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# Entry of Wal-Mart into South Africa: A stakeholder management perspective

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## ABSTRACT

The growing importance of emerging markets in the global economy leads many multinationals (MNEs) to explore and expand into them. Saturation and slow growth in home markets, coupled with rising incomes in emerging markets, has also accelerated retail internationalisation. These markets are generally unfamiliar to the predominantly western firms, and they come with intractable social problems, where resultant stakeholder activism abounds.

The purpose of this study was to investigate stakeholder management during entry of a retailer, Wal-Mart, into an emerging market, South Africa, in order to draw lessons that could be of use to other MNEs seeking to enter similar emerging markets. The method used for the study was a qualitative archival analysis that relied on publicly available sources, namely the regulatory bodies, parliament, press releases and the print media.

The research found that the key stakeholders during the entry of Wal-Mart into South Africa were the government and trade unions. Government and trade unions were concerned that Wal-Mart's entry would lead to an increase in imports and displace local producers, in turn worsening South Africa's unemployment crisis. It was also feared that Wal-Mart would seek to change the existing labour regime in order to marginalise trade unions and lower labour standards. The research found that stakeholder management was poor and highlights the importance of integrating stakeholder management strategy into the broader entry strategy into developing markets.

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Tembinkosi Bonakele

09 November 2011

## DEDICATION

I would like to dedicate this research to Eunice Gogogo Mankayi, my late maternal grandmother who raised me and sent me to school. Mama, I know that wherever you are you will join us in celebrating this milestone. Thank you Magebane...Mbanjawa.

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It is all over!

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## CHAPTER 1: INTRODUCTION AND PROBLEM DEFINITION

### 1.1 Introduction

Globalisation is a defining feature of business today, and internationalisation is one of the most significant trends in today's business environment (Vida & Fairhurst, 1998). In most industries a global strategy has become a necessity management cannot afford to ignore (Porter, 2008). At the same time there is a significant shift in the world economy. Emerging countries led by China are driving global economic growth, and this is likely to continue in the foreseeable future (Agtmael, 2007). Global bodies such as the International Monetary Fund (IMF) recognise that future economic growth in the world will come from regions other than North America and Western Europe, with virtually all indications pointing to the global economic power shift (Economist, 2011). Developing markets' rise in importance has been aided by the post-recession public debt crisis in some western countries and the poor growth outlook for these markets. Consequently, investors and companies are increasingly looking at emerging markets for better returns and long term growth prospects.

The retail industry is amongst those that are fast globalising. Even before the recession and current economic challenges in their home markets, retailers from the west recognised that global expansion was required in order to maintain an acceptable growth rate, as their own markets matured and became saturated. With spending power shifting to emerging markets, leading global retailers such as Wal-Mart, Carrefour, Metro AG and Tesco are in a scramble to get a foothold in these markets (Financial Mail, 2011).

Entry into developing markets is widely recognised to be complex because of the institutional voids and social challenges that characterise these markets. Western multinational corporations (MNCs) also battle with the cultural and business differences they encounter (Ghemawat, 2001).

As these developing countries generally face huge social challenges, high levels of activism around social issues usually abound. Firms entering these markets, therefore, face the challenge of understanding and engaging with various stakeholders. The purpose of this research is to examine the management of stakeholders by a multinational retailer entering a developing market, using the case of Wal-Mart in South Africa. The objective of the research is to contribute to understanding entry dynamics to emerging markets from a stakeholder management perspective.

## **1.2 Research Scope**

The scope of this research will be limited by the following definitions/descriptions:

- Emerging Markets/Countries refers to the rapidly growing and industrialising economies of Asia, Latin America, Eastern Europe and Africa.
- Multinational Enterprises (MNEs) or Multinational Corporation (MNCs) shall mean firms with some foreign sales or foreign production of ten per cent (10%) (Rugman 2009); and
- Entry shall mean entry by means of a merger, acquisition or takeover.

The research will be done on how stakeholders were managed by Wal-Mart during its recent entry into South Africa. [Wal-Mart is best suited for the research as it is the largest company in the world and retail involves significant operations in a country that is being entered.]

### 1.3 Research Motivation

Many MNEs, especially from the developed markets, are looking at or are already expanding into emerging markets. However, entering developing markets can be complicated. While research has been undertaken on the challenges of entering into developing markets, there has not been any significant focus on managing and engaging stakeholders upon entry. Some research exists on managing stakeholders when entering developed markets, but there are not many of these in a developing economy context, particularly in the retail industry. Yet, given the social challenges in developing countries, stakeholders play a far more significant role than in developed countries. For retailers, entering emerging markets is even more complex as it requires managing relationships with more stakeholders in a new and unfamiliar environment (Palmer & Quinn, 2007).

Many of the mistakes made on entry can be prevented by a better understanding of stakeholder management. The research is motivated by the desire to demonstrate the strategic importance of stakeholder management, especially for developed country MNEs entering emerging markets. The researcher believes that greater knowledge in such situations could result in a more positive outcome for both MNEs and their stakeholders in emerging markets. [Page 2]

Motivating the study was also the opportunity that the entry of Wal-Mart into South Africa and stakeholder reaction to it presented. The entry of Wal-Mart into South Africa was a matter of considerable national interest. Not since the years of economic sanctions during Apartheid, has Foreign Direct Investment (FDI) elicited such controversy. Issues raised by stakeholders threatened to derail, and indeed did, delay the implementation of the merger. The entry led to drawn-out public hearings before the South African

competition authorities and was subjected to parliamentary hearings and court litigation. Two factors seem to generate heightened interest in Wal-Mart; its considerable size and perceptions, right or wrong, of how Wal-Mart relates to some of its stakeholders, such as trade unions, in its home country. The convergence of these issues in South Africa provides a rarer opportunity for this study. It provides lessons that could be of wider application and contribute to better understanding of stakeholder management dynamics during retail entry in a way few other cases would. There will therefore be significant lessons to be learnt from the Wal-Mart experience, from both an academic and practitioner point of view. Furthermore, the study provides an opportunity to do an almost just-in-time analysis and will therefore be an up-to-date study into the phenomenon of stakeholder management during retail entry into emerging markets.

#### **1.4 Background to Wal-Mart**

Wal-Mart is an American multinational and the largest retailer in the world. Wal-Mart tops the 2011 Global Fortune 500 list for a second year in a row, making it indisputably the world's largest corporation (Fortune Magazine, 2011). Its annual revenue at over \$421 billion dwarfs the GDP of many countries in the world, including that of South Africa, the 28<sup>th</sup> largest economy in the world (World Bank, 2010). Its profits were over \$16 billion, even as the global economy was battling the effects of the recession (Wal-Mart, 2011). The second largest corporation in the world, Royal Dutch Shell, trails behind Wal-Mart with \$378 billion revenue. From a retail perspective, no competitor comes close to Wal-Mart. The French retailer, Carrefour, is the world's second largest, and ranks 32 in the list with revenue of \$120.3 billion and profits of \$574 million (Fortune Magazine, 2011). Employing 2.1 million staff members, Wal-Mart is the largest private sector employer in the world.

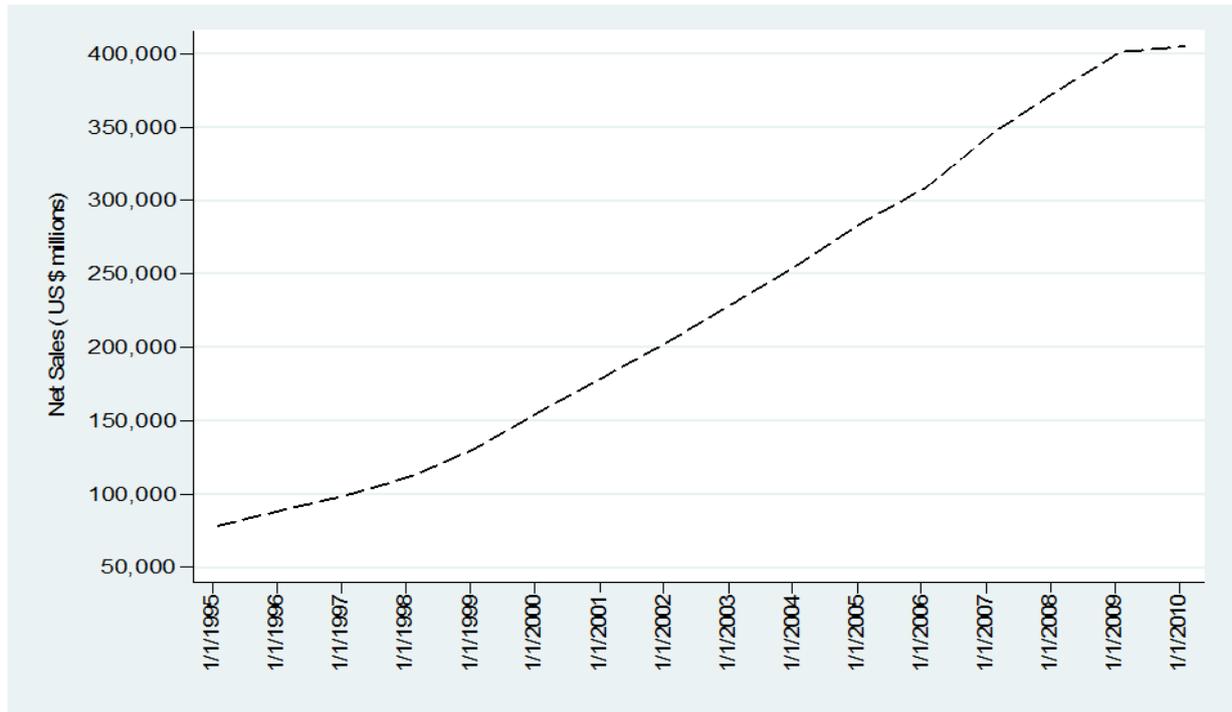
**Table 1: Comparison of global retailers' size**

<b>Retailer</b>	<b>Global Fortune 500 Ranking</b>	<b>Revenue (\$ millions)</b>	<b>Profit (\$ millions)</b>	<b>Staff component</b>
<b>Wal-Mart</b>	1	421,849	16,389	2,100,000
<b>Carrefour</b>	32	120,297	574	471,755
<b>Tesco</b>	61	94,185	4,104	384,389
<b>Metro</b>	65	89,081	1,126	252,258

*Source: Compiled from data retrieved from the Fortune Magazine sourced from the CNN Money website (2011)*

The story of Wal-Mart began in 1962 with the founder, Sam Walton, opening the Wal-Mart store in Rogers, Benton County, Arkansas, United States (Wal-Mart, 2011). Walton defined Wal-Mart's purpose as saving people money to help them live better (Wal-Mart, 2011). He aimed to achieve this through a new model of discount stores. Wal-Mart avoided competing with the bigger and established retailers by establishing stores in smaller towns and rural areas. Within five years of its opening, it had grown to 18 stores and revenues of \$9 million (Neumark, Zhang, & Ciccarella, 2008). In 1972 it listed on the New York Stock Exchange; fuelling rapid growth that resulted in a staggering 276 stores in 11 states in the US by the end of that decade (Wal-Mart, 2011). The real success however came in the next decade (1980's) with sales growing from \$1 billion in 1980 to \$26 billion in 1989.

**Figure 1: Wal-Mart sales revenue from 1995 to 2010**



*Source: Compiled from annual financial statements on the Wal-Mart website*

Today Wal-Mart currently operates in 15 countries, both developed and developing. The growth strategy of Wal-Mart is aptly summed up by Sam Walton himself as, "... to saturate a market area by spreading out, then filling in. In the early growth years of discounting, a lot of companies had a distribution system already in place – K-Mart, for example – were growing by sticking stores all over the country. Obviously, we couldn't support anything like that...We figured we had to build our stores so that our distribution centres, or warehouses, could take care of them, but also so that those stores could be controlled. We wanted them within reach of our district managers and of ourselves here in Bentonville, so we could get out there and look after them. Each store had to be within a day's drive of a distribution centre. So we would go as far as we could from a warehouse and put in a store. Then we would fill in the map of that territory, state by

state, county seat by county seat, until we had saturated that market area. ... So for the most part, we just started repeating what worked, stamping out stores cookie-cutter style” (Walton, 1992, p.110-111).

The strategy was not just about control, the gradual expansion from one central location allowed Wal-Mart to take advantage of the word-of-mouth advertising emanating from its lower price reputation. Walton explains that “When you move from town to town like we did in these mostly rural areas word of mouth gets your message out to customers pretty quickly without advertising” (Walton, 1992, p.111).

This strategy ensured constant gradual growth over a period of time. Although the expansion seems rapid, it happened quite gradually. Wal-Mart only entered California and became the largest retailer in the US in 1990 (Wal-Mart, 2011). It was not until 1995 that it had presence in all 50 states in the US. It started its international expansion in 1991 with entry into Mexico, before entering Canada in 1994, China in 1996, and Europe in the late 1990s. While domestic expansion occurred through organic growth, much of the global expansion took place via mergers and joint ventures (Wal-Mart, 2011; Arnold & Fernie, 2000).

The sheer scale and resultant economic power of Wal-Mart makes it difficult, if not impossible, to find its equivalent. Consequently Wal-Mart is seen as an example of capitalism in its modern form, and its expansion as a test of the possibilities of, and limits to, globalisation (Stiglitz, 2006). It has generated a lot of commentary from academics, business experts, trade unions, environmental groups, development practitioners, cultural activists, political activists, and many other interest groups wherever it operates or intends to operate. Unfortunately much of this commentary, from both detractors and supporters of Wal-Mart, is too one sided to stand academic rigour.

## 1.5 Entry into South Africa

On 27 September 2010 Wal-Mart announced its intention to acquire Massmart stores of South Africa, marking its entry into Africa (Wal-Mart, 2011). Massmart is the fourth largest retailer in South Africa by revenue, with a growth strategy and store format strikingly similar to Wal-Mart's (Financial Mail, 2011). Even though Massmart is smaller than its competitors in South Africa, it is one of the more successful retailers from an investment point of view. It has been aggressively growing especially in the lower-income segment, primarily through acquisitions. Massmart is regarded as the more natural fit for Wal-Mart amongst South African retailers because of the similarities in their store formats (Financial Mail, 2011). Massmart also has its sights set on Africa. Its counterpart, Shoprite, was an early mover into Africa and its African operations have done extremely well. Massmart was very keen to sell to Wal-Mart as opposed to having Wal-Mart entering either by acquiring a competitor or through a greenfield strategy. They are of the view that their growth will accelerate with Wal-Mart on board (Pattison, 2011).

Merger regulation in South Africa requires all large mergers, such as the one between Wal-Mart and Massmart, to be notified to the Competition Commission. The Commission must, after assessing the merger, make a recommendation to the Competition Tribunal on whether to approve the merger unconditionally, or to approve the merger with conditions; or to prohibit the merger entirely. The Competition Tribunal, after a public hearing involving at least the merging parties and the Commission must then take a decision on the merger. The decisions of the Tribunal may be appealed or reviewed by the Competition Appeal Court, and thereafter, if necessary, the matter will proceed through the normal court hierarchy.

The Competition laws further allow for employee representatives such as trade unions to be notified of the transaction and to make submissions before the competition authorities. Similarly, the government, through the Minister of Economic Development, must be notified of the transaction and may elect to make submissions on public interest grounds. Furthermore, any interested party who feels that his or her interest will not be represented during merger proceedings may apply to intervene in the proceedings before the Tribunal, which application may or may not be granted.

From a competition law perspective the acquisition of Massmart by Wal-Mart was uncontroversial as Wal-Mart did not have any stores in the country, and thus the transaction would have no immediate impact on competition in South Africa. However, competition law in South Africa requires competition authorities to consider, in addition to competition issues, the public interest issues emanating from a merger. The Competition Act, 1998 (Act No. 89 of 1998, *as amended*) provides that in assessing public interest issues, the competition authorities must consider the impact of a merger on:

- A particular industrial sector or region;
- Employment;
- Small businesses or firms owned by historically disadvantaged groups; and
- Ability of local industries to compete in international markets.

As can be observed above, the South African regulatory framework is quite permissive of stakeholders such as trade unions, consumers and government participating in merger proceedings. Armed with these provisions, the following stakeholders objected or sought conditions to the Wal-Mart acquisition of Massmart when it came before the competition authorities:

- South African Commercial, Catering and Allied Workers Union (SACCAWU): SACCAWU is a majority trade union at Massmart in South Africa.
- Southern African Clothing and Textile Workers' Union (SACTWU): SACTWU is the largest clothing and textile trade union in South Africa. The sector has long been declining in South Africa with many jobs being lost. SACTWU has been at the forefront of preserving jobs in the sector. Its interest in the matter is primarily the effect of Wal-Mart merger on textile and clothing manufacturing jobs.
- Food and Allied Workers Union (FAWU): FAWU organises in the food sector in South Africa. Its primary interest on the matter is the impact of Wal-Mart entry on jobs in the food and agro-processing value chain.
- National Union of Metal Workers of South Africa (NUMSA): NUMSA is the biggest metal workers' union in South Africa and one of the biggest and most influential of COSATU affiliates. Its primary interest is on the impact of the entry of Wal-Mart on jobs in the sector.
- Congress of South African Trade Unions - COSATU is the biggest trade union federation in South Africa and all the above trade unions are its affiliates. COSATU is in alliance with the ruling political party, the African National Congress;
- Minister of Economic Development;
- Minister of Trade and Industry;
- Minister of Agriculture, Forestry and Fisheries; and
- South African Small, Medium and Micro Enterprises Forum (SMMEF).

## **1.6 Research Problem**

As retail MNEs explore opportunities in emerging markets, there are many success factors confronting them. A less understood phenomenon by both practitioners and academics are the stakeholder management dynamics during entry into these markets. The study focuses on this problem, using the case of Wal-Mart in South Africa. The research problem confronts both academics and business people as they seek to better understand what it takes to succeed in diverse markets.

## **1.7 Structure of the Report**

Chapter One of this report is an introduction to the study. The chapter defines the research problem, sets out the need for the research as well as its objectives and motivation. It also sets out the scope of the research. In addition, it sets out the background to Wal-Mart and its entry into South Africa.

Chapter Two contains a review of academic literature and theory that forms the context and justification of the study. The literature review starts with internationalisation in general and retail internationalisation in particular; followed by the general theory of stakeholder management, and concludes with stakeholder management during retail entry. A summary of the literature review at the end of the chapter shows the integration of the literature and the research focus.

Chapter Three sets out the precise purpose of the research, followed by the research questions. Chapter Four gives details of, and explanations for, the qualitative archival analysis method that was used, and defines the unit of analysis, the population, the sample size and sampling method. The details of how data was collected and the process of data analysis is provided. The chapter concludes with limitations imposed by the research method.

Chapter Five presents the results of the research. The chapter starts by presenting emerging themes from the data, followed by results presented in accordance with the research questions.

Chapter Six discusses the results in terms of the research questions. The discussion integrates the findings with existing literature as well as insights from the researcher.

Chapter Seven contains conclusion and recommendations. It highlights key findings of the research, provides recommendations to practitioners and academia, and establishes conceptual limitations of the research, concluding with recommendations for future research.

## CHAPTER 2: THEORY AND LITERATURE REVIEW

### 2.1 Introduction

With the growing importance of the emerging economies in world trade (World Bank, 2011) there is considerable interest on entry into emerging markets by the MNEs. While MNEs from developed countries still dominate global business, accounting for the lion's share of FDI flows, there is some notable growth in developing country MNEs (Ramamurti, 2010). No serious MNE can ignore developing markets, especially emerging markets. Chan, Finnegan and Sternquist (2011), citing Planet Retail, point out that by 2008 global retail sales will have reached \$14.3 trillion, 50% of which will be generated outside developed countries. Numerous studies have been devoted to finding the reasons for internationalisation (Elg, Ghauri, & Tarnovskaya, 2008). The reasons given are summarised below, in no particular order and not mutually exclusive:

- Domestic competition (Vida & Fairhurst, 1998);
- Market saturation (Vida & Fairhurst, 1998);
- Pre-empting competitors (Hill, 2007);
- Acquisition of technical expertise (Rugman, 2009);
- Secure natural resources (Bhaumik & Gelb, 2005);
- Increase sales and growth (Bhaumik & Gelb, 2005); and
- Search for cheap labour (Alexander, 1990).

A challenge for developed country MNEs is how they perform in this new theatre for trade and global economic growth. More specifically, how do they enter these markets? Developed country MNEs often lack the experience of operating in emerging markets,

and are ill-prepared for the challenges they encounter. Verbeke (2009) and Bhaumik and Gelb (2005) point to information asymmetry regarding the business environment of the host country as being a challenge. Luo and Shenkar (2011) advance a theory of cultural friction to explain the complexity of MNE entry into new markets. There is wide acceptance that emerging markets, although they themselves are not homogeneous, are markedly differently from developed country markets (Reinartz, Dellaert, Krafft & Varadarajan, 2011).

Emerging markets pose opportunities for higher returns amidst complex socio-economic challenges that can have a direct bearing on business. They are often characterised by immature markets and institutional weaknesses or voids to varying degrees. For example, a retailer seeking to enter them might face the challenge of an unreliable and immature supply industry. Compounding the problem is the fact that the bulk of research on internationalisation has focused on developed countries (Bhaumik & Gelb, 2005). A gap, therefore, exists on the internationalisation by developed country MNCs into emerging markets (Demirbag, Tatoglu, & Gleister, 2008). It is this gap this research seeks to narrow.

This research is a study of one MNE's (Wal-Mart) entry into an emerging economy (South Africa), focusing on one element of the entry strategy, that of stakeholder engagement. The researcher's interest is on the manifestation of the strategy on implementation and not so much the formulation of the strategy.

As discussed in Chapter One, Wal-Mart is the world's largest retailer on many measures. Retailers are particularly close to the environment, given that their business involves daily contact with people and stakeholders. Retailers receive a good deal of attention from stakeholders because they sell what is basically an essential need, food,

directly to the consumers. For example, when food prices go up, retailers are often blamed, rather than the upstream industries in the value chain. Countries such as the United Kingdom, Australia and South Africa, have had their competition authorities scrutinise food retailers in response to public outcries, while many emerging markets of South East Asia historically restricted participation in the food retail market.

Food is also regulated for safety reasons, as well as to monitor prices. Indeed, the world has seen sporadic food riots threatening state security in response to very high food prices. In addition to the above, retailers have an impact on other industries and sectors, as well as on employment in their host countries. They are the channel through which farmers get their produce to market. They employ local labour, particularly unskilled and semi-skilled. Indeed retailers are embedded in the communities in which they operate, unless they operate indirectly through agents or locally controlled joint ventures.

Despite these challenges, global retailers have more recently increased their internationalisation, and as in other sectors in the current environment, this has largely involved developed country MNE's moving into emerging markets. One of the key issues that inevitably face retailers entering new markets is how they relate to stakeholders such as government, regulators, suppliers and civil society organisations.

The literature review will cover internationalisation with particular focus on the retail internationalisation process (RI); and stakeholder management literature with a focus on stakeholder management during retail internationalisation. Although the topics are discussed under the different headings, they are in fact integrated and should not be viewed in isolation from each other. Both retail internationalisation (RI) and stakeholder management are broad management study areas, and lessons need to be drawn from these general fields before focussing on the retail segment specifically. There are

different schools of thought on retail internationalisation, with one suggesting it be treated as part of internationalisation literature so that insights can be drawn from studies in other industries (Vida & Fairhurst, 1998), while others suggest that RI should be treated separately because of the peculiarities of the sector (Alexander & Myers, 2000). While Alexander and Myers (2000) are persuasive in submitting that RI be treated as a stand-alone study area, the researcher found insights in the general internationalisation theory that have relevance to the research topic. Consequently, this research covers both areas.

## **2.2 Internationalisation Literature**

### **2.2.1 General Internationalisation Theory**

Internationalisation and Foreign Direct Investment (FDI) are the most researched areas of international management (Canabal & White III, 2008). Despite this, there is still a great deal of divergence on internationalisation theory and various authors have called for greater integration. The most prominent theories on international expansion are discussed below.

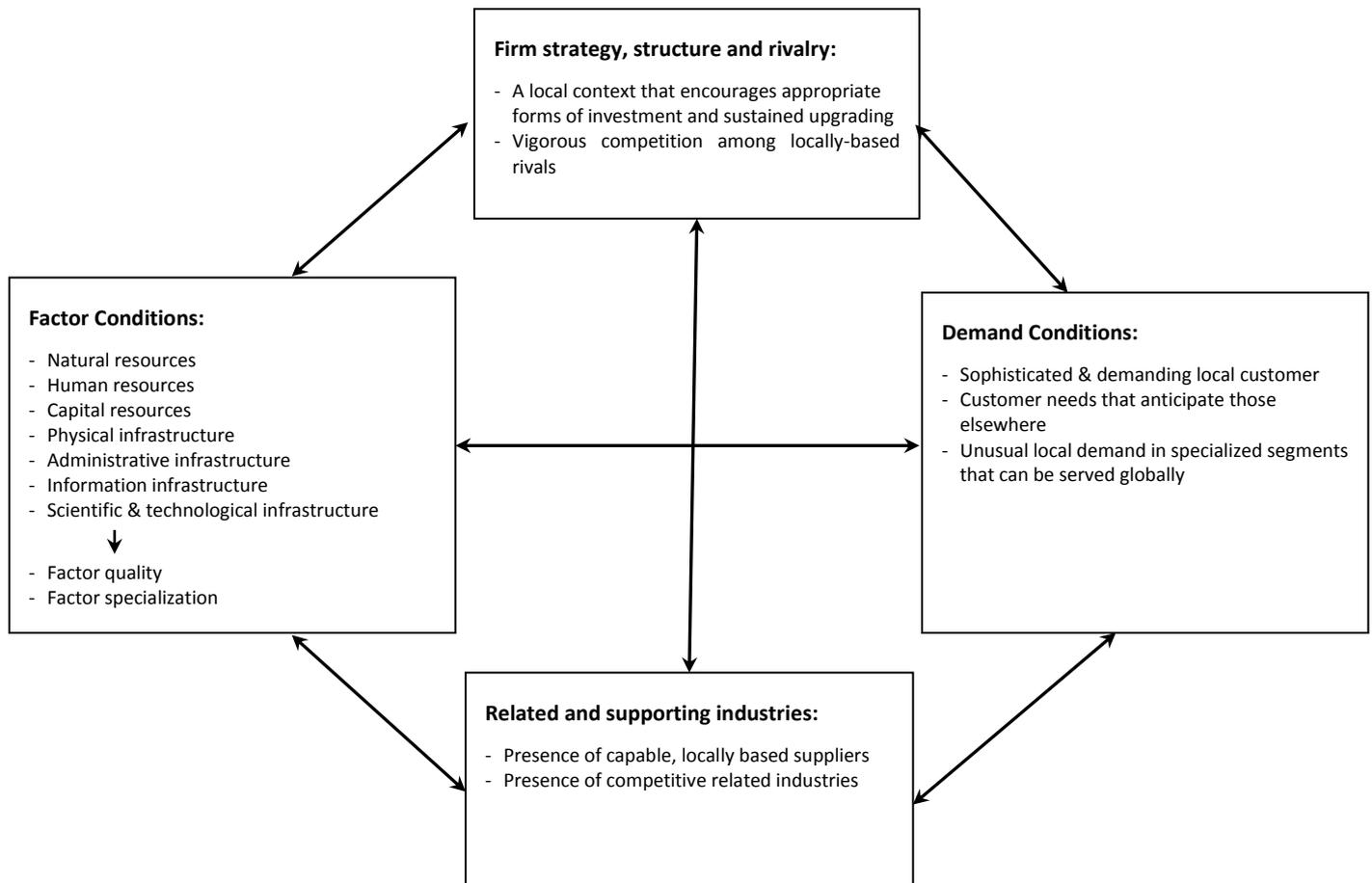
Verbeke (2009) traces internationalisation theory to the early eighties with the appearance of articles on globalisation and its impact on MNEs. The starting point of this theory is that MNE's go abroad to take advantage of their Firm Specific Advantages (FSA) that have made the firm successful in the home market (Rugman, 2009). These FSA are factors or strengths that are proprietary to the firm that give it a competitive advantage. Rugman (2009) defines it as a unique capability proprietary to the firm. They may be technological, knowledge, skills, management or marketing-based (Rugman, 2009; Verbeke, 2009). Verbeke (2009) further categorised FSA into internationally transferable FSA and non-transferrable (location bound) FSA. Prahalad and Hamel (1990)

further narrowed this down by suggesting that managers of firms seeking international expansion must identify and exploit the firm's core competencies. Core competencies are essentially higher order FSA.

The second element of the theory is that there are country specific advantages (CSA) that enable firms to be successful (Rugman, 2009, Verbeke, 2009). The foundations of the theory of CSA are found in Porter's (2008) Diamond Model, espoused in his classic Harvard Business Review article, 'The Competitive Advantage of Nations' (Verbeke, 2009; Porter, 2008). Porter's (2008) Diamond Model lists the following conditions as critical for any country's firms' competitiveness:

- Factor Conditions – The country's factors of production, including natural endowments, such as natural resources, but also self-made ones such as skilled labour or infrastructure.
- Demand Conditions – The nature of the home market, which include the size and sophistication of the market.
- Related and Supporting Industries – Globally competitive suppliers and related industries.
- Firm Strategy, Structure and Rivalry – highly competitive domestic market characterised by efficient macro-level policies facilitating ease of doing business.

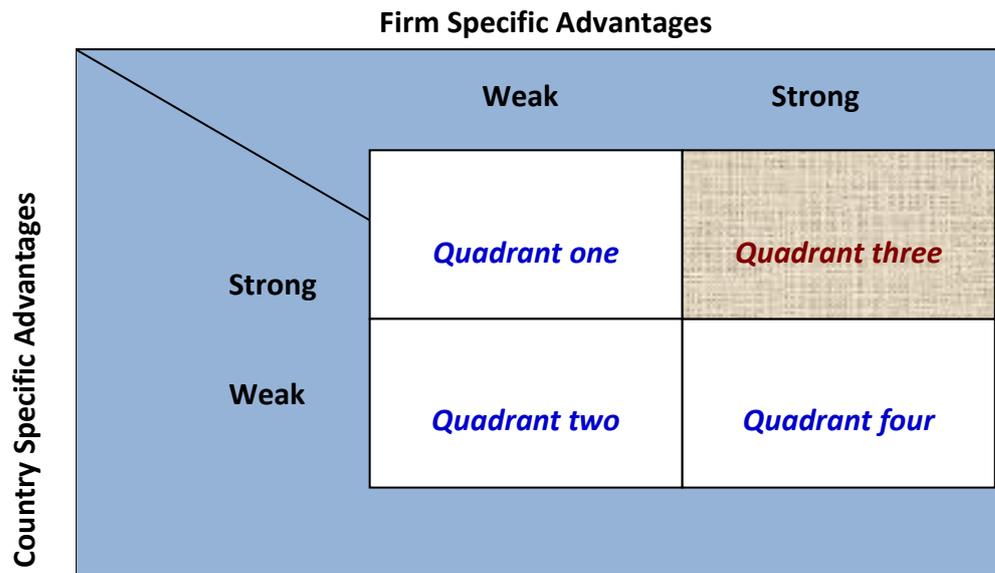
**Figure 2: The Diamond Model**



Source: Adapted from Porter (2008)

Internationalisation in most MNEs entails the weighing of, and building upon, the FSA and CSA (Rugman, 2009). The FSA/CSA matrix in Figure 3 can be used in this exercise. A firm is in a stronger position on quadrant 3 of the matrix, when both FSA and CSA are strong.

Figure 3: The FSA/CSA matrix



Source: Adapted from Rugman (2009)

The modern theory has its foundations in early internationalisation theories, such as Dunning’s eclectic paradigm, and the Uppsala Model or the Nordic Model.

The eclectic paradigm, sometimes referred to as OLI, has been used in FDI literature since Dunning first proposed it in 1977 (Fleury & Fleury, 2011; Cuervo-Cazurra, 2008; Stoian & Filippaios, 2008). Essentially, the model posits that firms move abroad to exploit the ownership, location and internationalisation advantages (Demirbag *et al*, 2008; Canabal & White III, 2008; Stoian & Filippaios, 2008). The eclectic paradigm is concerned with the ‘why’ question of internationalisation, and not so much the how (Fleury & Fleury, 2011).

The Incremental Internationalisation Model or Uppsala Model proposed by Johanson and Wiedersheim-Paul (1975, cited in Cuervo-Cazurra, 2008; and Agndal, 2006) posits that because of the unfamiliarity of the foreign markets MNEs grow incrementally, starting with countries that are more familiar. This model is therefore concerned not with ‘why’ firms internationalise, but ‘how’ they do so (Fleury & Fleury, 2011).

There is also a considerable body of literature on internationalisation that is behavioural. These studies are concerned with the firms' attitudes towards foreign markets, referred to as EPRG (ethnocentrism, polycentrism, regiocentrism and geocentrism), and are conveniently summarised by Vida and Fairhurst (1998) in their study, *International expansion of retail firms: A theoretical approach for future investigations*. From these various frameworks and models, the Dynamic Nordic model and export stages models emerged.

The Nordic model posits that the general market knowledge and resource commitment of a firm (state aspect) affect current commitment decisions and business activities (change aspects). The change aspects lead to more knowledge and resource commitment, which, in turn, leads to more commitment decisions and current business activities. As a consequence the firm will incrementally increase its international commitments. In contrast, the export stage model approaches internationalisation as a step-by-step process, where a higher level stage signifies a higher commitment and a lower level stage signifies a lower commitment to internationalisation (Vida & Fairhurst, 1998).

Hill (2007) views internationalisation as an extension of the firm's strategy, as managers seek value creation for the benefit of their shareholders. Hill's approach therefore emphasises the incentives or the cause of entering foreign markets.

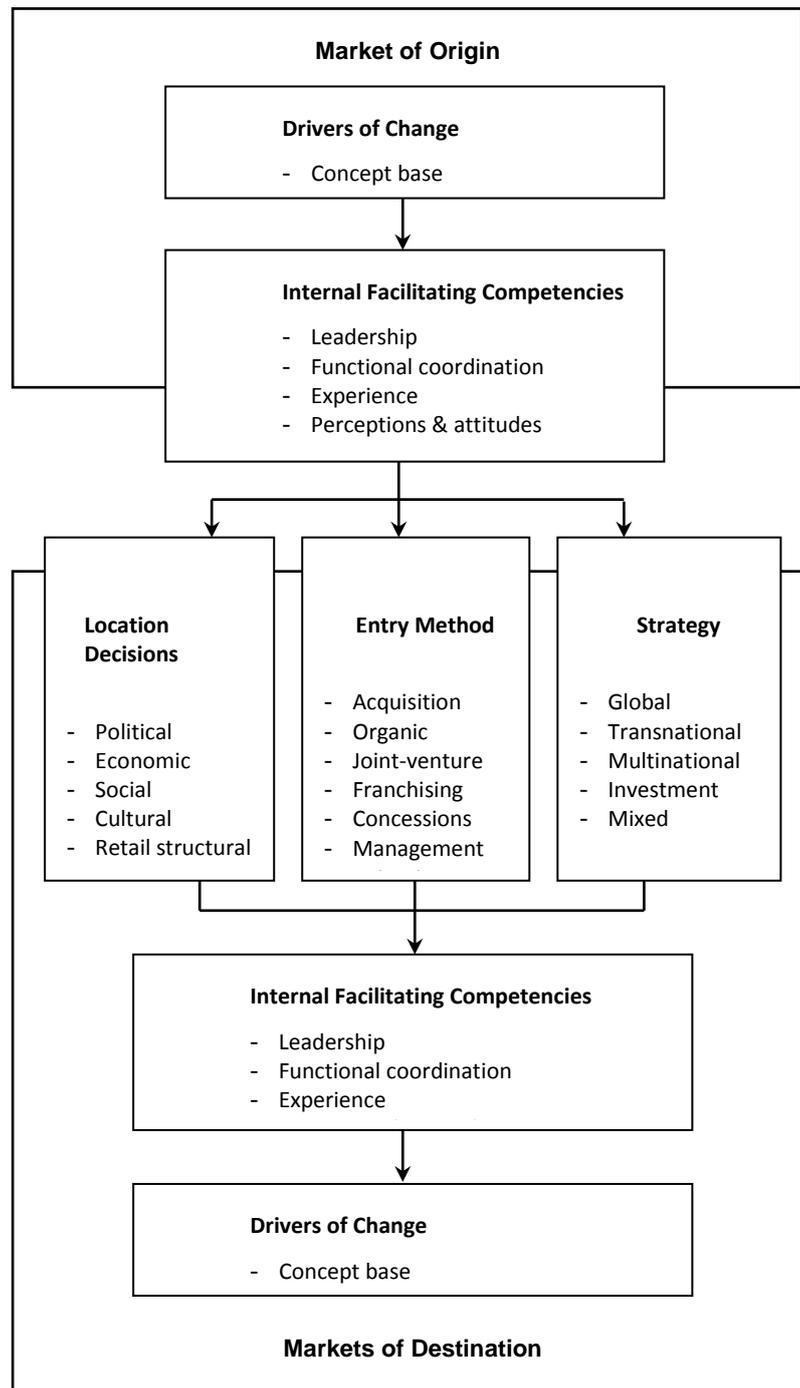
### **2.2.2 Retail Internationalisation**

Although retail internationalisation can be traced back from the seventies (Vida & Fairhurst, 1998; Dupuis & Prime, 1996), the process was quite slow and the sector is a late starter in globalisation. As recently as 1992, Williams (1992) found that even though retail internationalisation was accelerating, many UK retailers remained in-ward looking.

US retailers were even further behind their European counterparts, with a strong focus on local growth. Wal-Mart itself only accelerated the drive for internationalisation in the late 1990s, having opened its first store outside the US in 1991 in Mexico (Palmer, 2005). Currently only 24% of Wal-Mart revenue is generated outside the US (Wal-Mart, 2011). However, retail internationalisation has been gathering pace in the recent past (Hill, 2007; Leknes & Carr, 2004), with a retail multinational, Wal-Mart, becoming the largest corporation in the world by revenue and employment (Fortune Magazine, 2011). This trend is expected to continue as spending power shifts from developed markets to emerging markets.

As a result of the slower pace of retail internationalisation in comparison with other sectors such as manufacturing, literature in this area is also lagging behind other sectors (Leknes & Carr, 2004). A big body of literature on the internationalisation of retailers is based on general internationalisation theories, which have been discussed above. Alexander and Myers (2000) propose a conceptual framework for retail internationalisation, as depicted in Figure 4 below. The framework is based on the characteristics of retail organisations within the context of their markets.

**Figure 4: The RI process**



Source: Alexander and Myers (2000)

The literature on retail internationalisation covers entry strategies, motives, obstacles, and selection of markets, as well as organisational and decision-maker traits (Alexander, Rhodes & Myers, 2011; Uusitalo & Rokman, 2004; Vida & Fairhurst 1998; Dupuis &

Prime, 1996; Williams, 1992; Alexander, 1990). Dupuis and Prime (1996) distinguish between two factors of internationalisation, namely environmental factors such as legal restrictions and economic growth, and firm internal factors such as economies of scale and ability to raise capital. Williams (1992) found that motives for international expansion are more complex than the simple *push* and *pull* factors previously proposed by Kacker (1985, cited in Williams, 1992), and the *active-passive* and *proactive-active* framework from exporting studies espoused by Johnston and Czinkota (1982, cited in Williams, 1992). Pelligrini (1994, cited in Dupuis & Prime, 1996) views internationalisation of retailers as one possible alternative of growth; the other including portfolio diversification.

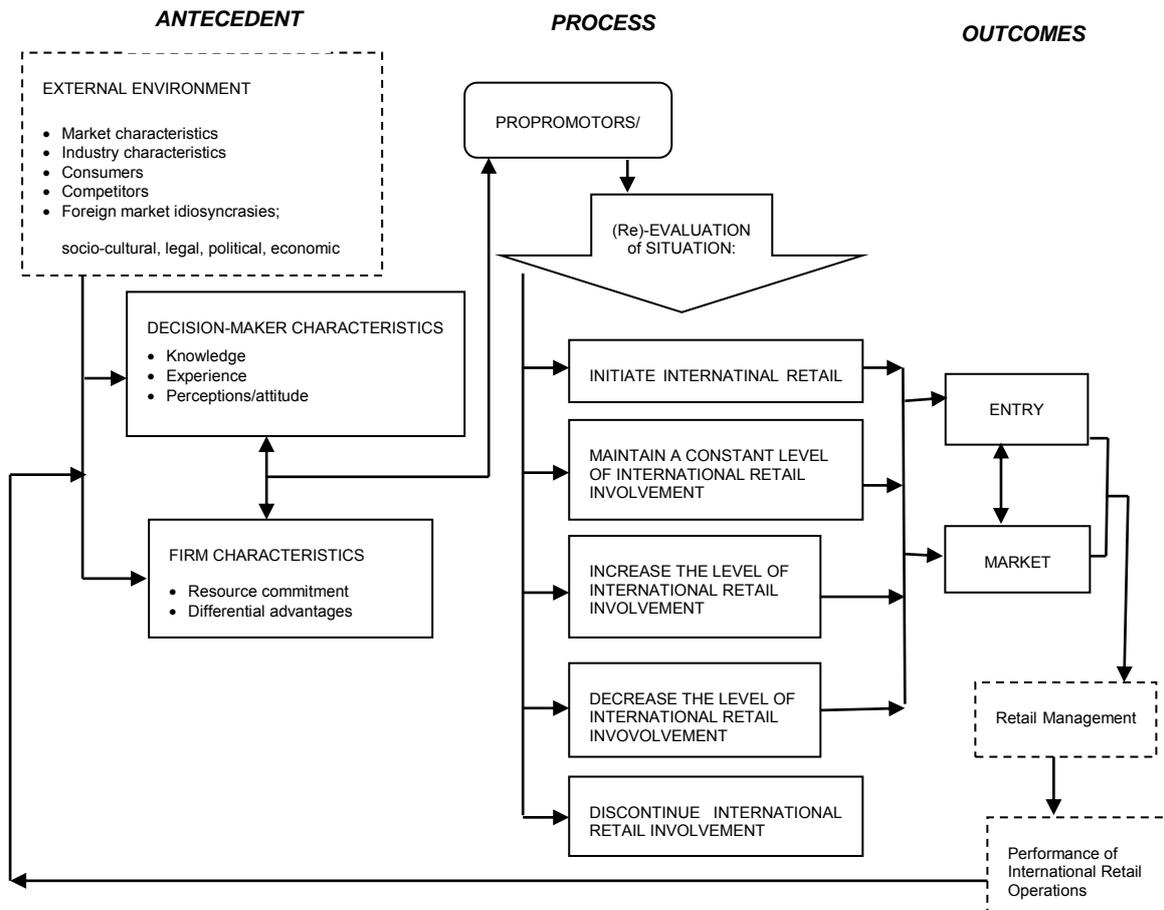
Dupuis and Prime (1996) believe harmonious stakeholder relations to be an important success factor in international retail expansion. They point to cultural aspects and the prism effect of international retail expansion as posing a risk of failure. Indeed, culture has been found to be more important for international retail expansion than technical aspects (Alexander, 1990). From a cultural point of view, the further away the country of expansion is from the home market, the greater the cultural challenges (Ghemawat, 2001; Dupuis & Prime, 1996). Distance in this case is not just geographical, but includes such cultural connections such as language and heritage (Ghemawat, 2001). Cultural differences can only be effectively managed if retailers recognise, prior to entry, their existence and understand how they impact on business (O'Grady & Lane, 1997).

Williams (1992) emphasised that retailers should consider not only their differential firm advantages, but also their differential disadvantages. He argues that differentiated firm advantages may lead to product-led or market-led advantages. He cautions that even though retail internationalisation obstacles increasingly are becoming permeable, retailers may well underestimate these obstacles because they have no experiential

knowledge of them. Chan *et al* (2011) believe that both country and firm factors are determinants of growth. They propose that firms should pay greater attention to the economic growth of the country, and less so to the risk factors and population. They base this on the fact that population size does not correlate with spending power. A more reliable measure, they argue, is the GDP of a country.

Vida and Fairhurst (1998) propose a conceptual framework for retail internationalisation. The framework depicted in Figure 5 postulates that the interphase between the firm's external environment, the firm's characteristics and decision-maker characteristics (antecedents) serve as promoters or inhibitors to whether or not it will internationalise, and the extent of such internationalisation (process). Such a process leads to decisions on resource allocation and mode of entry (outcomes).

**Figure 5: A model of factors influencing the retail internationalisation process**



Source: Vida and Fairhurst (1998)

Arnold and Luthra (2000) examine the effects of the entry of a large retailer, Wal-Mart, into a small market, weighing the costs and benefits of such an entry to local communities. Wal-Mart's influence on retail sales levels in local communities has been analysed by Davidson and Rummel (2000) and commented on by Stiglitz (2006). Other studies on Wal-Mart include the analysis of its entry into, and effect on, the UK market (Whysall, 2001; Arnold & Fernie, 2000; Uusitalo & Rokman, 2004), the effects on local labour markets (Neumark, Zhang and Ciccarella, 2008) and the effects on consumers (Arnold, Handelman, Tigert, 1998). Research covering the histories of other individual firms also exists (Uusitalo and Rokman, 2004).

## 2.3 Stakeholder Management

In the words of ‘the father of modern stakeholder theory’, Freeman, stakeholder theory seek to address the problems of “...understanding and managing a business in the world of the twenty first century (the problem of value creation and trade); and putting together thinking about questions of ethics, responsibility, and sustainability with the usual economic view of capitalism (the problem of ethics capitalism)...” (Freeman, Harrison, Wicks, Parmar, & Colle, 2010, p.28).

Organising literature and integrating methodological trends on stakeholder theory to achieve a convergent theory has been identified as a particular challenge (Friedman & Miles, 2002). Stakeholder literature has primarily been concerned with defining the stakeholder concept and classifying stakeholders into categories on the basis of the nature of the relationships (Rowley, 1997). The stakeholder theory of a firm should determine how the firm will operate under various conditions (Brenner & Cochran, cited in Rowley, 1997). Before examining literature on stakeholder management and retail internationalisation, various permutations of the stakeholder theory are explored.

### 2.3.1 Evolution of Stakeholder Theory in Management

Stakeholder management has become an important part of management literature and practice today (Cooperrider & Fry, 2010; Freeman, 2010; Reed, Graves, Dandy, Posthumus, Hubacek, Morris, Prell, Quinn & Stringer, 2009; Freedman & Miles, 2002; Elias & Cavana, 2000). Tracking the origins of the concept of “stakeholder” has proved elusive and sometimes controversial.

Freeman’s (1984) account of the concept as originating from the 1960s at the Stanford Research Institute (now SRI International Inc.) has been widely recognised in literature (Elias & Cavana, 2000). However, later research shows that even though SRI

researchers contributed immensely to bringing the concept into corporate planning in the early sixties, the intellectual history of the concept and the main ideas of stakeholder theory is much richer than Freeman's (1984) original account (Freeman *et al*, 2010; Schilling, 2000).

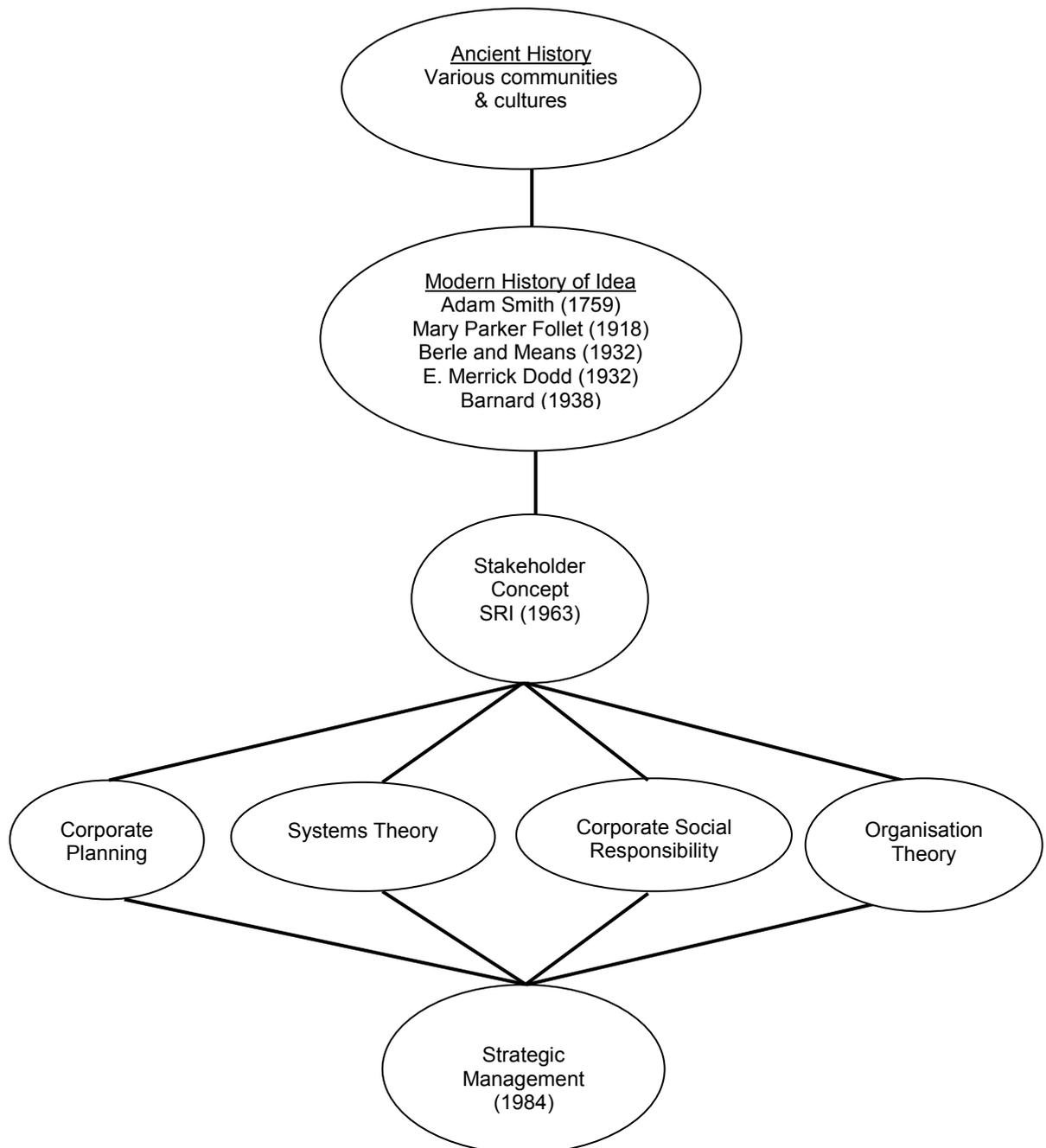
In *Stakeholder Theory: the State of the Art*, Freeman *et al* (2010) demonstrate remarkable fidelity to this intellectual heritage in what constitutes an update of Freeman's earlier work. In it they acknowledges that a more in-depth research into the history of the concept was undertaken by Slinger in an unpublished doctoral thesis, in which, amongst other things, a connection is made between the stakeholder idea and human relations. They further acknowledges that the concept also evolved in other parts of the world, notably Scandinavia, years before the SRI adopted it.

Schilling (2000) argues for the recognition of Marry Parker Follett's contribution to stakeholder theory, citing Parker's 1918 work, *The New State*, in which she calls upon people to recognise their interconnectedness to the world around them. From the research that has been done so far, some of which is not covered here, it appears that stakeholder management is an ancient idea. It is an extension of human social nature that recognises coexistence and interdependence to others. It is, however, more embedded or stronger in certain cultures than others. According to Preston and Sapienza (1990), the substance of the stakeholder concept, if not the term itself, has been reflected in the speeches and writings of thoughtful analysts and executives for many years.

The evolution of the theory is more evident in the 1960s, a time referred to as the classical stakeholder theory period (Elias & Cavana, 2000). During this period the theory evolved into various disciplines such as corporate planning, systems thinking,

organisation theory and corporate social responsibility theory (Freeman *et al*, 2010; Elias & Cavana, 2000). However, it was not until Freeman (1984) that a stakeholder approach became an accepted part of mainstream management discipline.

**Figure 6: A history of the stakeholder concept**



Source: Adapted from Freeman (2010)

With his 1984 seminal work, *Strategic Management: A Stakeholder Approach*, Freeman is regarded as the father of stakeholder theory (Frooman, 2002; Elias & Cavana, 2000; Mitchell, Agle, & Wood, 1997; Rowley, 1997). Since then, a phenomenal academic interest in the area has developed (Freeman *et al*, 2010; Friedmam & Miles, 2002; Donaldson & Preston, 1995).

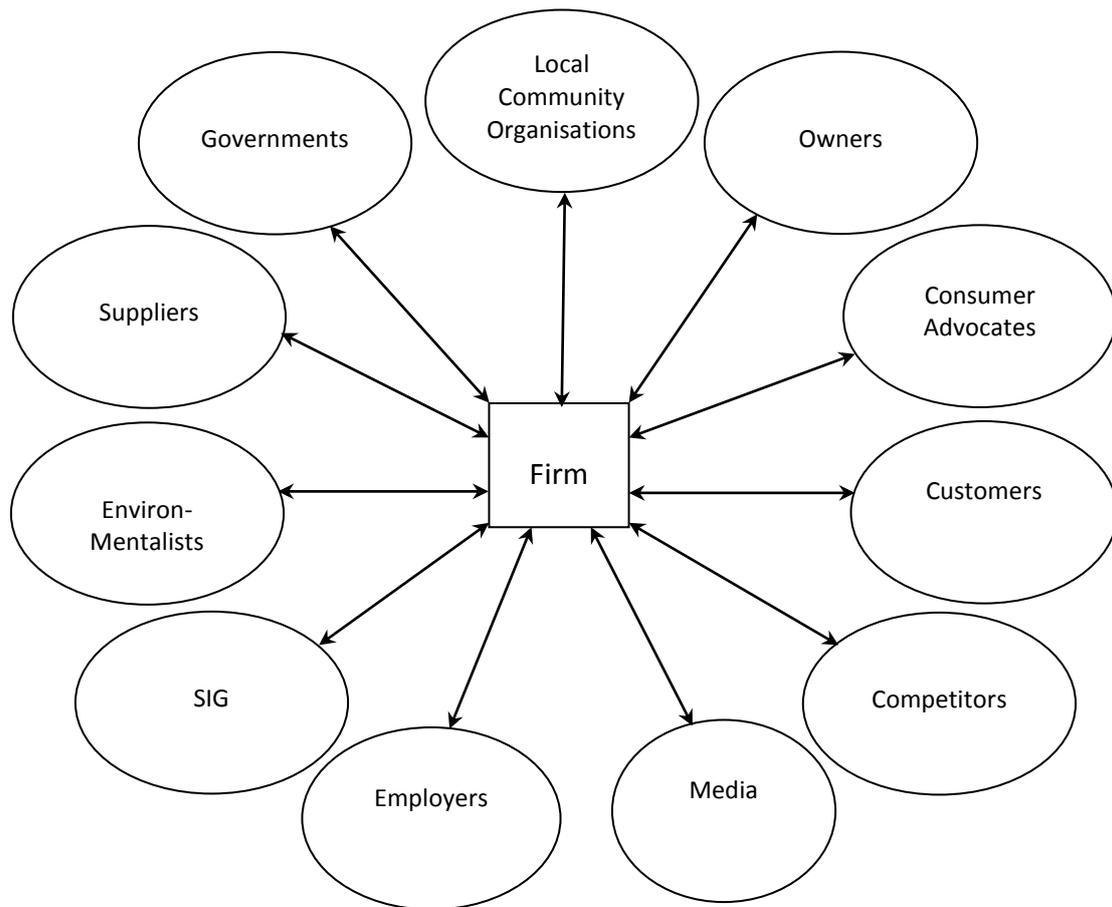
### **2.3.2 Definition of a Stakeholder**

One of the challenges in the study of stakeholder theory is the number of definitions of a stakeholder that exist (Rowley, 1997). An SRI international memorandum in 1963 defines “stakeholder” as “those groups without whose support the organisation would cease to exist” (cited in Freeman *et al*, 2010, p.8). SRI was concerned with corporate planning and this definition allowed executives to identify groups they needed to be responsive to in order to ensure the continued survival of the firm. Rhenman, in 1964, defines stakeholders as the individuals and groups who depend on the firm in order to achieve their personal goals and on whom the firm depends on for its existence (Freeman *et al*, 2010). This definition is consistent with the idea of goals being a product of the exchange process among various stakeholders in a firm (Stymne, 1984, cited in Freeman *et al*, 2010).

Freeman (1984) defines a stakeholder as any person or group of people who may affect or be affected by the achievement of the firm’s objectives. Freeman’s (1984) approach to stakeholders is a managerial one in that it is rooted in managers’ concerns of how they can be effective in identifying, analysing and managing key stakeholders. Freeman’s (1984) hub-and-spoke approach as illustrated in Figure 6 views the firm as the hub of relationships with various actors.

Although the definition has evolved it still captures the inherent idea that a firm must be concerned about many people and groups beyond its shareholders. Freeman’s definition has been criticised for being too expansive, incorporating everything. Despite this, Hare and Pahl-Wohl (2002) further expanded the definition to include individuals or groups influenced by, and with a significant impact (directly or indirectly), on the firm.

**Figure 7: Stakeholder view of firm**



Source: Freeman (1984)

### 2.3.3 Stakeholder Identification and Analysis

The key application challenge with stakeholder theory is the identification and sorting of stakeholders. There are many varied approaches proposed or being followed. Frooman

(1999), in developing response strategies to stakeholders, proposed that the following three general questions be asked:

- Who are they? (their attributes)
- What do they want? (their ends)
- How are they going to get it? (their means)

Similarly, Griseri and Seppala (2010) proposed *inter alia* a stakeholder mapping which involves identification of stakeholders and their interests. While the approach to this literature review does not directly follow Frooman's (1999) order, it forms an important guide to the discussion.

The identification of stakeholders entails drawing up a list (Frooman, 2002; Preston & Sapienza, 1990). Various authors have come up with lists dependant on their definition of the stakeholders. While no one list is better than the other without understanding the context of each case, a comprehensive list was first provided by Freeman (1984) that mentioned activists (advocacy) groups (customer, environmental, health, minority, religious, women), Chief Executive (President and cabinet), competitors (domestic and foreign), courts, creditors (banks; bondholders), customers, directors, employees, financial analysts, legislature, the media, owners (private, public), political parties, political committees, professional associations, regulatory agencies, suppliers, trade associations, unions and terrorist organisations. While Freeman's (1984) list has been criticised as including everything (Frooman, 2002), in selecting which stakeholders to focus on, one needs to start broad and narrow them down with the assistance of context.

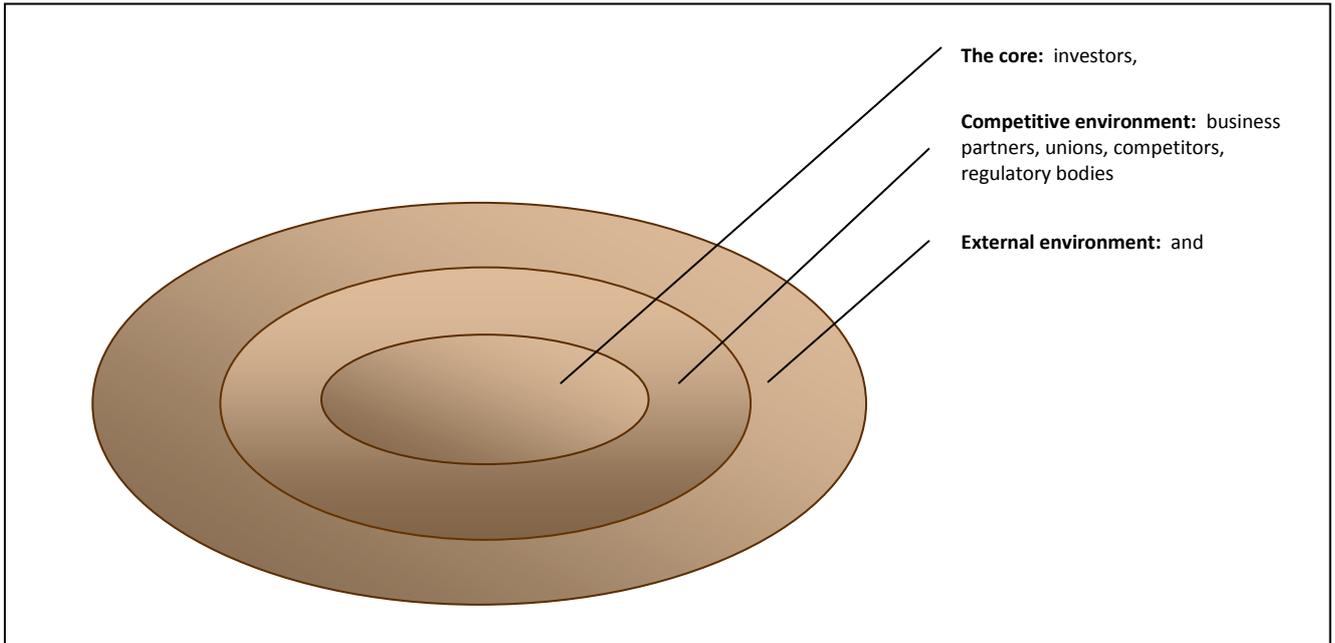
The more complex exercise is to categorise stakeholders. This is so because for categories to have any useful benefit they must distinguish between important and less

important stakeholders. At a basic level, a distinction can be drawn between internal and external stakeholders (Griseri & Seppala, 2010; Carrol, cited in Frooman, 2002). Freeman (1984) draws a distinction between legitimate stakeholders, which are described as those holding similar values and agendas as the firm, and illegitimate stakeholders, described as those holding vastly different values and agendas to that of the firm. They can also be classified as primary or secondary stakeholders on the basis of their significance to the firm (Mitchel *et al*, 1997; Clarkson, 1995; Savage, Nix, Whitehead & Blair, 1991).

Dryzek and Bekerjikian (1993) suggest a framework that allows for stakeholders to categorise themselves. Hare and Pahl-Wostl (2002) use a card-sorting experiment in a stakeholder-led categorisation process, whereas Post *et al* (2002) propose classification according to the strategic environment, and identify three strategic environments as follows:

- **The core** – which is vital to the existence and success of a business. These include investors, employees and customers.
- **The competitive environment** – which relates to the organisation's competitive environment. This includes competitors, business partners, unions and regulatory bodies
- **The external environment** – which challenges the company to foresee and respond to new developments that might positively or adversely affect the business. These include social and political actors such as the government.

**Figure 8: Strategic stakeholder groups**



*Source: Adapted from Post et al (2002)*

Mitchel *et al* (2007) uses a salient approach that classifies stakeholders according to the following attributes:

- a. **Power** of the stakeholder to influence the company. This may be formal power possessed by governments or shareholders or economic power possessed by shareholders.
- b. **Legitimacy** of a stakeholder pertaining to the public perception that stakeholder interests are in line with society norms and legitimate.
- c. **Urgency** of the stakeholders' claim to the company. Urgency calls for immediate attention on the basis of time sensitivity or criticality.

A highly salient stakeholder would possess all three attributes while a low salient might possess none. Mitchel *et al's* (2007) approach finds support in Griseri and Seppala, (2010) and Frooman (2002), who regard this approach as having a the potential to yield

a rich analysis of stakeholders. It is important to note that the attributes are not static but dynamic in that they constantly change. What is urgent today may not be tomorrow, likewise what is regarded as legitimate or powerful can change overnight. The tools for identifying and sorting stakeholders will continue evolving, although different tools are not a substitute for others.

Once stakeholders have been identified and sorted, the most important step is to manage them. “Stakeholder management involves the process by which managers reconcile the objectives of a company with the claims and expectations of various stakeholders” (Griseri and Seppala, 2010, p.33). Griseri and Seppala (2010) came up with the following three overall approaches to stakeholder management:

- Generic approach – this approach is based on Savage *et al's* (1991) proposal for managing stakeholders based on their potential to threaten or cooperate with the organisation.
- Relationship – this approach is based on Friedman and Miles's (2002) approach that posits that decisions taken by the firm and its stakeholders depend on the compatibility of their interests and the nature of the connections between them.
- Stakeholder network – this approach is based on Rowley (2007) who argues that the way firms respond to stakeholders depends on the centrality of the company in the stakeholder network and the density of the network.

#### **2.3.4 Some Theoretical Questions**

##### ***i) Normative vs. shareholder model***

Contrasting sharply with Freeman and other stakeholder theorists, who argue for the normative foundation of the stakeholder approach, are the separatists who advocate for

the separation of ethics and economics (Sundaram & Inkpen, 2004). In their paper, Sundaram and Inkpen (2004) argue, *inter alia*, that maximising shareholder value is the only appropriate goal for the modern business. Freeman *et al* (2010) disagree, arguing that stakeholder theory has developed over the past thirty years partly to counter the notion that corporations belong to the owners who pursue their interests regardless of others. Separating business from ethics creates the problem of the ethics (or lack thereof) of capitalism. Friedman (1970, cited in Freeman *et al*, 2010) believes that profits are what make businesses successful, while Freeman *et al* (2010) believe that in order to maximise profits a firm needs great products and a good relationship with stakeholders, including customers and suppliers. In summary, the stakeholder theorists begin with the assumption that values are necessarily an important part of doing business, while separatists maintain that morality should be separated from the obligation of management to pursue the interest of shareholders.

#### ***ii) Instrumentalists vs. descriptive stakeholder theory***

In contrast to the instrumentalist approach to stakeholder theory that views stakeholders as an instrument to achieve the shareholder model objective of maximising profits for shareholders, is the descriptive stakeholder theory which is concerned with the pursuit and attainment of the interest of all stakeholders. The latter theory implies engagement with stakeholders as opposed to management thereof (Collins, Kearins & Roper, 2005).

## **2.4 Stakeholder Management and Retail Entry**

The literature on internationalisation and stakeholder management, as discussed above, forms the basis of the discussion on retail internationalisation. That retailers in general operate in a stakeholder sensitive environment is widely accepted, especially in management literature (Whysall P. , 2000). Retail entry is a particularly complex task

requiring a firm to deal with a variety of political, social or cultural issues (Alexander & Myers, 2000). Entry requires consideration of a broad range of stakeholders, such as the government and trade unions, is widely recognised (Elg, Ghauri & Tarnovskaya, 2008; Palmer & Quinn, 2005a). Hadjikhani and Ghauri (2001) argue that MNEs are part of a network that includes political and social actors.

As discussed earlier, Dupuis and Prime (1996) emphasised harmonious stakeholder relations as being an important success factor in international retail expansion. Palmer and Quinn (2005a) correctly argue that stakeholder engagement upon entry requires a long term approach. However, a big body of literature does not use the classic stakeholder theory as a foundation. As a result there is no single framework that can be used. Elg *et al* (2008) assessed retail engagement with stakeholders during entry into emerging markets using the networking and matching approach. Networking focuses on business level contacts with other firms at a micro-level, but some studies have extended it to include other socio-political actors (Ghauri & Cateora, 2006, cited in Elg *et al*, 2008). The matching approach on the other hand focuses on gaining support and approvals from stakeholders at a macro- and global- level. Elg *et al* (2008) conducted a case study on the entry of IKEA, a Swedish furniture retailer, into Russia and China. They found that different relationships need to be cultivated and nurtured at different level during different phases of entry, and conclude that that entry was successful due to the dynamic utilisation of networking and matching capabilities.

Using a stakeholder approach, Uusitalo and Rokman (2004) examine the entry of Lindl, a large family-owned German grocery retailer, into the Finnish market. They argue that their study is distinguishable from others because of the particular features of the Finnish market, which is characterised by the small size of the market, low population

density and long distances. They also point out that the Finnish food market had been heavily regulated until Finland joined the European Union in 1995.

The study describes and analyses the entry process of Lindl from a stakeholder perspective. Their research questions were:

- What are the stages of the entry process?
- Who are the main stakeholders during different stages?
- How did the stakeholder groups react to the entrant?
- What are the stakeholders' roles and motives?

In answering these questions, Uusitalo and Rokman (2004) rely on the attributes model. They adapted a model presented by Vida and Fairhurst (1998) to develop a stakeholder model for entry that categorises the stakeholders according to the stages of entry (antecedent, operational and settling), stakeholder attributes (power, legitimacy and urgency) and stakeholder type (dormant, discretionary, demanding, dominant, dependent, dangerous and/or definitive)

**Table 2: The stakeholder model of foreign retailer entry**

Stages of entry	Stakeholder attributes			Stakeholder type
	Power	Legitimacy	Urgency	
Antecedent stage	x			Dormant
		x		Discretionary
			x	Demanding
Operational stage	x	x		Dominant
		x	x	Dependent
Settling stage	x		x	Dangerous
	x	x	x	Definitive

Source: Uusitalo and Rokman (2004)

According to the model, stakeholder types were formed by assigning one, two or three of the attributes to each type of stakeholder. The classes that possess only one attribute are dormant stakeholders with power, discretionary stakeholders with legitimacy, and demanding stakeholders with urgency. The stakeholders with two attributes are dominant stakeholders with power and legitimacy, dependent stakeholders with legitimacy and urgency, and dangerous stakeholders with urgency and power. Definitive stakeholders possess all three attributes and are therefore likely to have the strongest impact on the entrant. The ability of a stakeholder to make demands depends on the number of attributes it has (Uusitalo & Rokman; 2004).

Uusitalo and Rokman (2004) used data collected from newspapers and business magazines over a period of a year. Newspaper articles were also searched from the internet as well as from a business data base. In addition to the newspaper articles, minutes of municipal boards and planning committees, as well as records of discussion groups of national tabloid newspapers, were included. The data was used to analyse the views and reactions that the retailer evokes upon entry. The results of the analysis are depicted in Table 3.

**Table 3: The stakeholder types during the entry of Lindl into Finland**

Stages of entry	Stakeholder attributes			Stakeholder type
	Power	Legitimacy	Urgency	
Antecedent stage	Owner	Owner		Dominant
	Management	Management		Dominant
	Commune	Commune		Dominant
	Media		Media	Dangerous
	Competitor		Competitor	Dangerous
Operational stage	Owner	Owner	Owner	Definitive
	Management	Management	Management	Definitive
	Competitor	Competitor	Competitor	Definitive
		Employees		Discretionary
	Supplier	Supplier		Dominant
	State	State		Dominant
		Consumer		Discretionary
<i>settling stage</i>				
Opening period		Employees	Employees	Dependent
		Supplier	Supplier	Dependent
		Consumer	Consumer	Dependent
	Society	Society	Society	Definitive
		Culture		Discretionary

Source: Uusitalo and Rokman (2004)

Uusitalo and Rokman (2004) propose that their model could be used to assess the entry of a retailer in a different context.

## 2.5 Conclusion of Literature Review

The study is at the intersection of internationalisation, stakeholder management and retail, or Wal-Mart, literature and theory. The study of internationalisation is largely preoccupied with the motives and modes thereof. Although retail internationalisation studies are based on this theory, its literature is gradually evolving into a stand-alone field of study due to the peculiarities of the retail sector. The stakeholder management theory is dominated by Freeman's (1984) idea that a strategic approach to management is to recognise that the firm depends on a variety of stakeholders, whose interests must be addressed to ensure the firm meets its own objectives. For purposes of this study, a small but growing area of research on management of stakeholders during retail entry was examined. There is literature, some of it less relevant to this research, at the intersection of the three areas of internationalisation, stakeholder management and retailing. This research is located in the intersection of all three. The gap in literature in this area is even much wider in an emerging market context.

## **CHAPTER 3: RESEARCH QUESTIONS**

The essential question this research seeks to answer is how Walmart managed stakeholders during its entry into South Africa, in order to draw instructive lessons from this experience. Although a study of a similar nature has been done in Finland, the topic is relatively unexplored, particularly in an emerging market context. Accordingly, guided by the literature research, questions were formulated:

### **3.1 Research Question 1**

Who were the main stakeholders during Wal-Mart's entry into South Africa?

### **3.2 Research Question 2**

What were the stakeholders' roles and motives?

### **3.3 Research Question 3**

How did the stakeholder groups react to the entrance of Wal-Mart into South Africa?

### **3.4 Research Question 4**

How did Wal-Mart manage the main stakeholders when entering South Africa?

### **3.5 Research Question 5**

What were the outcomes of Wal-Mart's management of the main stakeholders on entry into South Africa?

## CHAPTER 4: RESEARCH METHODOLOGY

### 4.1 Introduction

This chapter details how the research questions will be answered. The literature review formed the theoretical backdrop to this research and dictated the research design. The research design and its justification are set out, followed by the description of the population and the sample. This is then followed by a description of a unit of analysis. A background to the documents and their source is then provided, followed by the explanation of the research process. A brief explanation of how the analysis was done is given, before the chapter concludes by pointing out limitations posed by the research method.

### 4.2 The Research Design

The literature reviewed in Chapter Two demonstrate that research on management of stakeholders during retail entry into emerging markets is limited. For this reason, an exploratory qualitative research design was chosen. Qualitative research is suitable for studying a little known phenomenon as it allows it to be investigated in depth and in detail (Blumberg *et al*, 2008; Marshall & Rossman, 2006; Patton, 2001). It also offers a sufficiently flexible and open exploration of the phenomenon in its context, and is aimed at discovering insights.

Qualitative studies can take the form of interviews, observations and document analysis (archival analysis) or a combination of any of these (Patton, 2001). In this case an archival analysis was chosen because it allowed for an unobstructed exploration of the phenomenon with minimum interference from the researcher (Gray, 2009). It was

important in this case that the researcher remain in the background as he is employed by the Competition Commission, and a more prominent role in the research process would have likely led to a response bias. Furthermore, the entry of Wal-Mart into South Africa generated a plethora of documents from which insights into the research questions could be extrapolated, making an archival analysis convenient and desirable. Uusitalo and Rokman (2004), in a similar study in Finland, used the same method.

### **4.3 Population and Sampling**

The population for this study are all publicly available documents recording stakeholder management by Wal-Mart / Massmart upon the entry of Wal-Mart into South Africa, as well as publicly available documents recording the views and reactions of stakeholders to the entry. A non-probability and purposeful sampling methods were used in order to select the documents that best provide insights into the phenomenon (Blumberg *et al*, 2008). The sampling was also opportunistic and convenient because of the availability of documents that were generated for a different purpose to the research (Patton, 2001).

The documents used fell into five categories, namely; 1) the Tribunal witness statements of Wal-Mart and Massmart executives, trade union officials, a representative of government and the SMME Forum; 2) the transcript of the Tribunal hearings; 3) the transcripts of parliamentary hearings on the entry of Wal-Mart into South Africa; 4) the print media articles on the entry of Wal-Mart into South Africa; and 5) official press statements released by Wal-Mart, Massmart, government and trade unions on the entry of Wal-Mart into South Africa.

## 4.4 Description of the Documents and Sources

### 4.4.1 Massmart and Wal-Mart

The following documents from Massmart and Wal-Mart were reviewed as part of the sample:

- Competition Tribunal witness statements of Grant Pattison and Andy Bond.
- Thirteen media releases on the Wal-Mart/Massmart merger and public interest issues.

Andy Bond is an executive vice president of Wal-Mart and a former Chairman of ASDA Stores. ASDA is a Wal-Mart subsidiary and the second largest retailer in the UK. ASDA was acquired by Wal-Mart in 1999, at which time it was the third largest retailer in the UK. Bond has held various positions with ASDA since 1994 until being appointed CEO in 2005. Grant Pattison has been the COE of Massmart since 2007, succeeding the founder Mark Lamberti. Pattison has held various positions in the company since he joined in 1998, including the Deputy CEO and Managing Director of various subsidiaries.

### 4.4.2 Trade Unions

The following documents from COSATU and its affiliated trade unions, including those issued jointly with international trade union allies and under the name of the Anti-Wal-Mart Coalition, were reviewed as part of the sample:

- Tribunal witness statements of Mduduzi Mbongwe and Etienne Vlok.
- Seven media releases, four of which were from COSATU and one each from FAWU, SACTWU, SACCAWU (jointly with Anti-Wal-Mart Coalition).

Mduduzi Mbongwe is the Deputy Secretary General of SACCAWU and has held this position since 1999. He has been employed by the union since 1992. SACCAWU is the largest trade union at Massmart and the largest union organising retail workers in South Africa.

#### **4.4.3 Government**

The following documents from the government forms part of the sample:

- Witness statement of Richard Levin, Director General of Economic Development Department.
- Three media releases by the Department of Economic Development (EDD), Department of Trade and Industry, and the Department of Agriculture, Forestry and Fisheries and a media release by EDD.

EDD took a lead position on behalf of government in dealing with this case. Richard Levin is the Director General of the EDD. He is an experienced academic and senior manager in government. Prior to his current position he was the Director General of the Public Service and Administration Department. The Minister of Economic Development, Ibrahim Patel, is a former long-serving Secretary General of SACTWU and a leader of COSATU.

#### **4.4.4 Competition Tribunal**

The following documents from the Tribunal form part of the sample:

- Tribunal Order
- Statement of the Tribunal on the release of its decision
- Reasons for the Tribunal Decision

- Transcript of the Tribunal hearing.

The Tribunal panel that held the merger was constituted by Norman Manoim (presiding), Yasmin Carrim and Andreas Wessels. All three are full time members of the Tribunal. Manoim and Carrim are both lawyers who have been in private practise before and Wessels is an economist who has worked for the National Energy Regulator of South Africa and the Competition Commission of South Africa before.

#### **4.4.5 Parliament**

The following documents from parliament form part of the sample:

- Transcript of the public hearing of the National Assembly Portfolio Committee on Economic Development (Portfolio Committee) on the entry of Wal-Mart into South Africa.
- Media release issued by Parliament on Wal-Mart public hearings.

#### **4.4.6 SMME Forum**

From the SMME Forum, Tebogo Khaans' witness statement at the Tribunal and an article published in the Business Day newspaper was part of the sample.

#### **4.4.7 Media**

Articles from various newspapers and business magazines that were sourced from an electronic data base from a media monitoring agent, Newsclip Media, were reviewed. One hundred And thirty documents were elected to be part of the sample.

## 4.5 The Research Process

### 4.5.1 Data Collection

As indicated above, this research exclusively relied on publicly available documents. A similar data collection method was used by Uusitalo and Rokman (2004). However, whereas Uusitalo and Rokman (2004) relied on limited data sources, such as media reports, this research had the added benefit of accessing data from the formal hearings held on Wal-Mart's entry by official authorities, such as parliament and competition authorities. This research relies on a much richer source as the regulatory processes, parliamentary hearing, media articles and press statements by various stakeholders provided a treasure-trove of relevant documents. All documents used were in the public domain.

The intended merger between Wal-Mart and Massmart was notified to the Competition Commission and objections were received from various stakeholders. In terms of the Competition Act, the Competition Commission made a recommendation to the Competition Tribunal on the merger. Following the filing of factual and economic expert witness statements, the Competition Tribunal held public hearings on the merger where oral evidence from Wal-Mart and Massmart executives, economic experts, objectors (government, trade Unions and SMMEs) and a competitor was heard. The Tribunal hearings were transcribed by an independent service provider.

Following the Tribunal's conditional approval of the takeover of Massmart by Wal-Mart, an outcry by trade unions and the government ensued, with claims that the conditions imposed by the Tribunal were inadequate to address the public interest issues emanating from the proposed take-over. Consequently, parliament convened public hearings on the transaction in order to better understand the implications and get the

concerns of stakeholders. The parliamentary hearings were transcribed by a service provider procured by the researcher.

Print media articles were obtained from a media monitoring agent, Newsclip Media Monitoring, and cover the period September 2010 to September 2011. From the more than 450 articles that were collected, 130 were selected and thoroughly reviewed for the research. Articles offering the widest possible selection of stakeholder views were chosen. For example, an article reporting on a stakeholder's views that were not found in any other article was chosen over articles that were very similar to others.

Press releases were obtained from the websites of the organisations that issued them, apart from SACCAWU, whose press release was obtained from the COSATU website. There were thirteen press releases from Wal-Mart and Massmart, seven from the unions, three from the government, one from Parliament and one from the Competition Tribunal. The press releases covered the period from September 2010 to September 2011.

All the documents used were readily available and in the public domain and provide a holistic view of the stakeholders. Some of the documents were generated during formal submissions in parliament and, in the case of Tribunal proceedings, made under oath; while some were generated in less formal environments such as media statements. The use of this variety in the types of documents was aimed at gathering as authentic a view on the position of the parties as possible.

It is submitted that the data used for this research is robust and credible because:

- Senior executives of Wal-Mart and Massmart, the Vice-President and the Chief Executive Officer respectively, the Director General of the Department of Economic Development and trade union leaders gave

witness statements at the Tribunal. Some of them, other members of the public, and the president of COSATU made submissions at a subsequent parliamentary hearing.

- The information provided to the Tribunal was detailed and extensive.
- Witness testimony was subjected to cross-examination by opposing parties and questioning by the Competition Tribunal panel constituting two lawyers and an economist.
- The South African Competition Tribunal is required by law to give all sides the opportunity to be heard before it makes its decisions, and its processes and decisions are subject to judicial oversight.
- Parliament is a respected state institution and it is unlikely that parties would make deliberately misleading submissions.
- Press releases accurately reflect the views of stakeholders unhindered.
- Media reports provided a less formal platform where people could 'speak their minds' and allowed for stakeholders who did not participate in the formal process to present their views.

Usually the disadvantage of secondary data is that the information is often collected for a different purpose to that of the research (Blumberg *et al*, 2008). However, in this case the secondary data was specifically generated to address issues that were significantly similar to the research objective. Much more reliance is placed on the official documents issued by the parties, such as Tribunal and parliamentary submissions and official press releases, than on media articles. As with Uusitalo and Rokman (2004), it is also recognised that the media does not solely report on events but may highlight a specific image or agenda.

#### **4.5.2 Analysis**

The method of analysis used was a qualitative content analysis that includes the interpretation of written text (Uusitalo & Rokman, 2004). The data was collected and sorted in order to be analysed systematically under the themes emerging from the documents as well as from the research questions. The documents were reviewed carefully and insights from them grouped according to themes.

#### **4.5.3 The Unit of Analysis**

The unit of analysis for this project will be stakeholder management in the entry of Wal-Mart into South Africa.

### **4.6 Potential Research Limitations**

The potential research limitation of this study is that stakeholder analysis is a very dynamic process influenced by context. Lessons learnt in this study may not always apply elsewhere. The secondary data method deprives this study of the benefits of case-study qualitative interviews that provide an opportunity for observation and justification for approaches taken. The study was conducted as Wal-Mart enters South Africa and therefore is unable to observe the medium-to-long term outcomes of the merger, and of how the entry was managed, including that of stakeholders. Lastly, the researcher was working for the Competition Commission at the time of the research and his involvement in the case from a professional point of view may have had a bearing on the interpretation of the data.

## CHAPTER 5: RESULTS

### 5.1 Introduction

This chapter presents the results of the research. They are first presented broadly in terms of the key themes emerging from the documents and thereafter in terms of the research questions.

### 5.2 Key Themes Emerging from the Documents

Upon analysing the documents relating to the entry of Wal-Mart into South Africa, three themes emerged; namely the relationship with labour unions, the relationship with government and local procurement. The three themes are closely intertwined and are separated largely for convenience. Various stakeholder views are tabulated below in accordance with these themes.

#### 5.2.1 Relationship with Labour

##### a. Wal-Mart and Massmart Perspective

###### *Mr Bond*

According to the Tribunal transcript, Mr Bond stated that Wal-Mart employs approximately 2.1 million employees, referred to as ‘associates’ of which 1.3 million are in the US operations alone. All US employees are not unionised. When this was pointed out as an indication of Wal-Mart’s attitude to unionisation, Mr Bond put this down to the US culture which is characterised by low levels of unionisation. However, he conceded that some retailers in the US do have unions despite their membership numbers being low. Mr Bond pointed out that in other parts of the world, such as the UK, Wal-Mart

employees are unionised. Mr Bond however further conceded that Wal-Mart shut down a store in Canada in part because of unionisation. Thus Wal-Mart's position was that although there were no unions at Wal-Mart in the US, Wal-Mart respected the local cultures and laws of the countries in which it operates. Commenting on the various books, articles and reports written on Wal-Mart's bad reputation in relation to its employees, Mr Bond's explanation was that most of these reflect a particular view point, and while admitting that as a big company they (Wal-Mart) do make mistakes from time to time, he claimed that he himself had not seen anything "horrific" in Wal-Mart's treatment of its workers.

Regarding the unions' apprehensions that Wal-Mart's anti-union stance was now going to be extended to South Africa, Mr Bond replied, "I am not going to be repressive" and explained "We are a company that abides to local culture...", "local union representation will be decided by local management", "I can't be a union member here. I'm not a South African...we have tried to allay fears that may be there". He stated that "The company ...and myself have stood up and made public commitment to not only abide by the law, but honour existing union agreements. I have stood in front of the union and done same. I feel that we have done what we can, I cannot comment about how other people feel". On the possibility of a binding agreement on the trade union recognition with Wal-Mart, he insisted that this would be left to local management to decide. "We will respect the local leadership here on how they want to take the union relationship forward... Grant [Pattison] will do what is right for the business and we respect the fact that he is a South African running a South African business".

He repeatedly emphasised the respect for local laws and culture. "Wal-Mart requires each country operation to comply with all relevant laws and regulations". "Wal-Mart honours existing union relationships and contracts within acquired companies". "Wal-

Mart conducts a wage and benefit survey to ensure that its employment conditions are competitive in each market.”

“Wal-Mart strives to develop an environment that encourages open, respectful and direct communication with its associates, whether or not a union is in place.”

### ***Mr Pattison***

According to Mr Pattison, thirty eight per cent of Massmart staff is unionised. Mr Pattison indicated that Massmart was “willing to bargain with trade unions” and has a “desire to be the employer of choice.” He admitted that there had been deterioration in the relationship with trade unions, in particular with SACCAWU, in the period leading up to its take-over by Wal-Mart. However, he denied that this was in anyway related to the entry of Wal-Mart. He also denied that the retrenchment of 503 workers was related to the entry. He explained that Massmart introduced some efficiencies that led to 503 workers being retrenchment months prior to the merger. “Management takes responsibility for the re-engineering and I have to live with the consequence, my conscience of having to retrench those 503 employees.” While he said he would encourage his executives to re-employ those workers in areas where there were opportunities, he was not prepared to make an undertaking to re-instate them. He stated that there was no agreement with SACCAWU regarding the retrenchments, and admitted that they had negotiated with affected workers directly and by-passed the union in violation of the recognition agreement with SACCAWU. However, he attributed this to a genuine mistake and not an attempt to side-line the union. “There is union representation and we have things in store called shop stewards.” He suggested that the issue was erroneously handled at store level, and that the union had taken up the issue when they were out of line.

Upon the announcement of a deal, Massmart issued a statement to the effect that COSATU and SACCAWU leadership had been consulted. It turned out several largely unsuccessful attempts to talk to the unions were made. It transpired that The Secretary General of COSATU was sent a text message (sms) informing him of the transaction. “It’s quite difficult to be in communication with senior members of the union”. “So it was a call, an attempted fax, and a final resort to an sms...” Eventually a discussion was held with the President of COSATU, Sdumo Dlamini. However, Mr Pattison appeared unsure of the name and position of the person he spoke to, constantly and erroneously referring to the President of COSATU as ‘Sudo’.

When government proposed a social dialogue between Wal-Mart / Massmart, trade unions and the government, Massmart responded positively to the idea and Mr Pattison directly participated in the social dialogue. He regarded the social dialogue as a forum to discuss future relationships. “The meetings were useful in improving Massmart’s understanding of where the SACCAWU come from and *vice versa*.” Mr Pattison made it clear that Massmart did not participate in the social dialogue with the intention of entering into a binding commitment that could later be incorporated into enforceable conditions confirmed by the Competition Tribunal. The intention was rather to understand where the unions and the government were coming from with their concerns and debate the possible solutions. Massmart was also willing to sign a non-binding ‘statement of intent’ setting out what they were intending to do after Wal-Mart’s entry. The social dialogue did not bear any obvious results, according to Pattison, as they were not willing to meet government and union’s expectations.

## **b. Trade Union Perspective**

### ***COSATU***

COSATU's position was summarised by its President, Sdumo Dlamini, in parliament, "Considering Wal-Mart's deplorable record on labour rights and repressive attitude to trade unionism, indiscriminate use of suppliers who violate environmental, health and safety standards, and a general disregard for compliance with competition rules to the detriment of other industry players, jobs and livelihoods, we can only argue, Chairperson, that our corner of the world is in a far worse position as a consequence of this Tribunal decision. We remain convinced that Wal-Mart's takeover is not in the best interests of this country and we will continue to oppose this deal."

COSATU announced that it would fight the entry of Wal-Mart into South Africa and had filed a Section 77 notice (a legal requirement in terms of the Labour Relations Act) that it would protest against the entry. COSATU further attributed the announcement by a Massmart competitor, Pick 'n Pay, it would be retrenching about 3000 workers, as a response to Wal-Mart's entry.

### ***SACCAWU***

COSATU's concerns are shared by SACCAWU. SACCAWU warned of a "waterbed effect" – the spiral effect and the creation of monopoly or buyer power if Wal-Mart was allowed to enter the South African market. They argued that it would reverberate throughout the supply chain – manufacturing, food, agro-processing, clothing and textile, chemical and transport. Like COSATU, SACCAWU believes Wal-Mart's entry will displace local jobs. It pointed to a contradiction between Wal-Mart's claims of empowering Massmart to continue setting the direction for the company and trumpeting the merged entities' access to Wal-Mart's business model, practices, strategies and

skills. "...This merger should not be treated as an ordinary case given the size, notorious business practices and foreseeable adverse impact of Wal-Mart entry into South Africa..." SACCAWU "welcomes responsible foreign investment in South Africa". "It does not, however, support Wal-Mart's investment in South Africa because of that firm's specific business model and practices, and their adverse consequences for the South African economy". "SACCAWU would not hold the same attitude to the proposed merger if the primary acquiring firm were another international retailer."

SACCAWU further pointed to Massmart's growing animosity towards the union coinciding with its talks with Wal-Mart about the take-over. They cite an example where Massmart by-passed the union and negotiated directly with workers about retrenchments at a store level, in violation of a recognition agreement which requires such negotiations to be handled by the union at a national level. They believed such a development was not merely coincidental but a "Wal-Mart effect". SACCAWU also alleged the retrenchments were in fact linked to Wal-Mart, and that Massmart was undertaking pre-merger restructuring in preparation for a take-over by Wal-Mart. They argued for the reinstatement of the workers who were retrenched prior to the take-over. SACCAWU believes that Massmart positioned itself to be bought by Wal-Mart and as part of this positioning restructured itself, leading to retrenchments.

SACCAWU complained that Massmart management "misled the public" by claiming it had consulted with trade union leadership about Wal-Mart's entry when in fact it sent a text message an hour before a public announcement was made. The union viewed this as an attempt to drive a wedge between the union and workers.

Mr Mbongwe contends that Wal-Mart workers in the US are not unionised because of Wal-Mart's anti-union attitude. He pointed to correspondence between Wal-Mart and

Massmart where Wal-Mart encourages Massmart to relook at the recognition agreement it has with SACCAWU.

They pointed to some countries, states and municipalities, where Wal-Mart has been prevented from entering because of its labour practises.

### **NUMSA**

NUMSA shares the same sentiments as other trade unions and pointed to the potential loss of manufacturing jobs in the value chain if Wal-Mart were to enter the country. Its Secretary General, Irvin Jim, argued in parliament; “I think we want to say that where we organise [metal and automobile] as a union we have got many multinationals who have invested in this country, they were not here in order to loot, they were not here in order to destroy the very jobs that this country desperately needs. This deal cannot be supported because of its nature and character as stated above but also because of Wal-Mart’s global notorious disrespect for workers’ rights, the firm specific business model and practices that will have a disastrous impact on the South African economy”. In its submissions in parliament, NUMSA called for a commission of inquiry to look at the effects of the entry of Wal-Mart into South Africa.

### **FAWU**

FAWU agreed with other unions and claimed the likely impact of Wal-Mart on the value chain would affect its members. Its Secretary General, Katishi Masemola argued in parliament that the low prices that were being bandied around would come at a huge cost to South Africa.

## **SACTWU**

SACTWU pointed to the negative impact that Wal-Mart's entry would have on manufacturing in South Africa as a result of Wal-Mart's global sourcing capabilities, and especially the impact on clothing and textiles.

### **c. Media**

Most media articles carried sensational headlines, including a "War between Wal-Mart and the trade unions...", "Unions fear loss of jobs, workers' rights"; "Wal-Mart thinks it's over but it's not"; "Mother of all boycotts if Wal-Mart / Massmart deal is approved"; and "Unions fire first salvo in battle with Wal-Mart bully".

## **5.2.2 Relationship with Government**

### ***Massmart, Grant Pattison***

Mr Pattison states that he was called by government ministers to discuss the transaction. He was asked to participate in a social dialogue with interested parties, to which he agreed. He, however, made it clear that he was not prepared to make legally-binding commitments. After the meeting he had with the Ministers of Economic Development and Trade and Industry, no other meetings were held with government at that level. Massmart was prepared to assist government in some industry-wide initiative to regulate local content for retail goods, but not to bind itself to buy local when its competitors were not.

### ***Government***

The government stated that both Wal-Mart and Massmart agreed with its concerns as pointed out in a meeting with them. However, government complained that the companies were not forthcoming with information that would enable them (government)

to fully evaluate the implications of the entry of Wal-Mart into South Africa. The government was also disappointed that the social dialogue stalled as soon as Wal-Mart / Massmart received the green light for the merger from the Competition Commission. The government stated that, although it welcomes FDI, it was opposed to this merger because of the negative impact it would have on the country's economic growth path and employment situation. The government made it clear that its opposition to the entry of Wal-Mart into South Africa did not reflect a general government posture towards FDI but was specific to the public interest issues arising from this case.

### ***Media***

The media did not devote much attention to the relationship between government and the firms involved, but noted that government supported the unions. In general, the media took the side of the firms, accusing government of overreaching their mandate and confusing investors. "Essentially, the Americans have been told to go away, but in the most sordid, underhand and creepy way", said the editor of a leading business daily in South Africa.

### **5.2.3 Local Suppliers and Jobs**

#### **Government**

The key issue in government documents regarding the merger is its impact on local procurement. Government was concerned that Wal-Mart's buying power would lead it to shift to imports, hurting local manufacturing and jobs in the process. Government was very unhappy with Wal-Mart / Massmart's refusal to make commitments regarding local procurement. The Minister of Agriculture, Forestry and Fisheries, writing in South Africa's second largest Sunday newspaper, argued that Wal-Mart's entry posed a threat to food security in the country as supplier food chains are disrupted and production

capacity lost. She welcomed the last minute commitment by Wal-Mart to create a supplier development fund but complained that the R100 million offered was not enough to “provide assurances that arise from our very real public-interest concerns...”. The Minister of Trade and Industry echoed the same sentiment, warning of the “surge” in imports that could have a destabilising effect on the economy and threaten jobs, and his Director-General cautioned that the risks posed by Wal-Mart “outweigh the benefits” of lower prices.

### **Trade Unions**

All trade unions were concerned with the impact of the merger on local jobs through the (likely) shift from local suppliers to imports, emanating from Wal-Mart’s global sourcing capabilities as well as the squeezing of local suppliers.

“The reason why we are concerned is because if you procure from abroad, and I think my colleague tried to explain this, if you procure from abroad you essentially retain jobs abroad, if you procure manufacturing products at least you retain jobs from where you procure if it’s outside of the Republic, even if you bring those products much cheaper for local consumers. So a rising number of unemployed people and a rising number of unemployment in the country as a consequence of job losses here or job creation abroad I believe does not augur well for the country if products are cheap. You may still buy products at a cheaper rate but those people may not be able to afford those products because they are unemployed”.

“Our position to the proposed Wal-Mart / Massmart measure must be understood and located in the broader economic political and legal context. South Africa’s biggest challenges by far are its massive levels of unemployment, poverty and inequality”.

## **Media**

Some sections of the media were sympathetic to concerns about local industries and employment, and therefore supported government interventions. “FDI [should] result in proper investment into the South African society and economy: an increase to the existing level of production, more jobs and higher wealth creation. A simple transfer of ownership...does not, on its own, do anything for South Africa”. However, most were highly critical of the government’s intervention, taking the view that “customers will win from the merger” and declaring a “new era for consumers” in anticipation of lower prices. The government’s intervention was criticised for sending confusing signals to international investors. “For Goodness sake, here’s a country in need of foreign investment, and which preaches the mantra of job creation. Yet [the government has done its] utmost to make Wal-Mart unwelcome”, the government “demonstrated a poor level of maturity in full view of the global investment community”; “The Government has blundered in the Wal-Mart case”; “Those opposing the Wal-Mart deal would better be served promoting manufacturing progress than attempting to restrict competition”, and “rather than oppose the deal, government should embrace it and use it as a chance to change the competitiveness of SA’s local manufacturing industry and get it connected to a global supply chain”. There were still others who took the middle road, highlighting a “dilemma” best summed up by one editorial headline “Wal-Mart: good for shoppers, bad for SA.”

## **Investment Analysts**

Most investment analysts and economists supported the merger on the basis that, in addition to lower prices, it was a vote of confidence in the South African economy and

could lead to more investments. However, one analyst pointed to the internationally “growing volume of research that illustrates the high cost of Wal-Mart’s low prices.

### **South African Youth Council**

In its submissions in parliament, the South African Youth Council highlighted the crisis of unemployment in South Africa and its effect on the youth. Citing studies conducted in the US on the effect of Wal-Mart on local labour markets, it rejected the entry of Wal-Mart in South Africa on the basis of its potential impact on jobs. The media can be classified as a dangerous stakeholder.

### **SMMEF**

The SMMEF did not take a principled view against the merger, but argued for the safeguarding of SMMEs from its effects. They argued for a condition that would ensure supplier development focused on SMMEs.

## **5.3 Research Questions**

### **5.3.1 Who were the main stakeholders during Wal-Mart’s entry into South Africa?**

The stakeholders who became involved or expressed their views during Wal-Mart’s entry into South Africa are listed in Table 4. Based on their salience, that is their power, legitimacy and urgency, the government and COSATU-affiliated trade unions were identified as key stakeholders.

**Table 4: Summary of Results for Research Question 1 - Key Stakeholders**

KEY STAKEHOLDERS	OTHER STAKEHOLDERS
<ul style="list-style-type: none"> <li>• Trade Unions               <ul style="list-style-type: none"> <li>- COSATU</li> <li>- SACCAWU</li> <li>- FAWU</li> <li>- SACTWU</li> <li>- NUMSA</li> </ul> </li> <li>• Government</li> </ul>	<ul style="list-style-type: none"> <li>• Business Associations               <ul style="list-style-type: none"> <li>- Business Unity South Africa</li> <li>- SMME Forum</li> </ul> </li> <li>• Competitors</li> <li>• Parliament</li> <li>• Regulators – Competition Tribunal</li> <li>• Political Parties</li> <li>• Investment Analysts</li> <li>• Trade Union - FEDUSA</li> <li>• International Trade Union – UniGlobal</li> <li>• Media</li> <li>• NGOs               <ul style="list-style-type: none"> <li>- Free Market Foundation</li> <li>- South African Youth Council</li> <li>- Earthlife Africa</li> <li>- Economic Justice Network</li> <li>- Black Sash</li> <li>- Labour Research Service</li> </ul> </li> </ul>

### 5.3.2 What were the stakeholders' roles and motives?

The motives of the trade unions were job-protection. They also wanted to protect their organisational rights they felt were threatened by Wal-Mart's arrival. SACCAWU, in particular, wanted the retrenched workers reinstated. First prize for the unions was to block entry altogether, failing this was to have authorities imposing conditions addressing its concerns. The unions organised pickets and opposed the entry in courts and with the competition authorities.

The motives of government were to protect, and increase the numbers of South African suppliers to Wal-Mart, consequently protecting existing, and creating new, jobs. Government sought to get a commitment from Wal-Mart to purchase certain volumes of

products locally. Government appointed a panel to advise on the impact of the merger, made submissions at the Tribunal calling for conditions, and challenged the Tribunal’s decision approving the merger in courts.

**Table 5: Summary of Results for Research Question 2 - Stakeholder Motives and Roles**

Stakeholders	Motive	Roles
Government	<ul style="list-style-type: none"> <li>• Protection of local suppliers</li> <li>• Preservation of jobs</li> <li>• Extract commitments from Wal-Mart</li> </ul>	<ul style="list-style-type: none"> <li>• Appointed an advisory panel</li> <li>• Called a social dialogue between stakeholders</li> <li>• Intervened at the Tribunal seeking remedies or prohibition</li> <li>• Made submissions in parliament</li> <li>• Reviewed the decision of the Tribunal in court.</li> </ul>
Trade Unions	<ul style="list-style-type: none"> <li>• Reinstatement of retrenched workers</li> <li>• Protect labour rights</li> <li>• Preservation of jobs</li> <li>• Protection of local suppliers</li> <li>• Block Wal-Mart entry</li> </ul>	<ul style="list-style-type: none"> <li>• Made submissions before competition authorities</li> <li>• Picketed at the Tribunal</li> <li>• Made submissions in parliament</li> </ul>
Parliament	<ul style="list-style-type: none"> <li>• Unknown</li> </ul>	<ul style="list-style-type: none"> <li>• Called public hearings</li> </ul>
Competition Tribunal	<ul style="list-style-type: none"> <li>• Preservation of competition and public interest</li> </ul>	<ul style="list-style-type: none"> <li>• Approved the merger subject to conditions</li> </ul>

### 5.3.3 How did stakeholder groups react to the entrance of Wal-Mart into South Africa?

The trade unions publicly objected to the entrance of Wal-Mart into South Africa. They opposed the merger of Wal-Mart and Massmart before the competition authorities on public interest grounds, namely that the merger would lead to deterioration in the quality of jobs (casualization), and a reduction of jobs in the supply chain as Wal-Mart shift to imports. When they dissatisfied with the decision of the Competition Tribunal, they

appealed to the Competition Appeal Court. Trade unions also organised demonstrations and picketed against the entry.

NUMSA announced; “in the interests of the vast majority of our people who are victims of the triple crises of unemployment, deepening poverty and worsening inequality, a high powered presidential commission of enquiry must be established with immediate effect to investigate; one, the severity of the impact of this deal on the South African economy, the severity of the impact of this deal on employment, local business and local competitive environment.”

The Government proposed a social dialogue between Wal-Mart, Massmart and interested parties (trade unions and the government) to agree on a set of commitments that would ameliorate public interest concerns resulting from a merger. In particular the government was concerned with the impact of the entry of Wal-Mart on local suppliers as Wal-Mart shifts to exports. When the social dialogue failed to produce the desired results, the government challenged the merger before the Competition Tribunal. The government was not happy with the Competition Tribunal decision and then challenged it before the Competition Appeal Court by way of a review.

Parliament held public hearings on the entry of Wal-Mart into South Africa. Some less significant stakeholders, such as the opposition parties in parliament, the Democratic Alliance and the Freedom Front Plus, business publication editorials, and smaller trade unions voiced their support for the merger.

**Table 6: Summary of Results for Research Question 3 – Stakeholder Reaction**

Stakeholder	Reaction
Government	<ul style="list-style-type: none"> <li>• Appointed an advisory panel</li> <li>• Called a social dialogue between stakeholders</li> <li>• Intervened at the Tribunal seeking remedies or prohibition</li> <li>• Made submissions in parliament</li> <li>• Reviewed the decision of the Tribunal in court.</li> <li>• Issued press statements</li> </ul>
Trade Unions	<p>Made submissions before competition authorities (All)</p> <ul style="list-style-type: none"> <li>• Staged a picketing at the Tribunal during hearings (SACCAWU)</li> <li>• Made submissions in parliament</li> <li>• Filed a notice for a national protest by all COSATU affiliates (COSATU)</li> <li>• Called for a Commission of Inquiry on the impact of the entry (NUMSA only)</li> </ul>
Parliament	<ul style="list-style-type: none"> <li>• Called for public hearings</li> </ul>
Tribunal	<ul style="list-style-type: none"> <li>• Approved merger subject to creation of R100 million supplier fund, honouring of existing agreements with trade unions and first consideration of retrenched employees should vacancies arise.</li> </ul>

### 5.3.4 How did Wal-Mart manage the main stakeholders when entering South Africa?

There is no discernible stakeholder plan and execution for Wal-Mart on its entry into South Africa. Wal-Mart itself has not played much of a role in talking to stakeholders; most of this has been undertaken by the target, Massmart. Even Massmart itself did not appear to be doing so proactively and in pursuit of any particular strategy. The meetings with ministers were called by the government, who also instituted the social dialogue. However, Massmart used the media to explain its ‘side of the story’. At one point it

issued a statement in response to a government statement. Its media statements were issued by a public relations firm and are responsive to issues raised about the entry of Wal-Mart. There appears to be an effort to reach out to the public, the media and other stakeholders, through the media. In one article the Chairman of Massmart explained “Why we did it [sell to Wal-Mart]”, while in another, a short statement was issued clarifying that reports that one of its stores, Makro, had stopped buying locally-manufactured olive oil in favour of imports, were inaccurate, and that, in fact, the opposite was true – it had never stocked locally-manufactured olive oil until recently. During the period under review, Massmart issued about ten media releases on the matter.

Formal stakeholders such as the Competition tribunal were engaged through the formal legal process. Only at the last minute did Wal-Mart and Massmart give concessions and offered to create a R100 million supplier development fund, maintain the existing agreements with trade unions for a period of three years and to e-employ the retrenched workers when there are vacancies.

### **5.3.5 What were the outcomes of Wal-Mart’s management of the main stakeholders on entry into South Africa?**

It is still too early to examine the outcomes of Wal-Mart’s stakeholder engagement as the entry is very recent and on-going. However, in the short term, the relationship between the government and trade unions on the one hand and Wal-Mart on the other hand, is adversarial and is mediated by courts through litigation. At the time the research was conducted, it appeared to be a ‘war of attrition’ with both the unions and government attacking the merger in the Competition Appeal Court. Media reports show that attempts by the presiding judge to have the parties reach an agreement failed.

## 5.4 Conclusion of the Results

The results show that the key stakeholders of Wal-Mart's entry into South Africa are the government and trade unions. The results also show that Wal-Mart left much of the stakeholder engagement to the target, Massmart, and only involved themselves with stakeholders at a superficial level. The key stakeholders' reactions to the entry of Wal-Mart into South Africa were predominantly negative. Stakeholders such as the Tribunal, who had formal power, were engaged through the formal proceedings and some concessions regarding stakeholder demands were made through these proceedings, although they were not deemed adequate by the stakeholders making the demands. The consequences of stakeholder management, or lack of it, was an entry marked by acrimonious litigation and public spats with key stakeholders. The results are discussed and analysed in the next chapter.

## **CHAPTER 6: ANALYSIS OF THE RESULTS**

### **6.1 Introduction**

The research was concerned with management of stakeholders by Wal-Mart when it entered South Africa. The results were presented in the form of themes emerging from the documents and thereafter tabled in accordance with the research questions. This chapter will analyse the results under each research question and the findings will be discussed in the context of existing literature.

### **6.2 Who were the main stakeholders during Wal-Mart's entry into South Africa?**

Trade unions and the government were found to be the key stakeholders. In South Africa trade unions possess all three attributes of Uusitalo and Rokman's (2004) stakeholder model - power, legitimacy and urgency - making them definitive stakeholders. This is slightly different from Uusitalo and Rokman's (2004) research in Finland, which found employees to be a discretionary stakeholder, whose only attribute was legitimacy. Part of the difference is explained by the fact that Uusitalo and Rokman's (2004) analysis involved employees who were not unionised, and they themselves acknowledged that in Nordic countries the involvement of trade unions would strengthen the position of workers. It must also be noted that in South Africa the unions do not necessarily possess formal power, but rather it is derived from their strength and the networks of relationships between different stakeholders. For example, the unions can exhibit power in South Africa when they raise issues that are in the interest of the country or when dealing with ministers who are themselves former trade

union leaders. COSATU is also in alliance and some influence in the governing party in South Africa.

That market entry requires consideration of a broad range of stakeholders, including government and trade unions, is widely recognised (Elg *et al*, 2007). Government plays an even more critical role in the entry of retailers in emerging markets. While emerging markets are characterised by high growth, they also characterised by institutional voids and immature supplier industries. The government often steps in to ensure that the entry of large retailers into emerging markets does not lead to the elimination of its local supplier industries and jobs. The concerns that Wal-Mart, given its global reach, size and global sourcing capabilities, could lead to a shift away from local suppliers to imports is a reasonable expectation, or assumption. Given the estimated unemployment rate of about 35% in South Africa, jobs are a national priority and on top of the government's agenda. Agriculture and agri-business have been identified as one of the job drivers in the Government's Economic Growth Path. In addition, the Department of Agriculture, Forestry and Fisheries has a mandate to ensure food security in South Africa. In view of the above, the government's interest on the matter and its emergence as a key stakeholder was not surprising. The government is a highly salient stakeholder as it has both power and legitimacy; although in this case less urgency than would have been the case if Wal-Mart had been able to enter without their approval.

Trade unions' emergence as a stakeholder is largely linked to Wal-Mart's reputation of not allowing unionisation in countries such as the United States and Canada. There are very vocal anti-Wal-Mart groups where it operates or intends to enter, and criticism is levelled that Wal-Mart's presence leads to the lowering of wages for workers and a reduction in employment as well as the displacement of local suppliers. While these arguments are countered by Wal-Mart, its sympathisers and some academics, the anti-

Wal-Mart coalitions project an image of an uncaring corporate citizen that does not care for its stakeholders. It was thus not surprising to see the unions in South Africa adopting the stance they did.

What was striking about Wal-Mart's entry into South Africa was that at a time of wide-ranging discourse about the entry, certain stakeholders were notably silent or offered limited contribution to the debate. Amongst these were the consumer groups, suppliers and business associations. One could expect consumers, especially, to have an opinion on the merger. While the competition authorities would, in their analysis of the issue, have considered consumer welfare, they can, in no way, substitute for the role of consumer groups. In some instances trade unions purported to speak on behalf of consumers, in so far as their members are also consumers. It would have been interesting to hear the opinions and thoughts of consumers, although it is expected that they would be essentially positive towards the merger, given the likelihood that it would have led to lower prices.

The lack of consumer group action could be explained by the generally weak consumer movement in South Africa. Additionally, the political lobby opposing the merger could have been so strong that consumer groups may have feared political consequences for speaking out.

Massmart made use of the media to communicate the benefits of the merger to the public. However, much of this communication was aimed at countering its detractors as opposed to proactive engagement. Media as a stakeholder in its own right is as found by Uusitalo & Rokman (2004) as a stakeholder with two attributes, making it a dangerous stakeholder. There is no reason to conclude otherwise in South Africa.

### 6.3 What were the stakeholders' roles and motives?

While the motives of government and trade union are the same in so far as they are about preserving jobs in the value chain, there are also important differences. The government sought binding commitments on local procurement, and only if these could not be made, then a prohibition of the entry, whereas the unions objected to the entry itself in the first instance, and would only accept commitments as a compromise. The fundamental difference lies in the fact that government's interest is in the preservation of economic activity and jobs, while for the unions the entry of Wal-Mart threatens their very existence at Massmart. The government's approach was to first achieve its objectives through dialogue, which would also entail a compromise between the unions and the firms. These outcomes of the dialogue could then be made binding conditions for entry.

The entry occurred through the purchase of privately-owned shares and, interestingly, more than 70% of Massmart shareholders were foreign anyway. However, the issue here was not just a change in the shareholding of the target, but the entry of Wal-Mart. The government sought concessions from Wal-Mart that would protect some local manufacturing capacity. However, government battled to identify what capacity really existed, and part of their argument was based on the yet-to-be-created capacity. Even though the government case is weak in this sense, Wal-Mart should have recognised these aspirations and seriously considered how it could contribute towards their attainment. For example, Wal-Mart could commit to developing local suppliers in certain sectors that could, in turn, become globally competitive and benefit from, rather than being harmed by, Wal-Mart's global sourcing capability. Wal-Mart and Massmart's denial that they would exploit Wal-Mart's global sourcing capabilities to aggressively compete in South Africa was not just disingenuous, but was also strategically flawed. It was

premised on the assumption that this global sourcing power is necessarily harmful local producers. What was overlooked in the debate was the opportunity for the government and the world's largest retailer to partner in positioning local suppliers to take advantage of Wal-Mart's entry and its planned growth into the African continent.

The research reveals the need for all corporations to have a dynamic global strategy that is flexible enough to respond to the market dynamics of the country being entered. There is no one-size-fits-all strategy, particularly in emerging markets, and Elg *et al* (2007) argue that before entering such markets, it is important to examine the role of, and relationships with, various socio-political stakeholders and to understand how these relationships interact with the corporation's activities. Wal-Mart came to South Africa with a reputation for being anti-trade union, and this set the tone engagement with stakeholders.

#### **6.4 How did the stakeholder groups react to the entrance of Wal-Mart into South Africa?**

Trade unions were hostile to the merger, while government required some concessions. Despite this posture, it is also clear that both unions and the government were willing to talk to Wal-Mart and Massmart about some commitments regarding future behaviour. However, the main difference between the key stakeholders and the firm was on the nature of these commitments – key stakeholders wanted binding commitment while the firm insisted that it was under no legal obligation to enter into such. While Wal-Mart could not control the reaction of stakeholders, there was always an opportunity for Wal-Mart to enter the fray and commit to a process of addressing stakeholder concerns outside the courts.

Investment analysts were positive about the entry of Wal-Mart, and there were some support for the entry from Business Unity South Africa. However, this support did not lead to much action. Despite that these groups were concerned about uncertainty in the investment climate caused by the government's position on this matter, there was not much reaction from them. This may also confirm the weak position these stakeholders are as against the key stakeholders.

The reaction of these stakeholders clearly reflects the extremely low levels of trust between the firm and its stakeholders. The non-acceptance of an informal commitment on the one hand, and the insistence of a legally-binding commitment regarding future behaviour on the other hand, illustrate this low level of trust.

## **6.5 How did Wal-Mart manage the main stakeholders when entering South Africa?**

As observed by Griseri and Seppala (2010) and discussed in Chapter Two, stakeholder management involves the process by which managers reconcile the objectives of a firm with the claims and expectations of various stakeholders. In this case, there is no evidence of a serious attempt to reconcile the 'claims and expectations' of the stakeholders with Wal-Mart's objectives. Wal-Mart displayed no discernible stakeholder engagement strategy during its entry into South Africa. Elg *et al* (2007) propose matching as an engagement strategy when entering new markets, and illustrate how a Swedish retailer, IKEA, successfully entered the Chinese and Russian markets by strategic engagement with key stakeholders through matching. Their research reveals high-level meetings between the home country and new market leaders, including meetings between the retailer and the political leadership to address specific issues relating to the entry. In South Africa, Wal-Mart and the government were on opposing

sides. What may have contributed to this situation was Wal-Mart's leaving stakeholder engagement to the target, Massmart. Business and government in South Africa are notoriously suspicious of each other, a legacy of apartheid and the post-apartheid socio-political discourse. Though Massmart can be hardly described as a MNC, and lacks the skills and experience of managing entry, Wal-Mart obviously thought they would be capable of handling negotiations, being a "home" company. Having said this, much of the anxiety surrounding the merger had to do with the entry of Wal-Mart and the changes that would emanate from this. Wal-Mart's reputational issues were also an important factor that was not shared with Massmart. None of these factors could be addressed by Massmart – they required Wal-Mart to be bold and outline how it was going to operate in South Africa. Massmart management was (wrongly) seen as the implementing agent for Wal-Mart policies. It was not enough for Wal-Mart to claim to respect local laws and culture.

Wal-Mart's engagement with stakeholders was very formalistic and not dynamic. It seemed to conflate the legal process with the strategic questions that respond to the social environments. The approach was in contrast to the 'generative stakeholder conversations' proposed by Cooperrider and Fry (2010).

## **6.6 What were the outcomes of Wal-Mart's management of the main stakeholders on entry into South Africa?**

The outcome thus far has been acrimonious, with litigation between Wal-Mart on the one hand and trade unions and government on the other hand. The question remains for Wal-Mart, whether or not it wins the litigation, is can this be regarded as a successful entry? The answer has to be a resounding no, for even if it wins and enters the South African market on its own terms, it will still be required to work with the stakeholders,

particularly trade unions and the government. Government still possesses the power to prescribe and change the rules of the game. With respect to trade unions, Wal-Mart had an ideal opportunity to demystify all perceptions, rightly or wrongly, that suggest that it is anti-union. Had it studied the South African environment carefully, it would have been aware of the dynamic power of the unions – there is a federation of unions that organises workers throughout the value-chain, and legislation allows for secondary strikes. South African trade unions enjoy a good deal of legitimacy, being part of COSATU and the broader mass democratic movement that fought apartheid and now forms part of the ruling alliance. This amongst other things means that the unions' voice in South Africa is an important one – and one that is ignored at ones peril.

Wal-Mart's stated intention of using South Africa as a springboard into Africa necessitates it having a good relationship with, and support from, the South African government. Entering African markets will be complex and will carry legal and political risk, and South Africa is better placed to deal with these than Wal-Mart or the US government. In Africa, Wal-Mart needs the South African government.

Wal-Mart appears to have fallen into the trap that most companies, according to Ghemawat (2001), fall for, that of underestimating just how far removed they are culturally from the markets they seek. Companies need not only pay attention to the economic outlook of potential markets, but to the social and political outlooks too.

## CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

### 7.1 Introduction

This chapter highlights the main findings of the research and conclusions. This is followed by recommendations for business and academics in the field. The chapter will conclude with recommendations for future research.

### 7.2 Main Findings

The research studied how Wal-Mart engaged with stakeholders during entry into a developing market, South Africa. There is widespread recognition in literature that entry into a new market requires the identification and management of stakeholders. The research found that government and trade unions were the key stakeholders pertaining to Wal-Mart's entry into South Africa.

The motives of the government were, at worst, to protect local suppliers and, at best, to improve their position with Wal-Mart/Massmart. The government's main priority is to create jobs with a key driver being manufacturing. According to government the merger threatened local jobs because Wal-Mart will be likely to shift from local suppliers to cheaper imports. Accordingly, government required Wal-Mart to commit to buying certain volumes in South Africa.

Trade unions were equally concerned about the impact of Wal-Mart's entry on jobs and their interests aligned with government in this regard. However, trade unions' concerns went even further. They were concerned that Wal-Mart, given its anti-union reputation, would reverse the wheel in so far as labour rights at Massmart are concerned,

suspecting that Wal-Mart would cancel the existing agreements with labour unions. There was also the case of about 503 workers who had been retrenched by Massmart months before Wal-Mart announced its take-over of Massmart. The unions required these workers to be reinstated and see their retrenchment as part of 'dressing up' Massmart for the Wal-Mart take over.

While there were attempts at holding social dialogue between the parties, none of these yielded positive results. There was hardly any stakeholder engagement by Wal-Mart, most communication with stakeholders was left with the target, Massmart. Massmart itself did not have a clear stakeholder engagement strategy and most of its activity was reactive. Apart from one or two meetings held there was no engagement with the leadership in government and trade unions. The entry of Wal-Mart into South Africa was characterised by acrimonious relationships with stakeholders and protracted litigation.

### **7.3 Implications for Practitioners**

The recommendations arising from this research to managers of MNEs seeking entry into emerging markets is to get stakeholder management embedded in their strategy. Managers must study the culture and the socio-political environment of the markets they wish to enter and have a good sense of how far culturally these markets are from them (Ghemawat, 2001). The corporate centre must be involved in the execution of an entry strategy, and senior management, especially the CEO, must directly engage with stakeholders. Entering through an acquisition should not be viewed as an opportunity to avoid this responsibility. The target can advise but not substitute the acquirer in stakeholder engagement.

An important implication for management too is the acceptance that engagement does not simply entail informing stakeholders of what is going to happen. Rather, it is

engaging with them openly, keeping in mind that some of their issues may have to be taken on board, with possible implications for the firm's strategy or its execution. Managers also need to think beyond short-term wins with stakeholders, it about the long term, and this may mean accepting short-term losses.

#### **7.4 Recommendations for Future Research**

The entry of Wal-Mart into South Africa is on-going. A follow-up study similar to this, but with the benefit of time, might provide a better understanding of the phenomenon. Further research could compare Wal-Mart's entry into South Africa with their entries into other emerging markets from a stakeholder point of view. Future research could examine Wal-Mart's behaviours in relation to other global retailers in a similar context, to identify common and distinguishing factors.

A great need still remains for future research to assist in better understanding the link between strategy and stakeholder engagement. An empirical study of how companies combine the two could yield great insights and lessons.

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