Business strategy in emerging markets and regional economic integration: the case of the East African Community

Name: Daniel Kamau
Student no.: 27251472

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Date: 14 October 2011
ABSTRACT

Regional integration, defined as a process in which countries enter into agreements to enhance regional trade, economic and political cooperation, remains an integral part of Africa’s development strategy as evidenced by the proliferation of regional integration agreements on the continent. The implications of these regional agreements on the strategy and operations of multinational corporations on the continent is a question that has received little attention, and as a result, largely remains unanswered.

The East African Community, the regional intergovernmental organisation between the Republics of Burundi, Kenya, Rwanda, Tanzania and Uganda, may lay claim to the position of being the most advanced regional block in Africa with respect to progress made at implementing integration objectives. As such, the impact that deepening integration may have had on multinationals operating in the East African Community evokes much interest and attention.

This research therefore interrogates the implications of deepening regional integration on business strategy in the East African Community.

KEYWORDS:
Emerging Markets Strategy; Regional Economic Integration, East African Community
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.

Signed ________________________________ Date ____________________________

DANIEL NG’ETHE KAMAU
ACKNOWLEDGEMENTS

To my wife, Tsholofelo Kamau, your support through the completion of this research project, and indeed, through the duration of my MBA studies has been instrumental in getting me to the finish line. Your love, patience and encouragement through the low-points rejuvenated me, and your interruptions in the dark-days provided much-needed relief. As this chapter of our adventure ends, I look forward to turning the page to the next one.

To my supervisor, Dr Lyal White, your openness to consultation has been munificent. Your guidance has been proficient. Most of all, your passion for research and dialogue on emerging markets has sustained my excitement through to the completion of this research.
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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>EAC:</td>
<td>East African Community</td>
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<tr>
<td>MNCs:</td>
<td>Multinational Corporations</td>
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<tr>
<td>FDI:</td>
<td>Foreign Direct Investment</td>
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<td>FTA:</td>
<td>Free Trade Area</td>
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<td>GDP:</td>
<td>Gross Domestic Product</td>
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<td>BMI:</td>
<td>Business Monitor International</td>
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<td>ILO:</td>
<td>International Labour Organisation</td>
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<tr>
<td>CMP:</td>
<td>Common Market Protocol</td>
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<tr>
<td>EABCI:</td>
<td>East Africa Business Climate Index</td>
</tr>
<tr>
<td>EACJ:</td>
<td>East African Court of Justice</td>
</tr>
<tr>
<td>EALA:</td>
<td>East African Legislative Assembly</td>
</tr>
<tr>
<td>LTPR:</td>
<td>Long Term Political Rating</td>
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<tr>
<td>STPR:</td>
<td>Short Term Political Rating</td>
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<tr>
<td>LTER:</td>
<td>Long Term Economic Rating</td>
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<td>STER:</td>
<td>Short Term Economic Rating</td>
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<td>BER:</td>
<td>Business Environment Rating</td>
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<tr>
<td>NTB:</td>
<td>Non-Tariff Barriers</td>
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CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

1.1 Introduction

As globalisation has become a mainstream phenomenon, the pursuit of new markets by large corporations has necessitated the development of internationalisation strategies in order to maintain competitiveness and growth. Many of the corporations with international operations have learnt through trial and error with respect to their internationalisation schemes, that reproducing strategies employed in their home countries often does not work in different environments. (Khanna, Palepu, & Sinha, 2005)

Of particular interest in this regard are the so-called ‘Emerging Market Economies’. Emerging markets are defined as low-income countries, undergoing rapid-growth through economic liberalisation and adoption of free-market policies (Hoskisson, Eden, Lau, & Wright, 2000, p. 249). Another term used to refer to emerging economies is ‘dynamic markets’, which captures the essence of the evolving social, political and economic environment, within which businesses have to operate. (White, 2011)

In the last decade, the highest, sustained economic growth was experienced in emerging markets and as such, the most attractive destinations for international investment capital, on the basis of return, have been in emerging markets. Six of the top ten growth nations globally over this period were African countries. It is important to note that although investing in Africa is perceived as riskier, the rate of return on inward Foreign Direct Investment (FDI) in African countries is higher than in any other region.

Notwithstanding the good investment opportunities, emerging markets present difficulties because of the innate complexities of the environmental factors. A good internationalisation strategy adopted by a corporation entering an emerging market would therefore require an appreciation of the dynamism and complexity of the environment, and a plan of how to overcome the various challenges. Since the early 1990s, emerging markets have outperformed developed economies in terms of growth and investment returns, yet many
MNCs have stayed out of these markets as a result of fear borne out of lack of knowledge and understanding about the emerging markets (Khanna, Palepu, & Sinha, 2005).

One such emerging market economy is the East African Community (EAC), a regional intergovernmental organisation consisting of five countries: Burundi, Kenya, Rwanda, Tanzania and Uganda (See Figure 1-1). In 2009, in a period when much of the developed world was in recession, the average real GDP growth per annum for the five countries collectively was 4.8%, illustrating the robustness of these economies (International Monetary Fund, 2011). In addition to the economic growth being experienced in the EAC, Kenya and Uganda are experiencing a fast increase in their respective middle classes, which is significantly changing the purchasing power of the countries, and hence presenting good business opportunities for the provision of goods and services in the region. (Johannesson & Palona, 2010)

Figure 1-1: Map of the East African Community
In the last decade (2000-2010), the EAC has seen changes in economic policies that have significantly altered the business environment. Some of these policy changes are due, in part, to regional economic integration that is taking place in the region. The treaty for the establishment of the East African Community represents a linear progression of integration: Customs Union, Common Market, Monetary Union and ultimately a Political Federation. The question of business strategy in the EAC can therefore not be answered independently of the agenda for economic integration in the region.

It is the objective of this study to explore the development of business strategy by multinational corporations (MNCs) in the EAC in the context of regional economic integration. The study will be constructed on three pillars: emerging market strategy, the economics of regional integration, and the dynamics of the EAC as an emerging market; synthesised in the question of business strategy in the EAC. The intended outcome of the study, therefore, is to identify a strategy framework that would facilitate the successful realisation of business opportunities in the EAC by MNCs.

1.2 Emerging Markets and Emerging Market Strategy

As a result of the rapid pace of development and government policies that favour economic liberalisation, emerging economies are assuming an increasingly prominent position in the world economy. The importance of emerging economies to global business may be deduced from the increase in strategy research in recent years, driven primarily by MNCs wishing to enter emerging economies (Wright, Filatotchev, Hoskisson, & Peng, 2005, p. 2).

Despite this increase in research on strategy in emerging markets, research on Africa remains limited, and as a result, literature provides limited answers to new questions around strategy in Africa, arising from the dynamism of the African market (Wright, Filatotchev, Hoskisson, & Peng, 2005).

Considering the depressed state of most developed-country economies, and the on-going financial crisis in several European Union states, it will not remain viable for companies to
stay out of emerging markets. Multinational companies that wish to remain competitive must serve the fast-growing populations of emerging markets and take advantage of the low-cost production in these economies (Khanna, Palepu, & Sinha, 2005, p. 64). This research will thus make a contribution to the development of emerging market strategy in Africa, with a focus on East Africa.

1.3 Economics of Regional Integration

The number of regional trade agreements increased significantly between the period from 1990 to the 2000s. During this period, existing regional trade agreements also evolved into deeper forms of integration. In 1992, Dennis McCarthy of Iowa State University wrote: “There is no more important global economic public policy today than that of economic integration. In every major city in the world, governments are pushing economic groupings that are common markets or have the potential to become such instruments of economic integration.” (McCarthy, 1992, p. 237).

During this period of integration, the increase in the quantity of global foreign direct investment (FDI) was a lot more marked than the increase in trade observed. The flows of FDI globally, increased by a factor of 10, while global trade volumes only doubled over the same period (Yayati, Stein, & Daude, 2002). These facts point to a direct link between regional economic integration and the investment activities of MNCs in terms of strategies employed to access and serve their target markets. For a free trade area (FTA), increased external barriers to trade, decreased internal barriers to trade and increased market size are identified as determinants of strategic choices made by enterprises (Motta & Norman, 1996). It has been shown that market growth and improved market accessibility, both a result of regional economic integration, cause firms to change their strategies from exporting to FDI (Montout & Zitouna, 2005).

In essence, economic integration presents a changing environment to which businesses must quickly adapt in order to survive and take advantage of opportunities (McCarthy, 1992).
Opportunities presented by an integrated region appear to prompt a longer-term, more committed relationship between the MNC and the market through FDI. (White, 2011)

The rationale for integration in Africa is summarised in the quote below from a press release by Dr Mo Ibrahim, Founder and Chair of The Mo Ibrahim Foundation:

“*It is time for us to accept that in a globalised marketplace, many African countries are sub-scale – are economically unviable. The regional economic integration of Africa is vital if we are to survive, let alone compete. The GDP of all of Africa is less than that of Brazil. It is time to wake up.*” (Mo Ibrahim Foundation, 2011)

Economic regionalism is thus central to Africa’s growth objectives, with integration playing an increasingly important role on the continent. This research will explore the extent to which economic integration in the EAC impacts on the strategy development of companies operating in the region.

### 1.4 The East African Community

Country research and risk analysis providers like Business Monitor International (BMI) hold the view that the EAC presents great investment potential, particularly in oil & gas, infrastructure, pharmaceuticals, and the consumer sector. The EAC has abundant natural resources, a youthful demographic structure and fast-growing economies. (Business Monitor International, 2010)

Table 1-1 shows the real GDP growth recorded in the EAC countries from 2005, and projected to 2016, indicating the positive economic outlook for the EAC countries. As shown, the EAC is projected to have a growth higher than the Sub-Saharan Africa average.
Table 1-1: EAC REAL GDP GROWTH (2005-2016)

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<tr>
<td>Burundi</td>
<td>0.9</td>
<td>5.1</td>
<td>3.6</td>
<td>4.5</td>
<td>3.5</td>
<td>3.9</td>
<td>4.5</td>
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<td>5.0</td>
<td>5.0</td>
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<td>Kenya</td>
<td>6.0</td>
<td>6.3</td>
<td>7.0</td>
<td>1.6</td>
<td>2.6</td>
<td>5.0</td>
<td>5.7</td>
<td>6.5</td>
<td>6.8</td>
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<td>Rwanda</td>
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<td>9.2</td>
<td>5.5</td>
<td>11.2</td>
<td>4.1</td>
<td>6.5</td>
<td>6.5</td>
<td>7.0</td>
<td>6.8</td>
<td>6.5</td>
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<td>Tanzania</td>
<td>7.4</td>
<td>7.0</td>
<td>6.9</td>
<td>7.3</td>
<td>6.7</td>
<td>6.5</td>
<td>6.4</td>
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<td>7.5</td>
<td>6.9</td>
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<tr>
<td>Uganda</td>
<td>6.3</td>
<td>10.8</td>
<td>8.4</td>
<td>8.7</td>
<td>7.2</td>
<td>5.2</td>
<td>6.0</td>
<td>6.5</td>
<td>7.0</td>
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<tr>
<td>EAC Average</td>
<td>6.0</td>
<td>7.7</td>
<td>6.3</td>
<td>6.7</td>
<td>4.8</td>
<td>5.4</td>
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<td>6.6</td>
<td>6.6</td>
<td>6.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>6.2</td>
<td>6.4</td>
<td>7.2</td>
<td>5.6</td>
<td>2.8</td>
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<td>5.7</td>
<td>5.7</td>
<td>5.6</td>
<td>5.4</td>
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Source: (International Monetary Fund, 2011)
Shaded Cells = Estimates by IMF Staff

According to BMI, the positive outlook on the region is on the basis of the following views on investment opportunities in East Africa (Business Monitor International, 2010)

i. **Oil & Gas**: while production potential is from Uganda, DRC, Sudan and Tanzania, most of the oil and gas extracted in the region will likely be exported via Kenya, which will require investment in additional infrastructure such as roads and pipelines.

ii. **Ports**: the port of Mombasa is strategically important, but lacks capacity. Further infrastructure development is needed, such as the construction of an additional container terminal. The port of Lamu in Kenya may also be expanded significantly.

iii. **Rail and Road Infrastructure**: The East African governments have plans to overhaul the railway and road networks with private sector support.

iv. **Pharmaceuticals**: Kenyan drug-makers are best-placed to take advantage of the high growth in regional demand in terms of their manufacturing capacity and distribution networks, and should see strong revenue growth.

v. **Consumer goods**: demand should rise rapidly with the fast-emerging middle-class in the region. Kenya is a good base for regional expansion on the basis of its large local consumer market, its large pool of highly-skilled workers, and its transportation infrastructure.

The integration agenda features as a high priority for the member states of the EAC. The process of regional integration, however, has been a long, complicated, inherently political, and at times unpredictable journey. Business needs to understand the objectives, the
processes and the likely outcomes and then follow attentively to protect its interests and realise the opportunities that are on offer (Hardacre, 2010). This research will therefore seek to establish what good business strategy in the EAC would entail, within the context of regional integration.

1.5 Research Scope

Existing theoretical contributions to strategy research in emerging economies may be classified through four strategic options (Wright, Filatotchev, Hoskisson, & Peng, 2005):

i. Firms from developed economies entering emerging economies

ii. Domestic firms competing within emerging economies

iii. Firms from emerging economies entering other emerging economies

iv. Firms from emerging economies entering developed economies

This research will be limited to the first and the third strategic options. As such, MNCs in the context of this study will refer to companies from developed or other emerging markets that invest in an emerging economy. The response of local firms to economic integration and to entry of foreign firms will not be considered in this study.

Emerging market strategy in the context of this study will relate to market selection, market entry, organisational structure, and all other strategic decisions that MNCs would have to make when entering emerging markets.

‘Emerging markets’ and ‘dynamic markets’ will be taken as synonymous and will refer to low-income countries, undergoing rapid-growth through economic liberalisation and adoption of free-market policies, and rapid changes in the social and political environment.

The objective of the research will be to interrogate the strategies of these MNCs as they enter new markets, with specific focus on the East African Community as an emerging market, and the influence of economic integration on these strategies.
CHAPTER 2: LITERATURE REVIEW

2.1 Emerging Market Strategy

The existence of institutional voids in emerging markets – the absence of specialised intermediaries, regulatory systems, and contract enforcing mechanisms – make it difficult for many MNCs to develop successful strategies in emerging markets, or require them to alter their strategies drastically to accommodate the adverse environment, and consider aspects of strategy and operations that they would never before have considered. Those corporations that are successful not only develop strategies that are different from those employed in developed countries, but also find novel ways of implementing the strategies (Khanna, Palepu, & Sinha, 2005).

2.1.1 Perspectives on Strategy in Emerging Economies

Strategy research in emerging markets may be framed in four theoretical perspectives: institutional theory (IT), transactional cost theory (TCT), resource-based theory (RBT), and agency theory (AT). It is postulated that in the early stages of market emergence, institutional theory is central to explaining strategy development by MNCs. The reason for this is that in emerging economies, the influence of government and society on private business is significantly more pronounced than in developed economies. As markets mature, transaction cost theory, agency theory and subsequently resource-based theory are expected to explain the emerging market strategy better (Hoskisson, Eden, Lau, & Wright, 2000).

Here the author utilises the theoretical perspectives as a foundation for the inquiry into strategy development in the East African Community and the implications of regional economic integration on the type of strategy chosen.
a) Institutional Theory

Institutional Theory (IT) focuses on the role that political, social and economic systems surrounding corporations play in shaping organisational behaviour – processes and decision making (Hoskisson, Eden, Lau, & Wright, 2000).

Peng, Wang and Jiang (2008), in their paper on institution-based view of international business strategy focusing on emerging markets, propose that the key question for companies operating in emerging economies is: “How to play the game, when the rules of the game are changing and not completely known.” (Peng, Wang, & Jiang, 2008, p. 924). Given that institutions construct the ‘rules of the game’, that is, the framework consisting of formal and informal rules within which business must operate, then the existing institutional realities are key to business strategy (Hoskisson, Eden, Lau, & Wright, 2000, p. 253). IT considers the dynamic relationship between institutions and organisations, and the influence of this interaction on strategic choices made by the organisation (Peng, 2003, p. 275).

Institutions in an emerging economy may create an enabling environment for business by reducing uncertainty and establishing policies and structures that promote commercial activity. In certain instances, growth of corporations is limited by institutional constraints, leading to the proposal that in emerging markets, network-based growth strategies\(^1\) are more suited to emerging markets (Peng & Heath, 1996). In other instances, rather than stifle growth, a dynamic institutional environment may facilitate strategy by prompting adaptive firms to innovate around institutional constraints. This is particularly the case in market-orientated institutional change, which provides proper incentives and changes in corporations that facilitate improvements. Studies have shown that organisations with a culture of flexibility and adaptability, leverage institutional changes to develop competencies that enable them to gain competitive advantage in the new environment (Jefferson & Rawski, 1995).

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\(^1\) Network-based growth strategies focus on the importance of relationships with key, influential people who facilitate the realisation of opportunities. In emerging economies, politically connected individuals wield a lot of power and are often pre-requisite to successful business growth in the market.
In the context of the EAC, institutional theory will be used as a lens to interrogate the impact on business strategy of the integration policies that have been adopted - which include the reduction of obstacles to trade liberalisation and the movement of people - and the articulated agenda for increasing integration, culminating in the proposed full political union of the five countries.

b) Transaction Cost Theory

Transaction Cost Theory (TCT) uses a contractual or exchange-based approach to assess strategic choices of governance structure at the firm-environment interface, based on transaction costs. TCT addresses organisations’ strategic choices on governance structures with respect to multi-divisional structure, vertical integration and strategic alliances (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005).

‘Measurement’ and ‘enforcement’ are considered to be critical transaction costs in emerging markets. Measurement costs are high where the price system does not provide accurate signals for efficient resource allocation. Enforcement costs are high where property rights are not adequately protected by the rule of law. Emerging market theory posits that where transaction costs are high, hierarchical governance modes are favoured as they enhance efficiency (Choi, Lee, & Kim, 1999).

Scholars suggest that hybrid structures such as ‘networks’ are the most effective strategy for emerging markets. Economies of scale and scope can be gained, and organisational learning enhanced, by the pooling and coordination of resources by firms. Network contacts and personal relationships can be used to reduce uncertainty (Peng & Heath, 1996).

TCT is also used to explain the high incidence of unrelated (non-core) diversification and barter trade undertaken by corporations operating in emerging markets. This is found to be efficient as a result of the underdeveloped capital and labour markets (Khanna & Palepu, 1997 in Hoskisson, Eden, Lau, & Wright, 2000). It is argued that countertrade and other forms of barter can be an efficient governance structure in emerging economies because
they create mutual commitments through hostage exchange that can discourage opportunistic behaviour (Choi, Lee, & Kim, 1999 in Hoskisson, Eden, Lau, & Wright, 2000)

This research will look at the governance structures employed by various MNCs in the EAC and will seek to determine whether regional integration affects this choice.

c) **Agency Theory (AT)**

The main focus of AT is the difficulties involved in creating the most appropriate form of governance to ensure that managers, as agents, act in the interest of owners. This theory has been widely used in research in developed economies to examine monitoring of firms, corporate governance and restructuring. Little AT-based research concerns foreign entrants and new ventures in emerging economies (Wright, Filatotchev, Hoskisson, & Peng, 2005).

AT appears to have limited applicability within the scope of this research, and will therefore not be used in this study.

d) **Resource-Based Theory (RBT)**

RBT focuses on the influence of firm resources and capabilities on identifying how they differentiate themselves and sustain competitive advantage (Wright, Filatotchev, Hoskisson, & Peng, 2005).

In emerging economies, a good relationship with influential politicians is identified as an invaluable resource that translates to tangible benefits to corporations, such as access to limited licenses. This is true to the extent that in certain instances, capabilities for relationship-based management may prove more important than institutional infrastructure.

Another resource that is required to successfully compete in emerging markets, but which is not easily acquired, is a distribution network. It is vital for a company to understand the relationship between its assets and the dynamic institutional environment in which it invests so that it can build a competitive advantage (Hoskisson, Eden, Lau, & Wright, 2000).
The use of RBT in this research will be to establish what resources are important for corporations operating in the EAC in the context of the changing environment arising from regional integration.

2.1.2 Basis for Strategy Development in Emerging Economies

In addition to evaluating the strategy employed by corporations that have operations in the EAC in response to the evolving environment, this research will seek to determine a basis for pre-entry strategy development into the EAC.

At present, companies most often use tools like portfolio analysis and political risk assessment to measure the potential opportunities in emerging country economies. An example of this is Business Monitor International (BMI), a daily online service that provides data on Country Risk, Industry Research and Company Intelligence across 175 markets. BMI's country risk and macroeconomic forecast portfolio includes daily alerts, weekly financial market reports, monthly regional monitors and in-depth quarterly country sector reports. The industry analysis covers a total of 22 industry verticals through a portfolio of services, including daily alerts, monthly regional insights, and in-depth quarterly country sector reports. The company intelligence service profiles top multinational and national companies operating in more than 92 major emerging markets worldwide, and 34 industry verticals (Business Monitor International, 2010).

Composite indices in any form are useful to evaluate market attractiveness, and potential opportunities, but where the target countries do not have institutional contexts comparable to the corporation’s home country, the use of these indices as the sole basis for strategy formulation is limited (Khanna, Palepu, & Sinha, 2005).

A survey of 9 750 senior business executives to determine their basis for emerging market strategy development carried out by McKinsey in 2004 indicated that 61% prioritised market size and growth for their decisions to enter new markets, 17% prioritised political and economic stability, and only 13% indicated institutional contexts (structural conditions) as the
most important factor (Khanna, Palepu, & Sinha, 2005, p. 65). This result suggests that many MNCs still fail to develop successful strategies for emerging economies.

The central failing of composite indices which rank countries on the basis of certain parameters is that they do not differentiate institutional realities and market infrastructure of the countries on the lists.

Khanna, Palepu and Sinha (2005) propose a conceptual device – the Five Contexts Framework – to enable corporations to map the institutional contexts of any emerging country. The framework helps address the limitations inherent in the use of composite indices as decision tools, as it provides qualitative information that gives a better basis for judgement. The framework addresses: political and social systems, openness, product markets, labour markets and capital markets.

This framework will be used in this research in conjunction with composite indices to map the institutional context of the EAC as a precursor to understanding the implications of regional integration on strategy development in the region.

The framework is developed on the basis that in addition to social and political dynamics, corporations need to understand the product, labour and capital markets in specific emerging markets before choosing or developing a strategy. The list of questions proposed by the authors to aid corporations in identifying institutional voids in any country are listed in Appendix A.

a) Political and Social Systems

A country’s political system affects its product, labour and capital markets. Corporations must identify the respective country’s power centres, such as its bureaucracy, media, and civil society, and determine what checks and balances are in place. It is also important to determine the degree of decentralisation of the political system, and whether bureaucrats and politicians are separate from each other.
The level of trust among the general population is also an important consideration when a company needs to raise money locally.

b) Openness

The degree of openness of a country’s economy refers to the relative ease with which MNCs can gain access to the economy. The more open a country’s economy, the more likely it is that global intermediaries will be allowed to operate there. Multinationals will therefore find it easy to operate in open markets because they can use the services of global and local intermediaries.

c) Product Markets

Obtaining consumer information in emerging markets is extremely difficult. Market research and advertising are in their infancy and there are few government bodies or publications that provide expert advice on features and quality of products. Corporations must try and determine to what extent they can obtain reliable data on customer tastes and purchase behaviours, and any pertinent cultural issues.

It is important to determine availability of adequate raw materials before choosing a strategy for an emerging economy.

d) Labour Markets

The quality of skilled workers in emerging markets is difficult to ascertain. Corporations must determine the availability of personnel for their planned ventures, and familiarise themselves with labour legislation in the emerging country.
e) Capital Markets

There is often a lack of reliable intermediaries like credit-rating agencies, investment analysts and merchant bankers in the capital markets of emerging economies. As a result, multinationals are often forced to raise capital in their home countries to finance their operations. Additionally, since creditworthiness of other entities or people is often hard to determine, the terms of trade have to be adapted accordingly.

In this study, it is proposed to use both composite indices and the Five Contexts Framework to map the context of the EAC, and to determine institutional voids.

2.2 Economic Integration and Business Strategy

The previous section reviewed the literature on developing strategy for emerging markets, highlighting insights that may be drawn from using different theoretical perspectives to the problem of emerging market strategy. In the case of the EAC, the process of integration itself, contributes to the dynamism of the emerging economy of the region by affecting: the institutional framework within which businesses operate, transaction costs and the resources available to corporations.

In this section, we review literature that suggests that economic integration has a direct influence on firm behaviour and strategies adopted to take advantage of opportunities in integrating regions.

2.2.1 Exporting vs. Foreign Direct Investment

The two channels available to gain access to foreign markets are exporting and Foreign Direct Investment (FDI). Literature puts forward that market growth and improved market accessibility resulting from the formation of FTAs prompt external firms to change their strategies from exporting to FDI.
Neary (2002) identified three distinct ways that integration influences the behaviour and choices of MNCs:

- **The tariff-jumping motive**: FDI is preferred to exporting to the target country when external tariffs are high and fixed costs of setting up a plant are low. Reductions in internal tariffs in a common market reduce the tariff-jumping incentive to establish more than one plant in the union market, encouraging plant consolidation.

- **The export-platform motive**: as internal tariffs fall, companies will favour FDI relative to exporting. It may also induce a firm which has never exported to invest. This phenomenon is more likely for multinationals with high access and fixed costs, as well as those which face less competition from local firms.

- **Increased competition resulting from reduced internal tariffs**: this works against both FDI and exporting and may lead to a “fortress” outcome in which MNCs leave the common market even though external tariffs remain unchanged.

Montout and Zitouna (2005), in their study of the effect of North-South integration on strategies of multinational firms, developed a theoretical model which expands on the FDI motives by Neary (2002), to include the classification of North-South free trade agreements. North-South regional integration involves countries between which there are wage differences and the possibility of FDI by firms originating from within the free trade area (Montout & Zitouna, 2005, p. 499). The key elements and findings of this study warrant description as they offer insight into the possible impact of integration in the EAC on business strategy.

Montout and Zitouna (2005) organised their propositions on the basis of the FDI motives of Neary (2002). These were based on the tariff-jumping motive, and the export-platform motive of MNCs.
a) Tariff-Jumping Motive

A multinational corporation wishing to sell a product in a target country may export from its home country and pay transaction costs – tariffs and transportation costs, or it can invest in the target country, hence avoiding (jumping) the transaction costs. The cost of investing in the target country is the fixed costs of investing in the target country.

Theoretical propositions:

i. Exporting is profitable for external tariffs below a threshold level, \( T_1 \). \( T_1 \) increases with the fixed costs associated with locating in the free-trade area. In other words, if the fixed costs of establishing within an RTA are high, MNCs choose to export rather than FDI.

b) Export-Platform Motive

Regional integration improves market accessibility through decreased internal tariffs. As such the fall in transaction costs between countries that are party to an FTA acts as an incentive to multinationals to invest in one country and export to the other countries. Furthermore, where integration occurs between countries at different stages of development, outsiders are more likely to locate where production costs are lower.

Theoretical propositions:

ii. An outside firm prefers to locate in one country in the FTA and export to other countries within the FTA, rather than export directly to the target countries if internal transaction costs are below a threshold level, \( T_2 \). \( T_2 \) increases with external transaction costs and wage differences. The greater the wage differences between countries involved in an FTA, the more likely that the outsider will invest in the low-wage country. \( T_2 \) also increases with \( T_1 \) implying that the higher the external tariffs, the greater the motivation for the multinational to invest in the FTA.
iii. An outside firm prefers to locate in one country over another country within an FTA if the internal transaction costs are below a threshold level $T_3$. $T_3$ increases with wage differences and does not depend on external transaction costs.

It can be concluded that the rationale for an export-platform strategy within an FTA like the EAC depends on the differences in both wages and trade barriers. The larger the differences, the more likely MNCs will employ this strategy in an integrating region as internal transaction costs fall.

In addition to the tariff-jumping motive and the export-platform motive, the third aspect addressed by Montout and Zitouna (2005) in their study, deals with the effects of the insider’s reaction on the outsider’s strategy – the eviction effect. Here, the possibility of FDI by FTA insiders is added to the North-South characteristics of regional integration, thus taking the strategic interactions between insiders and outsiders into account. This section falls outside of the scope of this research, and will therefore not be discussed further.

The study concludes that: Firstly, the tariff-jumping motive for FDI holds if transaction costs are high relative to fixed costs associated with investing in the FTA. Secondly, an export-platform strategy is favoured when internal transaction costs are lower than external transaction costs.

2.2.2 Economic Integration and FDI

In their study: ‘Does Economic Integration Cause Foreign Direct Investment’, Motta and Norman (1996) demonstrate that economic integration induces outside firms to invest in the integrated regional block as a result of improved market accessibility. A distinction is drawn between dispersed FDI targeted primarily at local markets within the FTA, and intra-regional export-platform FDI. The study points to the export-platform as being the preferred strategy by MNCs serving integrating markets.
2.3 The East African Community

The literature reviewed thus far addresses the questions of emerging market strategy and the impact of regional economic integration on business strategy. In this section, we will review aspects of the EAC that are material to the development of business strategy in the region.

2.3.1 Background

The East African Community is the regional intergovernmental organisation between the Republics of Burundi, Kenya, Rwanda, Tanzania and Uganda.

The original East African Community was formed in 1967 as a common market. This community collapsed ten years later in 1977, as a result of a lack of political willpower (Ajulu, 2010, p. 37).

The treaty for the re-establishment of the EAC was signed on 30 November 1999 and entered into force on 7 July 2000, following its ratification by the original three partner states – Kenya, Tanzania and Uganda. The rules on the establishment of a Free Trade Area were agreed in 2001. A customs union was created in 2005. The republics of Rwanda and Burundi acceded to the EAC treaty on 18 June 2007, and became full members of the community on 1 July 2007. The Common Market Protocol (CMP) was established at the beginning of 2010. At the time of consummation of the CMP, the EAC nations undertook to work towards the establishment of a monetary union by 2012, and to fast-track the establishment of political federation. A chronological account of the history of the EAC highlighting milestones in the integration process are contained in Appendix B.

The EAC consists of a land area of approximately 1.85 million km². Population estimates in 2010 were 133.5 million people, with a youthful demographic structure. The combined GDP of the EAC in 2010 was approximately US$74 billion (East African Community, 2011).
2.3.2 Rationale for the EAC

The model of integration adopted by the EAC is referred to as ‘market integration’. This form of integration progresses from a free trade area to a customs union, then a common market, and ultimately onto full economic union.

“Effective, efficient, and sustainable market enlargement is the principle purpose of regional integration as it is the single “crucible of benefits” for the entire population in the common area. It results into increased competition, increased specialisation, larger economies of scale and increased efficiency in resource allocation. The primary benefit is a fostering and enhancement of a faster economic growth rate, from which a host of economic, social and political benefits flow.” (East African Community, 2010)

The expected benefits accruing from economic integration in the EAC are (Ajulu, 2010):

- Increased production arising from specialisation according to comparative advantage
- Increased output resulting from better exploitation of scale of economies
- Improvement in terms of trade of the group with the rest of the world
- Forced changes in efficiency arising from increased competition within the group
- Integration-induced changes affecting the quantity or quality of factor inputs, such as increased capital inflows and changes in the rate of technological advances

2.3.3 Road to Full Integration: Political Realities in the EAC

Adar (2010) puts forward the view that the transformation of the EAC into a functioning political federation with rights and duties in international relations is the only viable option to lay the foundation for stability and democracy enlargement in the East African region. However, the idea of fast-tracking the political federation of the EAC is one that has inherent problems and challenges associated with it, primarily as a result of the desire by the East African Countries to retain their sovereignty. The timeline to full political union is undetermined.
2.3.4 Institutional Development in the EAC

Three significant institutions that may materially influence the institutional dynamics in the EAC, with respect to MNC investment and operations were established under the EAC Treaty (Apuuli, 2010):

**The East African Court of Justice (EACJ):** The Court’s role is to ensure adherence to the law in the interpretation and application of and compliance with the Treaty. This will potentially enhance the stability of the region and boost investor confidence.

**The East African Legislative Assembly (EALA):** The EALA has the mandate of exercising legislative and oversight functions on all matters related to the community. Harmonising commercial law and cementing intra-regional agreements would be important for the future of the EAC.

**The East African Secretariat:** this is the executive organ of the Community, tasked with initiating, receiving and submitting recommendations to the Council and forwarding the Bills to the Assembly through the Coordination Committee; initiating studies and research related to and the implementation of programmes for the most appropriate, expeditious and efficient ways of achieving the objectives of the Community; the strategic planning, management and monitoring of the programmes for the development of the Community; the undertaking either on its own initiative or otherwise of such investigations, collection of information, or verification of matters relating to any matter affecting the Community that appear to it to merit examination; coordinating and harmonising the policies and strategies relating to the development of the Community through the Coordination Committee; general promoting and disseminating of information on the Community to the stakeholders, the general public and the international community; submitting reports on the activities of the Community to the Council through the Coordination Committee; general administration and financial management of the Community; mobilising funds from development partners and other...
sources for the implementation of projects of the Community; and establishing practical working relations with the Court and Assembly (East African Community, 2011).

In addition to maintaining the momentum of integration in the region, these key institutions of the EAC potentially create an enabling environment for business establishment and operation in the EAC as they enhance accountability between member states, ensuring that the values of the EAC are maintained, and the rule of law is observed in member states. Should sufficient authority be transferred to these organs, the greatest impact would be the ‘closing-up’ of institutional voids especially with respect to the regulatory systems and contract enforcement.

2.3.5 Overview of EAC Trade

Economic growth in the EAC is heavily reliant on trade in a narrow range of similar goods that are affected by more efficient suppliers elsewhere, and are vulnerable to fluctuations in demand and price (Irumba, 2010, p. 277).

Irumba (2010) posits that there has been a steady increase in intra-regional trade in the EAC, and that the commodity composition of the intra-regional trade shows that manufacturing plays an important role. Intra-regional trade in the EAC is heavily skewed in favour of Kenya, which continues to accumulate trade surpluses against the other EAC countries.

The EAC and Kenya in particular, plays a critical role in the economic survival of the landlocked countries in the Community – Burundi, Rwanda and Uganda. The bulk of critical resources such as crude oil reach these countries via the Kenyan port in Mombasa. Usengumukiza and White (2010) highlight accession to the EAC as a central part of Rwanda’s market liberalisation strategy, and its re-integration with regional and global markets. Kenya and Uganda are Rwanda’s two principle trading partners.
2.3.6 Socio-Economic Dynamics

The EAC is made up of five states with some socio-economic differences (Johannesson & Palona, 2010). Below is a brief description of the socio-economic dynamics in each country in the EAC.

Burundi is the smallest economy in the EAC and it is critically dependent on foreign aid as a result of the long-running ethnic war which has stifled economic growth in the country. Economic growth is dependent on coffee and tea farming.

Kenya is the largest economy in the EAC and has made the transition to a free economy, achieving significant industrialisation in certain sectors. The Nairobi Stock Exchange, established in 1954, is the fourth largest in Sub-Saharan Africa. Internet technologies and mobile telephony have spread rapidly in Kenya and technology innovation is occurring at a rapid rate. Annual economic growth of 5.0 – 6.5% is expected from 2012 to 2016 (Business Monitor International, 2010).

Rwanda is a fledgling economy that is agriculture based, with very little industrialisation at present. Rwanda is, however gaining prominence as its pace of economic growth has been impressive in recent years. In 2009, the country was named ‘top global business reformer’ by the World Bank. Rwanda is developing its fledgling financial sector and 2010 saw the first initial public offering (IPO) in the country with the sale of the government’s 25% stake in the country’s brewery Bralirwa (Business Monitor International, 2010).

Tanzania’s economy, despite its privatisation drive, is lagging behind its peers as a result of Maoist economic policies which have hampered growth in several sectors. The country’s greatest potential lies in its resource wealth and tourism. Real GDP is forecast to grow at an average of 6.1% between 2010 – 2020 (Business Monitor International, 2010).

Uganda has moved to a free-market economy, and has privatised most state-owned enterprises. Agriculture, services and manufacturing are the key sectors in the Ugandan
economy. Real GDP forecast to grow at an average of 8.2% between 2012 – 2020 (Business Monitor International, 2010).

2.3.7 Firm Strategy, Structure and Rivalry in the EAC

Johannesson and Palona (2010) contend that the competitive strategies of firms in the EAC are primarily based on price, rather than product differentiation, as a result of an unsophisticated marketing culture. The organisational structure of most businesses is highly hierarchical with multiple layers of managers who exercise little decision-making power. Most decisions are held by the owner or the managing director. Additionally, government officials own many businesses, either overtly or covertly through agents or family members and price collusions and cartels are common and reduce rivalry.

The extent to which these assertions by Johannesson and Palona (2010) hold true is questioned. In Kenya for example, the product markets are well developed and the quality and competition between firms in certain sectors is very high, for instance the banking sector.

Through interviews conducted with MNCs, this study will evaluate the validity of these propositions, how the strategies may have changed as a result of integration in the EAC, and how theories of strategy fair in the EAC.

2.4 The EAC Common Market Protocol

Key provisions of the EAC Common Market Protocol have direct implications for businesses operating in the EAC. Identification of these presents a backdrop against which to assess the effects of economic integration on MNC strategies in the EAC. Evidence of the practical on-the-ground situation gathered through secondary sources and through qualitative interviews with MNCs measures the extent to which the integration agenda has been realised, and the impact that this has had on business strategy.
The specific objectives of the EAC include: (East African Community, 2010):

Firstly, to accelerate economic growth and development of the partner states through the free movement of goods, persons and labour, the rights of establishment and residence and the free movement of services and capital;

Secondly, the EAC seeks to strengthen, coordinate and regulate the economic and trade relations among the partner states in order to promote accelerated, harmonious and balanced development within the Community;

Thirdly, the community seeks to sustain the expansion and integration of economic activities within the Community, the benefit of which shall be equitably distributed among the partner states.

Fourthly, the promotion of common understanding and cooperation among the nationals of the partner states for their economic and social development.

Finally, the EAC desires to enhance research and technological advancement to accelerate economic and social development.

The protocol provides for the free movement of goods, persons, labour, services and capital. In addition, the right of establishment and the right of residence are conferred to citizens of the EAC countries.

The Articles relating to each of the above provisions are contained in Box 2-1:
BOX 2-1: Articles of the EAC Common Market Protocol

Free Movement of Goods

- **Article 6(1)** – The free movement of goods between partner states shall be governed by the Customs Law of the Community as specified in Article 39 of the Protocol on the Establishment of the East African Community Customs Union.

Free Movement of Persons

- **Article 7(1)** - The partner states hereby guarantee the free movement of persons who are citizens of the other partner states, within their territories.

Free Movement of Labour

- **Article 10 (1)** - The partner states hereby guarantee the free movement of workers who are citizens of the other partner states, within their territories.
- A worker shall have the right to be accompanied by a spouse and children who shall be entitled to be employed.
- Using the ILO classification, partner states committed themselves to open up for the following categories of workers:
  - Burundi – Professionals – by 1st July 2010
  - Rwanda – Professionals, and Technicians and Associate Professionals – by 1st July 2010.
  - Tanzania – Professionals, and Technicians and Associate Professionals – ranging from by 1st July 2010 to 2015.
BOX 2-1: Articles of the EAC Common Market Protocol

Right of Establishment

- **Article 13 (1)** - The partner states hereby guarantee the right of establishment of nationals of the other partner states within their territories.
- **Article 13 (4)** - The rights applicable to a spouse, child and dependant of a worker under Article 10 of this Protocol shall apply to the spouse, child and dependant of a self-employed person.

Right of Residence

- **Article 14 (1)** - The partner states hereby guarantee the right of residence to the citizens of the other partner states who have been admitted in their territories in accordance with Articles 10 and 13 of this Protocol.
- **Article 14 (2)** - The right of residence guaranteed under paragraph 1, shall apply to the spouse, child and a dependant of a worker or self-employed person entitled to rights provided in Articles 10 and 13 of this Protocol.
- **Article 14 (7)** - The partner states hereby agree that matters relating to permanent residence shall be governed by the national policies and laws of the partner states.

Free Movement of Services

- **Article 16 (1)** - The partner states hereby guarantee the free movement of services supplied by nationals of partner states and the free movement of service suppliers who are nationals of the partner states within the Community. The free movement of services shall cover:
  i. The supply of services from the territory of a partner state into the territory of another partner state (Mode I – e.g. where a service is supplied electronically);
  ii. The supply of services in the territory of a partner state to service consumers from another partner state (Mode II – e.g. tourism and education);
  iii. The supply of services by a service supplier of a partner state, through the commercial presence of the service supplier in the territory of another partner state (Mode III – e.g. KCB, Nakumatt and Uchumi in Uganda); and
  iv. The supply of services by the presence of a natural person, who is a citizen of a partner state, in the territory of another partner state (Mode IV – e.g. professional services like lawyers, doctors accountants, engineers etc).
BOX 2-1: Articles of the EAC Common Market Protocol

- **Article 17** – National Treatment - Each partner state shall accord to services and service suppliers of other partner state, treatment not less favourable than that accorded to similar services and service suppliers of the partner state.

- **Article 18** – MFN Treatment - Each partner state shall upon the coming into force of this Protocol, accord unconditionally, to services and service suppliers of the other partner state, treatment no less favourable than that it accords to like services and service suppliers of other partner state or any third party or a customs territory.

Partner States have committed themselves to progressively open up some subsectors within the following 7 broad sectors over the period 2010 - 2015:

- Business and Professional Services
- Communication Services
- Distribution Services
- Educational Services
- Financial Services
- Tourism and Travel Related Services
- Transport Services

**Free Movement of Capital**

- **Article 24 (1)** - Except as provided in this Part, the partner state shall upon the coming into force of this Protocol:
  - Remove restrictions between the partner state, on the movement of capital belonging to persons resident in the Community;
  - Remove any discrimination based on the nationality or on the place of residence of the persons or on the place where the capital is invested;
  - Remove any existing restrictions and shall not introduce any new restrictions on the movement of capital and payments connected with such movement and on current payments and transfers, or apply more restrictive regulations; and
  - Remove restrictions relating to current payments connected with the movement of goods, persons, services or capital between partner state in accordance with the provisions of this Protocol.
BOX 2-1: Articles of the EAC Common Market Protocol

- Kenya, Rwanda and Uganda have already opened up their capital accounts.
- Burundi and Tanzania will open up within the period 2010 - 2015

Other Areas of Cooperation

The following additional areas of cooperation are addressed through specific Articles in the common market protocol:

- Protection of Cross Border Investments
- Economic and Monetary Policy Coordination
- Prohibited Business Practices and Consumer Protection
- Coordination of Trade Relations
- Coordination of Transport Policies
- Harmonisation of Social Policies
- Environmental Management
- Cooperation in Statistics
- Research and Technological Development
- Cooperation in Intellectual Property Rights
- Cooperation in Industrial Development

A qualitative evaluation of the provisions of the common market protocol, as highlighted here, indicates a significant change in the business environment in the EAC that would prompt a change in the strategic approach of MNCs operating in the region. An example of this is the Free Movement of Labour provision which allows a firm to make use of better skilled, more productive labour from Kenya irrespective of its location within the EAC. This research will seek to establish to what extent the provisions of the common market protocol have influenced strategy development in the region.
2.5 Literature Review Conclusion

This research sets out to establish the implications of regional economic integration on business strategy in the EAC. In order to explore this question, the study is founded on three pillars: Emerging Market Strategy, the Economics of Regional Integration, and The Dynamics of the East African Community.

Literature on emerging market strategy posits that there are three main theoretical perspectives through which strategy in the EAC may be framed: institutional theory (IT), transaction-cost theory (TCT), and resource-based theory (RBT).

IT focuses on the role that political, social and economic systems surrounding corporations play in shaping organisational behaviour – processes and decision making (Hoskisson, Eden, Lau, & Wright, 2000). In order to determine the implications of regional economic integration on business strategy in the EAC, therefore, it would be necessary to establish the institutional context of the EAC and the presence of institutional voids, the integration agenda relative to these institutional voids, and thus the strategy implications for MNCs.

TCT uses a contractual or exchange-based approach to assess strategic choices of governance structure at the firm-environment interface, based on transaction costs. TCT addresses the organisations’ strategic choices on governance structures with respect to multi-divisional structure, vertical integration and strategic alliances (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005). Transaction costs are an important consideration in the strategy formulation of MNCs. These costs consist of explicit transaction costs (tariffs, licences, transportation) and implicit costs (bureaucracy). It is thus necessary to assess the effect that regional integration has had on transaction costs, and the response by MNCs to any changes.

RBT focuses on the influence of firm resources and capabilities to identify how they differentiate themselves and how they sustain competitive advantage (Wright, Filatotchev, Hoskisson, & Peng, 2005). One of the objectives of regional integration in the EAC is to
open-up the borders of each of the partner countries to firms and individuals from the other partner countries. Furthermore, the regional block formed through integration may attract additional foreign players into the market. This research will explore the reality of the competitive environment and will seek to establish the strategies that MNCs employ to compete successfully.

The Five Contexts Framework of Khanna, Palepu and Sinha (2005) was identified as a supplement to composite indices to map the context of the EAC in order to identify institutional voids and transaction costs. Both the Five Contexts Framework and indices will be used in this research.

Literature on the economics of regional integration identifies two main ways in which regional integration may affect the strategy of an MNC: the tariff-jumping motive and the export-platform motive. Research on the implications of regional integration on business strategy must therefore assess the extent to which this postulation explains the behaviour/response of companies to the integration agenda of the EAC.

The EAC integration agenda embodied in the Articles of the common market protocol reveal a comprehensive process that has major implications on the business environment in the EAC and hence the strategy formulation of companies operating in the region. Part of the answer to the question of what the implications of regional economic integration for business strategy are lies in evaluating the extent to which the articulated integration agenda has been achieved. This will be done later in this research specifically through the analysis of indices that measure certain elements that give an indication of the success of integration, as well as through interviews of MNCs.

The literature provides a platform on which to construct the research to determine how business strategy in the EAC has adapted and progressed within the context of regional integration. The following are thus the founding principles of this research:
• The institutional context of an emerging market is the single most influential aspect of the business environment. This must be determined for the EAC and its evolution through integration determined.

• Transaction costs and the resources available to a firm contribute significantly to the formulation of business strategy. The EAC Common Market Protocol aims to significantly alter the status quo with respect to transaction costs and the competitive environment, which would change the resource requirements of firms.

• Regional economic integration induces change in the behaviour/strategy of MNCs with regards to the export vs. FDI decision. Change in trade volumes and FDI patterns and volumes are expected as a result of regional integration.
CHAPTER 3: RESEARCH QUESTIONS

This research investigates strategy development in the EAC and the influence that deepening economic integration is exerting on the development and adaptation of strategy by MNCs.

On the basis of the theoretical lenses of institutional theory, transaction-cost theory and resource-based theory, it may be postulated that the development of business strategy in emerging markets is dependent on the type and behaviour of institutions within the external business environment, on the explicit and implicit costs of doing business, including risk and opportunity cost of establishment in the same environment, and on the resources available to the organisation to conduct business successfully.

Literature on the interaction between regional economic integration and business strategy suggests that economic integration has a direct influence on firm behaviour and the strategies adopted to take advantage of opportunities in integrating regions with respect to the exporting versus FDI choice of MNCs. Literature further identifies two FDI motives of MNCs that are directly influenced by regional integration: the tariff-jumping motive, and the export-platform motive.

There is a lack of literature that addresses the interaction between the emerging market strategy theories of IT, TCT and RBT, and regional economic integration. It is a central premise of this study that regional economic integration, by definition, exerts a degree of influence on the nature and behaviour of institutions, on the nature and magnitude of explicit and implicit costs to doing business in a region, and on the needs and availability of various resources that an MNC would have available to it to conduct business. It is therefore proposed that regional economic integration could potentially influence the development and implementation of business strategy on two fronts: the institutional environment, and the business environment.
The research questions are therefore formulated to explore what influence regional integration in the EAC exerts on business strategy development through changing the dynamics of the external and internal environments of a business, which evokes a response by an MNC. The questions are:

**Research Question 1:** What are the implications of regional economic integration on the institutional context of the EAC? The foundation of this question is institutional theory. In this study, this question seeks to determine whether regional integration in the EAC has altered the institutional environment of the EAC in any way, or whether further significant changes are expected. Thereafter, the effects of any changes to the institutional environment on aspects of strategy are interrogated.

**Research Question 2:** What are the implications of regional economic integration on the key variables of the EAC business environment? Acknowledging that most successful MNCs owe their success to an ability to adapt their strategy and operations to local conditions, the potential disruption of a local business environment through regional integration could potentially have adverse effects on an MNC. This question thus seeks to determine to what extent the key business environment variables in the EAC are affected by deepening integration, and as a result, what impact this has on business strategy.

**Research Question 3:** What are the key elements of successful strategy implementation within the context of regional economic integration in the EAC? This question focuses on the experience of MNCs operating in the EAC and seeks to identify the elements of business strategy that have been developed and implemented successfully. The objective here is to identify empirical lessons about various aspects of strategy which include: entry strategy, operational model, response to institutional voids, management of transactions costs and organisational resourcing.
Research Question 4: What are the implications of regional economic integration on MNCs Strategy? This final question surmises the various influences that regional integration may exert on different aspects that are relevant to MNC strategy into an explicit, focused question that seeks to establish strategic changes that have been made by MNCs in the EAC in direct response to deepening regional integration.
CHAPTER 4: RESEARCH METHODOLOGY

This chapter details the methodology used in the study, and describes the population and unit of analysis, as well as the size and nature of the sample used in the interviews. The rationale for the methodology adopted in this study is put forward, and the limitations of the research on the basis of the research methodology are identified. A description of the indices that were used to evaluate the business environment in the EAC is also included in this chapter. The results and analysis of these indices are contained in subsequent chapters.

4.1 Research Approach

The research methodology used for this study consisted of a 3-way research design comprising of a comprehensive literature review, the reference and development of a composite index, and qualitative interviews. Figure 4-1 illustrates the inputs that were used to answer the question about business strategies employed in the EAC and the implications of economic integration on these strategies.
The literature review provided the foundation on which the research question was interrogated. Theories on strategy development in emerging markets, and the impact of regional integration on business strategy were used as a base reference to answer the question of the implications of regional integration in the EAC on MNC strategy.

Additionally, several published indices were critically analysed and synthesised to determine a new composite index containing key variables extracted from the separate indices. The impact of regional integration in the EAC on the key variables was then assessed and deductions made. As part of the methodology, the context of the EAC was mapped using the Five Contexts Framework in order to offset the shortcomings of indices in providing a comprehensive context of the environment within which strategy is developed.

Finally, an exploratory qualitative study consisting of interviews with MNCs operating in the EAC was carried out. These interviews provided a practical real-world perspective of the implications of regional integration on business strategy of MNCs.

4.2 Rationale for the proposed research method

There is a lack of literature on doing business in the EAC (Johannesson & Palona, 2010). For this reason, this research sought to generate knowledge on the subject of business strategy in the EAC by applying theory to the context of the EAC and identifying the experience of MNCs operating in the region. In this regard, a qualitative study was deemed to be most appropriate.

The use of the Five Contexts Framework and the indices on the EAC business environment was intended to identify the key business environment variables. This was considered to be important as literature revealed that very little research had been done on the EAC and as such determination of a clear context was a critical precursor to interrogating the implications of regional integration on strategy in the EAC going forward.
Semi-structured interviews were favoured for this research over open-interviews to ensure that the respondents addressed the theoretical postulations on emerging market strategy. The choice of semi-structured interviews over structured questionnaires was to ensure that a higher degree of openness and that as much of the subjective or real-world information from respondents was obtained without boxing-in respondents’ answers or leading them in a certain direction.

The combination of the rigorous literature review, the business environment indices and the interviews was thus expected to make a relevant contribution to the growing body of research and literature on emerging market strategy by building on existing research, with a specific focus on the EAC, but with wider relevance to other emerging market regions, especially in an African context.

4.3 Population and Unit of Analysis

The unit of analysis for this research was the Firm. The population for the research comprises of all MNCs operating in the EAC.

4.4 Size and Nature of Sample

No recommendations exist regarding non-probabilistic sample sizes. A purposive sample was used for the qualitative interviews in this research. Literature suggested that the size of purposive samples be established inductively and that sampling should continue until “theoretical saturation” occurred (Guest, Bunce, & Johnson, 2006). In the context of this research, theoretical saturation was taken to occur when all of the main variations of the phenomenon, in this case, business strategy in the EAC, had been identified and incorporated into the emerging theory on the implications of regional integration for the formulation and execution of business strategy.

In their 2006 study on the concept of “theoretical saturation”, Guest, Bunce and Johnson, proposed that in qualitative studies, saturation occurs by about the twelfth interview. To
assess the appropriateness of their proposal for this research, Consensus Theory, which is based on the principle that experts tend to agree more with each other than do novices was considered (Guest, Bunce, & Johnson, 2006). As the interviews in this research were conducted with strategy experts, this theory was found to apply.

As a starting point, the research aimed to conduct ten interviews. As all the interviews were carried out by the same researcher, it was possible to determine the need to include more or fewer interviews on the basis of information obtained at interviews, with the notion of ‘saturation’ used as a guide to make the decision.

The sample was derived by recommendation from the author’s network of multinationals operating in the EAC with a presence in Johannesburg, South Africa. The primary basis for this selection criterion was accessibility to the corporation’s executives for the interviews to be conducted. Interviews of Kenyan MNCs were attempted but in the end proved unsuccessful. The difficulty proved to be the semi-structured, open-ended nature of the planned interviews, which were difficult to conduct telephonically or via email.

4.5 The Five Contexts Framework

As discussed in the literature review, the Five Contexts Framework can be applied to the EAC in order to map the region’s institutional framework and level of institutional development. The objective of using the Five Contexts Framework here was to understand the context of the EAC countries in terms of their political and social systems, the degree of openness of their economies, and the state of the labour, capital and product markets in the region.

The Five Contexts Framework helps to answer Research Question 1: What are the implications of regional economic integration on the institutional context of the EAC?
4.6 Composite Indices and Triangulation

An index is a ranking or rating of certain specific aspects of an economy or a country that gives an indication of how good or bad the specific aspect is, relative to an idealised standard, or in comparison to other countries.

There exist several indices that rate the business environment in the EAC. In this research, three indices were utilised: BMI Risk Ratings, Ease of Doing Business, and the East Africa Business Climate Index. These indices were used to identify the key variables of the business environment of the EAC in order to assess the potential impact of regional economic integration on the business environment, and hence on business strategy.

4.6.1 BMI Risk Ratings

Business Monitor International (BMI) publishes one of the best renowned indices which cover risk ratings for most countries in the world. The BMI risk ratings assess and rank the dangers to investment arising from existing characteristics or changes to the political, economic and business environment. The ratings assess the stability of politics, security, the economy, and the law, as well as the extent to which national institutions, structures and policies encourage competitiveness. The definitions of the ratings and the descriptions of the rating methodology included in this section are derived directly from the Business Monitor Online (Business Monitor International, 2010).

The BMI ratings are presented as a barometer of political, economic, financial, and business environment risk.

The Long-Term Political Rating (LTPR) is a broad indicator of political stability. Each country is viewed through the prism of an ‘ideal-type’, that is, a democratic state with established and independent institutions, in which the rule of law is consistently and transparently enforced and where there is a broad policy-continuity across the political spectrum. This rating
assesses what characteristics inherent in a country create uncertainty over a state’s ability to fulfil its functions and policy predictability across the government.

The Short-Term Political Rating (STPR) measures the prospects for short-term political stability. This is defined as the government’s ability to propose, pass, implement and enforce its chosen legislation over the next two calendar years. The STPR considers the direction of trends that are the practical manifestation of characteristics assessed in the LTPR.

The Long-Term Economic Rating (LTER) measures the extent to which a country approximates the ideal of non-inflationary growth with controlled fiscal and external deficits and manageable debt ratios. The ratings use data from BMI’s country databases, and take into account GDP growth, unemployment, inflation, real interest rates, exchange rates, the fiscal balance, the current account balance and external debt. In addition to these economic indicators, the rating considers structural factors such as dependence on the primary sector, reliance on commodity imports, reliance on a single export sector, and central bank independence. The economic indicators used per rating are averages over the period, current year minus five years, plus two calendar years of forecasts. The averages are located on a spectrum of threshold values, and points are awarded on this basis.

The Short-Term Economic Rating (STER) is a measure of current economic health of a country. The rating is based on 13 indicators grouped into five categories: Growth Risk, Monetary Risk, Fiscal Risk, External Risk and Financial Risk. The rating provides, to some extent, an early warning of financial vulnerability.

The Business Environment Rating (BER) evaluates the characteristics of the state that place physical or non-physical constraints on private sector business operations. It is a broad indicator of the investment climate, for both domestic and foreign players. The rating utilises seventy-two (72) different indicators in a structured matrix to assess infrastructure (physical, labour market, and financial), institutions (bureaucracy, legal corruption), and market orientation (openness, tax, government intervention).
For the purposes of this research, only the ‘business environment’ rating will be used for comparison with other indices that rate the business environment, as this corresponds to the unit of analysis and the scope of this research.

The rationale for the Business Environment rating is summarised in Table 4-1.

**Table 4-1: BMI Business Environment Rating Rationale**

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>SUB-COMPONENT</th>
<th>RATIONALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Transport Infrastructure</td>
<td>A functioning urban and national transport system is necessary to reduce the cost of sending goods to market and ensure labour mobility</td>
</tr>
<tr>
<td></td>
<td>Basic Business Infrastructure</td>
<td>A dilapidated or under-developed business infrastructure will raise business costs and hold back efficiency improvements</td>
</tr>
<tr>
<td></td>
<td>Labour Market Infrastructure</td>
<td>Firms seek out the most efficient labour – those workers that produce the best/most output for the lowest cost</td>
</tr>
<tr>
<td></td>
<td>Technological Infrastructure</td>
<td>High R&amp;D spending, together with world class universities, provide domestic firms with a competitive edge on an international basis</td>
</tr>
<tr>
<td>Institutions</td>
<td>Red Tape</td>
<td>A heavy burden of rules and regulations can impose artificial restrictions on entry into and exit from a sector, and, via unnecessary administrative procedures, raise operating costs</td>
</tr>
<tr>
<td></td>
<td>Institutional Quality</td>
<td>Corruption and poor governance increases transaction costs, diverting resources away from their most productive uses</td>
</tr>
<tr>
<td></td>
<td>Investor Protection</td>
<td>Shareholder and property rights are important in raising the confidence of investors in new project financing</td>
</tr>
<tr>
<td></td>
<td>Contracts</td>
<td>An inefficient legal framework will both raise operating costs, as business owners spend money to protect their property, and deter individuals from investing at all, for fear of expropriation</td>
</tr>
<tr>
<td>Market Orientation</td>
<td>Economic Openness</td>
<td>The larger the better, though we are more tolerant of lower levels for states with a floating currency regime, as currency’s ability to move acts as an automatic stabiliser</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td>High debt is bad, although our scoring system also considers 3-year ave. of debt, as % of exports (another distress indicator)</td>
</tr>
<tr>
<td></td>
<td>International Outlook</td>
<td>Membership of international organisations, free trade pacts and visa free travel all significantly underpin international business links</td>
</tr>
<tr>
<td></td>
<td>Financial Markets</td>
<td>A well-developed financial system should better allow firms with profitable business opportunities to obtain the capital needed to invest</td>
</tr>
</tbody>
</table>

As shown in the table, hard and soft infrastructure, that is, transportation infrastructure, business infrastructure, together with labour market and technological infrastructure are considered important components of a business environment.

Macroeconomic and fiscal policies of a country and the existence of strong, well-functioning institutions are also considered a pre-requisite to a thriving business environment.

The components of the business environment are rated from 0 to 100. Table 4-2 summarises the interpretation of the BMI Business Environment Scores.
4.6.2 World Bank’s Ease of Doing Business Index

The World Bank Doing Business project provides objective measures for business regulations for local firms in 183 economies and selected cities at the sub-national level. The index ranks countries on the ease of doing business. A high ranking on the index means that the regulatory environment is more conducive to the starting and operation of a local firm.

The indicators included in the Doing Business Rankings measure business regulation and the degree of protection of property rights, and their effect on businesses, with particular focus on small and medium-sized domestic firms (World Bank Group, 2011). The indicators do the following:

- Document the degree of regulation
- Gauge regulatory outcomes
- Measure the extent of legal protection of property
- Document the tax burden on businesses
- Measure different aspects of employment regulation

The detailed 2011 Doing Business data notes are contained in Appendix C.

4.6.3 East Africa Business Climate Index (EABCI)

The EABCI is an index launched by the East African Business Council (EABC) in 2005 with the objective of providing a platform for the business community to offer necessary inputs and perspectives leading to the elimination of Non-Tariff Barriers (NTB’s) and improvement of other business climate factors (The Steadman Group, 2008).
Although it is acknowledged to be a subjective index, including the EABCI in this research is intended to provide an internal (EAC) view of the business environment, and to highlight the areas in which regional economic integration in the EAC may have, or has had, a significant effect on business operations and strategy.

The latest index available is the 2008 EABCI\(^2\). This is constructed from interviews with 240 business leaders of both small and large companies engaged in import and export within the EAC. The survey also includes experience-based data from 140 truck drivers through self-completion diaries (collected at the point of exit from the country of departure) and 187 Clearing and Forwarding Agents. Table 4.3 shows the nationality split in each of the three categories that constituted the sample to confirm the representativeness of the sample with respect to the EAC partner states.

Table 4-3: EABCI Sample

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>BUSINESS LEADERS</th>
<th>TRUCK DRIVERS</th>
<th>CLEARING &amp; FORWARDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>15%</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td>KENYA</td>
<td>21%</td>
<td>44%</td>
<td>27%</td>
</tr>
<tr>
<td>RWANDA</td>
<td>18%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>20%</td>
<td>32%</td>
<td>27%</td>
</tr>
<tr>
<td>UGANDA</td>
<td>25%</td>
<td>15%</td>
<td>16%</td>
</tr>
</tbody>
</table>

The experience-based data from the truck drivers and the clearing and forwarding agents had little utility in answering the research question. As such, only the BCI computed from responses by business leaders was used.

A set of 13 pre-determined business factors were considered in computing the BCI. Business leaders assigned a rating based on scale ranging from very poor to very good condition. Overall BCI was then calculated based on a scale of 0 – 100 where 0 represented poor condition and 100 excellent condition (The Steadman Group, 2008).

\(^2\) This index was three years old at the time of this research. Recent publications such as the World Bank Africa Trade Policy Note 7 of August 2010, however, confirm the validity and relevance of the index with respect to the assessment of the business environment in the EAC, thus validating its use in this research.
4.6.4 Triangulation of the Indices

Indices are typically, and by nature subjective. To minimise this standard error, triangulation is used to add greater rigour and a solid foundation to the study. This is achieved as triangulation ties-up the divergent aspects of the indices and checks the subjectivity across the different sources.

In social science, triangulation is defined as the mixing of data or methods so that diverse viewpoints or standpoints cast a light upon a topic. The mixing of data types, known as data triangulation, is often thought to help in validating the claims that might arise from an initial pilot study. (Olsen, 2004, p. 3)

In this research, the method of triangulation is adapted and used with the three different indices to formulate a view of the business environment in the EAC. The use of the method here is justified in that the three indices described originate from three distinct sources and employ very different methodologies. Triangulation will therefore aid in the identification of the key variables of the EAC business environment. This is an important step towards rationalising business strategy in the EAC.

This dimension of the research methodology serves to answer Question 2: What are the implications of regional economic integration on the key variables of the EAC business environment?

4.7 Qualitative Interviews

Interviews add a very important contextual dimension to the study and bring the postulations down to reality. Interviews were included in this research to complement the literature review and the indices in answering the research question. The use of interviews was intended to provide a credible real-world perspective and relevance to the findings of the research, and thus complement the literature review and indices to establish a more comprehensive outcome.
Semi-structured interviews were conducted with CEOs and strategy executives at MNCs operating in the EAC. These interviews were carried out with the objective of gaining practical insight into the strategy development and adaptation of companies in the face of changes occurring in the EAC as a result of regional economic integration.

The inclusion of semi-structured interviews sought to address:

Research Question 3: **What are the key elements of successful strategy implementation within the context of regional economic integration in the EAC?**

Research Question 4: **What are the implications of regional economic integration on MNCs Strategy?**

4.8 Interview Schedule

Confidentiality requirements of this research dictate that actual names of organisations and individuals interviewed must be kept confidential. The organisations are therefore referred to as ‘Company A’, ‘Company B’, etc. **Table 4-4** presents the list of companies and the designation of the individuals with whom interviews were planned at each organisation.

**Table 4-4: List of Research Sample**

<table>
<thead>
<tr>
<th>ORGANISATION</th>
<th>BUSINESS TYPE</th>
<th>DESIGNATION OF INTERVIEWEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPANY A</td>
<td>FMCG</td>
<td>Business Executive: International Operations</td>
</tr>
<tr>
<td>COMPANY B</td>
<td>Pharmaceuticals</td>
<td>IMD Executive: International Market Development</td>
</tr>
<tr>
<td>COMPANY C</td>
<td>Bank</td>
<td>Senior Analyst: African Political Economy Unit</td>
</tr>
<tr>
<td>COMPANY D</td>
<td>Engineering Consulting</td>
<td>CEO</td>
</tr>
<tr>
<td>COMPANY E</td>
<td>Bank</td>
<td>Head of Coverage: Africa and Business Development Manager Global Business</td>
</tr>
<tr>
<td>COMPANY F</td>
<td>Food Processing &amp; Packaging</td>
<td>Cluster Vice President of Food Processing &amp; Packaging</td>
</tr>
<tr>
<td>COMPANY G</td>
<td>Policy Advisory &amp; Research</td>
<td>Deputy Director of Policy Advisory &amp; Research</td>
</tr>
<tr>
<td>COMPANY H</td>
<td>Logistics</td>
<td>Strategist</td>
</tr>
<tr>
<td>COMPANY I</td>
<td>Clothing Retailer</td>
<td>CEO</td>
</tr>
<tr>
<td>COMPANY J</td>
<td>Long-Term Savings</td>
<td>CEO: Emerging Markets</td>
</tr>
</tbody>
</table>
4.9 Data Collection, Data Analysis, and Data Management

Composite indices were sourced from online databases and libraries.

Consent to record the interviews was received verbally from each interviewee and all interviews were recorded on a Dictaphone and verbatim responses transcribed. Transcripts were reviewed by the researcher for accuracy and revised where necessary. Some notes were also made at each interview.

A content analysis of each transcript was done to extract key themes related to the research question and framed by the theory.

In the literature review, Institutional Theory (IT) was described, which deals with the role that political, social and economic systems surrounding corporations play in shaping organisation behaviour – processes and decision making. In this research, the organisation behaviour that is of interest with respect to the EAC is the entry and operational models employed. The research seeks to understand which institutional factors (political, social and economic systems) influence the choice of entry and operational model.

With respect to Transaction Cost Theory (TCT) and its application in an emerging market, this research investigated whether a single governance mode is preferred over others in the EAC, and whether as suggested by Peng & Heath (1996), networks are the most effective strategy in emerging markets.

Resource-based theory (RBT) suggests that in emerging markets, capabilities for relationship-based management may prove more important than institutional infrastructure.

The MNCs interviewed are thus evaluated through the IT, TCT and RBT lens; thereafter, the implications of regional integration in the EAC on their processes and decision making, their choice of governance mode and the resources deployed in the EAC are assessed.
Information from the interviews was organised into the following themes:

i. Entry Strategy

ii. Operational Model

iii. Institutional Factors

iv. Transaction Costs

v. Organisational Attributes/Resources

vi. Implications of Regional Economic Integration

4.10 Research Limitations

The use of a sample derived from recommendation by the author’s network may be a limitation as the sample will most likely be dominated by South African firms operating in the EAC. The strategy knowledge generated from the interviews may therefore have a bias towards firms from emerging markets establishing in other emerging markets, limiting its applicability to firms from developed economies establishing in emerging economies. This is particularly the case as literature suggests that firms from emerging markets have an intrinsic advantage over firms from developed countries establishing in emerging markets due to similarities in institutional contexts between emerging countries (Khanna, Palepu, & Sinha, 2005).
CHAPTER 5: RESULTS

While Chapter 4 described the methodology to be followed for this research, Chapter 5 presents the findings of the Five Contexts Framework, the indices and the interviews.

The research investigates strategy development in the EAC and the influence of economic integration is exerting on business strategy. In order to answer the research questions, this chapter is arranged in three parts.

The first part maps the context of the EAC through Khana, Palepu and Sinha’s (2005) Five Contexts Framework to understand the context of the EAC countries in terms of their political and social systems, the openness of their economies, and their labour, capital and product markets.

The second part uses three indices: BMI Risk Ratings, Ease of Doing Business, and the East Africa Business Climate Index to describe the business environment in the EAC. In Chapter 6, Triangulation is used to group information from the three indices and determine key variables for the EAC business environment.

Thirdly, part documents the outcomes of the qualitative interviews conducted, arranging the information obtained from respondents in themes as indicated in Chapter 4. This section presents the responses of the interviewees with very brief commentary. A comprehensive analysis of responses is done in Chapter 6.

5.1 MAPPING THE EAC CONTEXT

5.1.1 The Five-Contexts Framework

The framework is used as a starting point to identify key traits of each of the five countries making up the EAC. Table 5-1 presents the EAC context on the basis of the Five Contexts Framework. The table was populated with information obtained from various sources in answering the questions proposed by Khana, Palepu and Sinha’s (2005).
### Table 5-1: Mapping the EAC using the Five Contexts Framework

<table>
<thead>
<tr>
<th>POLITICAL AND SOCIAL SYSTEM</th>
<th>BURUNDI</th>
<th>KENYA</th>
<th>RWANDA</th>
<th>TANZANIA</th>
<th>UGANDA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political Structure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government dominated by one party. Last election won by the president re-elected with 91% of the vote due to withdrawals and allegations of fraud</td>
<td>Dynamic multi-party politics. Last election resulted in worst violence in the country since independence. Incumbent government in coalition with the two main rivals in last election.</td>
<td>Government formed by coalition of 8 parties. Last election marred by allegations of voter intimidation. Incumbent president received 53% of the vote.</td>
<td>Stable democracy, however, threats of socialism remain in government policies.</td>
<td>Ruling party dominates politics in the country. Incumbent president has been in power for 25 years. Opposition charged last election in February 2011 was fraudulent.</td>
<td></td>
</tr>
<tr>
<td><strong>Civil Society</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 600,000 people died in the country’s ethnic war and over 6% of population displaced. Agreement with the rebel group was signed in 2008, but many observers sceptical that the current power sharing agreement will hold. Estimated 67% of Burundians live in poverty.</td>
<td>An estimated 47% of population lives in poverty and 20% in extreme poverty. It is estimated that up to 9% of the population infected with HIV. More than 1,560 people were killed in post-election violence in 2007/2008. More than 40% of the population is from different language and customs.</td>
<td>More than 800,000 people, mostly Tutsis, lost their lives in 1954–1959 genocide. High levels of inequality.</td>
<td>More than a third of population lives in poverty. Peaceful coexistence of its people.</td>
<td>High levels of poverty and income inequality. The Baganda, Uganda’s largest tribe, want a new federal constitution and a semi-autonomous state</td>
<td></td>
</tr>
<tr>
<td><strong>OPENNESS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation of structural reforms lags somewhat, reflecting the complex political environment and weak administrative capacity. Private property is subject to government expropriation.</td>
<td>Has recently enacted business-friendly reforms. With the assistance of the IMF, a reform of the VAT system is underway. A new competition law will be effective from July 2011.</td>
<td>Rwanda has embarked on a comprehensive program of privatization and liberalization. Aims to attract private investors into labour-intensive industries</td>
<td>State promoting privatisation, but red tape bureaucracy a significant hindrance within the business environment. Investors from Australia, Canada and South Africa pouring investment into mining in the country.</td>
<td>Tax incentives have been introduced to encourage foreign investment and bolster exports. Three business parks are under construction. Much of the foreign investment in manufacturing in the country comes from India and China.</td>
<td></td>
</tr>
<tr>
<td><strong>LABOUR MARKETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Worker’s Market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>90% of the population dependent on subsistence agriculture. Shortage of skilled workforce.</td>
<td>Most developed labour market in the region. Highly skilled workers available. Ongoing drive by government to provide free secondary education and boost technical and vocational skills. 60% of workforce employed in agricultural sector.</td>
<td>Largely bilingual population positioning country as an interface between the EAC and the Francophone Central African Region. 82% of the population employed in the agricultural sector. There is a shortage of skilled workers.</td>
<td>60% of the population employed in the agricultural sector. New employment act makes working hours more flexible and modernises the labour code. Labour productivity is low and significant skills shortages exist.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CAPITAL MARKETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative small, undeveloped financial sector dominated by banking. Government retains stake in several banks. Burundi in the process of setting up a capital market under the development of the Central Bank.</td>
<td>Well developed, competitive banking sector. Equity Bank one of the outstanding products of the development of the local banking sector. Nairobi Stock Exchange amongst leading capital markets on the continent. Kenya’s financial industry dominates the East African market.</td>
<td>Efforts to develop a fledgling financial sector. First IPO in February 2011 with sale of 25% stake in the country’s brevity. Credit flow to businesses improving.</td>
<td>Recent banking reforms have helped increase private sector growth and investment. Private sector credit has been growing at an average annual rate of 32%.</td>
<td>Establishment of four new commercial banks has helped to increase lending to the private sector. The banking sector vulnerable as a result of the rapid expansion of lending.</td>
<td></td>
</tr>
</tbody>
</table>
The political system in the EAC countries exerts significant influence over the social and business environments. The five EAC countries are at varied stages of democracy. With the exception of Burundi which appears to be lagging in the planned timelines for economic reform, the EAC countries have all instituted significant reform.

The labour market in the EAC is highly constrained. Of the five countries, only Kenya has a large pool of highly-skilled workers. In the other countries, the bulk of the labour force is unskilled and employed in the agricultural sector.

Kenya’s financial industry dominates the region. There is however significant development of the financial sectors of Rwanda, Uganda and Tanzania.

Product markets in Kenya are very well developed, and there are several marketing and advertising agencies operating in the country. The product markets in Tanzania and Uganda are at an intermediate level of development, with those in Rwanda and Burundi at their infancy.

This research will look at the implications of regional economic integration on these country contexts and how it will impact on business strategy in these markets.
5.2 The EAC Business Environment

5.2.1 BMI Risk Ratings

The score for each of the EAC countries was extracted from the BMI database and the EAC score computed as an average of the individual country scores. Table 5-2 presents the results.

Table 5-2: EAC Business Environment

<table>
<thead>
<tr>
<th>Country</th>
<th>Business Environment</th>
<th>BER, Infrastructure, %</th>
<th>BER, Institutions, %</th>
<th>BER, Market Orientation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>23.4</td>
<td>31.1</td>
<td>19.9</td>
<td>19.2</td>
</tr>
<tr>
<td>Kenya</td>
<td>39.2</td>
<td>37.6</td>
<td>37.2</td>
<td>42.9</td>
</tr>
<tr>
<td>Rwanda</td>
<td>39.7</td>
<td>36.1</td>
<td>50.5</td>
<td>32.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>33.6</td>
<td>28.0</td>
<td>41.6</td>
<td>31.1</td>
</tr>
<tr>
<td>Uganda</td>
<td>37.0</td>
<td>37.8</td>
<td>33.5</td>
<td>39.6</td>
</tr>
<tr>
<td>EAC Average</td>
<td>34.6</td>
<td>34.1</td>
<td>36.5</td>
<td>33.1</td>
</tr>
<tr>
<td>Global Markets Averages</td>
<td>46.8</td>
<td>45.8</td>
<td>48.5</td>
<td>46.3</td>
</tr>
</tbody>
</table>

As was shown on Table 4-2,

- A score of 80 – 100 indicates a world-class political, legal and financial structure with excellent infrastructure.
- A score of 70 – 79 indicates minor weakness in at least one area – infrastructure, legal or financial – which raises the cost of investment.
- A score of 60 – 69 denotes a country that welcomes foreign trade/ investment, but has well-grounded concerns in at least one area.
- A score of 50 – 59 indicates that serious impediments to business exist across the economy that suggests significant financial and organisational risk.
- A score of less than 49 is an indication that though some sectors may offer good prospects, the general trading and investment environment is poor.
The EAC score on the three components of the business environment are below 49, which indicate that some sectors may offer good prospects but general trading and investment environment is poor. A notable exception is the Business Environment Rating (BER) Institutions score for Rwanda which is at 50.5.

By way of comparison, South Africa has a BER score of 54.7 and the top-ranked nation in the world, New Zealand, has a score of 81.8.

5.2.2 World Bank Ease of Doing Business in the EAC Rankings

The index ranking for each of the EAC countries is extracted and presented in Table 5-3. As shown, the table is coded to indicate in which quartile each country falls for each of the elements of the Ease of Doing Business ranking. A comparison with the BRICS countries is made.

Table 5-3: EAC Ease of Doing Business Rankings

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of Doing Business Rank</th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Closing a Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>191</td>
<td>135</td>
<td>175</td>
<td>115</td>
<td>183</td>
<td>154</td>
<td>141</td>
<td>176</td>
<td>171</td>
<td>183</td>
</tr>
<tr>
<td>Kenya</td>
<td>58</td>
<td>125</td>
<td>35</td>
<td>120</td>
<td>6</td>
<td>93</td>
<td>182</td>
<td>144</td>
<td>125</td>
<td>85</td>
</tr>
<tr>
<td>Rwanda</td>
<td>68</td>
<td>9</td>
<td>102</td>
<td>41</td>
<td>72</td>
<td>28</td>
<td>41</td>
<td>159</td>
<td>99</td>
<td>183</td>
</tr>
<tr>
<td>Tanzania</td>
<td>128</td>
<td>122</td>
<td>179</td>
<td>151</td>
<td>89</td>
<td>93</td>
<td>120</td>
<td>189</td>
<td>92</td>
<td>113</td>
</tr>
<tr>
<td>Uganda</td>
<td>122</td>
<td>137</td>
<td>133</td>
<td>150</td>
<td>46</td>
<td>132</td>
<td>82</td>
<td>148</td>
<td>113</td>
<td>56</td>
</tr>
<tr>
<td>South Africa</td>
<td>34</td>
<td>75</td>
<td>62</td>
<td>91</td>
<td>2</td>
<td>18</td>
<td>24</td>
<td>149</td>
<td>65</td>
<td>74</td>
</tr>
<tr>
<td>China</td>
<td>79</td>
<td>151</td>
<td>181</td>
<td>38</td>
<td>65</td>
<td>93</td>
<td>114</td>
<td>50</td>
<td>15</td>
<td>68</td>
</tr>
<tr>
<td>India</td>
<td>134</td>
<td>165</td>
<td>177</td>
<td>94</td>
<td>32</td>
<td>44</td>
<td>164</td>
<td>100</td>
<td>182</td>
<td>134</td>
</tr>
<tr>
<td>Russia</td>
<td>123</td>
<td>108</td>
<td>182</td>
<td>51</td>
<td>89</td>
<td>93</td>
<td>105</td>
<td>182</td>
<td>18</td>
<td>163</td>
</tr>
<tr>
<td>Brazil</td>
<td>197</td>
<td>129</td>
<td>112</td>
<td>122</td>
<td>89</td>
<td>74</td>
<td>152</td>
<td>114</td>
<td>68</td>
<td>112</td>
</tr>
</tbody>
</table>

Rwanda excels in some aspects that include: starting a business, registering a property, getting credit, protecting investors, paying taxes and enforcing contracts. Kenya ranks highly with respect to dealing with construction permits, and access to credit.

One particularly poorly ranked area is the regional cross-border trading in the EAC. This is a consistent problem area across Africa. South Africa’s ranking is also extremely poor on this aspect.
The variables and rankings will be used in more detail in Chapter 6 to determine the main variables that are pertinent to the EAC and relevant to strategic decision making in that region.

5.2.3 East Africa Business Climate Index (EABCI)

The EABCI scores for each of the 13 variables for each country and for the EAC, computed as an average of the five country scores, are presented in Table 5-4.

Table 5-4: EABCI Index Scores for the EAC

<table>
<thead>
<tr>
<th>BUSINESS FACTORS</th>
<th>Kenya</th>
<th>Uganda</th>
<th>Tanzania</th>
<th>Rwanda</th>
<th>Burundi</th>
<th>Overall EAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to affordable and reliable telecommunication</td>
<td>52</td>
<td>71</td>
<td>62</td>
<td>57</td>
<td>36</td>
<td>56</td>
</tr>
<tr>
<td>Access to water</td>
<td>52</td>
<td>65</td>
<td>42</td>
<td>49</td>
<td>60</td>
<td>51</td>
</tr>
<tr>
<td>Security</td>
<td>36</td>
<td>65</td>
<td>47</td>
<td>73</td>
<td>23</td>
<td>49</td>
</tr>
<tr>
<td>Access to affordable skilled labour</td>
<td>58</td>
<td>59</td>
<td>43</td>
<td>42</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Access to finance</td>
<td>59</td>
<td>56</td>
<td>48</td>
<td>43</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Access to business support services</td>
<td>54</td>
<td>57</td>
<td>47</td>
<td>45</td>
<td>30</td>
<td>47</td>
</tr>
<tr>
<td>Cross border movement</td>
<td>48</td>
<td>63</td>
<td>32</td>
<td>45</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>Legal and regulatory framework</td>
<td>41</td>
<td>62</td>
<td>46</td>
<td>47</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Access to Land/business premises</td>
<td>47</td>
<td>51</td>
<td>40</td>
<td>35</td>
<td>28</td>
<td>40</td>
</tr>
<tr>
<td>Administration of tax</td>
<td>40</td>
<td>55</td>
<td>31</td>
<td>35</td>
<td>28</td>
<td>38</td>
</tr>
<tr>
<td>Level of taxation</td>
<td>36</td>
<td>46</td>
<td>30</td>
<td>36</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td>Access to affordable and reliable energy</td>
<td>33</td>
<td>39</td>
<td>38</td>
<td>41</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td>Quality and cost of transport (road rail air sea)</td>
<td>24</td>
<td>29</td>
<td>46</td>
<td>34</td>
<td>26</td>
<td>32</td>
</tr>
<tr>
<td><strong>OVERALL BCI</strong></td>
<td><strong>45</strong></td>
<td><strong>55</strong></td>
<td><strong>42</strong></td>
<td><strong>45</strong></td>
<td><strong>32</strong></td>
<td><strong>44</strong></td>
</tr>
</tbody>
</table>

The table shows that the lowest-ranked business factors in the EAC are the quality and cost of transport, the level and administration of taxation, and accessibility to reliable and affordable energy. The variables identified here will be used in more detail in Chapter 6 in conjunction with the BMI risk rating and the World Bank ease of doing business index to determine the main variables that are pertinent to business strategy development in the EAC, and the implications of regional integration on these variables.

5.3 Qualitative Interviews

This section presents the information obtained through interviews arranged according to themes. Although direct quotes from interviewees are included in this section, where necessary, the quotes are edited to remove identifiers that would reveal the identity of the company or individual. Transcribed interviews are contained in Appendix D.
Only brief commentary on the responses is included in this chapter. A detailed analysis of the responses is provided in Chapter 6.

5.3.1 Entry Strategy into the EAC

The mode of entry chosen is to a large extent dependent on the political, social and economic systems surrounding a corporation. The question addressed here was how the organisation had chosen to enter into the EAC.

Company A employed an acquisition strategy into the EAC and emphasised the importance of scale, market size and geographical spread in the selection of an acquisition target – factors that are directly related to regional integration:

“We first look at the geographical spread of the target, to get a footprint, then the size of the market, which is important to be able to create scale. Once you have the scale, then you can try and improve your margins”

Company B explained that its entry into the EAC started out with exports, but as the East African market developed, this later evolved into direct investment in a physical presence in Kenya to serve the region – the export-platform motive:

“We were exporting only into some of the African markets, including Kenya over many years and the structure of the exports would be that we would appoint a third party distributor in the African countries that we were exporting to and that third party distributor would then buy stock from us and resell it into the markets. Once the business had grown sufficiently enough we displaced the distributors and put our own infrastructure in place. We opened up our own sales and marketing office.”

Company C’s entry strategy into the EAC took the form of a small Greenfields operation that typically comprises of a merchant banking offering. This operation, acts as an in-country feeler that seeks to identify opportunities for the establishment of retail banking in the country
or in the region. The market selection, entry-point and the activities of the Greenfields operation are determined by factors that are closely related with the integration agenda:

“We would look at the level of competition in the market, ease of entry, ease of doing business, cost of entry, and the ease of hiring.”

Company D has, over the years, been involved on some projects in the EAC, and is currently in the process of developing a permanent-entry strategy into the EAC. The organisation is weighing-up its entry options:

“It depends on how rapidly we want to mobilise. If we want to mobilise rapidly, then we would look at a fairly substantial acquisition. From a business point of view that is attractive, but we have to weigh that up against the cost of an acquisition compared to the organic growth agenda which affords us more flexibility to be specific about what we are doing.”

Company E describes an entry strategy that entails sending ‘feelers’ into a new market and establishing ‘rep offices’ which source merchant banking opportunities, and which could potentially develop into retail banking. An established presence in one country then acts as a platform to launch into a neighbouring country – the implications of regional integration on this strategy are clear:

“You pick one country and you go and test your shoes there. Put your foot in the water – if it is too hot you withdraw – if it feels right then you dive in and then you put some presence on the ground and you look around and establish your presence in that country. You then send your feelers out to the next one. Your strategy is really just to leapfrog into the next country.”

The discussions on entry strategy into the EAC identify several key strategic considerations: local knowledge, local distribution networks and relationships with key stakeholders. Furthermore, access to large markets and ease of provision of services and products across borders are important concerns. Regional integration would influence entry strategy as it changes the scope of local knowledge and the distribution network. Furthermore, due to
increased market accessibility, it might prompt the selection of FDI as an entry strategy over an exporting strategy by an MNC.

Regional Integration also encourages the adoption of strategies that entail phased expansion from one country to another in an integrated region due to increased market access. An example of this in the EAC is Company E which establishes in one country, and then systematically moves into the next country that meets certain base criterion.

5.3.2 Operational Model

The organisations responded to a question about their preferred strategic operational models in the EAC and the potential impact of regional integration on these models assessed.

Company A indicated that for them, a presence in each of the EAC countries was important:

“If you are not physically present in a country, it is not going to work long term. You do not have to have manufacturing presence. You can manufacture one thing out of Nairobi and distribute but you can also manufacture a different thing in Tanzania and distribute. You can even use the same distribution networks.”

Company B described an evolution of its operational model in the EAC from one based on exports, to investment in infrastructure in the region as the market has grown:

“When the exports to Kenya had grown substantially, we took over the end market sales of that product. So we displaced the distributors and put our own infrastructure in place so we opened up our own sales and marketing office. The logistics is being outsourced, so we have a third party that does warehousing, distribution and the collection of the debtor’s book for us and we pay them a fee for doing that for us.”
Company B also points to utilising Kenya as a regional hub:

“Kenya becomes the hub for the East African Community then in terms of driving the business. We have started exporting from Kenya into Tanzania, into Uganda, and into Somalia.”

Company C aims to be a local bank in the EAC, with support from Johannesburg:

“We have a deliberate strategy to ensure that we have local understanding, that we are perceived as a local bank. That is really the desire: Not to be perceived as a South African bank or a foreign bank in Kenya. There is a Managing Director in each bank and they have the ability to direct their own strategy but they have very strong liaison with our Johannesburg office.”

Company D highlighted the fact that Africa had evolved and the expatriate-model (that is, sending in expatriates) historically employed by companies to enter new markets was expensive and no longer relevant in terms of maintaining successful business operations. They plan to implement a local delivery model in the EAC:

“We have seen that it needs to be developed and produced locally by local people and that is the kind of model we will adopt. We would not want to develop our presence in East Africa as a South African company “

Further to this, Company D’s strategy is geared to the EAC as a region, and plans to develop one large hub in the region that would then serve the entire EAC:

“From our point of view, we are looking at developing a big centre - whether it is in Kenya or Uganda or Tanzania remains to be seen - with the idea that it gets developed as an excellence hub for the whole of East Africa.”
Company F also serves the EAC from their Nairobi office:

“Today if you look at East Africa, we manage operations out of our Nairobi office, although we do have another office in Khartoum. We have people that are based out of Nairobi but are focussing exclusively on servicing these markets.”

The key aspects relating to operational models used by the MNCs are: local firm presence, local knowledge and leadership, regional distribution network and capacity. Regional integration has a direct influence on these elements through its influence on the movement of the factors of production across borders in the EAC region.

5.3.3 Institutional Factors

Company A points to the opportunities presented by the existence of institutional voids in the EAC, and suggests that there is advantage to be gained in being able to exploit these institutional voids – through relationships:

“You can work with the regulators because once you are on the inside you can influence what can and cannot be, directly or indirectly and you can work with the systems either to get certain tax advantages, or other concessions.”

Company B states that being in the pharmaceuticals industry in Kenya, the regulations are fairly tight, but there is some corruption:

“I think most certainly the systems and processes are well documented there and formalised. There is always the issue of corruption though and that is not particular to Kenya, it includes South Africa. There are concerns that some unscrupulous companies take advantage of corrupt officials to forward their agenda”
Company C points to the State’s involvement in the private sector and the importance of carefully managing their relationship with the state carefully:

“In these African markets, politics and economics are often intertwined. A lot of the influential business people that you find have very deep ties in the political sphere.”

According to Company E, a strong banking regulator is central to the success of the firm in any country:

“The big component from our point of view is the strength of the Banking Regulator.”

Regional integration potentially has an effect on the institutional environment of a business where integration deepens to an extent that single institutions are formed for a specific purpose that covers the whole region. Regional accountability may also affect the performance of institutions in the different EAC countries.

5.3.4 Transaction Costs

This theme addresses the implicit and explicit costs of doing business in the EAC and the governance structure adopted to minimise the impact of these costs by the organisation.

Company A intimated that a ‘network’ structure is critical for the success of the business:

“You want someone whom when there is trouble - if your goods are stuck at the port - they know how to sort it out. You want somebody with local network. It is local knowledge which is invaluable at the end of the day.”

Company F echoed the view that a local network was an important ‘structure’ for the company to have:

“Of course it is preferable to have a guy that knows the local country better and he already has some contacts.”
Regional integration in the EAC expands the scope of the network that is required to operate successfully in the region. Networks that reach across the borders of the five countries offer a lot more advantage compared to deep networks limited to one country.

5.3.5 Organisation Resources

This theme focused on the influence of firm resources and capabilities to identify how they differentiate themselves and how they sustain competitive advantage.

Company A indicated synergies with strategic local entities as being very important to its success in the EAC:

“Your local partner can also be someone who has good distribution network in that market – now that is important as well because he or she would have a lot of links with the distributors. So you are looking for someone who has the competence and the rapport to open doors.”

Company A concludes that competitive advantage in the EAC may only be gained through the first-mover advantage and relationships:

“Really, competitive advantage is through a first-mover advantage and the relationships. It is not about product.”

Company B only hires locals to run the business. This is a strategic decision as locals are able to navigate local conditions much better than expatriates. This has kept the firm competitive:

“So we have employed local people. They are the face of the business and most certainly they make many of the decisions from an operational perspective. We have not gone and put a South African in to head up the business there.”
Company C echoes the need to have local staff in the EAC operations:

“Almost our entire workforce in East Africa consists of East Africans, because they know the market. We have to allow the people who understand, not just the competitive environment but the cultural side of things – to run the business.”

Although the location of a planned hub in the EAC is yet to be determined,

Company D highlights the ideal staffing of this hub based on its vision of serving the EAC from one regional office:

“What we would be looking at developing there is a big office with people who understand from a technical level a number of the service lines that we do. Coupled with that, you want people who have the intimate knowledge of the five countries that make the bloc.”

Company F stated the importance of local knowledge on the ground:

“Of course it is preferable to have a guy that knows the local country better and he already has some contacts.”

Perhaps the most significant implication of integration from the view of organisational resources is the ease of movement of people skills between the EAC countries. This utilises labour in the most effective and efficient way possible.
5.3.6 Implications of Regional Economic Integration

The organisations responded as follows when asked to identify the implications of regional integration to their business:

**Company A** referred to the reduction of customs and regulatory barriers which would ease intra-regional trade restrictions:

“Well it is important because it reduces the customs and regulatory barriers. This means that I can manufacture something out of Nairobi and get it into one of the countries at a reasonable pricing. The reality then is that you can set up one factory to serve the region.”

For **Company B**, regulatory harmonisation would be an important development for the company:

“Well I think what we are hoping for is that there will be regulatory harmonisation in that region as opposed to having to go to each one of the regulatory departments in each country to get registration - which makes it very cumbersome and far more expensive.”

**Company C** very strongly expressed the potential benefits of regional economic integration on their approach to business because it reduces complexities and establishes a single market approach:

“Allow the free flow of capital between the banks, and you are essentially operating from one platform. So you move from being one bank with branches in three countries to being like a bank in one country with branches in different areas of the country, and the ease that it creates in terms of your systems and the currency and the movement of people and the movement of goods and of course the movement of capital between these branches in order to facilitate certain deals is immense.”
The importance of integration for **Company F** lies in the implications of integration on their customers:

“Can a Kenyan customer, who for example has dairy products, export easily to Sudan or to Ethiopia or is it then important for us to seek partners in those local countries, which can sometimes be very difficult because the infrastructure is not there and so forth.”

Additionally, **Company F** describes the ease of doing business that integration would add:

“My passport was issued on the 10th of October last year, yet I have five pages left because every time I go to Kenya I get a sticker, every time I go to Sudan I get a sticker, every time I go to Uganda I have to get a sticker and a page is gone. It is the small things that would make integration work.”

The MNCs identify the main potential impacts of regional integration as: reduced cross-border tariffs, regulatory harmonisation, changed operations model, and improved logistics for cross-border trade.

**Company G**’s main contribution to this research was in checking the theory of the regional integration agenda against the reality on the ground. As **Company G** pointed out the implementation of the common market protocol still has a long way to go before the full benefits can be realised:

“Nowhere is the gulf wider between theory and practice than in the area of regional integration within Africa. Even with a vast amount of donor money and a lot of technical expertise and a huge amount of momentum, not to mention an obvious need for something like that, politics, sovereignty and corruption just interfere.”
CHAPTER 6: DISCUSSION OF RESULTS

This chapter discusses in detail, the results that were presented in Chapter 5. The detailed discussion takes the form of a critical assessment and analysis of the results, linking them to the literature review. The chapter begins with a general assessment of the results obtained in this study and thereafter moves into the critical assessment of the institutional context of the EAC, the business environment indices and the interview responses.

The core question of the research: ‘business strategy in the EAC and the implications of regional economic integration on this strategy’ is viewed as a double-barrelled question, one part dealing with the determination of strategies suited to the EAC, and the second addressing the impact that regional integration may have on these strategies.

As was discussed in Chapter 2, the research is constructed on three pillars: emerging market strategy, the economics of regional integration, and the dynamics of the EAC. In this chapter, Institutional Theory (IT), Transaction Cost Theory (TCT) and Resource Based Theory (RBT) are used as a prism to filter the results presented in Chapter 5 into strategic insights that provide answers to the core research question.

6.1 Overview of Results

6.1.1 Mapping the EAC Context

Khanna, Palepu & Sinha (2005) state that over time, the limited success of most MNCs has been the result of reproducing business strategies employed in their home countries in new environments which render these strategies inadequate or inappropriate. As a starting point towards the identification of business strategy in the EAC, therefore, this research undertook to map the context of the EAC in order to contextualise the strategies employed by MNCs operating in the region, and to understand the landscape of the region within which economic integration is taking place.
The Five Contexts Framework proved to be a useful tool with which to map the contexts of the EAC countries. The individual country contexts are combined to formulate the EAC context.

6.1.2  The Business Environment Indices

The three indices used in this research provide a comprehensive view of the key business environment variables in the EAC and thus provide a good platform to evaluate what impact regional integration may have on the business environment.

6.1.3  Number of Interviews

The research set out to interview ten MNCs operating in the EAC with a view to gaining insight into the approach, development and implementation of business strategy in the EAC, and the implications that regional economic integration might have on that strategy.

Only seven of the ten scheduled interviews were successful. There was not enough time to find replacement companies for the three incomplete interviews.

6.1.4  Quality of Interviews

The quality of the interviews conducted, assessed on the basis of the depth of information and insight gained is excellent. All of the interview participants were enthusiastic about sharing on their strategic approach and the experience of their respective firms’ operations in the EAC.

By the fourth interview, a pattern in the key strategic considerations and approaches by the MNCs in the EAC, and the implications of regional integration on business strategy began to emerge. By the seventh interview, these were fully-framed, with only nuanced, industry-specific, differences evident between the companies. As discussed in Chapter 4, this may be described as ‘theoretical saturation’, which offers credibility to the findings of this research.
6.2 The Institutional Context of the EAC

6.2.1 Political and Social Systems

Literature reviewed in Chapter 2 described Institutional Theory which focuses on the role that political, social and economic systems surrounding corporations play in shaping organisational behaviour – processes and decision making (Hoskisson, Eden, Lau, & Wright, 2000).

Country politics in the EAC countries exerts a large degree of influence on multiple aspects of the business environment – growth outlook, investment risk, and operational risk. Additionally, influential, politically-connected individuals are deeply involved in business, which adds a dynamic to the operation of a business in such an environment.

With the exception of Tanzania, one aspect of this has been the recent history of political upheaval in Burundi, Kenya, Rwanda and Uganda. The perceived political risk in the region thus remains high.

The treaty for the establishment of the East African Community describes a process that culminates in the full political union of the five countries of the EAC. As stated in Chapter 2, Adar (2010) puts forward the view that the transformation of the EAC into a functioning political federation with rights and duties in international relations is the only viable option that can lay the foundation for stability and democracy enlargement in the East African region. The formation of the East African Court of Justice, The East African Legislative Assembly and The East African Secretariat, are direct efforts to achieve this goal.

The chasm between this ideal and the reality of the EAC countries, however, is vast. Considering the status quo of the politics in each of the EAC countries, a political federation does not appear to be imminent. Until this becomes a reality, country politics, and not regional politics are important to consider in the formulation and implementation of strategy in the EAC.
6.2.2 Openness

The EAC Governments have shown commitment to opening up their countries’ economies through enacting economic reform aimed specifically at attracting foreign investment. These reforms have included: tax reforms, competition law, privatisation, and liberalisation. Despite the strides made through these reforms, bureaucracy remains a significant hindrance.

The EAC is thus very open to MNCs wishing to gain entry into the region. This may be through exports or through FDI. The choice of country depends on the nature of the business to be established and the resources required for business operations.

The interaction between the provisions for the free movement of goods, persons, labour, services and capital, as per the EAC Common Market Protocol, and the openness of the economic policies of the EAC is an important one. Motta and Norman (1996) demonstrated that economic integration induces outside firms to invest in the integrated regional block as a result of improved market accessibility, and that the export-platform is the preferred strategy by MNCs serving integrating markets.

6.2.3 Labour Markets

The region has a large pool of unskilled labour, with the majority of workers employed in the agricultural sector. The most developed labour market in the region is Kenya, which has a large supply of highly skilled workers available.

The common market protocol consummated by the five EAC states in 2010, guarantees the free movement of workers who are citizens of the other partner states, within EAC territory.

The partner states committed to opening up to certain categories of staff, using ILO classification, by certain target dates. Table 6-1 summarises the targets for free labour movement in the EAC (status of progress in this regard could not be found).
Table 6-1: EAC Worker Categories Free Movement Targets

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>WORKER CATEGORIES</th>
<th>TARGET DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>Professionals</td>
<td>1st July 2010</td>
</tr>
<tr>
<td>Kenya</td>
<td>Managers, Professionals, Technicians and Associate Professionals and Craft and Related Trades Workers</td>
<td>1st July 2010</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Professionals, and Technicians and Associate Professionals</td>
<td>1st July 2010</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Professionals, and Technicians and Associate Professionals</td>
<td>1st July 2010 to 2015</td>
</tr>
<tr>
<td>Uganda</td>
<td>Managers, Professionals, and Craft and Related Trades Workers</td>
<td>1st July 2010</td>
</tr>
</tbody>
</table>

For an MNC with operations in the EAC, the implications of this provision of the common market protocol are that it can establish itself in any one of the EAC countries yet have access to skilled workers from the partner states.

6.2.4 Capital Markets

The development of capital markets in the EAC is occurring at a rapid rate. Kenya’s banking sector is well developed and dominates the region. Financial sector reform in Tanzania and Uganda has resulted in rapid private sector growth and investment in the sector. Capital Markets in Rwanda and Burundi are in their infancy.

The common market protocol makes provision for the free movement of capital between the partner states of the EAC. Kenya, Uganda and Tanzania have already opened up their capital accounts, while Burundi and Rwanda have undertaken to open up their accounts in the period 2010-2015.

The implications of this are that capital can be deployed in the most efficient manner – easily accessible Kenyan capital, for example, can be deployed in any of the partner states without restrictions.
6.2.5 Product Markets

Product markets are well developed in Kenya, where good consumer information is available through several well-established market-research companies. Consumer information is available to a lesser extent in Uganda and Tanzania and virtually non-existent in Rwanda and Burundi.

In 2008, the first credit reference database and bureau service in the EAC was launched in Kenya. This is bound to transform the credit environment in Kenya once an adequate history of consumer data is collected.

The free movement of goods, persons, labour, services and capital will heighten the need for a regional credit reference database and bureau service in line with cross-border consumer activities. This can be expected to develop with time.

6.2.6 Conclusion on Five Contexts Framework

The Five Contexts Framework, as was presented in this chapter, establishes the reality of the EAC in terms of political and social systems, openness, labour markets, product markets and capital markets. Kenya’s outright dominance of the region in terms of the degree of development of its markets and institutions is made clear by applying the framework to map the EAC context.

The assessment of the impact of economic integration on each of the contexts is important as it provides some insight into the impact that deepening economic integration will have on the strategy formulation and implementation of MNCs in the EAC.

6.3 Key Variables in the EAC Business Environment

Three indices were triangulated and used to identify the key business environment variables in the EAC that have a key impact on business strategy. These indices were: BMI Risk Ratings, World Bank Ease of Doing Business Index, and the East Africa Business Climate Index (EABCI). The impact of regional integration on the key variables was assessed.
The variables included in each index, ranked in terms of the relative performance of each, are shown on Table 6-2.

### Table 6-2: Ranked Business Environment Variables

<table>
<thead>
<tr>
<th>BMI Risk Ratings</th>
<th>Ease of Doing Business</th>
<th>EABCi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worst</td>
<td>Economic Openness</td>
<td>Trading Across Borders</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td>Registering Property</td>
</tr>
<tr>
<td></td>
<td>International Outlook</td>
<td>Paying Taxes</td>
</tr>
<tr>
<td></td>
<td>Financial Markets</td>
<td>Dealing With Construction Permits</td>
</tr>
<tr>
<td></td>
<td>Transport Infrastructure</td>
<td>Closing a Business</td>
</tr>
<tr>
<td></td>
<td>Basic Business Infrastructure</td>
<td>Protecting Investors</td>
</tr>
<tr>
<td></td>
<td>Labour Market Infrastructure</td>
<td>Enforcing Contracts</td>
</tr>
<tr>
<td></td>
<td>Technological Infrastructure</td>
<td>Starting a Business</td>
</tr>
<tr>
<td></td>
<td>Red Tape</td>
<td>Access to affordable skilled labour</td>
</tr>
<tr>
<td></td>
<td>Institutional Quality</td>
<td>Access to finance</td>
</tr>
<tr>
<td></td>
<td>Investor Protection</td>
<td>Security</td>
</tr>
<tr>
<td></td>
<td>Contracts</td>
<td>Access to water</td>
</tr>
<tr>
<td>Least Worst</td>
<td></td>
<td>Access to affordable and reliable telecommunication</td>
</tr>
</tbody>
</table>

The first step in the triangulation of the three indices involved assigning each variable under each index to one of three groupings: ‘Country/ Political Risk’, ‘Factors of Production’, and ‘Institutions’. The objective of doing this was to rationalise the variables, through identifying overlap of certain variables between the indices. These are shown on Table 6-3.

### Table 6-3: Grouped Business Environment Variables

<table>
<thead>
<tr>
<th>Grp 1 - Country/ Political Risk</th>
<th>Grp 2 - Factors of Production</th>
<th>Grp 3 - Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Openness</td>
<td>Transport Infrastructure</td>
<td>Red Tape</td>
</tr>
<tr>
<td>Government Intervention</td>
<td>Basic Business Infrastructure</td>
<td>Institutional Quality</td>
</tr>
<tr>
<td>International Outlook</td>
<td>Labour Market Infrastructure</td>
<td>Investor Protection</td>
</tr>
<tr>
<td>Financial Markets</td>
<td>Technological Infrastructure</td>
<td>Contracts</td>
</tr>
<tr>
<td>Legal and regulatory framework</td>
<td>Trading Across Borders</td>
<td>Registering Property</td>
</tr>
<tr>
<td>Security</td>
<td>Quality and cost of transport (road rail air sea)</td>
<td>Dealing With Construction Permits</td>
</tr>
<tr>
<td>Level of taxation</td>
<td>Access to affordable and reliable energy</td>
<td>Paying Taxes</td>
</tr>
<tr>
<td></td>
<td>Cross border movement</td>
<td>Closing a Business</td>
</tr>
<tr>
<td></td>
<td>Access to affordable skilled labour</td>
<td>Protecting Investors</td>
</tr>
<tr>
<td></td>
<td>Access to finance</td>
<td>Enforcing Contracts</td>
</tr>
<tr>
<td></td>
<td>Access to water</td>
<td>Starting a Business</td>
</tr>
<tr>
<td></td>
<td>Access to affordable and reliable telecommunication</td>
<td>Administration of tax</td>
</tr>
<tr>
<td></td>
<td>Access to land/business premises</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Access to business support services</td>
<td></td>
</tr>
</tbody>
</table>

The business environment variables were then analysed and collated into ten variables which are regarded as most representative of the business environment in the EAC. This, in essence, is the creation of a new composite index through distillation of the three indices. This composite index will be referred to in this study as “Business Variables Index”. Table 6-4 shows these variables. The variables developed point to the existence of institutional voids...
in the EAC – the absence of specialised public intermediaries, regulatory systems and contract enforcing mechanisms.

Table 6-4: Primary Business Environment Variables in the EAC

<table>
<thead>
<tr>
<th>Country/Political Risk</th>
<th>Factors of Production</th>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political Stability</td>
<td>3. Inadequate Physical Infrastructure</td>
<td>8. Poor Institutional Capacity</td>
</tr>
<tr>
<td></td>
<td>5. Arduous Border Processes</td>
<td>10. Inadequate Institutional Policy</td>
</tr>
<tr>
<td></td>
<td>6. Undeveloped Capital Markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7. Poor Business Support Services</td>
<td></td>
</tr>
</tbody>
</table>

Finally, the objectives of the common market protocol are overlaid on the primary business environment variables to determine how the process of integration is bound to alter the business environment, and hence how MNCs approach business in the EAC.

The business environment variables with the provisions of the common market protocol that correspond to each are shown on Figure 6-1. The figure should be read as an indication of how deepening regional integration, as described in the common market protocol, will alter the EAC business environment.

As per the EAC Common Market Protocol, an objective of the EAC is to accelerate economic growth and development of the partner states through the attainment of free movement of goods, persons and labour, the rights of establishment and residence and the free movement of services and capital. Furthermore, the EAC seeks to strengthen, coordinate and regulate the economic and trade relations among the partner states in order to promote accelerated, harmonious and balanced development within the Community. The business environment variables identified in Table 6-4 fall within the scope of the objectives of the common market protocol, and would change as integration in the EAC deepened.
## Figure 6-1: The EAC Business Environment and the Provisions of the CMP

<table>
<thead>
<tr>
<th>BUSINESS ENVIRONMENT VARIABLE</th>
<th>CORRESPONDING PROVISIONS OF EAC COMMON MARKET PROTOCOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political Stability</td>
<td>• EAC Institutions: EACJ, EALA, Secretariat</td>
</tr>
<tr>
<td>2. Government Policy</td>
<td>• Economic and monetary policy coordination</td>
</tr>
<tr>
<td></td>
<td>• Protection of cross-border investment</td>
</tr>
<tr>
<td>3. Physical Infrastructure</td>
<td>• Coordination of Transport Policies</td>
</tr>
<tr>
<td></td>
<td>• Research and technological development</td>
</tr>
<tr>
<td>4. Labour Market</td>
<td>• Free movement of labour</td>
</tr>
<tr>
<td>5. Border Processes</td>
<td>• Harmonisation of social policies</td>
</tr>
<tr>
<td></td>
<td>• Coordination of trade relations</td>
</tr>
<tr>
<td></td>
<td>• Free movement of goods</td>
</tr>
<tr>
<td>6. Capital Markets</td>
<td>• Free movement of capital</td>
</tr>
<tr>
<td>7. Business Support Services</td>
<td>• Free movement of services</td>
</tr>
<tr>
<td></td>
<td>• Cooperation in statistics</td>
</tr>
<tr>
<td>8. Institutional Capacity</td>
<td>• Cooperation in statistics</td>
</tr>
<tr>
<td></td>
<td>• Cooperation in industrial development</td>
</tr>
<tr>
<td></td>
<td>• Research and technological development</td>
</tr>
<tr>
<td>9. Bureaucracy</td>
<td>• Coordination of trade relations</td>
</tr>
<tr>
<td></td>
<td>• Free movement of goods, labour and capital</td>
</tr>
<tr>
<td>10. Institutional Policy</td>
<td>• Protection of cross-border investments</td>
</tr>
<tr>
<td></td>
<td>• Prohibited business practices and consumer protection</td>
</tr>
<tr>
<td></td>
<td>• Cooperation in intellectual property rights</td>
</tr>
</tbody>
</table>
6.4 Business Strategy in the EAC

6.4.1 Entry Strategy

Secondary literature and interviews suggest that entry strategy into the EAC is influenced by the political, social and economic systems surrounding the corporation. Amongst the companies interviewed, the following entry strategies were employed:

**Acquisition of Established Local Firm**

It was established that the local institutional context and the business environment strongly influence the strategy and operations of firms in the EAC. To deal with this, an acquisition strategy was favoured due to the deep understanding of the local context that a local firm would offer the new entrant. The local firm would offer local knowledge, a distribution network and relationships with key individuals in the market.

Regional integration may affect this strategy in several ways. As described in the literature review, regional integration may induce entry of MNCs into the region due to the prospects that increased access to a large consumer market would present. The availability of ideal acquisition targets would therefore diminish, forcing an organisation to adopt an alternative entry strategy.

Furthermore, both the institutional context and the business variables are altered through integration. As a result, the qualities possessed by a firm that would be appealing as an acquisition target might change in the context of deepening integration.

**Export Model with Appointment of Third-Party Distributor**

Firm’s utilising the export model to service the EAC market make minimal investment other than limited marketing costs as the risk is borne by the third-party distributors who purchase the product from the firm and carry it until they can sell it to retailers. The impact of regional integration on this strategy is significant.
In the first instance, increased access to large consumer markets in a regional block induces the firms to invest their own infrastructure in the region in order to capture a larger part of the market beyond what could be achieved through a third-party distributor.

Secondly, a decrease in internal tariffs may incentivise the firm to establish in one of the countries within the common market with a view to service its markets in the other partner states.

**Small Greenfield Operation**

The strategy of establishing a small Greenfield operation in a new country was based on the principle of having in-country presence that allowed information gathering and increased understanding of the market at minimised risk. This model was employed with minimum infrastructure investment in the region. The small Greenfield operation served to collect in-country knowledge and make a case for a larger investment in the market. In the case of one MNC which employed this strategy, the presence established in one country was used as a platform to launch into neighbouring countries.

One of the implications of regional integration on this strategy is that deepening integration would make it possible for a company to gather regional information relatively easily by establishing an operation in one country.

It may be concluded that overall, regional integration would reduce the barriers to entry into the EAC market. This would be achieved through the elimination of country-cartels through the adoption and implementation of regional policies relating to trade and the business environment, such as those contained in the EAC common market protocol.
6.4.2 Operational Model

Interviews carried out revealed that the operational model adopted by MNCs in the EAC is a strategic decision that may be influenced by regional integration.

Geographic spread into each of the EAC countries, while leveraging in-country networks to gain regional advantage was identified by one of the MNCs as being integral to its operations in the EAC. In this regard, deepening integration would have the obvious benefit of streamlining and integrating the organisation’s operations in the five partner states.

The export vs. FDI decision by MNCs was seen to be relevant within the EAC context. Neary (2002) describes that market growth and improved market accessibility resulting from the formation of regional trading agreements prompt MNCs to change their strategies from exporting to FDI. One of the MNCs interviewed attested to having changed its operational model from exports distributed by a local third-party entity to establishing a permanent sales and marketing presence in the region with outsourced logistics. The catalyst for the change was the increased access to a larger market.

The use of one of the countries as a hub to serve the entire EAC common market is mentioned by several of the MNCs. The positioning of Kenya as a hub is mentioned by three MNCs, possibly due to lower production costs in Kenya relative to the other EAC partner states. This is the export-platform motive by MNCs which states that as internal tariffs fall, companies will favour FDI relative to exporting as this reduces operational costs. (Neary, 2002)

Importantly, a ‘local delivery model’ is suggested by several of the MNCs. The idea promoted by MNCs here is that the company established in the EAC should have its own localised identity and be viewed as an EAC company, rather than a foreign company. The operational implications then are that the EAC branch is given near complete autonomy from its parent. The implication of regional integration in this case is that the local delivery model is shaped
around the region and not on one partner state. This has direct implications on strategic choices about location, resourcing and operations.

Regional integration through the provisions outlined in the EAC common market protocol, would play a critical role in facilitating the regional expansion strategies of MNCs operating in the EAC by ensuring that resources required – the factors of production – can be easily deployed to any of the countries without restriction.

6.4.3 Institutional Factors

Given that institutions construct the ‘rules of the game’, that is the framework consisting of formal and informal rules in compliance with which business must operate, then business strategy is shaped to a large extent by the existing institutional realities (Hoskisson, Eden, Lau, & Wright, 2000, p. 253).

Some of the interviewees suggested that the existence of gaps in the institutional framework in the EAC present opportunities for organisations that can manoeuvre these voids and operate comfortably in the midst of ambiguity. Two potential opportunities are cited: the scope to negotiate concessions or special allowances with government, and the opportunity to influence government to increase barriers to entry for other companies.

Research suggests that in the institutional environment of the EAC, investment in developing strong relationships with government stakeholders is a prerequisite to success.

Based on the EAC integration agenda, it is likely that the institutional landscape of the EAC will change. This may ultimately necessitate a change in the way companies respond to institutional voids as institutions are improved in the EAC through integration.
6.4.4 Transaction Costs

The choice of governance structures by MNCs in the EAC, as determined in literature and through the interviews, depends largely on the transactions costs at the firm-environment interface, that is the operational risks, and all other implicit and explicit costs. A firm will select the governance structure that minimises its transactions costs and enhances the opportunities for success.

The interviews confirm the suggestion by scholars that in the EAC, as in other emerging markets, ‘networks’ are the most effective strategy relating to governance structures and that personal relationships and network contacts can be used to reduce uncertainty and enhance the firm’s chances for success.

Responses by MNCs emphasise the importance of strategic alliances with local organisations that possess a deep understanding of the market, and good relationships with government officials.

Regional integration would result in the widening of networks and alliances between organisations to cover the entire EAC region.

6.4.5 Organisation Resources

A firm’s resources and capabilities allow it to differentiate itself from competitors and sustain competitive advantage. One of the MNCs identified the synergies it has with local entities, such as distribution agents, as the key to its success in the EAC. This MNC also highlighted relationships with key decision makers in government as a key component for success in the EAC.

The most important impact of regional integration on an organisation’s resources will be the free, unrestricted access to all its resources across geographical boundaries.
Three of the MNCs indicated that their success hinges on their strategic human resources policy of staffing their EAC businesses with locals only – they state that the local knowledge possessed by local staff is the key to successfully unlocking new markets. It can thus be deduced that a clear benefit of integration for a firm wishing to expand its footprint in the region will be aided by the provision in the common market protocol for free movement of labour within the EAC. An organisation in Kenya, for example, will be able to hire Rwandese nationals in Nairobi to service the Rwanda market with no restrictions.

6.5 Implications of Regional Economic Integration on MNCs Strategy

This research centres on the implications of regional integration on business strategy. Posing the question directly to MNCs during the interviews revealed the level of awareness and degree of preparedness of the MNCs to respond to the integration agenda in the EAC. This section therefore represents the real practical implications of regional integration on MNC strategy as it is formed from their response to it.

Through the interviews, the MNCs collectively identified four main implications of regional economic integration on their strategy.

6.5.1 Hub-and Spoke Strategy

The first consequence of regional integration on business strategy identified by MNCs was that the reduction of customs and regulatory barriers between the partner states of the EAC has presented the opportunity to operate in the region from a central hub. The example cited in particular was that of manufacturing in Kenya and distributing to the entire EAC region.

The adoption of a hub-and-spoke strategy by MNCs would have further implications on strategic decisions with respect to location, distribution networks, and perhaps most importantly, on their investment strategies in a region. Operating from a hub would potentially obviate the need to establish anything other than a distribution node in one of the other partner states.
6.5.2 Regulatory Harmonisation

For a business requiring licenses and permits, the probable regulatory harmonisation in the region through deepening integration was identified as potentially having a substantial effect on the process and cost of registering new products in the EAC countries, which would have a material bearing on the cost of the product to the end consumer.

Regulatory harmonisation would allow organisations to register their products or services in one country and be granted a permit to trade within the entire EAC region. As with manufacturing processes, this would reinforce the strategy to centralise the regulatory affairs division of an MNC to cover the entire region in order to derive benefits of specialisation.

6.5.3 Free-Flow of Capital

The free flow of capital in the region was suggested as having the potential to completely change the approach to banking as it would allow for integration of the banking systems across borders, which is not possible at present. This would make the banks significantly more efficient.

The implications of free movement of capital within the EAC on business strategy would also be significant. Free-moving capital would imply that capital sources could be matched with investment opportunities across borders with no restrictions. In the case of the EAC, well developed capital markets in Kenya could be utilised to develop opportunities in Rwanda. The effect would be that MNCs would potentially adopt a more expansionary strategy within the EAC.
6.5.4 Intra-Regional Trade

It was acknowledged by several respondents that the true impact of regional integration would be felt if the basic, core elements of regional integration were implemented fully. Streamlined cross-border activity was identified as being one of the simple changes that would have the biggest impact on intra-regional trade.

The tariff-jumping motive and export-platform motive of MNCs would be seen to play out fully if internal borders were improved markedly.
CHAPTER 7: CONCLUSION

This research study set out to explore the development of business strategy by multinational corporations (MNCs) in the EAC, within the context of regional economic integration.

As was discussed in Chapter 2: Firstly, the EAC Common Market aims to accelerate economic growth and development of the partner states through the attainment of the free movement of goods, persons and labour, the rights of establishment and residence and the free movement of services and capital

Secondly, the EAC seeks to strengthen, coordinate and regulate the economic and trade relations among the partner states in order to promote accelerated, harmonious and balanced development within the Community

Thirdly, the Community seeks to sustain the expansion and integration of economic activities within the Community, the benefit of which shall be equitably distributed among the partner states

Fourthly, the EAC seeks to promote a common understanding and cooperation among the nationals of the partner states for their economic and social development, and

Finally, the EAC desires to enhance research and technological advancement to accelerate economic and social development

The literature suggests that the implication of regional integration on business strategy may be viewed in terms of the ‘Export vs. FDI’ decision that faces MNCs in an integrating region. In this context, the response by MNCs to integration would be in one of two ways: the tariff-jumping motive, or the export-platform motive.

This study finds that the implications of regional integration for business strategy, especially in the less developed markets in Africa, extend beyond customs tariffs. It is found that the
explicit and nuanced impacts occur at three levels of MNC business strategy development: the macro country context, the business environment and in business strategy at firm level.

7.1 Implications of Regional Economic Integration on Country Context

Khanna, Palepu and Sinha's (2005) Five Contexts Framework was used to define the context of the EAC. Overlaying the objectives set out in the common market protocol in this context, the author identifies how the country context is impacted by regional economic integration in the EAC, and further, what impact this has on the development and implementation of business strategy. Figure 7-1 summarises the changes determined for the country context.

Figure 7-1: Implications of Integration on Country Context

The objectives of the common market protocol include political, economic and social development of partner states. Progress made on these fronts continues to induce change in the individual country contexts, and collectively in the EAC context. These changes prompt MNCs to reassess their macro-view of the target market, and to develop a regional strategy as opposed to only having a country strategy. Furthermore, investment risk in the region is
more favourable from a regional investment perspective over a country perspective. This stems from the stability offered by the collective with respect to political and economic risk, and the benefits of economies of scale, and broad regional accountability with respect to the institutional context.

7.2 Implications of Regional Economic Integration on the Business Environment

Triangulation of the BMI Risk Ratings, Ease of Doing Business Index, and the East Africa Business Climate Index (EABCI), identified the key business environment variables that affect the nature of operations for an MNC operating in the EAC, and within which or around which strategy must be developed.

Looking at the provisions of the common market protocol over these variables leads to the identification and articulation of the changes to the business environment that will result from integration. Figure 7-2 shows the changes expected for each variable.

Figure 7-2: Implications of Integration on Business Environment Variables

<table>
<thead>
<tr>
<th>BUSINESS ENVIRONMENT VARIABLES</th>
<th>CHANGES EXPECTED THROUGH INTEGRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Stability</td>
<td>Regional stability and accountability</td>
</tr>
<tr>
<td>Ambiguous Government Policy</td>
<td>Well-defined regional policy</td>
</tr>
<tr>
<td>Inadequate Physical Infrastructure</td>
<td>Focus on development corridors</td>
</tr>
<tr>
<td>Constrained Labour Market</td>
<td>Free movement of labour</td>
</tr>
<tr>
<td>Arduous Border Processes</td>
<td>Zero tariffs on intra-EAC trade</td>
</tr>
<tr>
<td>Undeveloped Capital Markets</td>
<td>Easy spread of Kenyan and South African Banks</td>
</tr>
<tr>
<td>Poor Business Support Services</td>
<td>Development of intermediaries</td>
</tr>
<tr>
<td>Poor Institutional Capacity</td>
<td>Centralised institutional development</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>Focus to promote investment</td>
</tr>
<tr>
<td>Inadequate Institutional Policy</td>
<td>Joint policy development and capacity building</td>
</tr>
</tbody>
</table>
7.3 Implications of Regional Economic Integration on Business Strategy

Through the interviews, the study identified five key areas of business strategy that may be affected by regional integration. These are: entry strategy, operational model, institutional factors, transaction costs and organisation resources.

7.3.1 Entry Strategy

The entry strategies employed by MNCs in the EAC are rooted in obtaining a strong position locally in terms of understanding of local market conditions, distribution network, and established relationships with key stakeholders.

The first impact of regional economic integration in the EAC on entry strategies of MNCs is that regional integration may induce entry of MNCs into the region due to the prospects that increased access to a large market would present. The availability of ideal acquisition targets would therefore diminish, forcing an organisation to adopt an alternative entry strategy. Furthermore, both the institutional context and the business variables are altered through integration and as a result, the qualities possessed by a firm that would be appealing as an acquisition target might change in the context of deepening integration.

It may be concluded that overall, regional integration would reduce the barriers to entry into the EAC market, making the region more competitive and thus requiring innovation from new entrants.

7.3.2 Operational Model

Geographic spread into each of the EAC countries, while leveraging in-country networks to gain regional advantage was suggested as a strategic imperative in the EAC. Deepening regional integration would have the obvious benefit of streamlining and integrating an organisation’s operations across the region.
Regional integration also induces a change in the operational model of MNCs from exports distributed by local third-party entities to establishing a permanent presence in the region. The catalyst for such a change is the increased access to a larger market.

The use of the hub-and-spoke model in the EAC is a direct result of regional integration. In the EAC, Kenya is referred to as a popular ‘hub’ serving the greater East African region.

Finally, a ‘local delivery model’ that emphasises a local EAC identity is promoted. The implication of regional integration in this case is that the local delivery model is shaped around the region and not on one partner state. This has direct implications on strategic choices about location, resourcing and operations.

7.3.3 Institutional Factors

Despite the process of deepening integration in the EAC, there remain several institutional voids within the EAC business environment – the limited availability of specialised intermediaries, regulatory systems and contract enforcing mechanisms. Although the common market protocol aspires to a well-defined, attractive and thriving business environment in the EAC, the practical adaptation of the provisions of the common market protocol cannot altogether remove the institutional voids.

The success of MNCs in the EAC thus lies in their ability to adapt their strategy and operations to fit the institutional context and to navigate through the institutional voids. The single most important element that allows MNCs to successfully navigate through and take advantage of the institutional voids in the EAC is identified as having good relationships with the relevant government authorities.

Based on the EAC integration agenda, it is likely that the institutional landscape of the EAC will change. This may ultimately necessitate a change in the way companies respond to institutional voids as institutions are improved in the EAC through integration and regional accountability.
7.3.4 **Transaction Costs**

The literature review and the interviews, lead us to conclude that the most important element of governance structure in the EAC is strategic alliances with local organisations who understand the market landscape intimately as this minimises implicit and explicit transactions costs incurred by MNCs.

The establishment of ‘networks’ is determined to be the most effective strategy relating to governance structures. This is because personal relationships and network contacts can be used to reduce uncertainty and enhance the firm’s chances for success in a dynamic business environment.

In addition to networks, the importance of strategic alliances with local organisations and fostering of good relationships with government officials are emphasised. Regional integration would result in the widening of networks and alliances between organisations across the entire EAC region.

7.3.5 **Organisation Resources**

Through the research it is concluded that in order to sustain competitive advantage in the EAC, a business must have a deep understanding of market needs. The most widely used strategy by MNCs in the EAC to achieve this is by employing locals to run the business. This confirms the postulation of Resource-Based theory that suggests that in emerging markets, capabilities for relationship-based management may prove more important than institutional infrastructure.

The reality of the local context poses a challenge to an MNC expanding across the EAC countries where local skills are not commensurate with the market opportunities, for example, despite the promising Tanzanian market, there aren’t enough local skills to sustain MNC expansion in the country. The effect of regional integration, in this instance, is to harmonise political, social and economic policy and norms, thus unlocking opportunities for
skilled Kenyan immigrants to gain access to Tanzania, which would have a net positive effect for Tanzania and for the region as a whole. Integration thus allows MNCs access to one of its most important resources – people – across the region.

7.4 Recommendations for Future Research

The research into the implications of regional economic integration on business strategy brought to the fore some questions that should be considered for future research.

This study was based on general business strategy in the EAC. The decision to address general strategy rather than focus on one aspect of emerging market strategy was based on the lack of general strategy research on the EAC, as well as the relatively short history of regional integration in the EAC. As regional integration deepens and the influence of the integration agenda becomes more entrenched, studies focusing on specific elements of strategy, and the impact that regional integration has had on them will be invaluable. One suggestion is that a study on the impact of regional integration on distribution networks in the EAC be done.

Additionally, Khanna, Palepu and Sinha (2005) suggest that firms from emerging markets have an intrinsic advantage over firms from developed countries establishing in emerging markets due to similarities in institutional contexts between emerging countries and their understanding of the environment. While interviewing South African MNCs for this research, the question of their competitiveness in the African frontier and emerging markets arose, but could not be explored fully. With South Africa’s billing as the ‘gateway to Africa’, this suggested research into the competitiveness of South African firms in Africa is an important one.

Lastly, the scope of this study was limited to MNCs from developed or other emerging markets that expand into an emerging economy. The response of local firms to regional economic integration and entry of foreign firms was not considered. This would be a
a worthwhile topic for future research – the implications of regional integration on local firm competitiveness.
REFERENCES


APPENDIX A:

FIVE CONTEXTS FRAMEWORK GUIDE QUESTIONS
Spotting Institutional Voices

Managers can identify the institutional voids in any country by asking a series of questions. The answers—or sometimes, the lack of them—will tell companies where they should adapt their business models to the nation’s institutional context.

**Political and Social System**

1. To whom are the country’s politicians accountable? Are there strong political groups that oppose the ruling party? Do elections take place regularly?

2. Are the roles of the legislative, executive, and judiciary clearly defined? What is the distribution of power between the central, state, and city governments?

3. Does the government go beyond regulating business to interfering in its running companies?

4. Do the laws articulate and protect private property rights?

5. What is the quality of the country’s bureaucrats? What are bureaucrats’ incentives and career trajectories?

6. Is the judiciary independent? Do the courts adjudicate disputes and enforce contracts in a timely and impartial manner? How effective are the quasi-judicial regulatory institutions that set and enforce rules for business activities?

7. Do religious, linguistic, regional, and ethnic groups coexist peacefully, or are there tensions between them?

8. How vibrant and independent is the media? Are newspapers and magazines neutral, or do they represent sectarian interests?

9. Are nongovernmental organizations, civil rights groups, and environmental groups active in the country?

10. Do people tolerate corruption in business and government?

11. What role do family ties play in business?

12. Can strangers be trusted to honor a contract in the country?

**Openness**

1. Are the country’s government, media, and people receptive to foreign investment? Do citizens trust companies and individuals from some parts of the world more than others?

2. What restrictions does the government place on foreign investment? Are those restrictions in place to facilitate the growth of domestic companies, to protect state monopolies, or because people are suspicious of multinationals?

3. Can a company make greenfield investments and acquire local companies, or can it only break into the market by entering into joint ventures? Will that company be free to choose partners based purely on economic considerations?

4. Does the country allow the presence of foreign intermediaries such as market research and advertising firms, retailers, media companies, banks, insurance companies, venture capital firms, auditing firms, management consulting firms, and educational institutions?

5. How long does it take to start a new venture in the country? How cumbersome are the government’s procedures for permitting the launch of a wholly foreign-owned business?

6. Are there restrictions on portfolio investments by overseas companies or on dividend repatriation by multinationals?

7. Does the market drive exchange rates, or does the government control them? If it’s the latter, does the government try to maintain a stable exchange rate, or does it try to favor domestic products over imports by propping up the local currency?

8. What would be the impact of tariffs on a company’s capital goods and raw materials imports? How would import duties affect that company’s ability to manufacture its products locally versus exporting them from home?

9. Can a company set up its business anywhere in the country? If the government restricts the company’s location choices, is its motive political, or is it inspired by a logical regional development strategy?

10. Has the country signed free-trade agreements with other nations? If so, do those agreements favor investments by companies from some parts of the world over others?

11. Does the government allow foreign executives to enter and leave the country freely? How difficult is it to get work permits for managers and engineers?

12. Does the country allow its citizens to travel abroad freely? Can ideas flow into the country unrestricted? Are people permitted to debate and accept those ideas?

**Product Markets**

1. Can companies easily obtain reliable data on customer tastes and purchase behaviors? Are there cultural barriers to market research? Do world-class market research firms operate in the country?

2. Can consumers easily obtain unbiased information on the quality of the goods and services they want to buy? Are there independent consumer organizations and publications that provide such information?
3. Can companies access raw materials and components of good quality? Is there a deep network of suppliers? Are there firms that assess suppliers' quality and reliability? Can companies enforce contracts with suppliers?

4. How strong are the logistics and transportation infrastructures? Have global logistics companies set up local operations?

5. Do large retail chains exist in the country? If so, do they cover the entire country or only the major cities? Do they reach all consumers or only wealthy ones?

6. Are there other types of distribution channels, such as direct-to-consumer channels and discount retail channels, that deliver products to customers?

7. Is it difficult for multinationals to collect receivables from local retailers?

8. Do consumers use credit cards, or does cash dominate transactions? Can consumers get credit to make purchases? Are data on customer creditworthiness available?

9. What recourse do consumers have against false claims by companies or defective products and services?

10. How do companies deliver after-sales service to consumers? Is it possible to set up a nationwide service network? Are third-party service providers reliable?

11. Are consumers willing to try new products and services? Do they trust goods from local companies? How about from foreign companies?

12. What kind of product-related environmental and safety regulations are in place? How do the authorities enforce those regulations?

LABOR MARKETS

1. How strong is the country's education infrastructure, especially for technical and management training? Does it have a good elementary and secondary education system as well?

2. Do people study and do business in English or in another international language, or do they mainly speak a local language?

3. Are data available to help sort out the quality of the country's educational institutions?

4. Can employees move easily from one company to another? Does the local culture support that movement? Do recruitment agencies facilitate executive mobility?

5. What are the major postrecruitment training needs of the people that multinationals hire locally?

6. Is pay for performance a standard practice? How much weight do executives give seniority, as opposed to merit, in making promotion decisions?

7. Would a company be able to enforce employment contracts with senior executives? Could it protect itself against executives who leave the firm and then compete against it? Could it stop employees from stealing trade secrets and intellectual property?

8. Does the local culture accept foreign managers? Do the laws allow a firm to transfer locally hired people to another country? Do managers want to stay or leave the nation?

9. How are the rights of workers protected? How strong are the country's trade unions? Do they defend workers' interests or only advance a political agenda?

10. Can companies use stock options and stock-based compensation schemes to motivate employees?

11. Do the laws and regulations limit a firm's ability to restructure, downsize, or shut down?

12. If a company were to adopt its local rivals' or suppliers' business practices, such as the use of child labor, would that tarnish its image overseas?

CAPITAL MARKETS

1. How effective are the country's banks, insurance companies, and mutual funds at collecting savings and channelling them into investments?

2. Are financial institutions managed well? Is their decision making transparent? Do non-economic considerations, such as family ties, influence their investment decisions?

3. Can companies raise large amounts of equity capital in the stock market? Is there a market for corporate debt?

4. Does a venture capital industry exist? If so, does it allow individuals with good ideas to raise funds?

5. How reliable are sources of information on company performance? Do the accounting standards and disclosure regulations permit investors and creditors to monitor company management?

6. Do independent financial analysts, rating agencies, and the media offer unbiased information on companies?

7. How effective are corporate governance norms and standards at protecting shareholder interests?

8. Are corporate boards independent and empowered, and do they have independent directors?

9. Are regulators effective at monitoring the banking industry and stock markets?

10. How well do the courts deal with fraud?

11. Do the laws permit companies to engage in hostile takeovers? Can shareholders organize themselves to remove entrenched managers through proxy fights?

12. Is there an orderly bankruptcy process that balances the interests of owners, creditors, and other stakeholders?
APPENDIX B:

CHRONOLOGICAL HISTORY OF THE EAC
From Co-operation to Community

In the past, Kenya, Tanzania and Uganda have enjoyed a long history of co-operation under successive regional integration arrangements.

These have included the Customs Union between Kenya and Uganda in 1917, which the then Tanganyika later joined in 1927; the East African High Commission (1948-1961); the East African Common Services Organisation (1961-1967); the East African Community (1967-1977) and the East African Co-operation (1993-2000).

Following the dissolution of the former East African Community in 1977, the Member States negotiated a Mediation Agreement for the Division of Assets and Liabilities, which they signed in 1984.

However, as one of the provisions of the Mediation Agreement, the three States agreed to explore areas of future co-operation and to make concrete arrangements for such co-operation.

Subsequent meetings of the three Heads of State led to the signing of the Agreement for the Establishment of the Permanent Tripartite Commission for East African Co-operation on November 30, 1993.

Full East African Co-operation operations started on March 14, 1996 when the Secretariat of the Permanent Tripartite Commission was launched at the Headquarters of the EAC in Arusha, Tanzania.

Considering the need to consolidate regional co-operation, the East African Heads of State, at their 2nd Summit in Arusha on 29 April 1997, directed the Permanent Tripartite Commission to start the process of upgrading the Agreement establishing the Permanent Tripartite Commission for East African Co-operation into a Treaty.

The Treaty-making process, which involved negotiations among the Member States as well as wide participation of the public, was successfully concluded within 3 years.

The Treaty for the Establishment of the East African Community was signed in Arusha on 30 November 1999.

The Treaty entered into force on 7 July 2000 following the conclusion of the process of its ratification and deposit of the Instruments of Ratification with the Secretary General by all the three Partner States.

Upon the entry into force of the Treaty, the East African Community came into being.


30 April 1998: 9th Meeting of the Permanent Tripartite Commission in Arusha launches a draft Treaty for Establishment of the East African Community; approves programme for its wide publicity; EAC Memorandum of Understanding on Co-
operation in Defence signed in Arusha; Tripartite Agreement on Road Transport signed in Arusha; and Inland Waterway Transport Agreement signed in Arusha.

30 November 1999: 4th Summit held in Arusha at which Treaty for the Establishment of the East African Community is signed.

7 July 2000: Treaty for the Establishment of the East African Community enters into force; new regional organisation, the East African Community, comes into being.

15 January 2001: 1st Summit of the East African Community is held in Arusha; signs Protocols on: Rules of Procedure for the Summit of Heads of State; Rules of Procedure for the Admission of other countries to the East African Community; and formally launches the East African Community at the Sheikh Amri Abeid Stadium in Arusha.

30 November 2001: 3rd Summit of EAC held in Arusha; EAC Heads of State inaugurate East African Legislative Assembly and East African Court of Justice.

2 March 2004: EAC Summit signs Protocol for Establishment of the EAC Customs Union.

1 January 2005: EAC Customs Union becomes operational.


1 July 2007: Rwanda and Burundi become full members of the EAC.

5 June 2007: Second Assembly (EALA) sworn in.

22 October 2008: First EAC-COMESA-SADC Tripartite Summit held in Kampala, Uganda. Discusses single Free Trade Area and merger of the three regional blocs.

1 July 2009: Rwanda and Burundi join the EAC Customs Union. Official launch ceremonies held simultaneously in the two countries' capitals on 6 July 2009.


1 January 2010: EAC's fully-fledged Customs Union takes effect following the end of a five-year transitional period.

3 December 2010: EAC Summit of Heads of State adopts the EAC Anthem.

12 June 2011: Second COMESA-EAC-SADC Tripartite Summit held in Johannesburg, South Africa; agrees to start negotiations for a Grand Free Trade Area among the three blocs.
APPENDIX C:

WORLD BANK EASE OF DOING BUSINESS INDEX

2011 DOING BUSINESS DATA NOTES
Doing Business 2011 Data Notes

The indicators presented and analyzed in Doing Business measure business regulation and the protection of property rights—and their effect on businesses, especially small and medium-size domestic firms. First, the indicators document the degree of regulation, such as the number of procedures to start a business or to register and transfer commercial property. Second, they gauge regulatory outcomes, such as the time and cost to enforce a contract, go through bankruptcy or trade across borders. Third, they measure the extent of legal protections of property, for example, the protections of investors against looting by company directors or the range of assets that can be used as collateral according to secured transactions laws. Fourth, a set of indicators documents the tax burden on businesses. Finally, a set of indicators measures different aspects of employment regulation.

The data for all sets of indicators in Doing Business 2011 are for June 2010 (except for paying taxes data that refer to January–December 2009).

Methodology

The Doing Business data are collected in a standardized way. To start, the Doing Business team, with academic advisers, designs a survey. The survey uses a simple business case to ensure comparability across economies and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Surveys are administered through more than 8,200 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements. These experts have several rounds of interaction with the Doing Business team, involving conference calls, written correspondence and visits by the team. For Doing Business 2011 team members visited 33 economies to verify data and recruit respondents. The data from surveys are subjected to numerous tests for robustness, which lead to revisions or expansions of the information collected.

The Doing Business methodology offers several advantages. It is transparent, using factual information about what laws and regulations say and allowing multiple interactions with local respondents to clarify potential misinterpretations of questions. Having representative samples of respondents is not an issue, as the texts of the relevant laws and regulations are collected and answers checked for accuracy. The methodology is inexpensive and easily replicable, so data can be collected in a large sample of economies. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across
economies. Finally, the data not only highlight the extent of specific regulatory obstacles to business but also identify their source and point to what might be reformed.

Limits to what is measured

The Doing Business methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the economy’s largest business city and may not be representative of regulation in other parts of the economy. To address this limitation, subnational Doing Business indicators were created for 6 economies in 2009/10: Colombia, Indonesia, Kenya, Nigeria, Pakistan and Russia. A city profile on Zanzibar, Tanzania, was also published in 2009/10. A subnational study is under way in the Philippines. In addition, a city profile is under way for Juba, Southern Sudan, and a regional report has been started in Southeastern Europe, covering 7 economies—Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Moldova, Montenegro and Serbia—and 16 cities. Increasingly, such studies are being periodically updated to measure progress over time or to expand geographic coverage to additional cities. This year that is the case for the subnational studies in Colombia, Nigeria, Pakistan and the Philippines and for the regional study in Southeast Europe. The subnational studies point to significant differences in the speed of reform and the ease of doing business across cities in the same economy.

Second, the data often focus on a specific business form—generally a limited liability company (or its legal equivalent) of a specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Third, transactions described in a standardized case scenario refer to a specific set of issues and may not represent the full set of issues a business encounters. Fourth, the measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in Doing Business represent the median values of several responses given under the assumptions of the standardized case.

Finally, the methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing a procedure may take longer if the business lacks information or is unable to follow up promptly. Alternatively, the business may choose to disregard some burdensome procedures. For both reasons the time delays reported in Doing Business 2011 would differ from the recollection of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

Changes in what is measured

The methodology for the employing workers indicators was updated this year, with guidance from a consultative group of relevant experts and stakeholders. The employing workers indicators are not included in this year’s aggregate ranking on the ease of doing business.

Changes agreed as of the date of publication are the following: the calculation of the minimum wage ratio was changed to ensure that no economy can receive the highest score if it has no minimum wage at all, if the law provides a regulatory mechanism for the
minimum wage that is not enforced in practice, if there is only a customary minimum wage or if the minimum wage applies only to the public sector. A minimum threshold was set for paid annual leave and a ceiling for working days allowed per week to ensure that no economy benefits in the scoring from excessive flexibility in these areas. Finally, the calculation of the redundancy cost and of the annual leave period for the rigidity of hours index was changed to refer to the average value for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years rather than the value for a worker with 20 years of tenure.

Data challenges and revisions

Most laws and regulations underlying the Doing Business data are available on the Doing Business website. All the sample surveys and the details underlying the indicators are also published on the website. Questions on the methodology and challenges to data can be submitted via e-mail.

Doing Business publishes 8,967 indicators each year. To create these indicators, the team measures more than 52,000 data points, each of which is made available on the Doing Business website. Historical data for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the Doing Business website provides historical data sets adjusted for changes in methodology and any revisions in data due to corrections. The website also makes available all original data sets used for background papers. The correction rate between Doing Business 2010 and Doing Business 2011 is 5.7%.

Five-Year Measure of Cumulative Change: DB Change Score

Doing Business 2011 is introducing a new measure to illustrate how the regulatory environment for business has changed in absolute terms in each economy over the 5 years since Doing Business 2006 was published. This measure is called the DB change score. In the 9 areas of business regulation included in the aggregate ranking on the ease of doing business in Doing Business 2011, the new measure assigns a neutral score if there were no changes in the underlying data, a positive score for changes leading to improvements in the indicators and a negative score for changes having an adverse impact on the indicators.

This measure complements the aggregate ease of doing business ranking, which benchmarks each economy’s current performance on the indicators against that of all other economies in the Doing Business sample. By showing absolute change over time, the measure illustrates for each economy how much its regulatory environment for business as measured through the Doing Business indicators has changed compared with 5 years ago. Economies that achieved the biggest cumulative change in the past 5 years are assigned the highest DB change score.

The DB change score is constructed in 4 steps.
- As a first step, the absolute difference in scores is calculated for each of the component indicators of the 9 Doing Business topics, 28 in all. For example, for starting a business there are 4 indicators: procedures, time, cost (as a percentage of GNI per capita) and paid-in minimum capital requirement (as a percentage of GNI per capita). Annual absolute changes are calculated economy by economy for each of these indicators. For example, if starting a business in an economy took 200 days as measured in Doing Business 2006 and only 50 as measured in Doing Business 2007, a change of 150 would be recorded for the economy. If instead the time had increased to 350 days, a change of -150 would be recorded.

- To allow aggregation across all indicators, the results for each indicator are made comparable by normalizing the change values on a scale of 0–1, where a higher value indicates that an economy made a larger absolute improvement on a particular indicator than other economies. As a second step, the values are rescaled once more so that any lowering of an indicator is reflected by a negative score and any improvement by a positive score. A score of 0 indicates that no change occurred (see note).

- To illustrate the change across all 9 areas of business regulation, a simple average of all scores obtained for the different indicators is taken to calculate a total annual measure of change for each economy. By using a simple average, the new measure follows the approach used in the ease of doing business ranking.

**Ease of Doing Business Ranking**

The ease of doing business index ranks economies from 1 to 183. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 9 topics included in the index in *Doing Business 2011*: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

If an economy has no laws or regulations covering a specific area—for example, bankruptcy—it receives a "no practice" mark. Similarly, an economy receives a "no practice" or "not possible" mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a "no practice" mark puts the economy at the bottom of the ranking on the relevant indicator.

Here is one example of how the ranking is constructed. In Iceland it takes 5 procedures, 5 days and 2.3% of annual income per capita in fees to open a business. The minimum capital required amounts to 11.97% of income per capita. On these 4 indicators Iceland ranks in the 13th, 4th, 15th and 63th percentiles. So on average Iceland ranks in the 24th percentile on the ease of starting a business. It ranks in the 50th percentile on protecting
investors, 40th percentile on trading across borders, 10th percentile on enforcing contracts, 9th percentile on closing a business and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Iceland’s percentile rankings on all topics is 25%. When all economies are ordered by their average percentile rank, Iceland is in 15th place.

More complex aggregation methods—such as principal components and unobserved components—yield a nearly identical ranking. The choice of aggregation method has little influence on the rankings because the 9 sets of indicators provide sufficiently broad coverage across topics. So Doing Business uses the simplest method.

The ease of doing business index is limited in scope. It does not account for an economy’s proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders), the strength of its financial system, the security of property from theft and looting, its macroeconomic conditions or the strength of underlying institutions. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the context in an economy. The Doing Business indicators provide a new empirical data set that may improve understanding of these issues.

Doing Business 2011 also uses a simple method to calculate which economies improve the most on the ease of doing business. First, it selects the economies that reformed in 3 or more of the 9 topics included in this year’s ease of doing business ranking. Twenty-five economies met this criterion: Belarus, Brunei Darussalam, Burkina Faso, Cape Verde, the Democratic Republic of Congo, Georgia, Grenada, Guyana, Hungary, Indonesia, the Islamic Republic of Iran, Kazakhstan, Lithuania, Mali, Montenegro, Peru, Rwanda, Saudi Arabia, Sierra Leone, Slovenia, Sweden, Tajikistan, Ukraine, Vietnam and Zambia. Second, Doing Business ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

Note:

Changes in Doing Business indicators follow very different increments. For example, the possible scores an economy can obtain on the protecting investors indicators can range from 0 to 10, while the procedures, time and cost for, say, starting a business can potentially range from 1 to infinity.

Because normalizing the scores introduces an element of relativity, a normalization approach has been chosen that minimizes this element: scores are normalized on a scale of 0–1 by subtracting from each value the smallest change and dividing the result by the difference between the highest and lowest observations. An alternative approach is to subtract from each value the mean value within each indicator’s distribution and divide the result by the standard deviation within that same distribution. The resulting statistic is what is widely referred to as the Z-score. The main point of divergence between the normalization approach chosen for the new measure and the Z-score method is the reference point to which an economy’s improvement is benchmarked. In the first approach an economy’s measure of improvement on a particular indicator is benchmarked to the best and worst performance on that indicator. In the second approach the reference point for benchmarking an economy’s performance is the average for the other 182 economies in the sample. This means that an economy’s reform efforts again are ultimately scored relative to all other economies. Because the new measure is aimed at moving away from the relativity of the ease of doing business ranking to focus on absolute improvements within economies, the first approach was chosen.
Given the alternatives available, a sensitivity analysis was carried out to see how much the results would differ if a Z-score were adopted instead. Using data from Doing Business 2009 and Doing Business 2010, the correlation coefficient of results between the main approach used and the Z-score approach was computed. The results show a strong degree of correlation between the 2 approaches (correlation coefficient of 0.81).
APPENDIX D

INTERVIEW TRANSCRIPTS
Interviewer: I have, yeah, framework basically – okay, maybe I should actually start by giving you the background of.

Interviewee: Yes.

Interviewer: What I’m trying to do.

Interviewee: Yes.

Interviewer: So, I think I’ve mentioned to you this, so the research basically is entitled “Economic Integration and Emerging Market Strategy – A Case of the East African Corn Market”. So what I’m attempting to do is investigate what impact the increasing level of integration in the East African market is having on or has had on multinationals operating in the region. In fact, so I would want to investigate, you know, the business environment and the institutional environment, you know, how that has directly affected companies like yours and how that’s shaping where you would like to be or go in the future. So that’s the, you know, the basic idea of my research.

Interviewee: Okay. Is it just multinationals or is this just businesses operating in the region? Or you’re just focusing on multinationals?

Interviewer: Yeah. I’m focusing on multinationals to keep the focus of my research fairly narrow. Yeah.

Interviewee: Okay, because the question running through my mind is, is there actually a difference but that, we can deal with that, you know, because it’s a vocab.

Interviewer: Okay.

Interviewee: So you lead – you ask me the questions and I will respond [or not].

Interviewer: Okay, great. I suppose maybe as an introduction maybe you could tell me briefly, you know, you’re, the extent of your involvement in your firm. How far back that extends and, you know, what your role is in, pertaining to the East African market.

Interviewee: Well, I mean my role is really strategy and stakeholder management plus business development across international.

Interviewer: Okay.

Interviewee: We have businesses, or international is really Africa, all emerging markets.

Interviewer: Okay.

Interviewee: At this stage my focus is really Africa and I’m doing a lot more in East Africa, naturally because we have a business [line] Ethiopia.

Interviewer: Yeah.
Interviewee: We have a business in Kenya – we’re looking to see if there’s anything we can do in Tanzania.

Interviewer: Okay.

Interviewee: And, that’s also why I was in Uganda – looking for opportunities.

Interviewer: Okay.

Interviewee: So...[inaudible].

Interviewer: Okay. How long have you been with your firm?

Interviewee: A year – it’s a year and a half now.

Interviewee: It’ll be two years in I think October.

Interviewer: Okay. And when, the interest in that East African market, with a focus on Uganda – how long has that been?

Interviewee: No, the expansion into emerging market strategy has been there for 10 years.

Interviewer: Oh right.

Interviewee: That has never – well, it’s probably two, three years ago that we made our first acquisition. So the interest was always there – it just, you know, it took a while to actually get the first fish, as it were, or the first element that you can actually lock into and I think that’s how long it’s taken. But the interest has always been there and I think now we’re a lot more focused in trying to get a traction on the continent and into emerging markets working a lot stronger.

Interviewer: Just briefly, how has that evolved from the point where the company decided they wanted to go into Africa, the point where they decided that actually acquisitions is maybe a preferred way to go and that maybe, you know, picking Kenya as a starting point?

Interviewee: I think Kenya, it was more the opportunity rather than let’s go.

Interviewer: I see.

Interviewee: It was amongst a list of countries that were on the radar.

Interviewer: Okay.

Interviewee: And, you know, when you look at all these market research country risk, you get all the profiles, you know, especially from people like, well let’s say IMF, whether it’s research institutions, they might tell you East Africa is not high because you should go up to do things in India or go to do things in Brazil or China or Nigeria but you know attractiveness is not the same as being able to do something there. A market can be very attractive but you may never be able to do something because to do something requires, you know, that you’re able to get a target that you can work with and that’s, and you can get a target that you can work with and in a market that is not attractive.

Interviewer: Right.
Interviewee: Now at that stage you have to make a call because at the end of the day, you know, fast to market, faster in the market, fast mover advantage will always come to play. So I think that was more opportunistic because it presented itself as opposed to a deliberate criteria of saying we will only go in fish in Kenya. I don’t think you can do that in Africa. At this stage it’s, you, it’s a question of casting your net wide and then depending on what comes up you then do the criteria for selection.

Interviewer: That’s very interesting actually. So, you’re saying that when you consider Africa with its dynamics that finding a, you know, a target that you can actually work with, you know, would be more important than the so-called indices and all these attractiveness measurements. But then how would you, how would you actually measure the degree to which you can work with this company – what would you be looking for to say okay, this is a fit for you? We can work with these guys. What are the, do you have a set criteria that you use to evaluate good fittings?

Interviewee: Well, there is a criteria – it may not be that [inaudible] document but I think there are a couple of things you look for. First of all is what business are they – so it’s going to be in the consumer sector, what we would call ‘packaged goods’ and it’s got to be in areas that we have some competence. So it could be food, it could be personal care, etc.

Interviewer: Right.

Interviewee: But it can also be something that, or in a particular category section. So we might be interested in the category of home and personal care but we might be – we are not strong, for example, and I’ll give you an example in ethnic hair, and when we got into tying into [Haco] their strength was in ethnic hair. So the idea was to look at the complement targeting, how that category complements what we do.

Interviewer: Right.

Interviewee: So you’re looking at (a) is it something we have a competence in – so that of course has a good weight. Is it something that complements what we do in that area, in that segment, in that category and I think that’s the first thing you look at.

Interviewer: Okay.

Interviewee: And secondly, what growth or opportunities exist in that market – how is that organisation positioned. We like to look at number one or number two in terms of category [lead].

Interviewer: Right.

Interviewee: We may consider a number three but you know you’re looking at, you want to be at the top end of the competition when you enter, or if you’re not, there has to be a very clear pathway how you get there. So I think those are the technical elements.

Interviewer: Okay.

Interviewee: We also look at companies that have some size. I mean, you know we wouldn’t do a $3 million company. We’d probably do from 10 upwards.

Interviewer: Okay.
Interviewee: So you also look at size – you want some critical mass because the only reason you’re going into those markets is to create scale and then scale will allow you to do a lot more things. So, our criteria is geographical spread first, to get a footprint and then go for scale and once you have the scale then you can try and improve your margins.

Interviewer: Okay.

Interviewee: So geography first. So we don’t start by saying this is the only category we’re going to play, or this is the only segment or sector we [can look at]. We start by saying is it geographically interesting and does the company in question has a target [offers] those options. Then of course, you know, at the end of the days, you know, do you have the right chemistry, the right people and that actually is a lot more important.

Interviewer: I suppose that would be a qualitative assessment once you started actually speaking to the people, you would get a feel whether these are people you could actually work with.

Interviewee: Yeah, yeah, and whether you [inaudible] that – it’s a key. Everything else you can get from, you can have two companies that look exactly the same, but the only reason you’d work with one, because one has a particular, you know, it allows you to have a particular relationship that offers more to your values, what you do and people you can talk to, people who can help because we always want to maintain a local shareholder, a local stakeholder.

Interviewer: Okay. Well, when you consider the African dynamics, the importance that you attach to having a local partner, does it relate to that environment? So you’re saying that it’s important to have someone who works in the East African market and if that’s the case, what element of the market would you be, would concern you as a potential investor in Kenya? For example, would it be, you know, is it the market knowledge of what the market needs, would it be institutional kind of rules and regulations?

Interviewee: Really, you’re looking for somebody who can open doors.

Interviewer: Okay.

Interviewee: Because marketing has a technical discipline. You can go in and do research.

Interviewer: Yeah.

Interviewee: But that doesn’t give you the license. You want someone that when there’s trouble, who can, even though your goods are stuck at the port and the book says this is the way to work, you want somebody who can go and say to somebody well can you help me. You want somebody with local network. So, it’s local knowledge which is invaluable at the end of the day. So it’s not necessarily technical but it can also be someone whose got good distribution network in that market – now that’s important as well because he or she would have a lot of links with the distributors, he knows that he can talk to them. So if you’re a new entrant, you want people to have that rapport. So you’re looking for someone really whose got the competence as the rapport to open doors. That’s the way I’d put it.


Interviewee: And it still does.
Interviewer: And it still does but you say you’re looking for opportunities in Uganda, in Tanzania separately.

Interviewee: To compliment.

Interviewer: To compliment that. What is the rational there?

Interviewee: Because I again go back to you have to have geography first.

Interviewer: Right.

Interviewee: And then you, and, you know, if you’re not physically in a country, it’s not going to work long term. So if any of the European, they are, the East African Union opens, the reality is you have to have a presence in all the countries if you really want to succeed.

Interviewer: You see, because that’s a key question for me – because I mean theoretically you would expect that if, you know, if East Africa is progressing to a common market which means it’s borderless in goods and people can move across freely, that you would almost pick your position and serve the bigger market. Are there then attempts to have, you know, presence in each of the countries? What is your feeling of that?

Interviewee: Yeah, I think you need to distinguish. You don’t have to have manufacturing presence.

Interviewer: Okay.

Interviewee: Well, you can manufacture one thing out of Nairobi and distribute but you can manufacture a different thing in Tanzania and distribute. So you don’t have duplication but you have, what you do, you can use the same distribution networks. So you can have different factories giving you different things but distributing different things.

Interviewer: To the bigger markets.

Interviewee: That’s the way I think they should operate.

Interviewer: And how do you decide which of the countries – so, let’s again, East Africa – if you have five countries, how do you decide which of the countries to put one of your factories in?

Interviewee: [inaudible] it’s back to the fast lane, you go back to the geography, you got to be in the country and then you look for opportunity. That opportunity – so you, whatever that opportunity is, so if say I’m doing, there’s an opportunity in Uganda that is in the same category as the opportunity that we have in Kenya, then I’m looking for synergy there. Okay. So I look for something very different. I can still maintain the two factories but I look for synergy. If it’s different, then I look for complimentality. So it all depends on what, you know, what presents itself. But the point is, your first point of entry is you must have a target. You must have people who are ready to do business in that country. Once you know who they are, then you can walk backwards, how you integrate what they do and what you’re doing yourself and obviously the obvious synergies. The fast synergy is really distribution. Eventually you could even have a one-organisation structure. You can have HR done from one place, you can have Finance done from one place. You don’t have to have, you know, you can have accountants in the different firms but you can have one, you
know, one finance guy. So you can split, you can cut your costs and that’s where the synergies come but also then you also have knowledge of market – the guys in Tanzania might know more about the Tanzanian market, which they can use to inform the guys who are distributing out of Kenya into Tanzania and vice-a-versa.

Interviewer: Okay. So do you think that the, you know, the case for integration, is that a valid one for, from a business perspective, for you? Does the progress that Africa is making in the different regional integration affect something that actually impacts on your strategy or do you go back to the point you just made about, for you, specific target is more important because once you have that then you actually build a scale that would enable you to [complete] that market? So, what is your feeling on integration? Is that material or?

Interviewee: In terms of the, from an economic zone point of view?

Interviewer: Yeah.

Interviewee: Well it’s important because what it does it reduces the barriers, the customs and regulatory barriers – that’s really what it does.

Interviewer: Right.

Interviewee: Which means that I can manufacture something out of Nairobi and, you know, and get it into one of the countries at a reasonable pricing, without feeling that there’s a barrier to entry because of high duties, etc. and that really is the main advantage. I don’t think there’s any other advantage, is that you, and the reality is then you can set up one factory to serve the region. That’s, and you have a bigger universe and in a way the markets are fairly [inaudible] and the same product can work across a bigger population. So that’s the way I see it.

Interviewer: Okay. Is it traditional framework policy? Are there any material changes when you, when you consider integration and you consider that, you know, East Africa for instance, is planning to move into full political union? Would that have any bearing on what target is doing there in the East African market?

Interviewee: Well, I think the only thing is that the view that if you have a bigger political union then the political risk of any country going by the [inaudible] is less because it will, it would probably be, in [inaudible] by the dynamics of the game. So, in another words if, if Tanzania, you know, is likely to have some trouble, the other two or three countries might put pressure on it to not go that way. So the advantage of the political union is just your political risk is reduced. That’s, now that doesn’t, that’s really in the investor’s mind, it’s not in reality. In reality anything can happen but it’s really the perception, the mind, in the sentience of people and that’s also important because when people make decisions to invest they actually rely on that.

Interviewer: Yes. Okay. And in terms of the, how it [inaudible] infrastructure? So basically the transport network between Kenya [as an interior rendezvous route] and the internet technologies that are progressing quite fast in Kenya, for example are those a material consideration for you when you’re picking a place to start distributing and again, what’s the rationale behind it?

Interviewee: You do, but I think I keep going back to the point that you don’t start by looking at the infrastructure and what’s nice because in Africa it’s not like that.

Interviewer: Right.
Interviewee: You start by saying what opportunities do I have and what can I do with them because the infrastructure, it’s what it is. The political scenario is what it is. The economic scenario is as is. So I will not say I will not do Kenya and do Uganda because Uganda has a high GDP growth rate. That’s it, because you can do that but then there is no opportunity in Uganda so are you going to wait for five years? In other words, you – and I like to use the analogy of fishing – when you go out to fish, you don’t decide I will not fish. You cast the net.

Interviewer: You cast your net and see what you catch.

Interviewee: And you might get the fish you want or something else but you have to get something that gives you the opportunity to work with and once you’ve got the [inaudible] one, you know, one pillar, then you can go and select the others when they present [to you]. So, but you can’t play – I also use the other – you can’t play the devil if you’re not in the, you know, if you’re not in the field. The, you need to enter the geography. That for me is the ticket to the theatre but to go on stage you first have to build a theatre. You can’t be arguing about which seat am I going to have in the theatre when you don’t even have a ticket. That’s the way I look at it. You need, when you don’t have a ticket, you don’t have a ticket.

Interviewer: I think what you’re saying is very interesting because it, to some extent it challenges the, you know, the current approach to emerging market strategy because there’s a lot of talk about minimising risk and almost planning your entry to a ‘t’ but you’re coming and saying all that is secondary. What is more important is actually finding that target that would actually get you into the game. So do you, but at the same time I don’t hear you discarding all the importance of these other things but I suppose what you’re saying is that if you get all these things rights and you minimise your risk and do analysis and everything but you can’t find the target...

Interviewee: You’re stuck.

Interviewer: You’re stuck.

Interviewee: Ja, it’s just theory. That’s the way I look at it – it’s academic. You think about them but they don’t make it happen. So if you use, they’re not the criteria for decision making. They’re criteria for investment appraisal when you have an opportunity. In other words, when you now get an opportunity and you can now say fine, that’s an opportunity then you can look at it in the background with all those other elements but you know the weightage is more with the question what can I do with this target. It could make you give synergies, it might give you distribution, it might give you other things, it might give you a footprint. That’s an important thing. So when you’re not in the market then what you’re looking for is entry. So that’s important for you. When you’re already in the market then what you’re looking for is synergies. When it’s in a category that you’re not playing into then what does it really means is an incompetence. So it all depends on all those things.

Interviewer: Okay. That’s very interesting. When you look ahead to East Africa, okay, you’ve mentioned that geographical spread is very important for you. Do you see that remaining as the key strategy focus for you going forward or would that evolve with an evolving Africa effectively because Africa’s being billed as the next big frontier? So, one would expect that you will begin to see a lot more competition from western companies. How do you see that playing out in the future?

Interviewee: Can you just rephrase – just let me understand that question properly?
Interviewer: Okay. So, you are already in the African space and in South Africa you’ve been centred in acquisitions and the company’s growing quite well but now Africa is being identified by companies from the States and Europe as being the next frontier, so one would expect that the competitive space will, or rather to become more competitive in South Africa as more companies attempt to gain market in Africa. So, from your firm’s perspective, is that something that is a material concern that, you know, the goods time you’re enjoying in East Africa might not remain as such going forward and how would you expect it to play out? Do you necessarily expect that many companies will begin to come into Africa to try and capture the market?

Interviewee: I think the, I think the key word is ‘competition’.

Interviewer: Right.

Interviewee: Either way the Americans, the Indians, the Chinese, etc. are focusing on Africa because it’s the last frontier and it’s got opportunity. It’s got a population that, you know, there are things you can still do in Africa that, you know, that you can’t do in the US. I mean you can build roads in Africa - in the US you’re not building new road, you’re just fixing and maintaining. So for a Chinese construction company that’s opportunity. That’s the way I look at it. Now it means yes, there will be more competition, (2) people are more aware of what’s available out there. So what you give them may not necessarily be the only thing they know. They have an option to choose something else. I mean, you can sell Nike in the backstreets of Nairobi and people know what’s Nike – they know a good shoe when they see Nike. It could be a clone or something but they know the product, they know Tommy Hilfiger. So that allows them to, that has given them, they are a lot more open. So the key thing is really that the same targets we’re looking at, the same approaches, is the same, is what other people are doing. So what we would have done a few years ago, we would have gone and spoken to somebody and there will have been no competition. Now you’re speaking to them, they’re speaking to three other people. So price goes up and in your financial [inaudible] your [inaudible] ratio goes up significantly.

Interviewer: So therefore in your mind that would be the main change that we could expect – it’s going to become more expensive to actually grow in Africa.

Interviewee: That would be the main change. Yeah.

Interviewer: But how do you, in the market’s where you have the lead, [backing out] maybe hazard to guess that in, you know, compared to the Americans, the Europeans and the Chinese and the Indians, in East Africa you’re probably ahead of the game.

Interviewee: I wouldn’t say so. I mean it’s, you know, PNG’s out there, Glyco Smithkline are out there, Colgate [inaudible], [inaudible] you know, they are all there. So they are playing already in the market.

Interviewer: So the game is quite intent at the moment.

Interviewee: The game is intense. It’s not a walk in the park.

Interviewer: Okay.

Interviewee: I think the key thing is who gets the fast good transaction.

Interviewer: So is [inaudible] advantage a massive consideration.
Interviewee: That’s a key thing. Fast mover advantage into a geography. That’s key. It doesn’t matter what else or you can have all these nice things about analysis and barriers to entry but at the end of the day it’s who’s in their fast because then you can establish territory and once you’re in there you can now build barriers for other people.

Interviewer: How do you do that?

Interviewee: Well, (a) depending on your innovation pipeline, what you’re doing with the products because you know what the others are likely to bring in, you can pre-empt it because you know your competition. Secondly, you can work with the regulators because the regulators all they want is fair competition and you know once you’re in the inside you can influence what can and cannot be directly or indirectly and you can work with the systems either to get, you know, for example if you are there, you’re a fast mover you might get certain tax advantages, the second guy may not and you can always argue I was number one.

Interviewer: Could you please explain that a bit? How would one, how would a company actually- where would you start? So, you get into Kenya and do you take the initiative and approach the Regulator and say to them this is what we would like?

Interviewee: Yeah, you just say look we’re here, we want to invest the following. We want some concessions.

Interviewer: Okay.

Interviewee: And you get them.

Interviewer: Okay.

Interviewee: But if you’re number five you’re not going to get the concessions.

Interviewer: Of course. So you would offer economic benefit for the country in return for some kind of concession?

Interviewee: Yeah.

Interviewer: And you lock them into that and say this is our expectation going forward?

Interviewee: Yes. And you get, you know, for example, if you invest in that particular factory you might say okay, year one we’ll give you a tax break, year two you pay 25%, whatever it is.

Interviewer: Okay.

Interviewee: Or we want preferential treatment at the port for this category of goods, this category of goods. So once you know what you’re doing and what’s key to you, you can work backwards and say what is it that I can influence in government and then you leave it at that. Now the next person might be able to get the same but [at least see what they’re performing].

Interviewer: So you’re ahead of them.

Interviewee: You’re ahead of them.

Interviewer: So, if maybe, you know, maybe it would be a bit difficult to sustain long term?
Interviewee: Yes, but at least you’re more or less probably 18 months ahead. It doesn’t have to be for a lifetime because before that you start thinking of something else. It’s what you do, and I’m going back to the point of once you found the target, what do you do with it. That’s a strategic imperative.

Interviewer: Okay.

Interviewee: Does it give you an addition competence in a category or segment of the market that you haven’t had, does it give you complimentality to already existing competence in your business, and that can either come in synergies and maybe foreign distribution and the like, does it give you a strategic relationship in the sense that that company may be very well wired into government whilst you’re not. So do you buy into a network that you can then use to do these things we’re talking about – open doors. So those are, you know, there’s a whole plethora of questions that can be put to and can be asked.

Interviewer: Okay. And you’re raising interesting questions. Government’s role in the growth strategies of businesses in Africa - I suppose, you know, you can’t separate, it’s critically important to understand Government and to work within the premises that are presented by Government. When you consider the, you know, the current environment, system ability, responsible leadership, ETC, there’s pressure on companies not to engage in certain with Government incentive [ways]. Okay, so two questions. On the one hand, do you think that that will materially change the way companies operate in Africa? And is it necessarily a bad thing? Is there interaction with Government, almost taking advantage of the lack of stringent policies, ETC, taking advantage of those foreign company. Is that a bad thing from your perspective?

Interviewee: My view is that, and I have probably a different thought, I would have said that because the rules and regulations are not stringent, it works both ways. It actually gives you an opportunity to influence the rules in a way that favour what you want to do. That’s my view. On the other hand, it does create ambiguity as to the application of those rules but then you then [mean] to get that by working hard at building relationships with those institutions and government so that you can ask the questions and you can find a way. So the disadvantage is you have to do a lot of work and talk to people and understand but the [outlook] of that process is you end up with very good relationships that argument what you’re trying to do and the ambiguity within the regulations allows you opportunity because those cracks, you know, you see them but, you know, you can either run away and say I can’t work here or see them as an opportunity and that’s why I say Africa’s the last frontier. That’s why China’s growth is what it is. Think about it because, you know, because of all that ambiguity, it creates “space” to have creativity of how you do a business model. If you’re a multinational city with a US or Euro where the market is mature and you only have a business model that works like this, you find it very difficult to fit in that African or Asian environment. Ask the question why is it that most multinationals have not succeeded in India – the same reason. Because you go in there with a fixed mind as to what the model should be. You should start by saying, right what’s the environment,, how does it look like, I need to spend more time building relationships or you employ more people on that front who keep talking to government and then you identify where the opportunities are and you influence that and essentially that ambiguity is a barrier to entry for institutions that like a very formal approach and that would be the top tier multinationals. But guys like [that], they live, they’ve been operating in Africa for 40 years. They know, they acquired some competence as to how things are done on the continent and it’s not just Africa, it’s Africa, I’d say Latin America, middle eastern nation.
Interviewer: Where those cracks are opportunities for innovation in models. So in that respect, you’d say you understand and you’re able to adapt your business model and approach to a situation as.

Interviewee: I wouldn’t say understands as experiencing because it’s understanding means you’re quite clear about it in the beginning. I think what’s happening is we’re appreciating this as we walk down the path. It’s more like what I call landing by [inaudible]. Because not everyone, you know, sees it my way because they’ve never been there.

Interviewer: Yes. So then one would expect that your market in South Africa is massively different to what you have in Africa. In terms of the products and what you’re offering to consumers, is there a difference between South Africa and consumers?

Interviewee: Yeah. There’s a marked difference.

Interviewer: What are the key elements of differences?

Interviewee: Well, you have to go into – I think the African markets are more exposed to different products.

Interviewer: More than here?

Interviewee: More than here.

Interviewer: Really?

Interviewee: Yeah. Because here you get what South Africa produces on average. Everything in 90/50% more of the things are made here. If you’re sitting in Tanzania or Uganda or you walk down to [inaudible] and [inaudible] how many foreign products do you see?

Interviewer: A lot actually.

Interviewee: A lot more. Can I just pick this up?

Interviewer: You may.

Interviewee: So, I think the key thing is, that’s why it’s a last frontier, that’s why the Chinese are doing well. That’s why they’re getting all the contracts. Why is that European companies, construction companies and Americans don’t get contracts any more. Why is it South African companies don’t get contracts in Africa? I don’t think the Chinese bribe. I don’t think it’s, you know, they – it’s just that probably the way they approach getting the job done mashes well with the psyche of the people. Now the Chinese are not liked on that continent and you know that but they still get the job. You get that point? Why is it that they get the job but they are not liked? Because people resent them, because they come, they steal their home, I mean you know the whole history but they get the job.

Interviewer: Yes.

Interviewee: So, it’s just that their approach works more. In terms of, you know, understanding, you know, in that ambiguity, I mean you find them doing, building the roads. The roads look pretty chaotic when they’re building them. It’s a mess. In South Africa when the roads are being built it’s very organised.

Interviewer: It’s very ordered, yeah.
Interviewee: But why do the Chinese get it?

Interviewer: Interesting, yeah. It’s because of the environment.

Interviewee: So the consumer in Africa is actually a lot more enlightened, more exposed, knows a lot – it’s, you know, I mean you stop at [Keiths] or someone who is an average worker, I mean they know about [bronze]. They understand that probably a lot more than here. They’re more exposed to what’s happening in the world. The colonial legacy’s are there, they allowed the linkages to the Euros, etc. etc. So, people know, I mean if you go to [Francophone] they, you know, they know what’s happening in the [inaudible] and all the [bronze] in Paris. That’s the key thing. So they’re not in the dark. So they are what I call very [disharding] consumers and they know what is value for money. So now you take a product from South Africa and you start telling them it’s a premium and it’s expensive. Well, they will show you exactly the same product a lot cheaper coming out of some other place. So you, so they are what I can call they know what is value for money. It’s not about being cheap, it’s about knowing, you know, I’m paying for these but what am I getting.

Interviewer: How do you sustain competitive advantage in that market coming from South African background and how things work here and you’re going into the African market with this kind of consumer? Is there committed advantage in that space? Is there such a thing? Can one company claim to have that and how would you actually achieve it?

Interviewee: On the continent?

Interviewer: Yeah.

Interviewee: Really, competitive advantage is a fast mover and the relationships. That to me is what I learned in life. It’s not about product.

Interviewer: Right.

Interviewee: You can have the best product, it can be shut down by one political move. You know how Africa is?

Interviewer: Absolutely. Yeah.

Interviewee: It has happened to Cadbury before. Cadbury was actually not selling in Kenya for the last six months until December. Yeah?

Interviewer: No, no. Is it, really?

Interviewee: They started shipping from South Africa just the beginning of this year. They were six months out of the market because they closed a factory, they had and arguments with the Government and they simply didn’t get their import licence. You need to, now SAB Miller was in Kenya for many years. Why did they shut? Because the Government simply said, if you want to import your [inaudible] and barley from South Africa - 35% duty. You want to [inaudible] that amount – you’re kicked out.

Interviewer: They couldn’t compete.

Interviewee: They couldn’t compete. Now why could they not go and appeal, because they didn’t have the relationships with Government.

Interviewer: Okay.
Interviewee: So they had a very good product, they tried to compete with Kenya Breweries but, you know, you have to know how you’re going to play the game. Kenya Breweries went and contracted all the farmers in [Maul], everywhere. So there was no way that SAB could.

Interviewer: Could actually get anything.

Interviewee: So, that goes to the point – Breweries had the geographic because it captured the farmers. So they had fast mover advantage. The farmers could not supply SAB and what Breweries said, they said look we’re going to pay you and advance of your crop. So what would SAB do? They had to import, to import you have to pay duty.

Interviewer: It makes it too expensive.

Interviewee: So what happened? They lost the battle and to this day they’ve never recovered. So those are the, that’s what’s important in this market. It’s, you know, it’s not about product. It’s about the relationship you have, the networks you have and how you apply them and whatever you do you need the fast mover.

Interviewer: Okay, final question. Greenfield’s entry into Africa, is there any chance that that could...?

Interviewee: There’s a lot of Greenfields happening now. There’s a lot more appetite for Greenfields but again Greenfield has to be with a partner in my view. You can’t go there as a foreign company and start from scratch.

Interviewer: So you can build a brand from zero as long as you have a local partner?

Interviewee: Yes, and well you see Greenfield is not necessarily a brand – you can still have a brand that exist offshore but you don’t have in-country presence. So that’s a Greenfield. You can do that.

Interviewer: Okay.

Interviewee: We’ve done that with All Gold in Kenya. We’ve done that with our foods in Kenya and they’re growing at probably 200, 300% per annum. But why’s it – because we already have a distribution network and we have a network to the [inaudible]. So we have a relationship from [inaudible]. If you didn’t’ have that, you’re struggling because how is [inaudible] is going to list you. [inaudible] would think you’re competing with them because they import their own things as well.

Interviewer: Okay. Thank you very much for that.

Interviewee: I hope that gives you a feel of how I see the market.

Interviewer: Yeah. That’s very insightful.

Interviewee: There’s a research that’s been done by Merrill and Lynch. I don’t know whether you’ve seen it?

Interviewer: What’s it called? Do you know?

Interviewee: I’ll ask Linda to send you the link.

Interviewer: Okay.
Interviewee: It’s more about Africa and the economics and the consumer. It’s just been released – it could be useful for you to look at.

Interviewer: Okay.

Interviewee: I’ll ask Linda. I think she has your email.

Interviewer: She does, yes.

Interviewee: So I’ll ask her to send it to you.

Interviewer: Okay. I’d appreciate that.
COMPANY B

Interviewer: Yeah, so some of it’s out of context but also in the company that I’m working for now, SSI Engineers, there’s a lot of interest in naturally expanding into Africa and growing the business there.

Interviewee: Okay.

Interviewer: So, I’m trying to, you know, put the pieces together so, and I’ve, my professional life has been in South Africa but I’m keen to try and leverage off my routes in Kenya to explore that market and see how well I can do there.

Interviewee: Yes, absolutely. Okay. Well, what sort of engineering are you?

Interviewer: Civil Engineer.

Interviewee: You’re a Civil Engineer. You studied in South Africa or?

Interviewer: Yes, UCT.

Interviewee: Okay. And family, are they still there?


Interviewee: Okay.

Interviewer: Yeah. I’ve got one sister who was at UCT as well but she’s now, she moved on to, she was in the UK for about three years, Geneva for another three and now she’s working as a Lawyer in Houston, the States.

Interviewee: Okay. So you guys are all over the world. It’s amazing.

Interviewer: Yeah, so.

Interviewee: Okay. So I’ve had a look at [inaudible] proposed things on the guidelines. So we can work through it. I suppose in terms of the company’s history, the company’s 120 years old. It’s a listed company on the Johannesburg Stock Exchange and the vision specifically of the company, you know is to be recognised as a branded health care company globally, you know. Excuse me, I’ve got a bit of a – I’ve got some laryngitis.

Interviewer: Not a problem.

Interviewee: The, and a lot of the information I’m going to give you now will be found in the annual reports.

Interviewer: Okay.

Interviewee: Okay. The location of the business specifically, we have manufacturing facilities in South Africa in Johannesburg. We have three factories based here. We have a factory in Ghana, based in Accra and then we have a very large manufacturing facility in India in Bangalore. Okay.

Interviewer: Okay. So there’s no manufacturing facility in the East Africa region as yet?
Interviewee: At this stage, in East Africa we haven’t, and I’ll explain the operation to you there, the operation in Ghana was as a result of an acquisition specifically, okay, and that came with a manufacturing facility. Alright.

Interviewer: Okay.

Interviewee: In terms of the organisational structure, I’m just going to take you through this and I’ll take you through the, okay.

Interviewer: Okay. Yeah, just [inaudible] ask you questions as go along, yeah.

Interviewee: In terms of my role, I report into the CEO, okay, and you know the expansion of our business in sub-Sahara Africa is a strategic imperative of the firm and it’s been over the last three years that there’s been a major focus to drive the growth of the business.

Interviewer: Okay, if I may ask on that – what is attracting us to the sub-Saharan region?

Interviewee: Okay, well I think there’s a number of factors – essentially we are a South African company, it’s an African pharmaceutical company, we’re not multinational from Europe or the Americas, okay, and the shareholders of the business really asked you know if we’re an African company why aren’t we really participating in the different markets of Africa.

Interviewer: Right.

Interviewee: We were exporting only into some of the African markets, including Kenya over many years and the structure of the exports would be that we would appoint a third party distributor in the African countries that we were exporting to and that third party distributor would then buy stock from us and resell it into the markets.

Interviewer: Okay.

Interviewee: And as an organisation we would provide some marketing support and potentially training for a sales rep or sale reps in those countries for promoting the products and that’s really where the relationship stops. So it was almost opportunistic in approach. Fill a container, send the container, they resell the products there and that’s how actually the business was established. Secondly, so the first thing, the shareholders asked a question and then secondly, you know as we well know that you know outside of India, Africa has got the largest population globally. So there’s a huge consumer market and most certainly from our understanding of that consumer market they’re very brand loyal. That’s been proved with our brands. There’s a huge emerging middle class that’s rising in Africa and specifically in the sub-Sahara Africa region. If you look at investments, you know governments in these countries are investing in their economies and there’s a lot of foreign directed investment coming through as well in terms of infrastructure projects and so the old way style where it was just basically handouts given to these countries has kind of dissipated over time and now it’s about real investment being made you know and I can send you a presentation that we recently presented in Gibs. It will give you some facts and figures around that. It might be of help to you. [0:05:20.0]

Interviewer: Okay. Yeah, I think that will be good.

Interviewee: Alright. The other thing there’s a lucrative market. The market isn’t as large as the South African market, even the combination of all of these markets but potentially you know the opportunity to grow in those markets is good and so you know we’ve
taken the business from where it was doing about R6 million in exports in three years ago, this year it will do about R200 million and we plan to do about R500 million in the next two years. So, I mean it’s been lucrative in terms of how the business has grown and the strategy that we’ve used to actually move into the markets specifically has been based on two pillars – the one pillar is exports and we’ve continued exporting but we’ve put more resource behind the exports and, you know in terms of building the distributors in those countries by providing with more infrastructure around regulatory affairs and proper marketing, marketing should I say, literature so to speak as well as been focussing on training their people to a high level so that, you know when they’re actually calling on customers that they actually can then, they display a level of competency above what their peer group would be given in that market. Okay. So it’s really been focussing on the marketing mix, the greater level in the export markets. But that’s the smaller part of our business. The other level of grow in our sub-Sahara Africa business has been around market development, okay, and so basically South Africa in the South is obviously the dominant country in this region. In East Africa it’s Kenya.

Interviewer: Yes.

Interviewee: Okay. So we had an established business in Kenya for many years and we had two distributors in Mombasa Road actually that looked after our business – it was Phillips Pharmaceuticals – you might know them.

Interviewer: Yeah, I’ve heard of them, yeah.

Interviewee: And Surgery Links. You can actually see their buildings when you drive down Mombasa Road from the airport. So those, so we were exporting to those distributors, those distributors obviously would resell the products in the market and they would generate sales on a gross margin on our brands and they’d grown the business sufficiently enough that we actually gave them notice. So we took over the end market sales of that product and the gross margin that was being generated from the sales of those products was enough then to cover the costs of putting the infrastructure in place. So that’s what I did. So we displaced the distributors and put our own infrastructure in place so we opened up our own sales or marketing office.

Interviewer: Okay.

Interviewee: That’s in, you know, that is - the employees of the business there now, we’ve got about 24 employees based at that office, it’s a sales or marketing office with a regulatory affairs component because in the pharmaceutical industry you have to register your products. So the regulatory requirements are quite stringent and we got a finance person over there that actually manages, you know the accounts and so on but at a higher level, that prepares a balance sheet and a trial balance and an income statement on a monthly basis. It’s a Chartered Accountant, okay. The business is run and led by [Fila] – her name’s Gertrude Kemboi and I can give you her contact details if you ever want to have a chat to her so she can maybe give you a few more insights. You can email it to her or whatever just to help you. So in Kenya now we have a Country Manager who has then finance regulatory and sales people reporting into her. We have two sales managers there and then we have three sales teams that then cover prescribing doctors and pharmacies in Kenya, okay. So that’s the business model we’ve used. We deployed that office, it was two and a half years ago and we have, you know we’ve almost crippled ourselves in Kenya subsequently with the same products, largely despite having our own focus and actually putting our own systems and processes in you know we’ve been able to elevate the business significantly compared to what the distributors were doing for us. [0:10:02.0]
Interviewer: Okay, so they changed from local distributor to your own distribution facility?

Interviewee: Yeah. Not distribution facility – a sales or marketing office. The logistics is being outsourced, okay, so we’ve got a third party that does warehousing, distribution and the collection of the debtor’s book for us and we pay them a fee for doing that for us, okay.

Interviewer: Okay.

Interviewee: So, the infrastructure we have there is sales or marketing with regulatory affairs and finance but obviously through having an infrastructure we outsource services to different role players to do different work for us. So for example, Ernst & Young are our auditors over there and they would do work for us in Kenya – we’re partners there. We have our third party distributors [we say]. Then we acquired a brand there – you might now it – [Dubanhow].

Interviewer: No.

Interviewee: It competes, it’s analgesic, it’s in the bottom segment of the market. It was quite a large brand in Kenya many years ago – we bought it from a company called [Dawa]. It’s a consumer brand that competes against GSK, you know GlaxoSmithKline in terms of they’ve headaches and a whole range of panadol and so on. So it’s in a similar market but ours is at the bottom end and the majority of the sales of [Dawa] will go out into the country area. It’s done through van sales distribution. So it’s these vans that go into the different villages, to the market days and then they sell to the kiosks and the [dukas] like that. So we acquired a local brand and we paid about $1 million for it, which then forms part of a FMCG portfolio that we have in that market, okay. Then from Kenya, in terms of the East African community, we’ve started exporting from Kenya into Tanzania, into Uganda, into Somalia – can you believe it? And then.

Interviewer: There’s a market in Somalia?

Interviewee: Ja, ja. You must see the amount of products they’ve bought from there and we’re busy developing the East African community as well. So Kenya becomes the hub for the East African community then in terms of driving the business. Okay. When I looked at acquiring a business in Kenya, so some of the local, there’s quite a couple of local manufacturers - companies like Cosmos and Regal and Ellies if you know the pharmaceutical industry. They continued, because we actually as part of the growth strategy is acquisitions. So, take two steps back, so I said to you our strategy to grow in East Africa, I mean to grow in Africa – sub-Sahara Africa is via exports and market development. Exports is via third party, market development is where we then represent, where we actually represent ourselves directly in the market. So we invest as an organisation into that country, either like in the Kenyan model or for example in Ghana where we’ve acquired a local business. That gives us enough front then into the market. I hope it sort of kind of summarises the strategy that you’re required to do.

Interviewer: Yeah, if I may ask? The decision to go from the export model which you used you know trying to get a local distributor and you know pushing your products through, and actually investing in the country, what do you look at to you know to decide when to shift over to investment?

Interviewee: Well I think the thing is the market needs to be able to provide sustainable profitable growth for our organisation. If the market’s too small, you know it doesn’t make
sense then to try and put an infrastructure in place because the business will actually run into loss and it’s an unsustainable venture. So we really looked at you know and obviously there are macro economic factors as well, in terms of the country, you know what is the forecasted GDP growth, you know what are the initiatives happening in the country. So you know you need to obviously do proper country analysis. We also looked at you know the cultural difference between, you know us and the potential host country we want to go into because it makes it easier you know if there’s cultural closeness between the countries and there was certainly, I’m sure in your own experience you’ve seen there are similarities between Kenya and South Africa.

Interviewer: Very much so, yeah.

Interviewee: Where if you go to West Africa there’s the cultural similarities aren’t that close. Totally different in the Western Africa environment, okay. Political stability was critical for us, well to understand that we make an investment over there that’s it, you know the country is politically stable and that there’s a good you know outlook around that. So you know we do proper research then on the country and as I say then we also we have to do the financial modelling for that to see that you know if we’re going to invest in the country that there’s going to be some form of return.

Interviewer: Absolutely, yeah.

Interviewee: Okay. At this stage we haven’t taken a return out of the business. It’s still an investment strategy so we reinvest the profits that we make there back into the business to grow it.

Interview: Okay. You mentioned the, you are a South African company in Kenya, so when you establish in Kenya for instance, the make-up of your office is that largely South African ex-patriots or is it local Kenyans?

Interviewee: It’s only local Kenyans. So we haven’t put an ex-pat in there.

Interviewer: Okay.

Interviewee: So we’ve employed local people. They are the face of the business and most certainly they make many of the decisions from an operational perspective. From a strategic perspective in terms of the vision of the company, because they haven’t been working in the firm before, you know we had to obviously transplant our culture and our methodologies of doing business and you know share the strategic imperatives we have for that region. So there has to be an adoption process but we haven’t gone and put a South African in to head up the business there.

Interviewer: Okay. And that I suppose is just part of your strategy that you want to.

Interviewee: I mean, it might be, if it’s required down the line but most certainly, I mean Gertrude, she’s a woman of 30 years old so she’s quite young and she’s running the business. The business is going to do, it’ll probably do about 500 million shillings in the new financial year and you know we want to get it to a billion shillings in three years and potentially it could be a lot larger you know if we make an acquisition because you know one of the local companies, let’s say we’re going to buy Cosmos for example – you know Cosmos does about 1 and a half billion shillings. So, but at this stage over here you know it’s been about country [inaudible] role and you know it was, she showed the right aptitude. She’s a finance person and you know she’s able to drive
the strategy so. I mean, and I think it’s good that you give local people the opportunity to run the business you know. I interact with them, I usually go up there about every six weeks and review how’s the business going and you know if there are any issues that need to be resolved, we look at it together and address it accordingly.

Interviewer: Okay. And when you look at, I mean obviously Kenya as much as there’s similarities with South Africa, the institutional framework within which you have to operate is quite different I would say from a political point of view.

Interviewer: But there’s a lot more formal structures in say for instance in setting up businesses in South Africa, the process of you know applying for permit to [TC], doesn’t, well it doesn’t appear to be that influenced by you know by who you know. Which politician do you go to get a licence and for example, the fact that we are in pharmaceuticals, licensing is a big deal. Am I wrong in assuming that there’s differences between [inaudible].

Interviewee: Not really, you know I think essentially there’s a check-list that Kenya make available for a company to get a wholesale or a trading, a pharmaceutical trading license and you need to be able to tick the boxes. So you know you need to submit the appropriate documentation or the appropriate accreditations and then you know you get your registration certificate. So.

Interviewer: So quite formal, very formalising.

Interviewee: No, I think, you know Kenyans, I think most certainly you know the systems and processes are well documented there and formalised. There’s always the issue of corruption though and that’s you know not particular to Kenya, it includes South Africa, you know, there are concerns around that sometimes that some, you know unscrupulous companies potentially take advantage of corrupt officials to forward their agenda but most certainly other than that I think you know it’s in terms of the country’s value chain, if you look at the different sectors making up that economy and the different government departments that [serve] it, I think you know I think it’s good. It’s formalised and most certainly you know the Kenyans are the powerhouse of East Africa. I think you know they’ve got some competition coming their way potentially from some of the neighbouring countries or one of the neighbouring countries specifically in time to come. So you know I think the big thing is it’s about always trying to be efficient and effective you know from a regulatory perspective. That’s the challenge that they have. That they make it investor friendly, you know but most certainly our experience to date has been good. I think the only issue that we’ve had is you know there’s been some counterfeit stock that’s come into the market. [0:20:15.6]

Interviewer: Where’s it coming from?

Interviewee: Well nobody really knows and it’s kind of, it’s a bit difficult to get these things followed up because you don’t know if the officials have been paid off to kind of. So we had that as an issue about a year and a half ago but it seems to have gone away but other than that you know I think their business experience has been good and East Africa most certainly, you know, it’s a growing [trade block] from an African perspective and we most certainly hope to you know to grow our business in that environment.
Interviewer: I need to ask you, the East African community – this is the five countries – Kenya, Tanzania, Uganda, Rwanda and Burundi – you mentioned that you know you’re using Kenya to export into Somalia and Ethiopia – to what extent does the actual EAC as a unit feature in your planning and with deeper integration occurring in the region, do you see that impacting your business in any particular way?

Interviewee: Well I think you know what we’re hoping for that there will be you know regulatory harmonisation in that region. In other words, that you know if you’ve got a registration in Kenya for example, product registration that that registration would then be made available to any of those markets as opposed to having to go to each one of those regulatory departments in each country and get regulation, you know and get products registered that way, which makes it very cumbersome and it’s far more expensive you know. So I suppose that’s the one thing and also from exporting from Kenya, you know, you know as those countries really you know drop tariffs and barriers it will be easier to move products across those borders without you know picking up unnecessary taxes and tariffs which actually then drive up the price of your product into a market and make it less affordable to the consumers, ultimately the consumer needs to pick up that expense. And then lastly, I suppose if we do acquire a manufacturing concern in Kenya, one of the neighbouring countries over there, you know that there would be benefits you know from a taxation perspective if you supply the region you know from that facility. You know, there might be potentially barriers to improve form for firms without a footprint you know in the region so that there might be some almost local manufacturing protection put into place, that’s, you know, if you’re going to be importing the product that is manufactured within that region, you know it might, you know there might be some kind of as I say protectionism for local manufacturing there. Obviously there’s a cost but potentially sometimes it can, you know it can impinge efficiency for the market. But most certainly I think you know those are some of the opportunities as the region really kind of drops, you know the facades and barriers and then integrates completely as one economic unit.

Interviewer: Okay.

Interviewee: That should answer your question.

Interviewer: Yeah, that’s very much – yeah, it does. Okay and then, we’ve got 10 minutes so I’ll just wind down now.

Interviewer: Competitive environment. How does that look for you in the East Africa region?

Interviewee: Yeah. I mean, I think you know competition in the pharmaceutical industry is well documented. Essentially if you kind of look at the competitive landscape, you know at the top of the landscape in terms of company’s positioning with very well branded products of the multinational companies, so the Glaxos and the Pfizers and so on. So usually they bring unique molecules out and they’re able to hold price for a longer period of time and they’ve been good at branding. At the bottom of the food chain, so to speak, in terms of the pricing matrix, would be the Chinese and some of the Indian manufactures. [0:24:54.0] So they’d bring in, you know, huge quantities. So it’s high volume, low profit kind of items. So, there’s not a focus on branding. The [inaudible] is pricing in terms of the marketing mix, being on the ground. We fit, you know we’ve positioned ourselves just below the multinationals in terms of our pricing strategies so you know and our focus has been to brand our products and most certainly we’ve got some key brands in the Kenyan market. As I say, we’ve got two
brands that currently exceed 100 million shillings per annum turnover, which in the
Kenyan environment is, it’s not a bad achievement. So from a competitive
perspective, there is high levels of competition. The way that we’ve actually
managed our competition is that we’ve largely focused our product mix on over the
counter type of medicines – called OTCs – that’s the acronym for that - because the
Chinese and the Indian pharmaceutical manufactures that are bring products in, they
do bring kind of OTCs in but South Africa’s got some unique combinations and the
uniqueness of that is not that’s it patent protected – it’s just unique from the
perspective that in many other markets those combinations have never sold but we’ve
been able to bring those products to market there very successfully and they were in
demand. So while we do have competition on all our brands, the way that we counter
the competition is to drive home you know the aspects of quality and ethicise and the
safety of our products as an affordable alternative to the multinationals but only at a
slight discount to what they would be but at a level far above you know what the
Chinese and the Indians actually bring into that market. So if you look in teh tender,
the government tender environment, we don’t really play there because we don’t want
to compete in a very low margin, high volume kind of business where you’d get the
Indian manufacturers being the dominant player and some Chinese as well as the
multinationals where they have unique molecules but also limited. So our business is
largely focused on the private market in East Africa and Kenya specifically and then
we do some, like in you know the Kenyatta Hospital, some of the key hospitals
around there, we then focus on putting product into those hospitals for the healthcare
professionals to use it. So competition is tough and most certainly you know you
need to be aware of it but in a way I wouldn’t say we’ve been niched ourselves – we
don’t play in niche markets but we do play in major market segments but our
products have been able to be differentiated form the competitor’s set as a result of
you know the unique selling points that we bring forward and constant branding
behind it. I hope that answers your question.

Interviewer: It does. The last question is do you, would you say that being a South African
company puts you in any way, kind of advantage when moving into Africa compared
to the multinationals coming fresh into Africa, which is quite a dramatic shift from
the, you know the environment in the West?

Interviewee: Okay, look I’m only speaking on behalf of the pharmaceutical industry you know, the
multinationals have very long established relationships in Africa. Many of the
multinationals actually opened up manufacturing facilities across Africa for many
years and then you know when Africa went into darker periods, when there was a lot
of political instability and stuff the multinationals retracted from Africa and those
manufacturing facilities were then taken over by local people and so on. There are a
few that have kind of stuck it out all that time and most certainly it’s paid off
handsomely like GlaxoSmithKline – GSK – you know they were very well
entrenched across Africa and most certainly they are the dominant manufacturer. I
beg your pardon. I think actually – I beg your pardon – I just want to get some water
– you’re going to get ears blasted there.

Interviewer: Sorry?

Interviewee: I say you’re going to get your ears blasted when you. I don’t really think it’s been an
advantage being a South African company. I think unfortunately South Africans have
created a bit of a bad perception, most certainly in Kenya. [0:30:02.9] You know,
they’ve been labelled as arrogant and you know there’s been some major flops from
South African companies going in. I beg your pardon. So my answer is no, I don’t
think it is. From the perspective of getting you know any competitive advantage I do
think however the benefit of being a South African is if you’re maybe more culturally
sensitive than you know Europeans that are from a monoculture almost and so I think for South Africans generally it’s easier to embrace you know African brothers and sisters, so to speak in other countries and that’s because, you know as I say I think we are more culturally sensitive as South Africans now than ever before and maybe that makes a difference but most certainly it’s not that African countries are begging South African companies to come – they’re not. That’s a misnomer if anybody every thought that. So to answer your question, no I don’t think we get strategic advantage being South African but I do believe that being South African and growing up in the environment that we are in now, you now we are culturally more sensitive and that can work very positively when you engage, you know relationships outside of South Africa in other African countries.

Interviewer: Okay. Thank you very much.
COMPANY C

Interviewee:  I’ll have to answer my phone – it probably won’t but I’ll have to – my wife’s buying a new battery for my car and there’s every chance that she won’t know what to do, even though I’ve given her all the details.

Interviewer:  No problem. Okay, so just to start maybe just introduce, and I’ve kind of told you what I was researching.

Interviewee:  Ja.

Interviewer:  But to be very specific, the idea is that we know there’s the whole debate about Africa being the next frontier and I think many people are putting forward the case that for Africa to be in any way considered as a material participant in the global economy there’s got to be a lot more integration because each economy by itself is [transpiring] in Africa as a whole is quite small compared to Brazil’s and China’s and so the objective of my research is to evaluate or assess or research on the implications of that integration agenda, specifically in East Africa on business strategy. Okay, so I would like to find out you know from the point where the East African community was establish and the deepening levels of integration occurring since, how have businesses that are operating in the area or thinking of establishing themselves in the area changing the way they think about doing business there. Are they changing, you know are they changing any behaviour or does the market become more attractive. So that’s basically what I’m trying to find out. So, maybe by way of introduction for the purpose of this research maybe you could tell me a bit of background about your involvement in Antwerp that you made mark with Africa and East Africa specifically?

Interviewee:  Sure. I’m pretty sure I mentioned but I worked in Nairobi for two years and obviously one of the big, and my job there was to be Regional Economist for East Africa but largely speaking I don’t cover your kind of day-of-day macro/micro fundamentals. So I don’t necessarily, I don’t write reports on inflation and the bond markets and interest rates and I don’t do forecasting. We’ve got people who do all of that. So my role now and in East Africa when I was there was more the kind of bigger picture and that’s why a lot of the research I’ve done has been Africa’s relations with the [bricks] for example. So that’s an emerging trend – what does that mean. And it’s largely, you know create the reports, compile the data, assess effectively and then people must, companies – including the bank– must read into that for their own strategies. So we don’t, we’re not a McKenzie in this instance. We, often people say to us well what do I do with this and we say well that’s really up to you to decide. We can offer pointers but ultimately we just the researcher, we provide the input, the critical kind of data and then you need to pick out of that what’s relevant for your own corporate strategy. But, so my job here really is to look at still bigger pictures – Africa ex SA. Of course I look at South Africa as well to an extent but we’ve got so many people looking at SA and I look at the themes that are really inspiring or driving growth and the challenges. Look, that’s broadly speaking what I look at. So regional integration is obviously an area that I’ve, I have a big interest in – did I send you that report?

Interviewer:  You did, yeah.

Interviewee:  Yeah. So that’s the only output that we’ve had on it but I’ve written lots of kind of smaller pieces which have been mostly internally saying okay, what does this mean because of course we have 16 operations outside of South Africa on the continent and some of them, for example in East Africa we have in Tanzania, in Kenya and in
Uganda and in South Sudan. So you know, regional integration obviously has world, or could have a tremendous effect on our operations there, the ability to streamline and so on. So there’s a lot of interest in that and generally speaking my focus on regional integration has been, has a lot to do with internal and media and so on. So ja, that’s generally speaking the kind of background route. I’m very positive around regional integration. I think it’s next to infrastructure, which is linked in a sense because if you regional integrate then you build infrastructure which connects the zone. It’s the critical determinant of the next kind of wave of Africa’s growth, you know. We’ve, the low hanging fruit have been taken, the resources you can get and you can build a rail to the mine but beyond that for the next phase regional integration is absolutely essential. So yeah, that’s the background.

Interviewer: Okay. That’s interesting. Taking a step back, our strategy or vision for Africa, what can you – what is that exactly and what are they trying to do? [0:05:00.0]

Interviewee: I’m not the best person to talk about that and I can certainly you know provide you contacts with people who can, but essentially the bank, if six, seven, eight years ago the bank decided that it was going to be an emerging markets bank. So it was going to compete along the lines of Standard Chartered, Citibank – you know, obviously on a slightly different level because we don’t have that size but the plan was to be an emerging markets bank. So as a result we have operations in Russia, in Brazil, in China, obviously with the ICBC deal, we’ve got an office Turkey, we own a bank in Argentina and then of course throughout Africa. So the idea really was to build a competent emerging markets bank. The recession and the fact that a lot of the losses that the bank has made in the last few years have come from these international operations, which are extremely expensive to maintain. They, some of them have been in markets that haven’t been performing as well and we have suffered. So last year, Jacko Maree, our CO came up and said our strategy is to return to Africa. So we sold Russia, we obtained – we sold our stake in Troika Dialog, which is an investment bank in Russia and now we just have a small office there. It’s likely, well according to the press and we don’t know more than the press to be honest, that we’ll sell our Argentina unit and scale down quite substantially some of the other units in fact and the idea is return to Africa and use that capital to invest into operations here on the continent. So for example in Angola we’ve gone from having 10 people a year ago to having over 100 people now and we’re rolling out 12 branches in the next year and a huge expansion agenda there in Angola and Nigeria. Those are the two kind of core countries in terms of our current expansion plans. So Africa’s kind of become return to our core focus, you know. In the early 2000s we were the only South African bank really ambitiously expanding in Africa and now we’re back to that. Generally speaking the strategy is to identify markets, a lot of it has to do with you know proximity to South Africa, historical affinities, linguistic and cultural affinities. So our spread is quite strongly in Anglophone Africa as it stands but I don’t think that necessarily a strategic choice – it just happens to be where we’ve expanded but now we’re going into Angola and I think they’ll be more. We were in DRC as well, so we’re in some of the Francophone. It’s to start with a small scale investment bank. So we’ll start with an office IB, you know corporate and investment banking and then eventually to expand that into a retail offering and that’s what’s happening in Angola. We started with a small team just doing deals and now we’re expanding our retail presence, building branches in the rural towns and so on. But Africa is now the future of the bank and that’s been very clear, clearly communicated at least, not only to us but to shareholders and the media and so on, yeah.

Interviewer: Now when you look at the African market and all the different countries, what of that market do you look for or at to determine whether it’s an attractive market for you?
Interviewee: Ja, once again I’m not – you know we’ve got teams and teams of people doing that you know from both Shabby and PBP you know. PBP is the retail side of things. Those guys have got, I mean they do huge critical assessments of markets and there’s a wide range of factors that they’re going to take into account. So, ja, no I mean it’s everything from your general kind of pest analysis, political [climbing] social, technical, technological, your [swot analysis] plus the consumer, you know level of competition in the market, ease of entry, ease of doing business, cost of entry, you know ease of hiring. There’s so many factors that it’s very difficult to – but of course you’ve got to be in certain markets – you have to be in Nigeria. There’s no two ways about it. You got to be in Kenya. You’ve got to be in Angola increasingly and that’s now what we [inaudible] but let me rather put you onto someone who can comment on that.

Interviewer: That’s fine. Okay.

Interviewee: As I said.

Interviewer: That’s fine. Yeah, I’m just trying to impact because you made the statement that you think that the integration would have a positive impact on the bank. I’m just trying to [inaudible] that NCU report. What of the integration would have a positive effect?

Interviewee: Okay. No absolutely. Look, let’s take East Africa specifically because it’s the area I know the most about and it’s what you’re studying. In East Africa, as I said, we’ve got a bank in Uganda, Tanzania and Kenya. We’ve got, we’re the biggest retail bank in Uganda so we’ve got scale there and then in Kenya we’re 11th or 12th. I mean we’re relatively small. In Tanzania same story – we’re quite a small player. But our investment banking or our CIB for years has been trying to integrate effectively. So integrate their systems, allow the free flow of capital between the banks. So you’re essentially operating from one platform. So you’re one bank essentially with branches in three countries but it’s as if you’re a bank with, you know you’re a bank in one country with branches in different areas of the country and the ease of that that creates in terms of your systems and the currency and the movement of people and the movement of goods and of course the movement of capital between these branches in order to facilitate certain deals is immense. I mean it cuts down costs for a bank tremendously and it also obviously eases the ability to, as I said we’re a huge bank in Uganda and yet not necessarily as large in Kenya. So there’s two divergent marketing strategies so we’ve got a marketing team in Uganda and a marketing team in Kenya and obviously we’ve got a marketing team in Tanzania. Now they don’t necessarily talk to each other because they have to operate for their own local markets and I think there’s [inaudible] to each local market which need to remain but ideally you have a central command for East Africa which coordinates all of your strategies in terms of marketing, in terms of retail and CIB, in terms of the client focus. It also offers you the ability to service clients with a regional footprint such as Safaricom and Nakumatt the supermarket chain and Uchimi and East African Breweries and you know Kenya Airways and all of these clients suddenly as a bank with a strong regional presence in all of the major markets within a zone and a central command with the ability to manage all of the currencies effectively, to manage the transfer of those currencies with a limited cost. I mean, the list is endless. It really does provide tremendous ease and efficiency for an op for a bank like us, which has these operations and equally if you’ve got, say for example we, you know East Africa we’re quite well represented but say [Ecowas], if [Ecowas] were to integrate according to the same type of guidelines that the AC is aiming for, we only have a bank in Uganda and Nigeria in West Africa but you know the ability to operate from regional hubs would allow us traction in markets that currently we don’t necessarily
have through without having to expand, in terms of an investment strategy for [Togo], an investment for [inaudible], you know we would have the ability to operate from a central command, which I would imagine and I’m not a banking specialist, is a tremendous failure. So no, I mean there’s a lot of talk around it and the guys in our offices in Kenya particularly were often asking me you know when’s this going to happen, what, you know, how much can we rely on the common market and custom’s unit protocols being enforced adequately because it is potentially a real game changer for us.

Interviewer: Okay. That’s quite interesting. The talk of common currency in East Africa, can you – what’s your perspective on that? Do you think that that is feasible in Africa – one end – again would that have any, necessarily have any implications on banking operations in a region?

Interviewee: Firstly feasible – yes. I think it is. I think it’s, there’s not, there aren’t vast disparities in economic size in East Africa, however, Rwanda and Burundi excepted. Let’s just take Kenya, Uganda, Tanzania. Unlike South Africa, SADEX for example or [Ecowats] where you’ve got an elephant in the room, which is South Africa or Nigeria which towers over all of the other regional economies and obviously creates a lot of difficulty in issues particularly like a common currencies. So there’s relative parities in East Africa, the systems are quite similar and so on. So I think it is feasible – I don’t think they should rush into it because there’s obviously a lot of [inaudible] within each market that affects the currency. That would have to be synchronised and that will take some time but certainly it’s feasible and you know when it comes to the bank, obviously that would be tremendously valuable for us. I mean, the – well then again, obviously our global markets, and once again I’m not a banking specialist, but our world market desk, you know a lot of what they do on a day-to-day basis is forex – I mean our forex desk is the biggest desk in the global markets operation and they’re handling billions and a lot of that is obviously just swaps you know from within the region. But generally speaking you’re talking you know Kenya Shilling, US Dollars, South African Rand, Euro and the inter-regional swaps are obviously not as large. Generally speaking it’s with counterparty – USD or Euro or potentially South African Rand counterparty. So I don’t think that would have a tremendous effect on our kind of profit there and it would certainly ease our operations and business without a doubt.

Interviewer: Okay. Okay. You know, you [didn’t contribute I suppose] in the, looking at large emerging markets and emerging market blocks? Do you think that in the East African integration agenda, what sort of bargaining power do you think that will give them to the external global economy effectively?

Interviewee: Well that’s, do you think you can pick me up from here if I lean back?

Interviewer: I think.

Interviewee: It’ll be fine.

Interviewer: Yeah, it should be fine.

Interviewee: No, I’ll pass. That’s one of the largest positive kind of benefits of regional integration is creating that economies of scale which has several effects but the three most prominent ones for me is on the one hand it attracts FBI because [Flown] is going to be far more attracted to a market of 130 million people that it is to a market of 40 million people and that obviously what the EAC currently offers, a market of 130 million. With you know vast opportunities in different areas and zones and so
on, but necessarily that critical scale is there, which it lacked, which it is lacking in in some of the individual economies. That’s the first thing. The second thing is as you say, created the ability of these markets to negotiate with a louder voice and that can have profoundly positive effects, particularly when you’ve got to do with protection of certain industries. It’s almost impossible for a small African country to impose what these two, to exert pressure on say WTO or so on for protection of, or tariff you know exemption or protection of certain industries within an economy because it’s against [inaudible], it’s against the regulations that they’ve signed up for and they have no voice but the ability of a region to do that is obviously elevated if they can provide just cause and so on and so forth and every country in the world does that off-scale - United States, China, the whole of the EU as a block of protecting strategically local industries that they feel are particularly valuable. So it’s quite possible that African countries haven’t had that ability or know-how or you know whatever it may be. But from a regional perspective, absolutely – your voice is elevated and it also allows as I said the kind of prioritisation of certain strategic industries. The problem comes when one country’s strategic industry is another country’s you know it’s off the chart for another. So for example cement in East Africa and I included a text box of that in the report, where I think Kenya is a cement producer, Tanzania and Uganda are cement importers. So they don’t have local production capacity of cement. Kenyan cement is quite expensive because you know input costs, power costs particularly during the drought season they were using generators. So to make cement in Kenya is pretty expensive, as a result the final product is pricy. Tanzania has recently preferred to import cement from China, Egypt as well Pakistan – I think Pakistan. There were a few countries from which they import from, not Pakistan - China and Egypt and South Africa also increasingly and these products are cheaper than the Kenyan products. So for them, lowering the import tariff on cement is, would make a tremendous difference in their ability to implement infrastructure projects, you know at scale and so on whereas Kenya has obviously a strong interest in protecting the cement industry, raising the tariffs in order to allow them great attraction in exporting into the region. So that’s an area which is obviously of, it’s emblematic of a deeper concern around how do you agree those priorities and there’s difficulty there because obviously you can agree on certain ones – all of the EAC economy is for example, you know attractors so if you want to implement certain [incentivisation] around tourism they’re all going to agree – there’s no two ways about it but there’s others that are more grey. But certainly absolutely negotiating with a wider voice has far greater chance of success and we’ve seen that with, even with, I don’t have a great amount of kind of hope in the ability of the brick block to negotiate or reach consensus but even the threat of four powerful emerging markets coming up with a common voice, it’s mostly been elusive and I think it will continue to be but if they were to come up with a common voice and in certain areas such as WTO they have, the rest of the world has taken notice because suddenly you can’t ignore a block which incorporates half of the world’s population and you know the GDP the size of you know almost $10 trillion, which is you know two thirds of Americas. [0:20:40.0] You can no longer claim that it’s an isolated voice. There’s consensus there and as a result you have to take appreciation of that and I think a similar dynamic would emerge if there was a regional drive and a regional you know campaigning platform in order to enforce these things. So, ja, no – it’s very positive from that regard.

Interviewer: Okay. Okay. I may be putting you on the spot again, but from the Bank’s perspective, being a South African bank established in a very well developed financial system, operating in East Africa where the framework within which they’re expected to operate is a lot different. How does that dynamic work and how does the bank make that shift to actually succeed in East Africa?
Interviewee: Almost, you know almost our entire workforce in East Africa are East Africans. In Kenya for example, I can’t quite remember how many staff we have but it’s more, I mean it’s a couple of thousand and there’s maybe 10 ex-patriots. In Uganda, a similar dynamic. Tanzania we’ve got quite a few Kenyans for example and a couple of Kenyans also work in our Uganda office in quite senior positions but talking from the South African and potentially even say from our London office and so on or our America office, very, very few on the balance of local to foreign and that’s not because there’s legislation restricting us to that – that’s a conscious choice.

Interviewer: Deliberate.

Interviewee: Deliberate strategy in order to ensure that we’ve got local understanding, that we’ve got – that we’re perceived as a local bank. I mean, that’s really the desire, is not to be perceived as a South African bank or a foreign bank in Kenya but CFC Stanlic is for all intents and purposes a Kenyan bank and everyone that you meet when you’re liaising with clients, with the exception of a few, will enforce that by the fact that they’re Kenyan. So of course there are challenges in terms of the operational systems and so on. So a lot of the central command will - so we’ve got a big Africa desk here that manages all of our satellite operations in the rest of Africa. Now there’s autonomy of course in these operations, there’s a Managing Director in each bank and they obviously have the ability to direct their own strategy but it’s very strong liaison with our Joburg office and that’s essential in order to make sure that everything’s within the South African rules and regulations and we’re not skirting anything and our own risk profile here which we need to manage quite carefully. So credit risk, all of that comes – we’ll manage, obviously the offices in Africa will have a strong say in that but we need to manage our book and that comes from Johannesburg. So there’s you know literally daily liaison with these guys, with our offices throughout Africa but from the day-to-day operational perspective they’re local banks.

Interviewer: Okay. And it’s, political – you mentioned the political interference in, well the political environment in Africa is very different and I think – excuse me – for most multinationals importing into Africa that’s, it’s a hurdle or a reality that they had to confront. Is it different in the financial sector? Banks, you know like yours in East Africa are you forced to have to deal with this you know proximity of politicians quite regularly?

Interviewee: Look, it’s a challenge throughout Africa. If you look at the markets in which we operate, we’re in, obviously the political environment is a strong determinant of where we operate, but that said, we operate in some very challenging markets and some markets where the States is very heavily involved in the private sector but I think you’re right in touching on the fact there are somewhat different rules in the financial industry in the sense that’s it’s an international industry. You know, a lot of our operations are managed out of South Africa where obviously the regulation and the systems here are world class and we have the ability to manage that very, very stringently. [0:25:07.0] But certainly in Kenya, you know our liaison with the government there was on a very similar level to what you’ll find in South Africa in the sense that they didn’t interfere, there was, you know, we’re of course a 100% private institution, you know of course, often in these African markets the high-level business community is often not to dissimilar from the high level political community. So, off the record, for example and obviously you know this is not secret but don’t quote me on it, our – we bought CFC Banking in Kenya, Stanlic, which is our satellite bought CFC, we became CFC Stanlic. Now CFC Bank was a bank which was run very much by kind of the small [Quebackie S] political elite. Not
necessarily linked to [Quebackie] but his buddies were at least within that rank. So the former AG under [Mooi] – what was his name? Charles – [Njonjo]. You know the name – Charles [Njonjo]?

Interviewer: Yeah, I know the name.

Interviewee: [Njonjo] was the Director of CFC. Now CFC operated – we would not have bought it if it didn’t operate like an excellent private bank, you know, we wouldn’t have touched it with a yard stick. So it was a good bank, it had good operations you know. So we were comfortable buying it but of course the management had very strong political ties but that didn’t necessarily influence, that didn’t influence our decisions to the positive. If anything, you know you’ve got to see that as somewhat of a challenge but we managed it very effectively and he recently resigned and the CFC operation has been fully absorbed into Stanlic. So that’s just an example of how you negotiate those types of challenges. But of course in these African markets, you know politics and economics are often intertwined. A lot of the characters that you find have very deep ties in the political sphere but we operate you know above board obviously and as far as possible we’ll deal with things purely on that kind of commercial plain but then we have a strong public sector advisory initiative here in Johannesburg and throughout our operations because obviously the government is a huge element of all of these economies in terms of financing infrastructure, in terms of obviously our global markets guys in terms of treasury bonds and so on. They’re, you know, they’re a huge potential and often existing client so. You know, you’ve got to manage that pragmatically as well. But actually for most of our operations, and I’ve had experience with it, it’s structured quite closely to what it is in South Africa and you’ll find the Bank’s Senior Executive has got stronger relations in the South African government, you know you see each other all the time, they’re at these indabas and Corporate South Africa has brought in a lot of high level strategic decisions from government so. That, I think that level of negotiation is probably quite similar throughout most of our operations where we’re a big player, you know to emphasise – in some markets we’re small and you know, we don’t necessarily get included in those discussions.

Interviewer: Okay. Competitive environment in East Africa, so is it quite different to what the Bank has to deal with in South Africa? The dynamic is it anything unique or is it just a case that the market is very small in this market and growing? What is your comment on that?

Interviewee: Ja, East Africa specifically. I can only really speak for Kenya and to an extent Uganda but if you take Kenya for example, we’re relatively small in the retail space but we’re quite big in terms of investment banking and corporate banking. So we’re quite a large player, so we’re more prominent in that field than we are in retail. But there’s over 40 banks in Kenya which obviously presents some challenges because you’ve got tier one, tier two and tier three banks. So we’re a tier one bank along with Equity, Standard Chartered, KCB, Barclays, you know Co-Operative Bank for example – I think they’re tier one – so those would be your kind of tier one banks. Then you’ve got tier two banks, which are slightly less capitalised and then tier three are your kind of banks which have a branch in Nakuru and Eldoret and that’s about it you know and they’re lending at kind of 25% interest and then they’ll slash the interest rates by 15% - I’m exaggerating but essentially these are maverick banks, I mean and they really disrupt the financial industry in the sense that their practices are often not sustainable. So, and the consumers don’t necessarily have the ability to appreciate that, you know, all banks can’t operate according to the same criteria. [0:29:57.0] So there was a lot of pressure on banks when I was there to lower interest rates because the Central Bank was lowering the lending rate quite substantially in
order to try and kick-start lending into the private sector but the banks have a long list of factors that they have to take into account before they can lend to someone in Kenya. The biggest being who is this person, he has no collateral, we have no way of assessing whether he’s got a bad record with 15 other banks. So they’ve only just implemented a Credit Reference Bureau which will allow us to check whether an applicant has a bad record at other banks but the history of that is only starting last year. So they could have had a bad record before that. So the reason I emphasise that is obviously just to say that it’s a lot harder to assess the credibility of a potential borrower in Kenya than it is in South Africa. We don’t have the structures. So then some of your smaller banks will say no we’re lowering the interest rate by 2% and we XYZ – they can do that because, well they don’t have the same regulatory efficiency as a big bank, they don’t have the same credit kind of and risk profile and requirement and also they you know they’re short term, they’re mavericks, they’ll lend out and try and make a quick buck. So that will exert some pressure, it’s a dynamic that we don’t necessarily have to negotiate here in South Africa. So in terms of competitiveness, that’s one area but then in Kenya specifically as well, a bank like Equity Bank has really taught all of the commercial banks a lesson and I think fundamentally changed the dynamic of commercial banking in Africa, banks like Equity and in South Africa we’re seeing that with Capitec as well and that’s shaken us as well in the South African market in the sense that it’s approaching a market which previously commercial banks wouldn’t touch and they’re approaching it in a manner which is making them a lot of money and for years people have been saying Equity must fail but every year they win the award for the best bank in East Africa or Africa. Their profits you know are higher than anyone else’s and they seem to be managed as an extremely sound, very efficient, very good bank. So, you know, competitive wise and they’ve had the ability to go into the rural areas, they’ve got these mobile kind of bank units. So they’ve got three levels of branch network – they’ve got the kind of, I don’t know what they call them but they’re like elite branches for your high level customers which is also, because we’ve always seen these types of banks purely for the masses, you know the rural but they’re pushing that as well and they’ve got a lot of political connections. So elite banking and specific branches for that. So your kind of high end income Kenyans can go to a branch where they feel special. Then you’ve got your normal just retail customer, which is your standard [Uhuru Avenue] kind of branch and then you’ve got these mobile units, which are kind of mobile banks on trucks or busses that go into the rural areas one day a week and allow people to do their transactions. It’s been immensely successful. So these types of learnings are increasingly kind of raising competitiveness for commercial banks and obviously with 16 banks throughout Africa we’ve had to really react very quickly but Kenya’s ahead of the curve in that. A lot of the other operations are not quite there in terms of innovativeness and so on. And then Uganda has, we bought a bank that had a, it was a I think state-owned institution, that had the widest retail presence already, branch network throughout the country. So we bought that existing infrastructure. So obviously from the point we kind of excelled in terms of our ability to gain traction. So we were the dominant market player, not necessarily because of our own strategy but because of who we bought and that’s been very successful. So we’re big there certainly – Tanzania I don’t really know enough but ja, I think the key point in terms of the competitive environment just, is being nimble and appreciating that this market, because in Africa you’ve got a rapid, rapid shift of people from the lower income into the middle income category now. Middle income in Africa doesn’t mean middle income in Japan or China even, we’re talking more than kind of $5 a day, which is small but you’ve got to realise that once a person signs a bank account and starts borrowing money and eventually gets a car loan or home loan or something, the cost of shifting to another bank is large plus people very seldom do it, even if they’re unhappy with their local bank. You find very few people that shift. So once you’ve locked in people, and even when they’re
in the lower income brackets, the potential in 20 years time once that bracket, once those people have shifted into a higher income environment, the potential for the bank is immense and you have to lock into that because that’s where Africa’s going now and we have to be nimble to that throughout the market and competitors are all realising that. So overall the competitiveness is definitely up. [0:35:05.0]

Interviewer: Okay. So would you say that the Bank is becoming more, well the African side of things, that the bank is being forced to become more nimble and the follow-on question to that is the almost, you mentioned that the East African operation for example is fairly independent. Is that part of that strategy to allow them to be, because they’re most in the particular market, that they must adapt and do what they need to do to actually keep ahead in the market?

Interviewee: Ja, because they know the market and you know we have to allow the Kenyan’s, the people who understand – not just the competitive environment but the cultural side of things, you know and that’s often very important and it’s often where foreign companies skip a beat – not just in Africa but first early entrance into China, just you know some of them had an absolute nightmare because they didn’t take account of the cultural dynamics. So that’s where having the local guys really, really benefits you and you take Angola for example, all of our staff in our Angola office speak Portuguese. So they’re either Brazilian if they have to be ex-patriots because often local skills in Angola are quite difficult to come by – or they’re Angolan or they’re Brazilian, you know or they’re South Africans who can speak Portuguese because you know there’s quite a big Portuguese community in South Africa.

Interviewer: Yes, there is.

Interviewee: So that’s absolutely important but then again, you’ve got to you know because we’ve had to load that office with quite a few ex-patriots – not out of choice, it’s more expensive – it’s just because there isn’t the local skill – we have to be, make even more effort to make sure that we kind of, our strategy is well honed to Angola’s specific dynamic, whereas in Kenya it will come naturally because 98% of our workforce are Kenyan. So the way they operate on a day-to-day basis is quintessentially Kenyan. They don’t have to necessarily make an effort to reach out to Kenyans you know and I think that’s, for example why Safaricom is so successful, you know it’s not a foreign telecoms company you know Kenya had to do all those assessments, it’s a Kenyan institution – sure it’s got a lot of foreign shareholdings because you know they’re a profoundly successful company but the management there are a few South Africans dotted around but generally speaking deeply Kenyan environment and they understood the markets and the dynamics and they realised that something like mobile banking, which no one else had done, the ability to shift EMPESA which now is I mean 20% of Kenya’s GDP equivalent is being transferred via mobile phone every year, $7 billion you know. Nine out of ten Kenyan adults use mobile banking. This is revolutionary in the space of four years and that’s because I think there was a local appreciation that that will work and the way that it was rolled out, it was all just very, very well done and I think a lot of that had to do with that local understanding. So ja, I think it’s very important and I think, as I said, it comes almost naturally because all of our banks are staffed by locals.

Interviewer: Okay. So I think final question for you is the Bank is now quite a, I think it’s 20 something percent by the Chinese?

Interviewer: 20% - does that influence the outlook of the Bank to emerging markets and the way they conduct themselves or is the Bank still operating very much in a South African way?

Interviewee: Once again, there’s better people and maybe later on in your study if you want a quote or if you want something more substantial then let me know and there’s lots of people who I can, I can pass you on to. Generally speaking, the ICBC presence in our strategy has been fairly small. I mean they’ve not tried to exert or wanted to exert too much influence on our strategy. In terms of our outlook, I’m not sure – I can’t speak credibly to say does it influence our ability to or our desire to operate as an emerging markets bank. I don’t know that decision, whether it came through fundamentals of we’re losing money – excuse me – in these markets or we’ve got this ICBC connection because now say for example with Argentina, if we sell the unit and we’re potentially selling that unit to ICBC, if the media is to be believed, and the benefit for us, obviously since you know you offload the unit but also our strategic partnership with ICBC means that we, we can be confident that we can work with ICBC on projects in that market, even though we don’t own that retail presence. So obviously the ability to work alongside them when they have huge capital – I mean they have far more ability than we do in that regard in terms of financing, and there have been a few projects in Africa that have already played that out, like the [Morapoela deal] in Botswana for example and so on. So there have been some which really emphasise our local understanding but that’s really limited to Africa largely and perhaps certain other markets and their ability to enact and implement and finance. But in, whether it’s implemented, whether it’s changed or influenced our strategy, I can’t say. I think only Jacko could say and I’m not sure if he’s going to – but certainly it’s changed, well not changed but it’s, you know our strategy in certain African markets has been elevated or at least supported by the ICBC connection – it’s allowed us do to more and that’s very positive of course. A lot of projects in the discussion phase, very few have actually manifested and last year even Jacko came out and said he’s disappointed with the performance of our relation, of our partnership – he thinks more needs to be done, more should be done. Both should be doing more together. So there’s no secret that there’s some frustrations around that but obviously it’s an enduring partnership but we need to always remember that while we’re the biggest bank in Africa and I think we’re one of the big four in South Africa and for us ICBC owning a fifth of our bank is a big deal you know, of course it’s top of our minds almost all the time – at least when, you know, when we’re operating but for ICBC it’s part of their going global strategy and they’ve bought shares in banks throughout the world and a large percentage of those have been in South East Asia recently, they’re making big for as into Latin America. I mean they’re a truly global bank, even Europe recently, the ICBC has been making some interesting kind of moves there. So we’re a part in a global strategy and to be honest, a relatively small part overall. So there’s a diversion in terms of our appreciation of their importance and potentially theirs of ours and that, off the record as well, that just obviously creates some difficulties in the fact that we kind of throwing projects at them every five minutes and they’re saying hold on guys, we’ve got other fish to fry, you know. So that obviously exerts some pressure as well.

Interviewer: Okay. Final, final question.

Interviewee: Ja, no – that’s fine.

Interviewer: South Africa is viewed as the gateway into Africa – do you think that’s a credible?

Interviewee: It’s a good question. You say, was that the question?
Interviewer: That is the question.

Interviewee: Ja, in some ways yes but in most ways no. Gateway, it depends on what, gateway to what. If you’re a private equity company and you want to have an operation, you want to have a Head Office in Africa where you can send people and they’re concentrating on the Africa unit – it makes sense, make it in Johannesburg you, where the hub, the logistics and the life of an ex-patriot here is far cheaper, far nicer, people are going to be attracted to come here. The regulatory efficiency, the tax regime, the legal systems – all very favourable – and South Africa is, apart from perhaps the mining sector, one of the you know one of our plusses is the fact that it is, if you compare us for example to the other brick nations, you know the ease of investing in South Africa is, it’s far easier to invest here than it is in your other brick nations, you know. [Inaudible] are doing business index – we ranked fairly favourably. So you know that makes absolute sense but the pitch recently has been you know we’re the gateway in the sense of the flow of goods, we’re the gateway in the sense of set-up of operation here and you’ll have traction in other African markets and that’s vastly overestimated. Firstly, the flow of goods and so on – that would require immense upgrading of infrastructure, which at the moment is being talked about too much but not being done enough. So the ability to really act as that conduit is not, is not quite there yet. Of course, there is a lot of flow from Durban port into places like Zambia and Botswana and so on and so forth but when you’re talking of the large scale ability to act as that kind of trade avenue we need to make substantial upgrades and we need to do so in partnership with these nations. And then you’ve also got to consider what’s stopping companies, particularly in the commodities sector, which obviously attracts most of Africa’s FDI from going to source? Why would they set up an operation in Johannesburg in order to extract coal from Mozambique. It doesn’t make sense, you know and so most of these brick nations, and of course a lot of the advanced economies have gone to source, naturally. You know, find Sinopec in Angola, you find [Vale] and [Odebrecht] which is a Brazilian firm in Mozambique and Mozambiquen firms also feel more culturally and of course they can speak the language and they feel far more comfortable and [inaudible] in Africa than they would necessarily in South Africa. [0:45:12.5] So there’s a logistically challenge, there’s the infrastructure challenge, and then there’s the fact that Africa’s deeply fragmented. I mean, and geographically distances are immense. So the argument that you know come to South Africa and we offer access to Nigeria is floored on a number of accounts – firstly, it’s far away and it’s impossible to get there by road or rail – you have to fly. Secondly, the Nigerian and South African systems are vastly different. So the investment requirements for Nigeria are totally different to South Africa. So you would have to reinvest in Nigeria if you wanted to operate there. It’s only within regions, if we can synchronise and integrate regions can countries viably offer that gateway status, apart from financial services and there Mauritius is offering far better, far better investment incentives than South Africa is. So in terms of the financial hub, Johannesburg is undoubtedly the favourite but they are contenders, you know there are potential competitors that are offering better incentives and Mauritius is of course one of the top picks at the moment. So, you know we’re a gateway to Southern Africa – absolutely. We’re definitely in terms of Southern and potentially Central Africa the most viable to situate head quarters and many of the companies that we see like [Sinosteel] in Sandton and a lot of these operations feel very comfortable making this their kind of flagship and that’s positive and I think that will continue. Johannesburg is always going to attract that but in terms of our kind of overall gateway status, I think it’s largely been blown out of proportion for strategic ends. You know, we knew going to brick for example, going to the bricks, that we’re the small guy in the room and we wanted to elevate the Africa link in order to make ourselves more substantial and profound. And even Minister Rob Davies said to me, or I asked a question at a small gathering for the
brick summit and he said no, we don’t pretend to be the spokesperson for Africa, particularly – Gateway is a different thing – we don’t pretend to speak for Africa and his view is often very bilateral, you know and he’s speaking now about [tripod and free trade agreement] and that’s all good and well but I guarantee you and this is a challenge of Africa and it’s been a challenge since the last 50 years, is we talk regional and then when France comes to Kenya or France comes to South Africa or China comes to Uganda and says look, let’s do a deal, they close the door, they do the deal bilaterally and bilateralism across the world but in Africa it trumps the regional agenda still and we need to get over that if we’re going to make regionalism work otherwise it’s just unfeasible.

Interviewer: And in East Africa, how far would you say they are in terms of overcoming that?

Interviewee: They’re further, they’re definitely further. There’s the, the political will is there, absolutely but how enduring is that political will. [Inaudible] has driven it to an extent, [Quebacci’s] been a big fan of it, obviously [Kiekweta’s] been a supporter but there’s no guarantee that because they’ve really pushed it, they’ve signed deals before even the systems are in place – they’re just signing them and then they’re to drive a very logistically difficult process by immense kind of political will. So get together, sign the deal, [Kigani’s] obviously been very instrumental because regional integration is Rwanda’s only hope. I mean, that’s how they’re going to access the world you know and so those, [Kigani’s] been a real kind of pioneer of it but it’s failed in the past in East Africa.

Interviewer: It has, yeah.

Interviewee: When political will started to rescind and you know at the moment the danger there is that it’s not yet and this is potentially, this an area throughout Africa which is holding back regional integration, is the commercial benefits have not yet become compelling enough for that to drive the agenda. They’re there but they’re largely elusive at the moment because the roads are not there yet, the railway linking Ethiopia and Kenya is not built yet. So I can go and tell the Kenyan government look if you build that railway or that road to Ethiopia, a market of 80 million people growing at 8 or 9% per year, Kenyan goods can go there if you lower the tariff barriers, if you build the infrastructure, simple things, you’ll find Ethiopia will become one of your biggest export partners within five years. You can tell them that but it’s the data’s not, they weren’t the biggest export partner last year. It was the EU and it was fresh cut roses and agricultural products and so on. So that’s where their priority lies in terms of. [0:50:00.0] So it’s a big challenge in terms of saying regional integration can be commercially, not only viable but can be a game changer but in order for it to be that game changer, you need it to be prioritised and you need the infrastructure to be built and you need the tariff structures to be harmonised and non-tariff barriers like corruption and so on to be eliminated. But in order for the world to be there in order to eradicate those barriers it needs to be commercially viable. So you see the.

Interviewer: It’s a catch 22.

Interviewee: It’s a catch 22. So that’s a bit of a challenge and the EAC I don’t think, it’s increasingly happening now with Uganda’s trade in South Sudan, with Kenya’s exports to the region have been quite profound, you know, one of their biggest kind of new export partners, markets. So increasingly they’re seeing those benefits and certain Kenyan companies are crossing borders and going and setting up operations throughout the region. So it’s happening more and more. The problem is Tanzania says well Kenya is having a great time – I don’t feel benefitted by regional integration, in fact I’m terrified of these Kenyans coming to buy my land and
dominate us, these [skikooza’s] they come and that’s just how they feel. So, there’s –
ja, in the – I’ve gone around a long way of saying that the political will is strong but
I’m worried that it’s very exclusive, well limited to these set of leaders – these five
guys. Burundi has kind of just tagged along but you know [Quebacci], [Kigoni],
[Musevini] and [Queketti], they’ve really driven us and succession you know
[Queketti] seems good for another term, or he’s just secured another term, hasn’t he?

Interviewer: Yeah.

Interviewee: [Musevini] by hook or by crook has got another term, [Quebacci’s] out. I think, you
know say for example it’s [Rila], I think he would probably be supportive of it,
whether he’d pursue it with the same gusto, we don’t know and [Kigoni] as well,
they’re just not endless in terms of his ability. So, but there’s five years left,
definitely, where these guys are still going to be around, with the exception of Kenya
and they need to entrench the commercial aspect in that period so that runs with it
because the political thing fluctuates and that’s why the AC failed in the past, you
know the political world rescinded and there was no economic rationale to keep it
going.

Interviewer: Okay. No, that’s good stuff. Thank you very much. Yeah, you got some information
for me.

Interviewee: Sure, if you want to quote – I mean not that you will but if you do want to quote me
on anything, if you just run it past me I would appreciate that.

Interviewer: I will. I will. I will do that.

Interviewee: Just because I’m not, you know I think I know what the bank’s operations are but I
might be wrong and I can always check something for you.

Interviewer: Yeah, no – I think I’ll definitely run it by you before I put [inaudible].

Interviewee: Cool, but those are great questions. I think they’re spot on. They ask all the right
things in my opinion because usually with regional integration, there’s been a lot of
talk about it lately because of the TFTA, literally two or three times a week a
journalist calling about that recently and the questions are all a little bit airy fairy and
this is great because it digs down into what it means and what are the barriers. So,
no, I commend you on that and I look forward to reading the thing, if I can?

Interviewer: No, absolutely. I’ll give it to you.

Interviewee: Brilliant.

Interviewer: Great. Thank you. Thanks for your time.

Interviewer: Okay. Maybe I should just start by giving you a bit of background of what I’m trying to do. So my research is entitled, I’m looking at the implications of regional integration on business strategy and I’m focusing on East Africa, well being from East Africa I have an interest in the area but also.

Interviewee: Where do you come from?

Interviewer: From Kenya.

Interviewee: Oh, okay.

Interviewer: Yeah, but I think it’s also a very, there’s not much research on East Africa and yet it presents quite a lot of opportunities for you know business [presence]. So I thought I’ll focus my research on that. What I’m trying to do is basically look at, so the region has been integrating from 2000 and they re-established the East African Community and there’s been a continuous process of integration and they’re reducing barriers ATC. So I want to understand how businesses that are operating in the region are changing their strategy, but even in a broader sense, any company that’s looking at Africa as being you know part of their plans for the future, how does the integration agenda on the continent actually impact or how they’re thinking about it. That’s very much, yeah, that’s basically what I want to do.

Interviewee: Ja, I think that you know we have changed the way in which we’ve been working on the African continent, and particularly East Africa in the last 10 years. We used to have a permanent presence in Kenya, as you know, and our recent and maybe that’s what I’ll start with – our recent business plan – so the 2010/2015 business plan looks at a big permanent presence in East Africa, and we call it East Africa deliberately because we are not saying that we want to have an in-country development agenda because East Africa is being developed, you know in an integrated sort of way and we see that’s the way in which it will happen and that’s the most sensible way for it to go. I mean, Africa in itself, as you know is kind of politically divided because of the way in which the power works. If you have a look at the European Union and if you have a look at the, whether it’s the rail or water or navigation systems, you know in Europe, either [inaudible] the European Union, they have quite a good strategy of, you know, say developing high speed rail links between countries. Africa struggles with that a little bit and that’s because of I think the politics but in terms of the NEPAD initiatives and other things for the corridors of Central, West, East Africa. The strategy about regional development is great and there’s a lot of initiatives and projects and things that are going on now with that. So from our point of view and from the firm’s point of view, we are looking at developing a big centre, and when I say a big centre, we’re talking about you know a hundred people plus, and whether it is in Kenya or whether it is in Ghana remains to be seen but the idea will be that that those [notes] get developed as an excellence hub for the whole of East Africa.

Interviewer: Right.

Interviewee: You know, rather than country specific. Then the philosophy in terms of the model of our operation, you know traditionally we’ve have had small offices in East African countries with a view that it was largely serviced say from you know Johannesburg and that has been the strategy. So you know work a kind of ex-pat model. Africa has evolved and that model is not going to work anymore, I mean and we’ve seen that it needs to be developed and produced locally by local people and that’s the kind of model. So what we are saying is that we want to develop sufficient critical mass in
terms of our capability and capacity within an East African hub to serve that in all of
our, well maybe not all, but most of our main service lines. So that’s the kind of
thinking. Ja, and it’s fundamentally for two things that we don’t want to service the
region as a whole in terms of an ex-pat model because we think that doesn’t work. I
think it’s too expensive and then from our, just from our, as a company our corporate
kind of social responsibility to develop local capacity is an agenda that we have on
our cards or on the table. [0:05:04.0] So, it comes from that kind of philosophy in
terms of the whole group. We provide, the DHV Group philosophy is providing you
know world class solutions locally and the emphasis is on you know the local
development or the local provision of these solutions. So that’s the kind of, ja,
strategic trust that we have and I think it’s on the, in fact the first step of that is on the
action plan of 2011 already. So [Anke] is now having a look at, you know how do
we do that and obviously it’s confidential about whether we do it in an acquisition
kind of model or whether we do it in a conglomeration of some of the smaller
companies and then having an acquisition or we just do it by brute force organic
growth. I mean, those are the options that we’re looking at there now and she’s busy
working on a plan to do that.

Interviewer: Without, as you say, getting into confidential detail, when you’re looking at, okay
East Africa and you want to make that decision, you know do we acquire, do we try it
organically – what sort of things would you look at and what sort of things would
prompt one decision over another?

Interviewee: Ja, it depends on how rapidly we want to mobilise. I mean, if we want to mobilise
rapidly, and that’s an option, then we would look at a fairly substantial acquisition
where you’ll not only build capability and capacity quite quickly but it also comes
with some sort of order book. So from a business point of view that is, but we have
to weigh that up against you know the cost of an acquisition, a full acquisition
compared to the organic growth agenda. On the organic growth agenda we have
more flexibility to be specific about what we’re doing. So if the transport agenda is
big or the rail agenda within transport is big, then we will focus on doing that. I think
in the short term we will have a strong thrust towards water and transport. That’s
what would be our thing, and my gut feel is that it will be a combination of rapid
organic growth and a smaller acquisition because it, it just will leave us with more
determination that you know if you have a larger acquisition with a number of service plans
and we might say that you know buildings is not so critical for us in terms of our
development with Asia and then that forces us into that there because that’s what it
comes with. So those are the kind of decision making factors that we would use.

Interviewer: Okay.

Interviewee: Obviously the, you know the who’s spending money is important. So who would be
the funders of infrastructure development in East Africa will be important and how
they would want to execute that. The, I mean the other huge decisions for us will be
you know business integrity – if you have a look at the group business integrity
agenda it’s extremely big and you know with an acquisition and sometimes the good
and bad baggage that comes with an acquisition one needs to you know be mindful of
about that. So the due diligence becomes very important and critical, you know, how
people are working and what is the work ethos of, you know those countries and
that’s the normal acquisition kind of investigations that one would do. Ja, so that’s I
think the kind of strategy that we will have for East Africa. I’m not, I mean I’m not
sure yet, I mean we’re still leaning towards Kenya but it doesn’t mean that it’s going
to be Kenya. We just have a leaning towards it now. And it is, I mean it is a hub for
the regional development as well of the region. So that’s important. And then we
have, I mean we have a track record as well in Kenya so that’s also important.
Interviewer: Okay. When one considers say a manufacturing entity in the context of integration, it’s easy to see potential benefits, for example if I’m producing in Kenya and distributing to the region, it might make a lot more sense than trying to export into the region from South Africa. So from a services point of view that is slightly different because you’re not necessarily facing tariffs, ETC across borders. So, when – okay, you say that the company is emphasising local service delivery, when you say local in the context of East Africa, do you mean that you would then look at the different context of the five countries that are forming the East African Community because they tend to be a bit different and there’s different dynamics in each.

Interviewee: Sure, sure, sure. Ja, you know what we would be looking at developing there is like you know you have, you know a big office that would develop and we would look at a big office being developed with say people who understand from a technical level a number of the product lines that we do. So you know, build the – so assume that water and transport will be the technical products that we would want to focus on – so we want sufficient people in say Kenya as an example who have that expertise on water and transportation. Then coupled with that, you want people who have the intimate knowledge of the five countries that make the block. So, you know in, say for example the Kenyan office, you might have you know technical experts in those fields that are coming from you know the other countries and that’s how we would develop it. And then, and that would be the hub that we would develop, and I’m using Kenya as an example – it might not be there – but then on a project basis, if there’s going to be projects that you know need to be developed in other countries, then we would you know set up project offices and we would execute it like that. But if you have a look that, you know at the rail and road and water and electricity kind of needs in the area, a lot of it is going to be cross border kind of work and it will be funded as such and it will be developed as such. So, you know we’ll have to position ourselves to you know doing work in that kind of – the other thing is that the model of delivery, and I mean that’s going to make a huge impact because I think if you have a look at the East African block, more and more of those, the big projects and of course we’re interested in the big projects because it’s pointless us going and competing with a guy there who’s doing some slabs for houses – so we’re competing with the big projects and those big projects more and more are being developed on a some sort of PPP type of model and those models, ja – you know those models are need a kind of multi, multi facetted – it’s more a kind of diverse or different kind of approach to the projects because you know when the funding comes from different sources, the political dynamics are important because there could be regional inter-country schemes and that sort of thing. So, it’s quite different to the, you know sort of, you know typical South African model about how we supply projects because we’re doing a project that goes from province to province and it’s [inaudible] project you know and it’s quite different dynamics and then in terms of the PPP, so the type of people we have there would be different. So, you know the office might end up not being a typically the kind of office we see here in Woodmead for example. You might have to have people who are you know experts in concessions and PPP type of projects, you know sitting there to deal with these issues.

Interviewer: Okay.

Interviewee: So ja, that’s – I think that’s – I’m not sure what else I can add to the, I mean the regional integration is important. I mean, for us we see, you know ourselves, in terms of our own strategy, and that’s why it’s so important that we talk East Africa. We don’t want to be seen to be you know a Kenyan company because the moment you need strategic advice in terms of the region then you know there’s – you know, are
you the trusted advisor for Kenya or you know you’re the trusted advisor for Ethiopia or you’re the trusted advisor for you know whomever. So it’s a very – so we need to try and make sure that our strategy is clear in terms of you know our independence, the fact that if we give advice in terms of a regional project, that we’re looking at the region as a whole. That we’re not, you know aligning to any one country or one department or you know one funder or whatever the case might be. So that’s important as well. [0:15:03.0]

Interviewer: Okay. I’ll wind it down now. Being a South African company – okay, first of all – I suppose when you look at the continent and you look at the big projects being done, a South African company would be competing with quite a lot of different international companies – would you say that there’s any distinct or clear advantage being a South African that almost will allow us and want to execute the work and also compete better in that Africa space or you know what’s your view on that?

Interviewee: I think if you listen carefully to what I’ve been saying, is that we would not want to develop our presence in East Africa as a South African company or a Dutch company or whatever the case is. I mean, that’s very clear because we’ve already come across clients for example in West Africa who are saying, you know we are not interested with French companies developing West Africa because it’s just gone too far. So they would prefer to work with someone else who doesn’t carry this baggage of you know you work with us because we’re French. We don’t want to develop East Africa to say that we’re a South African company. So that notion is in fact not even on the cards. We’re saying that we want to develop East Africa as an East Africa company within the DHP Group. So it’s absolutely local. We might have to deploy people, I mean we’ll have to deploy people in terms of expertise and things like that but it would be developed as a local market. We’re doing the same thing now, for example with Zimbabwe – exactly the same model with Zimbabwe and Zimbabwe’s been developed as a local company in Zimbabwe and it has local people and it’s building up its capacity. Of course it relies on some technical excellence but the idea would be that it will develop on its own. Mozambique was about three years ago about 45 people – they’re now about 110. That’s how big Mozambique is and Mozambique in terms of the family is not a South African company and it’s not a Portuguese company and it’s not a Dutch company – it is a Mozambiquen company. They have the label of made in Mozambique because that’s – and that’s the model. So it’s a fundamental shift in terms of how even the DHV Group has been thinking because the DHV Group was also executing projects on this ex-pat model – it’s a Dutch company, or a South African company executing and we want to get away from doing that. So when we’re executing regional projects or projects in the region, it’s not – it’s a local company. It just happens to have its shareholdings – it could be Dutch. I mean, it’s not even South African – if anything, you’re going to say anything you could say that its major shareholder will be a Dutch company. It won’t have South Africa – in terms of the benefits, I guess and here I’ve got to be very careful what I say because a lot of South African professionals think that they can do better on the African continent because they’re in Africa. I think that’s far from the truth because the South African professionals know South Africa and that’s as much as they know. They really don’t understand the dynamics of how things work in [Bakeno Faso] or how things work in Nairobi for that matter. So therefore you know local is better. So we would look at strongly developing that and you know understanding the local nuances of what goes on there. So it’s not, there is an advantage because we’re connected – we’re emotionally connected to the continent. There’s an emotional connection but understanding the nuances of how business is done in these countries, I don’t think all of our, all of the people that work for us understand that and, I mean I’m under no false pretence that you can take someone who’s very good in the Eastern Cape and you can put him in Nairobi and he’s going
to function. It’s just not going to work because it’s different. The dynamics are very different. So that’s why, you know why I’m emphasising over and over again that it’s absolutely we want to develop local presence – we’ll have people from you know a number of places if we’re going to be regional operated and then we’ll have project offices in terms of where the projects happen. So that’s the strategy.

Interviewer: That’s great. That’s very insightful stuff. Thank you. Thank you very much.
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Interviewee 1: Because we’ve got to sign off what’s...

Interviewer: Yeah, absolutely. I’ll run it by you. In fact, our research, they don’t allow us to use names and stuff. We have to keep everything anonymous or, you know, that sort of thing. So.

Interviewee 1: Yes. Thanks.

Interviewer: Okay.

Interviewee 1: So Daniel, tell us what do you do?

Interviewer: Okay. So I’m a Civil Engineer and I work for...

Interviewee 1: Okay.

Interviewer: SSI Engineers, Engineers and Environmental Consultants and in the Roads Transport Sector.

Interviewee 1: Okay.

Interviewer: Primarily roads design, rehabilitation, that sort of thing. Yeah.

Interviewee 1: And you’re based here and you work here?

Interviewer: Yes.

Interviewee 1: In South Africa?

Interviewer: Yes. Originally from Kenya.

Interviewee 1: Okay, because that’s why – the surname was, it gave you away a bit there.

Interviewer: It always does. Yeah, so I’ve been in South Africa since 2000.

Interviewee 1: Okay.

Interviewer: [So I left the city] and then came to work in Johannesburg.

Interviewee 1: Alright.

Interviewer: And I’m now doing my MBA at Gibbs. I’m in my final year, so trying to get rid of a thesis. Yeah.

Interviewee 1: How’s Gibbs these days?

Interviewer: Good. Like, they’re doing really well. It’s getting more expensive so I suppose that’s a good sign.

Interviewee 1: Yes. Or a bad sign. I think the SMDP, or whatever it was, the EDP – whatever they call that Executive Programme – their.

Interviewer: Alright.
Interviewee 1: In about 2003/2004, and I must say I did the same thing at Wits and I found the Gibbs one much better.

Interviewer: Really? Yeah, they’re quite jacked-up and I think the Executive Programme that.

Interviewee 1: What I enjoyed was the level, what Wits tended to do is they used their internal lecturers, if I can use that term, to present that, whereas Gibbs used external guys.

Interviewer: Oh right.

Interviewee 1: And you got a much better, I suppose, all-round, let’s call it a understanding of the subject matter hearing it from an expert in that particular field rather than a generalist whose trying to, to sell it to you on an academic front. So it was, it was good. I enjoyed it.

Interviewer: Okay.

Interviewee 1: Okay. So now you’re doing a MBA and you’re doing a thesis?

Interviewer: Yes.

Interviewee 1: Alright.

Interviewer: And my thesis topic is I’m looking at the implications of regional integration on business strategy.

Interviewee 1: But you’re looking at East Africa specifically?

Interviewer: East Africa specifically.

Interviewee 1: Why do you pick something difficult? I know you’re from there but my word, where you going to find the info?

Interviewer: The reason I picked the East African community is because in terms of, if you compare that with all the other regional bodies, the East African community has got, I call it momentum, and the most intent and they’re actually, one could actually say that their people have, it’s the best integrated region. They’ve recently signed the Common Market Protocol and the countries seem committed to actually following through.

Interviewee 1: So that’s the creation – excuse my ignorance and you’ll hear we’re not very jacked-up in terms of that area but that’s really to try and almost create a monetary union. Well, that’s the goal.

Interviewer: Well, that’s the goal. To a create a political union is the ultimate goal.

Interviewee 1: Yes.

Interviewer: It’s debatable whether they’ll actually ever get there just because the countries enjoy to be independent.

Interviewee 1: No, there must be weaklings, but anyway. I think it’s good that they’ve done it because I mean just from our point of view as a bank we see huge opportunity in East Africa. It’s not always that easy to execute under the opportunity but certainly if you’re going to be a, let’s call it a sub-Saharan bank, you pick your [notes] and it’s not. I mean it’s not rocket science. You need to be in Nigeria and
Ghana, you need to be in South Africa, you need to be in East Africa and you probably want to try and get some sort of a presence at the moment in the bordering countries to, let’s call it Saharan Africa, North Africa. So how do you do that? Well, you pick one country and you almost go and test your shoes there. Put your foot in the water, see if it’s hot – if it’s too hot you maybe withdraw – if it feels right then you dive in and then you put some presence on the ground and you look around and establish your presence in that country but you send your feelers out to the next one and then you do, your strategy is really just to leapfrog into the next country.

Interviewer: And that’s actually what I’m integrating basically is from a business perspective, this notion of integration, what implications that could have on you and how you do business, how you choose to enter, where you choose to enter – ECC.

Interviewee 1: Okay.

Interviewer: The East African community is, like I said, is my focus area but then any insights you could provide in terms of the regional blocks of [Sadek] or [inaudible].

Interviewee 1: Okay. Alright.

Interviewer: Would be valuable to me.

Interviewee 1: Okay. Let’s just first maybe just tell you where we come from.

Interviewer: Okay.

Interviewee 1: You came across us via a presentation that Danny, not Danny – it was Bobby.

Interviewer: Bobby.

Interviewee 1: Bobby Madhav did. Now Morné works in Bobby’s team, Bobby looks after Global Business and I’ll explain Global Business versus Africa.

Interviewer: Okay.  [0:04:50.2]

Interviewee 1: Whilst we’re both part of the First Rand Group, we’ve got very distinct focuses. Global Business focuses on let’s call it the expansion and the business development of our strategy around China, India, through let’s call it the Middle East corridor and then into the African space and it’s predominantly looking at the focus area is the commercial business.

Interviewer: Alright.

Interviewee 1: And the definition of commercial is really where you got, let’s call it your top tier, listed blue chip companies, multinationals.

Interviewer: Okay.

Interviewee 1: That’s corporate.

Interviewer: Okay.

Interviewee 1: Your commercial is your privately owned businesses and typically we segment by turnover. So we’re looking at businesses that have got a turnover of, let’s call it, realistically speaking your space, probably between R15 or R20 million up to,
anything up to R600, R500/R600 million. That’s the commercial space. So that area is really focused or Morné and team are focused on looking at the business development of what we call those corridors – East Africa, West Africa, India, China, and they’ve got specific products that they do promote into those areas but we’ll get to that a bit later.

Interviewer: Okay.

Interviewee 1: Where I fit in, our role within the First Rand Group is to specifically look after the countries and the investments that First Rand has made into Africa. Okay. So where there’s a presence on the ground, and I know it sounds a bit confusing, but where there’s a presence on the ground – let’s take a good example – I was in Zambia yesterday. Zambia – there’s an presence there, we’ve got seven branches or nine branches there, we employ 300 people. That falls into the Africa Business space to manage that particular investment. Where Morné and them play a role there is where there are products that are required by the client base there like debtor finance, property finance and a couple of others – they will provide those products. So it’s a bit of a matrix structure.

Interviewer: Yeah, that’s interesting.

Interviewee 1: But don’t be confused. I think the bottom line is that you’ve covered, except for one person or one area within First Rand – you’ve got the guys that are really involved in Africa in the jurisdictions that you are interested in around this table. The only exception to that, we’ve got a guy and you may want to jot his name down and give him a call.

Interviewer: Okay.

Interviewee 1: His name is Lloyd Imposhi. Okay.

Interviewer: Lloyd Imposhi.

Interviewee 1: Ja. In fact, what I’ll do – just, when you remember the name, what I’ll do is I’ll send you his details.

Interviewer: Okay.

Interviewee 1: Lloyd is our correspondent, sorry not our correspondent bank – Lloyd is based in Kenya, he’s a Zambian but he’s running our Kenyan rep office from a First Rand point of view. So again just to make the point – where we’ve got a rep office, we don’t see that as, let’s call it a fully fledged operation.

Interviewer: Right.

Interviewee 1: Where the rep offices are run in Africa, they’re run by the merchant banking arm of the group. Interviewer: Yes.

Interviewee 1: And it’s purely because, what the rep offices do is they’re not going to source transactional banking opportunities because we’ve got no presence in those countries. So we can’t go, you can’t go and deposit your cheque– there is no retail bank. So their role is to source business for the investment bank, whether that’s in your case building roads or financing roads, financing infrastructure, financing oil deals. So it’s really a merchant banking place and that’s why the rep office guy is a merchant banker.
Interviewer: Okay.

Interviewee 1: So those are really the three areas that do play in the African space

Interviewer: Is the rep office a foreigner to a, you know, fully fledged presence necessarily or?

Interviewee 1: The difference between a rep office – normally in a country you need to have a banking licence to operate and that licence stipulates very clearly what you may and may not do. So if you’ve got a fully fledged licence – I’m using a general, let’s call it term, or general example – if you’ve got a fully fledged banking licence, that allows you to basically do everything. You can take in deposits, you can lend out, you could branches down, subject to the Central Bank or the Reserve Bank or call it what you want to, giving you the authority to do those specific things but that gives you almost carte blanche to become a bank.

Interviewer: Okay.

Interviewee 1: A rep office cannot take deposits. So immediately you have to fund off a different balance sheet because you’ve got no money – you can’t use depositor’s money to go and lend out and they’re normally aren’t allowed to, they’re restricted in terms of their activity. So they can only do, let’s call it capital markets programmes or structured finance or a mixture of those investment banking things, and typically what we would do where we have a rep office, where we have an opportunity on the merchant banking side, we’ll bring it back home here and get one of our experts to look at it if it’s an infrastructure deal or resources finance deal. We’ll get the guys at RNB, they’ll focus on it and they’ll then fund it from South Africa. If it’s a transactional banking, let’s call it opportunity that they’ve picked up as a rep office, we can’t do anything. So what we’ll there do is we’ll give it to one of our correspondent banks. So that’s a local bank in that market and it’s a bit of building, let’s call it relations because the next time there’s a big deal on we’ll say no, but we gave you all the transactional banking for client X, we also want a piece of the pie for client Y so he can cut us into that deal. So that’s how it sort of pans out.

Interviewer: Okay.

Interviewee 1: Okay. Back to East Africa.

Interviewer: Yeah.

Interviewee 1: Let me just give you an idea where we’ve got a presence in, and I’m going to send you the documents so.

Interviewer: Okay. Cool.

Interviewee 1: Sorry, I’ve got a very battered copy which I take with me in my travels but I’ll send it to you to soft copy and I ran out of copies but just to give you an idea, we’re in seven countries at the moment. I’m just going to pick one page so you can read for yourself but it’s basically Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and number seven just come onboard – this is an old presentation – is Tanzania.
Interviewee 1: Okay. So in terms of what you’re looking at, there is really only a bit of, let’s call it Zambia, where it integrates into East Africa, which it doesn’t really but for the purposes of this discussion let’s assume that it does and then you got Tanzania.

Interviewer: Tanzania. Yeah.

Interviewee 2: And Moz, won’t Moz also?

Interviewee 1: Moz would to some extent but it’s, I mean in terms of the integration you’re talking – you’re talking typically Tanzania.

Interviewer: And the parts to Kenya, Uganda.

Interviewee 1: Uganda, Rwanda.

Interviewer: Burundi.

Interviewee 1: Burundi. Okay. Alright. So in those ones, it’s only Tanzania where we’ve got presence. So, to answer your direct question, you know to what extent is the regional integration going to impact on us and what are our views.

Interviewer: Ja.

Interviewee 1: Very simply, I don’t think we qualify to give you a fully fledged 20-page document on what our views are.

Interviewer: Sure.

Interviewee 1: I think what we can tell you is that we, we have looked at the East African space very carefully in terms of where we want to play and I’m going to talk it in banking terms because I don’t understand it’s broader than that. So maybe that where you can fill the gaps and the first question that we normally get asked is why did you go to Tanzania and not to Kenya first.

Interviewer: Ja.

Interviewee 1: Okay. And I’m going to answer it very simply. Tanzania to us was a good destination and we pick our destinations on a couple of criteria. (1) We look at the economic growth in that particular country – that’s important. Probably as important is the size of the economy. So you know you don’t want to be in a country that’s got a million people and is growing at, let’s call it 15%, because you really, your scale’s going to be small there.

Interviewer: Your base is too small.

Interviewee 1: You want to have a client base typically of millions and a nice growing rate, growth rate of let’s say between 4 and 5 and 7% up. So those are the first two things that you look at.

Interviewer: Okay.

Interviewee 1: Then what we also look at is, obviously social political stability does play a role. Ease of doing business plays a role, in other words how easily can you register a company there, how easy can you access the utilities, you know integrate yourself into the grids, can we find suitable premises, can we get through the red tape. I think that’s really, it’s…and the red tape has another big flag, or let’s call it big
component from our point of view and that’s the Regulator. Very, very important to us is how strong is the Regulator in a country, the Banking Regulator, the Central Bank. Why that’s important, the stronger the Regulator, the more we want to actually be there because where it’s unregulated you’re getting into a mind field where you don’t understand the lay of the labour. So you want to have very clear direction – this is the way it works in terms of banking. Now to come back to the question why Kenya and not, or why Tanzania and not Kenya. In Kenya there are lots of banks.

Interviewer: There are.

Interviewee 1: In Tanzania there are also lots of banks but the proliferation in Kenya is bigger – 40 something banks – and also what we found, unfortunately we didn’t do, we didn’t pay those school fees – some of our other competitors here paid the school fees – what we found is you’ll go and buy a bank, extensively you sign the deal in good faith and six months, a year down the line you find the seller setting up shop next door to you and taking all your clients. So that’s what you have to be careful of and that’s really the reason we haven’t gone there. So we’re now in discussions with a party, and I can’t disclose it, whose main interest is not banking. So we feel comfortable that they’re not going to set up shop next door to us because their bank that they own is, they own it more as an investment as opposed to being the operator. [0:15:10.6]

Interviewer: Is this in Tanzania or in Kenya?

Interviewee 1: In Kenya.

Interviewer: In Kenya.

Interviewee 1: Ja.

Interviewer: Okay.

Interviewee 1: In Tanzania we’ve set up the Greenfields Operation. We haven’t bought it. We’ve set up at Greenfields, we’ve got three branches, we’ve set up a corporate commercial suite and a treasury and off we go and we want to expand aggressively there. In Kenya, we are still looking and that’s probably going to be another, well probably six months to a year before we make a decision and then to actually get ourselves ready too, let’s call it to roll out, is probably going to be 18 months to three years.

Interviewer: Okay.

Interviewee 1: Okay. So that gives you where we are. Our views on the regional integration – to be quite honest with you I don’t think we have fully explored what that’s going to mean to us.

Interviewer: The implications of that, ja.

Interviewee 1: What I am going to suggest, and I’m going to send that to you as well, hot off the press, in fact I was with the guys last week doing the road show in Cape Town and then they went on to Durban and PE – hot off the press, it took the guys in our, what we call THICK – that’s the Treasury Research Team – it’s taken them eight months to develop research around where to invest in Africa. Not why – I think that question’s been answered. So, the where to invest is to us more important.
There’s a 90-page document that I’m going to send to you. It focuses on three areas and it doesn’t give you the regional answers but why I think you’ll get a lot of value out of it is the document, because of the depth of the research, they didn’t want to make the document 350-pages, they’ve condensed it to 90, which is still a lot of reading but the last N amount of pages, or X amount, however you want to look at it, is references that you can go into to research certain things further.

Interviewer: Right.

Interviewee 1: So they’ll tell you for free you should be researching out of this, I mean there’s some obvious ones like the World Bank sites, which I’m sure you’ve seen.

Interviewer: Ja, I’ve come across them.

Interviewee 1: There’s some others where it gives you very nice information around, let’s call it the demographics, and I’m sure you’ve seen some of those where you can click on the thing and it tells you this is the electricity grid, this is the.

Interviewer: Ja.

Interviewee 1: So there’s quite a lot of research they’ve done but they’ve taken it from the basis of the research is let’s pick three variables or three areas of interest for investors, potential investors. The one would be, as I said, size of the economic, ease of doing business and growth rates in those economies and they’ve plotted the, let’s call it the empirical information very graphically. So you don’t have to go and read through reams, and reams of things. You can actually see, you know, if you look at where to invest from a market size point of view or economic size, they’ll pick the top 10 or 15 and then they’ll give you some insight as to why they’ve picked those. The ease of doing business they’ll do the same thing and then they pull it all together to say okay, well based on all this information, our recommendations would be look at these countries and they’ve picked those. So I think go and have a look at that.

Interviewer: Okay. That will be good.

Interviewee 1: See what you can get out of it. The interesting one, just to come back to and I’m sure you know it, but just to come back to where you’re looking at is the Rwandan story – they consistently had Rwanda up there. It didn’t feature under one of the top 10 in terms of size purely because the population’s only 10 million but if you go and look at the growth rates and you go and look at the ease of doing business, I mean it was rated, and you probably know that, it’s the top country in the world in terms of reform – in the world – in terms of reform and your ease of doing business, you can open a PTY Ltd, a company there in hours rather than days and the, you know, the judicial system has been overhauled – you can now enforce your rights, which you couldn’t do previously. Education has been overhauled. So we see that as a good news story. There are still huge challenges – let’s not, you know, sort of beat around the bush. The challenges there is going to be, firstly, depending on what type of business you’re going in, are you going to be able to get the resources, the human capital to actually run your business in Rwanda. Secondly, the infrastructure is an issue. I mean if you look at it from the Eastern Seaboard working your way in, Tanzania – I mean there you’ve got fairly well developed infrastructure, some of it’s old, the port’s probably creaking a bit but you can if you are, let’s take at a retailer – you can get your goods into your shops within a very short period of time. As you move further from the Eastern Seaboard west towards Rwanda, that infrastructure starts creaking a bit
more. So, depending what business you’re in, you might struggle to get your goods to Rwanda. That’s, you know, that’s unfortunately something that they’re going to have to deal with and that’s not a short term cure. I mean, they’re going to have to do serious infrastructure investment to get out of that one. So that one I think, that document could help you a hell of a lot.

Interviewer: Okay. There’s actually some insight in the questions you’re asking because I mean for example the question about human capital in Rwanda for a business. With the Common Market Protocol there’s specific goals and directives almost to say by such and such a date labour will be freely moving between the countries and so if you have a pool of skills in Kenya for example, you could utilise those skills in Rwanda, no problem, you know, without regarding [inaudible].

Interviewee 1: But there’s no work permits, ja.

Interviewer: Ja. So that could be.

Interviewee 1: No, it’s going to be hugely beneficial to them. The question, and it’s something that I actually discussed with one of our internal analysts the other day, that particular question and I said to her but would you, would you then see – and we weren’t talking Kenya/Rwanda – we were talking Zimbabwe, Zambia, Tanzania because that’s where we’ve got interest – we don’t have interest in Zimbabwe but we’ve seen a lot of people who are interested in moving into – we get a lot of applications from people who want to work for us because they understand, a lot of them have studied like yourself here or either back in Zimbabwe or are Zimbabweans and now want to work for us in Kenya, but we’re not there or in Tanzania or in Zambia. But to come back to your question, the one thing is opening up, let’s call it the red tape. The other thing is the willingness of the people to actually move. You know, if and her view was because of the similarities in the region it shouldn’t be a problem. Rwanda I’m not sure because I don’t know the cultural differences between a Kenyan and a Rwandan but between a Zambian and a Zimbabwean, I mean that’s almost a free flow area there. Between a Zimbabwean and a Tanzanian, that might be a bit of a bridge too far because of language culture. So I think, you know, the point that I want to make is the one thing’s opening up the red tape, the other one is can you actually get that free flow because of all the other reasons.

Interviewer: [inaudible] ETC. Yeah.

Interviewee 1: It’s going to be interesting. Oh, the other thing that I wanted to just mention to you while we’re talking about research, we do, we’ve done that document that is around where to invest, which is what I’m going to send to you. Then we also do country research but that’s got more of a banking slant to it but what I think I should perhaps do is send you one country report and then see if, let me see if I can send you one that they may have done on Kenya and then see if it’s got any relevance and if – we only do certain countries so you’re not going to find one on Rwanda because there’s not information. That’s, I mean, unless go and park people on the ground for six months you’re not going to get anything that’s relevant. So let’s see what we can give you in terms of that and then also I think what, you know what could be of interest is, I don’t know how mobile you are and how much you do travel up that way but certainly if you want to go and have a chat to some of our guys who now spent some time in Tanzania, you’re welcome. I think, you know, just let us know and.

Interviewer: That will be great.
Interviewee 1: The guy who heads up Commercial, Corporate Commercial Banking there is a guy with the name of Warrick Brooker. He’s pretty new to that area so he’s probably not going to give you a lot of insights that you don’t know but it might be worth you just going to say look how you finding things here, was it what you guys expected in terms, as a new investor, what are the difficulties that you’ve encountered. You know, those type – I don’t know how relevant it would be to your research. You will know better.

Interviewer: It would be – yeah – it would be. I’m actually going to Arusha in November.

Interviewee 1: Okay.

Interviewer: With, where is your?

Interviewee 1: We’re in Dar.

Interviewer: Are you in Dar?

Interviewee 1: Ja.

Interviewer: Okay. Well, I’ll keep in touch with you and see.

Interviewee 1: Keep in touch, ja. And maybe what you can do, I know the [oke’s] very busy because we’ve just started so if you want him to answer a list of questions, keep it down to three or four because he’s not going to get you number 10 and also give him you know enough lead-time to be able to get through.

Interviewer: To do that. Okay. That’s fine. That’s fine.

Interviewee 1: What else can I tell you?

Interviewer: Okay, now – just you mentioned the ease of doing business and I’ve come across the ease of doing business index. I think it’s by, is it the World Bank?

Interviewee 1: Ja, I think the World Bank.

Interviewer: From your perspective, do you take that and believe it almost or do you then do your own research and determine your own interest.

Interviewee 1: We do it.

Interviewee 2: I think is in most of us, if you look at this is also just a commercial presentation but source World Bank 2011 and. [0:25:00.9]

Interviewee 1: We do use it but it’s not the blueprint. You know, it doesn’t – well, okay well, oh, it’s easy to do. No, you have to go and do your deeper research.

Interviewer: That’s the thing. It can, you know, it’s quite generic almost and, you know, it could put you off some countries where you could actually do really well if you actually get in there and figure out how to, you know.

Interviewee 1: It’s an indicator – that’s all it is. It’s like anything, I mean I’m an Economist by training but I’m of the firm belief that economy in theoretical, in the theoretical sense and the practical application of it sometimes are very far removed and in this case, yes that is practical information but it’s still prepared by Economists who probably haven’t walked the streets of Arusha to see what’s going on there.
Interviewer: Yeah, exactly.

Interviewee 1: Ja, but ja. I think that’s as much info to be quite honest as I can give you. I’m not going to give you things that I don’t know. I’m not going to suck things out of my thumb because you know that’s not what you’re here for – you’re here to I think to build a concrete case for your dissertation. So let’s rather give you concrete information.

Interviewer: And that has helped. I mean, it does give a nice broad of a view from the [approached] end and one could almost infer the possible implications of integration from the things that you’re saying are important to you. Ja, so I think that is useful.

Interviewee 1: Just a question?

Interviewer: Ja.

Interviewee 1: Your email.

Interviewer: Ja.

Interviewee: Can it handle large documents?

Interviewer: How large?

Interviewee 1: I know the one is five or six gigs.

Interviewer: Is it? Let me give you my gmail address as well.

Interviewee 1: Because I’m just worried that it’s going to get blocked and then you don’t get the stuff.

Interviewee 2: I received an email from RNB yesterday, the same one where to do business and where to go in Africa.

Interviewee 1: Is it zipped?

Interviewee 2: It’s actually just a click.

Interviewee 1: Oh, so.

Interviewee 2: So you download a presentation which is only 75 pages. You actually download it from the web instead of having it as a file.

Interviewer: Okay.

Interviewee 1: Won’t you send that to Danny because I don’t have that yet.

Interviewee 2: Do you want me to send it to you as well?

Interviewee 1: Ja, send it to me. It would be good.

Interviewee 2: It’s just there’s a podcast today at 3 o’clock on that where to go, where to invest in Africa.

Interviewee 1: Is that so?
Interviewee 2: And you can either dial in on a 080 number or you can download the presentation from that link. So it’s maybe easier just to have.

Interviewer: Would I have access as a non-employee?

Interviewee 1: Yes.

Interviewee 2: Yes, it’s a podcast. You email into our client so you just click on a link and it comes up with a presentation.

Interviewer: Okay. Great.

Interviewee 1: So if you’ve got nothing to do between three and four, if you’re not going to Sandton to see the Springboks well then you’ve got something to do today. But I guess as a Kenyan rugby is not high on your agenda.

Interviewer: Interestingly enough, like I grew, I played ruby all through high school.

Interviewee 1: Did you?

Interviewer: And you the Kenyan Sevens Team does quite decently.

Interviewee 1: They are hot – that’s my team – my second team obviously but it’s my team.

Interviewer: Yeah, we do quite well. So I’ve always loved rugby.

Interviewee 1: Okay.

Interviewer: I do follow it quite closely, yeah.

Interviewee 1: Okay. What else can we tell you? Morné, anything on your side?

Interviewee 2: Not really because from our side we are more banking – you guys look at the operations and where to go and all of that. We just follow that footprint and then implement commercial products. So the info that you most probably have is a lot more relevant to your business case than what we would have on file or anything like that.

Interviewer: Okay.

Interviewee 1: Daniel, just a question. What is your timeline on your thesis or is that sort of a murky thing. I know how these things work so that’s why I ask the question.

Interviewer: Well, official hand in date is the 9th of November. So I’m, right now we have a global elective in October so I’m really pushing to finish by about mid October but then it, the chances are very high that this will go further because my supervisor, Dr [Lawarton] at Gibs is keen to publish this research. So I see myself handing in, for the research thesis purposes and then continuing with the research to get it to a point that we can actually publish and ja, like for interest sake.

Interviewee 1: So you’re changing careers now that you, because I mean as an MBA student, that’s quite a – it’s not a theoretical exercise but it’s certainly not something that you’d expect from an Engineer.

Interviewer: Sure. I think my interest is very much business development and even in my company we’ve been having discussions about you know what I want to do and
I’m saying that look the African market is so misunderstood. I want to basically position myself as the Africa guy from a strategy point of view for the company and there’s huge scope from an infrastructure point of view for us to grow into Africa.

Interviewee 1: So you haven’t considered a career in banking? No, I’m not joking. I’m being serious when I say that because I mean if you take, and I’m not offering you a job, I’m just saying you should maybe consider it because if you take where we’re playing in Africa as a merchant bank, investment bank, it’s in the oil space, it’s in the Telco space and it’s in the infrastructure and resources space and half that team is populated by fellows like yourself.

Interviewer: Really?

Interviewee 1: Ja. Engineers with MBAs. [0:30:00.0]

Interviewer: I’ve never really understood what role I would play and I’d be very interested to [inaudible].

Interviewee 1: Ja, well you’d go and do project assessment. It’s simple. There’s the documents, go and read. Tell us whether this thing is viable or not and that’s the first role and then from there you know.
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Interviewer: Yeah, thanks for making the time to see me. So, just to give you a bit of background.

Interviewee: Ja.

Interviewer: So, I’m a Civil Engineer.

Interviewee: Civil Engineer?

Interviewer: Yeah.

Interviewee: Okay.

Interviewer: I work for a company, SSI Engineers. I’m primarily in roads.

Interviewee: Okay.

Interviewer: New roads design and the implementation design.

Interviewee: Yes.

Interviewer: So I’m doing my MBA at Gibs. I’m, yeah, [inaudible].

Interviewee: Where you study – ja, ja, I understood you – through [inaudible].

Interviewer: That’s right.

Interviewee: And you study MBA where?


Interviewee: Right, okay. Ja. See, I’m new to the country so I’m not sure all about these acons now.

Interviewer: Okay. Okay, great. So basically, yeah, we do research as part of the MBA and my research is basically, I’m looking at the implications of regional integration on business strategy with a focus on the East African Community.

Interviewee: Okay.

Interviewer: So what I’m hoping to get from you is insight on how integration, whether in EAC or in SADEK or any other region.

Interviewee: Ah, you mean of the trade block.

Interviewer: Yes, that’s correct.

Interviewee: So you mean like integration of countries into, what is it SADEK or what is it.

Interviewer: Yeah, like SADEK. The East African Community and for your business you know does that mean anything, does it change the way you approach the region or the way you conduct business ETC?

Interviewee: Let me think about it because, or maybe I should – I mean of course if you do talk about different, what is it, trade blocks and things like that in different contexts,
primarily when it comes to maybe not so much how we operate but how customers can operate.

Interviewer: Okay.

Interviewee: Because that of course has also on impact on how we work but I mean just to give you maybe a little bit of background, not so much on myself but the company, ja?

Interviewer: Yeah.

Interviewee: Kenya, since you are focusing on East Africa, Kenya was the first non-European Market for us to enter.

Interviewer: Is it?

Interviewee: So actually this year it’s 55 years since we have been around in Kenya and how it happened and why it happened I’m not sure but it ended at a time in a substantial [inaudible] program where basically with different contributions and sponsored money from again international institutions and locally, there was a huge dairy project which is an industry there we used in quite a few places to brink, ja, it’s a popular term maybe now ‘job creation’ – it’s a job creation item. You can look in India in the last 30 years, that was one of the ways for them to keep people employed. It’s not perfect but it’s I mean again it’s one of those ways. So that was what happened in Kenya. So still today we have a factory in Kenya. One of our packaging formats made it even to the Kenyan, I believe, bank notes. That’s how far it went, ja. So we have been there ever since and we have seen the ups and downs of the region, if you put it that way. Today when we look at it, of course it’s that we look at it, we talk about Kenya and East Africa as one of our organisational units but as I say, I think you know more important the whole SADEK I think for us it’s important maybe from you know import duties point of view to understand those things, ja. It can be export from South Africa without duty or not. That’s important but it doesn’t have a detrimental impact but again as I said more importantly though is how customers work. Can a Kenyan customers, which for example has access to milk, a dairy customer, is it possible for that customer to export to Sudan or to Ethiopia. Of course the next question is then [inaudible] economic situation in the country for ability and all of that. But you know at the outset you start, you try to understand is it possible or not or is it then important for us to seek partners in those local countries, which sometimes is very difficult because the infrastructure is not there and so forth.

Interviewer: Right.

Interviewee: And then also it needs to be said that while that is, that while is important, still what we are dealing with here is from our end is liquid food or you know for you know for humans and there is not one place in the world where one could be able to sustain without having local production. Every country is looking at this as a strategic resource plus source [of] the whole distribution would end up so much [inaudible]. We usually end up having global customers locally or operations locally. So that’s the block. It have a big impact of how we think and how we strategies, not. I don’t think so. I think maybe less so from – no, the block doesn’t have an impact. Import duties, they have an impact maybe and trade barriers – are they good or bad, I don’t know. We don’t mind them but we just kind of try to figure it out.

Interviewer: In the East African region, as an example, when you choose you know a country to go into, what do you base that on, what do you look at?
Interviewee: You see again, I mean it’s – [inaudible] countries, if you put it that way.

Interview: Are you? Okay. So you’d manufacture.

Interviewee: I mean, in the sense that it’s I think at the very heart of the company to have been expanding around the world at a very early stage. It’s one of those you know when we drink with some of the older colleagues of that has worked in the company for many years, yeah. I mean, when we look maybe a little back sometimes we believe that apart from the great idea and a lot of professional work but one these important corner stones for our success was expansion to many places in the world very early on and as I said, I mean we were in Kenay 55 years ago. I mean, I don’t – I’m not sure about South Africa. If you look at Nigeria, late 50s or 60s, so early 60s. So I mean there was not a place we wouldn’t go to and then we would set foot. Today if you look at East Africa, I mean again we manage operations out of our Nairobi office. We’ve got another office in Khartoum but then we’ve got customers in well I mean Uganda, Tanzania, Sudan, Ethiopia. What we, do we have there – Burundi, right? I’d have to look on a map you see. Malawi is actually [inaudible] out of South Africa. I don’t know – does Malawi belong to East Africa?

Interviewer: No.

Interviewee: It always belongs to South Africa, to SADEC?

Interviewer: Yeah.

Interviewee: Okay. So basically we have operations all over and then we have our people on the ground all over. Do we have an office all over? No. Usually we would then also not have a legal entity in most of those countries but I mean we have our service on the ground and customers with our equipment on the ground.

Interviewer: Okay. So the Kenyan manufacturing plant services the other countries?

Interviewee: Ja, primarily it’s the Kenyan factory but not every factory. We’ve got more than 40 factories around the world. So not every factory produces every single format of different shape, size and everything. So, but I believe they would probably supply 80/90% of what is being consumed in that region. Part of that is then imported from other places.

Interviewer: Okay. So the offices you mentioned in Uganda, Tanzania, what do those...?

Interviewee: We don’t have an office in Uganda, we don’t have an office in Tanzania. We have people that are based out of Nairobi but are focussing exclusively on...

Interviewer: Servicing those markets.

Interviewee: Ja, for example we have a guy that runs Uganda, Burundi - Uganda, Burundi – I just wanted to make sure. So that’s his only job – he’s you know our Regional Manager for those three countries.

Interviewer: Okay.

Interviewee: And he spends of the time in those countries I guess.

Interviewer: And staffing? So, the guy’s whose looking after this?
Interviewee: We have staff also from those local countries, you know, I mean you know the engineers and all that. I mean when we look for people we don’t look based on their passport. We look at you know can they do the job or can they not do the job. I would, you know I could even imagine that of course it’s maybe even preferable to have a guy that knows the local country better and he has already some contacts, of course that’s the case. But again, for us it’s not only about selling – it’s really developing and helping to develop customers. You have to have technical staff on the ground, you have to have you know marketers on the ground so. But ja, there are, I don’t know how many there are but maybe a total of 150 people that we directly employ in Kenya and East Africa but indirectly how many jobs we created I don’t know because I mean again you know it started milk production. I was just recently helping [inaudible] in Sudan for example, where one of our customers – there’s three I would say, we have three partners in Sudan. [0"10:07.0] I saw two of them and both of them are putting up dairy plants so that they can have actually raw milk or access to raw milk of good quality, which means of course jobs are created because this is now relatively substantial farms. On the short run one could say that one, one is taking jobs away from the hawkers. I don’t know if you’re familiar with hawkers in South Africa but it’s people that sells raw milk that is probably, probably they loot it, it has been tampered with, antibiotic. So those are actually things that are hazardous to health but you would have people challenging saying that well but you’re industrialising then you take jobs away from the hawkers, from the distributors of milk. I don’t know, but no, I mean you know those guys are making substantial investment into the dairy industry. Is it because of us? I don’t think so but we are, I’m quite sure, opening the eyes and helping with their development.

Interviewer: Okay. Well that’s clear. I mean, I think, well at least from the description of the way you do business in East Africa, the integration theory says that if the region integrates and there’s no barriers, you get capital, people, skills, goods moving freely across the countries but that might have some benefits too.

Interviewee: Absolutely. I mean, I think that is for us one of the frustrations again coming from what I said before, it’s important how customers feel about free trade and it’s very often that although on paper it’s free trade, it is not free trade. We have a case now where a customer in Uganda was trying to export to Kenya. It ended up them setting up operations in Kenya because the free trade was not free.

Interviewer: Really? Is this recently?

Interviewee: Well, recently – I think it’s like history that was dragging on for a while but now they have operations in Kenya.

Interviewer: Okay.

Interviewee: Ja. I mean a production plant where they pack juices and milk because they couldn’t export freely. So I’m not sure how it works to be honest. I mean, I don’t also, we have our own people up there, we have a Managing Director in Kenya. So if you would be more interested to find more details or anything, there would be probably a better guy to talk to or actually a South African [carrier]. He’s been helping out on the Commercial Director’s side for three years, I believe. But no, free trade on paper looks great – in reality not so great.

Interviewer: Not so great.

Interviewee: Add to that the infrastructure is poor. You know of course it’s great news that Kenya has a fantastic port over Mombasa and then what? How efficient is the port, how
good are the roads – thanks God to the Chinese I guess, I mean on the short run, although on the long run...you tell me. I was here very early days, like the second day when I arrived, we went out to see some clients and one of these clients was a relatively small client, I mean he has a very interesting business model where he co-packs at one of other customers and then tries to sell primarily into Africa and he said he was part of a South African delegation that was visiting China and there he said in China I mean he realised that Chinese they have a 100 year strategy for Africa and he said well, we in Africa we don’t even have a one day strategy to survive. He was quite depressed, I must say. I mean he was really not happy. No, but again I think you know even when there’s talk of trade block, I mean what are – again, talking to customers – part of it is the red tape that creates problems and another important part is the infrastructure and as you mentioned yourself, the banking infrastructure is one but then more importantly the logistically infrastructure and everything else. I mean, you can talk any trade block – I come from a small country in Former Yugoslavia, Slovenia - to the North mountains, the Alps and then just north of us is Austria – I mean if we didn’t have a tunnel under those mountains, both first the railway tunnel and then now a highway tunnel [inaudible] 20 years back or 25 years back, you can talk any free trade you want.

Interviewer: You can’t do anything.

Interviewee: Ja, I mean, you’ve got these mountains to pass. [0:15:00.0] So it’s, it becomes so much more tricky physically. So it’s, I think that’s where a lot of, if you read about the way these blocks work, [inaudible] will have to have a go to and that is are people true believers in the trade blocks, do they really believe that a rich neighbour is a good neighbour? What is the human nature? We prefer to be the high horse rather than I mean you know it’s.

Interviewer: That’s true. In fact, I was reading an article that in Tanzania the people there are very nervous about the open borders because they think that Kenyans are going to flood their country.

Interviewee: A very good example because again, I mean as a company or our roots are in the dairy industry and still today more than 60% of our turnover is dairy related and we will continue to do so. That’s our main focus and looking at sub-Saharan Africa in total, it’s again, it’s dairy products that are the main focus. You have, because of the metro conditions, much more milk in Kenya while in Tanzania you have none. So what Tanzania today is doing they are buying packed milk from elsewhere and they wouldn’t want or it seems like talking to different customers, it’s quite difficult to export packed milk which comes from the cows that are growing, or you know grazing in Kenya to Tanzania. But you would also find very often, well it’s being recorded so I cannot say off the record, but in whichever case, but you would find of course that in countries like that, what would you find is very influential people that end up being our business partners. Kenya, our biggest customer is a dairy called Brookside. The Chairman of that dairy, his last name is Kenyatta.

Interviewer: The Kenyatta family.

Interviewee: Correct, ja. In Tanzania I’m quite sure we have a rather successful customer there. I have unfortunately not met him yet – I haven’t been up to Tanzania yet. It’s a similar case, I mean not the same but still. So usually what would happen also there, they very often start to look at their own private interest and through the influence they have they would dictate what the law should say, you know protecting or protect from imports. Why? Because they’ve got the business to build. So I think that is quite unfortunate. Now that I say I haven’t been to Tanzania, I mean if I show you my
passport I would laugh – you only get one stamp per year per a trade block. I mean take European Shengen, you know, you pass a relatively vigorous maybe visa application procedure but once you get it, you can travel to 23 countries – not all 27 but 23 countries inside of the Shengen part of European Union. Perfect. Here I am now, I mean my passport that was issued on the 10th of October last year, I got I think five pages left because every time I go to Kenya I get sticker, every time I go to Sudan I get a sticker, every time I go to Uganda I got to get a sticker and a page is gone. So even, I mean it’s small things that make it work. I’m not complaining about my passport, I’m just setting it as an example of you know things are on paper they look good but in reality – Jesus – it’s.

Interviewer: It’s a...

Interviewee: Ja, and every time I have to go through the visa application procedure and every country is a law in its own you know.

Interviewer: No, that’s very true. Are you very conscious of time?

Interviewee: Ja, of course.

Interviewer: Okay. But yeah, I think that’s good insight.

Interviewee: Well that helps again and then if you will have more questions I think it wouldn’t be wrong to talk to, if need be, to talk to and then, then you can find a good occasion because these guys from Kenyan, they’re coming down here every now and then. There would be a needs to further clarify and get more detail. But yeah, there you have it. Great ideas but that was in [detail]. [0:20:00.0]

Interviewer: The implementation is not that easy, hey?

Interviewee: Ja, but I think you know if, and that is more, not maybe so much our’s opinion own, unless you make that [inaudible] it’s going to be tough because then it’s much easier for I think both other big influential powers to I mean talk US talk Europe talk China talk India to piecemeal Africa. That’s my...

Interviewer: You mean?

Interviewee: To play it on the per country level, it’s going to make it easier for those countries. Not more difficult.

Interviewer: Yeah.

Interviewee: Because, you know if you come out as a, if you come as an Eastern African block there is one club, one sort of negotiation position where it says one at a time and I’m quite sure [inaudible] prefer the one at a time because then the Chinese’s Government Official has to go to 10 of them rather than just one of them.

Interviewer: [inaudible].

Interviewee: I think so.

Interviewer: Yeah, that’s interesting.

Interviewee: Ja, but I don’t go into politics. Alright Daniel.

Interviewer: Okay, great. Thank you very much.
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Interviewee: I mean I think that nowhere is the gulf wider between sort of theory and practice than in the area of regional integration within Africa. I think that there’s enough examples like Europe and so forth for technocrats in Africa to be able to put on paper everything from one-stop border posts to a future common currency – all of those kind of elements of a type of super national kind of entity, for lack of a better word. But the reality on the group is just so much different. I mean, my experience is even with a vast amount of donor money and a lot of technical expertise and a huge amount of momentum and an obvious need for something that things like State politics and sovereignty and corruption just interfere. I mean the one-stop border posts are probably the best example and if you can get a hold of him, without a doubt the best person to speak with would be Mark Pearson on these issues because he’s – you might have come across his name – he’s done a huge amount of stuff within the SADEN region about regional integration – but the problem is that these things can get up and running and look like they’re working. For instance one-stop border posts are supposed to be rolled out across you know the Southern Africa region. You know the first one was in Chirundu and then the next one I think was supposed to be [Casembelaya] between Zambia and Zimbabwe and then a few others. But you know you can put in place the sort of, the joint management custom systems and that type of stuff but in reality my experience is that countries are still wedded to, they’re very much wedded to their old practices and although you have the infrastructure on the ground, both the soft infrastructure and the sort of hard infrastructure, it – in practice those sort of traditional, age old obstacles of State sovereignty and politics just interfere. I mean, to give you an example, the one at Chirundu which was supposed to cut the waiting times for hauliers going through that border by half, you know 18 months after it was established in 2009 it was still having huge problems and huge line-ups and stuff. For passengers, it was much, much better but for hauliers huge problems and [Casembelaya] is one of the best examples if you want to look at that because they have a new 100 000 square metre facility that has got everything, whereas about a year and a half ago it had no infrastructure at all. Yet corruption, particularly on the DRC side, but also on the Zambian side but particularly on the DRC side, would probably put pay to even the best type of procedures and facilities because all it takes is any kind of rent seeking and the whole system kind of is thrown out. So I think you know when Zuma had you know the Summit in, when was it – it was June – and this you know huge idea about integrating in 26 different countries in a kind of common you know economic unit. I mean I just don’t think it reflects the reality of the very different you know political cultures and stages of economic development that each of those countries are at. So I think and I default to the view that the people who are in Africa’s capitals underestimate the challenges at the sharp end because frankly they’re not at the sharp end.

Interviewer: They’re not, yeah.

Interviewee: No. I mean, what government official is going to spend a day at a border post like [Casembelaya] to see what’s going along, let alone the two weeks that some truckers have to wait simply because of corruption, documentations are not being processed correctly and stuff. So I think it’s quite interesting to talk, if you can, to the people who it’s their business and I know you’re not doing Southern Africa but you know I could put you in contacts with people who work at the border post at Beitbridge just to sort of listen to sort of challenges that they have. It’s incredible. [0:05:00.0] I mean from a one huge security challenges, which is another side of the issue in terms of transporting goods, but in terms of customs and so forth, you know it’s just, it’s sort of astonishing that they haven’t rationalised the documentation that’s required and so forth. I mean, you know there’s so many things which are, if I can remember
when I sort of did the little study on goods that have, they have the SADEK stamp and then each particular good for instance, if you’ve got a Shoprite Checkers truck or something like that, you know the idea that you’d need like a sign-off on element of a composite load, I mean it’s just and it’s incredible – it’s incredible. So I think that you know there’s a tremendous amount of aspiration and ambition in the ideas of regional integration but when the sort of high altitude plans, you know rub against the sort of reality on the ground, I think it’s you know, it’s kind of a different story and also too it’s you know in terms of continuity, in terms of governments within the African context, you know you’ve got some big, big holes. I know within, I don’t know if the DRC falls within East Africa.

Interviewer: No, it doesn’t. It falls into EAC.

Interviewee: It doesn’t, yeah. Well I mean, you know, I mean in Kenya for example on this five-day trip there are 147 instances of corruption. Only one of those – so that’s a trip from Mombasa to Kigali – only one of those occurred in Rwanda and what’s interesting about the one that occurred in Rwanda, when the presentation – again, this is totally off the record – but when the presentation was given to President Kugami, he was like what time of day, where was it and you know, there was no getting out of that room without him saying, without telling him what that information was because you know he, that person, whoever – they were going to figure out who that person was that was responsible for that and for all of the you know the current criticism of Kugami on some fronts, there’s no doubt about it that at the level of petty corruption, which can be so, so, bear so heavily in a negative way on trade and so forth, you know they’ve done an incredibly good job of cracking down.

Interviewer: Of stamping that out.

Interviewee: Yeah, stamping that out. But I mean that’s, I mean and so much of that, those delays and stuff were pathetic the amount of money that was being asked for but 147 is no small.

Interviewer: That is huge. It’s not a very big area.

Interviewee: No, no, no – it was crazy.

Interviewer: I had the question posed to me on the weekend that I would like to get your view on – basically the question went something like you know we speak about integration in Africa and it’s become the agenda you know, you have all these regional integration blocks and the question is what is the rationale behind it – what are we attempting to achieve? I think the cross-border trade is a clear example there.

Interviewee: Ja.

Interviewer: You know, if we can streamline that, it has very direct and material impact for the economy, but beyond that, what’s the case for integration and the follow-on question would be to what degree should be trying to integrate? So should be going the European Union route of full integration, full political integration or should be saying let’s just get the trade flowing and people movement to a certain level and just leave the sovereignty of the different states independent?

Interviewee: Well, I mean it’s so difficult when you talk about questions like that because you know when you talk about African borders for instance, I mean the reality is, with the exception of South Africa and maybe a few other countries, with the exception of South Africa, you know African countries don’t really know what’s going on across
their borders. They simply don’t have the capacity to monitor you in places like West Africa, I mean it’s just – it’s porous as you can possibly be. There’s no way that those borders can be controlled and obviously Southern Africa is a little bit different but the same thing. So if the goal is try and move towards something more European-like, which is soft borders and I wrote an article sorting of hinting at this last year, the ideas that soft borders will be indicative of the strength of African institutions and so forth, as opposed to their weakness, which it is right now.

So soft borders have a negative connotation within Africa right now but one hopes that one day it could reach that situation where it’s actually a sign of strength but I think that, in my personal view, what’s absolutely critical within the Africa context is to abandon this, the sort of pan African ideas, these huge blocks, which is just crazy in terms of realities on the ground, in terms of size of countries, I mean, you know Nigeria paired with Botswana, you know I mean, it’s madness and I think what Africa would be much, much better from a strategic sense is to look much more tightly at their immediate region and I don’t know what the statistics if they bear out but in terms of trying to you know link SADEK, [Comessa], and Ecowat, like these kind of things, I mean it’s crazy and I think that just concentrating on smaller units might be much, much more beneficial and abandoning the retracted about sort of pan African kind of integration and these type of things. But the problem with you know deeper integration is within the European context, there has always been concern expressed about some of the [legarts] in terms of economically – Portugal, maybe Greece and so forth – but I mean staying within the African context, I mean you know you’re pairing you know South Africa with you know some of these other countries I mean in the region. It’s a bit crazy and I think you need to sort of look as well at the experience of over time how the institutions of things like the Southern African Customs Union how that’s worked. I mean you’ve got a 100 year span in which, or more, to analyse how that customs union has worked with its institutions and all that stuff and I think that the Trade & Industry Minister, Rob Davies wrote about it very positively in the Mail & Guardian on Friday but I mean that’s facing huge, huge challenges at the moment because with the global economic crisis it’s not certain that it’s been able to sort of withstand that type of shock in terms of the current revenue sharing kind of systems. But I think that you know in terms of would it be something that is potentially of huge benefit to Africa – deeper integration and so forth – I think absolutely but trying to harmonise relatively simple things like you know the movement of trucks and goods and so forth, you know that’s proved so challenging in these one-stop border posts but it’s probably moving still in the right direction though. In other words, one-stop border posts should be the way they should go with these things because you’re also, you’re trying to sort of concentrate the capacity, the technical expertise that’s required to man those things and if countries can join up and make those things work then you can envisage deeper levels of integration that could be viable but, you know I mean, not that it really probably is too relevant to this case but when I, you know the prominence of which the ANC Youth League got in their call for regime change in Botswana and these types of things – obviously they’ve been cracked down a little bit but it is, you know it is kind of indicative of you know African countries are going to have fundamental disagreements on core issues and whether those can be kind of corralled into institutions where they’re sort of resolved amicably and so forth, I don’t know but the you know the kind of super national institutions that the Europeans created requires a relinquishing of State sovereignty, which no country in Africa has even remotely moved towards. I mean, the African Union, I mean you just need to look at the African Union in terms of on paper the African Union looks terrific with its, the Security Commission and the various bodies and the organs and that type of stuff you know but you know in reality its proven fairly toothless on you know probably getting better but in reality it’s proven toothless on you know core, core issues. I mean, one of the issues we’re looking at now is what is the response to Southern
Sudan that the African Union has taken and what does this hold for possible self-determination movements in the future and so forth. I mean, Somalilan’s’ probably in your – is that in your?

Interviewer: Well, it’s in the region but the EAC is...

Interviewee: Oh, you’re the EAC – sorry. And looking at some of these other issues and how the African Union is going to sort of address those – I mean, who knows, who knows. But I think you know it’s that relinquishing of sovereignty which is such a big leap for any country but that is what’s done in Europe. I mean, the idea that within the African context you would have bodies that would have final jurisdiction that supersedes what happens in South Africa or Botswana or you know Zimbabwe is, you know, it’s quite a leap.

Interviewer: Ja, it is. A massive leap.

Interviewee: I mean, that’s quite a big leap.

Interviewer: You almost can’t see it, can you?

Interviewee: Well, I think it’s – you know there’s so many incredible plusses. I think at the end of the Cold War only three countries in Africa regularly held multi-party elections. Now the number’s over 40. So even if those countries are not what we might call sort of you know straightforward, you know ideal kind of democracies – I mean, obviously a lot of them have flaws – I mean, it’s hugely significant that those countries feel that they do lack credibility and so forth unless they engage in these processes and in those institutions. So you know I think great leaps forward are being made and in conflict in particular. I mean, although we do tend to concentrate on you know the running sores of the Congo or Somalia, [Chad], the reality is the whole conflict situation has changed dramatically from the end of the Cold War. I mean, there are very few ongoing conflicts in Africa, very, very few you know compared – and it’s still probably more than in any other region in the world but comparatively a lot fewer, a lot fewer. So I think things you know in many ways are moving in the right direction but I think people have a tendency to get ahead of themselves when they haven’t sort of got the kind of basics that are down and I mean corruption, I mean corruption is so significant across the board and corruption, you know I mean obviously you’re from Kenya – so you know where corruption became almost a form of sort of State practice and almost where you can’t call it corruption because it seemed, it became so wedded into the fabric of these societies. I mean the great danger in this region is how do we now take Zimbabwe out of the you know the culture in which it’s, almost everyone has become admired. How do you do that, and how do you – I mean in the MDC, there was just a recent piece about Morgan [Chanker]. I mean there’s you know everybody has got their noses in the trough and in some ways that understandable – everyone just had to survive. But you know you can’t just sort of wave a magic wand, have one election and then all that kind of stuff is no more. So you know, and I – the place where I’ve seen the sort of the worst kind of corruption and particularly interviewed with the worst corruption was the Congo. You know, I’ve never, you know, I mean it’s just, it’s a [inaudible]. I mean we have a book that’s coming out published by Profile Books and the article on the Congo is a terrific one and it’s a great writer and he actually, he starts it off, he says Congo is a crime of a country and then he just sort of lists this – which actually reminds me, I’ve got a paper, another paper on Kenya, Uganda, Tanzania which is – but you might see it, but that’s much more about how those countries have managed the fault lines in those countries, particularly ethnic fractionalisation but so that’s not really sort of a business kind of thing. [0:20:23.7] But anyways, so my basic strap line in terms of
integration is I think that there’s so many other steps that they have to go through first and I don’t think that integration can work as well if the gulf continues to widen between you know the [legarts] and the ones who are sorting of getting their house in order. You know, this, I mean I think the sort of development trajectories in African countries are you know diverging quite a lot you know. It’s also difficult to sort of identify what’s you know in terms of if you look at foreign investment and stuff, what does that actually mean for Nigeria, Angola you know they’re getting so much in but what’s happening in terms of levels of development in those kind of countries and stuff like that.

Interviewer: Exactly. Yeah. Well you raised an interesting point when you say that, you know there would have to be this kind of giant leap to get past those barriers for a sovereign State to actually be willing to accede to something bigger than that would control them. But I think the case of Rwanda is probably you know a good one to look at because you know Rwanda has made serious strides deliberately and I think for, you know, in the example you gave me, one incident out of 147 in Rwanda, that’s significant. I think it speaks of [Kudami’s] leadership.

Interviewee: Yeah.

Interviewer: And you might have insight on the inner workings there and what the top level Government’s been thinking about, what role are they planning – because at the moment they’re part of the EAC and they’re hugely dependent on Kenya in terms of trade and everything. What role are they willing to play, how far are they willing to take this whole integration agenda?

Interviewee: Rwanda?

Interviewer: Yeah.

Interviewee: Well, I mean you never like to be quoted on Rwanda but the you know, Rwanda has you know, although it’s such a small State you know it is you know it is the sort of provider out in the sort of, for the great lakes region and particularly into the Congo. I mean, it faces such enormous logistical challenges in terms of you know from its you know I don’t even know if it’s been able to sort out its air links – Air Rwanda went down for a while and then I’m not sure what the situation is now, and Rwanda also suffers from you know tourism you can only, it’s only 25 000 and people can see the gorillas a year. The people who are interested in sort of cultural side, coffee, you know [inaudible] and Lake [Kiawah] – there are very few sort of resources and so forth. So I think what Rwanda has done in terms of its improvement on the doing business index and the Rwanda Development Board and that kind of stuff is incredibly, incredibly impressive but in terms of taking leadership, in terms of from on integration perspective and that kind of stuff. I mean, other than leading by example, I mean I can’t really see it because it’s so, you know it has so many issues it needs to address within its own country, a country of 10 million people which, you know I mean let’s face it, I mean this is still a country that runs by the RPF and the, you know the reality is most of the people in power still look like [Kugami] and you know. So, I can’t see it. I mean, I know, I’ve had colleagues that have written extensively on Rwanda so I can send you that stuff. I don’t know if you’ve ever seen Gregg’s book – Gregg Mills – he did a book called Why Africa Is Poor and Gregg in 2008 was the Strategy Advisor, Strategy Advisor to [Kugami]. So he was actually there in Rwanda and he’s not going to be invited back any time soon.

Interviewer: Why is that?
Interviewee: Well mostly because you know, even books that have been very strongly pro what’s happened in Rwanda but have tried to balance that with some criticism about the authoritarian instincts and other things that have gone on, lack of free press and stuff have been just black balled by... [0:25:15.0]

Interviewer: Really?

Interviewee: Oh ja, by [Kugami] and so forth and we’ve got many, many stories – friends thrown in jail – all those kind of stuff and you know it’s hard to know this sort of from the inside what it is and whether or not [Kugami] has to be doing what’s he’s doing because he needs to keep a lid on the potential of strife what still totally exists out there. So he has to be somewhat sort of authoritarian and so forth but why they’re so, so allergic to any whiff of criticism doesn’t do them any favours. You know, I don’t know if there is a less free press in Africa – there probably is – maybe [Eritrea] or somewhere else but anywhere else is there? I don’t know – I wouldn’t think so. And if you were in Gregg’s – Gregg tried to balance it and he tried to – he made some reflections on the fact that Rwanda was getting a little bit ahead of itself and it wanted to become a new Singapore and it was sending people out to Singapore and all those kind of stuff when it still had to sort of cover some of the basics. But he’s written a lot on that, which was fairly balanced, the stuff on Rwanda but it was perceived very badly. So I’m sure we’ve got a copy – Gregg’s book will be actually quite useful to take a look at and Gregg would have some much, in fact Gregg is much more engaged on these issues than I am. So I can point you in his, in fact what I can do and this may be easier so you can do word searches and stuff, I can send you an electronic version – as long as you just keep that electronic version just whatever.

Interviewer: Sure, yeah – I’ll do that.

Interviewee: So I can send you an electronic version of that. And he writes quite a lot about these issues that you’re currently engaged with. He’s written quite a lot about this stuff, maybe not so much on the specific region you’re sort of looking at in particular but well quite a lot of the same issues but he’s written quite a lot on Rwanda yeah. And Rwanda, everyone is root for Rwanda. I mean, Rwanda is so, people are so divided over everything, so divided over what the RPF’s role was and genocide’s so divided over whether [Kugami] has to be doing what’s he’s doing, so divided over every any imaginable kind of issue. There’s no doubt that he has done some brilliant things and he was left a legacy that was indescribable but there’s probably been a little bit too much of de-afining the role of RPF because they’ve come out extremely badly in some recent books about the Congo wars, which stuff is you know related to what you’re doing but, I’m trying to think who else would be able to comment if you’re looking in particular on Rwanda in terms of leadership. I’m just trying to think of some of the stuff we did on Rwanda. I don’t think – I can send you an electronic copy of this as well.

Interviewer: Okay. Cool.

Interviewee: But there is stuff in here about Rwanda and about what role the foundation – I mean the foundation help set up the Rwanda, the development border, well it’s called the Trading Board I think, yeah. But who knows, I mean I think that you know leadership, there’s been such a leadership deficit you know that you know I think that the more that improves, the more viable some of the more sort of grander integration sort of schemes are going to be. Have you – I know you’re doing ECA but you haven’t – [Sindeso], the Secretary General of [Commessa] he’d be a very interesting guy to talk to because we’ve done quite a lot of stuff with him but he’s based in.
Interviewer: Where’s that based?

Interviewee: That’s based in Lusaka, I think. Yeah, he’d be very interesting to talk to on that issue. So you’re main question again is looking at how business will, what is it?

Interviewer: It’s basically how business is adapting and changing their approach or business models as integration deepens in Africa.

Interviewer: So that’s definitely predicated on the idea that it is deepening in terms of on the – yeah – not just on paper.

Interviewer: Yeah, exactly. So in fact what has happened, initially it was this general idea that it has happened or base assumption that it had occurred in order to find out how they’ve changed their approach to doing business there and then as I researched more I realised that it’s great, it’s sounds great on paper but in practice there’s a lot more that needs to be done. So what I’ve done is in my results I’m splitting it and saying okay, this is what the theory is, this is what the practice is and how business is actually handling themselves in the context of the practical on the ground situation. Yeah.

Interviewee: Interesting, interesting. I wonder if the Head of Endeavour here in South Africa might be interesting to talk to – Malik Fal – because he teaches at GIBS as well.

Interviewer: Right.

Interviewee: Yeah, Malik Fal – F A L - is his last name. Yeah, he’s the Head of Endeavour. So he, that’s an Entrepreneurship NGO but he’s right across the whole African space and he would certainly have a view on how you know integration is affecting kind of business thinking. I mean it’s a, it’s a very interesting question in terms – and what sort of particular business are you or just business in general?

Interviewer: General, yeah. So I call them MMCs in my research and just to give you an idea, the guys that I’ve spoken to thus far have been Tiger Brands, Standard Bank, Adcock Ingram and SSI, the company that I work for also have interest in Africa and I’m looking to get interviewed with FNB and [WaWay] the Chinese company. So it’s just, yeah, large companies that are targeting Africa as being the next huge market for themselves.

Interviewee: Okay, and so what is your preliminary conclusion in terms of what do you, how is business reacting?

Interviewer: I think the four interviews that I’ve done thus far, the integration issue is sort of like a side issue. What’s more important is the practical on the ground situation like the institutional voids and you know transportation difficulties. So they’ve developed their strategies around dealing with those and they give you the theoretical perspective of saying well if they can stand – like Adcock said to me – if they can standardise the you know the last and you know for medication for example, it would be fantastic for us because then we can set up in Kenya and distribute in the East African region.

Interviewee: Of course, yeah.

Interviewer: But then they, I think what I’m getting is that it hasn’t actually happened. So it’s all a very theoretical.
Interviewee: And it’s, I think it’s a huge, there’s a huge gulf still between you know that what it’s the vision is and what reality is and what are those kind of key stumbling blocks to prevent that from happening. I mean, it’s – you know it’s and I think it’s hugely and it would be very interesting to speak with some of the donors, they would be see what their perspective is because there’s so much money in these projects, the one-stop borders posts in particular you know. I mean, we - I’ve looked – there’s this particular stretch of road which is so vital for the copper trade in Northern Zambia and it’s just the worst road you could ever imagine but it goes through like the biggest copper mine in the whole sort of country and time again I’ve asked both from the mine’s perspective and the government you know who’s – why can’t you just sort that road out and stuff and you get every – I mean it’s incredible what just sort of interferes and prevents something from kind of being done, which on the face of it, there’s such an obvious economic benefit to everybody if you just sort out the road.

Interviewer: Sort the road, yeah.

Interviewee: Yeah, sort out the road. I mean, roads, I mean if you look for instance I mean one of the big challenges is in West Africa is that, well if you look at mines for instance in Mali and so forth, so you’ve got a huge number of donors that are on the ground and have got a lot of money and are spending a lot of money and then you’ve got the Anglo Gold [ashantis] the mines are [inaudible] who are just going, okay listen, we you know, we can generate huge amount of you know profits which it can be poured back into the country, more employment for local community and all that kind of stuff, whatever, if you just somehow put some of this money, this aid money into whether it’s connecting up to the grid, electricity grid or whether it’s fixing the roads and that stuff and unfortunately the donors can see the kind of benefit but they can’t for their own mandates they can’t. [0:35:36.0]

Interviewer: They can’t touch it.

Interviewee: They can’t do it because it’s not, you know it’s sort of increasing the profits of the business really, it – even though it might have spin off – it’s not a poverty elevation kind of thing and if it doesn’t have that clear link then they can’t, they can’t do it – they can’t pour sort of money into it.

Interviewer: Yeah, that is very interesting.

Interviewee: So, yeah, I mean [inaudible] roads, roads, ports, I mean when you talk about ports in the Port of Mombasa, Gregg has got this sort of famous statistic in the, the average clearance – you probably know this but – the average clearance time for, or the minimum clearance time at the Port of Mombasa for container ships is 72 hours. The maximum time in Singapore is 11 minutes.

Interviewer: That’s crazy.

Interviewee: And 90% go through in 8 minutes and it’s just a completely different, obviously the systems that are in place and whatever, but you know the idea is to create systems which facilitate the movement of goods, in other words that enable as opposed to a system which just is really structured in a way that maximises opportunities for people to get their kind of cut and in Singapore, the Singaporeans have like very, very, very you know, they have taken the view – of course, in 8 minutes they don’t check every container but they have a way of doing their sort of checks and they also have a way of doing sort of spot checks and you know the penalties – I think one of the ways that they’ve structured it, the penalties are so astronomical.
Interviewer: No one takes a chance.

Interviewee: That, yeah, that it’s not worth taking a chance and that’s the sort of culture there and there’s a hugely more kind of detailed kind of thing but that’s one of the statistics that Gregg has in his book and in fact it was just quoted by a friend of ours who just wrote a piece in The Daily Telegraph on Somalia looking at the sort of economic aspect of the famine and so forth. But yeah, it’s a very interesting subject and obviously business would know in terms of what actually impacts them.

Interviewer: Actually, another preliminary finding that I’ve made, which actually you might, you know has implication for on a policy side is most of the companies that I’ve spoken to would say that it’s part of their strategy to have a local partner, whether it’s an acquisition or just like an agreement of some sort and the reason for that primarily is to deal with government because you need some kind of government liaison. So that’s I think more and more becoming part of MMC’s strategy in Africa. But now, you know.

Interviewee: Is this like a, is this a not a lobbyer – this is like a fixer kind a.

Interviewer: But that’s the impression that I get – it’s a guy who understands how things work locally so if a container is stuck in Mombasa he knows what he needs to do to get it out. But now, you know if you scratch deeper you get the impression that you know does this speak of corruption, does it perpetuate this corruption cycle because a fixer fixes things in one way. So the MMC is taking the view that you know let him fix it [inaudible] because in their own country the business integrity, management system would not allow them to do that but if a local guy does it then it’s not such a big thing type of thing. What’s your view of that?

Interviewee: Well, I know that happens. I mean, that happened on the journey that I took. Yeah, I mean in terms of, I mean it does sort of grease the wheels but it’s just, you know it’s kind of essential. I mean, the thing is it operates well in terms of this, you know the it’s, you know it can operate in a legal or an illegal kind of way, you know. [0:40:03.0] You know, even in this country what you’ll is you know the people who, you know maybe former Civil Servants or whatever who know their way around government departments and that kind of stuff and know exactly how it works and it’s not corruption. They just know exactly.

Interviewer: Who to go to.

Interviewee: You know, yeah, I mean we experienced that here in South Africa buying a property or whatever you know in terms of how Joburg Council and stuff like that. So in terms of the next level, if people are actually you know knowing the people who to sort of pay off and that kind of stuff then in the long run obviously that’s just going to, that you know, that’s going to ruin the whole sort of system. So, I wouldn’t know. I mean I don’t work for sort of a private you know company and stuff and how they sort of do things but you know, like yeah – like the HSBC had local knowledge – local. No, you can’t underestimate the importance of local knowledge that’s for sure. But actually, but I don’t know in terms of how that stuff operates. I mean it must be pretty, you know in terms of companies that are looking to sort of you know unblock some of the blockages I mean it’s got to be a pretty, pretty you know difficult enterprise in terms of that kind of stuff that we’ve seen. I mean, in my experience on the trucks, the, you know there were the companies that were maybe owned by Mugabi and whatever and [inaudible] that didn’t have too much trouble getting through borders and stuff but nearly everyone else just had you know a nightmare you know, just a complete sort of night mare getting those things and you know and
then within the African context because rail is so dilapidated and so forth, that’s still
the, that’s the main way things are getting around. But I don’t know, it would be very
interesting to know what the companies, the big companies here, what are the you
know the companies like SAB Miller and that kind of stuff, how have they done their
stuff. That would be fascinating. One of the most fascinating businesses I’ve seen
within the African context was the brewery in South Sudan and the brewery in South
Sudan is an incredible story because obviously what happened in Sudan is up until
2005 you had you know [Sheree Alaw] [inaudible] but that of course after the Peace
Agreement, you know everyone in the South who never had any sort of cultural
prohibition against drinking beer and so forth, they were just like let’s do it and then
SAB Miller went in there and set up a brewery in Southern Sudan, in a country that
when they came in had only five kilometres of tarred road in a place that’s as big as
Texas you know and from a perspective of like power, you know the distribution
networks in a place that has no roads – all of those kind of stuff how they did it and
it’s a thriving business. I mean, last year it was – it needed as much power as all of
Southern Sudan was generating. It’s just an incredible statistic and it’s just crazy –
you know South African guys worked in like 15 countries. And it’s a very successful
– the business is very successful. Yeah, the SAB Miller, the brewery and in fact after
we visited there I think the BBC wrote about it so you can actually Google it online
and it’s an incredibly interesting story because, and there’s so many elements to that
story which are interesting from a business perspective because although they’re so
successful, you know him and his staff, his foreign staff have to live at the brewery
which is about five or six kilometres outside of Juba because it’s simply too
expensive to live in Juba itself because the NGOs, the UN and all that stuff have
inflated the price of things so massively – like it costs in Juba for instance $10 000 or
something a month to rent like a house.

Interviewer: What?

Interviewee: Yeah, and so they can’t even stay. So in other words you’ve got business – people
who are really sort of contributing and stuff like that in a concrete way but the
economy is so skewed by the aid community right because you know every single
person that comes in from the Royal Bank or from the UN or whatever, they –
there’s a certain package right, they don’t live in a tent. I mean, they’ve like
whatever, and because things are so expensive in Juba because you know
transportation is crazy, they can’t get anything in, you know, everything has to be
imported that the you know the price of things are so astronomical and you know it’s
a very, you know I haven’t really thought about it that much but it’s a very salutary
kind of tale about how the aid community can really distort like from the get-go the
whole economy and of course Southern Sudan and Juba in particular is just flooded
with people right now of you know well-wishers and do-gooders and people who you
know generally want to sort of contribute but you know for proper businesses and
stuff. [0:45:28.0]

Interviewer: It doesn’t work.

Interviewee: No, you know, and the people who [don’t understand] this – funny enough it’s like
the same old guys within the African context who have kind of figured out how to
turn a profit, like the Lebanese for instance. You know the hotel you stay at. How
does a Lebanese get there and you know a place that’s a really terrible kind of place
or not terrible but I mean not so good and you know $200 a night kind of thing and
you’ve got to pay it because there’s no other, there’s no other options if you want to
be there. Yeah, if you read about that story – it’s a really interesting story – the SAB
Miller. How many people it’s employed, how successful it’s been and it talks about
seizing a kind of new opportunity you know and you know for you know the
population in that country that’s. I’m assuming in terms of creating you know beverages they’ve got the market. I don’t think anyone else has.

Interviewer: I’m actually posing my last question to you. Exactly that, you know you get these companies that manage to go out into the deepest, darkest Africa and actually do really well. From a theoretical point of view when you’re sitting in a MBA class you have all these risk models and you know [inaudible] business index and when you, you know just [inaudible] on the African continent it seems a bit irrelevant because it seems as if the you know looking at those risk models it would put you off a really good opportunity. From your experience and you know the work that you’re doing in Africa and this kind of story that you may have come across, do you think that the way we are looking at Africa is still relevant because [except] from the kind of the Western business model sense where you know institutions need to look in a certain way but the reality is they’re not looking in that way and they’re quite far from getting to that point where they fit the you know Western model of institutions and so the actual question is what should a business going into Africa be looking at really?

Interviewee: Well, don’t they look at, I mean don’t they look at the same things that they look at sort of anywhere which is probably kind of the one of the big challenges. I mean, there’s from my experience there’s been perhaps a kind of complacency within Africa that they almost think that the business will come to Africa in some ways and that they’ll trade with Africa as opposed to realising that no one is going to do this out of the goodness out of their own heart and I think that in terms of for businesses and so forth, I mean again, you probably know much more about this than I do but for the long-term investors, you know so we’re not talking cell phone kind of whatever, for the long-term investors, I mean political stability you know, you know what’s the – a good company for you to speak with, a very good company would be Growth Point and you speak with Grow Point and look at their, within the rest of Africa what their horizons are and so forth, you know they need, you know and they need to think in 15 year, 20 year kind of you know time frames and you know in the absence of sort of political stability or assume political stability over the long term then you know it’s just those investments just aren’t going to kind of and you know what is the reason why South Africa, I mean I’m very curious – I don’t know what the answer is – but why did they finish so poorly on the sort of latest FDI things for Africa, you know, number 10 or something or like. You know, was that concerns about long term you know political stability, or was it about nationalisation, land reform – what are the things that were sort of you know deterring investors from coming in. So I think within the African context there’s probably, and again you’d need to speak to businesses about this but it very, very kind of fine judgements on long term and short term and it’s probably dramatically different, I mean there’s you know. [0:50:00.0] You know, one of the, the world’s biggest retailer you know just today or yesterday, whatever, you know has just made, you know they’ve made a call on South Africa in terms of bringing Zara, the male/female shops, the Spanish company, which is the biggest in the entire world and so they’ve have just you know made an announcement they’re coming to Africa and South Africa. They’re going to have a shop, their big flagship shop in Sandton I think in November, which is an interesting, you know an interesting reflection of something but you know it’s probably dramatically different, I mean there’s you know, I don’t know enough about kind of business models and risk models that companies use about making an investment in a place but you know obviously South Africa in generally suffers from you know massive, massive concerns about you know power, electricity. I mean, you’re a Civil Engineer yourself and you know – but I mean huge, huge concerns you know and obviously South Africa right now is thinking of its gap, I think in 20 or 15 or something like that and how it addresses that gap now with coal or whatever. So I think the power is a huge inhibitor for companies and businesses. Energy, infrastructure but I think political stability, which must be
improving in people’s eyes but you know probably you know this, a lot of the sort of key investors – I mean, you look for instance at mining in Zambia you know and I couldn’t quote you but I’d say if I was to give the answer sort of six months, I don’t know of any exchange but you know why aren’t the big, big, huge companies there? There’s got to be some reason for that. Why are they not there? I don’t know, I don’t know what the answer is and it’s very interesting when you’re speaking to, you know the real long termists, the Chinese – you said you were speaking to them. What company?

Interviewer: [WaWay]

Interviewee: What they, what their idea is, I don’t you know – it’s interesting, you know if we met with, myself and [Masom] met with the Head of the Commercial Section of the Chinese Embassy the other day and you know they were very, very negative on the South African context.

Interviewer: Oh really?

Interviewee: Very negative, yeah. They were very negative in the sense that they think there’s quite a lot of obstacles that are thrown up by the government in terms of red tape and so forth and when you marry that to you know the strongest labour unions in the African continent and all these kinds of things.

Interviewer: As you came through, I was in class yesterday, we had an elective non-emerging market and frontier markets and I don’t know if you know him – Dr Martin Davies?

Interviewee: Yeah.

Interviewer: So he invited one of the Directors of the Chinese Construction Bank and a lady from [WaWay] to speak to us and they echoed exactly that. They said, the kind of question the guy asked was you know why is it that it seems that labour strikes before the negotiation actually starts and he says this labour issue in South Africa is so material. I don’t think government has full appreciation of the implications long term.

Interviewee: Huge. I mean, it’s incredibly massive. I mean, a statistic the other day was South Africa lost more days to strikes, twice as many days as the next country in the world which is Canada.

Interviewer: What?

Interviewee: Yeah. Twice as many as Canada and Canada was the next highest and they lost twice as many.

Interviewer: That is insane.

Interviewee: It’s crazy. What I did before you came in, just before you came in – I don’t know if you’ve seen these but these are just three things – one that I wrote sort of last year but it’s kind of more just a personal account and then Louise’s article which she interviewed before but there’s some good sort of things that you can sort of take away there and basically yeah, sort of what you were sort of talking about, you know this idea of that just being a you know what are the obstacles to sort of integration and interviewed here is obviously a guy who knows 20 times more about this stuff than I do. You’d probably – Lyle might have mentioned this guy – Peter Draper.

Interviewer: He’s mentioned the name, yeah.
Interviewee: Yeah, so he’s the guy, yeah. You would strike a rich vein on those issues. You know, I mean this is what he does. I mean, this is not actually what I do but this is what he does. He would be a terrific guy to speak to as well as Mark Pearson and he’s easy to track down. I think he lives in Pretoria but works for [Sia].

Interviewer: Okay.

Interviewee: But definitely, if you can get in touch with Peter Draper, and then I’m not sure if this one was interesting – I just sort of printed this out but this is about Rob Davies just on SADEK why it gives, why it’s sort of such a good thing but it’s also about integration and that kind of jazz. But definitely yeah, Peter Draper. I mean, that’s his bread and butter – that’s his bread and butter and Lyle’s got like, I think you know he has wine with him and stuff so I think he’s got an open line.


Interviewee: So where do you live in Joburg?

Interviewer: I live in Randburg.

Interviewee: Okay.

Interviewer: And work here in Woodmead.

Interviewee: Okay, ja. That’s good. So did you study here or you studied in Kenya?

Interviewer: I studied in Cape Town. Well, I did my high school in Kenya and then went to UCT and then, yeah, I moved to Joburg when I finished my degree.

Interviewee: My intern is missing UCT. She went there. Yeah. She went there – she loved it. I don’t know if you liked it?

Interviewer: I actually prefer Joburg.

Interviewee: Masana – did you hear that? Our new friend Daniel here says he prefers Joburg to UCT.

Interviewer: No, Cape Town is too slow and nothing happens there.

Interviewee: But, I was going to say something about Kenya as well but I just lost my train of thought. But if you’re still on top of that, it would be very interesting to see what you think of that paper that we just produced on Kenya. I mean, again this is too much sort of editorial, probably a little less analysis than I need but the other thing, let me just do this whilst you do. The other thing I was going to do is there’s a lot more in Gregg’s thing here.