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Transnational Telecommunications Capital Expanding From South Africa into Africa: Adapting to African Growth and South African Transformation Demands

Since 1994, Multi-National Corporations (MNCs) operating in post-Apartheid South Africa have encountered exciting economic opportunities in a democratic country eager for foreign direct investment (FDI). They also discovered a country that was reconciling with the world after years of isolation, thus offering great opportunities to expand their operations elsewhere in Africa. But while the booming telecommunications market opened doors for new growth in South Africa and beyond, the new democracy also placed regulations aimed at advancing the goal of racial and socioeconomic transformation on all companies operating in the country.

With the liberalization of mobile markets across Africa, investment opportunities for fast-moving local and international telecommunication companies have also opened up. This growth in telephony has been largely fuelled by mobile cellular communications firms, as well as foreign capital's drive to tap into new cellular markets. In 2003, revenues in the African mobile communications sector broke the US$10-billion barrier, with profits estimated at more than US$1 billion. (ITU 2004) The remarkable growth of telecommunications in the region has generated immense benefits for the operators (such as South Africa's MTN, France's Orange, Middle East's Celtel) and their major international suppliers of technology (such as Sweden's Ericsson, Germany's Siemens and China's Hua Wei).

Key issues that confront the expansion of businesses from post-Apartheid South Africa are, firstly, the kind of impact South Africa's transformation is having in Africa through the expansion of foreign MNCs, and secondly, what can be learnt from this renewed economic engagement. Focusing on a single case study, this paper examines the way that the African expansion of Ericsson, a Swedish telecommunications multinational, has been shaped by post-Apartheid transformation imperatives in South Africa. Using South Africa as a regional hub, Ericsson has expanded from South Africa into the African telecommunications market. I chose to highlight this firm for several reasons: its major global market share as telecommunications infrastructure provider; its return to post-Apartheid South Africa after being forced to leave in the 1960s; its position as the leading provider of infrastructure for the South African – now Pan-African – operator, MTN; and its fast-growing market share in the continent. It is my contention here that the story of Ericsson in post-Apartheid South Africa is illustrative of how MNCs are responding to South Africa's Broad-Based Black Economic Empowerment (BBBEE) strategy. The BBBEE[1] objectives that characterize the post-Apartheid transition have affected the way this multinational operates in the continent. By looking at Ericsson's regional growth in post-Apartheid South Africa, my aim is

twofold: to examine the dynamics of international telecommunications capital expanding in Africa from South Africa, and secondly, to understand how this company is responding to South Africa's transformation demands.

In the first part of the paper, Ericsson's expansion is contextualized in terms of the burgeoning telephony industry in Africa. The second part shows how Ericsson's re-entry into South Africa is part of the larger flows of FDI into SA in the 1990s. As a key element in South Africa's economic transformation, (BB)BEE is an important imperative placed on foreign MNCs by the South African government, discussed in the third section. This part of the paper also makes the historical link with other attempts at black empowerment on the continent, particularly in Nigeria and Ghana. The fourth section reports on the case of Ericsson – its experiences and challenges encountered in this combination of localization and expansion.

I argue that, in terms of black empowerment, the company distinguishes between its South African and its other African operations, and presents a different rationale for the way it operates in these divergent contexts. For most managers, South Africa, given its history, needs racially-based transformation in ownership while other African countries do not. A different strategy is therefore required in these different contexts, with transformation being a priority in the South African context. This approach has organizational implications for the way the company expands, operates in South Africa and is illustrative of the dynamics of international telecommunications capital in the region. The final section of the paper reflects on how regional dynamics are also influenced by the organizational strategies of foreign, not only South African, multinationals.

Drawing on secondary information on empowerment initiatives in Africa, this paper provides background information on the expansion of mobile telephony on the continent. Primary data were also collected from representatives of Ericsson, through semi-structured interviews with fifteen international managers or directors. Six were women, nine were men, ten were Europeans and five were Africans. I interviewed managers based at the Johannesburg head office, as well as those based at the regional hubs and country offices in Senegal, Kenya, Nigeria, Zambia, Botswana and Ghana. Managers based in South Africa had a broad regional exposure as they spent at least 50 percent of their time constantly on the move managing their accounts and costumers around sub-Saharan Africa. Only two of the interviewees manage only South African business. This information as well as the secondary data on Ericsson illustrates the company's regional expansion and its responses to the BBBEE strategy in South Africa. These interviews focus on the perceptions and experiences of managers and they illuminate the Ericsson story and its relevance to the pivotal role played by foreign multinationals operating out of South Africa.

FDI and Telecommunications in Post-Apartheid South Africa

According to the United Nations data, South Africa is amongst the leading recipients of foreign direct investment (FDI) in Africa. Notably, it is also one of the largest investors in many other sub-Saharan countries.[2] While post-Apartheid South Africa has followed a pattern of liberalization of its economy, government emphasis on FDI can be explained not only by the changing nature of the global economy, but also by the political economy of transition, since attracting capital from overseas has become an

attractive strategy for the state.[3] With this intersection of FDI and transformation within South Africa's post-1994 political economy, the role of MNCs in the country's development has become increasingly relevant. Although there is very little analysis of the role of FDI in the racial transformation of societies, the abundant literature looking at the links between FDI and development that includes socioeconomic improvements, provides a framework to examine the role of MNCs in South Africa's transformation.

According to the Organization for Economic Co-operation and Development, the flow of FDI to developing countries worldwide now overshadows official development assistance by a wide margin, highlighting the need to address the use of FDI as a tool for economic development.[4] Both the 2006 Economic Report on Africa by the United Nations Economic Commission for Africa and NEPAD (New Partnership for Africa's Development) advocate that FDI is a key to solving Africa's economic problems and a major stimulus for economic growth.[5] But investment flows to Africa have declined steadily. In the 1970s, Africa accounted for 25 percent of foreign direct investment to developing countries. In 1992 it only accounted for 5.2 percent whereas in 2000 it received 3.8 percent of the total FDI to the developing world.[6] FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development, according to these agencies.[7] All of these factors are seen as contributing to economic growth and considered a potent tool for alleviating poverty in developing countries.[8]

However, whether and to what extent MNCs facilitate such positive spillovers varies according to the specific context and from sector to sector. According to Mwalima, in many situations MNC's activities reinforce dualistic economic structures and acerbate income inequalities as they tend to promote the interests of a small number of local factory managers and relatively well paid modern-sector workers against the interests of the rest of the population by widening wage differentials. Similarly, they tend to worsen the imbalance between rural and urban economic opportunities by locating primarily in urban export enclaves and contributing to the flow of rural urban migration.[9] As Klein, Aaron and Hadjimichael explain, even some expected benefits may prove elusive if, for example, the host economy, in its current state of economic development, is not able to take advantage of the technologies or know-how transferred through FDI.[10]

Acknowledging that MNCs could use their economic power to influence government policies in directions that usually do not favour development, Mwilima emphasises the responsibility of governments to set the appropriate conditions for FDI to contribute to development goals rather than just generating profits for the foreign investor (Mwilima).[11] Fundamentally, the magnitude of the benefits from FDI depends on the efforts of host countries to put in place appropriate frameworks, according to authors such as Klein, Aaron and Hadjimichael.[12]

A more recent and controversial debate within the literature is on the role of MNCs in alleviating poverty. For instance, C. K. Prahalad defends the idea that by designing and developing products and services specifically catered for the needs of the poor, and investing in poor countries, such companies contribute to poverty alleviation. Prahalad

argues that although the world's poor are low in income, they are high in number – and therefore represent a huge market opportunity for MNCs.[13]

The idea of promoting socioeconomic change by reaping profits from those at base of the economic pyramid may sit uncomfortably with more developmental social goals. However, the expansion of mobile telephony into rural Africa demonstrates that as the big telecommunication companies develop products and adapt services to cater for the needs of the poor – Africa's majority – they are providing a much needed service. Major operators attending the 2007 AfricaCom conference agreed that their growth potential in Africa lies in making mobile telephony more accessible and affordable for the huge untapped market of lower-income consumers, particularly those in rural areas. Safaricom's rapid expansion of mobile network coverage in rural Kenya since 2000 is a case in point. The private operator, driven by profits, is providing telephony to a broader section of the population.[14] As an IT research company explains, operators in developing markets have successfully developed strategies and business models enabling them to make healthy profits on low margin costumers.[15] Although theirs is clearly a profit-driven strategy to increase market share, MNCs simultaneously provide an important service to Africa's poor communities – through mobile communications, banking for the un-banked, and community phones. Although the provision of these services needs to be scrutinized and regulated by governments, they are certainly responding to a need amongst African citizens.[16]

MNCs are active in the most dynamic sectors of Africa's economy. They control significant employment, capital and technology which in turn gives them tremendous influence on development. Many MNCs are active in extractive industries, and therefore are often heavily scrutinized in Africa and elsewhere. However, the telecommunications sector is generally perceived as having a positive impact on the development of host economies. This perception places a telecommunications MNC such as Ericsson in a comfortable position within the African FDI landscape.

According to Gray, it is not enough to look at the spread of mobile telephony to understand the impact that the mobile phone has made. Besides providing many rural areas with communications technology for the first time, the mobile phone has enabled some users to participate in the broader economy. In Uganda and Kenya, for example, farmers can now use their mobile phone to find out about the latest crop prices in related markets. Instant and direct access to market prices increases their revenues, provides them with valuable information to negotiate, and protects them from being cheated by middlemen. In Tanzania, two thirds of a survey sample said the use of mobile phones has meant a large saving in travel time and cost, and has helped small businesses operate more effectively. In South Africa, 62 percent of small businesses affirmed that they had increased their profits as a result of the mobile phone.[17]

Telecommunication MNCs will play a major role in Africa's connectivity, access and use of information and communications technologies (ICT) over the coming years. Although according to *The Economist,* Africa currently accounts for around only one percent of multinational companies' global sales – mostly from key markets like South Africa – the continent also represents the 'last frontier' for companies to achieve high growth and enjoy good return on investment.[18] Therefore, the continent's ICT development will depend greatly on the ways in which these resources are used and controlled by both private and public capital. The way in which major operators

implement business strategies, and African governments regulate both national and foreign telecommunications capital, will be particularly important.

Access to ICT has historically been very limited in Africa. By the beginning of 2001, the continent – home to around one in eight of the world's people – had just under one in 50 of the world's fixed line subscribers, one in 60 of the world's mobile cellular subscribers, one of 70 of the world's personal computers and only one in 80 of the world's Internet users.[19] However, the African telecommunications landscape has been rapidly changing over the last two decades, transformed by new investments in mobile telephony. While it took more than a hundred years to install 28 million fixed telephone lines in Africa, this technology has since been overshadowed by the stunning growth of the mobile industry. The number of mobile phones on the continent overtook that of fixed lines in 2001 and now outnumbers fixed lines by nearly five to one, with 137.2 million mobile subscribers in 2005. In 2003, almost 70 percent of all African telephone subscribers used mobiles. The ratio is even higher in Sub-Saharan Africa, where nine out of every ten subscribers with access to a phone use a mobile. This is the highest ratio of mobile to total telephone subscribers of any region in the world.[20] It is estimated that by the end of 2004, over 60 percent of the population in Africa was within range of a mobile signal.[21] For many Africans today, mobile is the only form of telephone communications they know – and perhaps may ever know.

However, and notwithstanding the benefits of the mobile boom, the high amount of money that households put into mobile services remains problematic. According to the ITU research, persons in countries such as Namibia, Ethiopia, and Zambia spend more than 10 percent of their monthly household income on telephone services. Households in South Africa and Tanzania spend 6.8 and 5.9 percent, respectively. This compares to an estimated three percent in most developed countries.[22]

South Africa boasts a number of attractions for foreign investors. According to Business Map Foundation data, the country has a long history of investments by foreign MNCs which are an important source of new capital flows in recent years. BusinessMap's findings show that the country compares reasonably well in institutional aspects of the investment climate. The factors 'scoring' the best in terms of positively affecting investment decisions were the quality of South Africa's infrastructure, the stability of the business environment, the economic policy framework, political stability and the rate of economic growth.[23] However, companies operating in South Africa also expressed concerns over the country's transformation process, specifically the strategy for Black Economic Empowerment (BEE).

Transformation and BEE in South Africa and Africa

The 1994 elections in South Africa marked the end of minority rule and the beginning of a new era of political, economic and social transformation. While political power shifted from white to black hands without any systemic collapse, the economy remained widely dominated by the white minority.[24] Racial socioeconomic transformation post-Apartheid has proven to be an enormous challenge, and has remained a major commitment for the ANC government. The Broad-Based Black Economic Empowerment (BBBEE) strategy is the cornerstone of this process, and it directly affects both national and international companies operating in South Africa. The central aim of this empowerment strategy is to overcome the racial and social

divide left by Apartheid by promoting the advancement of blacks within the economy. Specific aims of the strategy include the development of a visible black middle class, the improvement of skills within the black population, and increasing black ownership and management of business and property.

Discussion about increased black participation in the mainstream South African economy surfaced in the mid-1970s. After the 1976 riots, 'black advancement' was formulated as a set of measures to be implemented by multinational corporations to improve the conditions of employment of their black employees through the so-called Sullivan Code. From 1990, the term 'affirmative action' was used to refer to strategies to restore 'historic imbalances' in the South African economy, but it was soon replaced by the concept of 'empowerment'.[25] Since then, there have been a few such race-based empowerment initiatives. The initial emphasis (early 1990s) of black empowerment (then known as BEE) was overwhelmingly on equity transfer through government-sanctioned BEE business transactions. However, these 'BEE deals' were criticized for benefiting only a handful of individuals. Growing criticism and dissatisfaction with BEE policies provoked a re-examination of the strategy and of the true meaning of Black Empowerment.[26]

What emerged was the concept of BEE as a broader process of involving black people in the economy, rather than simply transferring assets. This approach is encapsulated in the government's current Broad Based Black Economic Empowerment Strategy (BBBEE). The revised strategy entails a scorecard system and returns 'empowerment' to its true meaning, namely to encompass: affirmative action (or 'employment equity'); skills development; training; encouragement of small black business through targeted procurement polices; and social investment.[27] The (BB)BEE Codes, first released in 2005, serve as guidelines for the implementation of the BBBEE Act (2003) and identify three kinds of components and beneficiaries. (See Table 1).

Table 1: Components and Beneficiaries of BEE

Component	Beneficiary
Direct Empowerment	Equity holders, executives and other owners and managers of economic resources
Human Resource Development	Employees and job seekers
Indirect Empowerment	Suppliers, communities and other relevant external stakeholders

Source: Department of Trade and Industry. The Codes of Good Practice on Broad-Based Black Economic Empowerment. 2004

The measurement of empowerment across all sectors is guided by the so-called 'Generic Scorecard', which identifies seven elements of transformation. Each element is weighted and allows companies to score points by reaching certain targets. A company's score out of 100 determines their level of BEE contribution; so a 'Level One' company is one that meets 100 percent or more of the elements, while a 'Level Eight' company earns just over 30 percent of the total possible score, and is the lowest level before being considered non-compliant in BBBEE standards. However, because no institution has been yet recognized as an accreditation agency, a uniform and consistent scoring process makes verification of a company's status difficult.

Table 2: The Generic Scorecard

Element	Weighting
Ownership	20 percent
Management and Control	10 percent
Employment Equity	15 percent
Skills Development	15 percent
Preferential Procurement	20 percent
Enterprise development	15 percent
Residual (Social Economic)	5 percent

Source: DTI Codes of Good Practice

While South Africa's government plays a central role in providing a framework for (BB)BEE, each company is responsible for its own implementation and compliance. Enforcement has been left mainly to the forces of the market, with the private sector playing a leading role particularly through the formulation of industry transformation charters. Since one set of rules cannot cover all circumstances in all industries, sectoral charters cater for the variety of empowerment requirements, depending on sectoral business environments and government priorities. The sector charters gave more certainty to the process and have enabled companies to measure their own progress in BEE terms by establishing more specific benchmarks per industry.[28]

Indeed as Businessmap explains, empowerment is primarily driven by government's enormous buying power through the procurement of goods and services, particularly in ICT, health, education and construction. Companies that do not satisfy certain empowerment requirements will not secure contracts to supply the State. Although the scorecard and charter apply also to foreign companies, enforcement is somehow more flexible. In the past, where government has sought to bring (usually international) equity partners into what it regards as strategic assets, such as ICT, the empowerment requirements on the partner have been constrained. For example, when 30 percent of State telecommunications utility Telkom was sold off, the bidders were not under any obligation to have empowerment companies as equity partners in their consortia. Rather, the State took responsibility for transferring some of the equity ownership to disadvantaged South Africans through a retail offering. The empowerment obligations on the buyers in the Telkom deal centred on training and affirmative action, with a small percentage (three percent) set aside for an empowerment entity.[29]

Although the empowerment path chosen by the ANC in South Africa is particularly responsive to the country's history, similar initiatives have been tried elsewhere in Africa. A similar process emerged two generations ago in decolonising West Africa. At that time, as Decker explains, foreign companies encountered rising pressure to change the composition of their workforce and to promote local ownership and management of their operations.[30] In 1960s Nigeria, according to Amao, the government's perception of foreign MNCs was laden with distrust. Leaders perceived the process of *indigenization* as a way of asserting the nation's right to exercise sovereignty over natural resources in their territory, regulate foreign participation, and

exercise the right to naturalize such investments.[31] From 1969, the government forced Nigerian equity ownership as a mechanism to retain profits in the country and also mandated Nigerian ownership and management control, particularly over manufacturing firms. It was a policy designed essentially to 'promote an indigenous capitalist class'.[32]

But in reality, these indigenization efforts did not broaden the basis of Nigerian participation in the economy. Technical, entrepreneurial and managerial expertise among average Nigerians remained relatively limited, while an élite of Nigerian businessmen and the Nigerian government benefited from that transfer.[33] As admitted in the 'Report on Vision 2010 Economic Direction', the process of indigenisation did not generally shift broad economic control to Nigerians, even as it did reduce foreign direct investment and interest in Nigeria.[34]

A similar process was evident in the Ghana. As Decker explains, the lack of representation of Ghanaians in high-ranking positions in a private sector dominated by foreign firms made companies vulnerable to public criticism and regulation. The process of *Africanisation* – training and promoting black African staff to managerial levels – became the key theme of staff development and recruitment from the 1950s up until the 1970s in the region.[35]

Contrasting with other African experiences of economic transformation, (BB)BEE in South Africa has not been aimed at terminating foreign control of business. I would argue the role of the state has also been limited. The South African strategy, according to Verhoef, has entailed a collaborative approach to empowerment, and foreign or 'alien' investors have not been driven out of the economy by means of timetables for implementation. Also, numerous attempts have been made to sustain confidence and cooperation internationally and from within the South African business sector, including foreign MNCs. The crux of South Africa's empowerment policy has not been the expulsion of foreign and white investors, but rather the integration of the black majority into the mainstream economy by facilitating the transfer and control from white South Africans to black South Africans.[36]

However, from the beginning of South Africa's (BB)BEE rollout, the lack of a clearer regulatory framework for transformation affected the confidence and cooperation with MNCs. The MNCs' initial reservations towards the BEE strategy soon translated in a lack of support for this policy. Business Map interviews with 25 MNCs in South Africa illustrate these firms' confusion and concerns about BEE compliance. Resistance existed particularly in relation to the transfer of equity, as foreign companies did not want to 'give away' shares in their companies. While BEE did not involve actually giving away part of the company, in most cases when undertaking a BEE deal, the full economic value of the percentage sold was not to be received. There was either an actual discount, or shareholders were required to subsidise the deal, most often through financing structures facilitated by the firm selling the equity.[37]

So while the collaborative and consultative nature of the implementation of new broad-based black empowerment efforts could set the programme in South Africa apart from the general trend in African states,[38] it remains problematic for an MNC to be fully compliant and contribute meaningfully to development and transformation through BEE, as we hope to illustrate in the case of Ericsson.

From South Africa to Africa: Getting the 'South African Way' Into Ericsson

> My role has been to get the 'South African way' into the company – (Ericsson's manager for (BB)BEE)

While post-Apartheid South Africa has been eager to welcome international capital, it is also fully committed to the country's transformation, and expects businesses to comply with its Broad Based Black Economic Empowerment (BBBEE) strategy. Ericsson has re-structured its local operations to better respond to the challenges of dealing simultaneously with the continuous market growth in Africa, while also participating in South Africa's transformation. In 2008 the company divided its operations into two entities: Ericsson South Africa (ESA) and Ericsson Sub-Saharan Africa (ASL). The split of the company apparently responded to two main issues: one, to improve their BEE profile so that they can access more business within South Africa; and two, to have separate structures for their South African and regional businesses outside of South Africa. Under the new setup, the regional company – not bound by the same BBBEE restrictions – will not invest resources and time complying with South African requirements that do not provide a direct benefit to the African business. The regional business will also be better positioned to return more of its profits to its global shareholders.

According to the company's official announcement, the restructuring of Ericsson South Africa responds to the need to establish a dedicated team to support its South African market within a context of growth and increasing competition. This approach has been also implemented in Nigeria, Senegal and Kenya. The local company is to focus entirely on the South African market and will continue to be an entity driven by local skills, wholly embracing (BB)BEE and transformation. In parallel, Ericsson sub-Saharan Africa will provide support to costumers across the rest of the market unit as well as costumers in South Africa. Both entities will continue to reside in the current Johannesburg offices.[39]

Ericsson's operations in South Africa generate an annual turnover above R35 million. Under South African (BB)BEE regulations, this means the company must comply with all seven elements of the scorecard, be verified once a year (according to the codes), and follow the ICT Charter as a guideline. As of September 2008, the company's BEE score stood at 73,72 percent, which placed them on a 'Level Four' of BBBEE recognition. Ericsson scored the maximum score on Preferential Procurement, Enterprise Development and Socioeconomic Development. Ownership is also high (18,56 out of 20), followed by Employment Equity (10,76 out of 15). However, the company scored poorly in Management Control (5,44 out of 10) and particularly in Skills Development (2,09 out of 10).

Ericsson is a global organization which dates back to 1876 and operates in over 140 countries, of which 43 are in the Sub-Saharan Africa Market Unit (MUSA). Its development as a multi-national corporation with subsidiaries in other countries dates back to its early years of operation. Today, the company serves more than 600 customers in over 175 countries. Their main sales by business activities for 2007 were Mobile Networks, Professional Services and Fixed Networks. According to the company's annual report, in 2006 it deployed several rural networks – bringing its technology to more people in more parts of the world than ever before. Net sales for the

year 2007 were US$2.6 billion with a global employee headcount of 74,011. The company divides its reporting by five regions: North America; Latin America; Asia; Western Europe and Central/Eastern Europe: and, finally, Middle East and Africa.

Ericsson's history in Africa dates back to the nineteenth century. The company began operations in South Africa around 1897. While it continued some operations elsewhere in Africa during the twentieth century, the company's presence was interrupted in South Africa in 1960, when the Swedish government prohibited companies from doing business in the country during Apartheid. In addition, the company's business model changed dramatically since the 1980s – when its operations throughout Africa were managed from offices in Sweden, Spain and Italy – as the telecommunications boom called for a more active local presence on the continent. When Swedish and international limitations on business in South Africa eased in the 1990s, Ericsson returned to the new market of a democratic and post-Apartheid environment. South Africa's advanced infrastructure, emerging economy, and corporate footprint were all central for Ericsson's success in the country, and for its regional expansion in Africa.[40]

Its breakthrough started in 1994, when South Africa licensed cellular telephony. Ericsson became then the sole supplier of GSM network infrastructure to MTN South Africa. Ericsson quickly launched operations in Johannesburg and soon after the company fanned out into the rest of sub-Saharan Africa. Customers in Africa now include major pan-African mobile operators such as MTN Group, Celtel, Vodacom, and Econet Wireless Group; large cellular networks such as Safaricom in Kenya; and fixed-line operators such as Namibia Telecom, Botswana Telecommunications Corporation and South Africa's Telkom. Currently, 25 percent of the company's business in South Africa is held by local entities: The Sisa Bikitsha Family Trust owns five percent, while 8 Mile Investments (another small entity) owns 20 percent plus one vote/share. Two out of the five members of Ericsson's local board are so-called previously disadvantaged individuals (PDIs).

After Ericsson re-entered South Africa in 1994, the focus of its Johannesburg office was on operations within South Africa, particularly to building MTN's local network. However, MTN's African expansion and other business opportunities in the region meant Ericsson secured five new contracts between 1996 and 1997: two in Botswana, one in Zimbabwe and one with MTN Uganda and one with MTN Rwanda. In 2002, the Market Unit for Sub-Saharan Africa (MUSA) was established in Johannesburg. The Market Unit manages a growing number of countries in Sub-Saharan Africa with operations concentrated on sales, marketing and services. There are now four hubs: Kenya (servicing East Africa); Nigeria (servicing English West Africa): Senegal (servicing French West Africa); and South Africa (servicing the Southern Africa region).[41] Although Ericsson's hub in Senegal is smaller and less structured than the office in South Africa, it has grown quickly: it opened with five staff in 2007 and in 2008 will hire about 100 employees to support 18 countries in that region. South Africa is also the head office of the Market Unit for all of Sub-Saharan Africa, serving as a regional hub, and hosting a pool of specialists who constantly move around countries.[42]

MTN provided the major local business opportunity for Ericsson, but the company has not been as successful with other South African customers. According to some managers of the Telkom account, this has been a complex customer both in the early

and late stages of transformation. Initially, as Telkom's white management structure remained tied to international companies who were not forced by their governments to leave South Africa during Apartheid (such as Siemens), Ericsson found itself in a disadvantaged position. More recently, as management became more (BB)BEE driven, actively pushing for a more representative managerial work force, Ericsson's transformation achievements (such as ownership) have fallen short.

The company also remains very active in countries such as Botswana, Tanzania and Mozambique, and is busy opening new country offices such as Zambia, Madagascar and Uganda. The opening of Ericsson's new office in Madagascar was driven from South Africa and responds to the need to be closer to customers. In this case, it also responds to the need to provide additional support to emerging operators, such as Madagascar's Telma. As explained by two key account managers in Madagascar, this has been a challenging experience due to the speed of the market growth; for the first six months of Ericsson's presence in the country, 50 people stayed at a hotel in Antananarivo working from the Telma office. It is also challenging due to the relative immaturity of the client company. As Ericsson's managers explain, while in other markets Ericsson's role ends when the equipment is sold, in Madagascar, as with many other operators in Africa, the company often has to go step further constantly helping operators to run the networks.

Similarly, the mid-2007 opening of the Zambia office was motivated by the need to be closer to the client company, Celtel. Managers in Zambia also support the company's business in Malawi and facilitated the opening of the Uganda office in early 2008. The speed and dynamics of this expansion are illustrative of the flexibility and rapid growth of the sector and the company itself.

Managers' perceptions, managers' realities

The experience and perceptions of managers working across the region speaks to the complex location of South Africa within Africa and the mixed ideas and representations of race and nationality. Managers were perceived differently on the grounds of being – or not being – Africans. As four managers highlighted, often the perceptions were contradictory; while local customers expected Africans represented within the company's workforce and at certain customer meetings, they preferred Europeans to discuss core technical issues and expected Europeans to provide solutions, as white faces inspired trust in the quality of the products and services of the company.

All managers hesitated to define South Africa as part of Africa, while 11 out of 12 agreed that the country, as an economic power in the region, needs to play a leading role in the development of its African neighbours. South African managers were particularly supportive of this approach, and indicated that they saw their country as an example to be followed in the continent. All managers were proud to work for the company and to be part of the telecommunications industry, particularly in Africa, and 11 out of 12 believed that their company was a better corporate citizen than their competitors in Africa. All managers interviewed had a good knowledge on the concept and importance of Corporate Social Responsibility (CSR).A full 10 out of 12 believed that MNCs had a role to play in the development of host African economies, most pointing out that their business already contributed to developmental efforts.

Over the last few years, as Ericsson's regional structure has been transformed into an integrated system, the regional hubs serve as resource centres, allowing Ericsson's business to be closer to customers. While the hubs are independent, they are fairly integrated with the head office in Johannesburg. According to Ericsson's managers, the establishment of the Market Unit for Sub-Saharan Africa (MUSA) in Johannesburg was a rational decision based on the availability of infrastructure, good connecting flights, a skilled workforce and a friendly environment for expatriates in the city.

Some managers calculated the company's growth at about 300 percent between 2003 and 2007. The company opened with 70 employees, had a headcount of 240 employees in 2002 and now 627 employees sit in South Africa. This does not include the more than 700 employees working at the other countries within the Market Unit. As the company has been rapidly expanding, all managers highlighted the overwhelming increase of workload; some even noted the growth probably surprised top management, as the company sometimes struggles to keep up with business. Most of the international managers who came to South Africa temporarily have had to extend their contracts unexpectedly and expand regions of operations at an incredibly fast pace. Managers are required to be constantly on the move in between different countries and dealing with an increasing number of accounts.

Although the expectation of all managers is that the office for the market unit will remain in South Africa, a top manager of the regional business said this has been questioned following past frustrations with the way certain aspects of the South Africa's (BB)BEE strategy have been managed. A main frustration was the lack of ICT knowledge and business commitment demonstrated by some of the new shareholders. The fact that meetings were often used to discuss empowerment administrative issues and not business concerns frustrated some members of the board and management. Managers pointed out that South Africa became a marginal source of profits, with the opportunities for the fastest growth located elsewhere in Africa. This put Ericsson and its Market Unit for Sub-Saharan Africa in an odd situation as the country office clearly became the resource centre for the rest of the region with most business activities and income coming from accounts in other African countries and not from South Africa. Although any relocation seems improbable in the near future, the company is indeed transforming, both as a response to market needs in the region and more increasingly to South Africa's transformation demands.

According to most managers, the company's (BB)BEE strategy has not been replicated in its operations elsewhere in Africa, since it is not required nor enforced elsewhere. Importantly, more than half the managers interviewed said they saw no reason for the application of such a strategy in other African countries. Even if all interviewees strongly agreed that (BB)BEE was the right thing to do, they also emphasized that it was only applicable to South Africa given its particular history of Apartheid. Remarkably, South African managers were much more supportive of the need to apply (BB)BEE in other African countries.

Under the scorecard's assessment, Ericsson's weakest showing is in its skills development programmes. A clear link between (BB)BEE and skills development was only identified by two managers, and although all managers agreed on their personal power to contribute to skills development, all of them said they lack the time to embark on such development. The managers were all critical of the lack of leadership from the

company's Human Resources department in this regard, even if they also pointed out that it is ultimately up to them to make any skills transfer possible. The company has embarked in 2008 on a Skills Development Project. They hope to develop a better strategy and find better mechanisms to capture and report on this element. Even if they spent major resources the previous years they did not have the mechanism in place to track and monitor this expenditure. They have now appointed a Skills-Development Coordinator and started collaborating with the Skills Education Training Authorities (SETA).

Employment equity is a second (BB)BEE element that Ericsson needs to improve, according to the scorecard, though the company's score has improved since the division from 7,63 to 10,76 out of a possible 15. Some of the managers surveyed said the company is committed to this element, but also feels committed to follow corporate policy. One top regional manager pointed to 'the Swedish way' of selecting the best person for the position based on their personal capacity, regardless of their colour.[43] Some managers added that complying with this Employment Equity element has been challenging, due to South Africa's scarcity of skills and heavy competition between existing companies for the small number of qualified individuals. As the BEE manager explains, it is challenging to get the right numbers of employees and to plan for skills development around these resources when poaching between companies is so common. In her view, compliance with employment equity is something good, but without a strong skills development foundation it will fail and only a small pool of 'untouchables' who are always on the move will be created.

Most challenging for Ericsson in the employment equity element has been the effect of the rapid growth of telecommunications in Africa, as this has been managed from their previously unified office in Johannesburg. As many expatriates managing the growing regional market are housed in the South African offices – even if they are not dealing with the SA business – they automatically affected the statistics on previously disadvantaged individuals (PDIs) employed at Ericsson before the division. Furthermore, their overall EE score is set to worsen, as a growing number of international experts are being brought in to South Africa to manage the company's growth in the region. Although the company's recent regional growth has benefited from its location within South Africa, Ericsson's compliance with empowerment regulations is not having a direct impact outside South Africa's borders.

Notwithstanding the company's good score for BBBEE indicators on business ownership, this element remains problematic. According to a top manager, the transfer to local ownership remains a challenge due to the lack of resources from blacks, as well as so-called 'fronting' practices that have been created to exploit the (BB)BEE policies. These 'fronting' businesses make it hard for companies like Ericsson to find shareholders who could both add value to the business while truly contributing to broad-based empowerment. In some managers' view, the broader black population of South Africa is not benefiting from the transfer of ownership because very few people have the money to invest in the industry.

Furthermore, while BBBEE entails a more comprehensive approach to black economic empowerment, perceptions of (BB)BEE among the company's managers – and the business's response – still concentrate on ownership issues. All managers interviewed identified the transfer of ownership as the cornerstone of the strategy.

Only four out of 12 identified the strategy as a programme to address the imbalances of the past and to distribute wealth in a more fair way. Notably, only two managers interviewed included the broader elements of BBBEE, such as preferential procurement, in their definition.

Conclusion: Ericsson's BEE transformation and regional implications

Under Ericsson's newly divided South African and regional structure, the Sub-Saharan Africa office managing the African market will still remain a South African registered company, and will need to comply with Department of Labour requirements on employment equity and skills development. However, it will not need to meet the requirements of the five other elements of the scorecard. Consequently, because local shareholding applies only to the company doing business in South Africa, the profits for the BEE shareholders will most certainly be reduced significantly, as dividends will now exclude the fast growing African market.[44] Under this new structure, local shareholders will be under greater pressure to improve business within South Africa if they want to keep benefiting from high dividends, while Ericsson could send more profits back to Stockholm for distribution to global shareholders.[45] Overall, as the BEE profile of the regional entity will be irrelevant to their customers outside of South Africa, the pressure to comply will be minimal for this entity.

Although Ericsson could certainly be criticized for the decreased dividends for the local shareholders, this is not likely to have much impact on their contribution to broad empowerment within South Africa. Although South African shareholders will no longer reap the benefits of the African telecommunications growth, they will still gain from the South African operations. Furthermore the company is now looking at increasing the local ownership for the South African entity through an employee shareholder scheme[46] and has increasingly become more consistent with its skills development strategy. As the South African entity is under greater pressure and now greater freedom to improve its BEE score, it could be expected that they will be more committed to local empowerment. Nevertheless, at this point in time these are just assumptions and the real impact of the split could just be evaluated in the years to come.

Concluding remarks

The combination of African growth in the telecommunications sector, the power of an ICT multinational, and the (BB)BEE regulations within South Africa are not providing financial gains for regular Africans, are not affecting the operations of MNCs in a significant way, and have not provided broad economic transformation within South Africa. South Africa boasts a number of attractions for foreign investors, placing it in an advantage position in the African context. The dynamics of telecoms in Africa and of Ericsson's regional operations in and operating from South Africa suggest that there are several links between South Africa, international capital, and Africa's development that require further research. A thorough evaluation of (BB)BEE's impact – especially of local ownership, and the resultant generation of profits for a small group of shareholders – is required, particularly for MNCs based in South Africa and rapidly expanding into Africa.

Although the economic importance of MNCs has been identified by several African governments over the last decades, governments seem to be failing in the implementation of mechanisms that envision a broader contribution from these companies to the positive transformation of host economies. Neither indigenization nor Africanization experiments seem to have provided a broader framework to facilitate transformation through the systematic transfer of knowledge, development of smaller enterprises and contributions to social and economic upliftment as the BBBEE does in South Africa, even if not specifically aimed at MNCs. As transformation initiatives seem to be broadly supported when there is a clear justification for it, like South Africa's history of Apartheid, any efforts for MNCs to comply with (BB)BEE or any other local regulation need to be enforced through a combination of instrumental elements (provide profit) and ethical ones (is the right thing to do). Without a combination of these two, they are unlikely to translate into sustainable change.

Notwithstanding government efforts in South Africa to make its (BB)BEE strategy more comprehensive, the focus on equity remains. This has diverted the attention away from the so-called 'soft issues' of economic empowerment, such as the development of human capital, which are central for long-term sustainable development and where MNCs have a central role to play. The fact that all managers acknowledge their power to have an impact on host economies (through, for instance, skills development), suggests that any meaningful transformation in South Africa and in the continent requires the buy-in from management. It is human agency that in the end will facilitate the means and resources for transformation.

Ericsson's split of its South African-based operations into two separate companies, as well as its rapid expansion in Africa, demonstrates the great flexibility of capital to adapt to local realities. It also shows that African countries still need to learn how to simultaneously collaborate with and regulate capital, particularly strategic capital in dynamic sectors, such as ICT. While MNCs find creative ways to avoid extra costs on their operations and on their capacity to improve profits, African countries still struggle to regulate capital's behaviour to serve local needs and benefit from the wealth of the continent. The injustices of a racially-divided colonial past probably still dominate public mindsets and policies, and this may prevent states to envision innovative long-term empowerment strategies that are needed for transformation and development. If empowerment efforts are guided by the belief that the 'colour' of capital is what matters and not the way in which it behaves, this will be highly problematic for achieving socioeconomic change in South Africa or elsewhere. The difference between being a 'black' and an 'empowered' entity needs to be emphasized in the African context for real transformation to take place. All capital – black, white, yellow or blue – needs to be responsive to development needs.

In a capitalist twenty-first century, the first priority of international capital and MNCs is to maximize profits, even if in the case of ICT, it also has a secondary outcome of contributing to development through growth and innovation. On the other hand, a key role of governments is to successfully regulate this capital and maximize this growth and innovation in ways that benefit the majority of its own people. Citizens also have an important role to play in holding both capital and governments accountable. If capitalism has broadly reduced citizens to consumers, citizens must

then become central forces of change through their power as consumers and shareholders.

Notes

1. BBBEE refers to the strategy, BEE refers to the strategy as it was previously called or to the generic notion of economic empowerment of blacks and (BB) BEE when I refer to a situation that relates to both.
2. UNECA (2006). 'Economic Report on Africa; Capital Flows and Development Financing'. United Nations Economic Commission for Africa, United Nations Publications. Available online, URL: www.uneca.org/era2006/
3. Carmody, P. (2002) 'Between Globalisation and (Post) Apartheid: the Political Economy of Restructuring in South Africa', *Journal of Southern Africa Studies,* Volume 28, Number 2, June.
4. Organisation for Economic Co-operation and Development OECD (2002). 'Foreign Direct Investment for Development, Maximising benefits, Minimising costs' Overview.
5. See UNECA (2006). 'Economic Report on Africa; Capital Flows and Development Financing'. United Nations Economic Commission for Africa, United Nations Publications. Available online, URL: www.uneca.org/era2006 and NEPAD (2001) The New Partnership for Africa's Development http://www.nepad.org/2005/files/documents/inbrief.pdf October.
6. Mwilima, N. (2003). 'Foreign Direct Investment in Africa', Social Observatory Pilot Project – Final Draft Report – FDI, Africa Labour Research Network, September.
7. According to the UN and the OECD, Multinational corporations are an important vehicle for the movement of direct foreign investment and as they are the developed world's most important source of corporate research and development (R&D) activity, they have the potential to generate considerable technological spillovers.
8. Organization for Economic Co-operation and Development – OECD (2002). 'Foreign Direct Investment for Development, Maximising benefits, Minimising costs'. Overview.
9. Mwilima, N. (2003). 'Foreign Direct Investment in Africa', Social Observatory Pilot Project – Final Draft Report – FDI, Africa Labour Research Network, September.
10. Klein, M., Aaron, C., and Hadjimichael, B. (2001). 'Foreign Direct Investment and Poverty Reduction', World Bank Policy Research Working Paper No. 2613, June.
11. There are several negative aspects related to FDI including a deterioration of the balance of payments as profits are repatriated (albeit often offset by incoming FDI), a lack of positive linkages with local communities, the potentially harmful environmental impact of FDI, especially in the extractive and heavy industries, social disruptions of accelerated commercialisation in less developed countries, and the effects on competition in national markets. See Mwilima op.cit.
12. Klein, M., Aaron, C., and Hadjimichael, B. (2001). 'Foreign Direct Investment and Poverty Reduction', World Bank Policy Research Working Paper No. 2613, June.
13. Prahalad C. K. (2004). 'The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits', Wharton School Publishing.
14. Public presentation by Safaricom and other operators attending the AfricaCom Event in November 2007 in Cape Town, South Africa. For more information see www.ComWorldSeries.com/Africa.
15. Newman, M. (2007). 'Mobile Operator Strategies' Mobile Market status 2007'. Informa.
16. In some cases, MNCs also facilitate development when they are forced to build other needed

infrastructure for the roll-out of the equipment as illustrated in Nigeria. The manager of Celtel Nigeria explains that while in other continents operators just need to build a switching network and the other infrastructure is in place, in most of Africa they have to build three networks; switching, transmission and power network. Interview at Africacom 2007, Cape Town, op.cit.

17. Gray, V. (2006). 'The Un-wired Continent: Africa's Mobile Success Story', Published in *Economía Exterior* (No. 36), Spring.
18. Mc Lean, A. (2008). *The Economist:* 'Making the business case for Africa', Business Intelligence Unit, the Economist. E-mail letter to subscribers. September.
19. International Telecommunication Union (ITU). (2001). 'Telecom Africa 2001, Africa a Regional Overview', Available at: http://www.itu.int/AFRICA2001/press/presskit/backgrounders/overview.html. Accessed on 23 November, 2007.
20. According to figures provided by the ITU, data on the number of African households with a mobile phone are sketchy but for those countries that compile this statistic, the results are also impressive. In South Africa for instance, 32 per cent of households have a mobile compared to only 24 per cent for fixed. See International Telecommunication Union (ITU). (2007). 'Connect Africa', Available at: http://www.itu.int/ITU-D/connect/africa/2007/current.html. Accessed on 25 November 2007.
21. It should also be noted that subscriber statistics do not tell the entire story since the number of mobile users is higher than the number of subscribers. Informal sharing with family members and friends and community phone shops provide access to mobile services even to those who cannot afford to own their own phone. See Gray, V. (2006), op. cit.
22. According to the International Telecommunications Union (ITU) research, persons in countries like Namibia, Ethiopia, and Zambia, for example, spend more than ten percent of their monthly household income on the phone, with households in South Africa and Tanzania spending 6.8 and 5.9 percent, respectively. This compares to an estimated three percent in most developed countries. See International Telecommunication Union (ITU). (2004). 'Africa 2004 Special Report Mobile Africa, Africa: The world's fastest growing mobile market', Available at: http://www.itu.int/itunews/manager/display.asp?lang=en&year=2004&issue=05&ipage=africaMobile&ext=html. Accessed on 25 November 2007.
23. In CREFSA, London School of Economics. Thomas, L., Leape, J. with Hanouch, M. and Rumney, R Business Map Foundation (2005). 'Foreign Direct Investment in South Africa: The initial impact of the Trade, Development and Cooperation Agreement between South Africa and the European Union', Available online: URL: http://www.lse.ac.uk/Depts/CREFSA/pdf/CREFSA_BusinessMap_FDI_in_South_Africa_October_2005.pdf . Accessed on August 23 2008.
24. Marais, H. (2001). *South Africa Limits to Change: The Political Economy of Transition.* Cape Town, UCT Press.
25. Verhoef, G., 'Economic Empowerment and Performance: Strategies Towards Indigenisation/Black Economic Empowerment and the Performance of such Enterprises in Nigeria and South Africa, since the early 1970s to 2002'.
26. Businessmap (2007). 'BEE 2007, Empowerment and its critics'. On line. Available at: http://www.businessmap.org.za/Documents/1468/BEE_2007_Final.pdf. Accessed on 19th June 2008.
27. According to Businessmap all in all, there are at least 24 laws as well as policy and regulatory provisions dealing with empowerment. See Businessmap (2006), 'BEE Rationale and Evaluation'. Available on line at: http://www.businessmap.org.za/

page.asp?PID=43. Accessed on May 22 2008. Some of these provisions include: the Employment Equity Act (1998), which requires employers to implement affirmative action in favour of Previously-Disadvantaged Individuals (PDIs) to ensure equitable representation at the workplace; the Preferential Procurement Policy Framework Act of 2000, which provides a framework to encourage procurement from empowered entities; and the Skills Development Act (1998), which provides an institutional framework for improving the skills of the South African workforce. In Bezuidenhout, A., Lutchman, J., Modisha,G., Sanchez, D. & Southall, R. (2005) 'Overcoming the Legacy of Discrimination in the Economy', in Democracy and Governance, 'Overcoming the Legacy of Discrimination in South Africa, Final Report', Report of the Democracy and Governance Programme in partnership with SWOP (Wits) and SCI (HSRC) to the Presidency, South Africa, February. Pretoria: HSRC.

28. Charters (i.e., those negotiated by the Liquid Fuels, Mining, ICT and Financial Services industries) bind companies to certain targets for equity transfer and other actions. In Businessmap (2006) 'BEE Rationale and Evaluation'. Available on line at: http://www.businessmap.org.za/page.asp?PID=43. Accessed on May 22 2008.
29. Businessmap (2006) 'BEE Rational and Evaluation'. Available on line at: http://www.businessmap.org.za/page.asp?PID=43. Accessed on May 22 2008.
30. Decker. S., (2007), 'The Colonial Legacy in African Management; West Africa (1950 to 1970's) and South Africa, 1990 to 2000s)', eds., International Seminar Series. HBS International Seminar Series, Harvard Business School. Boston: Harvard Business School, pp.22 Available online: http://www.people.hbs.edu/jsiegel/Decker20071107.doc. Accessed on August 21st 2008.
31. The 1968 Companies Act for instance, introduced the requirement for a foreign corporation to reincorporate as a Nigerian company before it could operate in Nigeria and this requirement is still part of Nigerian law. See Amao, O (2008). 'Corporate Social Responsibility, Multinational Corporations and the Law in Nigeria: Controlling Multinationals in Host States', *Journal of African Law,* 52, 1.
32. Verhoef, op.cit.
33. According to Verhoef, as indigenisation failed to promote the emergence of broad-based indigenous ownership and enhanced state ownership, post-indigenisation policies brought a reversal of such concentration effects through the introduction of privatisation policies during the 1980s. Op. Cit.
34. It is worth noting that these policy initiatives clearly echo the broad economic policy statement of the New Economic Partnership for Africa's Development (NEPAD) which embraces neo-liberal policies and recognizes the need of private capital for the development of the continent.
35. Decker, op.cit.
36. Verhoef, op.cit
37. CREFSA, London School of Economics. Thomas, L., Leape, J. with Hanouch, M. and Rumney, R., Business Map Foundation (2005), 'Foreign Direct Investment in South Africa: The initial impact of the Trade, Development and Cooperation Agreement between South Africa and the European Union' Available online: URL: http://www.lse.ac.uk/Depts/CREFSA/pdf/CREFSA_BusinessMap_FDI_in_South_Africa_October_2005.pdf . Accesed on August 23 2008.
38. See Verhoef, op.cit.
39. Ericsson Company's letter; 'Restructuring of Ericsson in South Africa'. Announcing the changed in February 2008 and facilitated by the Company.

40. According to a *Cape Times* Business editorial, Johannesburg, was in 2007 the only African city that made it to the top 50 (it was ranked 47th) in the MasterCards Worldwide Centres of Commerce index ranking cities on legal and political frameworks, economic stability and ease of doing business within other criteria. (*Cape Times,* Business Report, November 28, 2007). Not surprisingly, the city is likely to be used by multinationals to manage local and regional operations and benefit from the country's infrastructure. Ericsson has been no exception.
41. In Kenya, Ericsson had an agent since the 1960s and then in 2004 a project office which became a legal entity and the hub for Eastern Africa in 2007. Similarly Nigeria was initially a small project office in the sixties but grew stronger from the 1980s and consolidated itself as a regional hub (with the advent of GSM in Nigeria and Ericsson's 40 percent market share in the region) from 2006/7.
42. The hub in Senegal opened in 2007 mainly to support the regional expansion of the operator Orange in the region and to build French speaking resources in a growing regional market. As a manager in Dakar explains, Senegal was chosen for market reasons, for its location, its stable democratic system and the connecting flights available.
43. They suggested more focus in providing bursaries and skills development and they acknowledged the central role they could play in this. Even if they are currently interacting with universities and taking black graduates, they are interested to start even at earlier stages by for instance helping PDIs to get to school.
44. As there are no accessible reports on the shareholding agreement with BEE partners, the author is making an assumption here based on the interviews and the global reporting of the company.
45. According to Ericsson's 2007 annual report most shareholders are in Sweden (46.1 percent) and the USA (32.3 percent). These are followed by the UK(6,7 percent), Luxembourg (3,9 percent), Switzerland (1,9 percent), France (1,3 percent), Netherlands (1,1 percent), Denmark (1,0 percent), Norway (0,7 percent), Belgium (0,5 percent) and other countries (4,5 percent). It is important to note that the increased participation of the US probably responds to acquisitions such as US Marconi.
46. According to Ericsson's manager for BBBEE, the company is actively looking at this option under the new set-up.

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