"Foreign capital operating within the limits and possibilities of South Africa's socio-economic transformation process. Trans-national companies in Africa: From South Africa to Africa"

(DRAFT- NOT TO BE QUOTED)

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From South Africa to Africa, the Story of an ICT Multinational Expanding in the Region

Ericsson is a global organization operating in over 140 countries of which 43 fall within the Sub-Saharan Africa Market Unit (MUSA). The history of the company dates 131 years back with the period between 1970 and 1999 recognized probably as the most eventful in Ericsson's history. On January 1, 1982 when the Information Systems business area was created, the company was named Ericsson Information Systems (EIS) and in 1984 the business focus changed from product sales to a solutions orientation and a systems supplier. From being a traditional telecom supplier, Ericsson transformed into a leading company in communications and information transmission.

The company's development as a multinational company (one maintaining subsidiaries in other countries) dates back to its early years of operation. Initially Ericsson had three types of foreign subsidiaries: sales companies, concession companies and production companies. While internationalization came as a natural consequence of having its largest markets outside Sweden, the decision to open subsidiaries in other regions was not just business driven but largely a response to local demands as from the 1960's the company was forced to set up foreign operations and manufacturing subsidiaries when customers - usually public authorities - applied a national perspective to the procurement process and customers tried to ensure investment, employment or technical know-how for their country.

The emphasis on a national component was particularly evident in Latin America, where the establishment of telephone manufacturing facilities was mainly the result of increasing pressure from national authorities to persuade Ericsson to set up local operations. In Brazil for instance, the investments in the manufacture of telephones and other equipment were driven by an attractive potential market as by official requirements. A similar pattern could be observed in Mexico, where the decisions to have local manufacturing was a response to official demands, explicit requests by customers and reinforced by pressures from competition as Ericsson was forced to construct the plant in Mexico after the Germans and the Japanese declared that they were prepared to build telephone factories.[1]

Ericsson organizational structure from 1970 shows that subsidiaries functioning as sales companies had been established in a total of 40 countries, either exclusively or in combination with production activities. With an expanding international market it became vital for Ericsson to be represented in several countries initially through agents who were appointed to handle the sales of products to private customers. However, as the company itself explains, when the company was seeking penetration of the public market, agents were replaced by sales companies. The establishment of subsidiaries continued to follow that pattern; wherever an expansion was expected in the public sector, the parent company decided to establish an Ericsson company in that market. The number of foreign-based sales subsidiaries increased rapidly during the decades of the 1950s and 1960s and as the telecom market began to be deregulated in the late 1970s, opportunities were opened for Ericsson to enter markets that had been previously closed in places like America and later on Africa.

Deregulation in the American telecom market enabled foreign companies to compete in this huge market as in the early 1980s Ericsson, in conjunction with a U.S company established a locally based company which was used as a springboard into the American telecom market. Similarly, although the 1990's were difficult years for the ICT sector worldwide, the breakthrough of Ericsson in digital mobile telephony in 1994- embodied by the GSM standard- resulted in sharply increased sales, earnings growth and further expansion into growing markets, mainly Africa.

The multinational in Africa

Ericsson's history in Africa dates back to the 19th century and in South Africa to 1897, although interrupted in 1960 when regulation from the Swedish government prevented any company to do business with the Apartheid regime. The initial business model in the 1980's in places like Zimbabwe, Nigeria and others was to operate from Stockholm, Spain and Italy.

In 1991 Ericsson got an exemption from the Swedish government to operate again in South Africa and conversations soon started with an infant MTN to build a project office and work for them. Three years later, in 1994 as they signed the contract as the sole provider to build MTN's network the Ericsson SA office officially opened in Johannesburg. From 1996 as the regional manager Sonesson explains, realizing the potential of the region Ericsson embarked in the task of looking for new business. He explains that the initial expansion was more the initiative of some managers than a formalized process directed from the Stockholm head office. The venture proved to be

[1] Similarly, when Ericsson moved into the Australian market in 1959 it was clear that if the Australian authorities were to adopt the Swedish telecommunications system as a national standard, local manufacturing was a prerequisite.

worth it as Ericsson got five new contracts; two in Botswana, one in Zimbabwe and one with MTN Uganda and MTN Rwanda. As regional businesses started to grow, the decision was taken in 2002 to base the Market Unit Sub-Saharan Africa in the Johannesburg office. The main factors behind this decision were the availability of infrastructure, of good connecting flights, of skilled workforce and of a friendly environment for expatriates. According to Jan Embro, Vice President and General Manager of the Market Unit, the company plays a major role in the ICT sector in the continent, particularly mobile technology.

"With the licensing of cellular telephony in South Africa in early 1994, Ericsson achieved immediate success as the sole supplier of GSM network infrastructure to MTN South Africa. Since then, Ericsson has fanned out into the rest of sub-Saharan Africa and has played a key role in the growth of Africa's GSM mobile telecom market,"

Africa is now central to the company as according to the figures for the first 3Q of 2007 (provided by Sonesson), the region's market was larger than India, China or North America. The Unit now manages 43 countries in Sub-Saharan Africa and operations are concentrated on sales, marketing and services. Customers 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.

EXPANSION IN THE REGION

Ericsson's regional expansion into sub-Saharan Africa from the South African office has been driven by its global strategy to be closer to costumers and by the rapid increase in business in the region. By 2006, Ericsson MUSA had about 80 costumers in the region and as Ericsson's top management explains, with a growing number of costumers, more the need for new country and regional offices. The South African office serves the national market, the Southern Africa region and is also the head office of the market unit. The office in Kenya services East Africa, the Nigeria office services English West Africa and the hub in Senegal serves French west Africa.

"The idea is to actively localize and decentralize, this is why we have the four hubs now: South Africa, Kenya, Senegal and Nigeria. We are growing very fast so we decentralize as not everything can be done from South Africa. But at the same time we can not have specialists in every country, so we still need the big regional South African office."

Regionalization has followed different patterns. In Kenya Ericsson initially had an agent since the 1960's and in 2004 opened a project office which in 2007 became a legal entity and the hub for Eastern Africa. Similarly, the office in Nigeria was a small project office in 1960 which grew stronger in 1978 and in 2006/7 with the advent of GSM in Nigeria and Ericsson's 40% market share in the region the office became a regional hub. The hub in Senegal opened in 2007 with the main purpose of supporting the regional expansion of its costumer, the operator Orange in that regional market, and secondly asa way to build French speaking resources in a growing regional market. According to a manger in Dakar, Senegal was chosen for these market reasons, for its centrality in the region, its stable democratic system and the connecting flights available. Although the hub is overall less structured than the office in South Africa, it has been growing at a very fast pace; it opened with 5 persons and just one year after has around 100 employees and supports 18 countries in the region. Parallel to these hubs the company remains very active in countries like Botswana, Tanzania and Mozambique and is now opening new country offices in places like, Zambia, Madagascar, Ghana and Uganda.

In Zambia the local presence was also motivated by market and costumer (Celtel) needs. The office opened in October 2007, manages business in Malawi and it also supported the establishment of the office in Uganda which opened in January 2008. The office has only 10 permanent staff, supported by temporary employees who come on a project basis. According to the operations manager, they follow the Ericsson business driven approach of being as local as possible hiring mainly local staff and requesting expatriates to transfer and build skills. Their belief is that local people understands better the local market and will result in better business

In Madagascar, as explained by De Thoisy and Backlund, the process was started and driven from South Africa and is a response to the need of being closer to the costumer Telma, which is a public operator. For the first 6 months 50 people stayed at a hotel in Antananarivo and worked from the office of the costumer. A small office was later on opened and in few months there will be a legal entity called Ericsson Madagascar. The overall strategy here, as Backlund explains, is to also work close to the costumers and the local market hoping to gain from knowing better the local market. As De Thoisy complements, the proximity to the costumer in places like Madagascar is characteristic of the African market. As she explains, while in other regions Ericsson's business ends with the selling of the equipment, in Africa, Ericsson often has to actively support the costumers and also operate the network. "In Africa you have big costumers like MTN, Orange, Celtel who are well structured, have procedures and resources to run networks. But there are also very small and immature operators like TelMa lacking resources and relying on us completely. Although they do their best, they can't do everything. Therefore, we have to change our way to approach costumers. It is a challenge, but is also interesting since as a manager you have to come up with solutions yourself and do all sorts of practical things (...) you therefore feel you really own the project"

Although as the Madagascar managers explain the company has been also committed in principle and guided by business rational to be as local as possible, this has been challenging in their case. As Ericsson has multiplied by four the business but by two the number of employees, there is a natural shortage of human resources[2] and a lack of time to embark in the long process of training. Even if the initial set-up is to have expatriates

[2] since Ericsson retrenched thousands of employees to respond to the global crisis in the telecoms industry in 2000.

and parallel hire and train local people, in some countries like Madagascar, De thoisy explains, there are not such skills as telecom engineers.[3]

Overall, the structure and dynamics of Ericsson in the region is mainly guided by the presence of a powerful operator in the country and the potential of the regional market. The decision to localize, to use local human resources and invest in developing skills is guided by the business rational explained by managers.

Looking at the broader Ericsson regional structure, the company operates now, as an integrated system with the hubs serving as resource centers to be closer to costumers and being independent to an extent but fairly integrated with the head office in Johannesburg. Although most managers believe that the regional office will remain based in South Africa, a top manager explained that over the recent years the possibilities of transferring the head office to Kenya was discussed. This seems to emanate from the concerns of some members of the board over the political environment and some frustrating aspects of the Black Economic Empowerment in South Africa. Although this relocation seems improbable in the near future, the company has indeed been restructuring. Both as a response to the needs of local costumers in Africa, but greatly to adapt to the national transformations demands in South Africa.

CONCLUDING REMARKS
(See powerpoint)

[3] To get more local resources, Ericsson even advertises abroad for positions in places like Senegal trying to target those skilled Senegalese who are working abroad but will be happy to come back.