6. Globalization

With the lifting of sanctions and the opening up of the South African economy, Sappi realized that it would be facing global competition in its home market. Sappi managers believed that only the top two or three producers could be reasonably profitable in volatile pulp and paper markets worldwide, and that they needed to become one of those companies. Sappi focused on the coated paper market, with a stated intention to be the market leader by 2000. This strategy could only be achieved through acquisition and industry consolidation.

In 1990 Sappi acquired five paper mills in the UK, to establish their European operations. The acquisition of Speciality Pulp Services of Hong Kong, and the establishment of Sappi Trading, the organization's international trading company, followed. In 1992 Hanover Papier was acquired to position Sappi as one of the top three producers of coated wood free paper in Europe. In 1994 and 1997 Sappi acquired their two largest competitors, SD Warren (the leading producer of coated paper in the US) and KNP Leykam (the European market leader) respectively, and in 2002

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[1] Historical background is taken from www.sappi.com, accessed 10 April 2004.

acquired Potlatch Corporation's Minnesota Pulp and Paper Division for $480 million. These acquisitions made Sappi the world's largest producer of coated wood free paper, with a global capacity share of about 15% (with 25% and 20% market shares in North America and Europe respectively) (Sappi, 2004).

The impact of the US downturn on commodity based-industries in the early 2000's was felt strongly by Sappi, and they had to refine their business strategy accordingly. Sappi's long-term objective is to grow organically, continuously strive for better efficiencies across the group, and to strategically influence pricing to achieve stability. While the broad objective of maintaining large market share has remained constant, Sappi has concentrated its focus on coated wood free paper and dissolving pulp, and is trying to influence the fundamentals of these industries. This focus led to the sale of Sappi Novobord in 2000, Sappi Mining Timber in 2001 and the Boskor sawmill in South Africa in 2003, and to the closure of the Mobile Mill in Alabama, which focused on uncoated paper, and of the Transcript mill, in Scotland, that produced carbonless paper.

With each acquisition Sappi sought to integrate existing management into the Sappi culture and financial systems. This was largely successful, and Sappi avoided the use of many South African expatriates, even though Sappi believed that domestic managers adapted well to other environments. According to Sappi CEO, Eugene van As, South African managers "are generalists and good integrators, probably because South Africans grow up in a multicultural society. They are also energetic and less constrained by form over substance, which tends to make them good decision-makers" (quoted in Financial Mail, 2004).

7. South African Breweries[2]

SAB ranked 20th in terms of foreign assets and 18th on the Transnationality Index for companies from developing economies in 2003, with a score of 55% (UNCTAD, 2003). In 2001, SAB had foreign assets of $2,785 billion, foreign sales of $2,433 billion and foreign employment of 15,450. While SAB was no longer listed as a developing economy TNC in the 2004 UNCTAD Report, following their acquisition of Miller Breweries in the USA and establishment of a head office in London, SAB may still be regarded as a South African company for our purposes that involve a retrospective examination.

8. South African Breweries in a closed economy

South African Breweries was established in Johannesburg in 1895. In spite of the dire economic and social effects of the second Anglo-Boer War (raging from 1899-1902), by the early 1900s SAB was the fastest growing non-mining firm locally. In the 1940s, SAB began to expand its brewing portfolio to include small hotels. In the 1950s taxes on beer resulted in reduced demand for beer, and South Africa's three largest brewers consolidated, with 90% of the beer market. In order to expand their range of products in the 1960s, SAB acquired control of Stellenbosch Farmers' Winery. In 1962, the restriction on the drinking of alcohol by Black South Africans was lifted, and a phenomenal market opportunity for SAB was created.

Between 1978 and 1990, SAB experienced extremely high organic growth rates. From the mid-1960s to the early 1990s, SAB also followed a strategy of growth through diversification,

Much of the background in this section is taken from "South African Breweries: Achieving Growth in the Global Beer Market," Wits Business School 2001.

encompassing a hotel division, a furniture, footwear, and discount retailer, the Pepsi bottling division in South Africa (which converted to Coca-Cola in 1977), entering the apparel retail sector, and investing in the Lion Match Company, Da Gama Textiles and Plate Glass. The diversification strategy was a consequence of the political isolation of South Africa, limiting outward investment options, and the fact that SAB already sold to 98% of the local market.

9. Globalization

SAB began to venture outside its domestic market while the South African economy was still closed. They operated breweries in Swaziland, Botswana and Lesotho in the 1970's, in countries that were part of the Southern African Customs Union, where local markets were unsophisticated but familiar with South African brands. By the early 1980s, SAB was also negotiating small acquisitions overseas, including in the USA, in some cases disguising their South African origins. When international economic sanctions were lifted in the early 1990s, SAB began to aggressively pursue global operations, acquiring stakes in Hungary in 1993, China in 1994, and Poland and Romania in 1996. By the late 1990s, SAB also held brewing interests in Zimbabwe, Tanzania, Mozambique, Angola, Ghana, Uganda, Kenya and Zambia, and was the largest brewer in Africa, producing over half of all beer consumed on the continent.

Graham Mackay became Managing Director in 1996 and CEO in 1999. During these years, the company refocused on core brewing activities. Non-core interests, such as textiles, furniture, matches and retail, were sold off. In 1999, SAB gained control of two Czech brewers to become the largest brewer in Eastern Europe. SAB also acquired a 97% share in a Slovakian beer company and purchased a brewery in Moscow.

In March 1999 SAB shifted its primary stock market listing to London, to facilitate the raising of hard currency for acquisitions. The rationale for the listing included membership in the Financial Times Stock Exchange Index (FTSE 100), which would ensure an international rating, and enhance global competitiveness in raising capital.

Since listing on the London Stock Exchange, SAB has continued to expand and has steadily consolidated its position as a global brewing company. With strategic acquisitions around the world, SAB has focused on operating improvements and efficiencies. A pan-African strategic alliance entered into between SAB and the Castel group, capitalized on the complementary geographic profile of the two groups in Africa. While SAB's operations were concentrated in the south and east of the continent, the Castel group's interests were in 16 mainly francophone countries of west, central and North Africa. In addition, SAB made CSD (carbonated soft drinks) acquisitions in Angola and Zambia, and increased beer investments in Uganda and Mozambique.

The group entered Central America in November 2001, with brewing and soft drinks acquisitions in Honduras and El Salvador. SAB has expanded rapidly in China, where its joint venture operation, China Resources Breweries (CRB), is the country's second largest brewer. Five new breweries were purchased during the 2001/2002 financial year in the north east of the country, where CRB was the market leader. By entering into a majority-owned joint venture with the Blue Sword group, CRB also became the leading brewer in the highly populated Sichuan province of China. Two new breweries were acquired in India, giving SAB a presence in four of the five largest beer-consuming states in the country. Castle Lager, SAB's major home market brand, was successfully launched as a premium brand in Delhi and Mumbai.

By 2002, SAB had total beer sales of 70.4 million hectoliters and brewing operations in 24 countries. It was one of the largest bottlers and distributors of Coca-Cola products outside of the

US, and also owned hotel and gaming businesses. The group had consolidated its position as a broad-based emerging market brewer and, while South Africa was no longer responsible for the bulk of SAB's beer production, it continued to account for a large part of the group's operating profit.

The period from February 2000 to May 2002 was one of intense mergers and acquisitions in the brewing industry. That said, the question of global consolidation remained open, as no company had yet built a dominant position at a global level. The top 10 or 15 brewers remained those with dominant local positions in large markets such as the USA, Brazil and Japan.

In 2002 SAB was being criticized for its over-exposure to the perceived risk of emerging markets. The steady decline in the real value of the South African Rand, escalating political instability in Zimbabwe and lack of confidence in African leaders, all contributed to high levels of "Afro-pessimism," and were reflected in a relatively low P/E ratio for SAB shares. SAB ran the risk of being swallowed up by one of its rivals, even as the fourth largest brewer in the world by volume. Mackay believed that financial markets were underrating the company and, to change that bias, he had to increase the group's scale from that of a large brewer in emerging markets to that of a truly global player.

In May of 2002, SAB made a major leap into the developed world, by acquiring Miller Brewing in the USA. The deal was more complementary than synergistic in nature, although cost savings of about US$50 million had been identified by SAB. For SAB the Miller deal was thought to provide:

- greater geographical balance between a cash-generative mature market and the cash-consuming developing markets;
- better access to capital markets through a lower weighted average cost of capital;
- the scale and critical mass to move into the first tier of brewers;
- an opportunity to put together a portfolio of international brands, which would in turn be underpinned by a global network of distributors;
- access to hard currency earnings and the large American profit pool; and
- an opportunity to 'de-risk' the business and give it ballast.

SAB followed up their acquisition of Miller with the purchase of a majority stake in Birra Perroni in Italy, and further acquisitions in Poland and China in 2003, and the establishment of joint ventures in Algeria and Morocco in early 2004.

10. Barloworld[3]

Barloworld ranked 21st in terms of the Transnationality Index for companies from developing economies, with a score of 51.6% (UNCTAD, 2005) and 32nd on foreign assets. In 2001, Barloworld had foreign assets of $1,409 billion, foreign sales of $2,027 billion and foreign employment of 10,222; two years later, sales had increased to over $3 billion.

Barloworld has evolved to become an international industrial brand management company, with operations in 32 countries and sales in more than 100 countries, in 7 business segments (equipment, industrial distribution, motor, cement and lime, scientific, coatings and steel tube). Barloworld has a primary listing on the JSE Securities Exchange in South Africa and secondary listings on the Brussels, Frankfurt, London, Namibia and Swiss SWX exchanges.

Historical background is taken from www.barloworld.com, accessed 30 March 2004.

11. Barlows in a closed economy

Barlows was founded in 1902 as an independent company based on a family business of the same name in England. The company sold woolen goods, including blankets and coats initially, but later expanded to engineering components. In 1927 the company sold its first Caterpillar tractor, leading to their becoming the first official sales and service dealer for Caterpillar in South Africa. A forklift dealership followed in 1929.

Barlows was listed on the Johannesburg Stock Exchange in 1941, and in 1951 Barlows entered the motor trade with the acquisition of a Ford dealership. This was followed by a period of rapid growth in the 1960's and 1970's when Barlows expanded into many additional fields, including steel and building materials handling equipment, consumer electronics and steel manufacturing and selling. Barlows also acquired trading interests in the UK, Zimbabwe, Botswana and Namibia, and in 1969 it listed on the London Stock Exchange.

In 1970, Barlows acquired Rand Mines Limited and Barlow Rand was established. This led to a rapid diversification of products and the company expanded its interests to include extensive mining and property interests, cement, lime, stainless steel, televisions, paint and food. Barlow Rand also added additional motor franchises to its portfolio. This led to Barlow Rand becoming a dominant player in many sectors of the South African economy. This domination continued in the 1980's with further expansion into electronics, information technology and textiles. During this time Barlow Rand took over the management of the IBM and Merck brands in South Africa.

12. Globalization

Barlows' international expansion began to take off in the mid 1980's with the acquisition of J Bibby & Sons in the UK. This was followed by the acquisitions of Lamson in Belgium, Finanzauto in Spain, and STET in Portugal. These operations, however, were small and Barlows managed to escape the sanctions spotlight that affected most South African companies at the time.

Following the political transition to democracy in South Africa in the early 1990's, and the lifting of foreign trade sanctions, Barlow Rand began to sell off non-core businesses, including mining interests and MS&A (now Columbus Steel). They recognized the limitations of being a South African focused conglomerate. After unbundling, Barlows invested heavily in building operational capabilities to world-class standards. At the same time, Barlows continued to expand global operations with the acquisition of Lanes Limited and Taubmanns in Australia and the Ditch Witch franchise in the USA. Barlows also took on the distributorship of the Perkins brand in South Africa and the Caterpillar brand in Siberia.

In 2000 the company's name was changed to Barloworld to reflect a shift in focus to international markets. The Barloworld restructuring comprised the re-branding of all subsidiaries, both in South Africa and internationally, with only co-brands retaining their own identities by September 2002. The new Barloworld set itself a target of deriving three quarters of income and two thirds of sales from abroad by 2003. Tony Phillips, then CEO, asserted that "there is little capacity for us to grow further in South Africa, so we are actively seeking international expansion opportunities" (quoted by Macmillan, 2000).

Barloworld's growth strategy is to acquire more of its existing products and services in new geographies and to add complementary brands to its mix. This narrow focus has guided investment since 1998. According to Phillips, the company "will continue to do what [we] do in more places around the world. Finding where to do it is not a problem. The challenge is choosing the better opportunities" (quoted by Gaenor, 2002). This approach is well illustrated by Barlow's relationship with Caterpillar. Over the course of the 77 year relationship, Barloworld has obtained the exclusive distribution rights to Caterpillar in Spain and Portugal, Southern Africa, Bulgaria, and Western Siberia. Similarly Barloworld has had a 75 year relationship with Hyster, the forklift manufacturer, and is the vendor of Hyster products in 8 states of the USA, and in the UK, Belgium, Netherlands and Southern Africa.

Since 2000, global expansion has continued with acquisitions of Freightliner in the USA, motor dealerships in Australia, Protean (a UK based laboratory company), and Portland Holdings in Zimbabwe. Barloworld also launched a new business unit, Barloworld Logistics, opened a chain of interior decorating centers in China, and expanded its fleet of dealerships in Australia. Barloworld's UK subsidiary won a 10 year contract to support the British Army's fleet of forklift trucks and an additional contract to own, maintain and repair more than 2000 items of material-handling equipment, including forklift trucks, tractors, trailers and cranes. Barloworld now owns and maintains the British Ministry of Defense's entire fleet of more than 4,500 pieces of material-handling equipment worldwide (Morris, 2002).

Barloworld's stated goal is to create value through leadership in every market in which the company operates. This is done through the sharing of knowledge, innovation and best practice and creating and maintaining enduring relationships with customers (Barloworld, 2003). Barloworld is built on three main components; co-branded activities in which leading international brands are marketed and distributed, its own brands which are manufactured, marketed and distributed, and a financial services operation which includes leasing and insurance products.

13. Summary

All three of the above firms had already established operations outside South Africa before any global competitive pressures existed. Sappi moved abroad due to excess capacity domestically and the recognition that global scale was required for competitive success. The exploitation of domestically-developed competencies was then seen as a priority for management to pursue. Sappi's ability to acquire additional companies and consolidate the industry further is limited by its current dominant market position. Further acquisitions will be constrained by a lack of acquisition targets and anti-trust legislation.

The SAB case reveals a company that expanded internationally based on locational advantages buttressed by internalization skills. SAB was able to transfer its competencies into other developing countries in a way that their counterparts from the developed world could not. To do so, they built on their strong performance management culture developed at home. This culture represented a critical strength in their successful turning around of failing, previously state-owned, breweries in Africa, China and Central Europe.

The story of Barloworld mirrors many of the features of those of Sappi and SAB. The company has successfully developed its ownership advantages in its home market and taken these advantages abroad. What is notable here, however, is the extent to which locational advantages were built in developed countries, rather than in other developing countries first.

Key features of the three company histories are summarized in the table below:

	Sappi	SABMiller	Barloworld
Motivation for internationalization	• Market defense • Limited organic growth in domestic market	• Limited organic growth in domestic market • Global aspirations of leadership	• Limited organic growth in domestic market
Global business strategy	• Global scale and consolidation of coated paper industry • Organic growth in key related industries	• Consolidation of global brewing industry though acquisition • Distribution of global brands	• Organic growth in key markets • Introduction of existing brands in new territories
Evolution from national champion to MNE	• Restructure to world-class standards • Export excess capacity • Focus on core product/technology • Small acquisitions that fit the SA operation. • Limited use of Expatriates to manage foreign operations	• Restructure to free assets and focus • Introduce SA-developed technology and processes to emerging markets • Once critical mass achieved, focus on transfer of skills to developed markets • SA expatriates in key positions in foreign subsidiaries to transfer processes and culture from SA operations	• Learning and experimentation with smaller operations in developed markets ("below the radar") • Build relationships with global brand-holders/franchisors and customers from developed markets • Expatriates in limited numbers to manage subsidiaries and key relationships
Firm-specific advantages	• Efficiency • Scale • Technology • Managing global value chain	• Superior technology and processes developed in SA and transferred to new acquisitions	• Customer focus • Brand management skills • Supply chain management technology and skills
Role of South African operation	• Source of funding • R&D • Coordination of global value chain	• Main source of R&D • Key management skills	• Source of intellectual property • Coordination/management of key relationships
Home country share of group performance	• 26% of revenue (US$1.321 billion) • US$61 million profit *vs.* group loss of US$137 million loss	• 25% of revenue (US$3.781 billion) • 39% of profit	• 58% of revenue (R24.875 billion) from Southern Africa • 74% of profit

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14. Analysis and conclusions

The core focus of this paper is on an understanding of the development of global strategies of emerging market MNEs and how such firms achieve global leadership. The above case descriptions provide us with some insights with respect to successful firms from a single country, and clues into the strategies of MNEs from developing countries in general. Arising from this analysis, a number of propositions may be advanced. As we can see, the conclusions are much more nuanced than might have been expected and frequently entail a combination of factors and a contingency perspective.

The opening up of the South African economy after 1994 made companies vulnerable to foreign competition. For some this was for the first time, although many had dabbled in neighboring countries, familiar with South African brands, long before then, driven by the need for organic growth during the Apartheid years. The immediate actions taken by the MNEs in anticipation of the competitive challenges were both defensive and offensive in nature. The success of these MNEs demonstrates that they had ownership advantages (FS As) that they could exploit. If we were to array the three MNEs along a continuum, we would conclude that Sappi's internationalization was the most defensive, while that of SAB entailed the greatest exploitation of ownership advantages.

Economic and trade sanctions in the 1980's led to massive diversification and conglomeration in South Africa. Companies were not allowed to export capital and thus acquired other local businesses instead. This led to one of the most highly concentrated economies in the world. When capital controls were eased, the three conglomerates unbundled, freeing up assets which were used to build their expertise and modernize their local operations, as well as to invest elsewhere. All three engaged in huge restructuring initiatives at home before embarking on significant international acquisitions. This led to the creation of very efficient businesses, built in a relatively protected environment. Rather than immediate competition driving the changes, it was the prospect of impending competition together with global ambitions that motivated these companies to grow strong.

Initial international entry was typically small, due to constraints imposed on the export of capital by the South African Reserve Bank and to the relatively small size of these companies in global terms. For all three MNEs, secondary stock market listings were used to access global capital markets. Only after they had bedded down their initial acquisitions did they move on to larger targets. Acquisitions were in chosen focus areas and complemented locally-developed skills through limited diversification in complementary product lines. Very few new products were launched from their internationalization.

All three companies examined here are focused on narrowly defined industries. The companies seek to stabilize prices through market consolidation, and the achievement of critical mass, while increasing globalization is pushing the critical mass target ever higher. Raising capital to achieve higher scale will always be difficult for these developing country MNEs as they derive a significant portion of their income from emerging markets and "soft" currencies.

Home country instability or socio-economic and legal pressures may also be unique to developing country MNEs. Pressures in South Africa for Black Economic Empowerment, for example, place a burden on South African companies that their developed country counterparts do not have to carry. Similarly, the scourge of HIV/AIDS compounds the home country skills shortages already under pressure from brain drains to developed countries.

It is clear from our analysis that the South African MNEs possess specific competencies that have allowed them to compete successfully with MNEs from developed countries in certain places. As is true for their developed country counterparts, their competencies are not universally applicable but rather are context-specific. A developing country environment hones generalist

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skills that are well-transferable to similar environments. The diverse South African environment forced the development of cross-cultural management competencies that eased the internationalization moves of their MNEs. The extensive use of South Africans as expatriates (in the cases of SAB and Barloworld) and the role of the home company are evidence of this competency.

The local operations of all three firms are world class and generally more efficient than those of their acquisition targets; the South African MNEs have managed to improve productivity in all of the latter. All three firms see their strength in management skills developed at home, *e.g.* Barloworld's value-based management systems and SAB's performance culture. Skills development and the creation of sound business models were accomplished in the relative safety of the local market before moving abroad.

Our South African MNEs were cash rich companies that enjoyed dominant positions in a virtually stagnant economy. South Africa was characterized by low economic growth, high inflation and high real interest rates, but shareholders expected returns above those found in developed countries, to compensate for developing country risk. In the early 1990' s, developing country firms were regarded as natural hedges and attracted significant attention for their future growth potential. The Asian and other emerging market crises of the mid-nineties, however, changed shareholder preferences, especially in favor of hard currency income streams.

15. Propositions

During the 1980's and until 1991, South Africa was subject to a substantial series of sanctions aimed at isolating the Apartheid government and its supporters. The withdrawal of foreign investment and the sale of local assets by foreign firms provided opportunities for South African firms with capital to build their bases quite cheaply, through the acquisition of other South African companies and of the former subsidiaries. This in turn led to the concentration of South African industry into a small group of diversified conglomerates. The concentration of ownership in complicated pyramid holdings was a defining characteristic of the South African economy during the 1980's, but was in no way an efficient structure.

The conglomerates operated in a protected environment that provided the opportunity to develop advantages with a high level of stability, but one that also dulled their competitive energies. The diversification of the conglomerates, combined with a low level of competition, provided a potential subsidy for the development of core skills and knowledge. Some firms took advantage of this potential and expanded on the back of these skills when the environment changed. Following the changes in the early 1990's, these firms unbundled and utilized the proceeds from unbundling and their skills to expand internationally, but other firms were unable to cope with the drastic changes that followed.

The sanctions environment, coupled with foreign exchange controls, encouraged some firms to reinvest their overseas earnings abroad rather than repatriate them to the unstable South African economy at the time. The need to reinvest limited foreign capital, and the respective skills that had been developed, meant that typical acquisitions were initially of small firms in the same industry where the acquirer could apply their core competencies. The sanctions environment encouraged these firms to reduce country risk by building a foreign presence, as can be seen by their early, albeit limited, foreign investment by the early 1980's.

In many ways these South African companies contradict the usual presumptions about protected firms failing to achieve competitive strengths. This implies that protectionism is not sufficient for economic performance, but the dominance that it allows may be necessary.

PI. *Home market domination allows contenders to develop competitive FSAs that are non-location based and may be a necessary but not sufficient condition for global success.*

Firms do not generally develop strong competitive competencies unless they are pushed to do so. SAB, however, had successfully defended their domination for 100 years, beating off several competitors in the market. Barloworld had dominated their home market on the back of relationships with key players in the local economy — most notably the mining houses and engineering industry. Sappi was not under threat when they overdeveloped capacity. They were protected by tariffs and their domination of the industry included owning forests upstream and packaging manufacturers downstream.

It is worth asking what made these three South African companies unique. They are different from both their domestic contemporaries as well as their peers in other emerging markets that have failed to globalize on the back of protected local markets. They may well be the exception that proves the rule, in this case, that the infant industry argument for protection is unsound. These three firms are unique in that they were able to become strong and efficient in the absence of strong competitive pressures to do so.

Based on our analysis, the uniqueness has more to do with the visionary leadership that these companies enjoyed, than any other factor. Much of the theory around internationalization, in contrast, downplays the critical role played by individual decision-makers, and appears to assume that, faced with identical conditions, different firms will behave similarly. It is only through an examination of the different strategic responses adopted by different organizations that one is able to fully understand the impact of leadership. Our conclusion that success is driven by visionary leadership is a caution for policy-makers and recognition of their limitations in creating successful MNEs in developing countries.

In all three companies examined, the senior managers foresaw a changing world and prepared their organizations to be able to respond to these changes. In so doing, they were able to reverse the perverse economic logic that their protected markets encouraged them to adopt and they moved away from being unfocused conglomerates. They were, perhaps, fortunate in that they could exploit their local market protection, but it is unlikely that protection alone was responsible for their success. The success of these emerging market MNEs appears to due to visionary leadership who were able to motivate change and improvement in the absence of external pressures to do so.

P2. *Strong leadership combined with domestic dominance may be more important than country specific advantages in explaining the success of emerging market MNEs.*

One of the factors that makes global expansion difficult for many locally dominant firms is that the bases for domestic dominance are different from those required for international success. Our three firms had all developed strong skills in defending their home market positions, but then had to develop new FSAs that were non-location bound. While the roots of these FSAs may be local, their development required substantial changes in business models and strategy.

SAB had to change focus from saturating their home market to becoming turn-around specialists for foreign acquisitions. Their current challenge is to build and manage global brands and further consolidate the brewing industry. SAB did not have global brands when they moved abroad, but have several now. Barloworld had to learn about new customers before they could service them. They also needed established names such as Caterpillar to enter developed markets. Sappi had to streamline their product portfolio, moving the broad offering at home, to focus on high quality paper abroad.

Changes in strategy and focus also required organizational restructuring, modernizing the organization and developing world-class FSAs. Sappi had to develop sufficient scale to serve both the home market and to export, and focus on an area where they could be dominant. Initially, SAB chose to operate in markets with less competition, acquiring previously nationalized breweries in Africa. SAB became a global player only after working out how to transfer skills developed in South Africa to other environments. Barloworld refocused on a core set of brands and customer types and then developed the concept of "smart-relationships." Such a focus was not possible with its previous strategy of diversification.

P3. *Strategies and FSAs that sustain local domination are generally not appropriate for international expansion, and new FSAs need to be developed.*

Developing country MNEs are unique from their developed country counterparts in terms of the challenges facing them. All MNEs must deal with increasing concentration of global markets and the evolving separation between large global players and small local players. To be among the top few global companies that will survive in an industry, however, requires a presence in all major markets. This stretches the management base of developing country MNEs and forces them to move beyond their arenas of past success. It requires the development of stronger specialist skills, and broader based competencies.

It would appear that asset exploitation was the primary driver of international investment for our South African MNEs. Over time, however, these MNEs saw the need for greater asset seeking, largely in terms of access to global capital markets for continued expansion. These MNEs do not appear to have been hindered by a lack of ownership advantage in exploring foreign markets, likely on account of their careful selection of locations and situations to which their advantages translated. This is particularly apparent in the case of SAB which expanded strongly into other developing countries where their advantages over developed country competitors were strong. Similarly, Sappi enjoyed excess production from one of the largest and most modern facilities in the world, while Barloworld fostered its concept of "smart partnerships" and its own brand of value-based management.

P4. *Successful emerging market MNEs start to build their global positions on the back of asset exploitation, but soon follow with asset seeking behavior.*

Our firms differ from the typical contenders described by Dawar and Frost in that these firms successfully entered developed markets to compete against mature local companies in highly competitive markets. Nachum (1999b) argues that the impact of the home country will decline over time, but our firms do not show this, and their South African roots are celebrated. In fact, the South African operation is the driver and updater of FSAs over time and appears to have gained in importance as a source of management, funding technology, and coordination.

In the case of South Africa, the sanctions environment assisted in the development of firm-specific advantages in all three firms by providing a protective environment that encouraged the growth of national champions, but this environment cannot in and of itself explain their successes. The three firms were able to develop their respective advantages locally before using them as a basis for internationalization due, in part, to the protection offered by economic isolation and international trade sanctions. The advantages were developed during the sanctions period, but all three firms had already begun international expansion well before the lifting of sanctions. With the exception of Sappi (initially at least), all built non-location specific FSAs.

P5. *When CSA's are less important for contenders they can accelerate their development to non-location based FSAs rapidly.*

Despite their global successes, these three MNEs remain dependent on their home market for learning and investment, and even to offset poor performance or risk elsewhere. If we look at SAB's acquisition of Miller, one of the primary motivations was to reduce vulnerability to emerging market currency volatility. As the Miller acquisition has proved to be more difficult to turn around than anticipated, home market profits remain critical for corporate financial performance; 25% of revenues and 39% of profits come from Southern Africa. South Africa also remains the primary source of knowledge and expatriates. Sappi is still very much a South African organization. South Africa is an important source of funding, the global value chain is tightly managed from Johannesburg and home market R&D still predominates. South Africa provides 74% of Barloworld's profits and 58% of revenues and the parent retains control and management of core brands such as Caterpillar and Hyster.

P6. *Local market dominance remains critical for emerging market MNEs even after they become global leaders.*

From this study we are left with a picture of developing country MNEs succeeding abroad based on skills honed at home. Their ownership advantages are seen in the core skills or unique know-how that they possess that provide them with a sustainable advantage over competition (Aharoni, 1993). These ownership advantages have been transferred successfully to a variety of countries, both developed and developing.

16. Implications for future research

This study has provided a starting point for examining the global strategies of emerging market MNEs and their elevation to true contenders for market leadership. In so doing, a number of implications for further research arise. We strongly suggest that a contingency view be adopted, rather than generalizing about the use of CSAs in the development of FSAs in emerging markets, in future research.

Our conclusion that dominance and leadership may account for more than CSAs in explaining the FSAs of emerging market MNEs certainly warrants more attention. Similarly, our contention that the need for organic growth seems to be a stronger driver than market defense should be studied in other contexts. We have described a process where firms are driven initially by market seeking, but with levels of sophistication increasing rapidly and developing into non-locational FSAs *(cf* Rugman and Verbeke, 2003). If this pattern is found in other emerging markets, it has profound implications for the development of successful MNEs from those countries.

Lastly, in this study we found that domestic market dominance was very useful for the firms studied, in contrast with the view that such dominance has a negative effect, breeding complacency and the creation of sluggish, non-competitive organizations. Diversification strategies of developing country firms have been studied elsewhere *(e.g.,* Nachum, 1999a), but little attention has been focused on the break-up of such conglomerates into focused businesses in developing countries. The role of leadership in managing opposing pressures that arise from market dominance is an area that is rich for future research.

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