Examining the entry of Walmart into South Africa: A stakeholder management perspective

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Abstract

The recent entry of the US multinational Walmart into South Africa has proved to be a source of controversy. Key stakeholders in South Africa objected to the merger and attempted to block it unless certain conditions were met. The aim of this study was to examine the controversy and the conditions surrounding the merger. The research employed a qualitative archival analysis to examine publicly available sources of information with regard to the merger. The findings revealed key stakeholders' concerns that Walmart's entry would lead to an increase in imports which would displace local producers, increase unemployment, marginalise trade unions and lower labour standards unless certain conditions were met. The results also revealed problems relating to the firm's primary focus on "business" while neglecting "public interest" issues, naively relying on their "local retailer" to manage key stakeholders, and assuming that their perceived controversial reputation regarding treatment of trade unions and their views about unemployment as well as the controversies surrounding their history of entry into other global markets would not have the major negative impact it did on stakeholders in South Africa.

Key words: *competition laws, emerging markets, internationalisation, merger, multinational enterprises, retail, stakeholder management, strategy*

1 Introduction

Harari and Beaty (1989) indicate that a number of stakeholders from political, social and labour movements in emerging economies like South Africa are sceptical about multinational corporations (MNCs) entering their markets in view of their past history of exploitation in these markets. They suggest that past practices of exploitation include the removal of basic commodities and raw materials without providing for beneficiation in the host country, driving up unemployment through automation, relying on imports from supply chains outside the host country instead of sourcing from local suppliers, and ignoring labour union and collective bargaining agreements (Harari & Beaty 1989). As a consequence, there are high levels of social and political activism around business issues relating to the entry and exit of MNCs from multiple and diverse

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stakeholders in emerging host countries.

1.1 *Purpose and objectives of the study*

There are many studies that examine the issue of stakeholder management of firms that enter and trade in developed markets, but there are few studies that examine the issue of managing stakeholders when firms enter emerging markets (Bhaumik & Gelb 2005; Demirbag, Tatolgu & Gleister 2008). Indeed, the authors could not locate any research on stakeholder perspectives on a US multinational in the retail sector that wished to expand into the emerging South African market. The current study therefore makes a contribution to the literature because it explores the entry of a large US based mulitnational retail firm into an emerging market like South Africa through the acquisition of a local South African retail firm. Specifically, this investigation reports on the perspectives of important stakeholders concerning the MNC's entry into South Africa. The purpose and objectives of the investigation, therefore, are to contribute to our understanding of the multiple and often conflicting perpectives of stakeholders in a host country who could potentially affect or be affected by an MNC's entry into that country. In addition, the research findings suggest a number of lessons for MNCs to consider when entering emerging markets like South Africa.

2 Highlights from the literature review

Firms world-wide are expanding their operations into many different countries. However, there is a paucity of research reporting the perspectives of stakeholders in emerging markets who could potentially be affected either directly or indirectly by the entry of the foreign firm into their country. This is particularly evident when stakeholders in the host country perceive the foreign firm to be of a significant size in terms of its strategy and operations.

2.1 *Background to the study*

As the foregoing section emphasised, firms are globalising and identifying emerging markets in diverse geographical locations in which to extend their operations. Rugman (2009) indicated that this global expansion into emerging markets is occurring at a rapid pace and takes multiple forms, including start-ups, mergers and acquisitions of local firms in the host country.

Walmart is an example of a US multinational in the retail sector that is expanding abroad. The firm is listed as the largest retailer in the world and its annual revenue is over $421 billion; it dwarfs the GDP of many of the countries in which it operates, including that of South Africa, which is the 27th largest economy in the world (Colvin 2011). The firm employs 2.1 million employees world-wide and is the largest private sector employer in the world (Colvin 2011). Currently, Walmart operates in 15 developed and developing countries. Walmart's growth strategy is "to saturate a market area by spreading out, then filling in" (Colvin 2011:110). This means that "each store needs to be within a day's drive of a distribution centre for both control and word-of-mouth advertising emanating from its low price reputation without advertising" (Walton 1992:111). Indeed, this strategy ensured constant gradual growth over a period of time both in the US and globally so that by 1995 the firm had a presence in all fifty US states, after which it moved globally with its entry into Mexico and Canada in 1994, China in 1996 and Europe in the late 1990s. While domestic expansion took place through organic growth, much of the global expansion was through mergers and joint ventures (Arnold & Fernie 2000; Colvin 2011).

On 27 September 2010, Walmart announced its intention of acquiring a 51% stake in Massmart stores of South Africa, thereby marking its foray into Africa (Hodge & Girdwood 2011). The company indicated that the merger was to be used as a gateway and springboard into Africa. The local firm, Massmart, is the fourth largest retailer in South Africa by revenue, with a growth strategy and store formats strikingly similar to those of Walmart.

The entry of Walmart into South Africa generated considerable interest on the part of government, labour and business in this country. In fact, Crotty (2011) contends that not since apartheid and the years of economic sanctions against South Africa has an issue of this nature given rise to such controversy. The Walmart controversy centred on perceptions by stakeholders from labour unions and government about the firm's reputation for dealing harshly with trade unions and sourcing products from supply chains outside the country, coupled with the fear that unemployment would increase in the retail industry in South Africa if the firm were to enter the country (Crotty 2011).

In terms of regulations under the Competition Act 89 of 1998, the proposed merger between Walmart and Massmart was subject to review in South Africa by the Competition Commission. This entailed the Commission's assessing details of the merger and making a recommendation to another legislated body, namely the Competition Tribunal. The latter had to decide whether to approve the merger unconditionally, approve the merger with conditions or prohibit the merger. After a public hearing involving at least the merging parties and the Commission, the Competition Tribunal then arrived at a decision on the merger in terms of (a) unconditional approval, (b) merger with conditions or (c) prohibition of the merger. Finally, the decisions of the Tribunal can be appealed or reviewed by the Competition Appeal Court for a final decision. Under South African competition law employee representatives (such as trade unions, etc.) are allowed to be notified of the transaction and to make submissions before the Competition authorities. Similarly, the government, through the Minister of Economic Development, may elect to make submissions on the grounds of public interest. Finally, any interested party who believes that their interests would not be represented during merger proceedings may apply to present their case before the Tribunal for a final decision on whether or not to be included as a stakeholder in the merger proceedings (Competition Act 89 of 1998).

Interestingly, while the acquisition of a 51% stake in Massmart by Walmart would not result in the firm directly competing with other retail stores in South Africa (because the MNC did not have its own Walmart stores in the country), competition law in South Africa requires competition authorities to consider public interest issues emanating from a merger in addition to competition issues (Competition Act). Thus, in assessing business issues of public interest, competition authorities need to consider the impact of a merger on four factors: first, a particular sector or region in South Africa, second, the impact on employment, third, the impact on small businesses owned by historically disadvantaged groups and fourth, the ability of local industries to compete in international markets.

In terms of this Act, therefore, a number of objections to the merger were received by five major trade unions in South Africa, three Government ministries and one stakeholder representing small, medium and micro-enterprises. Thus, within the legal framework of the South African competition environment, it was clear that *managing their stakeholders* within this environment was a strategic imperative for Walmart if the firm was to succeed with the merger.

2.2 *Stakeholder management*

Stakeholder management has become an important element of business today and rightly attracts considerable attention in management literature and practice (Cooperrider & Fry 2010; Elias & Cavana 2000; Friedman & Miles 2002; Freeman 1984; Reed et al 2009). The early work on stakeholder theory addressed firm responsiveness by developing general strategies of stakeholder management (Freeman 1984), outlining broad firm responsibilities to stakeholders (Carroll 1979) and examining stakeholder characteristics to determine which stakeholders require managerial attention (Mitchell, Agle & Wood 1997). Examining stakeholder perspectives has become an area of research in management literature today (Cooperrider & Fry 2010; Elias & Cavana 2000; Friedman & Miles 2002; Freeman 1984; Reed et al 2009). For example, some investigators highlight the extant literature on stakeholder perspectives in terms of why or how firms respond to stakeholder issues (Bundy & Buchholtz 2013). Furthermore, a number of researchers examined stakeholder perspectives by asking which stakeholder groups received managerial attention (Agle, Mitchell & Sonnenfeld 1999; David, Bloom & Hillman 2007; Mitchell et al 1997) and other researchers investigated the influence of institutional competitive and invidual motivators (Bansal & Roth 2000) or network influences on stakeholder perspectives (Reid & Toffel 2009; Rowley 1997). Investigators have therefore concluded that a firm's entry into a market depends on taking a broad range of stakeholders into account, including government and trade unions (Elg, Ghauri & Tarnovskaya 2008; Palmer & Quinn 2005), political and social actor networks (Hadjikhani & Ghauri 2001) and that firms need to consider the impact of entering a market with a long-term perspective (Palmer & Quinn 2005).

One of the challenges identified by researchers in the study of stakeholder theory is that the term "stakeholder" is variously defined (Rowley 1997). However, the definition of stakeholder put forward by Freeman (1984) in which he asserts that a stakeholder is any person or group who may affect or be affected by the firm's objectives is the definition that will be used in this investigation. Furthermore, in terms of the management of stakeholders, the authors refer to the definition provided by Griseri and Seppala (2010:33), in which they indicate that "stakeholder management involves the process by which managers reconcile the objectives of a company with the claims and expectations of various stakeholders".

Uusitalo and Rokman (2004:200-204) classify stakeholders according to whether involvement is at the antecedent stage or the operational stage, or whether a settling-in period is taking place. They distinguish nine different stakeholder groups that were involved in the entry of an MNC which was merging with a Finnish retail group. These were owners and management; communes; media; competitors; employees; suppliers; the state, consumers as well as society and culture. On the basis of the stakeholder definitions indentified in the literature presented in this research, two key stakeholders who objected to the entry of Walmart into South Africa were noted, namely employees and the state. The former were represented through trade unions (five major trade unions in South Africa, namely SACCAWU, NUMSA, FAWU, SACTWU and COSATU, as well as representatives from small, medium and micro-enterprises – the latter because their objections to the merger were remarkably similar to those of labour unions) while the state was represented through three government ministries (the Ministries of Trade & Industry, Agriculture, Forestry & Fisheries and Economic Development).

In summary, this investigation focuses on the perpectives of stakeholders who could directly influence an MNC's entry into the South African retail market. The study contributes to an understanding of the challenges facing MNCs in reconciling stakeholder perspectives when entering an emerging market like South Africa. In addition, the research provides lessons for other MNCs to consider in terms of enhancing a smoother transition into emerging markets by effectively attending to critical stakeholder relations. The research questions the study aimed to address were: How did the stakeholder groups react to the entry of Walmart into South Africa? How did stakeholder group perspectives develop and to what extent did these perspectives converge or diverge?

3 Research method and data

A qualitative methodology was selected for this investigation. Qualitative studies may take the form of interviews, observations and analysis of documents (archival analysis) or a combination of any of these (Patton 2001). In this research, an archival analysis was selected since, as a qualitative method, it enables phenomena to be investigated in depth and in detail (Blumberg, Cooper & Schindler 2008; Patton 2001). Secondly, the methodology offers a sufficiently flexible and open exploration of phenomena in context (Daft 2011). Furthermore, archival analysis allows for an unobstructed exploration of the phenomenon with minimum interference from the researcher. Finally, the controversial entry of Walmart into South Africa has generated a plethora of documents from which this issue could be investigated. Archival analysis is a particularly useful technique where large amounts of data are available.

This investigation replicated the methodology of Uusitalo and Rokman (2004), who examined the entry and stakeholder management of a large family-owned German retailer into the Finnish market. The study reviewed archival data from newspaper articles, business magazines, internet articles, the minutes of municipal boards and planning committees as well as the records of discussion groups to determine the stages of entry and management of stakeholders when a multinational company enters the retail market of another country. In fact, Uusitalo and Rokman (2004) suggested that their research methodology could be used to assess the entry of a retailer in a different context.

The authors examined publicly available documents recording stakeholder perspectives on Walmart/Massmart in terms of the firm's entry into South Africa, as well as publicly available documents recording the views and reactions of stakeholders to the firm's entry. An archival review of the printed documents was conducted and each article was examined to identify a specific stakeholder perspective relating to Walmart's entry into South Africa. This approach is consistent with previous studies employing an archival analysis of printed documents obtained from wide-ranging research in academic outlets (e.g. Mendenhall, Beaty & Oddou 1993) as well as with Symon and Cassell's (1998) observation that there is a wide variety of qualitative methods available to management scholars. Denzin and Lincoln (2003) assert that qualitative research methods seek to describe, decode and translate phenomena. They note that the hallmark of qualitative research is flexibility and sensitivity to the social context in which the data are collected.

The documents used in this investigation fall into the following five categories: 1) witness statements by Walmart and Massmart executives, trade union officials and government representatives to the Competition Tribunal; 2) transcripts of the Tribunal hearings; 3) transcripts of parliamentary hearings on the entry of Walmart into South

Africa; (4) print media articles on the entry of Walmart into South Africa; and (5) official press statements released by Walmart, Massmart, government and trade unions in which they explain their views concerning the entry of Walmart into South Africa.

A non-probability sampling method (Zickmund 2003) was used in order to select the documents that provided the most detailed opinions on the issue, and the sample was purposively chosen (Blumberg et al 2008). This process yielded a data set of 13 press releases from Walmart and Massmart, four from trade unions, three from government and one from the Competition Tribunal. In addition, the researchers examined 460 articles on the merger between Walmart and Massmart from a media monitoring agent in South Africa namely Target Media. From this data base, 10 articles were selected on the basis of the following criteria: their availability in the public domain, whether they contained content which had not been duplicated in the media, diversity of stakeholder views, and data providing a holistic view of stakeholder opinions. In accordance with Berrios and Lucca's (2006) and Buboltz, Miller and Willliams' (1999) recommendations, the authors reviewed the articles to determine whether they reflected the foregoing criteria in terms of the focus of the investigation. To test for interrater reliability (Carmines & Zeller 1991), which is the extent to which two or more individuals (coders or raters) agree, the articles were categorised in terms of the above criteria and a 90% agreement between raters was achieved. Where there were differences, the articles were discussed and appropriately categorised.

4 Research findings

The analysis reveals that four sets of stakeholders in the matter of Walmart's entry into South Africa could be identified as "dominant" stakeholders, namely stakeholders having power, legitimacy and urgency (Uusitalo & Rokman 2004). These stakeholders include owners and managers, unions, suppliers and the state. Thus, the research findings are stated by presenting Walmart's relationship with labour unions; Walmart's relationship with government; and Walmart's views on local procurement from South African firms.

4.1 *Walmart's relationship with labour unions*

On Walmart's side, senior executive representatives from Walmart and Massmart emphasised their respect for local laws and culture. The following statements reflect their assertions in this regard:

- Walmart requires each country operation to comply with all relevant laws and regulations.
- Walmart honours existing union relationships and contracts within acquired companies.
- Walmart conducts wage and benefit surveys to ensure that its employment conditions are competitive in each market.
- Walmart strives to develop an environment that encourages open, respectful and direct communication with its associates, whether or not a union is in place.

Wallmart/Massmart also agreed not to retrench employees for a period of two years following the merger, and agreed to honour current labour agreements for a period decided by the Competition Tribunal.

On the other hand, trade unions indicated that while they welcomed "responsible foreign investment in South Africa", they refused to support Walmart's investment in South Africa because of the MNC's specific business model and the firm's business practices, which they asserted would result in adverse consequences for the South African economy.

Trade unions and SMMEs pointed to Walmart's deplorable record on labour rights and repressive attitude to trade unionism, indiscriminate use of suppliers who they claim violate environmental, health and safety standards, and general disregard for compliance with competition rules, to the detriment of other industry players, jobs and livelihoods. They asserted that Walmart's takeover of Massmart is not in the best interests of the country and that they would oppose the deal.

4.2 *Walmart's relationship with government*

Senior executives from Walmart and Massmart indicated that they had been invited by the appropriate government ministers to discuss the transaction. They were asked by government to participate in a social dialogue with interested stakeholders and assured government that they would comply. Further, senior executives from both firms stated they were prepared to assist government in an industry-wide initiative to regulate local content for retail goods. However, they also insisted that they were unwilling to make legally binding commitments. After this first meeting, senior executives of Walmart and Massmart confirmed that no further meeting had taken place with government at ministerial level.

On the other hand, government representatives indicated that Walmart and Massmart agreed with their concerns that the entry of Walmart into South Africa would be controversial and that social dialogue with all stakeholders was needed to ensure the successful entry of the firm into the country. However, government complained that the MNC was withholding information that would enable them to fully evaluate the implications of Walmart's entry into South Africa. For example, statements by government indicated their concern that the firm was more likely to rely on imports and take advantage of Walmart's global logistics and supply chain (Crotty 2012) instead of utilising local suppliers. Representatives of government further indicated their disappointment that social dialogue had stalled as soon as the MNC received permission from the Competition Commission for the merger to move forward. Finally, governement respresentatives stated that while Foreign Direct Investment into South Africa was welcomed, the government opposed this particular merger because of the negative impact it saw on its future economic growth plan and the loss of jobs in the country.

4.3 *Walmart's views on local procurement from South African firms*

The key issue for government regarding the merger was its impact on local procurement. Government was concerned that Walmart's buying power would lead it to rely mainly on imported products procured from overseas, to the detriment of the local manufacturing industry and of jobs. Furthermore, the South African government was unhappy with Walmart's refusal to make any firm commitments regarding local procurement. Collectively, trade unions and SMMEs were concerned about the negative impact the merger would have on local suppliers since they believed the firm would prefer to bring in massive and cheaper imports from its own global suppliers, which would undermine the local manufacturing industry. The following are examples of statements made by the unions:

"The reason why we are concerned is because if you procure from abroad you essentially retain jobs abroad. If you procure manufacturing products, at the very least, you retain the jobs from where you procure outside of the Republic, even though those products might be cheaper for local consumers than those provided by local suppliers."

"You may still buy products at a cheaper rate but those people may not be able to afford those products because they are unemployed."

"Our position to the proposed Walmart/Massmart measure must be understood and located in the broader economic political and legal context – South Africa's biggest challenges by far are its massive levels of unemployment, poverty and inequality."

5 Discussion

The findings of the archival analysis of documents reveal that the entry of Walmart into South Africa through a merger with Massmart was characterised by adversarial relations between stakeholders and both firms. While Walmart wanted to gain a foothold in Africa through its merger with Massmart in South Africa, the South African government interpreted the firm's entry from a "public interest" perspective and not simply from a "business perspective". Government mistrusted Walmart's intentions, complaining that it was at their insistence that Walmart met them and initiated a social dialogue with all stakeholders before moving forward with the "business side" of the merger. They argued that Walmart and Massmart had withdrawn from the social dialogue once the merger had been approved by the Competition Commission. According to the perceptions of government representatives, both firms failed to understand the political and social impact of their entry into South Africa, choosing instead to prioritise the "business side" of the transaction. Possibly more strident in their denunciation of the Walmart entry into South Africa were the trade unions and representatives from the SMMEs, who spoke with one voice on the issue. Their concerns were mainly around job losses, the refusal to abide by labour agreements or collective bargaining arrangements, and their perceptions of the firm's history of "anti-unionism".

This research holds a number of lessons for MNCs entering emerging markets like South Africa. First, the findings suggest that MNCs entering emerging markets need to align "business" issues with "public sector" issues and to recognise the close connection between business and government in those markets. Indeed, slow progress in setting up operations in emerging markets like South Africa can be influenced by the extent to which an MNC is able to build relationships and initiate dialogue with government officials, labour union representatives and other stakeholders prior to entering the country. This dialogue and relationship building should not be a one-off event. Instead, dialogue and relationship building with key stakeholders should take place regularly, both formally and informally, with the focus on building long-term relationships. Further, this research suggests that initial dialogue and relationship building occur privately, not through marketing hype or public media outlets, so that issues of genuine concern and real grievances can be expressed by all parties and dealt with privately prior to the public announcement of the business venture.

Second, MNCs that wish to partner with local firms should be cautioned about relying solely on a local firm to engage with stakeholders and develop relationships. The development of relations with key stakeholders must be perceived by all stakeholder groups to be a genuine effort by managers in foreign firms to do the right thing for the host country and the business. In fact, simply delegating to local management the task of "selling" the merger or acquisition and adopting a "hands-off approach" can lead to the kinds of problems and misinterpretations identified in this investigation. The findings of this research indicate that pertinent and intelligently selected socio-political information can be obtained from managers in the local firm of the host country. However, this research suggests that if managers from foreign firms wish to gain an understanding of doing business in an emerging market like South Africa they must connect with local managers who have a keen understanding of the local environment and culture of the host country, and can affirm their close relations with key stakeholders. Harari and Beaty (1989) found that Western executives and managers of facilities in emerging markets frequently have little real contact with workers, trade union representatives and government officials. They also frequently assume that these stakeholders are uninterested in, or incapable of, any meaningful involvement in matters affecting public sector interest. Western managers of firms wishing to enter emerging markets need to be politically sensitive to local conditions.

Finally, firms that wish to expand globally will be judged by stakeholders around the world by their business and social responsibility strategies and actions *in their home countries*. A firm's reputation and its relations with stakeholders in the country of origin will be examined closely for clues as to how it is likely to conduct its business in the host country. Meyer (1988:13) notes that "the global nature of economic activity has linked us together, irrevocably, to a degree that has never before existed. A strike, coup, currency shift, or technological breakthrough in one country has an impact far beyond that country's borders." Thus, Walmart's perceived record on labour rights and attitude to trade unions, the firm's perceived history of indiscriminate use of suppliers who violate environmental, health and safety standards, a general disregard for compliance with competition rules to the detriment of other industry players, and the potential loss of jobs and livelihoods were advanced by trade unions and the South African government as reasons to block the merger. As firms expand globally and attempt to achieve strategic and operational success, their reputations will be closely examined by stakeholders in the host countries where they hope to do business.

The implications for employee relations practitioners, as indicated by the results of this study, reveal a number of key practical insights. For example, as multinational companies enter emerging markets, tapping into the skills, expertise and experience of employment relations practitioners in facilitating dialogue and building relevant stakeholder relationships becomes a matter of paramount importance. Indeed, employee relations practitioners can assist foreign managers entering a host country to understand and manage the subtle influences of both written and unwritten agreements as well as the implicit and explicit expectations that exist between management, labour and relevant stakeholder groups in the host country. In fact, the "unwritten agreements" between managers, employees and stakeholders, often referred to as the psychological contract (Robinson, Kraatz & Rousseau, 1994), are frequently historical as well as current in nature and can have a profound impact on relations between all parties. The employer-employee expectations that define the perceived roles of managers, employees and stakeholder groups in terms of their employment relationship can provide insights for employee relations practitioners as they assist firms from abroad to structure new methods of communicating with stakeholders. What is more, accurately communicating differing role expectations of stakeholder groups within the context of the host country can be a valuable service to foreign firms entering emerging markets. According to Morgan and Zeffane (2003), close communication, consultation and empowerment of all stakeholders can jointly promote a relationship of trust between all parties.

Finally, the practical suggestions resulting from the findings of this research concerning the clarification of written and unwritten agreements, the identification of new role expectations for all stakeholder groups, and the development of new ways of communicating to build relationships of trust are consistent with the assertion by Ackers (2002) that stakeholder relationships need to be conceptualised as social and ethical relationships as well as economic transactions. This investigation suggests that these issues need to be carefully considered by all stakeholder groups if foreign firms entering a host country are to achieve successful working relations. Furthermore, employee relations practitioners can provide valuable and practical assistance to all parties in making these stakeholder relationships work.

6 Limitations of the study

The major drawback of this study was the fact that data were obtained solely through publicly available multiple written sources. These included witness statements, transcripts, print media articles and official press statements The study could have been strengthened by sourcing information through one-on-one interviews and focus group interviews with key stakeholders using semi-structured and/or structured interview questionnaires. Further research to obtain a wider sample of stakeholder opinion is suggested. Here survey research methodology could be utilised and survey items constructed by drawing on the themes that emerged from the findings of this investigation. Further research is important because, as Kriek, Beaty and Nkomo (2009) point out, there is a dearth of research investigating local management phenomena grounded in the realities of local emerging market contexts.

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