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**Effect of institutions on multinational corporation
internationalisation strategies across base-of-the-pyramid
markets in Africa**

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A research project submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration.

14 January 2015

Abstract

In and amongst the institutional chaos of Africa lies a wealth of business potential for multinational corporations (MNCs) worthy of entry. This research study investigated the effect of political, regulatory and societal norm aspects of institutions on internationalising MNC, base-of-the-pyramid (BoP), strategies across various emerging economies in Africa. Although there is an abundance of literature on the BoP markets in emerging economies, literature is limited on the construct of strategy internationalisation across African countries through the institutional lens.

A qualitative research methodology was used for this study to understand the institutional variables. Individual depth, semi-structured interviews were conducted with eight managers having cumulative experience across ten MNCs. The focus of the study was on the fast-moving consumer goods (FMCG) industry. However, to give the data variance five of the interviewees were employed in the FMCG industry while the others were employed in the consumer electronics, pulp and paper, and mobile telecommunications industries. The research data were analysed using an inductive approach to explore the themes discovered. These themes were: political ties and history, consumer insight, and information and communication technology (ICT).

This study confirmed the importance of institutional aspects on BoP strategy internationalisation in Africa. Also, the study discovered a new and remarkable finding that acknowledges the BoP as non-traditional MNC shareholders rather than viewing the market as consumers or business partners alone. This progressive understanding of the BoP will encourage close, long-term interaction and mutualistic relationships, and foster shared commitment through embeddedness, as well as increase market penetration through creative channels and inclusive networks. From the findings above, a functional framework was developed for MNCs exploring the BoP space in Africa. The framework builds upon and advances the BoP 2.0 protocol developed by Stuart Hart, and will enable MNCs to anticipate challenges and risks associated with BoP markets in Africa.

Keywords: Base-of-the-pyramid, strategy, institutions, internationalisation, Multinational Corporation

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.

Name: Tessa-Marie Samuel

Signature: _____

Date: 14 January 2015

Acknowledgements

I thank the following people:

- The Lord, my Creator, for His gifts and supplying all my needs throughout my studies (Jeremiah 29:11).
- My husband and best friend, Tyrone Grobbelaar, for his motivation and inspiration, his comforting embrace, unconditional love, empathy and encouragement. I could not have completed my MBA with such excellence if it was not for his support. I LOVE YOU.
- My mother, Charmaine Samuel, for providing a comfortable environment for me to study my MBA and for her love, support and encouragement.
- My mom-in-law, Tanya Grobbelaar, for her love, prayers and support. Isabelle Theron for her love and constant supply of much-needed coffee.
- My supervisor, Dr Tashmia Ismail for her direction and guidance.
- All the interviewees who shared their time, knowledge and experience.

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CHAPTER 1: Introduction to the Research Problem

1.1 Research Title

Effect of institutions on multinational corporation internationalisation strategies across base-of-the-pyramid markets in Africa

1.2 Problem Description and Background

There is over four billion of the world's population with an annual household income and potential purchasing power parity (PPP) of \$5 trillion (Kennedy & Novogratz, 2010). This segment, more commonly known as the bottom-of-the-pyramid or the base-of-the-pyramid (BoP), was unserved or underserved until its potential was first articulated by business strategy thinker, CK Prahalad, and his colleagues in 1998-1999 (Prahalad & Hart, 2002; Prahalad & Hammond, 2002; Kumar & Puranam, 2012; Kolk, Rivera-Santos & Rufin, 2012). They encouraged multinational corporations (MNCs) to target the BoP in an effort to alleviate poverty (Kolk et al., 2012).

BoP market research is on the increase due to the potentially untapped wealth available in these markets that may facilitate growth of many MNCs that have stagnated in long-established developed markets (Prahalad & Hart, 2002; Kennedy & Novogratz, 2010; Mukerjee, 2012; Kumar & Puranam, 2012). BoP literature on the challenges experienced by firms from developed nations entering low-income markets developing nations are extensive (London & Hart, 2004; Wright, Filatotchev, Hoskisson & Peng, 2005; Schuster & Holtbrügge, 2012; Schuster & Holtbrügge, 2014).

However, research into internationalisation of company's strategy across low-income markets in Africa is not extensive (London & Hart, 2004; Wright, Filatotchev, Hoskisson & Peng, 2005; Peng, Wang & Jiang, 2008; Ismail, Kleyn & Ansell, 2012; Kolk et al., 2012). Williams, Omar and Rajadhyaksha (2012) stress that not only is a shift in mind-set and analysis necessary to operate in the BoP but

principles of co-venturing and creating mutual value is paramount to entering and collaborating within the BoP.

World Economic Forum Head of Africa Director, Elsie S. Kanza, believes that Africa's leaders need to "continue to extend cooperation, strengthen institutions, implement innovative policies and scale up investments if they are to ensure that pressing needs such as creating jobs, reducing poverty and lowering inequality are addressed." (*World Economic Forum on Africa*, 2014). A good example of regionalisation within East Africa is the identity card visa agreement and cross-border payment system among Kenya, Uganda and Rwanda, which facilitates mobility and removes the need for a third currency (*World Economic Forum on Africa*, 2014).

The continent of Africa has the largest proportion of the BoP population (Kennedy & Novogratz, 2010), but the lack of BoP market research in African countries may be due to the perceived risk and insecurity of safety, robbery (Ismail et al., 2012), lack of access to the community and the lack of strategic relationships (Williams, Omar & Rajadhyaksha, 2012). The *World Economic Forum on Africa* (2014) report suggests that inclusive development strategies by the private sector have potential to restore security and peace in Africa. Although Africa was once seen as a hopeless continent, in 2014 it was believed to be the fastest growing region on the planet surpassing that of Asia (White & Rees, 2014).

According to the GIBS Dynamic Index, Kenya is seen as one of the top performers of 'information openness' in Africa. With over 50 % of their trade with other countries in Africa they are seen as the most open and connected on the continent (White & Rees, 2014). They are one of the bottom performers of 'war and conflict', together with Mali and Mauritania, and are said to be the silicon valley of Africa. Even though Kenya still has challenges with 'Investor Protection' they are working steadily to improve (White & Rees, 2014) and within the space of seven years the M-Pesa system has drastically changed the business environment (*World Economic Forum on Africa*, 2014).

Over 70 % of Nigeria's population is under the age of 30 but are making leaps and bounds in telecommunications technology and entrepreneurship, which encourages

investment and shows that there is huge business potential in these markets with evolution in infrastructure and services (White & Rees, 2014). Implementation of integration policies has also contributed to an increase in East Africa's connectedness. In an attempt to reduce corruption in Nigeria, the private-public partnership between pharmaceutical companies and government uses a reciprocal credit card system and has since been replicated in India (World Economic Forum on Africa, 2014).

Although South Africa was the only country found to be 'static' out of 45 countries investigated in Africa, they still boast world-class financial systems and regulations, as well as internal logistics and are ranked in the top 100 in the Ease of Doing Business Index (White & Rees, 2014). Businesses that have engaged with the poor in South Africa have learnt the following lessons (Ismail et al., 2012):

- It is obligatory that companies think through all stages of their growth when serving and exiting low-income markets – Danone.
- Marketing, products offered and placement of stores need to be carefully considered and adjusted to the BoP community being served – Massmart.
- Consider the total cost of making a purchase (including travel expense and time) when developing an offering and do not underestimate the vital role of digital technologies to reduce costs – Blue Label Telecoms.

1.3 Purpose and Objective

Although Prahalad targeted large MNCs with his original research, not many large MNCs took heed even though they had the finances required to embark on such a project (Kolk et al., 2012). Surprisingly, smaller MNCs and even non-profit organisations targeted the BoP, as in the case of Grameen Phone, which was a collaborative effort between Telenor and Grameen Telecom Corporation (Kolk et al., 2012). However, recent research shows that large MNCs' interests in this space are on the increase (Schuster & Holtbrügge, 2014). There are also many calls for further research on the African continent (Egri & Ralston, 2008; Kolk & Lenfant, 2012; Kolk & van Tulder, 2010).

In order to develop successful strategy frameworks, which MNCs can use when internationalising, the challenges experienced by MNCs must first be investigated. There are various internal company challenges (Anderson & Billou, 2007; O'Reilly & Tushman, 2011) and market challenges associated with internationalisation of MNC BoP strategies.

According to Peng et al. (2008), and Rivera-Santos et al. (2012), institutions pose the greatest barrier to internationalising business strategies. Both formal institutions (political, regulatory) and informal institutions (societal norms) affect company strategies (Peng et al., 2008; Guesalaga & Marshall, 2008; Xu & Meyer, 2012).

According to John Dunning, an institutional theorist (Peng et al., 2008, p. 931): "I believe that current events are forcing IB scholars to pay more heed to Douglass North's concept of institutions... there can be little doubt that institution-related assets have become more important... I would hope that the fraternity of IB scholars will place these issues at the top of their research agenda over the next decade or so. If we do not do so, I believe that we will be failing both our students and the international community that we seek to serve."

Xu & Meyer (2012) point to the importance of political and social support for BoP project success as well as Márquez & Rufín (2011) call for further research into the role of government regulations on BoP initiatives. Schuster and Holtbrügge (2014), and Ismail et al. (2012) call on governments to create regulations that facilitate partnerships between non-traditional actors and companies. Therefore, the construct of internationalisation will be investigated through the institutional lens of the political environment, regulatory environment and societal norms.

The first-generation BoP strategy (BoP 1.0) is believed to have failed due to attempts made to make the BoP consumers. While this might work in the short term, this ideology is not sustainable because it not possible to turn the poor into consumers without addressing poverty and social development, hence the rapid movement to the second-generation BoP strategy (BoP 2.0) (Simanis, Hart & Duke, 2008).

The BoP 2.0 protocol attempts to establish long-term corporate growth by viewing the poor as co-inventors and business partners through close relationships, deep listening and mutual sharing and learning. However, Karnani (2007b) believes that employment is the solution to get the poor out of poverty not microcredit that enables the poor to start microenterprises with low skill levels and little opportunity for scalability.

Therefore, the objective of this research is to redesign and/or build on Hart’s BoP 2.0 protocol, Table 1, (Simanis et al., 2008; Ismail et al., 2012), which MNCs can use when considering business internationalisation across countries in Africa.

Table 1: *Next Generation BoP Strategy*

BoP 1.0	BoP 2.0
BoP as consumer/producer	BoP as a business partner
Deep listening	Deep dialogue
Reduce price points	Expand imagination
Redesign packaging, extend distribution	Marry capabilities, build shared commitment
Arm’s length relationships mediated by NGOs	Direct, personal relationships facilitated by NGOs
“Selling to the Poor”	“Business Co-Venturing”

1.4 Research Scope

This research is limited to MNCs that have originated in developed countries and have internationalised business strategies across two or more low-income markets in Africa, with a focus on Kenya, Nigeria and South Africa. The nature of the research is exploratory and studies perceptions of managers that have experience in this space. It uses data gathered from eight managers with experience across ten companies in the fast-moving consumer goods (FMCG), consumer electronics, pulp and paper, and mobile telecommunications industries.

CHAPTER 2: Literature Review

2.1 Introduction

The aim of the literature review is to provide a solid foundation of the theory that is currently available and related to multinational corporation internationalisation strategies employed across emerging economies for low-income or base-of-the-pyramid markets. Historically the focus has been on internationalisation strategies of multinational corporations across developed economies. However, there lies a gap in research when dealing with emerging economies, most especially in Africa, and the substantial effect that institutions have on business strategy in these countries.

Therefore, this chapter initially defines the BoP market, its market size and business potential to set a mutual basis of understanding for this market. It then studies the types of institutions that exist in emerging economies. It then takes a look at the ease and success of internationalising multinational corporation strategies and their development in both developed and emerging economies. The chapter then concludes by exploring the literature available on the effect of institutions on business strategies.

2.2 Low-income Market / Base-of-the-pyramid

2.2.1 Definition and Market Size

A low-income market, most recently known as base-of-the-pyramid (BoP), is the bottom tier of the socio-economic pyramid of the global population, with approximately four billion people occupying this tier (Prahalad & Hart, 2002; Hammond, Kramer, Katz, Tran & Walker, 2007; Kennedy & Novogratz, 2010). Africa has the lowest annual per capita income among the global BoP segment (Figure 1) (Hammond et al., 2007). For the scope of this study the BoP or low-income consumer refers to a consumer that receives an income of less than \$2 per day.

Emerging markets have gained popularity in the last 15 years due to their growth margins topping that of the developed world (Pacek, 2012). These markets buy half of the world's exports and oil, and are home to more than 80 % of the world's population. It is also forecasted that in the medium term most multinational sales growth will come from this space (Pacek, 2012).

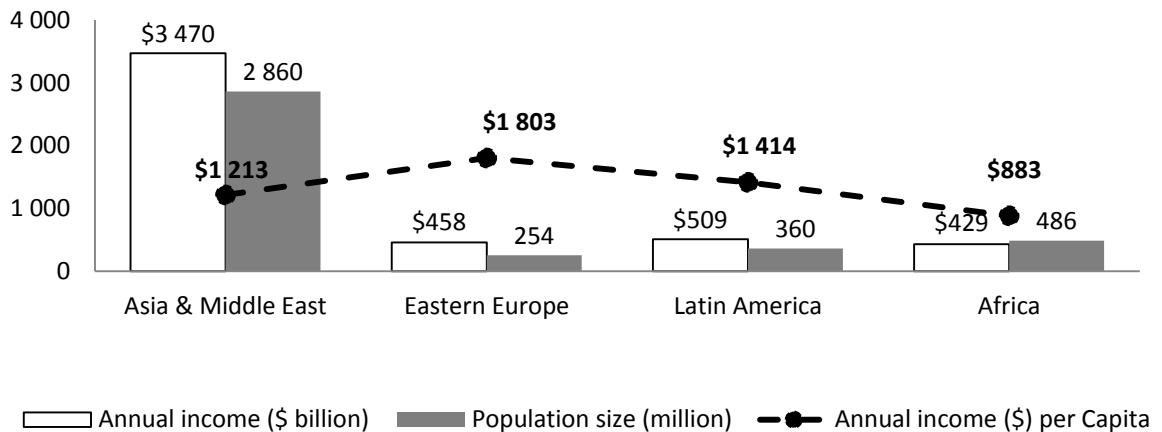
The most affluent consumers are at the top of the pyramid and form part of Tier 1 with a population of 75-100 million, most of who are from developed countries (Prahalad & Hart, 2002). Tier 2 and 3 incorporate the poor from developed countries and the rising middle class from developing countries with a population of between 1.5 and 1.75 billion inhabitants.

The 4 billion inhabitants in Tier 4 are believed to earn an annual per capita income of less than \$1500 based on purchasing power parity (PPP) figures and at least 17 % of this tier has a per capita income of less than \$1 per day. However, their potential global purchasing power constitutes a potential \$5 trillion per annum (Hammond et al., 2007).

Advocates believe that the business expansion possibilities in the BoP market are endless (Rivera-Santos & Rufín, 2010; Kennedy & Novogratz, 2010; Ismail et al., 2012; Mukerjee, 2012; Kumar & Puranam, 2012). The BoP had a PPP threshold of \$3000 in 2002, according to a study conducted by the World Resources Institute (WRI) and the International Finance Corporation (IFC), and an annual combined PPP of \$5 trillion (Hammond et al., 2007; Kennedy & Novogratz, 2010).

The most concentrated BoP populations exist in Asia and Middle East, Africa, Latin America and Eastern Europe (Hammond et al., 2007). The annual income per capita comparisons among these four regions show that Eastern Europe and Africa perform the best and worst, respectively. China and India comprise 60 % of this market; with the poorest consumers residing in Africa on less than \$1 per day and comprise 35 % of the BoP market (Mohr, Sengupta & Slater, 2012).

Figure 1: **Income and Population Size of Global BoP Markets**



In Africa alone the BoP market comprises 71 % of purchasing power and 95 % of the population. Nigeria on its own has a BoP population of 121 million with an annual expenditure of \$ 53 billion (Hammond et al., 2007).

2.2.2 Characterisation of the BoP Market

An essential requirement for MNCs strategizing for BoP markets is a profound understanding of them. The BoP market is not part of and does not benefit from the formal market economy. Other characteristics include (Hammond et al., 2007; London & Hart, 2011):

- Constitutes the majority of humankind, which have the least income.
- Dissimilar across multiple dimensions.
- Lives in the informal economy.
- Underserved - lack of access to basic needs (access to clean water, sanitation, electricity and healthcare. They also have a lack of access to basic services such as financial services and connectivity.
- Vulnerable to the poverty trap – caused by a lack of access to markets and exploitation by distributors.
- Impacted by the BoP penalty – BoP consumers often pay more for goods and services than the wealthy consumers, which is either in cash or by the effort they have to put in to access them.

The BoP can be further divided into different segments depending on their level of urbanisation (urban or rural) (Ireland, 2008); geographic locations, income tiers and product categories or industries (Guesalaga & Marshall, 2008), and characteristics in terms of habits and culture that influence needs (Pitta, Guesalaga & Marshall, 2008). Ireland (2008) suggests that there are both urban and rural BoP markets and advises that a multinational corporation's marketing mix needs to be adjusted accordingly for each different BoP market as listed in Table 2 (Ireland, 2008).

According to Ireland's findings, the urban BoP market is more aspirational and is attracted by the same packaging and promotion as the middle-class. The rural-Asian, African BoP market on the other hand spend most of their income on basic consumer goods that they believe will meet their desired needs well and are usually, in smaller pack sizes as they do not have any extra money to waste if they make a mistake. Most BoP markets in Africa are found in rural settings (Pitta et al., 2008).

The BoP market tends to purchase smaller pack sizes daily from stores located close to their place of residence due to their unstable incomes and ultimate purchase made by stay-at-home mothers (Pitta et al., 2008). Unfamiliar and defective products increase the risk of failure of new product developments (NPDs) in this market (Pitta et al., 2008).

Table 2: ***Rural and urban traits for marketing strategy***

	Urban-Latin	Rural-Asian, African
Key success factors	Give access to top products via inclusive pricing and multi-level distribution	Radical innovation to add value, and reduce the costs of products and logistics
Products	Modern, branded	Basic, robust Allow client to finish the product
Pricing	Accept cash, value-based	Rock-bottom, Financing
Packaging	Same as middle class	Sachets
Distribution	Multi-level or short systems to gain safe access	Multi-level or long systems to minimize costs
Promotion	Same as middle class	Events, PR, Sponsorships

2.2.3 Challenges in BOP Markets

According to Schuster and Holtbrügge (2014, p. 43), most of the challenges faced by companies in low-income markets include “poor infrastructure, non-existent distribution channels, illiteracy, corruption, lack of enforceable legal frameworks, and violent conflicts when entering those markets” as well as a lack of resources, knowledge and expertise in the BoP market in which they want to enter. However, Pitta et al. (2008, p. 400) believes that the challenges are not only technical and economic infrastructure, but education, financial services, and cultural differences as well.

McFalls (2007) believes that MNCs have built-in weaknesses that limit their success in this BoP landscape. MNCs are just too large with global strategies that are far-fetched from low-income consumers due to a lack of embeddedness. Karnani (2007a) suggests a bottom-up approach, instead of the usual top-down approach, where the BoP business separates itself from the company’s global culture, structure, processes and assumptions.

Karnani (2007a) views of MNC challenges are very different to other research findings mentioned above. One of the challenges he believes MNCs have is to make the cost-quality trade-off acceptable to poor consumers. He believes that MNCs do not have the correct pricing strategy for the BoP market, resulting in an overestimation of the buying power of the poor and overpricing. Companies have also not been able to solve the environmental problem that numerous smaller, plastic pack sizes pose, which have a much larger cumulative surface area when compared to bigger pack sizes.

Xu and Meyer (2012, p. 1323) advance that BoP markets pose the following challenges:

- “Markets are less efficient due to less transparency, more extensive information asymmetries, and higher monitoring and enforcement costs.
- Governments and government-related entities are not only setting the rules, but are active players in the economy, for example through state-owned or state-controlled firms.

- Network-based behaviours are common, in part as a consequence of the less efficient markets, but arguably also due to social traditions, and they influence how firms interact with each other.
- Risk and uncertainty are high due to high volatility of key economic, political, and institutional variables. Hence, businesses find it harder to predict parameters they need for strategic decisions, including, for example, business cycles, government actions, and the outcome of legal proceedings.”

2.3 Economic Outlook

2.3.1 Buying Power Index (BPI) Methodology

The BPI has been used by practitioners for over 30 years and by 2008 was computed annually by Sales and Marketing Management magazine (Guesalaga & Marshall, 2008). The BPI takes into account income, expenditure and population size.

To determine the BPI for a geographical area the following equation is used (Guesalaga & Marshall, 2008):

$$\text{BPI} = 100 \times \left[\left(0.5 \times \frac{\text{Area Income}}{\text{Total Income}} \right) + \left(0.3 \times \frac{\text{Area Expenditure}}{\text{Total Expenditure}} \right) + \left(0.2 \times \frac{\text{Area Population}}{\text{Total Population}} \right) \right]$$

Measurement of BPI according to this equation is also relevant as it is applicable to many contexts. However, due to the BoP not buying goods that are non-basic, they will have buying power in only certain categories and not in others (Guesalaga & Marshall, 2008).

2.3.2 Buying Power of the African BoP

The buying power is different for all tiers of the BoP market in various regions and MNCs need to understand the methods involved in computing these figures as well as incorporate them into their BoP business models. Guesalaga and Marshall

(2008) used data from Hammond et al. (2007) to compute the BPI of the BoP markets. Guesalaga and Marshall (2008) also used expenditure data from official statistics offices in the following twelve countries in Africa: Burkina Faso, Burundi, Cameroon, Côte d'Ivoire, Djibouti, Gabon, Malawi, Nigeria, Rwanda, Sierra Leone, South Africa and Uganda.

The African BoP has a BPI of 76.9 % by geographical area relative to the mid and high income segments, and is the highest when compared to the BoP markets of Asia, Eastern Europe, and Latin America and Caribbean (Guesalaga & Marshall, 2008). It is also interesting to note that Africa's BoP has the highest expenditure on water, energy, household goods, health and education compared to these other areas. Table 3 (Guesalaga & Marshall, 2008) shows that as income level rises the BoP market of Africa spends more on housing, household goods, health, transportation, ICT and education than on basic needs such as food, water and energy.

The greatest buying power exists in in the lowest income tier in Africa, which may assist MNCs when strategizing for this area. Although this data provides a lot of insight on buying power of the BoP per category or industry of Africa as a whole, the country level segmentation may differ (Guesalaga & Marshall, 2008). This makes it very difficult for MNCs to strategize uniformly for the different BoP markets and segments across all countries in Africa.

Table 3: *Distribution of BoP expenditure in Africa*

Industry	\$1000/year	\$2000/year	\$3000/year	Total BoP
Food	53.0	44.2	35.4	47.1
Housing	9.2	9.1	9.8	9.4
Water	1.6	1.5	1.4	1.6
Energy	6.1	5.8	5.4	5.9
Household goods	10.0	10.5	11.3	10.4
Health	4.3	4.8	5.2	4.5
Transportation	4.4	8.0	11.5	6.5
Information & Communication Technology (ICT)	0.5	1.4	2.8	1.2
Education	2.2	3.1	3.1	2.8
Other	8.6	11.5	14.1	10.6
Total	100.0	100.0	100.0	100.0

2.3.3 Strategic and Business Outlook

Sub-Saharan Africa has seen solid sales growth and there is real business opportunity in Africa (Pacek, 2012; Games, 2013). There is currently less competition, although Chinese competition is on the increase (Pacek, 2012). The region showed a strong pre-crisis performance with the rise of South Africa and Nigeria, an increase in commodity prices, inflows of FDI, donor inflows, debt write-offs and stronger currencies (Pacek, 2012).

Although Africa is growing, its absolute size in the global economy is small (Pacek, 2012; Miles, Scott & Breedon, 2012). Reasons cited for Africa's slow growth is geography, and related issues of climate and disease as well as colonisation and transport costs (Miles et al., 2012).

The north and south of Africa are the only non-tropical areas with the most economic success and mostly Sub-Saharan Africa has been plagued by malaria and HIV AIDS (Miles et al., 2012; Games, 2013). There is also a 19.5 % gap between the cost of a commodity before it is exported and when it arrives in Africa due to poor transport infrastructure, which is extremely high considering a gap of 3.6 % in the United States, 4.9 % in Western Europe, 9.8 % in East Asia and 10.6 % in Latin America (Miles et al., 2012).

South Africa had the biggest market in Sub-Saharan Africa in terms of GDP (Pacek, 2012), until 2014. South Africa's growth seems to be flat but they are currently reviewing economic priorities concerning growth, employment, and cheaper exchange rates (Pacek, 2012). However, Nigeria seems to be growing well and in April 2014 became the biggest market in Africa according to The Economist, with a GDP of \$510 billion, which was \$140 billion higher than Africa's previous leader, South Africa (<http://www.economist.com>). Kenya is also attracting corporate attention despite not having any major commodities and is strong in the service sector (Pacek, 2012).

In a report published by McKinsey & Company in 2010, called *Lions on the Move: The progress and potential of African economies*, a \$2.6 trillion business opportunity in Africa is predicted by 2020 (Games, 2013). The sectors believed to have this business opportunity include *consumer-facing* (food and beverage,

housing, non-food consumer goods, telecommunications and financial services); *agriculture* (a move from lower value crops such as cereal to higher value products such as horticulture and livestock); *infrastructure*; and *resources* (oil, gas, coal and iron ore).

2.4 BoP as Consumers or Co-inventors

The majority of research from 2000 to 2009 has seen the BoP market as consumers (Kolk et al., 2012). Results of research conducted by Williams, Omar and Rajadhyaksha (2012), and Schuster and Holtbrügge (2014), reveal that organisational performance is positive when organisations engage in co-creation/co-invention. This can be established through non-traditional and fringe stakeholder partnerships as well as local capacity building (Schuster & Holtbrügge (2014). In 2009 there was an increase in engaging the poor throughout the entire value chain (Kolk et al., 2012).

2.5 Past BoP Initiatives and Outcomes

Since 1998-1999 after Prahalad and colleagues created excitement around the BoP, many BoP initiatives have been undertaken (London & Hart, 2004; Wright, Filatotchev, Hoskisson & Peng, 2005; Schuster & Holtbrügge, 2012; Ismail et al., 2012; Schuster & Holtbrügge, 2014). Not all initiatives have been successful, nonetheless, many lessons have been learnt and this experience contributes to establishing better strategies and product or service offerings in the future.

Businesses that have previously engaged with the poor in South Africa have learnt the following lessons (Ismail et al., 2012):

- Danone believes that it is obligatory that companies think through all stages of their growth when serving and exiting low-income markets.
- Massmart learnt that marketing, products offered and placement of stores need to be carefully considered and adjusted to the BoP community being served.

- Blue Label Telecoms believes that careful consideration should be given to the total cost of making a purchase (including travel expense and time) when developing an offering for the BoP market of South Africa and ensure the use of digital technologies to reduce costs.

The overall economic, social and environmental impacts of BoP initiatives from previous articles reviewed are positive (Kolk et al., 2012). However, Kolk et al. (2012) still calls for urgent investigation into the trade-offs between social impact and company profitability.

2.6 Institutions

2.6.1 Definition

In order to investigate the elements of an institution it is necessary to define an institution. Institutions are formed much like organisations; they are driven by both social and economic purpose and governed by a common sense of purpose, values, culture, best practices, custodianship, adaptability, dynamic resource building and leadership (Ramachandran, 2014).

Institutions can be categorised as formal and informal (Peng, Wang & Jiang (2008); Rivera-Santos & Rufín, 2010). Formal institutions refer to laws and regulations while informal institutions refer to norms and cognitions (Peng et al., 2008) or those that do not comply to formal rules but have strong traditional ties in communities (Rivera-Santos & Rufín, 2010), and have been ignored when researching business strategy and performance.

North (1990, p. 3) refers to formal and informal institutions as the “rules of the game”, and is said to considerably influence a company’s strategy and performance in emerging economies according to Peng et al. (2008). North (1990) defines institutions as activities that mould and give meaning to human interaction.

2.6.2 Emerging Economy Institutions

The importance of relationships between institutions and organisations in emerging economies is surfacing and receiving increased attention (Peng et al., 2008). Peng et al. (2008) argue that an institutional-based view on international business (IB) strategy has developed for emerging economies; and contributes to discovering what drives firm strategy and performance in IB. The study of IB competition reveals “emerging economies whose institutions differ significantly from those in developed economies” (Peng et al., 2008, p. 921).

Opponents argued that knowledge of institutions will not enable understanding of business strategy and its performance. However, this comes from the view of developed countries where institutions are assumed to be unimportant (Peng et al., 2008) and where business is run differently. Institutions have a significant influence on how MNCs conduct business in emerging economies (Peng et al., 2008), such as Africa.

MNCs will need to manage risks of the BoP differently to the ToP (top-of-the-pyramid) (Rivera-Santos & Rufín, 2010). Rivera-Santos and Rufín (2010), claim that BoP networks are more unstable and less predictable in terms of their formal aspects but are more stable and robust in their informal aspects.

2.6.3 The Effect of Institutions on the Economy

Institutions have a significant influence on how MNCs conduct business in emerging economies (Peng et al., 2008; Reficco & Márquez, 2009; Miles, Scott & Breedon, 2012). North (1990) and Miles et al. (2012) suggests that institutions have an effect on historical change and economic performance over time. The history of apartheid in South Africa, for example, that once divided a country, has led to regulations and incentives that fuel BoP business opportunities in order to accelerate growth in this space (Ismail et al., 2012).

The interaction between geography and colonisation has been cited for affecting institutional structures (Miles et al., 2012). The influence of the environment on business strategy has also been researched but through economic variables such

as technological change and market demand (Peng et al., 2008), which may be also be attributed to geography and colonisation.

Theorists believe that colonisers developed institutions to extract rent from the country and send it to the colonial power and “politics became the battle for control of the state, and society became focussed on rent seeking and not entrepreneurship” (Miles et al., 2012, p. 122). With the exception of the United States and Australia, of course, this may be attributed to the geography (Miles et al., 2012).

Artificial borders created by colonisers are said to still play a role in the interaction of African societies, post-independence, slow their economic development and affect the types of institutions formed (Miles et al., 2012). Colonisers are believed to have created borders to advance their own needs ahead of the indigenous people. There are numerous tribes (cultures) seen in both Africa and India, each with their own language, beliefs and practices. Ethno-linguistically diverse nations tend to have poor government policy; each ethnic group tries to extract resources from another; and finds it difficult to reach agreement over allocation of infrastructural resources (Miles et al., 2012).

Easterly and Levine (1997) also discovered that ethno-linguistic diversity is associated with informal markets, lower financial development, low provision of infrastructure and low education levels. This ethno-linguistic diversity may also lead to civil wars, which tends to cripple a country much more than conflict between different nations (Miles et al., 2012). Institutions can help support economic growth by engaging large, non-majority ethnic groups in society and policy (Miles et al., 2012).

Data published by Miles et al. (2012) shows the influence of artificial borders on the economic growth of countries in Africa. South Africa is scored ahead of Kenya and Nigeria in 2009 in terms of governance and institutional quality, which is listed in Table 4 (Miles et al., 2012), with a score of 0 being the worst and 100 being the best. All three countries rate high on voice and accountability. Nigeria has the worst political stability when considering all the other African countries rated and definitely the worst when compared to Kenya and South Africa. Nigeria also scores low on

government effectiveness, rule of law and control of corruption but is not much behind on regulatory quality.

Table 4: ***Governance and Institutional Quality***

Country	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
South Africa	66.4	44.3	67.6	64.3	56.1	60.5
Kenya	37.4	12.3	31.0	47.1	15.1	11.9
Nigeria	24.2	4.2	8.6	25.7	10.4	14.8

2.7 Business Strategy

2.7.1 Strategy Definition and Purpose

According to Ireland, Hoskisson and Hitt (2011, p. 4), strategy is defined as “an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage”. The strategy specifies what the firm will do and what it will not. Strategy is influenced by opportunities and threats in the external environment as well as the nature and quality of resources, capabilities and core competencies in the internal organisation (Ireland et al., 2011). Types of strategies include: business-level, corporate-level, competitive rivalry and competitive dynamics, merger and acquisition, international, and cooperative strategy (Ireland et al., 2011).

However, the strategies related to the research topic under investigation include: business-level, corporate-level and international strategy. The definition of business-level strategy “is an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets” (Ireland et al., 2011, p. 90). Since long-term business performance is linked to strategy, all firms must form and use a business-level strategy, which is the core strategy (Ireland et al., 2011).

Most MNCs that are formed in advanced, developed economies have to adopt and change their domestic strategies to be successful in low-income markets in

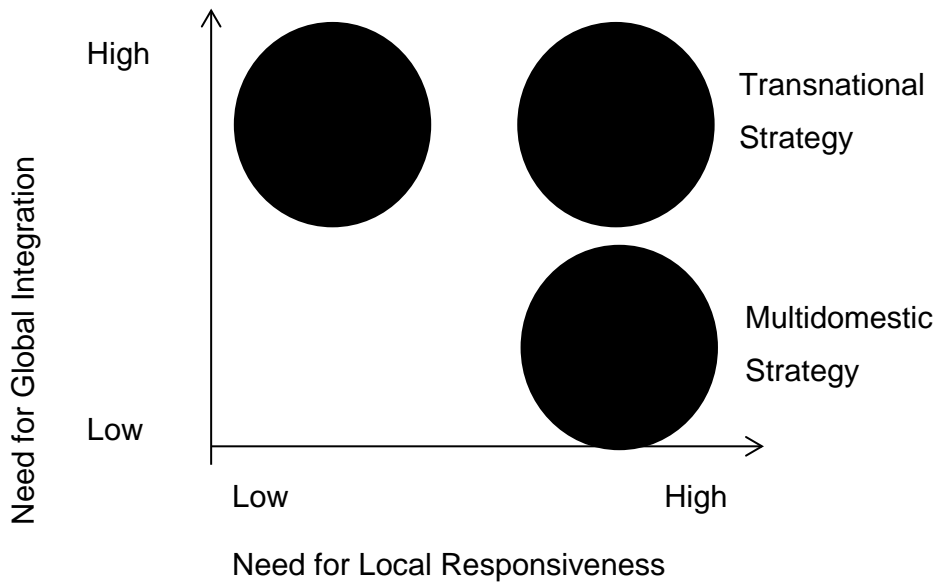
emerging economies. One way to do this is by introducing international corporate-level strategies. International corporate-level strategy “focuses on the scope of a firm’s operations through both product and geographic diversification” (Ireland et al., 2011, p. 201).

Research has been conducted on the impact of institutions on diversification strategies (Peng, Lee & Wang, 2005; Wan, 2005). The types of international corporate-level strategy are multidomestic, global or transnational, which is a combination of multidomestic and global (Ireland et al., 2011). Companies in emerging China were more likely to adopt transnational strategies than the developed German companies (Kraft, Fanchen, Dowling & Helm, 2012). Figure 2 shows how multinationals decide on which strategy to pursue by considering the need for global integration and local responsiveness.

A firm considers internationalising their businesses due to the potential opportunities to increase their financial returns and extend a product’s lifecycle (Ireland et al., 2011). The incentives to use an international strategy includes: increased market size; return on investment; economies of scale and learning; location advantages. Even though headquarters usually guides the strategy, local business partners do have substantial strategy input (Ireland et al., 2011).

It is interesting to note that differences in culture and institutional environments also encourage multinationals to use transnational strategies. Because most MNCs pursue regional strategies, transnational strategies may not be as relevant (Ireland et al., 2011). However, the question of whether regional strategies are successful still remains.

Figure 2: *International Corporate-level Strategies*



2.7.2 Customer's Relationship to Strategy

Relationships with loyal customers are seen as the lifeblood of an organisation. Due to the fast diffusion of information through the internet, customers are becoming more demanding, knowledgeable and sophisticated, making it more difficult for multinationals to build and keep a loyal customer base (Ireland et al., 2011).

2.7.3 Business Strategies Employed in BoP Markets

According Hammond et al. (2007), some businesses are successful at meeting the needs of the BoP market and others are not. They go on to say that the four most important strategies employed either serially with more than one or in combination are:

- *Focusing on the BOP* that often requires re-imagining of the business with a significant investment of money and talented management, coupled together with unique products, services, or technologies that are appropriate to the BOP

needs. Some examples include: point-of-use systems, healthier food products, and micro-finance and low-cost remittance systems.

- *Localizing value creation* with sufficient investment in capacity building and training through franchising, which involve building local ecosystems of vendors or suppliers, or by treating the community as the customer. Examples include franchise and agent-based direct marketing, local phone entrepreneurs and resellers, agent-based food distribution systems, community-based water treatment systems and mini-hydropower energy systems.
- *Enabling access* to goods and/or services through financing (microloans, mortgages), novel distribution or low-cost technology strategies. Examples include packaging goods and services in small unit sizes, or “sachets” and cross-subsidies in health care and community-based health insurance.
- *Unconventional partnering* helps obtain the necessary capabilities by partnering with governments or non-government organisations. This often takes place in sectors such as energy, transportation, health care, financial services, food and consumer goods.

Another important strategy highlighted by Grootveld (2009), in this type of low-income market, is Trust Building. According to Grootveld (2009), businesses that build trust with local communities stand a greater chance of sustained success than those that do not, and that the first impression in this situation is the most relevant by far. His study in Tanzania showed that a low-income community is more open to new ideas “especially if it is in their favour.”

One of the NGOs aptly summarized these thoughts by saying, “The first impression matters, you have to meet the village leadership and sit down and talk with them about your plan. If the objective is benefiting them, then it is fine and you’re most welcome” (Grootveld et al., 2009, p. 33). Therefore, these testimonies show that community development might ultimately be the most important strategy to gain BoP community buy-in and support.

Pitta et al. (2008) identified five marketing strategies undertaken by private companies to alleviate poverty in the BoP while also generating a profit:

- *Do things differently from traditional practices* – change profit and revenue objectives. Create an independent division to serve the BoP.

- *Get to know the BoP intimately* – marketers need to know their segment needs and ways to best serve them without just minor tweaking of existing ones.
- *Hire grass roots intelligence companies and equip them with a sound brief of objectives* – engaging with those that have direct contact to the BoP is vital to success especially when considering MNCs from distanced developed nations that have no experience or insight into the BoP they want to serve.
- *Develop an adequate pricing strategy* – give consideration to both cash and microcredit payment options.
- *Develop milestone plans with long-term goals* – don't expect profits too soon in this type of business.
- *Understand why not ALL products or services will be suited to the BoP* – in medical care; for example, smaller pack sizes with stronger dosages may be detrimental to a patient's health and society, which may require government and NGO involvement.

Ismail et al. (2012), researching past and present MNCs in South Africa, also identified four successful approaches to serving the BoP:

- *Big Picture Design* – ensuring that all aspects of the business are designed to serve the BoP.
- *Make it Appropriate* – co-create business offerings with the BoP.
- *Make it Stick* – the business offering needs to be engrained into the community.
- *Make it Bigger* – design offering to serve a bigger market and cater to a number of needs with a single offering.

Research also conducted by London, Anupindi and Sheth (2010) in the BoP, revealed very interesting results. They investigated mutual value creation by applying business strategies that alleviated poverty in the BoP, a firm would also generate a greater economic advantage than without the BoP market. In assessing sixty-four firms, they identified constraints faced by the BoP producers that limit them from creating (production constraints) and capturing value (transactional constraints).

To address these constraints firms developed specific sequencing and investment strategies, which were dependent on the type of product being sourced (London et al., 2010). Using these strategies, firms were very successful in this space. Social Embeddedness in the local community and improving ways of production were essential for these firms to serve the BoP and be profitable. According to Sánchez, Ricart and Rodríguez (2005) social embeddedness, “is the integration into diverse local networks that leads to the development of long-term and cooperative relationships and which may result in the achievement of common benefits for all the players involved in the network” where history is very important.

Another way to improve ways of production would be by building inclusive networks among BoP producers and consumers (Reficco & Márquez, 2009). Also, an investigation of successful, innovative strategies across 103 firms operating in low-income market was conducted, which yielded the following results (Schuster & Holtbrügge, 2014) that are similar to other findings above:

- To reduce resource dependency companies engaged local actors to co-create products and work together with non-traditional and fringe stakeholders;
- Organisational performance was affected positively by local capacity building and non-traditional and fringe stakeholder partnerships;
- Companies entering low-income markets must be committed to the project throughout its lifecycle and must set long-term goals.

Schuster and Holtbrügge (2014) also recommend that governments play an active role in facilitating these partnerships between non-traditional, fringe stakeholders and companies, and assist in improving environmental conditions. To operate in the BoP space it is imperative that companies educate the local population, invest in local infrastructure, and create employment and business opportunities (Schuster & Holtbrügge, 2014).

Successful BoP strategies used by MNCs, from past research, can be summarised as follows:

Political

- Embeddedness
- Mutual-value creation
- Trust building

Regulatory

- Educate the local BoP market
- Develop effective investment and sequencing strategies
- Create unconventional partnerships
- Enabling access to products or services
- Create an adequate pricing strategy
- Set long-term goals

Societal

- Build inclusive networks
- Engrain the product or service in the BoP community
- Engage the BoP market as co-creators and/or business partners.

This review of literature on business strategy for the BoP market shows that it is imperative for MNCs to have an institutional-based (political, regulatory, and societal) view to formulate and implement strategy to gain a competitive advantage in the BoP landscape.

2.8 Effect of Institutions on Business Strategy

2.8.1 Effect of the Political Aspect of Institutions on Business Strategy

A great degree of local embeddedness by MNCs in BoP communities is required to earn trust and political goodwill for success in the BoP (Rivera-Santos & Rufín, 2010). Unfortunately, this comes with increased political risk due to multiple domains of interaction and limited development of political institutions (Rivera-Santos & Rufín, 2010). Arora and Romijn (2012), stress the importance of politics when researching the BoP market.

It is essential for MNCs to research the political environment of African countries, their stability and efficiency and base their business strategies on them. In order to understand how African countries operate and the challenges experienced when running business in them, it is essential to look into the past (Games, 2013).

A study conducted in Taiwan, a newly democratized emerging market, investigates the effect of political ties on corporate strategy and the findings are extremely informative (Zhu & Chung, 2014). Their analysis showed that under a united government, ties to the ruling party aided entry into unrelated industries whereas ties to the opposition inhibited it. However, in a divided government ties to both the ruling party and opposition with legislative authority gives one an added advantage. It is good to know that even if a company does not have support from the ruling political party but has market entry experience and sufficient resources, they stand a good chance at achieving their goals (Zhu & Chung, 2014).

Dianna Games, a leading commentator, author, and columnist on business issues, trends and developments in Africa advises those wanting to conduct business in Africa the following (Games, 2013):

- Due to the turbulent political history of many countries in Africa, it is necessary to conduct thorough due diligence on operations of local partners, board members and even directors to prevent destruction of your company reputation;
- Clarify all political links associated with a business deal especially close to elections and find out whether the deal will still go on if a new political party comes into power.

2.8.2 Effect of the Regulatory Aspect of Institutions on Business Strategy

Research found that government regulation is playing an increasingly important role in the BoP space (Márquez & Rufín, 2011). Most African governments have helped fuel and sustain growth in Africa by putting in place critical physical and social infrastructure, privatising state-owned enterprises, increasing trade openness, lowering corporate tax and strengthening legal and regulatory systems (Games, 2013).

The World Economic Forum calls on government and civil society organisations to take action to assist companies engaging with the BoP, and is listed in Table 5, which is adapted from Ismail et al. (2012). However, more engagement with government officials lends itself to an increased risk of fraud and corruption (Rivera-Santos & Rufin, 2010). Xu and Meyer (2012) propose that more efficient institutions and less corruption reduce the need for local knowledge and networks.

When considering doing business in Africa, Games (2013) advises the following in terms of regulations:

- Respect and comprehend all local rules, regulations, protocols and any changes to legislation in an African country. Get to know the local authorities that may impact your business such as the council or chief of police in the area that you operate;
- Ensure that your trademark is registered and not being used by another company in the country, legally.

Table 5: **World Economic Forum Suggested Action for Partners**

Government	Civil Society Organisations
<ul style="list-style-type: none"> • Create regulations that encourage innovation and effective collaboration • Invest in the business enablers to improve market-related infrastructure and policies and provide essential services • Educate and support BoP – create and empower consumer forums; conduct public education campaigns; strengthen the capacity of producers and entrepreneurs • Foster public-private partnerships – convene, align and mobilise stakeholders and common priorities. 	<ul style="list-style-type: none"> • Strengthen the capabilities of the BoP to enable higher quality and efficiency of production • Create enabling market infrastructure such as producers’ associations • Create consumer forums to protect public interest • Embrace new, non-traditional roles in business partnerships.

In the face of regulatory uncertainty, managers need to find opportunities in the non-market arena and will be able to not only make a profit but gain a competitive advantage as well (Fremeth & Richter, 2011). The non-market arena includes activist organisations, policymakers and companies. There are advantages from working within a system by using integrated strategies instead of working against it

and fighting regulation, government and activists (Fremeth & Richter, 2011). Two integrated strategies to achieve this are “systematically embracing advancing regulation” and “advocating for pragmatic, progressive policy” (Fremeth & Richter, 2011, p. 17).

2.8.3 Effect of Societal Norms Aspect of Institutions on Business Strategy

According to Minkov, Blagoev and Hofstede (2013, p. 1095), societal norms “are beliefs about the social acceptability of behaviours”. Some societal norms are within the domain of culture and are a “primary source of social order” (Minkov et al., 2013, p. 1095).

Dacin, Goodstein and Scott (2002) reported that societal-level institutions shape firm’s strategy in complex ways. According to Peng et al. (2008), “political, legal and societal changes in India affect strategies of both Indian and non-Indian firms when competing in and out of India.”

There are both formal and informal networks at the BoP, and Rivera-Santos and Rufin (2010) believe that formation of networks at the BoP will help MNCs provide products and services to the BoP market at a profit. It is also necessary to understand deeply the fragmentation of networks along geographic, ethnic, kinship or religious lines.

Reficco and Márquez (2009) also share in this point of view about networks. They believe that inclusive networks can build on existing social structures such as local leaderships, strong kinship or friendship bonds, and traditions to create social assets that the poor can leverage. Leveraging these social assets will enable individual producers and consumers to overcome their weaknesses. Inclusive networks or BoP networks are “those networks that were instrumental in the management of commercial initiatives that engaged the BoP” (Reficco & Márquez, 2009).

When conducting business in Africa Games (2013) advises:

- Understand the cultural nuances of local management and ensure they are a good fit to the company;
- Take into account the ethnic breakdown of countries and consider it when hiring and appointing board members;
- When considering mergers or acquisitions, show the board that you take the company seriously and maintain interaction with the CEO or managing director not middle management.

2.9 Internationalising Business Strategy

MNCs need to create and manage different international business strategies for the ToP and the BoP (Rivera-Santos & Rufín, 2010) and understand the institutional influence on international business strategy (Peng, Wang & Jiang, 2008). International business decisions are associated with a whole host of complexities (Brouthers, O'Donnell & Hadjimarcou, 2005). Emerging markets are characterised by inefficient markets, government involvement, high uncertainty and extensive networking (Xu & Meyer, 2012).

Brouthers et al. (2005) suggests mimetic isomorphism for emerging market firms looking at international business strategy. Rivera-Santos and Rufín (2010) stress the importance of non-market actor identification and development of cross-sector relationships for MNC success in the BoP space. Van den Waeyenberg and Hens (2012) also encourages collaboration of multinationals with local partners such as non-governmental organisations and local distributors.

Van den Waeyenberg and Hens (2012), and Schrader, Freimann and Seuring (2012) suggest that firms look internally when trying to improve base-of-the-pyramid internationalisation strategies. Firms should assess the transferability of their capabilities and adapting their business structures to encourage knowledge sharing. Also, they should change mind-sets and encourage all employees to contribute to development and marketing of products for the BoP, not just the employees in the BoP team.

CHAPTER 3: Research Propositions

The purpose of this research is to understand the effect that low-income market institutions have on multinational corporation (MNC) business strategies when expanding business across various emerging economies. The conclusions drawn, recommendations offered and frameworks created will help MNCs considering internationalisation of their BoP business strategies across emerging economies anticipate associated challenges and risks to make more informed business decisions and find ways to overcome these challenges in a shorter, more effective period of time.

According to Peng, Wang and Jiang (2008) and Rivera-Santos and Ruffin (2010) institutions are both formal and informal. It governs societal transactions through political environment, regulatory environment and society norms (Peng, Wang & Jiang, 2008). Therefore, three propositions relate to understanding the institutional challenges that MNCs experience when internationalising BoP strategies across various emerging economies as they relate to the political environment, regulatory environment and societal norms.

Therefore, the effects of the following three propositions on the internationalisation of business strategies in emerging economies are being explored:

Proposition One

Internationalisation of multinational corporation base-of-the-pyramid business strategies are influenced by the political aspects of institutions in emerging economies in Africa.

Proposition Two

Internationalisation of multinational corporation base-of-the-pyramid business strategies are influenced by the regulatory aspects of institutions in emerging economies in Africa.

Proposition Three

Internationalisation of multinational corporation base-of-the-pyramid business strategies are influenced by the societal aspects of institutions in emerging economies in Africa.

CHAPTER 4: Research Methodology and Design

4.1 Introduction

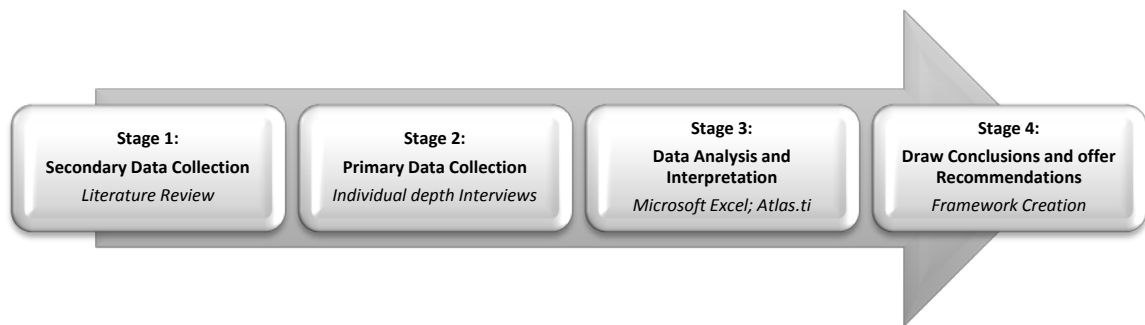
This chapter details and defends the methodology used; the population and unit of analysis selected; the sampling method and size; the processes used for data gathering, analysis and interpretation; and highlights the research limitations.

4.2 Research Approach

Peng, Wang and Jiang (2008), Mike, Sunny, Brian and Hao (2009) as well as Rivera-Santos et al. (2012) point out that one of the most important market influence of a firm's strategy are institutions when compared to industry or resource influences. Therefore, this exploratory study aims to examine strategies utilised by multinational corporations (MNCs), identify institutional challenges experienced and potential solutions, and develop an internationalisation framework to assist MNCs venturing across various emerging economies.

According to George and Bennett (2005) and Cooper and Schindler (2014) in order to fully understand the variables within an unknown or unfamiliar context, and to explore new variables, one needs to conduct a qualitative research. The qualitative research approach comprised of four stages as shown in Figure 3. Senior managers in MNCs will provide insights into the challenges experienced when internationalising BoP strategies across emerging economies in order to explore the influence of differing institutions.

Figure 3: **Four Stages of the Research Approach**



4.3 Secondary Data Collection (Stage 1)

The literature review provides explanation of important concepts to be tested and built upon and defends the research topic chosen. Base-of-the-pyramid (BoP) literature on the challenges experienced by firms from developed nations entering developing nations has been a topic of recent research interest examined (London & Hart, 2004; Wright, Filatotchev, Hoskisson & Peng, 2005; Schuster & Holtbrügge, 2012). However, many researchers have called for further investigation into expansion of firms from emerging countries into other emerging countries for future research (London & Hart, 2004; Wright, Filatotchev, Hoskisson & Peng, 2005; Peng, Wang & Jiang, 2008).

In order to develop successful strategic frameworks, which firms from emerging markets can use when internationalising, the strategies utilised by multinational corporations (MNCs) and their challenges must be explored. There are various internal company challenges and external market challenges associated with internationalisation of MNC BoP strategies.

However, external market challenges will be the focus of this research. According to Peng, Wang and Jiang (2008), and Rivera-Santos, et al. (2012), one of the important external market drivers of a firm's strategy is institutional-based theory, besides the industry and resource-based view that may also be further investigated.

Therefore, this research will investigate the external market challenges faced by MNCs when rolling out BoP strategies across emerging economies; with the aim of

developing a strategic framework, which MNCs can use when deciding to internationalise their businesses.

4.4 Primary Data Collection (Stage 2)

4.4.1 Population and Sample

The population for this study includes the senior managers and/or middle managers from MNCs with homes in developed markets that have tried or are trying to internationalise BoP strategies across various host emerging economies. The unit of analysis was individual's experiences in managing the institutional challenges associated with internationalising BoP strategies across emerging markets and how they have attempted or are attempting to overcome the challenges associated with divergent institutional contexts.

Due to the exploratory nature of this study, individual depth interviews were conducted to explore the three main propositions detailed in Chapter Three. MNCs approached for this study were in the FMCG, mobile telecommunications, pulp and paper and petrochemical industry, which work across multiple BoP markets in emerging economies.

The unit of analysis was senior managers' and/or middle managers' perspectives of how their firms were structuring their business strategies in this space, the political, regulatory and social challenges experienced and how they attempted to resolve these challenges. Senior managers chosen were those that were part of the BoP business division in each MNC. A maximum of two different emerging economies per MNC will be considered for this study. Data was obtained from a total of eight senior managers across all firms unless saturation is not reached in which case more interviews will be conducted; across eight MNCs working on BoP market strategies.

4.4.2 Sampling Method

Non-probability, purposive, judgment sampling techniques was applied due to the exploratory nature of this study (Cooper & Schindler, 2014) and due to the unique experiences of employees in the BoP business divisions of MNCs. Judgement sampling was used to select MNC employees in the BoP division only, since they would be employees with first-hand experience of challenges faced when conducting business in this space.

The two major types of purposive sampling are judgment and quota sampling (Cooper & Schindler, 2014). However, for this study we will apply judgment sampling methods only as it is suitable during early stages of an exploratory study.

Mason (2010) argues that the number of interviews a researcher conducts depends largely on the whether saturation has been reached or not; and that many researchers may tend to conduct exactly the number of interviews that was specified in their research proposal to meet quality assurance criteria. He goes on to say that they might include larger sample sizes so that their data is defensible but the data becomes repetitive and superfluous.

In Mason's study he found that sample sizes ranged from 5 -350 and in some cases saturation was reached after six interviews. This is why is it absolutely necessary to understand when saturation may be achieved. Saturation is the point where no new data emerges; it does not add to the development of a framework and is therefore counter-productive.

4.4.3 Data Collection Instrument

The individual depth interviews were conducted according to the discussion guide (Appendix 1) prepared by the actual interviewer as suggested by Cooper and Schindler (2014). The structure of the interview was semi-structured and lasted a maximum of 90 minutes. Individual depth interviews can take anything between 20 minutes and 120 minutes depending on the issues being discussed (Cooper & Schindler, 2014). All interviewees signed an Informed Consent Letter (Appendix 2)

prior to interview commencement. All interviews were voice recorded and field notes were taken, they were then transcribed for data analysis and interpretation.

Propositions developed in Chapter Three were based on factors that formed institutions (politics, the regulatory environment and the social environment) and how these challenged the implementation of business strategies from one emerging economy to another.

4.4.4 Data Collection Process

Since the interviews were semi-structured it allowed for the interviewees tangents of thought to be explored (Cooper & Schindler, 2014), as long as it related to the subject in question. It is the interviewer's responsibility to recommend topics, control the interview and probe (Cooper & Schindler, 2014).

A pilot interview was conducted with a friend or family member working in an MNC to screen the discussion guide for: repetition, alignment to propositions, flow and format of the questionnaire.

4.5 Data Analysis & Interpretation (Stage 3)

The type of qualitative data analysis used was inductive. The activity that ensures accuracy from raw data to classified forms is data preparation (editing, coding and data entry). Atlas.ti was the software program used to code interview responses. 'Coding' in Atlas.ti refers to grouping content of a document under a certain 'theme'. For example, all content of transcribed interviews, from various sources, relating to the political challenges of a country can be 'coded' as 'Politics'. A comparison of the political challenges experienced across multiple sources can then be made.

4.6 Potential Research Limitations

The qualitative study will be limited to Fast Moving Consumer Goods (FMCG) MNCs and future research should be conducted on MNCs in other sectors in order

to build on findings of this research. Various other limitations were identified and acknowledged by the researcher (Cooper & Schindler, 2014):

- Data collection and interpretation may contain human error and bias
- Major business decisions may be based on a unstable foundation
- Results cannot be generalised to a larger population

However, the trustworthiness of the data gathered from qualitative research can be managed through exacting methodology (Cooper & Schindler, 2014).

CHAPTER 5: Results

5.1 Introduction

The previous chapter outlined the qualitative method of research used and the process of data collection and analysis. This chapter presents the results of the interviews that were conducted based on the propositions set out in Chapter 3. The propositions outlined the anecdotal evidence provided by managers from multinational corporations (MNCs). Not only does this chapter provide insight into markets in Africa but shares experience of MNCs in this space.

The sample demographics are presented first, followed by the results. Direct quotations of interviewees are presented in italics and their identities have been kept confidential. The **#number** displayed in this chapter refers to quotations referenced in Chapter 6.

5.2 Research Objective

Base-of-the-pyramid (BoP) markets in emerging economies have political, regulatory and societal aspects of institutions that are very different to developed economies. The objective of this study was to understand the significance of institutions to internationalising base-of-the-pyramid strategies across various emerging economies in Africa.

This objective was defined for three reasons. Firstly, to add to the body of knowledge of base-of-the-pyramid research in Africa, by exploring the construct of internationalisation through the institutional lens. Secondly, to build on Hart's BoP 2.0 protocol that views the poor as co-inventors and business partners. Thirdly, to help MNCs considering internationalisation of their BoP business strategies across emerging economies in Africa to become well informed and anticipate associated challenges and risks, thereby enabling informed business strategy decisions to be made in a shorter, more effective period of time.

5.3 Sample Demographics

The researcher interviewed managers from MNCs who were involved in strategy development for BoP markets in Africa, with a focus on Kenya, Nigeria and South Africa. Eight managers with cumulative experience across ten companies in the fast-moving consumer goods (FMCG), consumer electronics (CE), pulp and paper (PP) and mobile telecommunications (MT) industries were interviewed. The identification code (M1-M8) of each interviewee, their current company position, and the corresponding industry sector and company market origin are provided in Table 6.

Table 6: *Sample Demographics*

Identification Code	Interviewee Position	Industry	Company Market Origin
M1	Global Consumer & Market Insights - Surface, Lavatory care & Developing Markets	FMCG (F1); FMCG (F2)	(F1) Developed; (F2) Developed
M2	Head of Strategy-Africa	Consumer Electronics (CE)	(CE) Developed
M3	Senior Shopper Marketing Manager	FMCG (F3); FMCG (F4)	(F3) Developed; (F4) Developed
M4	Divisional Sales Manager	FMCG (5)	(F5) Developed
M5	Commercial Strategy Development Manager	FMCG (F6)	(F6) Emerging
M6	Divisional Manager-Kwazulu-Natal	FMCG (F7)	(F7) Emerging
M7	Group Head Investor Relations and Sustainability	Pulp & Paper Industry (PP)	(PP) Emerging
M8	Segment Manager Strategic & Corporate Accounts	Mobile Telecommunications (MT); FMCG (F2)	(MT) Emerging; (F2) Developed

Six out of the ten MNCs interviewed were formed in developed countries and later expanded to emerging markets. To give the data variance, four out of the ten MNCs interviewed originated in an emerging market and three out of the ten companies were not in the FMCG industry. Three managers have low-income

market experience in more than one company and are listed under 'Industry' in Table 6. Two out of the eight interviewees, M1 and M8, had previously worked for the same company, F2.

5.4 Representation of Data

The type of qualitative data analysis used was inductive analysis. The data were coded according to categories and then themed in order to develop a working framework. The results present the common categories and themes that emerged as they support the propositions put forward in Chapter 3. In certain instances the interviewer asked probing questions to confirm anecdotal evidence put forward by the interviewee. All quotations have been italicised.

5.5 BoP Strategies Employed by MNCs

To provide context to anecdotal evidence provided by interviewees, the interviewer asked about experience in their current company position as well as the company strategy for low-income markets they have been involved in rolling out. These introductory and background questions is detailed in first section of the discussion guide in Appendix 1, and feedback are listed in Table 7.

Table 7: *Interviewee Experience and MNC's Strategy*

Identification Code	Experience in Current Role (months)	Business Strategy for BoP Markets in Africa
M1	6	(F1) In the defining stage; (F2) Increase penetration & scale
M2	24	(CE) Improve health and education
M3	24	(F3); (F4) Increase penetration & make product aspirational
M4	24	(F5) Double turnover while halving the carbon footprint
M5	36	(F6) Double price, halve price and go-farming
M6	96	(F7) Improve availability & localise brands
M7	72	(PP) Localise brands
M8	7	(MT) Maintain & increase market share; (F2) same as above

5.5.1 BoP Strategies Used in Kenya, Nigeria, South Africa

Beverage brand names are popular in the BoP markets of Kenya, Nigeria and South Africa. In Nigeria, some MNCs use a strategy of penetration by positioning a product as functional and aspirational.

In South Africa, the market is seen as mature and even small sales increases are welcomed. Competition is seen as stiff in this economy, by interviewees, and MNCs take every effort to win market share. Infrastructure is not developed in most BoP markets. Therefore, MNCs try to overcome issues of distribution through effective networks and channels to ensure that their brand and products are always available on store shelves to prevent loss of market share to lower priced, unbranded competitors. MNCs in Kenya tend to follow strategies that have previously worked in South Africa. Anecdotal evidence is provided below.

“The awareness is there. So in Nigeria it is more around penetration. So our strategy there is because it is the fastest growing economy with high volumes of people. It's how you capture those people in terms of recruiting them into your franchise or into the category. So people still know what [F3] is or even [F4], but it is now developing the category and showing people how your product complements their changing lifestyle. So in Nigeria it is the middle and upper class that is growing, so it's about how you position your product not just as a functional product that you need to quench your thirst, but it's how you make it aspirational as well. Here in South Africa the category is pretty much matured, you are lucky in beverages if you go anything above x percent. Whereas in Nigeria, the potential is still there, they are going through more industrialisation. So it is about ensuring your channel strategy in terms of capturing growth is intact, so being available in as many outlets as possible but also ensuring how your brand and your product can meet people's extrinsic and intrinsic needs.” (M3, FMCG)

“This is the same trend all over the world, because what you find that is that most countries on the continent will more or less mimic what South Africa does. If something happens in South Africa, it's easier for Kenya or Nigeria to start wanting to implement it... Even in South Africa, we also take learnings from other markets in Latin America, so even before

something comes, we already know how another country, which is classified as a peer market - because Latin America is classified as an emerging market - how they might have dealt with that issue. We know invariably that it will end up impacting on Nigeria and will end up impacting on Kenya, so they almost would see us [South Africa] as a best practice market for them to deal with the same issues.” (M3, FMCG)

MNCs have adapted their strategy around societal norms in regions like Africa, Asia and Latin America as suggested by the quotation below.

“... for example in Africa, Asia and Latin America there are guidelines, internationally accepted guidelines, if you need to move people off the land to do your development on your project obviously with the government's blessing.... you actually need to adapt your strategy to allow for those people to operate and remain on their land and try find a way to build them into the business. Now in some cases there are no cost effective way to achieve that and it costs too much to do it that way and so you give up on that strategy, but following the regulations or the norms won't achieve what you want to achieve either.” (M7, Pulp and Paper Industry)

5.5.2 Increase Penetration, Scale and Availability

Four out of seven interviewees spoke about the importance and challenges of penetration in BoP markets in Africa. Interviewees stressed that penetration was a problem when playing in the BoP space due to the geography, country stability, infrastructure, crime and networks and that they were trying to increase penetration by exploring more efficient distribution channels. Scale is also imperative for availability. MNCs realise that if their product is not on shelves and not available, they will lose business to their competitor in BoP markets. BoP consumers need to have their needs met when they do make a purchase whether it is a brand they trust or the next best substitute. Anecdotal evidence is provided below (#11).

“Increase penetration by driving local production and running extensive marketing campaigns with testimonials. Increase scale by deciding to launch [a certain brand of] washing powder in a country with the highest population in Africa. To penetrate this market this [F2] started local production, reformulated to make this the best ever formulation and conducted real life testimonials.” (M1, FMCG)

“So it is about ensuring your channel strategy in terms of capturing growth is intact, so being available in as many outlets as possible but also ensuring how your brand and your product can meet people's extrinsic and intrinsic needs.... a big concern for most FMCGs because those people are price driven, they are not brand driven and if they just offer a product at a lower cost; think about it, if I was hungry and I wanted bread, of course I may consider the brand I want it to be Albany, but if I'm hungry and I see there is more than one I will buy because I just want to fill a need for that point in time. If I am thirsty and I want to buy cool drink, yes I may want to buy Coca Cola, but if what I can find behind the store is this one and it's cheaper, chances are that I am going to buy that one and for us that is one of the biggest challenges.” (M3, FMCG)

“We've got an all-encompassing route-to-market strategy that covers multiple routes-to-markets and multiple channels, so I'm responsible for my portion of that. For example, we have a bottom-end numeric distribution strategy of reaching more stores, better stores and better served stores. I've got ten distributors who contribute to the strategy in that way.... So even though there a lot of poor people in Asia, a lot of low-income consumers, getting that access to the product is more of a priority in Africa than say in Asia.... It's more about penetration, but there's two sides to the coin because once you've penetrated an outlet or once you've given a consumer access to a product, you have to provide them with a proposition that makes sense for them to buy and carry on buying.... So I think the biggest opportunity within Africa at the moment is to develop propositions that we can grant access to more consumers.” (M4, FMCG)

“The first one is price. Some would say the second one is price, but I'm not going to say that. The second element is distribution and the third is availability.” (M6, FMCG)

5.5.3 Corporate Social Responsibility Initiatives

Three out of ten MNCs (CE, F5 and F7) have embarked on community development initiatives, known in their companies as Corporate Social Responsibility (CSR) Initiatives, while trying to increase turnover and is listed in Table 7. MNCs learn about potential development initiatives through social embeddedness and consumer insight according to feedback below.

“The incubator is set up in Kenya as they are seen as the Silicon Valley of Africa at the moment and we hire university students to do our research and testing. When designing products we have to look at smoke-free stoves, for example, solar-powered equipment, we need to look at replacing kerosene stoves to avoid the risk of poisoning kids in rural areas; we need to look at projects to improve the health and education in a country.” (M2, Consumer Electronics)

“Some of our best insight, our best work, literally does not go against the societal norm but piggybacks with it [through a combination of social development programmes that promotes brands].” (M4, FMCG)

“I could give you the example of Johnny Walker Black, what we're doing in the community about Johnny Walker; we were asking people in communities to write stories about other people that they believe have contributed in their community - not popular people, but ordinary people. We had a competition running for that, had people who won and the advert was also a 360 degree of that where it was talking about a Nobel peace prize winner from the street of South Africa -talking about South African pride etc.” (M6, FMCG)

MNCs are involved in CSR initiatives to protect their license to trade, develop the community and create awareness of their product and brand as explained below.

“From a local business perspective is about always maintaining our licence to trade, you know we are always selling something controversial and not without debate and so we're constantly having to protect our licence to trade, and what sometimes that means is that we are involved in - the faming project that we were talking about - providing clean water in some of the markets in which we work in because we're protecting our license to trade.” (M5, FMCG)

5.5.4 Time-frame for Achievement of BoP Goals

The majority of interviewees have more than two years of experience in their current role, which is an indication that the majority of MNCs interviewed have experience in the low-income (BoP) space in Africa and have been playing in this space for quite a while. Notably, those still in the defining stage of their BoP strategy have a long way to go to gain the necessary knowledge and experience in order to be successful in this space. Interviewees also stressed the importance of setting long-term goals in the BoP space as shown below.

“Be willing to wait three years before realizing a profit.” (M1, FMCG)

“The global CEO came in, one of his first items of business was to stop giving analysts forecasts and consensus estimates and all that stuff because his view was that this is just such a short term horizon to look at the business quarterly and so he just decided he's not going to do it anymore; so you'll see from all our plans the minimum we look at ...is a five year horizon.” (M4, FMCG)

5.5.5 Create Local Business Strategies

It was discovered when examining these strategies that all of the MNCs interviewed develop a local market strategy from a regional strategy, which was developed from

their main global strategy. The interviewees explained the steps followed to develop a local market strategy from a global one below.

“This is quite difficult to say because we work with regions and formulate strategy for regions and then narrow it down to a country level depending on consumer needs. Strategy is standardized depending on maturity level of a country. In Africa you have a very high population that is off the grid and do not have access to electricity. Healthcare is a huge need in these countries.”
(M2, Consumer Electronics)

“... Where the differences is we regionalise the campaigns whereas the brands more or less say the same.” (M3, FMCG)

“As the name suggests, the compass indicates the direction that we need to go and there are certain strategic imperatives, which are part of that. So everyone in the world is aligned to that compass strategy... who we are as a business, the culture, the standard of leadership - everything is aligned... from a strategy perspective is more tweaking, based on local circumstances, rather than reinventing strategy. We won't do anything at a local level that is not aligned with the global strategy.” (M4, FMCG)

“Our strategy is derived at the corporate level, and then we've got a regional strategy and taking that and saying what does it mean for the region and therefore making sure that all kind of cascades through to the market.”
(M5, FMCG)

“We are selling a similar brand so we tend to understand the different dynamics about the individual brands, and they tend to be slightly different as you go to different countries. But if you look at the way we would formulate our strategy and talk around it from a global point of view. We do that from a global point of view and when we get to the local market we then tweak it to be a local area rather than to just take it as is at global level.” (M6, FMCG)

5.5.6 Monitor Competitors

Interviewees explained that the threat to their market share was their competitors when the market is saturated. It was important to identify their competitors early on and create strategies to take away market share from them. Interviewees gave insight into the competition that MNCs face in the BoP space below.

“...so the relevance of all those smaller [spaza] stores begins to go down and what then happens is that opens a gap from competition.... who can come up with the same product at half our price.... you start seeing that most of the main market or emerging market outlets are operated by foreigners - your Somali's, Bangladeshi's - a big concern for most FMCG's because those people are price driven, they are not brand driven and if they just offer a product at a lower cost; think about it, if I was hungry and I wanted bread, of course I may consider the brand I want it to be Albany, but if I'm hungry and I see there is more than one I will buy because I just want to fill a need for that point in time. If I am thirsty and I want to buy cool drink, yes I may want to buy Coca-Cola, but if what I can find behind the store is this one and it's cheaper, chances are that I am going to buy that one and for us that is one of the biggest challenges.” (M3, FMCG)

“Our challenge isn't really to get awareness, it is to acquire business from our competitors, it really is just stealing share from our competitors. The pie is sort of is what it is. We have very little growth year-on-year. It is just down in terms of voice and we are seeing a lot more in terms of data consumption.” (M8, Mobile Telecommunications)

“... Many of our paper products we would manufacture in South Africa and export to the rest of Africa. But it is not a main focus and not why those plants exist in the South African context, those exports markets to the rest of Africa are basically opportunistic as much as anything else and we would fight with Asian or European suppliers in many of those markets for that business. Because none of those countries typically have their own manufacturing industries, so they are completely reliant on imports, it's just about cost competitiveness of the various countries that want to export to them.” (M7, Pulp and Paper Industry)

5.5.7 Constantly Identify New Opportunities

Due to the advances in technology and increased competition, more MNCs are able to sell products at affordable prices to the majority. However, this makes some products or systems redundant and MNCs have to be on the constant look out for new technologies and alternative products to produce as explained below.

“Our strategic approach is let change the business by focussing on forest based products that are still growing, and clearly one of ours is a wood based pulp that eventually lands up in the textile industry, so it has very different demand dynamics etc.... That is an option, as we see it at the moment though; it’s something that extracting bioethanol from wood is more expensive than other biological sources, such as maize. And even the easiest one, sugar cane for example, has to be heavily subsidised and as we said before, strategically we don’t believe you should build a business around subsidies. But we do believe extracting other high value chemicals out of wood, essentially out of our waste stream. So that they are not trying to do it as a stand-alone system, but that one way to lower your costs or improve your returns from your paper business is to extract high value chemicals out of the waste stream where currently you would just burn it to recover that energy. So we need to change the model slightly to improve returns even if it is based on an industry that is slowly declining.” (M7, Pulp and Paper Industry)

5.6 Important Elements in Strategy Internationalisation

In the first section of the discussion guide (Appendix 1), interviewees were asked what they believed to be the three most important elements to consider in development of strategy for BoP markets in Africa and responses are listed in Table 8. Interviewees gave different responses to this question and a set framework was not presented. However, the data reached saturation as no new insights were discovered from the eighth interviewee.

Interviewees collectively named thirty-two elements that they felt were important for strategy development. The elements mentioned by interviewees were categorised with the following codes using Atlas.ti: demographics, economic, environmental, regulatory, political, societal norms, technological, channels/networks, market share, productivity, organisational culture, and profitability and employee skills.

The first seven of these categories include major forces that companies should monitor in the broad external environment to identify new opportunities and threats. The next six categories are involved with the internal environment of the business. Therefore, the overarching themes developed from these categories were either external-to-business or internal-to-business.

The elements mentioned most often fell into the following categories: economic and organisational culture. These categories were followed by demographic, societal norms and channel/network elements. The least mentioned fell into the following categories: regulatory, employee skills, technological. These were followed by environmental, productivity and profitability.

Table 8: *Elements to Consider in Strategy Development*

Identification Code	Element 1	Element 2	Element 3	Other Elements
M1	Culture	Climate	Demographics	Technological advancement
M2	Geographical expansion	Population size	Fiscal requirements	Go-to-market business models must be adapted to changing market, building capabilities, domain knowledge
M3	Consumer Trends	Reach and evolving distribution channels	Technological and social media platforms	Demanding customers, competitor brands
M4	Own strategy	Encourage strategy flexibility and ownership	Develop long-term goals for low-income markets	None mentioned
M5	Look for the opportunity in the market	Vision for the organisation	Influence of stakeholders	Ensure that the organisation has the right setup to take advantage of the opportunity
M6	Price	Availability	Distribution channels	None mentioned
M7	Size of the market	Stability of the legal and financial environment of the country	What is the competitive edge of locating in that country?	None mentioned
M8	Concentrate on customers, understand all segments.	Be aware of competitor offerings.	Strategies must be 'alive'.	Strategy must evolve with the times.

It is very interesting to note that interviewees did not mention elements that fell into the political category. However, when asked about the effect of the political environment on business strategy interviewees said the following:

"We consider in every country that we operate what are the political implications of anything that what we want to do" (M3, FMCG)

"It plays a massive role, in terms of our core of business principles as a company" (M4, FMCG)

"It certainly does affect it, it comes down to stability. That is whether we are looking at Africa or other parts of the world." (M7, Pulp and Paper Industry)

"... A massive role in terms of telecoms." (M8, Mobile Telecommunications)

5.7 Political Institutional Aspects of Strategy Internationalisation

Interviewees were asked about how the political environment affects business strategy and as detailed earlier their first response was that the political environment has an enormous effect on strategy. Interviewees were also asked to compare the effect of the political environment on strategy internationalisation among Nigeria, Kenya and South Africa.

5.7.1 Political insights into Kenya, Nigeria and South Africa

F5 rolled out the same strategy for a laundry detergent brand in Nigeria and Kenya to increase penetration and scale. Due to the strong political ties of F5 in Nigeria, they were more successful in Nigeria than Kenya and held the majority market share during and even after F2 launched their brand (#2).

“Political ties in Nigeria, as opposed to Kenya, weigh heavily on business practices.... The producer of Omo [in Nigeria was able] to decrease the import duties of raw materials from 75 % of cost price to 0% of cost price...” (M1, FMCG)

“In some parts of the continent, in areas where you go launch, you obviously want to partner with people that have the correct political currency and then they can get you into the right access etc. When you come as a big conglomerate, then without local partnerships it becomes difficult to make certain decisions quick.... So it is just understanding... how to navigate those political nuances to be able to have a good presence in the marketplace.” (M3, FMCG)

The Nigerian government wanted to (#2)

“Encourage local production and employment but discourage foreign investment. However, the Kenyan government wanted to encourage competition in the country, foreign trade and investment and thereby assisted companies wanting to launch products in their country.” (M1, FMCG).

This did not discourage F2 from competing in this market. After a few years of defeat F2 engaged in local production, reformulated and embarked on an aggressive marketing campaign to become the majority market share holder as explained below (#2).

“To penetrate this market F2 started local production, reformulated to make this the best ever formulation and conducted real life testimonials. [F2’s] brand became the number one brand in Nigeria. Omo even had to change the colour of their washing powder from blue to white to match [F2’s] brand colour. Omo became the number two brand.” (M1, FMCG).

There are also insinuations from other interviewees that political ties and the political history of a country are extremely important for business strategy in Africa and are presented below (#1).

“We consider in every country that we operate what are the political implications of anything that what we want to do” (M3, FMCG)

“It plays a massive role, in terms of our core of business principles as a company” (M4, FMCG)

“It certainly does affect it, it comes down to stability. That is whether we are looking at Africa or other parts of the world.” (M7, Pulp and Paper Industry)

“... A massive role in terms of telecoms.” (M8, Mobile Telecommunications)

“Business in Africa is based on legacy, especially in countries below the Congo.” (M2, Consumer Electronics) (#4)

“The different tribes in a country and market affect how you conduct business. There are certain tribes in villages and governments that are in power and you will need to consult the chief before any business is conducted.... previous colonial rule has an effect on the pride of its

people. Nigeria has a very proud nation and they are also very business-minded and entrepreneurial.... one is influenced by the French and the other by the British.” (M2, Consumer Electronics) (#4)

Interviewee, M7, advised that business deals be sealed before the time of elections in a country, as quoted below, thereby highlighting the importance of political aspects (#3).

“I’ll give you an example of Mozambique, you dealing with ministers and if the government is about to change you get two things. One is that in the year leading up to the elections they do not want to commit to anything, because they not sure if they are going to have the authority or they are lining themselves up. Sometimes it works in your favour, just before elections they want to achieve something and increase their chances of retaining their job. Then, you get a new government; they need a year or two to get up to speed. For any kind of business to deal with years of delay often just makes projects harder.” (M7, Pulp and Paper Industry) (#4)

It is widely understood by MNCs that it against the law in South Africa for MNCs, particularly in the alcoholic beverages industry, to have connections with or alignment to political parties, which amounts to corruption as, stated below.

“As a business we are highly ethical and we make sure that our dealings are above board with everything that we do. That is signed by every employee who has joined this business; we all have to abide by the rules to ensure that we do not have anything with political officials.” (M6, FMCG)

In certain industries where it takes a long time to realize profits, MNCs have to extremely mindful of the political ties and lease agreements they sign according to advice below.

“Let’s look for example at many African countries, where you cannot buy the land, you can only lease it from the government. So when you deal with an industry like ours, where your timelines for a forestry operation may be 20 plus years, then a political institution - your government - that is going to change, even if democratically, every 5 years, brings a risk with it that those rights get taken away. So the political setup, which also overlaps into the regulatory because if you have a strong regulatory certainty then that gives you a bit more confidence to deal with political uncertainty.” (M7, Pulp and Paper Industry) (#4)

5.7.2 Routes to Gain Political Knowledge

MNCs created partnerships with governments, associations, marketing companies and embassies to gather knowledge about political aspects of a BoP market they wanted to expand to.

“Hire local marketing companies and join associations of the intended country of launch.” (M1, FMCG)

“Obviously for any business activity you would go to your local embassy for advice. For example, we are a company, we would like to establish here in Kenya. What are the things we should be looking out for? You get those people who can get you in touch with the local business people that sort of advice multinationals on the do's and don'ts politically. So I think the first point of contact is usually with your local government office or the office of the local ambassador.” (M3, FMCG)

5.8 Regulatory Institutional Aspects of Strategy Internationalisation

Interviewees were asked about the effect of the regulatory environment on business internationalisation strategies in Africa. All MNCs stressed the importance of regulations on strategy development for the BoP markets of Africa.

5.8.1 Regulatory Insights into Kenya, Nigeria, South Africa

Markets in Africa are perceived to be very unstable. However, South Africa and Kenya are seen as more stable than Nigeria. Interviewees say with conviction, below, that it is also very important to be mindful of how long government incentives will last and whether your business will be profitable within this period (#5).

“The regulatory environment is different for different countries, which impacts formulations and active levels.” (M1, FMCG)

“The volatility, stability, legal and fiscal policies all has an impact on expansion in these countries. Volatility impacts business side, you need to look at financial cost of capital and if I make lots of money will I be able to take it out of the country. Legal and fiscal policies drive the business model and working with third parties.” (M2, Consumer Electronics)

“You must have heard about Tiger Brands, they wrote off about almost a billion from their Nigerian business, because what they got wrong was that they started wanting to sell everything on a cash basis and that market was very much a credit market, which is what the challenge we face in Nigeria, but in South Africa, the truck stops, you must have the money to pay and in certain cases even pay in advance, in Nigeria you cannot do that. So as a result, you cannot penetrate as many stores as possible because you have to mitigate the risk of giving them stock on credit versus just capturing that sale. Yes you can offer them that but if they cannot fulfil it; also with a low confidence on their justice system in Nigeria where you have a high perception of corruption, you know, the person that was here who owed you money, you go there tomorrow and they are no longer there. So those

are the big challenges from legislative, financial and logistics that are just not at that level where you would have similar trading as you do in South Africa or in Kenya. In fact, we run our Nigeria business out of Kenya, so the general manager in Nigeria reports to Kenya. So the guy who is in Kenya is the boss of the region so they manage Kenya, Tanzania and other central African countries.” (M3, FMCG)

“Also one of the things we are very focussed on is that no investment in a developing economy, but would apply to all economies, should be premised on subsidies. Subsidies can disappear, subsidies can help you establish your business, but your business should be profitable and you should ordinarily be able to make the decision to go ahead with an investment without getting subsidies from the government. Those could go away at short notice and you could be left with a stranded asset.” (M7, Pulp and Paper Industry)

From anecdotal evidence presented previously (5.7.1), the Kenyan government is encouraging foreign investment while the Nigerian government is encouraging local production. Interviewees concur and quotations are presented below.

“Yes, as long as you just have offices in their [Kenya] country. Nigeria, the big thing is local, and you must source locally, they discourage exports [from other countries] and you must be listed on the stock exchange.... Another thing that I know with Nigeria as well, which is different to other markets, is that to operate in Nigeria you have to list on their local stock exchange.” (M3, FMCG)

“From a regulatory point of view, as I've said before, land ownership and certainty of land over tenures can be a big issue for us. The nature of our business - being large land owners and/or having large capital investments - you need a long period to get a payback on them. Things we've encountered in places like Brazil, so Latin America, where you get legislature that very much favours local companies, so if you are looking to acquire a local company or something like that you have to be very careful,

make sure you understand the regulatory environment because you may not have a business nearly as successful after your acquisition as it was before because you are laden with a whole bunch of extra costs that a local company does not have to deal with. An issue, for example, in Angola of indigenisation, where if you set up your business there you've only got a short period in which you are allowed to use foreign staff to manage it or run it, you have to quickly train up local people to manage the business. Now that in general is not an issue but it can be an issue where you have sets of skills or requirements that are now new to this country, say in Angola for our example where you want to build a pulp mill and you need chemical engineers, electrical engineers, mechanical engineers, if those skills don't exist in that country three years is an extremely short period of time to try make the numbers. All of those regulations have to be taken into account, so either add to the compost or add to the risk.” (M7, Pulp and Paper Industry) (#7)

Confusion around whether emerging market regulatory standards are lower or equivalent to those in the developed world is conveyed in the quotation below.

“If Healthcare products fit global standards then it will fit African standards and that’s why I believe that global or Western/European standards are more strict.” (M2, Consumer Electronics)

5.8.2 South African Regulations

After the abolition of apartheid, the government implemented regulations to empower those that were previously disadvantaged by apartheid. The Black Economic Empowerment (BEE) regulation, in particular, applies not only to employees but suppliers and distributors as well, which makes the MNC’s task of closing institutional voids more difficult according to anecdotal evidence below (#5).

“Your BEE regulation, in terms of where are you sourcing, your suppliers have to be BEE compliant, obviously your employees should be equal

opportunity in terms of the people you bring into the business. So those are the obvious ones. But increasingly with us... there is a spotlight on the whole sugar tax. It is not regulation yet but is something that is being discussed in terms of the government wanting to regulate the consumption of sugar. So that is going to have a very big impact on our strategy, the way we try to counter that as a company we try to be as open as possible in terms of how our products form part of the total lifestyle of a consumer; we encourage people to be responsible in how they use our products and we encourage people to embrace a more healthy and balanced lifestyle.” (M3, FMCG)

“Legislation in South Africa around Black Economic Empowerment, there's a lot more pressure on corporates such as ourselves to do more in terms of BEE preferential procurement into enterprise development. We found it extremely difficult to find black entrepreneurs who had the capital and the experience required to make the model work. So we do have some black entrepreneurs within the programme, but the majority are white entrepreneurs and literally because of history, they currently have the capital to do it, and literally because of history, they actually did get the experience to do it. So do you say I put my commercially viable programme on hold until I find the right kind of candidates? Or do I start the programme and find ways to bring in more black entrepreneurs and find ways within the distributor programme for us to benefit the community more? So we hit institutional issues a lot.” (M4, FMCG) (#7) (#8)

The regulations in South Africa seem to be very strict in certain areas and change as research is conducted and new discoveries are made. MNC compliance to all regulations as well as tax payments is imperative. MNCs have to make strategic business decisions about who to do business with. They also have to be more creative to educate, empower and attract their demanding South African consumers as communicated below (#5).

“Tax also plays a big role and there are different tax schemes in each country.” (M2, Consumer Electronics)

“Because of obesity, because the legislation feels that our obesity index is becoming one of the biggest in the world and typically they will go for the big brands that are seen as, you know.... Sugar can be addictive, so they feel that if you impose a sugar tax it will discourage people.” (M3, FMCG)

“You can talk e-tolls, it's not illegal not to have one, but to do the right thing, all our distribution vehicles, all our sales vehicles will be fitted with an e-tag, what that does to your distribution cost you just have to absorb.” (M4, FMCG)

“Legislation in South Africa around Black Economic Empowerment, there's a lot more pressure on corporates such as ourselves to do more in terms of BEE preferential procurement into enterprise development. We found it extremely difficult to find black entrepreneurs who had the capital and the experience required to make the model work. So we do have some black entrepreneurs within the programme, but the majority are white entrepreneurs and literally because of history, they currently have the capital to do it, and literally because of history, they actually did get the experience to do it.” (M4, FMCG)

“From a local business perspective is about always maintaining our licence to trade, you know we are always selling something controversial and not without debate and so we're constantly having to protect our licence to trade.... We have to make sure that we comply with the regulations in those countries. So then you need to make sure that you know the right stakeholders to engage; that's what the first piece is on. The second piece is on our excise, as a sin tax, I think it's always important for us to engage with the minister of finance, making sure the excise that we pay and the tax etc. are in line with the government budget because it is one big budget item that comes through; if you listen to South Africa's budget [speech], for example, excise and restrictive increases are always something that comes up every year and so we need to make sure that we maintain that engagement with the governments.” (M5, FMCG)

"We basically went and said, "We want to brew a beer from cassava or from a local plant." It was cassava in Mozambique; it's sorghum in all sorghum markets. Now to do that, what we are going to do is we are going to engage this many number of farmers and therefore create economy etc., the government gets revenue etc.; the effects are far reaching. Then we said look now to be able to do that from a government perspective, we need to be able to get some sort of excise break, we (engaged) with government, the government then agreed and we started local production of that particular beer." (M5, FMCG)

"The only thing we do to government is to pay taxes and abide by the laws of the country." (M6, FMCG)

A recent example was ICASA put out a regulation against educational institutions and public healthcare so anything that we billed them had to be at a 50 % discount so that is one example of how risky it becomes when operating in an environment like this. So the impact that it has initially you have no control over, you have to implement it because you are sort of in contravention of the law.... you are not forced to do business with these guys." (M8, Mobile Telecommunications)

5.8.3 Challenging Regulations

MNCs must bear in mind that regulations in some countries may be challenged, changed or exempted as long as there is evidence and the necessary regulatory bodies to back it up. Also, this must be communicated with authorities in a timely manner. Interviewees were asked whether they have challenged regulations and about their success in trying to change regulations and their responses are presented below (#6).

"Spend money on local companies, associations, agencies or external affairs of the intended country of launch." (M1, FMCG)

“So then we contributed to the local economies, engaged with the government, we were able to engage in CSI [corporate social initiatives], etc. So that is how we were able to support it through the value chain. That was the important part for our strategy, which is the Go-Farming element.... From a local business perspective is about always maintaining our licence to trade, you know we are always selling something controversial and not without debate and so we're constantly having to protect our licence to trade, and what sometimes that means is that we are involved in - the farming project that we were talking about - providing clean water in some of the markets in which we work in because we're protecting our license to trade. We have to make sure that we comply with the regulations in those countries.” (M5, FMCG)

“Yes, I guess we have and we have been successful in some places. Often for us there is not a local industry that we can work together with, but where we have seen it being successful and I'm going to use Mozambique as an example here is where the Mozambican government realised they needed some expert advice... they recognised they did not have the expertise and brought in, and was funded by Scandinavian countries to bring in that expertise... You can work with the consultants and they in their expertise can advise the government on whether we are correct or not or whether we are just taking a chance. So there have been places where we were able to get permanent changes to laws or at the very least when you are starting off on projects you get short term exemptions from certain regulations because they don't make sense at a certain state of the project.” (M7, Pulp and Paper Industry)

“It is very critical that you stay abreast of what is going on and it is critical to have a legal counsel you need a team of lawyers to do business in telecoms and when I say lawyers I'm talking a building in Sandton full of them. You have to have top notch legal counsel and experts in the regulatory environment, I mean it is a must because you get these times when you then need to challenge as we do on a couple of cases.” (M8, Mobile Telecommunications)

5.9 Societal Norms Institutional Influence on Strategy Internationalisation

Interviewees were asked how societal norms influences strategy internationalisation in Africa and to substantiate their views with successful examples used in industry. Interviewees mentioned that its influence is significant in Africa:

“Culture plays a big role in business strategy.” (M2, Consumer Electronics)

“Absolutely, the biggest wins that we have come from relevant societal insights.” (M4, FMCG)

“... Societal norms do play a big part.” (M8, Mobile Telecommunications)

5.9.1 Societal Norm Insights into Kenya, Nigeria, South Africa

There are both formal and informal economies in Africa. Formal/modern traders include franchise stores, malls, etc. Informal/traditional trade are your spaza shops, vendors and shebeens. MNCs see BoP consumers in South Africa purchasing from both formal and informal traders and in bigger packs sizes compared to norms in Nigeria and Kenya. MNCs feel that BoP consumers in Nigeria and Kenya tend to buy smaller pack sizes more often due to their consumption habits and frequency of wages, which is very societal. In Nigeria, business is conducted mainly through traders, on credit, unlike business in Kenya and South Africa. Anecdotal evidence is provided below.

“There are two typical types of stores in developing markets namely modern trade (e.g. PnP) and traditional trade (e.g. spaza shop).” (M1, FMCG)

“... It is 54 % of the business. It’s like SAB; most of our volumes come from the township areas.” (M3, FMCG)

“So our business in that area [Kenya and Nigeria] tends to find we sell smaller packs 80 % of the time and bigger packs (sales) are small. Only

now our 'Shoprite's' are creeping in there. Because they are operating from a channel structure out of smaller format stores - the smaller format stores typically cater to your emergency type of products: small, you only buy bulk at the end of the month - that is where we see there are differences. That is the same experience I saw even when I was working for [F4] that those markets tend to sell those smaller format products because you don't have a buy and shopping culture of month-end top up because the trading landscape is not at that level yet. So those are the major differences I can see from the channel and pack format, as well as how we do our campaigns.” (M3, FMCG)

“... [Nigerians] buy things mainly via distributors in smaller quantities, on credit....” (M3, FMCG)

Some interviewees see Kenya as more developed than Nigeria and very close to the level South Africa is at, whereas others do not as explained below.

“The incubator is set up in Kenya as they are seen as the Silicon Valley of Africa at the moment” (M2, Consumer Electronics) (#9)

“...we in South Africa, we tend to sell more of the bigger packs more often than not, because here we have two economies; we've got well developed shopping complexes, people get paid mainly at the end of the month. Whereas in some markets like Kenya or Nigeria it's like an everyday thing where there are high volumes of work, they get paid at the end of the day or at the end of the week so they tend to buy smaller quantities.... And that is also informed by the fact that in those markets the retailing environment has not developed to the same maturity level as South Africa.” (M3, FMCG)

“... In terms of laundry care there is a gigantic difference in water quality, air, requirements of the people, even their diets and activities that dictate what approach you are going to use. There is a lot of localisation that needs to happen. At the same time that I say that the Nigerian and Kenyan markets are very similar in terms of communication. The insights we generated was

actually quite similar. Whereas in SA [South Africa], it is like being in a Western European country even when we went into the lower LSMs [Living Standards Measure] we still found that the kind of synergy we needed was very very different from Kenya and Nigeria. So where there is synergy is in the west and east African countries if you want to consolidate strategy. South Africa is very different even when we were captured with other regions we were captured with either Eastern or Western Europe. Mainly because the type of consumer we have in this country is a hybrid. There are also different users in various different categories but you also find that are superior in terms of expectations, usage patterns, consumption, all of that as compared to European and Western regions.” (M8, Mobile Telecommunications)

“In Kenya there is a different dynamic because there is a Kenyan government approval that you need to get. There are a whole lot of regional dynamics at play when it comes to that.... You can go to the hawker or to the spaza shop kind of thing and buying an individual use for the day in individual sachets. So when I go back to the South African market, our consumption habits are really really different especially when it comes to things like that, also the way people look at it again from a strategy point of view is very important in terms of how you communicate and the actual product you put out so in Kenya and Nigeria you have a relatively very unsophisticated market and at the same time they have an emotional side, they want to look good, feel good and have the best for their families, that kind of a thing, which is still the same and I guess that those things are pretty much universal....” (M8, Mobile Telecommunications)

5.9.2 Consumer Insight

It is very difficult to gather market information in most low-income markets in Africa and MNCs need to spend money on relevant agencies to get this type of information according to quotations below.

“Consumer insight is limited.... [F1 is] Not good at consumer insight... [F1 is] Not willing to spend money on local companies, associations, agencies or external affairs of the intended country of launch.” (M1, FMCG)

“... obviously for any business activity you would go to your local embassy for advice. For example, we are a company, we would like to establish here in Kenya. What are the things we should be looking out for? So I think the first point of contact is usually with your local government office or the office of the local ambassador.” (M3, FMCG)

BoP communities in South Africa are not seen as brand conscious but make purchases to meet their daily needs according to anecdotal evidence below.

“In fact another biggest one in South Africa from a social point of view is that now you start seeing that most of the main market or emerging market outlets are operated by foreigners - your Somalis, Bangladeshis - a big concern for most FMCGs because those people are price driven, they are not brand driven and if they just offer a product at a lower cost; think about it, if I was hungry and I wanted bread, of course I may consider the brand I want it to be Albany, but if I'm hungry and I see there is more than one I will buy because I just want to fill a need for that point in time. If I am thirsty and I want to buy cool drink, yes I may want to buy Coca Cola, but if what I can find behind the store is this one and it's cheaper, chances are that I am going to buy that one and for us that is one of the biggest challenges.” (M3, FMCG) (#10)

MNCs have deeply engaged with BoP consumers and become aware of their intrinsic needs, wants, beliefs, traditions and behaviour and the unwritten rules that govern these behaviours and norms to develop internationalisation strategies as conveyed by interviewees below.

“For example, Kenya does not consume a lot of oil in their food whereas Nigerian food does contain a lot of oil when they cook plantain.... sometimes countries like white light while others prefer yellow light and that depends entirely on culture in different countries. A long light sells well in one country where it doesn't in others.... we are now a global company and looking into the whole product roadmap and tailor the needs accordingly. Let me give you an example, when we talk lighting we talk hundreds of thousands of products, it's not like having five different variants. It is a very different ball game. Education is extremely important though.” (M2, Consumer Electronics) (#9)

“...look at the consumer space. Let's look at a couple of examples, a shaver. The shaver works for the white population because it is pulling the hair and cutting the hair, it doesn't work for the black population because what it does is makes bumps on the skin so what we did was introduce a shaver that is only for the black skin which only touch and lifts and we are introducing this product in Kenya, Nigeria and South Africa [SA] but in SA you have white and black population. So certain technologies used needs to be adjusted to suit the consumer's different needs. The next thing, in South Africa for example, you know the iron machine with steam.... Nigeria and Kenya they only buy a dry iron because, it is better and the steam. There is a lot of things you do by tradition, which is why education is extremely important if you want to change a consumer from A to B.... so a product might fit in one market and then the second but won't fit in the third because of a cultural difference or simply because people are not educated and then there are products that work far better like kettles, blenders, they work everywhere but in certain countries they like sandwich makers and in other they don't like them at all. It is very much driven in the consumer space by how people live actually. For example rice cookers, etc. you can't sell it in Egypt and Maghreb but you can sell it in Sub-Sahara.” (M2, Consumer Electronics) (#13)

“I could give you the example of Johnny Walker Black, what we were doing in the community about Johnny Walker [to create awareness and promote

Johnny Walker], we were asking people in communities to write stories about other people that they believe have contributed in their community - not popular people, but ordinary people. We had a competition running for that, had people who won and the advert was also a 360 degree of that where it was talking about a Nobel peace prize winner from the street of South Africa - talking about South African pride etc.” (M6, FMCG) (#9)

One interviewee does not believe that societal norms are important to development of business strategy due to his company sector, the pulp and paper industry, being more capital intensive and politically and regulatory inclined as communicated below.

“For example in Africa, Asia and Latin America is there are guidelines, internationally accepted guidelines, if you need to move people off the land to do your development on your project obviously with the government's blessing. They would say that it's in the country's interest to relocate people from this area, there are internationally accepted norms and there may be regulations in that country as well that states how much you got to pay and this is what you have to do etc. But one of the things that we both in our approach and in our experience is that those are largely irrelevant, you can follow those norms but it always come back to hurt you in the future, you actually need to adapt your strategy to allow for those people to operate and remain on their land and try find a way to build them into the business. Now in some cases there are no cost effective way to achieve that and it costs too much to do it that way and so you give up on that strategy, but following the regulations or the norms won't achieve what you want to achieve either.” (M7, Pulp and Paper Industry)

Local rollout departments very often receive local strategy direction from their head office in London as shown below.

“We get from all communication centres, we do get direct communication from London, we do get some communication from South Africa, and I do send communication from a divisional point of view.” (M6, FMCG)

In countries like South Africa, consumers must be treated with respect at all times to maintain and increase market share according to quotation below.

“One strategy is also to make sure that you are pleasing your consumers so that you don’t end up on a billboard like Cell C, because it can happen you will never know if you tick the wrong guy off that can be the end of your business....people feel like they are being picked on every day of their lives, they have six foot walls and electric fences and on top of all of that, when you disappoint them they are going to take out all their frustration on somebody. Most of the time it is companies that bear the brunt of that, not that it is not deserved but it is also an outlet for people to feel a little bit empowered.” (M8, Mobile Telecommunications) (#14)

5.9.3 Information and Communication Technology (ICT)

Interviewees mentioned the importance of ICT in Africa today. Although MNCs in Africa are wary of engaging on social media platforms that is what consumers in BoP markets use often; in order to gain awareness, and attract and maintain market share MNCs need to be present on these platforms and educate their consumer as communicated below (#12).

“There is a lot of things you do by tradition, which is why education is extremely important if you want to change a consumer from A to B.” (M2, Consumer Electronic)

“Our challenge isn’t really to get awareness, it is to acquire business from our competitors, it really is just stealing share from our competitors. The pie is sort of is what it is. We have very little growth year-on-year. It is just down in terms of voice and we are seeing a lot more in terms of data consumption.... If your audience is taking selfies then you have got to

communicating to them in a way that connects with them, Twitter/Facebook. No one really wants to be on Facebook or Twitter. No corporate really wants to be on Facebook or Twitter but you have to there is no way around it.... as a communication company can't be seen off twitter or Facebook or LinkedIn or any of these platforms because it is good to have this mass and it is good because that is where you will find our users, that it what our users want, if users complain, that is where they will complain...." (M8, Mobile Telecommunications)

"...they don't buy them in the same way they did before because your channel is evolving. Right now the whole thing about social media it is becoming the biggest thing; if you don't have social media strategy you are dead in the water. How do you have a strategy that can live on social media as well? Because you know that even from an advertising point of view the consumer does not go around carrying a TV but goes around carrying a mobile. You know, every now and then there is a twitter feed and if your brand is not visible there the way you recruit the next generation of consumers - you will lose them because they no longer watch TV where you used to play the TV ad. That is what is changing with the consumer, which is informed by the technology by and large. I think that is what will drive and change the consumer of tomorrow. Technological and social platforms and the evolution of channels; for example, you would never have thought that a Woolies [Woolworths] would be available in Soweto." (M3, FMCG)

5.9.4 Leverage Societal Norms

MNCs designed products and promotions around societal norms of the local market. They engaged the BoP community with their products and supported small businesses in the community to promote awareness according to quotations below.

"You look at if the infant mortality rate is high in certain countries and then look at providing ultrasounds, etc. For example in the Healthcare category you need to look at mobile oncology units that are small. Depending on where the health assistance is you produce accordingly. When you go up to

Algeria you need real oncology units. Things like cervix cancer affects the population more than others and you need to offer that equipment to that sector of the market. You have to play with different portfolios in the healthcare space and bear in mind the sensitivity of prices. What we are doing in incubation is looking at the primary healthcare space and the needs in the east and west [Africa] are pretty much the same. They battle with mother and child trauma, blood pressure, that's not so different but where you do see the difference is price levels. Sensitivity of prices is different on the market. That is very much linked to financing costs and all those kinds of things.... In Europe they want to move more energy conscious products and as such move to LED lights.... depending on the evolution there again.”
(M2, Consumer Electronics) (#9)

“A fantastic example is if you look at our savoury business... In a sishebo go a whole lot of things, aside from your meat and your cooking oil there's a bit of spice, there's a bit of soup, there's a bit of this and that, a whole lot of stuff that comes together to make the perfect meal. Directly aligned with our strategy is we want people to use more products in their sishebo, so we run a Perfect Sishebo programme, with some of the big retailers on TV and through various channels and it literally is about someone can really take pride in having people over and they taste this meal and they go wow it's amazing. But it's really absolutely aligned to us also having people use a wider repertoire of products in their dishes, so that's a good example. Another good food example, we've embarked this year, through the Knorrox brand, a programme where we're enrolling caterers, townships caterers, and we assist them to get their equipment that they require to get started and obviously provide them with recipes and ideas for ingredients and so forth. If you think about it, in every township there's a funeral or a wedding that someone is going to at least once a month and almost every weekend these things will require some sort of catering. So societal norm is that you don't go to a funeral or wedding without catering, so why not tap into that insight around what can we do to support and build a base of township caterers. Another good example, I was going to say mainly upper income South Africa, but generally in South Africa people go for a matric dance. There are a lot of

girls who can't afford a fancy matric dress but it's a really big deal in their lives. Through one of our brands through Skip we've partnered with an NGO and we sponsor a certain number of girls every year with a matric dress. It's aligned with our brand around how well it looks after your fabric and cleans your fabric, at the same time aligned with people's need to go to matric dances, so how can we contribute? Some of our best insight, our best work, literally does not go against the societal norm but piggybacks with it. Another example, ginger is very big in the Free State in the last bit of the year because traditionally over the festive season people brew traditional ginger beer, so we drop the prices of ginger during this time and we sell lots of ginger and we make sure that the outlets are in areas where they do sell ginger are well supplied with ginger at good prices because we know people are going to be using these products. So there is a lot in and around societal norms in other things. In terms of our customers, retailers and wholesalers, some of the Muslim customers they won't refuse to meet with a female representative, but you can see that it's uncomfortable, so while you want everyone to have a fair employment opportunity, we'll try and align a certain customer with a certain type of individual so we don't offend them and it makes it easier for everyone in terms of how business gets done. There are a lot of soft things which you see, but the best work we do taps into it rather than try to go against it.” (M4, FMCG) (#9)

“...so the more you can get the better; even though it may cost you a little bit more, but you do the price per litre or whatever...people might buy one and share...so not all markets are sharing markets and in markets, not all categories are shared. So [for example] opaque beer tends to be shared, whereas clear beer doesn't tend to be shared. So the transactional price point for small packs does not always stick...” (M5, FMCG) (#9)

5.10 Comparison of MNCs Interviewed

Comparison of interviewee responses indicate that it is more difficult for capital intensive companies like the Consumer Electronics or Pulp and Paper Industries to play in the BoP space than an FMCG or Mobile Telecommunications company as conveyed below.

“... when we talk lighting we talk hundreds of thousands of products, it's not like having five different variants. It is a very different ball game.” (M2, Consumer Electronics)

“Look it is going to be by industry, and the challenges by industry are very different. Whether you have the scale and the cost will make it very different, as you say, between an FMCG and a manufacturing company. Certainty is paramount if you are going to be spending, in our case, a billion or two billion US dollars to enter a market, compared to be able to just trial at an FMCG level I guess. There are a lot of different options or strategies available when you don't have big capital costs; their local partnering and all sorts of things. Largely for us, in our industry or heavy asset industry it's a massive decision.” (M7, Pulp and Paper Industry)

“It is very important to get that [customer] loyalty... one needs the volumes in that kind of an operation. Very often the packaging is worth more than the actual product and at the BoP most companies follow the same trend except for telecoms where you are profitable throughout across the board. That's the major distinction between telecoms and FMCG. Your profitability is never really at stake unless there is a legislative spanner that gets thrown in the works. In FMCG when your exchange rate tanks... then you have big problems.” (M8, Mobile Telecommunications)

The African market demand, except for South Africa, is not big enough to support a large scale manufacturing site in the Pulp and Paper Industry according to interviewee quotation below.

“Like with most of the capital cost intensive industries, not talking extractive here, but capital intensive manufacturing industries your cost competitiveness position normally comes with large, world-scale manufacturing assets, and if you don't have a large local core market then you are largely dependent on exports. That may not be a problem, in South Africa we have a business that is 100 % dependent on exports, but then you have to have a low cost position.... there is no African market [except in South Africa] that is big enough to support a world scale manufacturing facility.” (M7, Pulp and Paper Industry)

When M2 was asked about whether his company favoured price over quality, there was a huge sigh and a bit of hesitation before proceeding with a response in quotation below, which shows that quality is a sensitive topic in the consumer electronics industry.

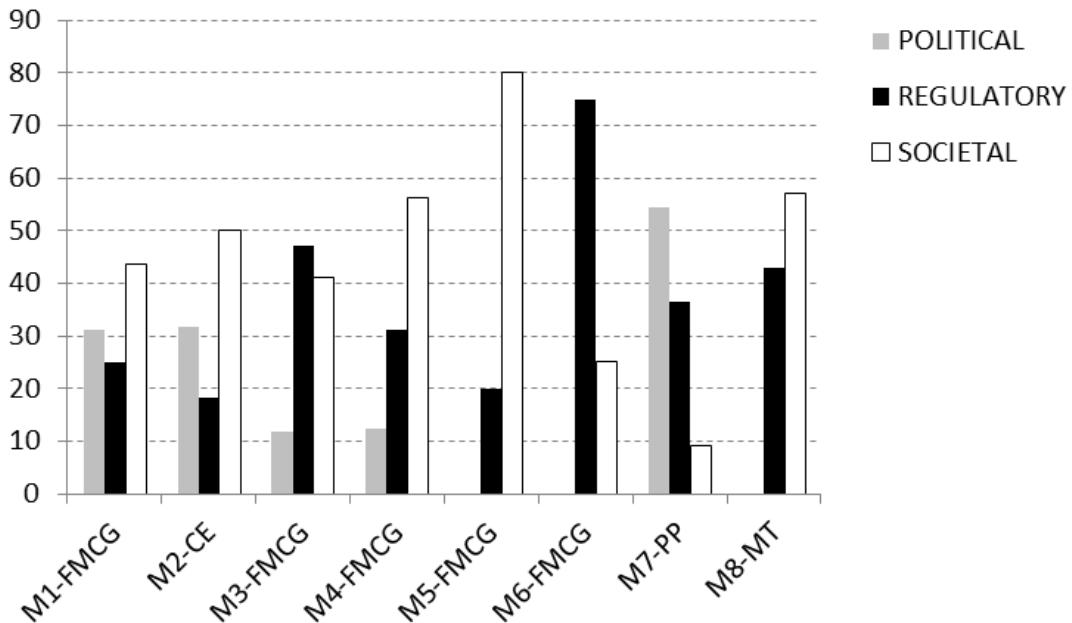
“... [Sigh] because [of our] brand we always favour quality over affordability/price. We do not want to compete with the bad quality Chinese products and therefore rather reduce functionality depending on the highest customer need then reduce quality. Quality is the most important but the price must be linked to the money in the consumer's wallet.... [Questions about whether it] Does need to have all the bells and whistles but I will not sacrifice the quality.... Make the price link to that wallet over time and that's the trick because you can't cut up a sachet.” (M2, Consumer Electronics)

The political aspects of institutions has less of an influence on the FMCG alcohol industries in South Africa as compared to other industries or countries as conveyed in quotation below and verified in Figure 4.

“No, definitely not [influenced by political ties]. We are totally aware of our divorce from anything like that [political ties or private-public partnerships]. The only thing we do to government is to pay taxes and abide by the laws of the country.” (M6, FMCG)

Atlas.ti was used to determine areas that interviewees spoke a lot about and focussed on. The weightings of each interviewee were determined based on the number of quotations provided in each area and are presented in Figure 4. Also, data were extrapolated per industry and is presented in Figure 5.

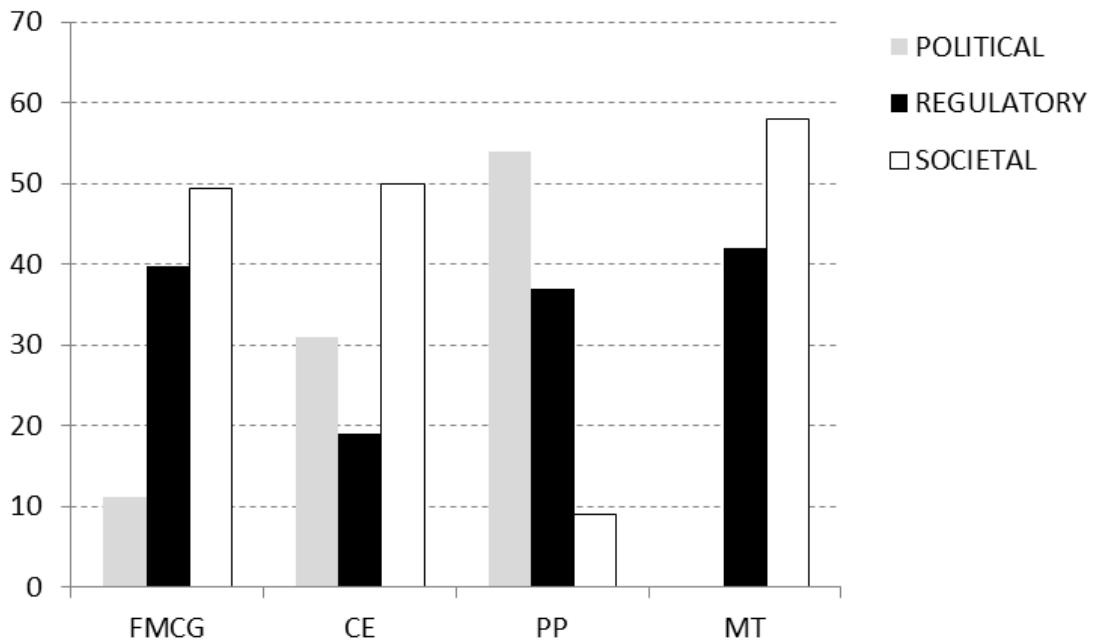
Figure 4: **Weighting of Focus Area per Interviewee**



The industry with the highest focus on the political environment is the pulp and paper (PP) industry, when compared to the other industries interviewed, and is illustrated in Figure 5. This may be due to PP being very capital intensive and requiring over 20 years in a country to become profitable. Due to political instability in Africa this poses a great concern for MNCs in this space.

The regulatory environment is somewhat of a similar a focus of all industries except the CE industry. This may be due to anecdotal evidence provided by M2 that consumer electronics products are produced according to developed world standards and a belief that if standards meet that of the developed world then it would meet standards of African countries. Therefore it is not an order winner but an order qualifier, which means meeting developed world standards are mandatory.

Figure 5: *Weighting of Focus Area per Industry*



The FMCG, CE and MT industries spent a lot of time speaking about societal norms. This makes sense as these industries are product orientated and need to know the intrinsic needs of the BoP consumer to be able to adapt products and ways of service to them accordingly. The PP industry has a low focus on societal norms since they are more focussed on the political environment due to the capital intensive nature of the industry.

5.11 Conclusion

This chapter presented data acquired from MNCs conducting business in BoP markets originating either from a developed or emerging country. The construct of BoP business strategy internationalisation was examined through the institutional lens of political, regulatory and societal norms, which are propositions presented in Chapter 3.

The chapter started off by presenting successful MNC strategies already used in BoP markets in Africa, with a focus on Kenya, Nigeria and South Africa. It then went on to explain the most important elements that need to be consider when internationalising strategies across low-income markets in Africa. Political, regulatory and societal norm aspects of institutions, their importance and examples in Kenya, Nigeria and South Africa were analysed and presented. Finally, comparisons of anecdotal evidence of MNC's were presented to show similarities and differences.

These results will be discussed in Chapter 6, in the light of propositions (Chapter 3) and secondary data (Chapter 2), to answer the research problem set out in Chapter 1 to meet the research objective. Also, the results will be compared to periodicals currently published and relationships discovered will be illustrated.

CHAPTER 6: Discussion of Results

6.1 Introduction

The previous chapter presented the research results. This chapter will interpret these results with respect to the propositions and in the light of the literature review and other external data to answer the research problem set out in Chapter 1 to meet the research objective.

The research results discussed in this chapter will add to the body of knowledge of base-of-the-pyramid markets in Africa and provide a framework for multinational corporation (MNC) internationalisation strategy development. Also, it will show the importance of institutional aspects to internationalisation strategy development for base-of-the-pyramid markets in Africa.

Not only does this chapter provide insight into the political, regulatory and societal norm aspects of institutions in Kenya, Nigeria and South Africa but highlights its influence on successful strategy development as well. Institutions have a direct impact on emerging economy growth (Peng, Wang & Jiang, 2008); Reficco & Márquez, 2009; Miles, Scott & Breedon, 2012) and societal institutions shape a company's strategy (Dacin, Goodstein & Scott, 2002).

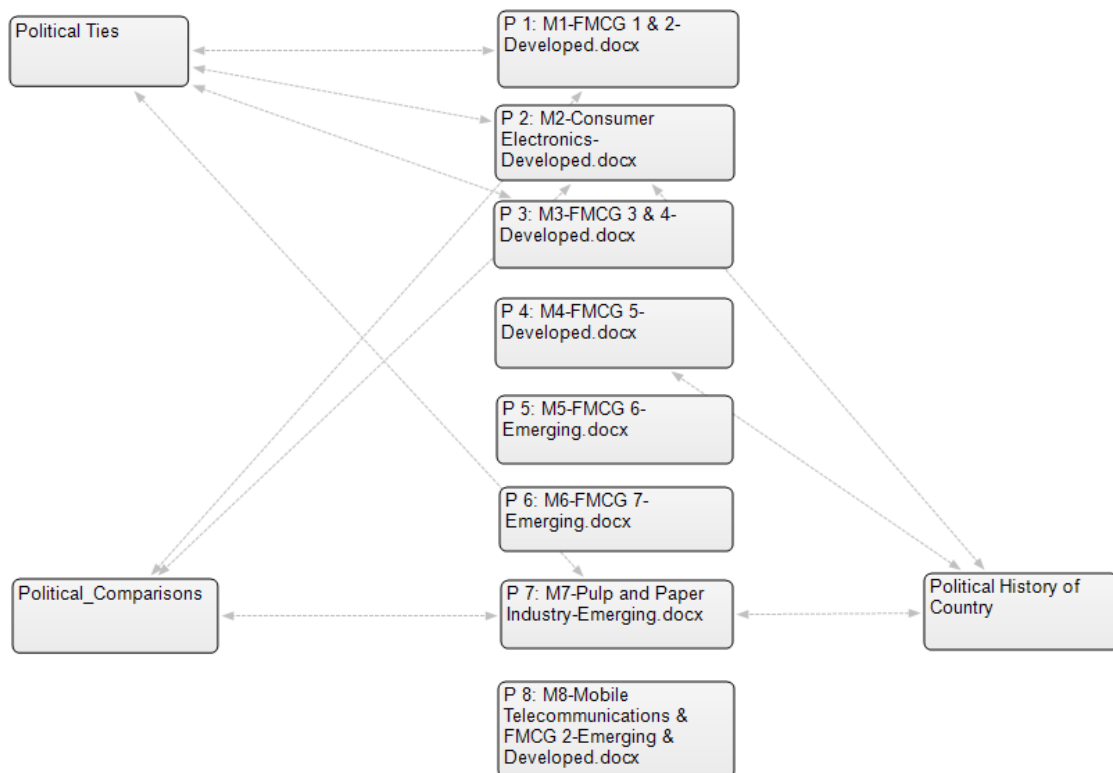
Superscripts **#number** refers to the related interviewee quotation in Chapter 5.

6.2 Discussion of Results for Research Proposition One

Research Proposition One: Internationalisation of multinational corporation base-of-the-pyramid business strategies is influenced by the political aspects of institutions in emerging economies in Africa. This proposition examined the political ties and the political history as they relate to the political aspects of institutions.

Figure 6 shows a network view of the relationships between interviewee responses and institutional aspects, which were highlighted when coding transcriptions in Atlas.ti. The primary document transcript of each interviewee is coded with a 'P'.

Figure 6: **Network View of Political Aspects**



6.2.1 Political Ties

Five out of eight interviewees (M1, M2, M3, M4 and M7) explained how the political environment affected business internationalisation strategies; while the three remaining interviewees (M5, M6, M8) did not provide much information on the topic. Relationships are shown in Figure 6. Notably, these three interviewees currently

work for MNCs that originated in an emerging economy and two out of these three MNCs are in the alcoholic beverage FMCG industry.

This anecdotal evidence (Chapter 5, p. 52-53)^{#1} coincide with findings of Rivera-Santos and Rufín (2010), Arora and Romijn (2012), Miles et al. (2012), Games (2013), Zhu and Chung (2014) all of whom stress MNC's consideration of the political aspects of the country they wish to expand into when strategizing to understand business dynamics and challenges of countries in Africa. MNCs may earn trust and gain political goodwill through embeddedness with the local BoP community. According to Albert (2008, May 4), Unilever has used tactical strategy and experience to gain political goodwill.

Interviewee, M1, communicated with conviction that political ties with the ruling government party in Nigeria helped MNCs gain majority market share faster and reduce import duties of raw materials than without these ties. Due to political ties that helped reduce import duties of raw materials, F5 was able to gain majority market share in Nigeria (Chapter 5, p. 51-52)^{#2}.

However, F2 was determined to win majority market share. F2 started local production in Nigeria; reformulated the product to make it the most effective formula after learning their BoP consumer needs. Also, they embarked on an aggressive marketing campaign with real-life testimonials from Nigerian consumers who highlighted the products effectiveness at stain removal while being gentle on the skin. Interviewee, M1, reiterated that F2 was eventually successful in Nigeria due to three factors: local production, creating the most effective product formulation and an aggressive marketing campaign.

Notably, F2 used the same strategy in Kenya but without local production and were unsuccessful. When F2 first launched their brand in Kenya they were taken to court by their competitor on the grounds of dumping. F2 was importing their product and rolled out a BOGOF (Buy One Get One Free) promotion at a point in Kenya's history when local production was favoured (Oyeyemi, 2014). F2 had to eventually stop their promotion and retreat their product. However, F2 has since re-launched its product with another aggressive marketing campaign, while still manufacturing in

Egypt and now holds 25 % of market share compared to its competitor with only 18 % of the market (Zeenat, 2013, July 3).

F2 has since launched in South Africa against the same competitor, F5, and plans to build a manufacturing plant in the country. The aggressive marketing campaign strategy has not been seen at the time of publication of this report and its success is yet to be determined.

MNCs wanting to expand in South Africa need to be mindful of the nature of their relationships with political parties. For example, at a gala dinner celebrating the 101st anniversary of the African National Congress (ANC), President of the Republic of South Africa, Jacob Zuma said unashamedly that business people's support of the ANC will result in multiplication of the business (Tamukamoyo, 2013, January 25). Although this amounts to corruption according to South African law, many businessmen have been successful but have also ended up in court due to their ties with the Zuma family, which include Vivian Reddy, the Gupta family and Shabbir Shaik (Tamukamoyo, 2013, January 25).

MNCs can also avoid destruction of their reputation by showing transparency in all business operations by being public and open to the media in all projects and when the community is aware of the benefit of your proposed project it will be extremely difficult for corrupt politicians to stop them; MNCs must understand the power of community in Africa (*Forbes*, 2014, July 31). Zhu and Chung (2014) findings showed that MNC ties to the ruling party helped entry into unrelated industries. However, they also found that without political ties; if you had sufficient experience you were able to succeed, which is reiterated by F2's experience in Nigeria whose brand moved from being non-existent to the number one brand after several years of trial and error, experience and embeddedness.

Interviewee, M7, advised (Chapter 5, p. 53)^{#3}, when asked about problems encountered with the political environment of a country, that business deals be sealed before the time of elections in a country. These findings coincide with those of Games (2013). She advises that MNCs clarify all political links associated with a business deal especially close to elections and find out whether the deal will still go on if a new political party comes into power.

SABMiller found themselves in a similar position in South Sudan where “It invested in South Sudan even before its formal independence from Sudan in 2011. The goal was to establish its brand there before anyone else could enter. At first things went well. But the government soon split into factions. Lager sales fell by a quarter last year, amid political violence” (*The Economist*, 2014, May 31).

6.2.2 Political History of Country

Interviewees insinuated that the political history of a country must be investigated as it may affect societal norms of stakeholders in an MNC (Chapter 5, p. 52-54)^{#4}. Researchers North (1990), Miles et al. (2012), Ismail et al. (2012) and Games (2013) also encouraged MNCs to look into the political history of a country to prevent destruction of your company reputation later on and to understand business operations in that country and challenges associated with it.

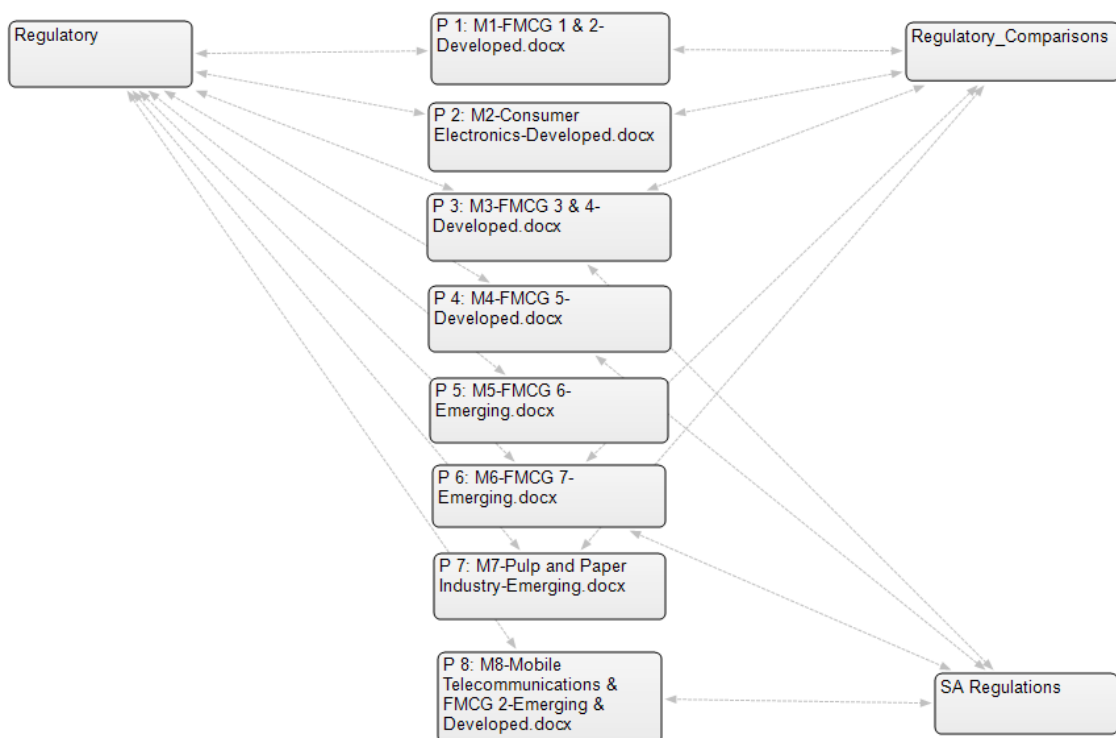
Historical ties with government, such as French in West Africa and British and Dutch in East Africa, have advanced business deals. To overcome these initial hurdles, MNCs must engage in acquisition of locally established business (*Forbes*, 2014, July 31).

SABMiller has also used the political history of Nigeria to create a brand of beer that brings a sense of nostalgia to older beer consumers and sparks interest among the younger consumers. The beer was named ‘Oh Mpa’ meaning “Oh Father” in Igbo, the language of the area, and refers to “The late Chukwuemeka Odumegwu-Ojukwu, who led a failed attempt to secede from Nigeria in the 1960s and set up an independent nation of Biafra that sparked a 30-month civil war. With its Hero bottles bearing the rising sun that appeared on the Biafra flag, SABMiller is tapping into the area’s nationalism” (Mbachu, 2014 April 10).

6.3 Discussion of Result for Research Proposition Two

Research Proposition Two: Internationalisation of multinational corporation base-of-the-pyramid business strategies are influenced by the regulatory aspects of institutions in emerging economies in Africa. This proposition examined the regulations in Kenya, Nigeria and South Africa related to institutions. Figure 7 shows a network view of the relationships between interviewee responses and institutional aspects, which were highlighted when coding transcriptions in Atlas.ti.

Figure 7: *Network View of Regulatory Aspects*



All interviewees communicated their experience with regulations in Africa and four interviewees spoke specifically about South African Regulations (M3, M4, M6 and M8). Two interviewees offered advice to MNCs on how to work with the regulations of a BoP market.

Anecdotal evidence shows the importance of regulatory considerations when strategizing for BoP markets in Africa (Chapter 5, p. 55-60)^{#5}. Regulations are different for every country in Africa, they are extremely complex. Regulations determine whether the profits MNCs made in a country can be taken out of the

country; it lays out terms of subsidy agreements; terms of land ownership agreements; terms of listing on the stock exchange; and third party agreements; license to trade agreements; etc. To overcome initial hurdles MNCs should acquire local businesses (*Forbes*, 2014, July 31).

Findings by Rivera-Santos & Rufin, 2010, Márquez and Rufin (2011) and Games (2013) concur with anecdotal evidence. They stress the increased importance of regulations in BoP markets and embeddedness to create political goodwill to leverage African government assistance. African governments have fuelled growth by putting in place critical physical and social infrastructure, privatising state-owned enterprises, increasing trade openness, lowering corporate tax and strengthening legal and regulatory systems. Fremeth and Richter (2011) and Games (2013) found that the use of integrated strategies with activist organisations, policymakers and companies instead of working against regulations and government, helped companies gain a profit and competitive advantage.

Interviewees advise MNCs to spend the money needed to gain insight into a country they wish to expand into, in order to form inclusive networks that challenge regulations when they seem unsubstantiated, which involved partnering with the local communities and government in most cases (Chapter 5, p. 60-61)^{#6}. This was reiterated by Albert (2008, May 14, p. 3), who states that “Unilever use its experience and goodwill to make contacts in many countries to bargain with government so as to modify their regulations”.

Also, SABMiller is following the same strategy by gaining political goodwill from CSR initiatives in Botswana, Ghana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe where they buy “grains from local farmers also plays an important role in attracting government support. What we do is we negotiate with governments to try and persuade them to drop the excise regime for a product that’s made with local grains, which most governments are quite supportive of. The idea here then is to try and create a win-win proposition, where we have a strong group of farmers contracted to producing grains for us of whatever form. The government gets a new source of revenue ... And of course we win in that” (Harding, 2012, October 22). This concept is also known as creating “inclusive networks” or “BoP networks”, which are networks that engage the BoP

and take part in the management of commercial initiatives for economic and social value (Reficco & Márquez, 2009).

Nestle has also gained political goodwill in Nigeria by engaging the local community (*Business Day*, 2014, March 3), “One of the corporate strategies of Nestle is to purchase raw and packaging materials from local suppliers... while explaining one reason for the company’ long-term success.”

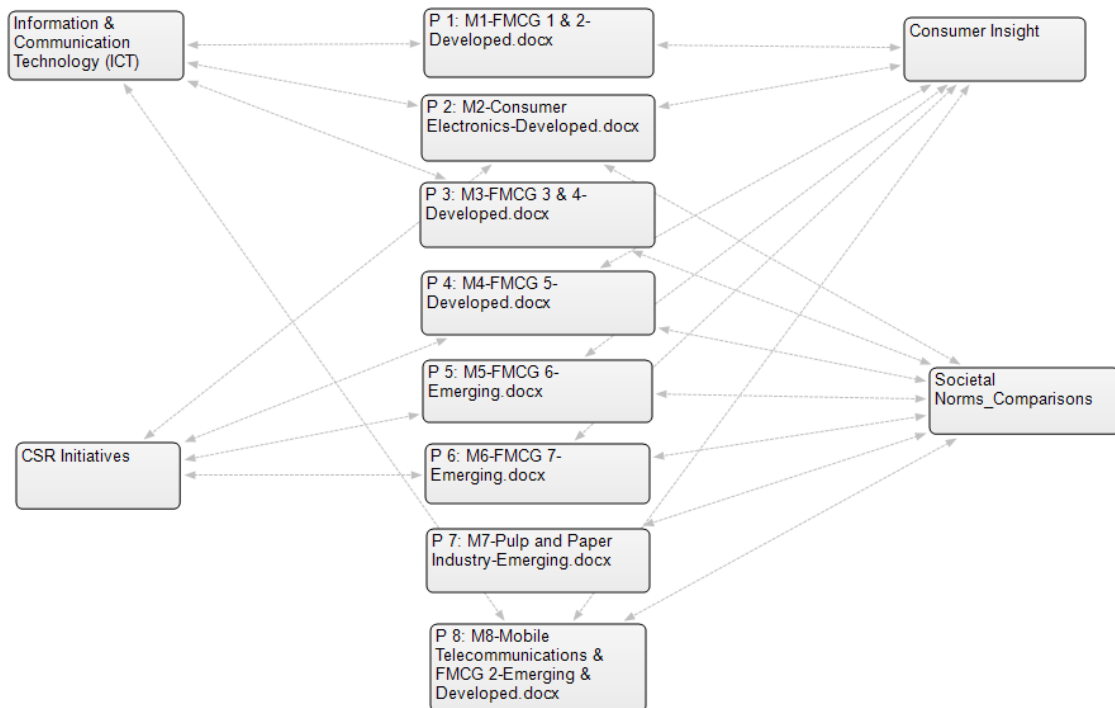
Anecdotal evidence also shows that indigenisation and black economic empowerment (BEE) may also be concern for MNCs wanting to conduct business in Africa as they believe that locals have not reached the qualification levels or gained the necessary experience in various areas of business (Chapter 5, p. 57, 58)^{#7}. These laws encourage local employment, local business and land ownership with the intention of protecting the local BoP communities from exploitation and bringing them out of poverty.

In countries like Zimbabwe and South Africa, the indigenisation and BEE laws seem to fuel corruption, discourage investment, squander skills, divert scarce capital from more productive use and benefit those elite that are politically connected (Shoko, 2014, October 13; *The South African Institute of Race Relations*, 2012, December 4). However, awarding business tenders to BEE partners can be detrimental to the business. Interviewee, M4, mentioned F5’s struggle to become BBE compliant (Chapter 5, p. 57)^{#8} in areas of supply and distribution, especially when those BEE suppliers and distributors do not have the experience because not only does it slow down business operations but can affect business profitability in the long run. One way to mitigate these risks is for MNCs to embark on distributor development programmes with their BBE partners to educate them on good business practice as well as business ethics.

6.4 Discussion of Results for Research Proposition Three

Research Proposition Three: Internationalisation of multinational corporation base-of-the-pyramid business strategies are influenced by the societal aspects of institutions in emerging economies in Africa. This proposition examined consumer insight, information and communication technology (ICT) as it relates to institutions. Figure 8 shows a network view of the relationships between interviewee responses and institutional aspects, which were highlighted when coding transcriptions in Atlas.ti.

Figure 8: *Network View of Societal Norm Aspects*



6.4.1 Consumer Insight

Anecdotal evidence shows that MNCs embed themselves in BoP communities to gain valuable insight into the BoP consumer through CSR initiatives, training potential entrepreneurs and social development programmes (Chapter 5, 63, 66, 70-71)^{#9}. MNCs such as MTN, SABMiller and Coca-Cola, to name a few, have all embedded themselves in local BoP communities and provided product offerings to meet the needs of the BoP. MTN studied the Nigerian landscape for three years before attempting business in this country. They now have 40 million subscribers

with a 40 % of market share. MTN “had to convince Nigerians that its services could actually improve their lives and that they could also benefit financially” (Harding, 2011, May 25). SABMiller identified that 65 % of the population across Africa are dependent on smallholder agriculture for their livelihoods. They have engaged these farmers and now purchase smallholder crops, such as sorghum, from them (SABMiller plc, 2014).

Coca-Cola has been immensely successful in Africa (Okello, 2013, July 19; Irwin, 2001, June 11). Upon a visit to Kenya, a group of 20 Executive MBA students from Colorado State University they found that (Okello, 2013, July 19), “It’s amazing to see the great relationship that exists between the Coca-Cola brand and its customers,” he said. “What we saw at the market was a deep loyalty and genuine love for the brand...” Part of Coca-Cola’s success in Kenya market has been attributed to its ability to connect with consumers by meeting needs beyond refreshment. Providing small-scale shop owners with simple furniture like plastic tables and chairs is just one example. The students saw that localized and individual connection with customers is making a big impact in Kenya.”

Coco-Cola has engaged in social development through sports sponsorships, sports development, entrepreneurial development, scholarships and education projects. They have also found ways to improve distribution even in the most remote areas of Africa and have earned a reputation for corporate honesty and openness (Irwin, 2001, June 11).

This strategy of MNCs becoming locally embedded is reiterated by literature findings, which show that MNCs have earned trust, gained political goodwill, and learnt about the BoP’s needs and the best way to serve them for success in the BoP (Pitta et al., 2008; Grootveld, 2009; Rivera-Santos & Rufín, 2010; London et al., 2010; Games, 2013).

All these examples show that the BoP seems to be treated and seen as ‘shareholders’ rather than just consumers or business partners. Although the BoP does not hold shares in the company in the traditional sense, MNC’s success and growth is highly dependent on them (Kennedy & Novogratz, 2010). Opponents of the BoP concept criticise the fact that the BoP are called ‘consumers’ or even

'business partners' (Table 1) when the BoP cannot magically make money to become consumers and they cannot become business partners with their low literacy, education and skills levels required of a business partner (Karnani, 2007b). Recognising the BoP as 'shareholders', in turn, makes MNCs accountable to the BoP in all their business practices and ensures mutual benefit for the BoP as well as the company. Also, MNCs can make use of the skills they do possess as they would with their traditional shareholders.

Anecdotal evidence to suggest that BoP communities in South Africa are not seen as brand conscious but make purchases to meet their daily needs of hunger and thirst (Chapter 5, p. 65)^{#10}. They tend to purchase products available that meet their immediate needs. Also, according to findings by Ireland (2008), the BoP market can be classified as rural or urban depending on their level of urbanisation. The urban BoP market tends to be attracted by modern, branded products while the rural BoP market tends to be attracted by basic, robust products. Also, Pitta et al. (2008) reported that most BoP markets in Africa are found in rural settings.

The anecdotal evidence and literature findings mentioned above suggest that most BoP markets in Africa are rural with a preference for price over brand. Many products in Africa are now being classified as commodity products due to similarity of features and product formulation homogenisation. This forces MNCs to drop their prices since competition in those markets is based solely on price (Lamm, 2011, November 20). Interviewees have mentioned (Chapter 5, p. 41-43)^{#11} that in order for MNCs to maintain market share they need to make their products and services more accessible to BoP consumers by improving penetration through inclusive networks, creative channels and mutualistic relationships. Also, they need to ensure that their product is available at all times, which is why the strategy to increase penetration is so important for MNCs playing in this space.

6.4.2 Information and Communications Technology (ICT)

Anecdotal evidence shows that social media will continue to play a significant role in penetrating and creating awareness among BoP consumers Africa due to the increased use of Facebook and Twitter by BoP consumers; MNCs have to be present on these platforms whether they like it or not (Chapter 5, p. 68-69)^{#12}.

Literature in 2008 showed that expenditure of BoP consumers in Africa, on information and communication technology (ICT), was significant (Guesalaga & Marshall, 2008).

Six years after the findings of Guesalaga and Marshall (2008), in 2014, the use and importance of ICT have risen drastically. With 100 million subscribers in Nigeria alone, the ICT sector has seen a shift from voice to data in recent years. ICT regulators in Africa need to implement and enforce regulations and encourage more private investment to grow the ICT sector further (Adepetun, 2015, January 8).

With this growth in the ICT sector MNCs need to be mindful of creating awareness of their product through education of product benefits as communicated by interviewee M2 (Chapter 5, p. 66)^{#13}. Also, the quality of service to consumers in Africa must be good. Interviewee, M8, mentioned the recent controversy with a customer erecting a billboard insinuating that Cell C provided shoddy service, which may destroy a company's reputation forever (Chapter 5, p. 68)^{#14}. According to an article on the matter in Business Day, "... reputational damage has undermined the [Cell C] brand" and the CEO, Jose Dos Santos, promises to correct the inefficiencies in the system that led to this situation (Shevel, 2014, November 16).

6.5 Conclusion of Discussion

Analysis of anecdotal evidence in the light of literature findings, and verification using various periodicals supports the view of the importance of political, regulatory and societal norm aspects of institutions in the development of internationalisation strategy for BoP markets. Figures 9 and 10 were constructed by weighting each interviewee quotation from transcriptions, P1 to P8, according to the political, regulatory and societal norm aspects of institutions using Atlas.ti. Figure 9 shows that the aspect most talked about by interviewees were societal norms, followed by regulatory and then political.

Figure 9: *Weighting of each Institutional Aspect*

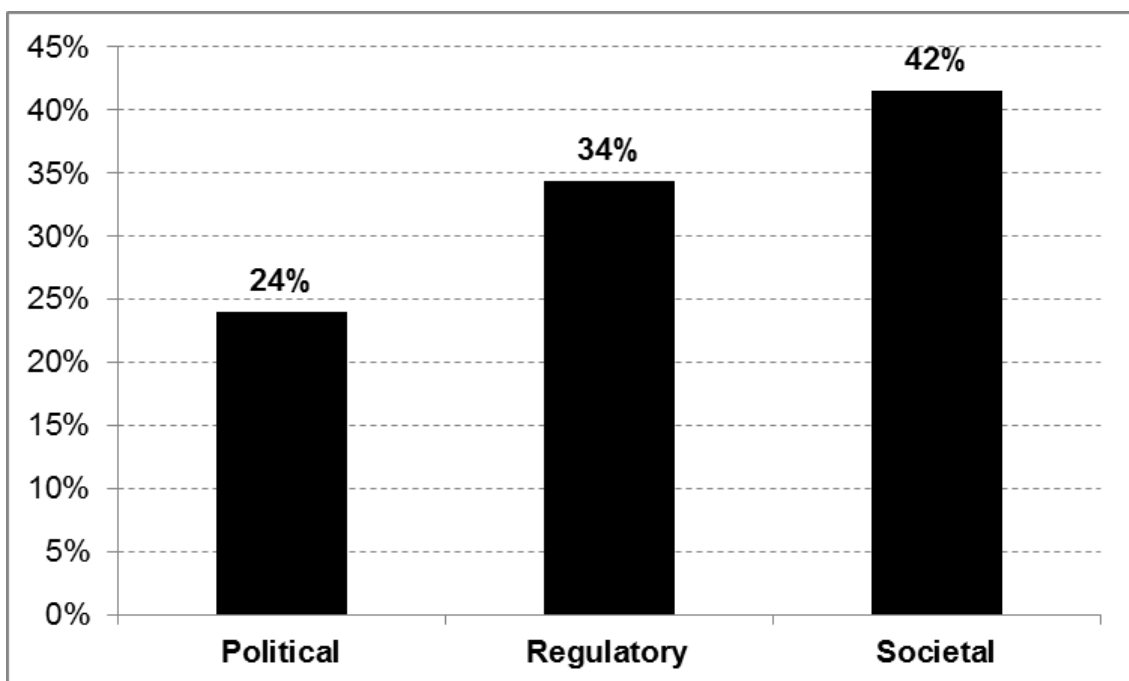
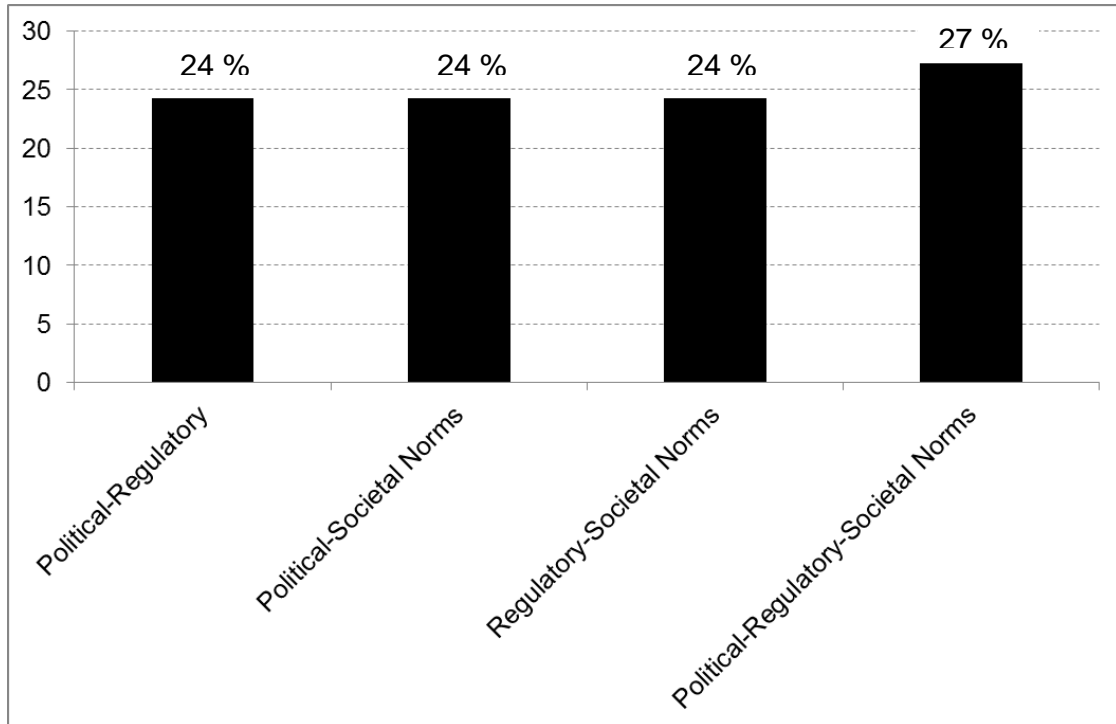


Figure 10 below, shows the equal weighting of connections among political, regulatory and societal norm aspects to strategy internationalisation, illustrating equal importance to strategy internationalisation. It can be concluded from the analysis that knowledge of political ties and the political history of an African country are imperative for effective business operation. Also, partnerships with the government, agencies and local BoP communities must be leveraged for regulatory exemptions. Underpinning the political and regulatory aspects are societal norms that can be learnt and understood through embeddedness of MNCs with BoP

communities to earn trust and to gain political goodwill in order for business internationalisation success.

Figure 10: **Connection of Institutional Aspects**



CHAPTER 7: Conclusion

7.1 Introduction

The previous chapter discussed the research results as they related to the research propositions. This chapter reviews the research problem and objective, and summarises research findings with a framework developed from Hart's BoP Protocol. The research limitations are highlighted in this chapter and recommendations are provided for further research.

7.2 Research Objective

Base-of-the-pyramid (BoP) markets in emerging economies have political, regulatory and societal aspects of institutions that are very different to developed economies. The objective of this study was to understand the significance of institutions to internationalising base-of-the-pyramid strategies across various emerging economies in Africa.

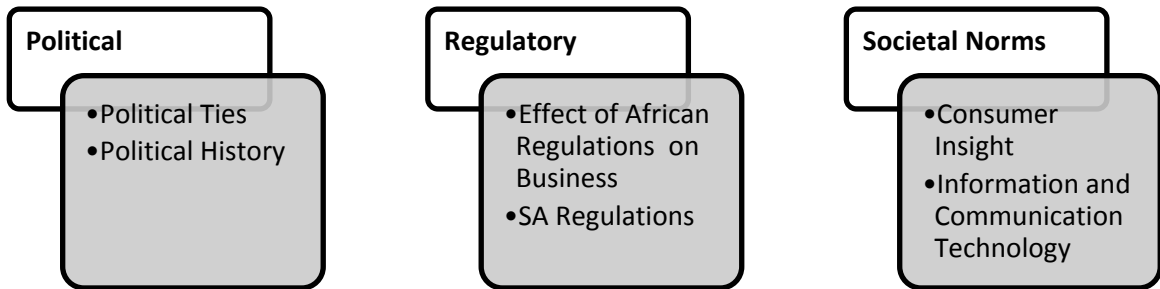
This objective was defined for three reasons. Firstly, to add to the body of knowledge of base-of-the-pyramid research in Africa, by exploring the construct of internationalisation through the institutional lens. Secondly, to build on Hart's BoP 2.0 protocol that views the poor as co-inventors and business partners. Thirdly, to help MNCs anticipate associated challenges and risks when considering internationalisation of their BoP business strategies across emerging economies in Africa, thereby enabling informed business strategy decisions to be made in a shorter, more effective period of time.

7.3 Research Findings and Synthesis

The construct of strategy internationalisation was viewed through the institutional lens for this research study. The themes that emerged from analysis of interviewee transcriptions, using political, regulatory and societal norm categories, are shown in

Figure 11. The data were analysed in the light of the literature review and verified using periodicals in Chapter 6.

Figure 11: ***Emergent Themes***



Anecdotal evidence, together with literature findings and other periodical evidence show that political ties and history must be factored into an MNC's internationalisation strategy for the BoP in Africa. MNCs need to take corruption very seriously and face it head on in Africa. Show transparency in all business operations by being public and open to the media in all projects and when the community is aware of the benefit of your proposed project it will be extremely difficult for corrupt politicians to stop them; MNCs must understand the power of community in Africa. MNCs may use political history to their advantage by adapting products and marketing campaigns to tap into the local heritage of the BoP consumer to create market share.

Regulations are extremely complex in Africa and MNC compliance is required to gain political goodwill, gain a competitive advantage and to be profitable. To overcome initial regulatory hurdles, MNCs should acquire local resources. Indigenisation and BEE legislation can be overcome, ethically, through effective development programmes without falling into the trap of corruption. Companies should work with government to challenge regulations with their use of tactical strategy and experience.

MNCs should embrace societal norms and integrate it into their strategy for success in Africa as shown by anecdotal evidence, literature findings and other data from periodicals. Consumer insight is gained through embeddedness with the

local community, which might be more work and take longer than expected. Brand awareness can be created through CSR initiatives. To prevent loss of market share to competitors MNCs need to ensure efficient penetration and easy access to BoP consumers. ICT is growing in Africa and social media is starting to play an enormous role in business reputation. MNCs need to embrace this and create marketing strategies around it.

7.4 Limitations of Research

The sampling method used was purposive, with the majority of the sample in the FMCG industry. This infers that the transferability of the results may be limited. To avoid bias of findings to the FMCG industry the consumer electronics, pulp and paper industry as well as the mobile telecommunications industries were added to the sample. The sample size was small and may be verified with a bigger sample.

Various other limitations identified were:

- Data collection and interpretation may contain human error and bias
- Major business decisions may be based on a unstable foundation

However, the trustworthiness of the data gathered from qualitative research can be managed through exacting methodology.

7.5 Recommendations for MNCs

In this section, five recommendations are put forward to help MNCs become well informed and anticipate associated challenges and risks when considering internationalisation of their BoP business strategies across emerging economies in Africa, thereby enabling informed business strategy decisions to be made in a shorter, more effective period of time. The five recommendations are presented in Figure 12 as a framework. Figure 12 shows the funnelling of all five recommendations to achieve 'Mutual Growth' in the BoP markets of Africa.

The five recommendations are as follows:

(1) BoP as shareholders - One of the remarkable findings of this study in Africa was the notion of the BoP seen as 'shareholders' instead of seeing them as 'consumers' or 'business partners', which was put forth in BoP 1.0 and BoP 2.0 Protocols, respectively. Viewing the BoP as shareholders encourage MNCs to deeply consider the consequences of all their business decisions; and build their strategies on the premise of mutual benefit and growth for the company as well as the BoP.

(2) Embeddedness - Another finding of this study was the theme of consumer insight to gain knowledge on societal norms through embeddedness. Embeddedness incorporates and goes beyond the concepts of deep listening (BoP 1.0) and deep dialogue (BoP 2.0). It is about understanding the societal norms of the BoP to meet their intrinsic and extrinsic needs while leveraging traditional (local firms) and non-traditional (local communities, non-governmental organisations-NGOs, aid agencies) partnerships.

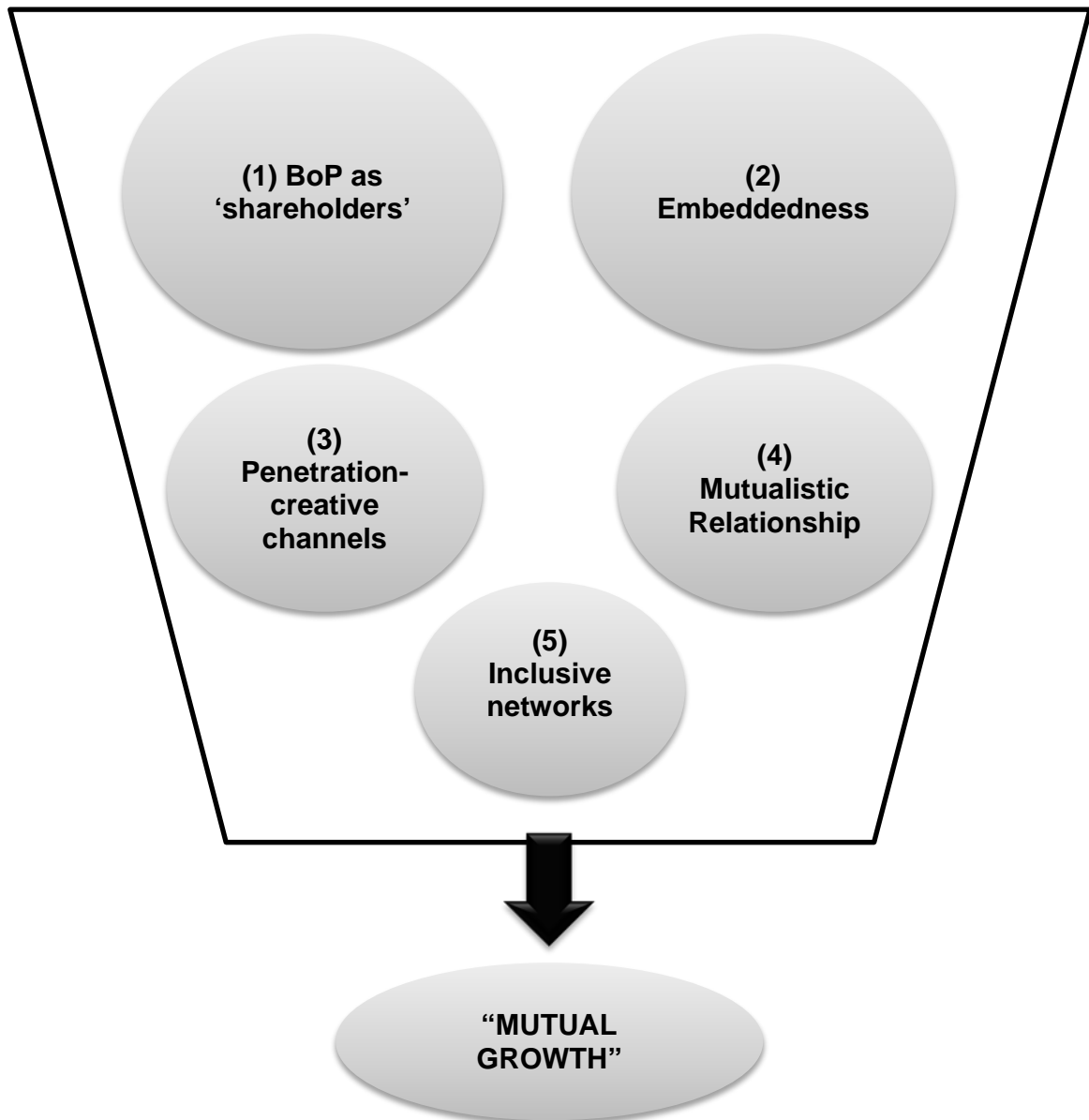
(3) Penetration - A shared concern of MNCs interviewed was their ability to access the BoP in Africa through 'penetration' instead of concern around 'reducing price points' (BoP 1.0) and 'expanding imagination' (BoP 2.0), which were concepts put forth in the Next Generation BoP Strategy. Even if MNCs reduce their product prices and expand their imagination to create innovative solutions for the BoP it amounts to little if the products or services developed are not available or accessible by the BoP due to non-existent water, electricity and transport infrastructure in many parts of Africa.

(4) Mutualistic relationship - With the growth in ICT and its apparently endless business opportunities in Africa, the importance of educating the BoP on the product or service offering and benefits is fundamental through various CSR initiatives such as those implemented by Unilever, Coca-Cola, SABMiller and MTN. Also, this will have indirect effects on the BoP in terms of social development and creating awareness of health, hygiene, and other important aspects affecting the consumer. This advances the notions of 'redesign packaging, extend distribution' (BoP 1.0) and 'marrying capabilities, build shared commitment' (BoP 2.0), which will be taken care of if MNCs engage in embeddedness as mentioned previously.

(5) Inclusive networks - The last recommendation for MNCs is to be part of or develop inclusive networks, which may involve partnering with local communities, the government, aid agencies and embassies to initiate CSR initiatives, challenge regulations and gain political goodwill. This again advances the notion of 'arm's length relationships mediated by NGOs' (BoP 1.0) and 'direct, personal relationships facilitated by NGOs' (BoP 2.0).

Knowledge of the BoP comes with embeddedness, as mentioned above, and not arm's length relationships. Also, a direct personal relationship with the BoP may be unachievable due to factors such as differences in language and culture, as well as the remoteness of those involved in the engagement. Relationships do not necessarily have to be facilitated by NGOs in Africa as anecdotal evidence, as well as data from periodicals, point to government agencies, aid agencies and embassies. MNCs need to think bigger and initiate collaboration and cross-sector partnerships with other non-competitor MNCs in this space.

Figure 12: *Framework for Strategy Development in African BoP Markets*



7.6 Recommendations for Further Research

This qualitative research study adds to the body of knowledge of MNCs BoP market internationalisation strategies in Africa. However, there is scope for more quantitative studies based on the propositions defined in Chapter 3. Four areas for further research in this field are suggested below:

- Poverty alleviation percentage must be measured against the company's increase in profitability with consideration of the company's retrenchment activities during the same time. Interviewees communicated with conviction that while certain MNCs increase the shareholder net worth of only one person by \$ 30 million, they have retrenched 19000 employees, which has a ripple effect on the livelihood of their dependents. Some of the employees will be unable to get another job and these families will eventually end up in the BoP. Therefore the work of MNCs in the BoP may be fruitless unless their practices are sound and intentions are not just to gain political goodwill through the BoP.
- The effectiveness of regional strategies for BoP internationalisation strategies.
- The impact of informal institutions on formal institutions to explain MNC entry strategies.
- Compare the effectiveness of market research gathered from developed countries about BoP markets in emerging markets versus market research through embeddedness with BoP market.

7.7 Conclusion

Literature presented in Chapter 1 and 2 as well as data from periodicals in Chapter 5 show growing interest in the BoP markets of countries in Africa. The exciting part of exploring BoP markets in Africa is that there are a whole host of opportunities that emerge from the chaotic institutional aspects.

Anecdotal evidence together with literature findings show that BoP markets in emerging economies in Africa have political, regulatory and societal aspects of institutions that are very unique. This research study shows the significance of institutions to internationalising base-of-the-pyramid strategies across various emerging economies in Africa. The study, furthermore, provides valuable insight into institutional aspects of Kenya, Nigeria and South Africa.

Therefore, this study adds to the body of knowledge of base-of-the-pyramid research in Africa, by exploring the construct of internationalisation through the institutional lens. A framework was built around viewing the BoP as shareholders to enable mutual growth of the BoP and the company and a mutualistic relationship; instead of seeing the BoP as consumers or business partners. The objective of this framework is to assist MNCs considering internationalisation of their BoP business strategies across emerging economies in Africa to become well informed and anticipate associated challenges and risks in these markets, thereby enabling informed business strategy decisions to be made in a shorter, more effective period of time. It is the researcher's expectation that future investigations will contribute to further understanding of this emerging field.

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APPENDICES

APPENDIX 1: Discussion Guide

Areas of Discussion The political and regulatory environment, together with societal norms form institutions of a country that impact emerging market strategies (Peng, Wang & Jiang, 2008)	Duration
1. Introductions and Background <ul style="list-style-type: none"> 1.1 What is your position and role in this organisation? 1.2 How long have you been in this role? 1.3 Has your company internationalised strategies across various emerging economies? If so, were the strategies the same? 1.4 What strategies were implemented in both emerging economies and why? 1.5 In your opinion, what are the 3 main elements that affect formation of strategy for low-income markets in Africa? 	15 minutes
2. Political Environment <ul style="list-style-type: none"> 1. Has the political environment of both emerging countries affected your business strategy? If so, how? 2. Has the political environment affected business operations? If so, how have you adjusted your strategy? Were these anticipated and how can these challenges be mitigated in the future? 3. To what extent do problems arising from the political environment lead to exit by foreign entrants? 4. How have you managed to innovate around political challenges? 	15 minutes
3. Regulatory Environment <ul style="list-style-type: none"> 1. How have the country's regulations impacted your business? If so, how? 2. What can be done to change regulations? 3. Have you experienced a similar situation when internationalising strategies in other countries? 4. How have you managed to innovate around regulatory challenges? 	10 minutes
4. Societal Norms (Unwritten rules of behaviour) <ul style="list-style-type: none"> 1. How have societal norms affected business strategy/operations? 2. How would you address these issues in the future, when venturing into another emerging market? 3. How have you managed to innovate around societal challenges? 	15 minutes
5. Closing and Final Comments <ul style="list-style-type: none"> 1. Do you have any final comments that will assist my research on institutional challenges that have affected your business internationalisation strategy? 	5 minutes
Maximum Duration of Interview	60 minutes

APPENDIX 2: Informed Consent Letter

Dear Participant,

I am conducting an exploratory research study that aims to understand the challenges institutions (political, regulatory and societal) pose to multinational corporations (MNCs) trying to internationalise base-of-the-pyramid strategies across various emerging economies in order to develop a framework to better develop MNC strategies in the future. The interview is expected to take approximately an hour.

Your participation is voluntary and you may withdraw at any time without penalty. All data will be kept confidential; no comment will be linked to an individual. If you have any concerns, please contact me or my supervisor. Our details are provided below.

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Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____