# INVESTMENT MOTIVES OF SOUTH AFRICAN RETAILERS EXPANDING TO THE REST OF AFRICA

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***Abstract***

This article investigates the factors that motivate South African retailers to engage in outward foreign direct investment (OFDI) into Africa. A mixed-method approach was employed to discover the determinants of South African retail FDI in Africa. This involved in-depth individual studies of selected companies as well as a cross-case analysis of the companies. Interviews were conducted with top management responsible for African operations of their respective companies.

To date, no systematic investigation has considered FDI outflow determinants in the retail sector from developing countries in Africa. It is important to understand what motivates South African retailers to invest in Africa as the country is one of the major FDI investors on the continent. The findings from the research show that market saturation at home, market size in host countries and strategic growth reasons are the major determinants for South African retail FDI into Africa all with an aim to generate profits for the retailers. The findings offer insight into South African retail FDI determinants into Africa. The research contributes to the current knowledge base of South Africa's economic developments in the rest of Africa.

**Keywords:** Outward foreign direct investment, retail, business strategy, OFDI determinants, FDI, free markets, investments, Africa

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## INVESTMENT MOTIVES OF SOUTH AFRICAN RETAILERS EXPANDING TO THE REST OF AFRICA

### 1. INTRODUCTION

Factors that motivate South African retailers to expand their operations to other African countries are investigated in this article. The article studies the level of South Africa's intra-Africa foreign direct investments (FDI) outflows; and examines the motives for South Africa's outward foreign direct investments (OFDI) in Sub-Saharan Africa with special focus on the retail sector.

Much research has been published on retail OFDI but not much focussed on Africa and even less on retail. Most literature on direct foreign investments (FDI) by retailers concerns developed countries with little attention to developing countries. Existing research on FDI in developing countries has largely been on the manufacturing and not on the retail sector. For this reason, this study seeks to be one of the few research projects to contribute to the knowledge base regarding the internationalisation objectives of South African retailers.

This article is structured as follows: The following section provides some background of the topic; then Section 3 provides a theoretical and empirical framework of the study of different theoretical frameworks and literature related to retail FDI; Section 4 studies the South African retail sector; while Section 5 examines the state of retail in the rest of the African continent; Section 6 explores the methodology that will be used in conducting the empirical part of the study; Section 7 presents the data, its analysis and interpretation based on the objectives in Chapter 1; and Section 8 draws conclusions and provides recommendations on the subject matter based on findings from the study.

### 2. BACKGROUND ON RETAIL

When a private company of one country invests in a company located in another country it is known as foreign direct investment (FDI). It consists of ownership in the business. Such expansion or investments adds to a country's amount of factors or production, increasing productive capital, creating employment and economic prosperity (Gilmore, O'Donnell, Carson & Cummins, 2003; Velde, 2006). Akolgo (2018, p. 6) highlights the importance of pursuing strategic integration between regional and global markets in order to reach the Millennium Development Goals. Economic principle assumes that firms are driven by a profit motive (Chiao, Lo & Yu, 2010). When a firm does not strive to achieve maximum profit and minimum cost, it will eventually be liquidated and forced to leave the industry (Mankiw, 2014). This is supported by Jehle and Reny (2011) that decision making by firm owners on acquiring and combining inputs and marketing output is aimed at maximising profits. Companies that globalise their business flourish quickly and have less chances of failure than companies that stay or only do business in their home country (Briggs, 2013).

Very little research has been done relating to what motivates firms to expand and invest in other regions (Ji, Dimitratos & Huang, 2018). Dunning and Narula (1996), Ajayi (2005), and Basu and Srinivasan (2002) pinpoint market-seeking, an endeavour to exploit resources and strategic-assets, to improve efficiency as the most important objectives of FDI (Surdu, Mellahi & Glaister, 2018). Ibeh, Uduma, Makhmadshoev & Madichie (2018) found similar results studying Western Africa. FDI requires a proper economic foundation such as local technological capabilities, growth and market size and good quality skills and infrastructure.

Shopping centres and malls have been increasing on the African continent and South African investors are also actively involved (Miller, 2006). Bara, Mugano and Le Roux (2017, p. 247) state that African countries benefit from their linkages with South Africa because of the country's excellent financial developed economy. South African retailers also consider internationalisation is important strategy and are at the forefront of market expansion into Africa. Traditionally African retail is often characterised by informal open-air markets and retailers regard these large markets as market potential that may offer advantages (Anyidoho & Steel, 2016; Dakora, Blytheway & Slabbert, 2010). Weatherspoon and Reardon (2003) propounded that the South African market is very competitive and saturated with little opportunities for retailers to expand. This adds to rising economic development on the African continent which draws retailers to expand abroad. In most cases expansion by South African retailers is characterised by complete ownership of establishment and in a few cases through franchises (Games, 2008).

Many food retailers can negotiate discounts from multinational suppliers for their stores in all countries (Jan Willem, Josten & Valk, 2002; Tanner, 2004). They do this by making use of their highly centralised power that helps to reduce the costs of promotion and advertising. During 2010 in excess of a third of total FDI investments in less developed countries came from other less developed countries. In some cases, South-South flows were responsible for up to 90 per cent of the total FDI attracted (Darby, Desbordes & Wooton, 2013). This suggests a change with developing countries moving from being only receivers of FDI to being exporters of FDI.

## 3. LITERATURE REVIEW

The eclectic or OLI theory is most often employed to analyse FDI investments (see Surdu *et al.*, 2018; and Mina, 2010). It was introduced by Dunning's (1977) where the OLI acronym regards ownership, locational and internalisation advantages, central to FDI decisions, represented by the letters "O", "L" and "I" respectively. Ownership advantages (O) indicate that firms invest abroad when they possess certain monopoly ownership characteristics that will exceed the cost of doing business in a foreign country against local firms. This can be through superior technology or economies of scale. Location advantages (L) follow fulfilling the ownership advantages. They focus on potential host countries locational advantages in determining which country to invest in. These include market size, distance between investors and investments, transport costs, as well as government policies towards FDI. When foreign production of a product is more profitable than home production and export, FDI may present an optimal location (Kleynhans & Drewes, 2008).

Internalisation advantages (I) although "O" and "L" advantages provide a basis for choosing FDI over exports they fail to illustrate on why FDI is chosen over licensing. Problems such as identifying the ideal market price for the license and enforcing the license agreements might compel a firm to opt for FDI (Coetzee, Bezuidenhout, Claassen & Kleynhans, 2016.). Internalisation advantages determine how a firm enters a host country by weighing the benefits between sole ownership of an establishment and other forms such as license or franchising.

The issues with Dunning's "eclectic" theory are that it requires all three conditions to be met before FDI can be done (Surdu *et al.,* 2018). It cannot account for FDI between less developed countries as few of them possess ownership advantages. This led to an extension of the OLI framework to explain FDI between less developed countries with the Investment Development Path (IDP). The IDP theory links net outward investment and Gross Domestic Product (GDP) per capita (Dunning, & Narula, 1996). The IDP theory proposes that the investment development cycle of a country is contingent upon its level of economic development, which includes five stages.

Stage 1 is associated with no inward foreign direct investments (IFDI) or OFDI as its location has no attributes worthy of attracting any FDI. Disadvantages may be a lack of infrastructure, uneducated labour force and low per capita income. In stage 2 IFDI starts to emerge and rise in relation to very low or non-existent OFDI. The expansion and development of the domestic firm generates some "L" advantages providing the option of domestic production for some foreign firms. OFDI in this stage is mostly market seeking and trade-related and usually caused by government push factors such as export subsidies. In stage 3 OFDI increases but is still surpassed by IFDI in both stages. There is a change as local firms develop ownership (O) advantages like those of foreign firms. OFDI exceeds IFDI in stage 4. In this stage, local firms possess the capabilities to compete with foreign firms, to enter international markets and have important linkages to other sectors and countries (Alagidede & Mensah, 2018, p.138). OFDI finally offsets IFDI in stage.

Several studies have been conducted that highlight the importance of market seeking as a motive for OFDI (Hiratsuki, 2006; Broadman, 2007; Burghart & Rossi, 2009; Goh & Wong, 2011; Gomez-Mera, Kenyon, Margalit, Guilherme Reis & Varela, 2015; Bezuidenhout & Kleynhans, 2018). These researchers investigated OFDI from developing countries and emphasised that declining domestic investment opportunities and the desire for new markets to export products are driving companies to seek new markets abroad. The need to need to replicate products to indigenous resources and local expectations also drive market seeking OFDI (Gugler & Boie, 2008).

Pietrobelli, Rabellotti and Sanfilippo (2010) found that Chinese OFDI in Italy is market seeking. Chinese firms view Italian consumers as more demanding and sophisticated in the whole European Union market and use them as a test market for their products. Market seeking OFDI also occurs in countries where the final product is intended for export. The flooding of Chinese, Korean and Taiwanese OFDI in the garments and textiles industries in countries like, for example, Malaysia and Sub-Saharan Africa is because of the export preference these countries have. Special protection in Organisation for Economic Co-operation and Development (OECD) countries and America by the African Growth and Opportunity Act can offer opportunities to investors (AGOA) (Lall, 2005; Yoon, 2007; Brautigam, 2008; Kaplinsky & Morris, 2009).

Host country factors may also motivate FDI into some countries. The major factors considered are infrastructure, institutional and economic factors, market size, labour costs, trade openness and geographic proximity (Alagidede & Mensah, 2018; Coetzee & Kleynhans, 2017; Coetzee *et al.,* 2016; Bevan & Saul, 2004; Nonneberg & Cardoso de Mendonca, 2004; Sahoo, 2006). Therefore, countries better in things such as economic liberalisation are able to attract FDI easily than those that are worse off.

The increased access to international low cost capital, exchange rate fluctuations and increasing wealth has been a motive for some developing countries such as Latin American multinational companies (Amal, Raboch & Tomio, 2009; Rasiah, Gammeltoft & Jiang, 2010). In addition, UNCTAD (2007); Rosen and Hanemann (2011) highlight that the appreciation of home currencies and the simplification of the foreign exchange process resulted in an increase in OFDI by some developing countries such as Brazil and China.

Stoian (2013) and Chen (2015) utilised the OLI and IDP theories and found a positive relationship between OFDI and home country development. In addition, You (2015) shows the importance of government policies in driving OFDI. However, he disputes the notion made by the IDP theory that OFDI occurs naturally as income grows. However, other researchers such as Le and Zak (2006) and Kayam (2009) propose that developing country OFDI occurs as an escape from unsuitable political or economic conditions of local market.

The OLI-theory was designed to explain OFDI in manufacturing and sometimes encounters problems when applied to the retail sector. The IDP theory alone also fails to explain why some developing countries are unable to conduct global activities regardless of stage of economic development a particular country resides in. There is therefore a need for more knowledge and to augment existing literature explaining retail sector OFDI from developing countries. The growing trend in the pattern of retail OFDI calls for further study on the motivation and drivers for OFDI.

Relaxation of capital flows, stiff domestic competition, saturated domestic market and higher margin earnings in Africa have driven South African retailers such as Shoprite across the border (Miller, Saunders & Oloyede, 2008; Dakora, 2012).

## 4. THE SOUTH AFRICAN RETAIL SECTOR

The profit margin of the South African retail sector during 2009, was at 3.9% with the highest profit margins accruing in the clothing, footwear, textiles and leather goods sector at 10.8 % (Wholesale and Retail SETA (W&R SETA), 2014). A substantial portion of the economy is driven by the spending of consumers and therefore retail sales are used as an essential economic indicator (Cooke, Prabu & Steele, 2016). The retail sector also has a significant potential to integrate untrained workers and train them to be cashiers in stores; which in turn enhances the sustenance of many South Africans. Malgas, Khatle and Mason (2015) supports this and indicates that the retail industry can create sustainable employment in South Africa because of its large impression on urban and rural areas.

About 86% of the wholesale and retail sector of South Africa comprises of small enterprises with about 9.5% medium size firms and 4.5% making up the remaining percentage (W&R SETA, 2014). A regional review of formal labour employment in the trade sector in South Africa in 2015, revealed that the Gauteng province had the highest number, that more than tripled the regional average of 246 591 people employed (Global Insight, 2018). The Northern Cape Province has the least employment in the sector at 37 000. The Gauteng province had the highest percentage in labour employment in the trade sector at 35% that is almost doubled that of the second biggest the Western Cape Province at 19%.

In 2009 hypermarkets increased by 13% reaching more than 15 billion in South Africa (W&R SETA, 2011). Pick n Pay and Checkers hypermarkets dominate this market. The variety of white goods such as refrigerators and washing machines provided by the hypermarkets, as well as their large trading space makes it possible for them to compete with wholesale outlets. According to Sewell (2013) wholesale and retail accounts for about 22% of total employment in South Africa and is the fourth in terms of sectoral contribution towards GDP at 15%. In 2009 South African supermarkets increased by 11%, adding more than 3 595 stores reaching R106 billion (Lahouasnia, 2010). Supermarkets contain a mix of grocery and non-grocery goods and 32% of these goods sold are non-grocery items (W&R SETA, 2011).

The entrance of Walmart into South Africa through its majority share in MSM indicated a change in the influence of international retailers in the South African market (Bezuidenhout & Kleynhans, 2015, p. 93). This is because Walmart is known for its discounting, buying power and logistics, meaning that other retailers would have to improve their systems or risk losing market share to Walmart through Massmart (Van Hille & Louw, 2012). This is supported by KMPG Africa (2015), which states that for domestic retailers to be able to compete with international retailers they must reduce the speed-to-market lead times for the latest trends. They must also improve their sourcing chains. The fact that South African consumers have more spending power and that South Africa has the most developed retail market on the continent, makes it attractive for international retailers wanting to establish a presence on the continent (AT & Kearney, 2014). There has been an average of 3% growth in sales in South African retail sales between 2005 and 2012 and this has managed to attract international retailers, thereby increasing competition in the local market.

South African retail already has a substantial footprint in the region. Its five largest retailers Shoprite, Massmart, Pick n pay, Woolworths and Spar produced a combined turnover of R467 billion for their respective 2016 financial years. These firms also contributed a total of R5.9 billion towards tax revenues. The annual total profits generated by the retailers amounted to R14.4 billion. Data for measuring the turnover, tax paid and profits gained for South Africa's five largest retailers comes from the financial statements of companies listed in the Johannesburg Securities Exchange (JSE) using the INET BFA database (previously McGregor BFA). The INET Bureau of Financial Analysis (BFA) data is used because it is reliable and uses consistent formulas.

The African Retail Development Index (ARDI) ranks the best countries in Sub-Saharan Africa for retail expansion (AT & Kearney, 2014). The ARDI distinguishes highly attractive markets and those with much potential and shows that the South African market is already highly saturated and has a large and modern market. This is supported by Malgas, Khatle and Mason (2015) who states that the South African retail sector highlights a mature market with a high concentration of a small number of large retailers such as Shoprite. Therefore, in terms of retail expansion countries such as Nigeria would be a better option than South Africa. This is because it is in the "move quickly" category implying that there are many retail growth opportunities compared to countries in the differentiate category. Prinsloo (2013) states that South Africa appeared on the Global Retail Development Index (GRDI) for two times only, but it already had a highly modernised and saturated retail market.

South Africa has a developed retail market on par with some of the world's most developed countries. This highly developed retail sector is mostly saturated and this has led to several South African retailers establishing bases elsewhere in Africa.

## 5. RETAIL IN AFRICA

The African retail sector is characterised by many semi-formal and informal retailers such as groceries purchased by consumers at informal shops (Anyidoho & Steel, 2016). The Nielsen Report (2015) of fourteen countries in Sub-Saharan Africa (SSA) finds that the informal retail sector accounts for about 50% spent by consumers on goods in Africa. Modern trade is still in premature development and about 80% of consumers in SSA conduct their shopping from traditional channels such as from "table tops". "Table tops" are defined as roadside stalls meant to capture passing and local trade. About 90% of retail in Africa still occurs in the informal sector. The stability of many African countries, long-term economic growth in addition to increasing urbanisation and low levels of formal retail presents opportunities for more retail expansion (Knight Frank, 2016). Nigeria had only two shopping malls in 2012 for example (AT & Kearney, 2014).

Modern trade outlets still constitute only about 26% of consumer store visits in Africa, with countries such as South Africa and Angola having above average figures of 39% and 34% respectively (Foster, Oikawa, Spanjaard, Huet, Kimani & Niavas; 2016). To make inroads into Africa's traditional retail trade, firms must first assess the types and locations of trade outlets in selected countries and their differences, such as, the products they stock, their size and their customers. The firms must then analyse the accessibility and potential revenues of each outlet and create a profitable product distribution strategy after costs (Godley & Fletcher, 2000).

It is predicted that African retail will experience exponential growth during the coming decade, because of demographics and expeditious economic growth, which is expected to result in increased consumer demand (Ibeh *et al.,* 2018; Price Waterhouse Cooper (PWC), 2013; KMPG Africa, 2015). Ford (2016) states that economic growth in Africa has been above the global growth rate by about 2% since 2000 and this has begun to attract many international retailers looking for corporate growth and to benefit from first mover advantages. The increase in African urbanisation has led to an increase in property demand and enables firms to target desired consumer groups (STANLIB, 2013; KMPG Africa, 2015). Favourable demographics on the continent does not, however, guarantee success and this is because of the extensive disparity across countries in terms of, for example, income, tastes and culture.

Berman and Balde (2013) use the article by the Economist on Africa in 2000 entitled "The hopeless continent" to describe how much has changed from when Africa appeared as having no business opportunities. In 2013, the *Economist* changed its view on Africa with an article on Africa "the hopeful continent". According to this article, Africa is the fastest growing continent, with GDP expected to increase with an annual average of 6%.

The African market is still a long-term project and that firms willing to enter the African market must be prepared to withstand both good and bad market conditions (Wingfield, 2016; Nielsen, 2016). For example, Zambia one of best economic performers in Africa had a sharp increase in inflation from 6 to 23% over a six-month period. Zambia's spiral downwards was a result of poor macro-environment heavily dependent on the resources sector, high inflation and electricity shortages. This led to a decrease in consumer spending.

The 15 to 24 years' age group leads the sale of branded products and growth of modern retail in Africa (Fenech & Perkins, 2014). They make up about 20% of the African population and the retail and consumer products sector is now (in 2017) the second most attractive sector in Africa. Africa has an expanding economically active population of 2.7%, higher than that of South East Asia and Latin America of 1.2% and 1.3% respectively (Agyenim-Boateng, Benson-Armer & Russo, 2015; KMPG Africa, 2015). The large differences in tastes and preferences of this younger generation will most likely be seen in their future demand of various goods. It is projected to result in more than US $400 billion consumption growth over the next decade.

Cultural influences still seem to influence retail in East, Central and South-West Africa especially due to the domination of Anglo-phone countries (Ford, 2016). For example, capital cities from countries such as Ethiopia and Angola have much shopping centre space compared to that of the biggest Francophone shopping city in the region Abidjan, capital of Cote d' Ivoire.

Issues such as poor infrastructure and political instability make firms reluctant to enter some markets. Africa still has relatively under-developed supply chains with differences among countries (AT & Kearney, 2014). Regardless of urbanisation, poverty persists in many areas and the people remain largely spread out on the continent made up of thousands of languages and cultures.

Transportation in most African countries is both costly and difficult due to poor road infrastructure (Berman & Balde, 2013). Poor electricity supply also hinders consumer demand, as well as supply. This can be seen by the exit of South Africa's Lucky 7 and

Metro Cash and Carry from Kenya in 2005 citing issues such as expensive and insufficient locations (Dihel, 2011).

Violence and social mayhem can occur due to political pandemonium (Global Perspectives, 2014). Political instability or conflict in a host country will most likely lead to risks, such as damage to facilities that will affect sales resulting in lower profitability from operating in such a country; as well as the value of the local currency. This will probably be lowering the value of assets invested, as well as future profits to be gained from the investment (Brada, Kutan & Yigit, 2004).

Investors still encounter challenges such as poor roads and electricity shortages when deciding to invest in Africa. An examination of retail in Africa shows that some African countries experienced a decrease in consumer spending due to the fall in commodity prices that most African countries are still reliant on. The long-term growth prospects for Africa remain, however, positive propelled by increasing urbanisation and population growth (Ibeh *et al.*, 2018). Africa's middle class is also rising and adding more to consumer demand for goods in Africa.

The continent still has many infrastructural challenges that affect supply chain efficiency and the overall delivery of goods to African consumers. Retailers willing to enter the market cannot use a blanket approach because Africa has diverse communities and cultures with various tastes and preferences, which directly influences retailer's expansion into Africa.

## 6. RESEARCH METHODOLOGY

The study used a mixed method approach, staring by studying hard data from the financial statements of retailers, for instance, followed by qualitative research, focusing on case study and semi-structured interviews. Qualitative studies are ideal for the current study because they emphasise capturing a range of views and experiences in their natural setting, and sampling methods employed in qualitative research make use of methods that are purpose driven. With such purposive sampling individuals are best to explain "how" and "why" questions in a search for understanding (Brink & Nel, 2015). This was important as the study mainly aimed at a better understanding and explanation of retailer’s motivations. The qualitative data used in this study consists of data collected through interviews and data from analysing written sources such as published information by the media and authorities. Interviews were conducted with senior managing officials responsible for the globalisation and expansion of these companies into Africa.

Yin (2009, p. 18) defines a case study as an empirical investigation, which examines an occurrence in its actual surroundings especially when the boundaries between occurrences are not easily identifiable. In-depth interviews allow for open-ended responses, which are also flexible in structure, more descriptive and can identify and explain problems (Berkowitz, Ramkolowan, Stern, Venter & Webb, 2012). This current research conducts an exploratory investigation on the motivation of South African retail outward foreign direct investment (OFDI) into Africa. Case studies are well suited for this investigation as it facilitates an understanding of the uniqueness of a particular case in all its intricacy (Surdu *et al.*, 2018; Welshman, Kruger & Mitchell, 2005). It provides real-world context and allows for in-depth understanding of a case in; it may include interviews, documents, observations or archival records; and it can be supplemented by the analysis of company reports and financial reports. Multiple cases allow for comparison making it possible to discover whether results can be replicated across various cases (Kreppel, 2012).

Various sub-sectors in the retail sector were included in this research to obtain a better understanding of the retail sector OFDI as a whole. These included retailers under the food and drug retailers sub-sector and those under the general retailers’ sub-sector in South Africa. EDCON, The Spar Group, The Clicks Group and company Z (for anonymity’s sake) were the most important retailers that participated in the interviews. Companies participating in the interviews were selected based on the size of the company in South Africa; their presence nationally in South Africa; foreign investments in more than one country in Africa; the developer established malls mainly having a South African retailer as an anchor tenant in a host country.

The in-depth interviews were administered to experienced individuals and managerial officials and developers who have sufficient exposure and experience in the South Africa retail sector, as well as the business environment on the African continent.

## 7. DISCUSSION OF THE RESEARCH RESULTS

The first economic assumption is always to gain maximum profits (Chiao *et al.*, 2010; Mankiw, 2014) and with retail expansion into Africa it follows suit. The major push factor for outside investment is the desire to make profits. The retail and developer companies interviewed all agreed that most of their operations in African are more profitable than those in South Africa. Retailers interviewed maintained that that their investment decisions were motivated by a combination of factors that were all aimed at making profits in the countries they invested in.

The saturation of South African markets plays a key role in motivating both retailers and developers to expand further north into other African countries. The African market provides new markets with less competition from other formal retailers compared to the home market. Expanding into Africa is strategic to create future markets to generate business since the home market has become increasingly saturated for most retail categories. However, one of the companies interviewed specialising in health and beauty products was not bound by the same constraints as they indicated that there were still many growth opportunities in South Africa.

Data generated from the interviews conducted shows empirical evidence for the Investment Development Path (IDP). The interviewees stated that South African retailers and developers possess ownership advantages such company size, business and organisational intelligence compared to local companies in the countries they invest in. There is an increase in OFDI from South Africa although this is still surpassed by inward foreign direct investments (IFDI) putting the country in stage 3 of the IDP. The retailers highlighted that their experience coupled with their private label branding gives them an edge over local companies in most of the countries they invest in.

Economies of scale plays a role in driving retail OFDI (Ibeh *et al*., 2018). This is line with theory which states that companies engage in internationalisation to derive benefits from economies of scale (Mas, Nicolau & Ruiz, 2006). This is because many firms rely on central distribution in the regions and countries they invest in.

Investing in a country with a large and young population is both strategic and helps ensure the securing of future markets for their companies. The political and economic environment of potential host countries for retail OFDI from South Africa plays an integral role in the selection process to determine which countries to invest in.

Property developers often approach retailers to determine whether they are willing to lease space at shopping malls planned for development in identified African countries. The property developers conduct market research to find viable sites and potential retail markets and other due diligence. They are motivated by the substantial retail shortage and the growing demand for logistics and warehousing centres in Africa. The developers stated that there is a demand-supply imbalance in many retail and property markets in Africa.

Investments in African are viewed as more profitable compared to the South African market, albeit having more risks. The companies highlighted that overall their investments yielded higher return on investments whilst also carrying more risks in the countries they invested in. The interviewees emphasised the importance of long-term viability of most African countries. However, not all countries invested in generated immediate retail profits. The retailers stated that not all countries they have invested in have yielded returns on investment but they possess the potential to do so in future.

A country’s resources are often instrumental during its selection as an investment destination (Surdu *et al.,* 2018). However, some retailers and developers emphasised that there is now a shift from basing investment decisions on the natural resources of a host country to more of opportunity such as the lack of any formal retail and stabilisation of a country.

### *7.1 Challenges*

The political instability limits the ease of doing business with some countries requiring “bribery” of officials to conduct business in those countries. Most African countries are still resource based such as Angola, Nigeria and Ghana; and the current surge (2017) in oil prices has severely affected the GDP of their countries, leading to a decline in their purchasing power.

Bureaucratic procedures in certain African countries, such as the expropriation of profits and requirements for doing business cause raising costs for the companies and reduces their willingness to invest. Transaction costs play a part in driving retail OFDI because of the complex and sometimes very high taxes that some countries charge for the importation of goods into their countries. The nature of the retail businesses and the goods they sell makes it easier for them to establish branches in other countries instead of trying to export their products.

Most of the South African retailers investing in Africa are pioneers bringing formal retail in most countries they invest in. This generates risks, as well such as reluctance of customers to shift from their local informal markets to buying goods at formal retail shops.

For most of the retailers and developers interviewed the lack of infrastructure such roads, railway, telecommunication, internet, water and electricity has little influence on their investment decisions. This is because they mainly invest in major cities, which have better services or having back-up plans such as developing self-sustaining malls equipped with generators and roads to the malls. These make investments more expensive but not impossible for most retailers and developers. A few retailers did, however, highlighted that the lack of infrastructure such as roads and water as an obstacle to investments in certain places in Africa as it limits the geography they can invest in.

The interviews gave prominence to the difference between investing in countries that border South Africa and those further away. This is because, for example, the interviewees state that there is free trade between South Africa and Namibia, Botswana, Swaziland and Lesotho, while customs and taxation of countries further away also often differs much from South Africa.

Understanding the various African regions as well as the individual countries well before investing in them helps investors obtain a detailed overview of the local markets, including insight into the influence of globalisation in these markets. Northern Africa has, for example, a strong European influence. Knowing this enables retailers to tailor their product offerings in the region with a European elegance to have a sustainable business.

### 7.2 *Most efficient determinants*

Determinants such as the business expertise of South African companies; size of the local market; political climate and regulatory framework in potential host countries in Africa are all taken into consideration when deciding to invest in Africa. What seems common among all the interviewees, however, is that a combination of various determinants is deliberated upon by retail firms in their investments decisions with the aim of making profits.

All companies indicated that they currently have plans of increasing and new investments in many countries in Africa. Countries such as Ivory Coast, Ethiopia, Kenya, Tanzania, Nigeria and Zambia were regarded among the major investment destinations for most of the companies interviewed. Their economies are some of the fastest growers in Africa and elsewhere. Nigeria and Ethiopia are the most populous countries on the continent and have a large untapped market potential due to the relatively non-existent formal retail in these countries.

### *7.3 Summary of the research findings*

Pull factors such as the size of the local market, political climate, and a general lack of formal retail in most African countries is attracting South African retailers to expand their operations and invest in Africa. Because a one size fits all approach does not apply in African countries due the inherent cultural and economic differences, each country should be evaluated considering its own and conditions and individual needs.

Some major drivers of retail FDI from South Africa into Africa includes the general expertise of South African retailers in their business operations, as well as market saturation is The level of expertise of South African retailers in relation to other African retailers provides one of the reasons why there is FDI from one developing country to other developing countries. Understanding the influence of outsiders on different regions in Africa is of paramount importance for the interviewees as this helps them in organising their supply chains for their various operations across the continent. It is important to understand transport costs and have control over distribution to reduce the risk of supply shortages.

## 8. SUMMARY AND CONCLUSIONS

The major objective of this research is to fill the gap on South African retailers' investment decisions to some extent. In short, this research tried to understand why South African retailers invest in other countries in Africa. Considerable research has been conducted on Foreign Direct Investment (FDI) internationally although much less exists in the retail sector even more so for developing countries. The ability of South African companies to capitalise on new markets outside South Africa are important positive factors worth investigating. As South Africa is one of the biggest FDI investors on the continent it is most important to evaluate their determinants of Outward Foreign Direct Investment (OFDI). It enables planners and decision-makers to obtain wide-ranging, specific and detailed information about the retail sector.

The current article is unique in that it helps advance the knowledge of the internationalisation plans of South African retailers by performing a cross-case study to explore how and why they increase their internationalisation through OFDI. The research adds informs both public and private discussions of South Africa's foreign economic policies towards Africa, and has practical implications for managers and policy makers. From the results it is evident that internal resources and capabilities of firms are important factors when undertaking retail OFDI. Therefore, retailers need to balance their internal resources and capabilities when entering foreign markets.

Market saturation is found to be a significant determinant of retail investment from South African retailers into Africa. The data collected revealed that South Africa has a highly developed retail market that is already saturated. Avenues for new growth have declined in the country and this leads retailers searching elsewhere for new growth opportunities. There is a shortage of formal retail on the African continent in relation to South Africa's retail sector. South Africa has highly competitive market because of high saturation, resulting in profit margins of retailers to decline.

Market seeking draws retailers to invest in other African countries due to their large market sizes. Countries such as Nigeria and Ethiopia contain the continent's largest populations and have relatively little formal retail for example.

Political stability is an important factor considered by South African retailers when foreign investments decisions are made. How the political climate in South Africa affects investment decisions should also be analysed in detail in future research. Future research can further explore whether the determinants for South African retail FDI are similar to other less developed countries and to what extend it differs in richer countries. The consequences OFDI has in the creation of employment and skills should also receive attention in future research.

Strategic growth is an important motivation for the retailers' engagement in OFDI. The advent of globalisation, expanding international trade and the liberalisation of South African markets led to the entrance of international retailers in Africa. Companies that fail to globalise run the risk of failing due to intense competition from larger companies.

The ultimate motivation is the desire to gain profits. This generates wealth, create jobs and raise income. The above mentioned motives determine South African retail OFDI and are all aimed at the desire to generate more profits to retailers engage in OFDI.

Further in-depth research should investigate the success or failure of South African retail FDI in Africa. Future research may explore the role of incentives in attracting South African retail FDI in African countries and also the importance of South African retail FDI to local economies in Africa. The role of the government and its policies influencing retail OFDI should be examined in future research. A large multi-national sample containing retailers from both developed and less developed countries can be analysed to determine whether they share the same home country determinants of retail OFDI.

Africa is a lucrative market with many opportunities for all types of retailers although these come with a various set of challenges and barriers. South African retailers contemplating investing in Africa must be cognisant of these challenges and evaluate the potential threat before making any long-term investment decisions. Retailers need to understand the African consumer. However, each country needs to be evaluated considering its own conditions and needs. It is advisable for the retailers to establish relationships with local producers in the countries they invest in. Therefore, flexible strategies adaptable to different country requirements must be adopted. Cultural differences should also receive adequate attention.

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