

**Social Capital in Multinational Enterprise –  
Host Government Relations  
A South African Perspective**

by

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## **Abstract**

In South Africa Multinational Enterprises (MNEs) have to contend with the typical adversarial relations with a host government. In addition, MNEs operate in an environment regulated by a government policy of Redress, aimed at changing the wealth profile of the country to reflect the ethnic demographics. Policies such as Broad Based Black Economic Empowerment, Affirmative Action and Preferential Procurement are interventionist and place additional burden on the MNEs. Implementations of these regulations are often the source of conflict between MNEs and the local government. Ethno-cultural distance aggravates the strained relations between the MNE and host government.

The policy of Redress effectively legislates the incorporation of local third parties that are ethno-culturally related to government into the competitive strategies of MNEs. Joint ventures with locals are an acknowledged strategy to enter foreign markets, providing for legitimisation and access to networks.

The choice in strategy when dealing with the home government of either a relational or transactional approach is transferable to the MNE host government environment. Political levels have proven to be inaccessible but successful business transactions with government are abundant. The transactional approach dominates as a result of the failure to establish any relations with the host government, negating the pursuit of the relational approach. Third parties play an enabling role in successful transactions, ranging from providing access to government employees up to securing the deal and transacting with the MNE at arms-length.

The absence of any social capital in successful transactions requires re-evaluation of the role of social capital in bridging barriers in business relations. Possible explanations are in the linking that the social capital of the third party with the government and MNE employees respectively has, an extremely low threshold for social capital in successful transactions, the force exerted by the need for the products or services, or, most probable, the profit motive.

The distance between the government and MNE is extreme as a result of the historical strife between the ethnic groups in the country and the policy of Redress. The connotation with the social environment deters the active pursuit of social capital to gain competitive advantage.

*Key terms:*

Business-government relations, Ethno-cultural distance, Host government, Multinational Enterprise, Networks, Relational approach, Social capital; Socialising, Third party relations, Transactional approach

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## Chapter 1

### Orientation

#### **1. Introduction**

Globalisation and internationalisation are universally accepted phenomena of our time (Grosse, 2005; McDonald, Mayer & Buck, 2004). Rapid advances in knowledge and technology have led to an ever shrinking world. Powerful information technology systems enable advanced communications via satellite and the internet (Tung, 2002). High speed travel means that no two continents are more than a day apart. International trade crosses time lines and never sleeps (Dunning, 2001b; Porter, 1985). Companies leverage technology to provide advantages in product development and trade internationally (Dunning, 2001a&b; Goshal and Bartlet, 1990). Multinational Enterprises (MNEs) are active in almost all local economies the world over (Calzolari, 2001).

Although globalisation is labelled as the process which will turn everyone into world citizens, currently it only serves to highlight the differences amongst countries and cultures (Diskin, 2003). Geo-political tensions in regions such as the Middle East, Asia and Africa, and, the involvement of the United Nations and World Super Powers in these are indicative that we are far from a world-order (Diskin, 2003; Agmon, 2003). Countries and nations are jealously protecting their sovereignty and independence (Haley, 2001); conflicting political agendas and intense economic competition have countries aligning with allies against opponents (Goshal and Bartlet, 1990). Religious fundamentalism and the spread of international terrorism have further served to divide nations with few being able to stay neutral (CNN, 2008). Central to the world economy is a looming energy crisis and access to oil is critical (Oil may well gush from Iraq once again, 2008). World markets are vulnerable to an international recession (Hugo, 2008).

It is in this international environment where MNEs have to compete in host countries. Government, in its role as legislative entity, occupies a central role as stake holder to business in that it determines the rules of the trading environment (Lenway and Murtha, 1994). It has the power to place burden on business through legislation, but also to prejudice it through rebates and tax relieves (Goldsmith, 2002; Vogel, 1996). The typically adversarial relationship between business and government is aggravated in the case of a foreign MNE and a host government (Agmon, 2003). Politics and business more often than not pursue conflicting objectives (Agmon, 2003; Dunning, 2001b). Host governments perceive MNEs as a threat as they are very powerful economic entities (Brewer, 1992). Citizens expect government to ensure access to international products and services that these MNEs provide (Haley, 2001). Foreign direct investment (FDI) is

critical to the value of the local currency through its role in the balance-of-payments account (Dunning, 2001a). MNEs provide jobs in the local market (Shaffer, 1995). Local competitors demand protection from MNEs in the form of subsidies and levies (Goldsmith 2002). Local consumers often resent MNEs as being monopolistic and MNEs frequently have to bear the brunt of dissatisfaction with the politics in their home country (Diskin, 2003). In conclusion, the dependence on products implies non-discretion, resulting in a grudge-purchase. MNEs are also under the microscope as shareholders in the home country are fickle and share prices on the bourses are significantly influenced by sentiment (Hamann and Accutt, 2003). Negative publicity around corporate social responsibility (CSR) or competitive practices in the host country can be detrimental, especially those in the developing world (Fraser, 2005).

On an individual level, employees from MNEs and host governments also have numerous obstacles to overcome in forging relations (Kristiansen, 2004). Conflicting political view points, different religious convictions and ethno-cultural distance impair the evolution of relations. In spite of these obstacles it remains imperative that MNEs have optimal relations with the host government as it is both the legislative entity (Hillman, 2003; Chen, 2004) and often a significant customer (Chen, 2004). Citizens and share holders require host government and the MNE to have functional and mutually advantageous relations (Agmon, 2003).

The magnitude of the relational dimension of an individual or organisation is known as its social capital (Parks, 2004; Bordieu, 1986). In an individual's social sphere social capital is the spontaneous outcome of inevitably existent relations as a result of kinship or social proximity; man is social in nature (Coleman, 1990; Bordieu, 1986). Social capital, together with financial capital and human capital, are those assets that enterprise typically work towards creating (Pollit, 2002). In an organisation's business sphere, social capital, as the collective for relations networks and the trust and norms that maintain it, requires active creation (Yueng, 2005), especially so in relations between MNE and government employees. Social capital has to bridge the barriers to relations (Putnam, 2000); the conflicting objectives (Agmon, 2003) and convictions, the history of adversary, the ethno-cultural distance (Kristiansen, 2004) and the resultant distrust and discrepant norms (Healy, 2004; Putnam, 2000; Coleman, 1990).

The purpose of this study is to describe the process of creation of the bridging social capital by MNE executives in their relations with government employees. Exposing the

process will enable MNEs to effectively address variables that are critical to MNE – host government relations.

## **2. Background to the Study**

This study focuses on the process of creating bridging social capital in relations between MNEs and host governments. Studies on social capital in business resort under the field of social economics; a social perspective on economics (Smelser and Swedberg, 2005). Representing the social body of knowledge is that of social capital; the networks, trust and norms that are active in relations amongst individuals. The economic facet is found in the second body of knowledge, that of relations between business and government in general, but more specifically, that of the existence of barriers to relations between MNEs and host governments. It is at the intersection of these two bodies, where the creation takes place of what is a social resource to support the economic activity of MNEs in host countries.

Social Capital is the institutions, social relationships, networks, trust and norms shaping the quality and quantity of a society's interactions (Putnam, 2004). Ground work on social capital focuses on the role of social networks, trust and norms on facilitating collective action (Bourdieu, 1986; Coleman, 1990; Fukayama, 1999; Putnam, 2000). Trust results from the social networks and norms of reciprocity (Fukayama, 1999, Putnam, 2000). Social capital is a strategic resource that can be leveraged to further the interests of individuals and groups (Bourdieu, 1986). Social capital is influenced by culture, education, social ties and social norms and acts to maintain social inequality (Bourdieu, 1986). Social capital exhibits a horizontal dimension with features of social organisation such as community networks (Putnam, 2000), and a vertical dimension that refers to hierarchical institutions and firms (Coleman, 1990). A distinction is made between private and institutional social capital (Healy, 2004), private social capital referring to networks of family and friends and institutional capital to relations founded through attending the same schools and universities. Almost all economic activities are influenced by social capital (Healy, 2004). Strong social ties are typically seen as conducive to social capital (Coleman, 1990; Putnam, 2000), but Burt (1992) introduces the concept of structural holes to reflect a lack of ties in support of Granovetter's (1973) premise of strength-in-weak-ties.

Three facets to Social Capital are identified in the literature (Inkpeng and Tsang, 2005; Edelman, Bresnen, Newell, Scarbrough & Swan, 2004), Structural social capital relates to network ties, network configuration and network stability, Cognitive Social Capital is

shared goals and shared culture, the Relational dimension covers aspects such as trust that result from the normative behaviours. In the earlier literature the boundaries between networks and Social Capital (Granovetter, 1973) are blurred. A network consist of actors, connected by sets of ties; the actor of primary focus known as the ego, and other actors known as alters (Borgatti and Foster, 2003). The theoretical foundation of networks can be traced back to three main disciplines; Sociology, Political Science and Public Management (Berry, Brower, Choi, Goa, Jang, Kwon, & Word, 2004). In the field of Sociology networks have been studied using sociometric models based in Gestalt psychology (Mareno, 1934 in Berry *et. al*, 2004), anthropological frames by the Manchester group that relate the forms and structures of relations to the social or cultural contents (Mitchel, 1969; Nadel, 1957 in Berry *et.al*, 2004), and, a mathematical block modelling approach by White's Harvard group to identify actor clusters (Berry *et. al*, 2004). Research in American political science has focussed on policy innovation, policy change (Berry *et.al*, 2004)and policy networks (Friedkin and Johnsen, 1999). In Public Management the lone significant contributions are from the American intergovernmental relations (Agranoff and McGuire, 2001 in Berry *et.al*, 2004))

Networks can range from social networks (civic) to business networks (economic) with the boundaries often not clear (Pollit, 2002). Geographical location has been a significant constraint in the size of networks but improving modes of transport (air travel) and communication (internet) is diminishing its relevance (Tung, 2002). "*Social networks can be understood as a web of dependency relationships with patterned resource exchanges*" (Ng, 2004:112), used by individuals to extend their political and social influence in pursuit of economic interests (Garguilo and Benassi, 2000; Bordieu, 1986). Even the firm is nothing but a network, governed through social relations of different actors (Goshal and Bartlett, 1990; Yueng, 2005; Amin and Thrift, 1994). The MNE is an intra-organisational network where the operating units are the actors (Holm, Johanson and Thilenius, 1995). A network model of an MNE depicts it as a group of geographically dispersed, goal disparate organisations that are internally differentiated and embedded in unique networks of governments, regulators, customers and suppliers (Goshall and Bartlett, 1990). Anthropological theory describe the evolution of social networks as subsidiaries are established, and, political and economic networks are formed to act as social integration mechanisms (Haley, 2001). Network organisations are networks where repetitive exchanges among organisations occur that rely on trust and embedded relationships (Powel, 1990). These include project teams with self-empowered workers in self-governing temporary structures (Casson, 2000). Organisational networks are inter-firm networks amongst legally separate entities that

are economically related (Sydow and Windeler, 1998). Special types of organisational networks are board interlocks with directors sitting on the boards of various firms (Carpenter and Westphal, 2001) and Joint Ventures (Gulati and Gargiulo, 1999). Joint Ventures are mainly formed to gain access to resources and achieve legitimacy through network access (Stuart, 2000). Joint Ventures as an entry mode selection is in essence an element in relationship development (Holm, Erikson and Johanson, 1996)

Culture, resorting under the cognitive dimension of social capital, as a collective subjectivity of shared norms and values, together with ethnicity, religion and class are common bases for faction (Kristiansen, 2004). This inducement constrains the development of trust as it impedes frequent interaction, a prerequisite for the development of trust (Healy, 2004). Together with trust, norms of reciprocity, as the accumulation of obligations and interpersonal credits, evolve (Healy, 2004). Bonding social capital occurs in relatively alike groups, typically amongst family members or specific ethnic groups (Edelman *et. al*, 2004). Bridging social capital relates to the external links of individuals and groups connecting disparate nodes, disparate ethnic, social, political or regional groups (Putnam, 2000). Linking social capital connects with socially distant others, those that are more powerful or socially advanced (Edelman *et. al*, 2004). Profound socio-cultural changes and the emergence of a global socio-cultural system of values and norms have led to a global social capital that supports the global economy and a system of international institutions (Diskin, 2003). Although conceptually the difference amongst the various forms of social capital may be evident, empiric evidence is difficult to find in the literature as collecting data and identifying causality is hard (Healy, 2004).

Embeddedness refers to the concept that all economic behaviour is necessarily embedded in a larger social context, that economic exchanges are embedded in social networks, and that economics is but a branch of Sociology (Granovetter, 1985). The embeddedness of firms in networks reduce transaction costs (Kristiansen, 2004) through exclusive relationships (Chen and Chen, 1998) and also play a role in choice of Joint Venture partner (Gulati and Gargiulo, 1999). Embeddedness is extended to relate to the individual when the linking of social and business relations was identified as the reason for a change in the traditional arms-length market relations (Borgatti and Forster, 2003).

Social Capital represents the ability of actors to secure benefits by virtue of membership in social networks (Inkpeng and Tsang, 2005). Social ties and the associated norms of

reciprocity contribute to social and economic advancement (Healy, 2004). In business, social capital reduces risk and transaction costs, facilitates access, shares knowledge and gives access to capital (Kristiansen, 2004; Friedkin and Johnsen, 1999). Individuals consciously employ social capital as a strategic asset in advancing economic processes (Bourdieu, 1986, Coleman, 1990; Burt 1992, Biggart and Castanias, 2001). The “capital” part of social capital is a reflection on the strategic resource nature of the social ties, the returns on investment, the accumulation of credits, similar to financial capital (Coleman, 1990, Burt, 1992, Bourdieu, 1986). Social capital is even used as collateral to assure economic relations by reducing risk and sustaining predictable economic outcomes (Douglas, 1995).

Business is invariably involved in networks with a variety of stakeholders, including government. Access to government provides information on the policy environment (Schuler, Rehbein, Cramer, 2002). Firms engage government networks through arrangements made between its top executives and local government authorities (Yueng, 2005). Policy networks typically involve societal stakeholders and government decision-makers, the social networks that operate at a grass roots society level a major determinant (Forrest, 2003). The effectiveness of economic policies is a direct result of the extent of these policy networks (Lenway and Murtha, 1994). Trust, the presumption that actors will make decisions that are mutually beneficial, is critical in the establishment of Political Social Capital and the resultant ability to influence policy decisions (Forrest, 2003). Involvement of business in social networks influences firms by diverging focus from purely profit maximisation to a degree of social responsibility (Haley, 2001). Societies provide a definitive normative pressure on the strategies of business (Lenway and Murtha, 1994). Corporate Social Responsibility (CSR) programmes are a direct result of the social networks that are needed to legitimise business (Hamann and Accut, 2003).

Business-Government networks operate against the background of typically adversarial relations (Agmon, 2003). The cause can be traced to the fact that markets are imperfect and inherently inefficient, a fact exploited by MNEs (Dunning, 2001b; Haley, 2001). These imperfections relate to unequal access to capital, skills, information and other resources, and, in addition, MNEs leverage their internal intangible assets like technology, marketing, capital arbitrage and managerial skill to provide competitive advantage (Dunning, 2001a; Dunning 2001b, Goshal and Bartlett, 1990; Porter, 1985). These competitive advantages give rise to a position of power versus host governments (Calzolari, 2001). The theory of oligopolistic markets, characterised by barriers-to-entry

in the form of patented technology, secret know-how, large capital requirements and economies of scale in production, is closely related to market imperfections (Dunning, 2001b). In contrast, a number of mercantilist theorists give the host government the upper-hand, their political and economic objectives taking precedence over international economic efficiencies (Agmon, 2003). The exploitive role of government (Hillman and Keim, 1995) refers to their ability to manipulate economic arrangements to maximise their own interests. Statist theorists put the power of governments against MNEs on a continuum, a reflection of the state's ability to oppose interest groups, including MNEs (Agmon, 2003). The dependency school represents the extreme weak end of the continuum, being of the opinion that MNEs make host countries dependent on industrialised nations (Brewer, 1992). This view is based on sociological studies built on Hymer's theories, distinctly Marxist in approach in that the effects that MNEs have on inequalities is mediated by its penetration of society (Haley, 2001). Governments lose control over their culture and social development (Vogel, 1996) in addition to the distortion of economic development. MNEs add to unemployment by using technologically advanced, capital intensive, manufacturing processes (Brewer, 1992). MNEs' dominance is the direct result of their control of Global Social Capital, held by mainly the US financial institutions (Diskin, 2003). In opposition to the view of the dependency school, the pluralist theorists (government and business are mutually responsible) believe that MNEs provide Foreign Direct Investment (FDI) that boosts local economies, enhancing growth and positively affecting the standard of living and that cooperation between Government and MNEs improve national economic performance (Goldsmith, 2002; Haley, 2001; Shaffer, 1995).

There is consensus in the literature on the need for government regulation of MNEs (Lenway and Murtha, 1994; Haley, 2001; Blumentritt and Nigh, 2002). This field, known as regulatory economics, has as the main focus the design of regulatory policies that take opportunities for strategic behaviour resulting from incomplete information into consideration (Calzolari, 2001). MNEs are maximising profits in a world where host governments have the power to impose costs and give advantages (Dunning, 2001a). Market models depict business on the demand side of policy and government the supply side, formal constraints are the parliamentary and congressional institutions and the culture, values and norms constitute the informal constraints (Hillman and Keim, 1995; Shaffer, 1995). The main proponents of strict government regulation of MNEs are the oligopolistic theorists (Haley, 2001; Brewer, 1992); a result of the link with dependency theory (Dunning, 2001a). Host Government policies can be symbolic and effect a change in status in society or political reputation, or, have tangible consequences that

often are asymmetrical (unequal effect), such as import tariffs and affirmative action (Brewer, 1992)

Government - business relations present as a continuously shifting position, determined by the initial and changing objectives relative to the initial and changing power of each (Peng, 2000; Vogel, 1996; Shaffer, 1995, Brewer 1992). The theory of MNE - Government bargaining power is based on the various theories of uneven access to, and control of, raw materials, markets, resources technology and information (Peng, 2000; Brewer, 1992). The first was the bilateral monopoly model of Penrose (Haley, 2001) where MNEs control capital, technology, management and marketing skills and government controls access to the state itself and operating conditions afterwards. MNEs and government are in effect competing for the profits of economic activity (Brewer, 1992). The obsolescing bargain refers to the situation where, in an attempt to attract foreign investments, host governments structure policies that initially reward MNEs handsomely for successful projects, but once heavily invested the MNE is committed and the terms renegotiated or unilaterally changed by government (Vernon, 1979). In agency models MNEs create agents within the host government to act on their behalf in the policy-making process (Chen, 2004). Positive agency relationships increase the MNEs bargaining power, and because they require regular communications that improve understanding, trust and relational satisfaction (Chen, 2004), they build social capital.

Corporate political behaviour attempts to strategically influence government policy to favour the MNE's economic interests (Hillman and Hitt, 1999). Political strategy deals with issue evolution, identifying and mobilising resources to positively effect policy; and stakeholder behaviour that aims to balance stakeholders' claims and redistribute wealth evenly (Mahon, Heugens & Lamertz, 2004). Public choice theory, using relational actor models, views business politics as efforts by obstructive interest groups to extract undue value through rents in the form of policy induced gains such as taxes, licences, tariffs, subsidies and government contracts (Goldsmith, 2002; Vogel, 1996, Shaffer, 1995). Access to information for decision-making and direct financial inducements are major motivating factors in the supply of policies (Hillman and Hitt, 1999). The approach to political strategy is either relational, relations are established and maintained with government on a continuous basis, irrespective of the presence of issues; or, transactional where once the issue has arisen, key decision makers are approached to influence policy (Hillman, 2003). Political action can be collective as in the case of

representative trade organisations or individual such as activities by an executive or an individual firm (Lenway and Murtha, 1994).

### **3. Objectives of the Study.**

Social capital in the business environment is different in origin to social capital in the social sphere (Parks, 2004; Fukayama, 1999; Putnam, 2000). It is the functionality of the initiating and maintaining relations that makes it sought after by business, but as opposed to being the spontaneous yield of social relations it has to be actively created in the business environment. Inertia to the creation of social capital in the MNE host government arena is in the form of barriers to relations. It is exactly the bridging function of social capital that facilitates the relations that is pursued.

1. The first objective of this study is to describe the process that MNE executives go through in creating bridging social capital with government employees. It includes the planning, the expectations and the tactics during interaction with government officials.
2. A second objective is to report on the role third parties with existing relations with government employees fulfil in the creation of bridging social capital. This objective is formulated in the second research question:
3. The third objective is to determine if social capital with a bridging characteristic develops between MNE executives and host government officials.
4. The last objective is to determine if the bridging characteristic of social capital created in the business environment extends into the social environment. The question relates to whether bridging of ethno-cultural barriers in the business sphere enables social relations between actors.

### **4. Research Environment**

MNEs face different challenges in different host countries and although these do not necessarily present identically in the various countries and regions, they are often very similar (Chen, 2004). The MNE faces animosity from government as a result of the perception that it is a tool of the home government's political activities (Brewer, 1992), that it exploits the local resources (Goshal and Bartlett, 2000; Dunning, 2001a) and local population (Vernon, 1971), and that is a threat to the sovereignty of government (Diskin, 2003). Local competitors demand regulatory protection from MNEs (Haley, 2001) and

MNEs are often accused of employing bribery and corruption of government officials (Ginwala, 1998). The population resents a perceived dependence on products and services provided in what is seen as monopolistic market domination (Haley, 2001; Brewer, 1992). The ethno-cultural distance between the local populace and MNEs is often significant (Vogel, 1996). These factors; the political threat it presents, together with ideological differences (Diskin, 2003), the historically adversarial interactions (Agmon, 2003), the relative position of power MNEs command versus government (Agmon, 2003; Lenway and Murtha, 1994) and the demands for favourable policies and regulations (Calzolari, 2001), all collectively act as barriers to relations with the host government. These relations often come at the expense of government, local competitors or local consumers (Blumentritt and Nigh, 2002).

South Africa, as a host country to MNEs, presents with challenges that are typical, but also sometimes extreme or unique (Smith, 2003; Haley, 2001). Business – Government relations are, similar to what the case is in the rest of the world, strained. These relations are put under even more strain by an extremely fast rate of change in the socio-political and economic environments, driven by legislation which is mostly not adequately thought-through, often resulting in unintended consequences for the populace (Khanyile, 2007c; Pressly, 2007b; Moodley, 2004b; Nyati, 2004).

The South African government, formed by the African National Congress (ANC) that has its roots as an African liberation organization, exhibits an animosity towards capitalism (Why not the same passion for economic freedom, 2007). As with many of the African liberation organizations, socio-economic doctrine is heavily influenced by socialism and communism; advocated by the USSR, China and East Block countries that provided refuge, education and military support (Healthcare policies tainted with socialist attitudes, 2003). Especially Western MNEs are perceived to have supported the apartheid regime that has been the adversary in the ANC's struggle (Haley, 2001).

Legislation to enforce socio-economic change is potentially an additional and significant source of friction between government and MNEs. Policies aimed at shifting economic power to more accurately reflect the population demographics have placed an incremental burden and obligation on MNEs. These include Black Economic Empowerment (BEE), Affirmative Action (AA) and Preferential Procurement by government; legislated policies that aim to actively drive transformation (Jacks, 2007; Pickworth, 2007; South Africa, National Government, 2007; Khuzwayo, 2006). Citizens have also resorted to pursuing legal avenues against international business in an effort

to highlight their plight and influence investor sentiment in the home country. The out-of-court settlement where consumers have taken MNEs to task over drug patent rights is a case-in-point (Smith, 2003). Government has been supportive with protectionist legislation, amongst others stringently regulating drug pricing (Kgosana *et. al*, 2004).

In South Africa, as is the case in a number of countries in the rest of Africa and the East (Chen, 2004; Edwards, Ahmad & Moss, 2002), the ethno-cultural distance between the locals and the citizens from home countries of the MNEs is significant. Employee profiles of both MNEs and government is reflective of this fact. Although a large portion of MNE employees would typically be locals, in South Africa the cultural diversity negates most of the gains to be made from this practise. The majority of local managers in MNEs are still White (Jacks, 2007; Khanyile, 2007a; Khuzwayo, 2006; Bell, 2005), whilst government has transformed to have the majority of employees Black (South Africa, National Government, 2007).

The South African society has shown significant intolerance towards foreigners that erupted into xenophobic violence (Nyatumba, 2008; Malefane, wa ka Ngobeni, Govender, Rank & Molele, 2008; Philp, 2008).

A possible positive spin-off of all the redress legislation may be that it may provide for a forced means to bridge the ethno-cultural gap with government. Government's political agenda to empower its "own" people by enforcing employment and transactional quotas through BEE legislation (South Africa, National Government, 2007; African National Congress, 2004; African National Congress, 1994a), has forced MNEs to introduce individuals that are ethno-culturally related to those in Government (Empowerment an elite playpen, 2007; Khamyile, 2007b; Pickworth, 2007, Letsoko, 2006; Na-iem, 2006, Khan, 2005). It provides an environment where the incorporation of individuals that are ethno-culturally related to government is a non-discretionary and legislated strategy, one that is ideal in which to study the role these third parties play in creating bridging social capital. This is an invaluable opportunity to explore a role for these parties, a role possibly similar what is the case in joint ventures (Stuart, 2000; Holm, Erikson & Johanson, 1996).

The decision on the research environment has been based on two considerations. Firstly, the presence of as many of the economic and social variables possible to ensure that findings can be adequately explained, the research objectives can be met and that there is good transferability of results. Secondly, as recommended by Patton and

Appelbaum (2003:68), the researcher is sufficiently familiar with the environment to allow access to information, companies and individuals, and, provide for accurate interpretation of events and results.

Research is done in the healthcare industry in South Africa. It is well developed (Leinberger, 2007) and representative of what MNEs across the board might experience in the South African trading environment in general. Healthcare typically ranks very high on the political agenda of governments and for the South African Government the aim is to improve healthcare to the masses (African National Congress, 1994b). The radical shift in policy focus from the apartheid's government to one of primary healthcare has meant the introduction of a number of pieces of legislation that has altered the trading environment drastically (Khanyile, 2007b; Pressly, 2007; Moodley, 2005b; Moodley, 2005f). Government is not only active as the legislative entity but also as a significant customer in the industry (African National Congress, 1994b) through the procurement of pharmaceuticals and medical equipment in the provision of healthcare in the public sector. Almost all the multinational pharmaceutical and medical equipment companies are active in South Africa (Snyman, 2001) and they are organised in representative bodies (Moodley, 2005c; Wessels, 2003) that frequently interact with Government (Khanyile, 2007c; Morris, 2004; Smetherham, 2004, Wessels, 2003). Transformation in the industry has been actively driven by government through legislation, but also through Preferential Procurement that privileges BEE companies (Khanyile, 2007a; Khuzwayo, 2005). The vast majority of the managers in the healthcare industry are still White though (Jacks, 2007; Khanyile, 2007a; Khuzwayo, 2006; Bell, 2005) as compared to the vast majority of Government employees being Black (South Africa, National Government, 2007).

The significance of barriers to relations and the prominence thereof are directly related to the need for frequent interaction between MNE and government employees. On legislative and policy issues the most senior members from Government and MNEs meet, often as representative bodies (Khanyile, 2007c; Moodley, 2004b; Morris, 2004; Smetherham, 2004, Wessels, 2003) and Government Ministers and their technical advisors (Gardin and Adams, 2004; Moodley, 2004a; Moodley, 2004g; Trade body close to agreement on cheap drugs for the poor, 2003, Tsabalala-Msimang, 2003). As a customer Government procures through an elaborate tendering mechanism (South Africa, National Treasury, 2005), requiring interaction between industry and government in drawing up product specifications called for in the tender, as well as training at the operational levels (Moodley, 2005e). Promotional activities of MNEs extend beyond the

Private Healthcare arena into the Public sector as exclusivity on the tender does not exist, many therapeutic alternatives are always available.

## **5. Methodology**

The descriptive nature of this study dictates case study research to be the most appropriate methodology as it is ideal for solving “how” and “why” questions (Perry, 2001). A multiple case approach has been selected as this increases the robustness of the findings (Patton and Appelbaum, 2003; Amaratunga and Baldry, 2001; Eisenhardt, 1989).

The selection of case studies has been done subjectively. The objective is to achieve what Stake (1994) refers to as “theoretical sampling” - looking for extreme cases and polar types which are transparently observable during the course of the research. It relies on discretion and judgement; those that provide convenient access whilst exhibiting appropriate components.

The first case also served an additional function of testing of the “operationability” of the objectives and constructs identified in the literature. It also assisted in the actual writing of the protocol and not merely a pre-test, thus an integral part of data collection (Perry, 2001:310). It is used to refine the data collection. It initiates the process that Eisenhardt (1989) refers to as “controlled opportunism” - remaining flexible by probing emergent themes and taking advantage of opportunities.

The second case was selected to be the central case. The central case is that one which has the best probability of providing the most representative data to build the description on. Of utmost importance was access to data, both to an executive that was prepared to share the information, but also access to other sensitive documentation and communications.

The third case was selected as a polar type, both for its uniqueness in market positioning, but also for its business model that results from the executive’s choice of business strategy.

The fourth case has been selected for the discrepantly poor success rate in government versus a string of successes in the private market, especially in the black private market.

Data analysis is facilitated by employing a process of coding. Codes are derived from the theory (a-priory codes), from gut feel and from what emerges from the data analysis itself. A matrix is used to analyse each data source for each code, as it is relevant. Analysis is done for content itself, but also on theme as well as discourse (use of language).

Data analysis takes place intermittently with the individual activities of data collection. The analysis directs the collection process (Eisenhardt, 1989). The initial data analysis takes place inside of every specific case; or within-case analysis. This facilitates and assists in the structured analysis of the huge volumes of data in multiple-case case study research. The objective of the within-case analysis is to become intimately familiar with each case as stand-alone entity.

On conclusion of the within-case analysis the cross-case patterns are analysed. Here the focus is on within-group similarities and inter-group differences. This analysis is based on the comparisons between the empirical evidence and the theoretical propositions developed at the initial stages of the study and involves the detailed case study write-ups for each case. An explanation building approach will be adopted. This is similar to pattern matching but the aim is to analyse the data by building an explanation about the case. This process will allow for the unique patterns of each case to emerge before pushing towards generalised patterns across cases (Amaratunga and Baldry, 2001). Additionally, pairs of cases will be compared as well as dividing data according to the source and then comparing.

The primary method of data collection is that of an interview employing semi-structured questions. Open questions are structured to require the interviewee to relate the story of how the events unfolded. Issues not addressed in these open questions are probed by using discretionary questions. Additional sources of data are documents including, presentations, agendas, minutes, contracts, tenders, e-mails and agreements. Lastly a survey to confirm the opinion of those executives interviewed was done through two trade organisations.

A systematic due diligence process is employed to ensure the validity of the study. This entails specific due diligence activities that conforms to certain requirement according to its contribution, at each phase of the study, with controls in place (Table 4.4). There is a continuous and conscious guard against bias by following the recommendation of Patton and Appelbaum (2003:68); "... *making observations, exercising subjective*

*judgement, analysing and synthesising, all the while realising their own consciousness*". In addition, Guba's model as advocated by Coetzee (2008) is incorporated into the analysis process, constantly evaluating the truth value, consistency, applicability and neutrality.

A concern frequently encountered is that of the generalizability of case study research (Amaratunga and Baldry, 2003). Rather than argue the potential for generalizability, this study " *aim(s) not to infer global findings from a sample to a population, but rather to understand and articulate patterns of linkages of theoretical importance*" (Amaratunga and Baldry, 2001:100).

## **6. Importance of the Study**

The role of social capital has been described in social relations and networks (Parks, 2004; Pollit, 2002; Bordieu, 1986) and in business networks (Garguilo and Benassi, 2000; Fukayama, 1999; Coleman, 1990; Bordieu, 1986). Various forms of social capital have been described, either according to its function (Edelman *et. al*, 2004), bonding social capital (Kristiansen, 2004), linking social capital (Ng, 2004), bridging social capital (Putnam, 2000); or according to its origin, institutional social capital (Healy, 2004), private social capital (Ng, 2004; Healy, 2004), and, organisational social capital (Goshal and Bartlett, 1990; Yueng, 2005), or, according to its presentation, structural social capital, cognitive social capital and relational social capital (Edelman *et. al*, 2004), and global social capital (Diskin, 2003). In the field of corporate political behaviour the methods used to gain favour and influence political decision-making has been described (Mahon, Heugens & Lamertz, 2004; Hillman and Hitt, 1999; Lenway and Murtha, 1994). There is a need for this study to extend the work already done by describing how bridging social capital is created in the MNE – host government relations. Similar to corporate political behaviour studies that described the process of influencing, a description of the process of creating bridging social capital will highlight various aspects that could lead to further study and research.

In the sphere of business leadership a description of the process of creating bridging social capital will enable critical evaluation thereof and allow either corrective action or enhancement of efforts that will improve the efficiency and effectiveness of its application by executives. A contribution that brings MNEs and host governments closer together and improves relations will be beneficial to all stakeholders, including shareholders and citizens.

## 7. Delimitation of the scope of the study

This study focuses on the choice between the relational and transactional approach to building social capital as is used in political strategies in the home country. Attention is also paid to the leveraging of established relations to facilitate access to Government employees in an effort to build trust through frequent interactions. The premise is that the association with a third party with existing relations with Government employees will act as reference and provide an introduction, as well as a certain level of credibility. It is specifically the Bridging Social Capital as a collective concept in business strategy that is the topic of the research. The purpose is to ascertain whether the threshold that would indicate independence from the third party ties is surpassed. There is thus no effort to measure Social Capital quantitatively, only qualitatively. It is not the actual extent of the Social Capital that is important but only the level relevant to the ethno-cultural barriers. Is it sufficient to overcome the barrier and does it cross the threshold for independent ties?

This study employs certain assumptions that are based on well recognised and accepted arguments in the literature. The first is that voluntary interaction between two actors is an indication of the existence of ties. This is recorded in the seminal work of White's Harvard Group (Berry, *et. al*, 2004) and again in more recent publications by Borgatti and Foster (2003). Good relations suggest congruence on at least the minimum accepted norms of the network, as well as a level of mutual trust sufficient to enable interaction (Chen, 2004). A functioning network is indicative that the barriers have been overcome, Social Capital is sufficient in magnitude to act as bridging medium (Putnam, 2000).

In the environment of this study it is only the existence and implications of adversarial MNE-Host Government relations and ethno-cultural distance and their roles as barriers to relations that are considered. The origin and resolutions or evaluation thereof is beyond the scope of this research.

The policy of BBBEE of the Government provides an environment where associating with a local partner is legislated. Beyond the provision of a significant pool of enterprises employing a Joint Venture strategy with locals the political dimension of this is irrelevant.

The scope of this study does not include:

- I. Quantification of social capital in MNE Host government relations,
- II. Evaluation of appropriateness of political policies

- III. Evaluation of business ethics or moral decisions
- IV. Judgement on what is appropriate conduct
- V. Accuracy of opinions and perceptions

The focus of this study is on:

- I. The process that MNE executives employ in pursuit of social capital to bridge the barriers in relations with host government officials
- II. The possible role for third parties with established relations with the host government
- III. The actual presence of social capital between MNE executives and host government employees
- IV. The transferability of social capital in the business environment to the social environment.

## 8. Terminology

The following table (Table 1.1) lists the various terms used in this study and the interpretation thereof

**Table 1.1. Terminology explained**

Term	Explanation
BBBEE	Broad Based Black Economic Empowerment
Betweenness	High betweenness-centrality measures how often an actor finds himself in the path between two other actors, how often he controls and mediates the flow of information in a network, or acts as a broker for, or gatekeeper between actors (Borgatti and Forster, 2003). (see centrality also)
Bonding Social Capital	Occurs in relatively alike groups, typically amongst family members or specific ethnic groups (Edelman <i>et. al</i> , 2004).
Bridging Social Capital	Relates to the external links of individuals and groups connecting disparate nodes, disparate ethnic, social, political or regional groups (Putnam, 2000).
Centrality	Refers to an actor's position relative to all other actors in the network. There are three different measures of centrality; degree, closeness and betweenness. High centrality is indicative of maintaining of a large number of ties with other actors (Borgatti and Forster, 2003).

Closeness	Closeness centrality is reflected by an actor having the ability to independently access most or all other actors in the network (Borgatti and Forster, 2003). (see centrality also)
Cognitive Social Capital	The shared goals and shared culture (Inkpeng and Tsang, 2005)
Collateral	Refers to social relations that are used to assure economic relations, that is, those that help to reduce risk and to sustain predictable economic outcomes (Douglas, 1995)
Culture	Resorting under the cognitive dimension of social capital is a collective subjectivity of shared norms and values (Kristiansen, 2004).
Density	A structural characteristic of the network as a whole; is the relative number of ties linking actors together in a social group (Borgatti and Forster, 2003).
Embeddedness	Refers to the concept that all economic behaviour is necessarily embedded in a larger social context, that economic exchanges are embedded in social networks, and that economics is but a branch of Sociology (Granovetter, 1985)
Homophily	An area of social proximity, dealing with the tendency for people to interact more with their own kind (McPherson, Smith-Lovin and Cook, 2001).
Institutional Social Capital	Relations founded through attending the same schools and universities (Healy, 2004)
Institutional Thickness	The combination of actors including inter-institutional interaction and synergy, collective representation by many bodies, a common industrial purpose, and shared cultural norms and values (Armin and Thrift, 1994).
Linking Social Capital	Connects with socially distant others, those that are more powerful or socially advanced (Edelman <i>et. al</i> , 2004).
Network	A set of actors connected by a set of ties (Borgatti and Foster, 2003). As a social system, a web of dependency relationships resulting from patterned resource exchanges between the nodes (Ng, 2004)
Norms of Reciprocity	The accumulation of obligations and interpersonal credits (Healy, 2004) An obligation to repay an acquired debt originating from a positive action received by the self. (Coleman, 1990; Putnam, 2000). Reciprocity arise from donation of favours that generate a series of expectations that one can rely on others to return in the future (Healy, 2004)
Private Social Capital	Networks of family and friends (Healy, 2004)

Relatedness	Directly manifests as bonding social capital; the relation facilitates the bonding, typically a result of connections and ties among families or specific ethnic or kinship-based groups (Edelman <i>et. al</i> , 2004).
Relational Social Capital	Covers aspects such as trust that result from the normative behaviours (Inkpeng and Tsang, 2005)
Social Capital	The institutions, social relationships, networks, trust and norms shaping the quality and quantity of a society's interactions (Parts, 2004)
Social Cognition	The individual's perceptions of networks, an area that grew out of the informant accuracy research of the 1970s and 1980s (Borgatti and Foster, 2003)
Spatial proximity	Reflects the fact that frequent exposure results from being in the same space (Pollit, 2002)
Structural social capital	Relates to network ties, network configuration and network stability (Inkpeng and Tsang, 2005)
Trust	A belief in the good intentions of others or their capacity to deliver on their promises and intentions, a product of mutual obligations (Healy, 2004)

The above table represents the interpretation as it applies to the terms in this study.

## 9. Overview

This study follows the structure suggested by Amaratunga and Baldry (2001). The final structure was decided on once the decision on the most appropriate research methodology was made as the structure should be supportive thereof. The study of the literature, the identification of the gap therein and the decision on the nature of the contribution are common to most structures and preceded the decision on the detailed structure.

In the first chapter an orientation is given as foreknowledge to support the reading of the rest of the study. This is done by introducing the topic of the study and the general positioning thereof in the socio-economic environment. The literature provides a background to the study where the important theory and research is provided. Following from the theoretical background the objectives of the study are spelt-out. The research environment is described as well as the methodology employed. The importance of the is highlighted next and the scope delimited. Lastly a table is provided where the terminology is explained.

The second chapter covers an extensive literature study. The literature on social capital, the components thereof, social factors, applications, facets, perspectives in the research in social capital, and, business and social capital is reviewed. The next body of knowledge covers business government relations, competition, markets and host government regulation of MNEs, as well as social capital in MNE host government relations.

In chapter three the gap in the literature is identified and the contribution towards the current body of knowledge described. The research problem is put as a problem statement and research questions and propositions developed.

Chapter four provides the research methodology as the study design and data analysis. The details of the qualitative research methodology adopted are given followed by the detailed design of the study. The population that the cases are selected from and the process of selection employed follows. Data collection and analysis are described in detail.

In chapter five the results are given by firstly reporting the various within-case analyses relating actor characteristics, government relatedness, planning and context of relations. This is followed by a cross-case analysis, incorporating the survey done. The similarities and differences are reflected. Extensive referencing to the data collected supports the analysis. The anomalies in the outcomes are presented. The research questions are answered and the propositions tested. The themes that have emerged from the results are identified.

In the last chapter the contributions of the study are discussed in detail, firstly those that result from the answering of the research questions and the testing of the propositions, and then those contributions as a result of exploring the emerging themes. Conclusions are formulated and recommendations made.

Lastly the appendices with the interview questionnaire, the survey, a summary of data analyses and a list of references are provided.

## Chapter 2

### Literature Study

#### **1. Introduction**

Social economics is the study of economic activity from a social perspective. This field is a main stream in itself with the two contributories of economics and sociology. The study of social capital in multinational business relations then also relates to three bodies of knowledge; firstly that of social economics, but with the seminal work originating from economics and sociology.

The concept of social capital is the outcome of work that originally started as studies of networks. It became apparent that the relations within networks are a function of the trust and norms that exist amongst the various actors. These networks with the related trust and norms are collectively known as social capital. The seminal work in sociology focuses on what social capital is made-up off, what factors influence social capital, and, what role social capital plays in relations. Business, as a social construct, is also studied in the role that social capital plays in business relations. This work is in the field of social economics.

As this study is about the role of social capital in the MNE – host government relations it goes beyond the general business – government relations. In economics this relates to two main bodies. The first is the literature around the driving forces for companies going international and competing in host countries. The second is the literature on the regulation of MNEs by the host government as a result of its influence it exerts. The work that pays attention to the MNE – host government relations falls into the social economics field where it then is associated with the general concept of business-government relations and back to social capital.

This literature study ties together the work on social capital in sociology, social capital in business relations in social economics, and, MNE activities in economics and MNE – host government relations in social economics. The contribution is at extending the knowledge on social capital in general business – government relations to the MNE – host government arena.

#### **2. Social Capital**

A very broad definition of social capital is given by Parts (2004:6); *“the institutions, social relationships, networks, trust and norms shaping the quality and quantity of a society’s social interactions”*. Pollit (2002:119) refers to the evocative nature of the

term social capital:

*“The idea it conveys is of something that has some features of physical capital. It can accumulate or depreciate by investment or misuse. Social capital is like physical capital in the sense that it is a productive asset from which business can increase its productivity. It contributes positively to economic wellbeing; however, it is also social.”*

The term social capital thus refers to important social capabilities. The third form of capital, that of human capital, has the connotation of individual skills and non-cognitive attributes. By contrast, social capital refers to trust, social ties, shared norms and relationships among people and communities. Friedkin and Johnsen (1999) emphasises the relational facet by explaining social capital as an attribute created in the interaction between people, which increases the strength and value of personal qualities such as intelligence and work experience, and represents a resource for collective as well as individual action.

## **2.1 Components of social capital**

### **2.1.1 Networks**

Central to social capital is the network and a number of studies focus on networks. The trust and norms associated with social capital reside in networks, and as such there is often no clear distinction between networks and social capital as topics of research. Some of the attributes that some authors credit social capital with, other ascribe to networks alone. This is the result of the fact that the initial studies that precede the popularisation of the term social capital by Putnam (2000), were done on networks. In the end this is semantics but it is now the convention to view social capital as networks, as well as the norms and trust associated therewith.

Pollit (2002) observes that networks are a common phenomenon in a number of situations that ranges from social networks (civic) to business (economic) networks, and that often, the boundaries between the different types of networks are not clearly delineated. Different types of networks have many commonalities in characteristics and workings and, secondly, networks do not have to have economic purpose for them to have economic value. People known and trusted in a social network will still be known and trusted when economic transactions are to be decided on. Business is also a subset of society (Biggart and Castanias, 2001).

Although networks are as ancient as civilization itself, their formation has been constrained by geographical location, effectively limiting the scope and magnitude of

influence of a network (Tung, 2002). The advent of the internet (one massive network), advances in telecommunications and transport and continued globalisation has minimised geographical effects. Today it is possible to form networks that link vast numbers of people, organizations and systems from all over the world, at alarming speed.

Networks constitute the structural dimension of social capital. Borgatti and Foster (2003:992) give the following as a description of networks:

*“A network is a set of actors connected by a set of ties. The actors (often called ‘nodes’) can be persons, teams, organizations, concepts, etc. Ties connect pairs of actors and can be directed (i.e., potentially one-directional, as in giving advice to someone) or undirected (as in being physically proximate) and can be dichotomous (present or absent, as in whether two people are friends or not) or valued (measured on a scale, as in strength of friendship). A set of ties of a given type (such as friendship ties) constitutes a binary social relation, and each relation defines a different network (e.g., the friendship network is distinct from the advice network, although empirically they might be correlated). When we focus our attention on a single focal actor, we call that actor ‘ego’ and call the set of nodes that ego has ties with ‘alters’. The ensemble of ego, his alters, and all ties among these (including those to ego) is called an ego-network.”*

A network, as a social system, can be understood as a “web of dependency relationships resulting from patterned resource exchanges between the nodes, and behaviour by any given node is interpreted as a function of the way its ties create access to resources in the network as a whole” (Ng, 2004:112). Tactics are employed by a large diversity of actors that not only seek to advance their economic interests by non-market means, but also to maximise their social and political influence in socially dense non-market arenas (Gargiulo and Benassi, 2000; Bourdieu, 1986).

In his work on networks, Ng (2004) advocates that a clear distinction is made between the different types of networks, especially what constitutes affiliation networks and what are closed networks.

Affiliation networks get their affiliation characteristic as the result of an actor being a member of multiple social groups. According to his (Ng, 2004) interpretation, each actor makes an evaluation of the most critical issues of importance. The evaluation depth corresponds to the number of attributes by which the issue is evaluated. Issue

classification results from a semi-conscious cognitive classification process through which a stakeholder classifies an issue as a threat, neutral, or an opportunity. He (Ng, 2004) also observed that in the non-market context most issues tend to be ideologically inspired. The origin of the issue is a subjective difference of insight. Some parties may have an interest in sustaining the issue rather than resolving it. The resources to resolve an issue are not only of a monetary or substantive kind, but also symbolic; such as an actor's reputation for objectivity or keeping commitments, an impeccable moral standing, generally accepted authority or historically demonstrated leadership. He (Ng, 2004) also concluded that there are significant factor-market inefficiencies associated with the symbolic resources, no well-developed marketplace for authority, morality and objectivity exists, these tend to be transferred via social networks of influence.

On the other hand, closed networks consist of cohesive and frequent social interactions where every individual is directly or indirectly connected to every other. According to Ng (2004) this property of closed networks creates a high density of social relationships that produces homogenous and clustering behaviours. In addition, because closed network members tend to identify with each other, they facilitate mutual coordination. As a consequence, closed networks promote a normative environment of social norms and the reduction of uncertainty through trust. Hence, closed networks enhance network performance by coordinating collective action towards common objectives to increase the specialization of tasks. Closed and diverse networks are based on a social space reflecting near or distant social relationships respectively.

The structural dimension of social capital, being the network, has been found to be a key determinant in the functioning thereof (Coleman, 1988). As a result of the network structural properties and network structural positions, resources do not flow evenly or randomly in a network. Borgatti and Forster (2003) use the terms density, centrality, closeness and betweenness to reflect actor characteristics within a network. Density, as a structural characteristic of the network as a whole; is the relative number of ties linking actors together in a social group. Centrality refers to an actor's position relative to all other actors in the network. There are three different measures of centrality; degree, closeness and betweenness. High centrality is indicative of maintaining of a large number of ties with other actors. Closeness centrality is reflected by an actor having the ability to independently access most or all other actors in the network. High betweenness-centrality measures how often an actor finds himself in the path between two other actors, how often he controls and

mediates the flow of information in a network, or acts as a broker for, or gatekeeper between actors.

Key actor attributes are modelled by using relational methods to network composition and overlapping group affiliations (Gargiulo and Benassi, 2000). The transactional content of a social network is the result of the social diffusion process, and, the structural characteristics of the network and the actors in it are useful variables for predicting the way in which issue evolution, coalition formation and issue resolution by stakeholders will follow their non-random patterns.

The social structure of networks; their composition, density and connectedness are thought to constitute important characteristics of social interaction with implications for society at large (Granovetter 1973, cited in Healy, 2004). Coleman (1988) emphasises the role of social network closure as it relates to the dense networks that connect parents, children, educators and others within a defined community. He notes that network closure confers potential efficiency gains through information flows and the sanctioning of desired behaviour.

### **2.1.2 Trust**

Repeated interaction between actors is pivotal in the establishment and sustainment of social capital in the evolution of trust. (Healy 2004:13) observes that trust is process based, *"... testing each other regularly, firstly on discreet exchanges of limited risk, then to more open ended deals exposing parties to substantial risk."* Trust thus develops over time. As a result of established trust-relationships, often organizational ties result from personal ties. Konoirdos (2005:4) credits trust as the bonding element of social capital, and, also as the bridging element between external networks. It ties in with the concepts of bridging social capital of Putnam (2000).

### **2.1.3 Norms**

Cognitive social capital relates to the normative aspects, the common and shared goals that drive collective action and assists in group cohesion. It drives the homogeneous characteristics of a network and is thus responsible for the exclusivity thereof. Healy (2004) observed that social knowledge and internalised norms arise from the normative space in which social networks develop. A sense of who one is, where one belongs and which norms of behaviour are acceptable, constitutes an important component of social interaction. He (Healy, 2004) also found that the rules or engagement are typically informal, tacit and probably not even consciously

acknowledged or codified. They arise from repeated interactions in which particular norms are socialised and internalised. They also arise from deeply held and shared views of the value of particular actions in social engagement.

Kristiansen (2004) concluded that ethnicity, religion, and class are common bases of faction. He defines culture as “*a collective subjectivity, thus a shared set of values, norms and beliefs*” (Kristiansen, 2004:1151). Subcultures are of vital importance for the development of value systems, trust, and social networks, and thereby also for business success. In his (Kristiansen, 2004) opinion a main function of social networks is to demolish and transverse contextual demarcation lines and enhance social capital. There are four important characteristics of social capital that determine this ability; the number of relations, the strength of ties, the variety or diversity of networks, and, network dynamics (Kristiansen, 2004).

Lastly, Berry *et. al*, (2004) found that the way in which groups cooperate or act together in relation to a common objective or purpose is denoted by social engagement. Collective action is frequently the topic of discussion in political research, what motivates people to act in socially optimal ways when the private rate-of-return for doing so appears to be much less than the cost of giving up time, effort or money? Rational choice models based exclusively on the assumption of individual utility maximisation still lack a more comprehensive explanation of human behaviour and motivation (Berry *et. al*, 2004).

Reciprocity is closely related to both the normative and trust components of social capital. As trust evolves, so do norms of reciprocity, an accumulation of obligations and interpersonal credits (Healy, 2004). Both Coleman (1990) and Putnam (2000) explain reciprocity as an obligation to repay an acquired debt originating from a positive action received by the self. Healy (2004) commented that reciprocity arise from donation of favours, that generate a series of expectations that one can rely on others to return in the future. These may be specific people in which some confidence exist such as family, friends and neighbours or, it may be people in general in a given neighbourhood or wider society where norms of reciprocity are the norm. This represents the element of trust that these obligations will be honoured.

He (Healy, 2004) sees trust, as a belief in the good intentions of others or their capacity to deliver on their promises and intentions, as a product of mutual obligations. Mutual obligation implies interdependency. It may also imply dependency in a social hierarchy in the context of unequal power

## 2.2 Social factors of social capital

Three variables of social organization play a role in social capital namely proximity, relatedness and culture. Proximity reflects the fact that frequent exposure results from being in the same space, a prerequisite for development of social capital. Communities represent, in fact, epitomise this close proximity, central for instance in the definition of social capital by for instance Pollit (2002); social capital refers to trust, social ties, shared norms and relationships among people and communities. Putnam (2000) specifically investigated the role of the proximity in social networks such as neighbourhoods, civic or informal networks, and, inter-personal networks.

Relatedness is directly manifested as bonding social capital; the relation facilitates the bonding, typically a result of connections and ties among families or specific ethnic or kinship-based groups (Edelman *et. al*, 2004). Healy (2004) also refers to the private social capital that develops as a result of networks of family and friends. The role of network closure is emphasised by Coleman (1990) as found in the dense networks that connect parents, children, educators and others within a defined community, especially by sanctions on particular behaviour.

Bourdieu (1986) broadened the notion of social capital to reflect the role of culture. Putnam (2000) followed and includes aspects of culture, beliefs and institutions in his definition of social capital. Building on the concept of culture, Putnam (2000) coined the terms bonding and bridging social capital. These relate respectively, to social networks which tend to be homogeneous (by class, creed, ethnicity, gender etc) and those which are predominantly heterogeneous. Coleman (1990) and Putnam (2000) also acknowledged the existence of conflict based on class or social interest but did not view this as a primary feature of social networks.

Furthermore, Kristiansen (2004) studied the social and cultural preconditions for networking and success in business in an African context. He found ethnicity, religion, and class to be common bases for faction. Subcultures within national African contexts are of vital importance for the development of value systems, trust, and social networks, and thereby also for business success. The ability to take part in, and operate social networks, depends on a wider set of social capital and sub cultural characteristics.

This physical proximity, the similarity of beliefs and attitudes, the amount of interaction and effective ties; have all been found to be interrelated (Allen, 1977 in

Borgatti and Foster, 2003). Concurrently, Friedkin and Johnsen (1999), and, Carley (1991), have developed network models of how interacting individuals influence each other to produce homogeneity of beliefs. An area of social proximity relates to homophily, dealing with the tendency for people to interact more with their own kind; whether by preference or induced by opportunity constraints (McPherson, Smith-Lovin and Cook, 2001). Here social proximity is a function of individual characteristics such as race, gender, educational class and organizational unit.

Homophily research has focused on its effects on group and individual performance outcomes (Reagans and Zuckerman, 2001). On the positive side, interacting exclusively with similar others is thought to be efficient since similarity facilitates transmission of tacit knowledge (Cross, Borgatti & Parker, 2001), it simplifies coordination and, avoids potential conflicts (Healy, 2004). On the other hand, limited communication with dissimilar others prevents a group from reaping the benefits of diversity and promotes an “us-against-them” thinking (Edelman *et. al*, 2004). Homophily has been identified as a mechanism of maintaining inequality of status for minorities within organizations (Brass, 1985, in Borgatti and Foster, 2003)

The evolution of group structure is also a social area focussed on. This entails empirical investigations of network change (Burt, 2000) and general mathematical models of change (Snijders, 2001). Two variations of studies are identified; agent-based simulation studies; using agent-based models to investigate group stability (Carley 1991, cited in Borgatti and Foster, 2003), and Zeggelink (1995), and, those by Ritter, Wilkinson and Johnston (2002) who examined the growth of friendship networks to simulate the development of trust networks.

In the end, the individual's perceptions of networks are studied in the area of social cognition. Initially this area grew out of the informant accuracy research of the 1970s and 1980s (Borgatti and Foster, 2003 cites Bernard, Killworth, Kronenfeld & Sailer, 1985), which was concerned with the methodological implications of respondents' inability to report their interactions accurately. More attention has been paid to the theory subsequently, centred on the respondent's model of the entire network in which they are embedded, rather than their own ties. Cognition of the network determines interaction and interaction in turn changes the network (Carley and Krackhardt, 1996), including the consequences of accurate perceptions of the network.

Closely related to social cognition, an area of research focuses on the actors'

perception of the ties within a network. Casciaro (1998) found that an actor's personality, hierarchical position and centrality in the network affected the accuracy of the perception of the network. An area of significant importance is to uncover patterns in perceptual errors. For example, several studies investigate tendencies for respondents to over-report ties to high status individuals (Brewer, 2000) and to see themselves as more central than others do. Potgieter *et. al.* (2006) argue that the social cognition field is closely related to that of transactive memory, since groups can exploit the knowledge of their members only to the extent that their cognitive maps of 'who-knows-what' and 'who-knows-who-knows-what' are accurate.

### **2.3 The Application of Social Capital**

Highlighting the application of social capital, Inkpen and Tsang (2005) describe social capital as that which represents the ability of actors to secure benefits by virtue of membership in social networks or other social structures. Healy (2004) also found that social ties and associated norms of reciprocity may potentially contribute to personal social or economic good. In the organization, benefits include privileged access to knowledge and information, preferential opportunities for new business, reputation, influence, and enhanced understanding of network norms.

Activation of social capital depends on a wide range of factors, including not only the opportunities available for social interaction and networking, but also a range of factors influencing the motivations and abilities of relevant actors (Edelman *et. al.*, 2004). They also note that the benefits and risks associated with social capital are dependent on a range of factors, including the nature of the task, the existence of complementary resources and the system of norms and beliefs surrounding the interpretation and use of social capital assets. Kristiansen (2004) supports this notion by stating that an actor orientated focus entails recognising the multiple realities and diverse social practices of various actors.

As an application of social capital, the holding together of diverse groups in cooperation through shared values as well as social ties and norms are important (Healy, 2004). Social networks and the associated norms of reciprocity not only hold groups together, but also play an important role in facilitating collective action in the groups (Coleman, 1990; Putnam, 2000).

The holding-together of groups culminates in the concept of bonding social capital.

The internal relationships of an actor and specifically the linkages and corresponding relationships among individuals and groups is the base of bonding social capital (Edelman *et. al*, 2004). Bonding occurs in relatively alike groups. Typically, it arises in connections and ties among families or specific ethnic or kinship-based groups. It might also arise within a particular social group bonded together by shared identities, interests and place of residence. Bonding social capital, associated with strong ties, can provide important emotional, personal and health-related benefits to its members through close support.

However, the idea of bonding social capital is frequently confused with that of strong social ties (Putnam, 2000). In practice, strong social ties are positively correlated with bonding social capital. Similarly, the term network closure, as used by Coleman (1990), is confused with the notion of active exclusion of those outside a network. Coleman (1990) uses the term network closure to describe a network where there is inter-connectedness on its boundaries. Network closure though does not necessarily exclude the existence of ties (including strong ties) that connect members of a network to others on the outside.

The bridging characteristic that social capital exhibits was first noted by Coleman (1990) and Putnam (2000), they were the first to describe the crossing of socio-economic or ethnic divides. North (1990) and Olson (1982); cited in Healy (2004) also reflect a notion of the bridging characteristic in what they term Middle Class Consensus and Social Cohesion. Middle Class Consensus is a state of higher share of income for the middle class and a low degree of ethnic polarization. Social Cohesion refers to inclusiveness of a country's communities. It was also observed that social cohesion is essential for generating trust.

Bridging social capital, as described by Putnam (2000), examines the external linkages of individuals and groups that help to define their relationships. Bridging social capital has its roots in network theory, focussing on the structure of networks in terms of the centrality and distance amongst nodes (Edelman *et. al*, 2004). Bridging social capital connects different types of people and groups (e.g. ethnic, social, gender, political or regional). Bridging is especially relevant for people seeking personal, social or economic gain beyond their immediate society. This type of social capital arises when associations and connections are made across social, geographical or strong identity lines.

The application of bridging is more narrowly ascribed to networks only. Kristiansen (2004) exposes the social capital to be exclusive in its uniqueness to a specific relationship. He also observes that a significant function of social networks is to demolish and transverse contextual demarcation lines and enhance social capital. He thus credits the networks, instead of social capital (Putnam, 2000), with the bridging potential. Networks result in the bridging phenomena which includes the new trust and norms. Burt (2000) uses the term structural hole to describe how people broker connections across disconnected segments. These connections are more related to bridging social capital and facilitate easy and fast access to different segments of information and knowledge across social or technical boundaries.

Edelman *et. al.* (2004) also identify linking social capital that connects groups and individuals to others in a different social position (e.g. linking to those that are more powerful or socially advantaged). Examples of this form of social connection relate to contact between corporate actors, intermediary structures and non-corporate communities or groups.

Healy (2004) highlights the main difficulty with implementing a distinction by bonding, bridging and linking; even if the conceptual difference is grasped, it is difficult to provide empirical evidence of each. For example, the extent of social contact and shared norms within a given community defined by geography is extremely difficult to measure. Also, capturing the extent to which the same community might relate to other communities in some hierarchy of power or information access (Linking social capital). If the unit of reporting or empirical observation is an individual person, then at most inferences can be drawn about collective properties of whole systems or communities.

As an application of international magnitude, Diskin (2003) introduces the argument for global social capital. He (Diskin, 2003) states that profound socio-cultural changes and the emergence of a system of global socio-cultural values and norms have resulted from the global economy and provided for the stable operation of the system of institutions. This global set of values and norms mostly embraces the distinctly instrumental system of relations associated with the economy. The new set is not identical to the cosmopolitanism of the past, but is strongly opposed to national values and traditions.

The roles of power and information are central in the application of social capital.

Communities are characterised by differential access to power and information as a result of hierarchical ranking. In some cases, social capital can augment inequalities and reinforce relationships based on the use of power for oppression or exclusion (Bourdieu, 1986). In other cases, social capital can be used by oppressed groups or communities to advance their own agenda, bond collectively as a group or reach out to other groups. These communities may also use social capital to leverage resources and information from more powerful groups.

As contrarian, Burt's theory (Burt, 1998) of structural holes led to a number of researchers looking into the positive effects of having weak ties or a limited network. Currently the two views on social network cohesiveness are, firstly, that of a positive effect of social integration on cooperative exchanges, and secondly, the absence of connections (structural holes) creates opportunities for brokerage and stresses the diversity of information (Staber, 2004). He found that in the case of learning it is a process of social construction and as such is supported by the first view.

Social capital also has the potential to be applied negatively. Edelman *et. al.* (2004) noted that it is simultaneously beneficial and concurrently detrimental. A big negative associated with social capital is the loss of objectivity. They (Edelman *et. al.*, 2004) concluded that the role of individual discovery and questions about direction of the causal linkages between social and intellectual knowledge creation are all critical flaws in the current social capital theory. Knowledge is discovered at the individual level, disseminated at the social level and entrenched at the organizational level. There are three risks associated with social capital (Edelman *et. al.*, 2004). Firstly an over-investment that transforms an asset into a liability, the actors become over-committed to a specific relationship. Secondly, there exists the possibility of generalized negative consequences of strong and beneficial localised ties, such as the exclusionary effects of cliques in organizations. Thirdly, the possibility that the solidarity benefits of social capital may so tightly embed an actor into a particular relationship that it restricts the free flow of ideas. Structural social capital provides access to asymmetrically distributed information, while at the same time creating disincentives to engage in wider information search. Biggart and Castanias (2001) also warn that social relations have a cost to economic efficiency; non-rational social and emotional relations interfere with rational economic calculus and the movement of people and assets to their economic most efficient function.

## 2.4 Facets of Social Capital

The concept of Social Capital is used differently by sociologists, political scientists, and economists and views are divided on its definition, measurement possibilities and significance. The seminal work on social capital was done in sociology and by Bourdieu (1986), Coleman (1990), Fukuyama (1999) and Putnam (2000) but, it was Putnam that popularised the term social capital (Knack, 2002; Pollit, 2002). Common to the approach of all of these researchers is the role of social networks, trust and norms in facilitating collective action. Fukuyama (1999) focuses on the role of informal and shared values which give rise to trust. Friedkin and Johnsen (1999) view social networks, consisting of a series of formal and informal ties between the central actor and other actors in a circle of acquaintances as the point of departure for social capital. This social capital is manifested in norms and networks that enable people to act collectively and the value of a person's Social Capital is in the qualities of his social networks. Social networks are also determined by the initial basis of social capital.

The work of Putnam (2000) is specifically focussed on horizontal social networks, those between members in civil society. These he empirically found associated with norms that affect economic performance. Parts (2004) concurs by ascribing the main influence on human capital (related to good education and strong health) to civil (horizontal) social capital. Putnam (2000) initially defined social capital as features of social organisation such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit. Later he ascribed the trust rather as a product of social capital, which he then defined as social networks and associated norms of reciprocity. Putnam (2000) focuses on particular types of social networks (typically neighbourhood, civic or informal and inter-personal). He distinguishes this narrower definition with broader definitions which include aspects of culture, beliefs and institutions. His perspective is on constructs which have universal application or equivalence across cultures and contexts and the social capital as a property of communities which sits outside the specific culture and context within which communities organise themselves.

The concept of vertical social capital, in addition to the horizontal social capital of Putnam (2000), is introduced by Coleman (1990). Vertical social capital refers to hierarchical institutions and firms which Coleman (1990) notes has the possibility of positive as well as negative impacts on performance. North (1990) and Olson (1982), cited in Healy (2004) emphasise the role of formalised institutions, such as

court systems, rule of law, and political liberties in shaping the social and political environment and patterns of development.

A distinction is made by Healy (2004) between organisational social capital, derived from the organization's networks, and individual social capital derived from individual's social networks. In individual social capital he further makes a distinction between private and institutional social capital. Private social capital refers to networks of families and friends and institutional social capital to networks developed through actors attending the same university or school for instance.

The more strategic perspective of social capital as a resource that different social groups and individuals use to further their strategic interests is introduced by Bourdieu (1986). His work also pays attention to how social capital is combined with, and sometimes transformed into other forms of capital such as human, cultural and financial capital. Bourdieu and Passeron (1977), cited in Healy (2004), describe how various social groups use economic capital to accumulate other forms of capital as well as to convert economic capital into human, social and cultural capital.

While the early focus of social capital was on ties to "resource-filled others" (Healy, 2004), Burt (1992) redirected attention to the shape or topology of an actor's ego-network. Specifically, Burt (1992) equates social capital with the lack of ties among an actor's alters, the state which he refers to as structural holes (Inkpeng and Tsang, 2005). He introduced the concept of structural holes, these holes referring to the incompleteness in an individual's networks. His argument is that it is the spanning of structural holes that provide the actual mechanism that relates weak ties to positive outcomes, such as in Granovetter's (1973, cited in Burt, 1992) strength-of-weak-ties theory.

Burt's view (Burt, 1992) is in stark contrast to Coleman's (1990) view of social capital, which calls for a dense ego-network in which ego's alters are able to coordinate with each other to help ego. Coleman's view (Coleman, 1990) is similar to that of Putnam (2000) and others who define a group's social capital in terms of broad cross-cutting interconnections among all group members.

In contrast to grouping social capital according to the origin, the dimensions thereof are also used as a basis of organisation (Inkpeng and Tsang, 2005; Edelman *et. al*, 2004). The first is structural social capital that relates to network ties, network

configuration and network stability; these are the ways in which motivated recipients gain access to actors with desired sets of knowledge or intellectual capital. Secondly, Cognitive social capital relates to shared goals and shared culture, recognizing that exchange occurs within a social context that is both created and sustained through ongoing relationships. The third dimension relates to the Relational aspects of social capital such as trust. It is concerned with the underlying normative dimension that guide exchange relationship behaviours.

In summary, Healy (2004) draws the following lines of demarcation amongst the various definitions of social capital:

- social capital refers to all types of social networks and associated norms of reciprocity - it is not confined to individual acts of giving, volunteering or caring;
- social capital does not refer exclusively to those aspects of social contact which have economic, market or monetary value - it is capital to the extent that it can generate benefits of various kinds over time including personal health and well-being;
- narrow and broad definitions are not mutually exclusive - broad definitions simply include more than narrow definitions; and
- social capital refers to cumulative resources in the form of networks and mutual obligations - it is not to be confused with possible outcomes such as social harmony or social well-being.

Healy (2004:7)

## **2.5 Perspectives on Social Capital Research**

The research on social capital is viewed from two different perspectives. Berry *et. al.* (2004) group the seminal work on networks according to the field of study, as originating from three main disciplines namely sociology, political science and public management. Borgatti and Forster (2003) group the various studies not only according to the topic of the research, but also the actual dimensions researched. These dimensions are described as the direction of causality, the level of analysis, explanatory mechanisms, and, explanatory goals.

### **2.5.1 Field of Study**

In the Berry classification (Berry *et. al.*, 2004) the research in the field of sociology originate from three main areas of focus. Firstly, sociometric studies that are rooted in Gestalt psychology, secondly the Manchester anthropologists, and thirdly the

Harvard structuralists. Sociometric studies originated with Mayo and his colleagues in the Hawthorne studies where they first used network configurations to analyze social behaviour. Jacob Moreno (1934), cited in (Berry *et. al*, 2004) developed the sociogram representing groups as collections of points connected by lines; to diagram relationship networks among people and to identify patterns of interaction, cliques, and small group dynamics. It gave rise to a structural orientation in the study of social networks.

In the Manchester group, Mitchell (1969) and Nadel (1957) (both in Berry *et.al*, 2004) were the main contributors. According to Berry *et. al.* (2004), Nadel's work pays specific attention to identifying and distinguishing both the forms or structures of relations, and the social or cultural contents they convey. Social structures are the structures of roles. Roles are defined by structural relationships; the particulars of who speaks to whom or who influences whom, but also by embedded context and institutionalized expectations. A particular role relationship may have to do with authority, influence, information, marriage, kinship, friendship, economic exchange, or a host of other contextual meanings. Mitchell (1969), in (Berry *et al*, 2004) used two perspectives to identify network structures in the abstract. He introduced the concept of ego, networks around a particular individual, which he called the "ego-centred" approach. In the second approach, which emphasizes the network's content or meaning, the network is labelled with abstractions that describe particular modes of social activity, such as political interaction, kinship, marital ties, friendship, or work activities. Mitchell also created a number of measures to represent the quality of dyadic relations, including reciprocity, intensity, and durability. He devised measures depicting macro features of the network, including density (the proportion of all possible ties that are, in fact, connected), reachability (roughly the total number of steps required for total diffusion of information to occur within the network), and cliques and clusters (measures that capture network subgroups).

The Harvard group, led by White, developed the block-modelling approach to mathematical modelling and measuring of social roles in the 1960's (Berry *et. al*, 2004). Groups of actors are clustered together in increasingly homogenous blocks by an iterative succession of Pearson product-moment correlations from the columns of an adjacency matrix. Granovetter (1973), by promoting the theory of information diffusion and communication across networks, helped to explain their importance. The information that passes through a network depends on the strategic goals of individuals within the network as well as their gate-keeping positions within the network. His weak-ties theory demonstrated how individuals in these critical

boundary-spanning roles help to connect groups within a society that might otherwise be isolated from each other because of their members' tendency to enforce group norms and loyalties. Freeman (1979) in (Berry *et. al*, 2004) examined the role of an individual's position in a network on his power and outcomes within the network; the so-called measures-of-centrality.

In summary the studies in the field of Sociology focussed on different aspects of networks that were represented uniquely. Sociometric studies use networks to explain social behaviour and these networks are represented by sociograms from sociometric models. The Manchester group looks at forms and structures of relations and the social or cultural contents they represent. Using the ego-centred approach the network is labelled to depict abstract qualities of relations and the macro features of the network. The Harvard group developed the block-modelling approach to mathematically measure social roles. Actors are grouped in homogenous blocks that represent commonalities in beliefs, culture and norms.

Research of networks in American political science has focussed on policy innovation, and, policy change and agenda setting. Together with neo-institutional economic theory it aims to assess how networks affect collective action and policy outcomes. In the area of policy innovation Walker's (1969, cited in Berry *et. al*, 2004) work assessed which states are most innovative, considered how states learn about policy innovations, and used networks to describe the regional and national networks that promote policy innovation diffusion. On policy change and agenda setting Hecllo (1978) in (Berry *et. al*, 2004) describes issue networks as loose groups of Washington insiders, academics, think tank policy experts, and media writers who influence policy based on program or functional areas. Policy networks in these works are communication networks among association and interest group members, policy specialists, and elected officials who have specific policy interests and actively influence the policy process.

The third branch of political science policy network research, neo-institutional economic theory, takes Ostrom's institutional rational analysis (Ostrom, 1990 in Berry *et al*, 2004) and transaction cost frameworks as the reference. Several important articles that empirically assess network forms of organizations on collective action problems have been published (Friedkin and Johnsen, 1999). Friedkin and Johnsen (1999) noted that networks can stimulate collaboration and cooperation through information and reputation effects that encourage the development of common perspectives and norms of cooperation and trust. They

depict a wide range of actors, including both formal and informal links. These include exchange or reciprocal relations, common interests, and bonds of shared beliefs and professional perspectives. Multi-actor partnerships emerge through interagency cooperation, intergovernmental program management structures, complex contracting arrays, and public and private partnerships. The creation and maintaining of networks have a cost associated. These costs of developing and maintaining contracts constrain the flow of network benefits to individual participants and the policy community, which according to a contract perspective can be referred to as transaction costs. From the contractual perspective, network partnerships are most likely to emerge when potential benefits are high and the transaction costs of developing negotiating, monitoring, and enforcing the political contracts are low.

In the Political field three branches are thus identified. Firstly policy innovation is related to the structure of networks and its influence on collective action. In the area of policy change and agenda setting, issue-networks are formed by actors with vested interests. Lastly, using neo-institutional theory, the role of networks in reducing transaction costs and facilitating economic activity is studied, but also the restrictions imposed by network maintenance costs on the flow of benefits to actors.

Research on network management and network structures in public management has grown primarily out of research in US intergovernmental relations (Berry *et. al*, 2004). In summary, networks and the individuals in them are studied in public management to understand whether networks exist and how they function; how people function in networks as managers, (what skills and managerial techniques are used in diverse types of networks compared to hierarchical organizations), and, what impact networks have on decision making, policy outputs and outcomes, and democratic values of governance.

### **2.5.2 Dimension studied**

The Borgatti and Forster (2003) perspective provides for some interesting insights into network research, such as the constant focus on the antecedence of networks. The first grouping of studies is according to the direction of causality. They (Borgatti and Forster, 2003) note that since network research is a relatively young field the primary objective has been to achieve legitimacy. The obvious strategy for gaining legitimacy is to show that network variables have consequences for important outcome variables that are important in more traditional fields. The result is that the fundamental dimension distinguishing among network studies is whether the studies are about the causes of network structures, or, about the consequences. The bulk

of especially the earlier network research has been concerned with the consequences of networks. Until networks had legitimacy, there was little point in trying to publish papers on how networks come to be or change over time.

Borgatti and Forster (2003) identify a structuralist perspective, as initiated by White and his Harvard group, also supporting the studies focussing on consequences. The proposition that an actor's position in a network has consequences for the actor has occupied a central place in network thinking. This is the structuralist paradigm favoured by sociologists who began to dominate network research in the 1970s (Burt, 1992). Networks are seen as defining the actor's environment or context for action and providing opportunities and constraints on behaviour.

Studies that examine the causes of network variables often oppose structuralism theories (Borgatti and Forster, 2003). These explain the network in terms of actor personalities and latent propensities (Mehra *et al.*, 2001), which is in contrast to the strong structuralist positions (Burt, 1992). Work on network antecedents is abundant, and is embedded in the various substantive areas (Gulati and Gargiulo, 1999). These studies address how and why organizations form ties and select partners, the role of interlocking directorates or alliances or supply chains; or, the effects of proximity and homophily (McPherson *et al.*, 2001), and whether it is about network causes, or agent-based models of networks.

The second parameter for grouping of studies is according to levels of analysis. Borgatti and Foster (2003) conclude that network data is fundamentally dyadic, meaning that we far easier observe a value for each pair of nodes (e.g., whether actor A and actor B are friends or not), rather than for each node (e.g., age or gender of each actor). In these studies the hypothesis are clearly formulated at the dyadic level. In essence, dyadic hypotheses predict the existence of ties of one social relation, connected with the ties of another relation measured on the same actors.

Levels of analysis are traditionally defined in terms of the scope and complexity of the entities being studied (Borgatti and Foster, 2003). Typically, organizations would represent a higher level than persons. They (Borgatti and Foster, 2003) note that in network research the situation is deceptively different, because the obvious levels of analysis (dyadic, actor and network) do not necessarily correspond in a simple way to the type of entities being studied. Firstly, at an actor-level analysis which is one step up from the dyadic level, such as examining how an actor's centrality in the

communication network of an organization relates to his ability to innovate and solve problems. Then at a network - or group-level analysis which is again one step up from the actor level; for instance the communication networks of the top management teams in separate firms. Finally, an analysis of a network, such as that of a network of alliances among biotech firms. Basically back at the actor level of analysis, probably invoking the same arguments that were used for the first actor-level hypothesis, the micro and macro can be very similar theoretically and methodologically. Borgatti and Foster (2003) reiterate that it is not implied that every theory that applies to networks of actors also applies to networks of organizations, the agents have different capabilities and the relations have different meanings.

The bulk of the literature is focused on the consequences of networks, and a typology is defined by cross-classification according to two dimensions; explanatory goals and explanatory mechanisms (Borgatti and Foster, 2003). Consider the difference between a social capital study attempting to explain promotion rates in terms of aspects of an actor's ego-network, and, a diffusion study of corporate practices. The perspective in the social capital study is more evaluative, concentrating on the benefits of social position. This evaluative aspect is prominent in almost all social capital studies. The diffusion study is interested in the process by which practices spread through a system. Secondly, the social capital study emphasizes the possibilities that social ties provide the individual, whereas the diffusion study is about how the network changes the actor (Borgatti and Foster, 2003).

Network diffusion studies are typical of the structuralist tradition that emphasizes constraints (DiMaggio and Powell, 1983 in Borgatti and Foster, 2003), The social capital literature concentrates on opportunities (Gargiulo and Benassi, 2000). Friedkin and Johnsen (1999) also observed that the actor in social capital work is generally a very active agent who exploits his network position, and, that adding a rational actor assumption to social capital theory, actors deliberately choose their ties and manipulate the network structure, specifically in order to maximize gain. This calculative individualistic aspect of social capital work contrasts with the focus on the social environment that is found in diffusion and social influence research.

Friedkin and Johnsen (1999) then also came to the conclusion that the difference between the social capital and diffusion studies is similar to the classical tension between agency and structure, borne out by the goals of the research. Social capital studies seek to explain variation in outcomes as a function of social ties. Diffusion

and social influence studies seek to explain homogeneity in actor attitudes, beliefs and practices, also as a function of social ties.

In the explanatory mechanisms dimension, a distinction is made between structuralist and connectionist perspectives. Network studies have different views on ties and their functions. Studies of individual social capital have two areas of focus. In the structuralist domain, the focus is on the structure or configuration of ties in the ego-network (Coleman, 1990; Burt, 1992). It is a structural, topological approach that focuses on the patterns of interconnection and pays little attention to the content of the ties. In the other, connectionist domain, the focus is on the resources that flow through social ties (Snijders, 1999). Ties are viewed as conduits through which information and resources flow. The actor draws on the aid controlled by his alters. Burt (1992) surmised that the difference between these two streams is also denoted in terms of the “how” or structuralist, and the “who” or connectionist.

Borgatti and Foster (2003) make a further distinction of structuralist as opposed to connectionist, that of structural versus relational embeddedness (Granovetter, 1992). They (Borgatti and Forster, 2003) conclude that the connectionist perspective implies an interpersonal transmission process among those with pre-existing social ties using congruence in similar preferences. According to the structuralist view two nodes will have similar outcomes because they occupy structurally similar positions, even in the absence of a connecting tie between the two. The mechanism yielding homogeneity is the common type of social environment and not a transmission from one actor to the other as in the flow conception.

The following table (Table 2.1) depicts the cross-classifying of the two dimensions of explanatory goals and explanatory mechanisms of research on network consequences. This produces four canonical types of network studies; structural capital, social access to resources, environmental shaping, and, contagion are formed.

**Table 2.1 Typology of research on consequences of network factors**

	<b>Social Capital</b> (Performance Variation)	<b>Diffusion</b> (Social Homogeneity)
<b>Structuralist</b> (Topology)	Structural Capital	Environmental Shaping
<b>Connectionist</b> (Flows)	Social Access to Resources	Contagion

From Borgatti and Foster (2003:1004)

The structural capital studies are the topological or structuralist variants of social capital studies. These studies focus on the benefits to actors of either occupying central positions in the network (Powell *et al.*, 1996) or having an ego-network with a certain structure (Burt, 1992; Coleman, 1990). The actor is a rational, active agent who exploits his position in the network in order to maximize gain. The benefits to the actor are a function of the topology of the network, and ties are forming a structure that can be leveraged (Burt, 1992, Coleman, 1990). At the network level of analysis, structural capital studies seek to relate the network structure of a group to its performance (Athanassiou and Nigh, 1999).

Resource access studies are those social capital studies with primarily a connectionist focus. The actor's success is a function of the quality and quantity of resources controlled by his alters in a network (Oliver, 2001; Stuart, 2000). The ties are conduits through which ego can access resources. The ties are specific and vary in the capacity for extracting resources. As with structural capital studies, actors are rational and active agents who instrumentally form and exploit ties to reach objectives.

Environmental shaping studies are those studies which Borgatti and Foster (2003:1004) group as “... of convergence explaining common attitudes and practices in terms of similar network environments, usually conceptualized as centrality or structural equivalence”. Actors are structurally equivalent to the extent they are connected to the same third parties (Burt, 2001), regardless of whether they are tied to each other. Borgatti and Foster (2003) refer to DiMaggio and Powell (1983), for instance, that use structural equivalence to explain common attitude formation, using measures of structural equivalence to model the notion of organizational isomorphism. They (DiMaggio and Powell, 1983) found that mechanisms generating similarity between two organizations have to do with sharing the same environments.

Borgatti and Foster, (2003) cite the studies of Davis and Greve (1991) and Haunschild (1993) to show how contagion studies explore shared attitudes, culture, and practice through interaction. In these studies the spread of an idea, practice, or material object is a function of interpersonal transmission along friendship or other durable channels. Again the ties are the conduits through which information or influence flow. Actors are mutually influencing and informing each other, thus creating ever increasing homogeneity within structural subgroups. The distribution of ideas is a function of the structure of the relationship network.

The analysis of studies on social capital according to the dimension studied, as advocated by Borgatti and Forster (2003), as opposed to the area of origin, as used by (Berry *et. al*, 2004), enables a grouping of studies much more focussed on the actual objective of the study.

### **3. Business and social capital**

It will be shown in this section that business, as a social construct, is significantly swayed under the influence of social capital. In support of the role of social aspects in business, Biggart and Castanias, (2001:481) argue against:

*“the separation of the social and the economic, a disciplinary division of labour that places rational commercial activity under the purview of economics, while sociology and the other social sciences are properly concerned with the irrational impulses that constitute political activity and the balance of social life. Viewing social as exclusively irrational, not only obscures important economic processes, but does not acknowledge that actors actively calculate the social assets they have available for achieving their economic interests, or, the ways in which social relations shape economic interests”.*

In support of this argument a number of scholars, economists, sociologists, anthropologists, and other social scientists (Bourdieu, 1986; Swindler, 1986; Coleman, 1988; Burt 1992, Biggart and Castanias, 2001) have discussed the numerous ways in which social arrangements both prompt and channel economic activity, concluding that social capital predominantly benefits business.

Healy (2004) goes as far as to claim that almost all economic activities are connected to a network of social relations and that social capital affects productivity at both the micro and macro level. He even equates the ability to use social relations at the individual level as a reflection of the fairness of economic opportunities. Some

of the main benefits of networks, and thus social capital, are that it reduces risk and transaction costs, facilitates access, shares knowledge and gives access to capital (Friedkin and Johnsen, 1999).

Social capital also is predominant in the international business arena. Global social capital is a concept introduced by Diskin (2003). He (Diskin, 2003), concludes that the mass culture that is spreading across the world is increasingly performing the role of a mediator between the global culture and the traditional cultural context. Also, that the resultant socio-cultural situations range from basic integration, which is characteristic of countries constituting the core of the global economy, to tense confrontation, often arising from the modernization crises in the Third World. In line with his strong Marxist convictions, Diskin (2003) argues that the US Dollar, as the world currency, performs the functions of reproducing confidence in the entire world economic system. The NYSE, NASDAQ and leading investment banks and funds are the generators of global social capital through their economic activities. Growing confidence in them as key elements of the global economy is directly connected with confidence in the entire world economic system and promotes investment and economic development in the world. The Dollar is not backed by the traditional gold or foreign currencies, but as world currency is backed primarily by global social capital. Most of the income is derived by the USA, payment from the world for its contribution to the increase in global social capital. He relates strongly to the dark side of social capital, similar to the dark side of networks.

### **3.1 Economic networks**

#### **3.1.1 The company**

It is generally accepted that a company is nothing but a network, governed through social relations among different actors (Goshal and Bartlett, 1990). Yueng (2005:313) states that: *"The firm is the arena of contested ideologies and political representations among actors where space and geographical scales matter in shaping social construction"*. The firm serves as a relational institution that connects spatially differentiated actors in different places and regions. Armin and Thrift (1994:215) coined the term, institutional thickness, that denotes *"the combination of actors including inter-institutional interaction and synergy, collective representation by many bodies, a common industrial purpose, and shared cultural norms and values"*. It is no wonder that the substantivists view the economy as inseparable from everyday social life (Biggart and Castanias, 2001).

The Multinational Enterprise can be viewed as an inter-organizational network in which the relationships between the operating units form the multinational network (Holm, Johanson and Thilenius, 1995). Goshal and Bartlett (1990) utilised intra-organisational theory to build a model of the multi-national corporation as an “*internally differentiated intra-organizational network*”. This model depicts the MNE as a group of geographically dispersed and goal disparate organisations made up of its headquarters and the different national subsidiaries. This intra-organisational network (MNE) is embedded in external networks consisting of all other organisations such as customers, suppliers and regulators.

Anthropological theories (Haley, 2001) explain how political and economical networks develop as MNEs create subsidiaries and branch offices; merge and cooperate with other firms, interact with political groups and with governments. She, (Haley, 2001), also noted that MNEs develop political control networks that act as socially integrating mechanisms.

### **3.1.2 Company networks**

Networks are thus an integral part of the business milieu. Firms maintain close working relations with important market counterparts and stakeholders. These networks serve a multitude of purposes. Inkpeng and Tsang (2005) conclude that competence development, for instance, is not driven by general market forces, but by interaction with customers, suppliers, and competitors. The role of social capital dimensions in the transfer of knowledge has been studied as well (Inpeng and Tsang, 2005; Ng, 2004). At an organizational level, social capital benefits include privileged access to knowledge and information, preferential opportunities for new business, reputation, influence, and enhanced understanding of network norms and enhanced knowledge transfer (Inkpen and Tsang, 2005). Networks themselves are also transformed under the influence of social capital.

Ng (2004) found that the degree of entrepreneurial subjectivity and alertness reciprocally affects the social capital benefits of networks. Also that network structure and performance is attributed to the cognitive attributes of entrepreneurship. Social capital benefits lead to the formation of a network that is subject to internal evolution.

During the 1980s and 1990s, the network organization became a fashionable term for organizational forms characterized by repetitive exchanges among organizations that rely on trust and embedded social relationships to protect transactions and reduce their costs notes Powell (1990). Network organizations combine the flexibility

of markets with the predictability of traditional hierarchies. In this case, the notion of a network refers to an organizational form with distinct structural properties.

An inter-firm network, as described by Sydow and Windeler (1998:267), is “*an arrangement among distinct but related organizations which is characterized by a special kind of network relationship, a certain degree of reflexivity, and a specific logic-of-exchange*”. They (Sydow and Windeler, 1998) found inter-firm networks to differ from any inter-organisational arrangement of firms at least with respect to three structural properties. Firstly, creating and organizing inter-firm networks necessarily focuses on designing or shaping relationships between firms. These relationships are the medium and outcome of intensive inter-organizational interaction, provide more dense information channels, demand more loyalty and trust and show a degree of social embeddedness.

Secondly, Sydow and Windeler (1998) conclude that inter-firm networks operate on a logic-of-exchange that is very different from the logic of markets and hierarchies, especially in how this logic combines cooperative and competitive elements, autonomy and dependence, trust and control. This is the logic that Granovetter (1985) refers to as social embeddedness. These stable relationships among social actors shape their expectations and behaviour. Network practices are also viewed as embedded in the social context of the inter-firm network. This social embeddedness is economically valuable because it reduces transaction costs and creates an opportunity structure.

Economic approaches to inter-firm networks focus on the production and transaction cost advantages, the efficient boundaries, and the rational design of this organizational form (Williamson, 1991). Organizational theories highlight the role of internal and external contingencies in the design of inter-firm networks, the relevance of internal resources and the difficulties for competitors to imitate them (Barney 1991). Network theories emphasize structural components, network position and structural equivalence in explaining the evolution and behaviour of inter-firm networks (Sydow and Windeler, 1998).

There exists a difference on opinion on whether the inter-firm network represents an organizational form or if it is just a special variation of organizational networks. Sydow and Windeler (1998) question the value-added of describing it as a new organizational form, since organizations are already thought to be embedded in a network of economic and social relations.

Joint ventures represent another specialized form of business networks. Gulati (1998) notes that research on joint ventures and inter-firm alliances have grown over the past two decades. There appears to be a growing consensus that inter-organizational alliances and joint ventures have play a significant role in firm-level outcomes such as start-ups (Chen and Chen, 1998), firm valuations (Das, Sen and Sengupta, 1998) and organizational learning (Kostova and Roth, 2002).

The joint venture literature focuses on both the origins of networks and on their outcomes. A major objective is to explain why organizations form joint ventures and alliances and how they choose their partners. Firstly, based on both transaction cost economics and the logic of resource dependency, that alliances can be used to reduce a firm's exposure to uncertainty, risk, and opportunism (Chen and Chen, 1998). Alternatively, linking to institutional theory, that alliances are made with larger, higher status firms in order to obtain access to resources and legitimacy (Stuart, 2000). A third perspective focuses on what can be learned from alliance partners.

From the perspective of learning, joint ventures and alliances provide access to difficult to obtain information and knowledge resources which improve firm performance and innovation (Kale *et al*, 2000; Kogut, 2000; Oliver, 2001). These objectives correlate with the theory on access to information discussed previously in the advantages of social capital, a point made explicitly by Burt (2003). Powell *et. al.* (1996) conclude that learning happens not only through the access to information, but also through the process of managing an inter-firm experience itself.

While most research on foreign market entry has focused on entry mode selection, the findings of Holm, Eriksson and Johanson (1996) indicate that the development of cooperative relationships (or networks) with customers, suppliers or other business partners may be critical. Their results show that success may be a matter of managing the relationship development processes rather than of choosing an appropriate entry mode or organizational form. According to this process view, entry mode selection is an element in a process of relationship development. Furthermore, the development of a central business relationship in a foreign market should not be considered in isolation from other business relationships. Foreign market entry seems to be a process in which the entrant firm develops relationships with partners in the foreign market and coordinates its connected business network relationships with exchange in the entry relationship.

An unexpected source of inter-firm networks is found in board interlocks; as the ties amongst organizations through a member of one organization sitting on the board of another. Mizruchi (1989) found interlocks to explain and predict similarity in organizational behaviours. Also interlocks have proven a means by which organizations reduce uncertainties and share information about corporate practices (Haunschild, 1993; Gulati and Westphal, 1999).

It is not surprising though to find companies in participating in networks with the societies in which they operate, it does represent a significant stakeholder to business (Haley, 2001). The networks have an effect on companies by diverging the focus from purely profit maximization with some social responsibility (Haley, 2001; Gerlach and Palmer 1981). Societies apply definitive normative pressure on the strategies of MNEs (Lenway and Murtha, 1994). Investors in the home country now consider the so-called “triple bottom-line”, which includes social responsibility and environmental protection, thus influencing the behaviour towards societies in host countries. Vogel (1996) points to the emergence of strong, independent, public interest movements in the United States, acting as watchdog over both government and business. Consumer boycotts have proven to be very effective, as have lists of corporate heroes and villains. This strategy is known name-and-shame and name-and-praise (Hamann and Acutt, 2003). They (Hamann and Acutt, 2003) specifically refer to the notion of the power of civil society; implicating its rights, denoting independent standards with general legitimacy and acceptance that are codified in legislation, but also a reliance on socially accepted norms and standards.

Networks between companies and societies play an important role in Corporate Social Responsibility (CSR). According to Hamann and Acutt (2003), networks fulfil the crucial function of legitimising the capitalist system and, more specifically, the activities of large-scale corporations. This network changes shape as problems are identified and potential solutions considered at the individual, organisational and network levels. Not only governments (as discussed in the next section), but also civil society, are in a strong position to further their developmental objectives. They (Hamann and Acutt, 2003) observe that The Sullivan Principles are a direct result of pressure on USA MNEs to disinvest in South Africa during the Apartheid era. Another high-profile example in South Africa is the recent campaign against thirty-nine pharmaceutical companies which took the government to court over the HIV/Aids drug patents, and were forced to back-down and withdraw the court case as a result of pressure from society (Smith, 2003).

### 3.1.3 Embeddedness

The parameter used to describe the magnitude of the Relational Dimension is referred to as embeddedness. It is specifically the extent to which an organisation is involved in networks, as opposed to the individual, that initially lead to the coining of the term embeddedness (Granovetter, 1985). Tung, (2002) notes that it is the same models used for social networks have been superimposed on business networks and then used to describe the interaction on a business level.

Embeddedness, as referred to by Granovetter (1985), refers to the concept that all economic behaviour was necessarily embedded in a larger social context; that economic exchanges are embedded in social networks, and that in fact economics was but a branch of sociology. The benefits of embedded ties are associated with closer and more exclusive business relationships (Chen and Chen, 1998; Uzzi, 1997). Borgatti and Foster (2003) concluded that repetitive market relations and the linking of social and business relationships generate embedded logics that differ those emerging in traditional arms-length market relations.

Network embeddedness thus refers to the extent to which firms are involved in networks. As alluded to earlier, firms are engaged in exchange relations in the process of doing business, some of these develop into more close and long-lasting dyadic relationships. Holm, Johanson and Thilenius (1995) found that some of these relationships become more important than others; the reason being high volumes with a business partner, superior financial returns, driving technical development or access to other important actors or market segments. Also, that a firm bases its actions on a limited set of close and complex business relationships with customers, suppliers, other cooperating firms and public agencies considered important by the firm. The fact that the actors in a network are influenced by their relations with third parties (e.g. customers' customers) means that in effect these networks are unbounded.

An organisation's embeddedness has been related to Transaction Cost Economics (TCE), (Granovetter, 1985; Kristiansen, 2004). TCE is a relational theory in which the economic performance dominates social relations in the exchange behaviour. Biggart and Castanias, (2001) discovered that some social ties exist solely for the protection of economic transactions.

Embedded ties have been found to affect the choice of joint venture partners (Gulati and Gargiulo, 1999), the cost of capital (Healy, 2004), the continuity of client relations (Holm, Johanson and Thilenius, 1995), and the performance of firms with close ties to both competitors and suppliers (Goshal and Bartlett, 2000; Uzzi, 1997).

### **3.2 Business norms and trust**

The core of business trust and norms is encapsulated in the concept of collateral. Collateral, introduced by Douglas (1995), touches on both the normative and reciprocity phenomena of social capital that are especially relevant in its application in business. Social relations and social structures that perform economic functions can function as collateral, and further, economic actors use their knowledge of their social relations and the relations of others to advance their interests.

Collateral is similarly used by Douglas (1995) to refer to social relations that are used to assure economic relations, that is, those that help to reduce risk and to sustain predictable economic outcomes. This correlates with the principles of trust in that actors will normatively adhere to obligations of reciprocity (Healy, 2004; Coleman, 1990; Putnam, 2000). Collateralized social relations are thus those that serve economic ends. These are the cultural imperatives and social relations as assets that actors can use to solve economic problems. When calculating the level of risk of transactions, social relations can be used to mitigate that risk, to the extent of promoting exchanges that might not have taken place were it not for the presence of a social relationship. Douglas (1995) concludes that social relations can function as collateral or assurance that an economic transaction will proceed as agreed. Just as material assets can function as collateral to assure economic outcomes, collateralized social relations can also serve as a presumptive guarantee, it can in fact replace monetized, market driven solutions to economic problems; a form of economic insurance.

Biggart and Castanias (2001) have identified seven ways in which social relations can be collateralized, that is, made to serve economic purposes. These functions of social relations are grouped into three analytic categories,

- I. Information and Search; continuing relations carry information of a substantive, technical nature, but also about morality of exchange partners and their trustworthiness'
- II. Coercion-Enticement, social relations may act coercively to push people into economic transactions or pressure them to uphold agreed terms. There are four ways of doing this;

- i. Recruitment, social networks are an important resource for recruiting people into a range of economic activities. The phenomenon of nepotism is an example,
  - ii. Obligation; social obligations acquired through friendships require a purchase as is employed when inviting friends and family to Tupperware parties.
  - iii. Monitoring; ongoing social relations allow parties to monitor each other's economic performance,
  - iv. Discipline and Control; peer pressure may function to discipline. Norms in the social network enforces the repayment of debt.
- III. Causal Mechanisms refer to the role of social relations that provide normative pressures that shape economic participation coercively or enticingly. Status Honour or conspicuous consumption indicates consumption to achieve status in the eyes of others (e.g. charity auctions). Also, economic contributions to the community are recognised communally a signs of commitment and trust and elevate the actor to membership status. Affective ties means organizing people who feel an emotional and social obligation to one another into teams. They note that these are not mutually exclusive categories; a social relationship can serve multiple economic functions, nor profess this to be an exhaustive list.

(Biggart and Castanias, 2001)

### **3.2.1 Corporate Social Responsibility**

Since the emergence of the phenomenon of Corporate Social Responsibility (CSR), public companies are increasingly reporting on their social and environmental impact. CSR falls under the umbrella of sustainable development. Fraser (2005) found that companies with higher sustainability ratings outperform the others. As a significant portion of a public company's value is represented by goodwill, the public perception is pivotal. Several organizations have made global efforts to standardize corporate social behaviour (Fraser, 2005).

Artraud-Day (2005) proposes a tri-dimensional trans-national model that identifies the key aspects of international CSR. The first dimension is based on the Goshal and Bartlett typology of MNE strategies; multi-national, global, international and trans-national. Secondly, overlaid are the three common conceptual domains of CSR; human rights, labour and environment. The third dimension are the so-called I-S-O perspectives on CSR; ideological (I), what the firm and its members believe it should be doing; societal (S), the demands and expectations placed on the firm by

external stakeholders, and, operational (O); the firms actual behaviour. He (Artraud-Day, 2005) noted that multiple host country cultures have varying expectations from an MNE on its CSR.

Economic theory and ethics models predict, according to McWilliams and Siegel (2001), that firms that are conducting business with stakeholders on a basis of trust and cooperation, have an incentive to demonstrate a sincere commitment to ethical behaviour. This ethical behaviour will enable companies to develop lasting productive relationships with these stakeholders and enable them to achieve a competitive advantage. They (McWilliams and Siegel, 2001) refer to Corporate Social Performance (CSP), specifically environmental performance, which can be a source of competitive advantage. Relating CSR to the theory of the firm, in which it is assumed that the management of publicly held firms attempt to maximize profits, CSR is form of investment. The two main sources of demand for CSR are from consumers and demand from other stakeholders such as investors, employees and the community. An optimal level of CSR will maximize profits while satisfying the demand of CSR from the multiple stakeholders. It is possible to determine this through cost-benefit analysis.

The two motivating factors for a strategy of CSR are the desire to do good (the normative case), and CSR that reflects an enlightened self-interest (the business case) (Smith, 2003); and the choice may reflect a mixture of these motivations. He (Smith, 2003) found the three key pressures of corporate competitiveness, corporate governance, and corporate citizenship, to play a crucial role in shaping the CSR agenda for business.

The literature reflects a high level of pessimism when it comes to CSR. Hamann and Acutt (2003:259) note that *“CSR discourse is characterised by considering private companies as given and immutable economic agents, on whose enlightened self-interest the well-being of, say, the mine's neighbouring communities depends”*. Smith (2003) observed that with the growing recognition of the failure of governments to solve many social problems, criticism of business is also more far-reaching because more is expected of business, the private sector being increasingly called upon to address social problems, in addition to that which it is more directly responsible, such as pollution

Donaldson (1999), in explaining the motivation for CSR, draws on social contract theory for business. Founded on their consent; corporations exist through the

cooperation and commitment of society. Key are what business needs from society and what, in turn, are its obligations to society; constituting its licence-to-operate. Here the critical consideration is the firm's reputational risk.

Two important issues in considering the drivers of CSR are accommodation and legitimisation (Hamann and Acutt, 2003). Accommodation takes place in explicit interaction between parties, what companies should do and not do. Legitimation works at a level of influencing discourse. They (Hamman and Accut, 2003) conclude that CSR discourse fulfils the crucial function of legitimising the capitalist system and the activities of large-scale organisations. Parkin (1994) calls these overall conceptions of what is desirable 'normative systemic structures', CSR thus serves to maintain and perpetuate normative systemic structures in a way that serves the interests of the status quo.

Civil society sees corporate social responsibility (CSR) by private companies, from the perspective of their role as development agents, particularly in partnership with the government and civil society groups. Marsden (2000) notes that CSR or corporate citizenship is meant to link the market economy to sustainable development, but large corporations are responsible for much of the social and environmental disruption, at the same time are considered key allies in the fight against these negative impacts. This he (Marsden, 2000) refers to as the corporate citizenship paradox.

The locus of power for civil groups lies in the name-and-shame, or alternatively, name-and-praise effect on company reputation. Hamann and Acutt (2003) identified four requirements for effective partnerships between business and civil society. In balancing power asymmetries, each party is capable of imposing significant costs or providing valuable benefits. In acknowledging critical rights, the threat of litigation is an important negotiation tactic for civil groups. In negotiating both converging and conflicting interests, awareness allows for identification of options of mutual gain. When managing relations with stakeholder constituencies, especially important where there has been a history of conflict between civil society and business, or where stakeholder groups are characterised by much diversity, which is often the case with civil society structures.

Not everyone is for CSR, Henderson (2005) is against businesses pursuing corporate citizenship and sustainable development in the name of Corporate Social Responsibility (CSR).

### 3.2.2 Corruption

Corruption is maybe the most sensitive topic of MNEs operating in host countries. Rodriguez, Uhlenbruck and Eden (2005,) in their review of the substantial literature on corruption, identify two key dimensions. Firstly, pervasiveness as: *“the average firm’s likelihood of encountering corruption in its normal interactions with government officials. It is the degree to which corruption is a regular and meaningful part of commercial activity”*. Secondly, arbitrariness as: *“the inherent degree of ambiguity associated with corrupt transactions in a given country”*. Where corruption is highly arbitrary, transactions with government officials are characterized by an enduring uncertainty regarding the size, target and number of corrupt payments necessary to achieve a positive outcome. Consequently, a low degree of efficacy is attached to engagement with corrupt officials, despite the fact that such involvement may be quite frequent. They (Rodriguez, Uhlenbruck & Eden, 2005) state that institutional theory predicts that organizations strive for external legitimacy by complying with their institutional context and, that firms are unlikely to achieve legitimacy by engaging government officials in an arbitrary corrupt environment.

Rodriguez, Uhlenbruck and Eden (2005) found these two dimensions of corruption to be independent, capturing wholly different aspects of corruption. Neither is solely sufficient to fully characterize the local environment; they are simultaneously experienced and should be considered together.

Corruption significantly reduces direct investment flows into an economy, and is also negatively associated with growth and openness to international trade (Rodriguez, Uhlenbruck & Eden, 2005). Of the equity modes of entry into a host country, via a wholly owned subsidiary or a joint venture with a local entity; MNEs may favour joint ventures in an effort to enhance external legitimacy and averting the costs associated with foreignness through isomorphism with the host country environment.

The views on bribery and corruption are very country-specific. In some countries bribes in the host countries are an allowable deduction from taxable income (Ginwala, 1998), or, as operating expenses or special outlays (Leisinger, 1998:115), whilst others like USA have legislation that makes it a punishable offence (Leisinger, 1998). Generally, the developing countries are branded as corrupt, *“Payments tainted with corruption may indeed occur more frequently and involve various office holders more often and to that extend may be a condition of business”* (Leisinger, 1998:116). Ginwala (1998), more blatantly notes the perception; *“Blacks are also*

more corrupt. It's 'their culture' we are told" (Ginwala, 1998:62), but this state she blames on the MNE managers and home country politicians (Ginwala, 1998:62):

*"Regrettably, both governments and companies have engaged in corrupt practices to retain or expand their share. Company officials have bribed politicians, public servants, and businessmen in order to secure lucrative contracts. Some politicians from the developed countries have gone beyond a justifiable attempt to influence and persuade, and themselves engaged in corrupt practices"*

The divergent views of corruption have a definite cultural dimension to it. Leisinger (1998:120) reflects his experiences:

*"In many cultures gifts given directly, as in the form of an invitation to dinner or other favours of this order are frankly expected as marks of respect or as prove of amicable relations. Refusing them can be taken as a sign of rejection or even as an affront. In other cultures the fact that a company presents potential customers with gifts may be criticised as bordering on corruption, or at least ethically suspect".*

Ginwala (1998:63) is much more critical of this point-of-view:

*"Popular definitions and perceptions of corruption are themselves culturally value-laden, focusing on those who receive the cash or pay-offs, and away from those who make the payments in order to secure benefits for themselves or their companies".*

These cultural differences also do not seem to become less pronounced as globalisation increases, *"The process of globalisation not only brings no automatic support for ethical universalism, it even seems that the reverse phenomena of cultural regionalism and differentiation support ethical particularism"* (Gethmann, 1998:230). Koslowski (1998) supports a view that cultural variances should be maintained, inclusive of divergent levels of tolerance; *"The object of ethics and the humane and social sciences, and therefore also of economics, is the culture of a society: its way of life and its self-interpretation of this way of life"* (Koslowski, 1998:288). Gethmann (1998:231) found that globalisation actually serve to accentuate these cultural differences;

*"Many phenomena, such as regional conflicts, which are increasing in number and militancy, because of religious and other cultural diversity, ....., cause one to fear not only that the dynamics of globalisation do not promote universalism but even that the dialectical counter-movement or regionalisation, on the contrary, strengthens ethical pluralism".*

The driving force for MNEs engaging in corrupt activities lies in what Gethmann refers to as *“the problem of competitive disadvantage because of the observance of moral standards”* (Gethmann, 1998: 229). Stagnant economies in the developed world has led to fierce competition among national and multinational companies for a greater share in international trade in Asia, Africa, Latin America, and now Eastern Europe. Ginwala (1998) notes that in these regions bribery and corruption has been part of the transacting.

### **3.3 Perspectives on social capital in business**

The various views on the possible advantages of social capital in the business arena can be traced directly to the perspectives on social capital in general. Representing the rationalistic and structural perspective, rational choice theorists (Coleman, 1988), employ the idea of social capital to refer to possible advantages that flow from a structure of relations. Just as financial capital is the material credits one has to invest, and human capital is an investment in personal skills and abilities; Social capital are those social relations that can be used to generate credits in exchange. Burt (1992) expands this position include a structural theory of competition. Networks of relations provide conditions in which individuals profitably exploit their financial and human capital.

The cultural subjectivist perspective (Bourdieu, 1986) employs a market analogy to refer to the economic, cultural, and social capital that individuals use. Culture and social structural relations provide strategic resources for actors (Swindler, 1986), actors use these cultural references and understandings (cultural capital) for resolving a problem. Swindler (1986) note that actors are rational but that each has a different ideational, material, and social capital reference. According to this perspective, the very organization of society, inclusive of substantive relations and the meanings attached to those relations, are strategic assets.

The perspective of social constructionist research demonstrates that actors calculate and strategically use their social assets. Based on the principle of reciprocity, Hochschild, (1989) refers to an economy of gratitude wherein actors keep track of favours received and extended, where credits are calculated not absolutely, but against a standard of what is expected given different actors' roles in a social setting. Biggart and Castanias (2001) conclude that whilst everyone may be rational and calculating, they are so in reference to the social context in which they are embedded.

In conclusion there are then three perspectives in the literature on the application of social capital in business. The rationalistic and structural perspective views the advantages flowing from social capital as the result of the structure of networks. The cultural subjectivist perspective relates capital to resources and identifies three groups; economic capital employing material resources, cultural capital employing the symbolic, and, social capital utilising relational resources. The social constructionist perspective emphasises the conscious strategic use of social capital by introducing the concepts of “economy-of-gratitude” and collateral.

Social capital also has the potential to negatively influence business. Diskin (2003) gives a perspective on the negative influences of global social capital. He proposes that a limited number of mostly US banks, investment funds, and also insurance companies trade in social capital, obtaining financial capitals in exchange for confidence. He contrasts real increases in project effectiveness achieved through reduction in institutional risks, resulting in sale of social capital at a fair profit, with the speculation in social capital. Speculation activities he groups as those aimed at inflating the amount of social capital by various manipulations. Companies receiving the largest portion of earnings, which are no longer directly connected with the management of financial resources, but with the production of social capital and profit-making from speculation in such capital.

#### **4. Business – Government relations**

##### **4.1 Introduction**

The literature on business-government relations depicts the environment in which the business-government networks operate. To fully appreciate the nature of business-government relations it is necessary to include literature on markets and the supporting theories of market imperfections, mercantilist theories, oligopolistic markets, the dependency school and pluralist theories. The theory underlying the functioning of markets to a large extent explain the origins of the mainly adversarial nature of the business-government relations, especially so those theories on the regulation of MNEs by the host governments. This branch is known as regulatory economics and also extends to regulation of MNEs by their home government. Various theories underlie the configuration of business-government relations such as the bargaining powers and bilateral monopoly models, the obsolescing bargain principle, agency and public choice theories.

The interplay is depicted by Agmon (2003): *“Foreign direct investment is corporate policy, market liberalization is political action by governments, globalisation is the result”* (Agmon, 2003:418)

A basic understanding of the theories of markets, governments’ regulation thereof, and the specific regulation of MNEs leads into the theory of MNE-Host Government relations. The different theories suggest that there are no absolutes and that a unique case is explained by a specific theory. Depending on the perspective of the specific theory and its relevant situation; governments and societies are victims of the big MNEs; or alternatively, MNEs are totally at the mercy of the political whims of governments, including that which is acceptable to the society they operate in.

#### **4.2 Business and government competing**

In essence the MNE-Government relations is a function of the relative bargaining power that each has. The literature indicates that Government-Business relations present as a continuously shifting position in power of the one in relation to the other (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992). The prevailing position is a function of the initial and changed objectives relative to the initial and changing power of each. The basis for the theory on the bargaining powers of MNEs and government are the various theories on the uneven access and control of raw materials, markets, resources, technology and information (Peng, 2000; Brewer, 1992). The power struggle or adversarial culture (Vogel, 1996) is the result of the vested interests of the two parties flowing from their opposing mandates, those of the constituents and those of shareholders respectively (Agmon, 2003). Agmon (2003:416) denotes the dynamic nature of these relations: *“Globalisation is the outcome of the interface between national states and MNEs. It is a negotiated solution rather than a perfect market equilibrium”*.

The distribution of power between governments and MNEs forms the basis of various political-economic theories. The first models were the bi-lateral monopoly models (Penrose, 1952 cited in Haley, 2001). MNEs control capital, technology, and, management and marketing skills to start economic projects. Governments in turn control the actual access to the country itself, as well as conditions of the operations therein. This constitutes the basis of what is known as the resource-dependence theory. Agmon (2003) refers to the MNE’s as having propriety ownership and the governments, the location advantages. The more lucrative the national market, the more relative power the state has (Blumentritt, 2003).

At the core of the bilateral monopoly model is the profit generated by the economic activity, and it is these profits that the MNE and Government compete for (Brewer, 1992). The power of MNEs is located in their ability to generate profit and then provide employment, pay taxes and generate foreign investment. Both Brewer (1992) and Haley (2001) observe that, as predicted by the bilateral monopoly model, government initially provide MNEs with just enough benefits to entice them to invest, and once they have, MNEs only receive enough to stop them from leaving. Also, that the upper limit of what government is prepared to give MNEs is a function of the scarcity of MNE investment. Peng (2003) notes that over-and-above the fact that FDI is not a zero-sum proposition, there exists a range of conditions in which the host government and the foreign MNE may both be better off. MNEs will also play one government off against another for better terms (Agmon, 2003; Calzolari, 2001). Agmon (2003) observes that since World War II foreign direct investment and market liberalisation has been correlated.

The concept of the obsolescing bargain has been found to be inherent to bilateral monopoly political-economic models (Vernon, 1979). The premise of the obsolescing bargain is that the MNE's perception of the initial risk and uncertainty is determined by production costs and market status. In an attempt to persuade the MNE to investment, governments structure policies that initially reward handsomely for successful projects. Once these projects have proven successful the uncertainties and risk dissipate, MNEs that are heavily invested cannot leave a country that easily, leading to hostage effects. MNEs are forced to renegotiate or government simply negates on the agreement. Brewer (1992) noted mounting concern over this practice of post agreement renegeing. It is especially the phenomenon of expropriation that is top-of-mind in this political risk theory. Lenway and Murtha (1994:517) define a host government's credibility as "... *the reputation for following through...*". Peng (2000) noticed that, following Governments renegotiations, MNEs may also demand renegotiations with local partners in the MNEs favour.

A second model, the agency model, is also frequently used to depict MNE-government bargaining powers (Chen, 2004). This model pays specific attention to the political-economic perspective where, according to political economic theory, government-MNE bargaining revolves around the power of each actor and this is the result of the interplay amongst economics, politics and structures that regulate business operations. Central is a degree of mutual dependence and factors in an agency relationship. The dependency dimension of this bargaining power model is underpinned by mutual dependence, in contrast to what Haley (2001) calls the

Vernon school of unilateral government dependence on MNEs. Chen's (2004) concept of mutual dependence relates to which actor has most power, and, under which set of circumstances the agreement is most likely to succeed.

In addition to the mutual dependence dimension, the agency dimension of Chen's (2004) model focuses on an agency relationship where the MNE is the principle and the government official the agent. He (Chen, 2004) observes that, firstly, since it is structurally impossible for MNEs to make policy decisions directly, they create governmental agents who act on their behalf in the policy-making process and enhance their bargaining power with the host government. Secondly, governments are political systems and their actual power in bargaining is constrained by internal and external interest groups, as well as by limits put on their bargaining autonomy by their own internal structures. Chen (2004) noticed advantages of what he calls "positive agency relationships", not only an increase in MNEs' bargaining power, but also leading to favoured status and support from authorities to its objectives in a specific policy, as well as access to the policy-making process. It provides for stability and predictability in operations in spite of political and economic turbulence. Positive agency relationships also greatly contributes to the symmetry of MNE-government relations because they require interaction and facilitate regular communications that improve mutual understanding, trust, commitment, relational satisfaction and mutual control. Chen's (2004) observations correlate with those on MNE-Government networks (Borgatti and Forster, 2004), the building of social capital (Healy, 2004) and the resultant advantages that flows from it (Friedkin and Johnsen, 1999).

Related to the agency model of Chen (2004) is the principle-agent model (Peng, 2000), paying specific attention to the principle-agent relationship within the agent dimension of the Chen model (Chen, 2004). The local governments and their employees act as the agents of the central government which is the principle. Various principle-agent problems are apparent. Central government has to rely on local government to act as agents of the state to control MNE activities in their jurisdictions. Local government often have very different cost/benefit criteria to that of the central government, posing further principle-agent problems for the state. Peng (2004) found that the result is that MNE-government interaction is moderated by local governments' agency behaviour.

These models depict a desired position of government and MNEs in the bargaining process, related to two broad approaches. These Lenway and Murtha (1994) and

Goldsmith (2002) term state-centred - and society-centred models respectively. In the state-centred model, as the result of corporatism, the major interest groups are organised in organisations, often compulsory, trying to forge cooperation. Goldsmith (2002) observes that a concern is that bureaucrats may turn the associations into an effective arm of the government whilst ignoring business groups' interests, and that, the centralization of legislative powers decreases the alternatives open to interest groups. In the state-centred model emphasis is on corporation and consensus amongst relative homogeneous groups where the pressures for conformity are high. In contrast, the society-centred model encourages self-selected interest groups to compete for members and for favourable policies from government decision-makers. Concerns are that interest group struggles may lead to a captured bureaucracy; the rich business groups penetrating civil service and taking over important public economic policy-making. Brewer (1992) found that these trade associations operate when regulatory issues are relevant, but on distributive issues they approach government separately. Shaffer (1995, in his public policy of political science, refers to the process of compromise between the competing goals of a multitude of interest groups, as the paradigm of interest group pluralism. Goldsmith (2002) characterises pluralist nations are those with fragmented interests, more market orientation, generally lacking cultural norms of cooperation, often with individualistic norms. The institutional arrangements in pluralist countries guarantee that a variety of interests will come into play and considered in the policy arena. Competition, not collaboration, is the dominant value. Hillman (2003) argues that these central tendencies create an incentive for groups and firms in the political process to assert their own interests.

It is in conclusion the respective bargaining powers of the government and MNEs that to a large extent determine the nature of their relations, and this presents as a continuously shifting position (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992). Vogel (1996) and Agmon (2003) identify a power struggle or adversarial culture between governments and MNEs, the result of vested interests of the two parties because of their mandates from the constituents on the one hand and those of shareholders on the other. The distribution of power is explored by various theories, the first being the bilateral monopoly model of Penrose (1952, as in Haley, 2004) where MNEs monopolise knowledge and capital and governments resources and access to markets. Vernon (1971) adds the principle of the obsolescing bargain where governments give favourable terms to entice MNEs to invest but once committed the advantage swings back to the government. Chen's (2004) agency model identifies the numerous advantages of what he calls "positive agency

relationships". He also significantly observes the need for interaction and regular communications, in essence verifying the existence of networks and the development of social capital. The state-centred and society-centred models are based on the organisation of representative business groups in the various countries and determine the targeted position of MNEs and governments in the relationships (Goldsmith, 2002; Shaffer, 1995; Lenway and Murtha, 1994)

### **4.3 Markets and MNEs**

The market entails the environment in which MNEs operate. Central to most theories on markets is the fact that they are inherently inefficient and imperfect. The market imperfection theories focus on how these market imperfections are exploited by MNEs. This exploitation forms the basis of political-economic theorists' views that MNEs affect the efficiencies and equity of countries (Haley, 2001). Haley (2001) observed that MNEs have the ability to use resources very efficiently and thus increase outputs. They move resources from where returns are low to where they are high. Increase in market competition may also stimulate the efficiencies of the local companies. The equity effects that she (Haley, 2001) refers to are the result of distribution of incremental outputs between MNEs and governments. This is done through taxes, lower prices to consumers and higher profits for MNEs. Dunning (2001b) notes that Hymer had argued already in 1970 that these advantages give MNEs power over governments, enabling them to channel wealth and power away from less developed to industrialised countries.

The existence of these imperfect markets entices companies to extend their business operations beyond the borders of their home-base countries (Dunning, 2001b). Haley (2001) noted that a significant driving force is the fact that they possess, or have access to, resources that give them a competitive advantage over the domestic firms in the host country. Hymer, the first to explain MNE activity as a result of market imperfections (Dunning, 2001b; Haley, 2001), noted these imperfections to relate to the unequal access to capital, skills, information and other resources. MNEs additionally leverage their intangible assets like technology, marketing, capital arbitrage, managerial skill and economies of scale to exploit the imperfect markets (Dunning, 2001a and b; Haley, 2001; Goshal and Bartlett, 2000; Porter, 1985). Porter (1985) attributes the success of MNEs largely to their ability to "configure" and coordinate their activities internationally to exploit advantages in production, procurement, service, technology marketing and sales.

Dunning was amongst the first to identify the exploiting of market imperfections by MNEs (Dunning, 2001a), postulating his theory on the choice of production location in the 1950s. In 1976 he (Dunning, 2001a) presented the “eclectic paradigm of production”, founded on three variables. These are the location-effect (L) of production, the advantages of original ownership (O), and internalization advantages (I). Productivity differences are assumed to depend on spatially transferable intangible assets of parent companies. Goshal and Bartlett (2000) extended this view to include the ability of MNEs to exploit national differences in input and output markets, and also added a desire to maximize efficiencies, reduce risk and enhance learning. Calzolari (2001) noted that these competitive advantages also adds to the MNE’s position of power versus the government of the host country.

Closely related to the theory of market imperfections is that of oligopolistic markets (Dunning, 2001b) Oligopolistic markets are characterised by entry barriers in the form of patented technology, secret know-how, large capital requirements and economies of scale production. Firms in loose-knit oligopolies do recognise their interdependence with rivals but lack mutual understanding to coordinate their activities and tend to invest abroad.

In contrast to what the case is in the theories on market imperfection and oligopolistic markets, mercantilist theorists have argued that governments have the upper-hand in the battle with MNEs (Agmon, 2003). Agmon (2003) cite mercantilist theorists such as Callio and Rowland (1973) which give governments’ political and economic objectives precedence over global economic efficiencies. The (Callio and Rowland, 1973, in Agmon, 2003) focus on the fact that, as a result of the intense competition amongst MNEs for markets and sources of raw materials, governments are able to manipulate economic arrangements to maximize their own interests. Hillman and Keim (1995) refer to this as the “exploitive role of Government”. Agmon (2003) also adds statist theorists such as Krasner (1973, cited in Agmon, 2003) which put the power of governments on a continuum. On the one end are the weakest, those that are vulnerable to interest groups such as MNEs, right up to the strongest states that can changes societies and cultures. He (Agmon, 2003) relates a state’s strength in a society to its ability to resist private pressure, to change private behaviours and to change social structures.

The extreme perspective on the weak position of the state is represented by the dependency school. It is of the opinion that politically the MNEs make host countries dependant on the industrialised countries (Brewer, 1992). Brewer (1992) argues that

in order for MNEs to prosper they need a host government that is sympathetic to capitalism and stable over a long period of time. This dependent development thus encourages authoritarian regimes in host states with alliances with the elite. MNE home governments sustain these exploitive alliances by intervening in the internal affairs of less developed countries.

The theory of the dependency school is founded in sociological studies on the effects of MNEs on host societies such as those by Brewer (1991). These Haley (2001) describes as distinctly Marxist, mostly built on Hymer's depiction of MNEs. The dependency theorists have posited that MNEs distort economic development in less developed countries by forcing them into dependent development relationships. Marxist doctrine argues that the effects that MNEs have on equalities is mediated by its penetration of the society (Haley, 2001). Vogel (1996) is of the opinion that Governments may lose control over their culture and social development. Society's traditional values are undermined by MNEs introducing new values through advertising and business practises. Hamman and Accut (2003) have noted that also in South Africa, the growth of the trans-national economy has lead to immense corporations that have far reaching effects on regions, countries and communities.

Central to the dependency school's social studies, true to their Marxist nature, is the influence on the work force and labour. Brewer (1992) accuses MNEs of adding to unemployment by using technologically advanced and capital intensive manufacturing processes. Only the labour-intensive phase is located in less-developed countries as a result of cheaper labour costs leading to the home country losing jobs to the host country. The employment of advanced technologies also deters the emergence of local technologies in the host country. Access to capital and repatriation of profits prevents the rise of local enterprise. In accordance to the Marxist view that capitalism perpetuates economic and social inequalities, MNEs add to the disparity in income amongst the different classes.

The challenge to governments is the need to balance their political aspirations with the economic ones (Lenway and Murtha, 1994). They describe the foreign policy direction of the home government as a result of balance between economic and non-economic (political) values. According to them (Lenway and Murtha, 1994), developed states can more easily afford to forego economic gains in favour of political objectives such as equity, environmental sustainability and social justice. Developing nations have to give preference to economic principles to attract foreign direct investment.

In addition to control of resources and knowledge, the control of social capital is pivotal in the power struggle between MNEs and governments. The dependency of states and societies, Diskin (2003) directly attributes to the fact that social capital is controlled by business. He (Diskin, 2003) is of the opinion that economic power has transferred to US financial institutions for instance as a result of being the producers of global social capital, in a market for social capital where competition is rife. He is of the opinion that enhancement of competition in production and operation of global social capital makes it necessary to stimulate development of national social capitals. This is in addition to the need for the creation of macro-regional markets of social capital where the levels of socio-political risks are lower than the average of the world economy as a whole. His (Diskin, 2003) perspective links with the theories of Bridging social capital (Putnam, 2000) and Linking social capital (Edelman *et. al*, 2004) when he observes that because social capital may well coexist such values and norms, a strategy for development of global social capital should not aim at the total integration of local values and norms.

The views of the dependency school are strongly opposed by the pluralist theorists (Goldsmith, 2002; Haley, 2001, Shaffer, 1995). They emphasise the other side of the state power continuum and have shown that MNEs have positive effects on the host country. Haley (2001) noted that Foreign Direct Investment (FDI) boosts the local economies, enhancing growth and positively affecting the standard of living. MNEs provide employment and training with accompanying skills development. Local industries are stimulated by procurement from local suppliers. Cooperation between government and MNEs may improve national economic performance and contribute to social upliftment. Both Goldsmith (2002) and Shaffer (1995) reiterate that standard political science or pluralist theory supports strong business interest groups as these encourage good governance. Vogel (1996) is of the view that government and business are collectively responsible to solve a range of problems. They have to protect the environment, make medical care available and build infrastructure that includes the dissemination of information technology.

In summary the theory of market imperfections is used to explain the presence of MNEs in foreign markets (Dunning, 2001 a&b; Goshal and Bartlett, 2000; Porter, 1985), as well as the relative positions of power of MNEs and Governments (Calzolari, 2001). The theory of oligopolistic markets resulting from the presence of entry-barriers is a direct result of imperfect markets (Dunning, 2001a). Statist theories (Agmon, 2003) present the relative power of states on a continuum. In the

extreme weak form the dependency school resides, built on social studies with a Marxist perspective, using the theory of Hymer (Haley, 2001; Brewer, 1992) as the point of departure. States become dependent on MNEs due to their dominance of the economy, but also the penetration of society and culture (Vogel, 1996). Diskin (2003) equates the domination of social capital to power. Pluralist theorists contradict the dependency school and highlight the positive contributions of MNEs, such as FDI (Haley, 2001) and support strong business interest groups (Goldsmith, 2002; Shaffer, 1995).

#### **4.4 Host government regulation of MNEs**

The need for host governments to regulate MNEs is universally accepted. It is only on the degree and extent of regulation, as well as on what the outcomes of regulation will be, that there is a difference of opinion. Contemporary international management theory focuses on the demands on host governments to reconcile efficiency pressures for global competitiveness with political and market forces for local responsiveness (Lenway and Murtha, 1994). Haley (2001) attributes the imperative of host governments to play a regulatory role to the effects that MNEs may have on countries and societies. Blumentritt and Nigh, (2002) observe that since MNE subsidiaries often are large operations and valuable additions to the economy of foreign countries, they are clearly targets of host governments.

The regulation of MNEs by the respective host countries forms part of what is known as regulatory economics in the literature. According to Calzolari (2001), the theory of optimal regulation has its main focus on design of regulatory policies that take into account the opportunities of strategic behaviour provided by incomplete information and limited observability on the part of the regulator. Information thus forms the backbone of the principle-agent paradigm as used in regulatory economics. In Calzolari's (2001) model, the regulated firm (agent) has private information such as the cost of production. The regulatory authority (principle) has to design incentives to offset its informational disadvantage and induce firms to behave in its interests. The regulator has to trade off what he (Calzolari, 2001) terms allocative versus distributive efficiencies. Distributive concerns values the firms' profits less than the consumer surplus. In the Chen (2004) model on the other hand, the firm acts as the principle and the government as the agent. As his (Chen, 2004) model is mainly used in the analysis of MNE-Government bargaining power, the position as principle is indicative of his view on the dominance of MNEs.

The above principle-agent models of Chen (2004) and Calzolari (2001) are augmented by Agmon (2003) by incorporating the O-L-I (ownership-location-internalisation) model developed by Dunning (2001a). He (Agmon, 2003) denotes the strategic nature of the decisions by MNEs and host governments by using the well known metaphor of business as a chess game. He also subscribes to the view that MNEs are maximising profits in a world where national governments have the power to impose costs and to give advantages.

In addition to the agent-principle models, there are also models with what is mainly a market perspective. These describe the interface between business and government as a market (Hillman and Keim, 1995). In this market business is on the demand side of policy and government on the supply side. The market has formal constraints in the form of the rules of congressional or parliamentary institutions, and, culture, values and norms constitute the informal constraints. Linking to the market model of Hillman and Keim (1995), Shaffer (1995) also notes that the public choice models of business-government relations entail a market-like exchange where MNEs buy government favours such as sanctioned entry barriers and subsidies.

The main proponents of strict government regulation of MNE activity are the oligopolistic theorists (Haley, 2001). Dunning (2001a) observes a link between the theory of oligopolistic markets and the dependency school (Haley, 2001; Brewer, 1992) and ascribes their call for strict regulation to this perspective. As MNEs improve their response potential to competitor threats they reduce competition, their comparative advantages and global strategies preventing local companies from competing. These assumptions are derived from the neo-classical economic theories of Hymer (1971, cited in Haley, 2001) and as such it requires governments to intervene to maintain competitive markets and promote social welfare.

Another threat to local competition presents in the MNEs role in inequitable income distribution, one more motivating factor for regulation (Agmon, 2003). Agmon (2003) distinguishes two dimensions of income distribution; geo-political and socio-economic. The common financial economics assumption that the objective of the firm is to maximise value for its shareholders constitutes the basis of the distributive dispute. The objective of the state to increase the welfare of its citizens and the repatriation of wealth back to the MNE shareholders back in the home country is in conflict with this. This represents the strife resulting from the geo-political distribution in conflict with the socio-economic distribution needs.

According to Brewer's (1992) Lowi-typology, two dimensions to host government policies can be identified. He (Brewer, 1992) argues that a large portion of government policies have consequences that are but symbolic in nature, versus the policies that have tangible consequences. Symbolic consequences are those that have subtle and diffuse gains and losses such as a change in the status in society or reputation in a political system. In the Lowi typology, symmetry of policy refers to the impact and consequences of policies across groups. If it is similar the impact is symmetrical, and, if it impacts more on one group it is asymmetrical. He (Brewer, 1992) observes that protection-interaction is a combination of the two as it has both tangible, symbolic and asymmetrical characteristics. It impacts on the distribution and redistribution of the profits of economic activities. Import restrictions and affirmative action are two examples. Taylor (1990) found a contingent consistency between the Lowi policy-types and business perceptions of government relations and the satisfaction with it.

Regulatory economics also positions the home government as a significant stakeholder in the business activities of MNEs (Agmon, 2003; Vogel, 1996; Hillman and Keim, 1995; Lenway and Murtha, 1994). Although these MNEs trade in foreign markets, they play an integral part in the home country macro economy. Dunning (1993) describes the home governments as having to assume the stance of what he calls "strategic oligopolists" to advance and protect their national economic interests. National governments play an important role in the competitiveness of the assets within its control, including those owned by local MNEs.

In a paper called "The State as Strategist", Lenway and Murtha (1994) add legitimacy as an objective to the Dunning (1993) position on strategic oligopoly by depicting international economic strategies as: *"government plans to allocate resources with the intent to reach long-term national political and economic objectives, including growth, competitiveness, national security and state legitimacy"* (Lenway and Murtha, 1994:514). Home governments also play a determining role in enabling local industry to effectively compete internationally, including becoming true multinational corporations (Agmon, 2003; Vogel, 1996; Hillman and Keim, 1995; Lenway and Murtha, 1994). Governments may indirectly stimulate the decision to go international by providing for tax reprieves, subsidies but also more directly by getting involved in negotiations with foreign governments on hospitable foreign legislation, cooperation agreements and regional development forums. Governments also indirectly effect economic performance through the control of education, determining the quality of skilled labour made available to the economy. It is well

acknowledged that some nations' superior performance in international business is to a large extent related to the home government activities and policies (Lenway and Murtha, 1994). Porter (1990), with his work, "The Competitive Advantage of Nations", has focused the attention on the fact that a country's international competitiveness has become priority on most political agendas, a fact confirmed by various authors (Vogel, 1996; Dunning, 1993; Leshner, 1990). There isn't any consensus on the actual role desired from the home government, Heenan (1995) remarks that some businessmen prefer an "invisible hand" to a "helping hand".

The link between the foreign economic policy and local economic policy is clear. Lenway and Murtha (1994) found a government's capabilities to implement international economic strategies to depend largely on domestic policy instruments. They (Lenway and Murtha, 1994) found governments' ability to forge consensus around economic policy to be a function of the ability to balance communitarianism and individualism, the two dimensions that predict how domestic political institutions affect countries' strategic capabilities. In the individualistic society the role of government is primarily that of protecting property, enforcing contracts and keeping the market place open for free competition. Communitarian countries define and ensure the rights and duties of community membership, and government plays a central role in creating and imposing consensus to support the direction in which they have decided the community should move.

In conclusion there is consensus in the literature that government regulation of MNEs is essential, both by the host government as well as the home government (Agmon, 2003; Vogel, 1996; Hillman and Keim, 1995; Lenway and Murtha, 1994); a field known as regulatory economics. Principle-agent models (Chen, 2004; Calzolari, 2001; Agmon, 2003) are used to describe the behaviour of MNEs and governments, especially in the bargaining situation. Market models (Hillman and Keim, 1995; Shaffer, 1995) position government on the supply side and MNEs on the demand side of regulatory policies. Oligopolitic theorists are the main proponents of strict government regulation of MNEs (Haley, 2001) and when their alignment with the dependency school of thought (Dunning, 2001a) is explored, the aim is to protect against the perceived threat that MNEs pose to the state. Brewer's Lowi typology identifies two dimensions to host government regulation, those that are symbolic and those that have tangible implications. Protection-interaction he classifies as a combination, citing affirmative action. Home governments play a significant role in an MNEs ability to compete internationally (Agmon, 2003; Vogel, 1996; Hillman and Keim, 1995) and international competitiveness feature on almost every country's

political agenda (Porter, 1985). There is a clear link between a government's efficiencies in formulating local economic policies and its international economic strategies (Lenway and Murtha, 1994).

### **5. Social capital in business – government relations**

As alluded to in the previous sections, both the MNE and host government constitute a significant role player in the others' operational environment. Hillman (2003) found that government is an important determinant of firm performance, but, that firms and industries differ in the level of political activity. Also that political strategy is associated with firm performance and that firm strategies can shape government policy.

Although business is involved in networks with various stakeholders, it is especially those networks with Government that is of interest to this study. Schuler (2002) found access to government to provide information that helps businesses anticipate changes in policy environment. He (Schuler, 2002) observed that access to networks is a prerequisite for building strategic alliances with legislators and regulators. Schuler (2002) found that once they have decided to become politically active, companies combine tactics and do not use them independently, and, that firms are likely to imitate the political activity of competitors. Companies plan their political strategies to reflect the special characteristics of various governmental institutions; the more dependent a company is on government business the more politically active it tends to be, aggressively pursuing political solutions to its business challenges. The three main political tactics Schuler (2002) identified in building alliances with government in the USA are; the making of political contributions, using staff lobbyists, and, hiring outside lobbyists. From government's perspective, to politicians it is critical to be re-elected and firms are seen as source of constituent information and funding for which politicians offer access to themselves in return. Politicians are more likely to rely on an informant where the relationship is trusting and where interacting is likely to be repetitive.

In the East, Yeung (2005) found that a company may engage government networks through specific arrangements made by its top executives with local government authorities. In Asia, for example, actors in firms may build strong interpersonal relationships with other actors from government institutions (Yeung, 2005). These networks facilitate the extension of special incentives and privilege to the firm, and thereby, the involvement of those government actors in the governance of the firm. They may thus serve as a complementary form of governance.

These incentives and privileges facilitate the MNEs presence and growth in specific localities. He (Yeung, 2005) observed that on the other hand, the firm may benefit from government networks at the expense of local authorities and institutions and that these incentives and privileges have the potential constrain the future firm growth. Yeung (2005) also found that over and above the network arrangements, that the regulatory environment created by governments is still an immensely formative influence on the firm and network development. Firms operating in highly internationalised sectors tend to retain distinct organizational forms and practices that largely reflect the regulatory environment of their home country. He (Yeung, 2005) defines the MNE as the site for engaging politics cultural practices and social interactions in specific territorial settings.

### **5.1 Policy networks**

The activities of policy-making have various networks involved. According to Forrest (2003) these networks not only involve societal stakeholders and government decision-makers, but also various secondary networks. Amongst these are the governance networks which have evolved out of political struggle for policy reform or party positioning; the social networks located principally within grass roots levels of society but intersecting dynamically with government forces; the proto-networks reflecting partially successful efforts at organising an inter-governmental set of relationships; and, issue networks referring to inter-organizational ties created in regard to a single policy issue (Forrest, 2003). These secondary networks reflect at least one of three characteristics. They are often created in the grey-zone between state and civil society in which policy decision-making and negotiation occur. Networks emerge as a consequence of political pressures within or lobbying efforts by members at grassroots societal units, or, in civic society (pluralistic actors), or, in civil society (institutionalized organizations).

Variations in effectiveness of local economic policies, Lenway and Murtha (1994) found to be a function of cross-national differences in the relative importance of political authority versus market decision-making. This effectiveness they (Lenway and Murtha, 1994) credit as a direct result of the role of policy networks and government autonomy; especially to what extent do policy networks that link government with the private sector exist, and, the balance between communitarianism and individualism as it impacts on the government's ability to forge consensus around economic policy.

## 5.2 Strategic focus on government relations

Government, as a key stakeholder to business, occupies a prominent position on the strategic agenda of companies. The objectives of business political strategy relate to the positive outcomes derived from relations as discussed in the previous section (Chen, 2004); as an increase in MNEs' bargaining power producing favoured status and support from authorities to its objectives in a specific policy, access to the policy-making process, as well as stability and predictability in operations in spite of political and economic turbulence. Additional advantages that relate to the development of social capital are the improvement of mutual understanding, trust, commitment, relational satisfaction and mutual control.

Political strategy, together with social strategy and legal strategy, constitute the non-market strategy of a firm (Mahon, Heugens & Lamertz, 2004). Mahon, Heugens and Lamertz (2004) found that political strategy deals with issue evolution and stakeholder behaviour simultaneously where the stakeholder behaviour management dimension is that part of the non-market strategy that aims to balance the claims of all the external groups and organizations. The company's objectives are securing the attainment of the performance goals and reaching a stable compromise amongst the external groups on the distribution of the wealth created. On the issue evolution dimension of political strategy they (Mahon, Heugens and Lamertz, 2004:171) define strategic issues management as:

*“the capacity to understand, mobilize coordinate and direct all strategic and policy planning functions, and all public affairs/public relations skills, toward the achievement of one objective, meaningful participation in creation of public policy that affects personal and institutional destiny”*

The non-market strategy is extended by Blumentritt and Nigh (2002) to apply to the internal organisation of the MNE as well. They (Blumentritt and Nigh, 2002) state, in line with Baron's Integrated Strategy for MNEs, that strategies directed at competition and at political and social environments may be different and engaged in for different reasons, but in order to be coherent and effective they have to be brought together. Blumentritt and Nigh (2002) strongly emphasise that political imperatives are endogenous factors, and not exogenous, although methods used and positions taken in the home country are not necessarily prudent in the host country.

In conclusion, corporate political behaviour is an attempt to use the power of government to advance private ends, strategic to the extent that individual firms are

able to influence the nature of public policy (Hillman and Hitt, 1999). Keim and Baysinger (1988) conclude that the overall objective of political behaviour is to produce public policy outcomes that are favourable to the firm's continued economic survival and success.

### **5.2.1 Perspectives on political strategy**

Various points-of-departure are employed throughout the literature to classify political strategy; the levels of action (Lenway and Murtha, 1994), the approaches to strategy (Hillman and Hitt, 1999; Lenway and Murtha, 1994; Weidenbaum, 1980), the type of strategy (Weidenbaum, 1980), resources employed (Hillman, 2003), whether the focus is on relations in general or the specific transaction (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980), and, also the process employed (Mahon, Heugens & Lamertz, 2004).

Political action could possibly engage three levels; collective action, action by individual corporations, and, action by individuals within corporations such as its executives (Lenway and Murtha, 1994). In essence, action by individual companies and individuals within companies are from the same platform and collective action refers to the collaboration and cooperation of two or more individuals or firms in the policy process. They (Lenway and Murtha, 1994) found the choice between the two levels to be influenced by the fact that different financial resources are required for each, but also by the degree of corporatism/pluralism in a country. Hillman (2003) concurs that mostly companies have a choice on the participation level, on whether to participate in the public policy arena alone or in groups. Hillman and Hitt (1995) found the choice of political strategy depending on firstly and foremostly the credibility of the individual or firm, the key determinant of the success of political behaviour. Similarly, the most important determinant of success in advocacy and public relations advertising is the credibility or reputation of the source. Secondly they (Hillman and Hitt, 1995) also found a minimum employment base to be essential in certain political tactics.

Explaining political decision-making by using economic or relational actor models is known as Public Choice Theory. Public choice theory, based on the principle of rent-seeking, views business politics as an effort by well placed and obstructive interest groups, to extract undue value (Goldsmith, 2002; Vogel, 1996; Shaffer, 1995). Goldsmith (2002) defines economic rents as policy induced gains that would be absent in a competitive market such as money from licences, tariffs, tax incentives, public contracts and direct subsidies. He (Goldsmith, 2002) found that although it

might make sense for business to try and extract government-produced rent, the result is sub-optimal for society, and as such strong trade organizations are not favoured by public choice theory. Political decision making is also known in literature as public choice, positive political science or economics of politics (Keim and Zeithaml, 1986).

In the literature on political strategy, three variables affecting the choice of strategy are identified (Hillman and Hitt, 1999; Lenway and Murtha, 1994; Weidenbaum, 1980). The first variable is the country specific political system, also incentives to supply policy, and, the life-cycle of policy making. Hillman and Hitt (1999) note that in some countries, such as Sweden, Japan and Germany, businesses actually formally participate in the public policy process. Lenway and Murtha (1994) links this phenomenon to the country specific political system; corporatist political systems have institutionalized participation by certain interests in the public policy process; usually business and labour and sometimes agriculture. Pluralist systems on the other hand are characterised by a wider variety of interest groups that can influence political decisions. They (Lenway and Murtha, 1994) found both Corporatist and Pluralist systems to be rooted heavily in the national culture with Corporatist nations emphasising cultural traits of cooperation and consensus. Competition amongst firms or a perception of self-interest-seeking behaviour by individual firms is not acceptable.

As the second variable Hillman and Hitt (1999) found two primary incentives for political decision makers to supply policies; information for decision making and direct incentives. The direct incentives could either be constituent support, or, financial inducements for campaigning or personal use. They (Hillman and Hitt, 1999) also list constituency building as a possible third.

In the variable of public policy issue life cycle, Hillman and Hitt (1999) describe three stages; public opinion formation, public policy formulation, and, public policy implementation. Mahon, Heugens and Lamertz (2004) also found that over and above the variables of type of policy issue, the regulatory life cycle to influence the expected political competition, the political institutional arena, access to key political players and the creation of political capital; as well as the extent of the actual involvement in political.

Three basic types of political activity have been identified by Weidenbaum (1980); passive reaction, positive anticipation (both reactive), and public policy shaping; in

addition to three dimensions to political strategy. These also represent the sequence in which decisions are made by firms in formulating strategy. They are; approaches to political strategy, participation levels and types of strategies. The three variables that affect the choice of type of strategy are; the degree to which a firm is affected by the government policy, the level of firm product diversification, and the degree of corporatism/pluralism within the country in which a firm is operating.

Hillman (2003) also identifies three political strategy types, but instead of the level of activity in Weidenbaum's (1980) typology, utilises the resource employed. These are; an information strategy based on supplying information directly to political decision makers; a financial incentive strategy targeting political decision makers directly with financial incentives, and, a constituency building strategy targeting political decision makers indirectly through constituency support.

Various writers refer to the fact that any approach to political strategy is in essence either transactional or relational (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980). According to Weidenbaum (1980) the transactional approach refers to a relatively short-term exchange relationship or interaction and the relational approach to a long-term exchange relationship. He (Weidenbaum, 1980) found that executives, based on patterns of interaction across time, aim to identify evolutionary approaches to political strategy. Hillman and Hitt (1999) argue that this objective of identifying evolutionary approaches, together with the social capital implications of long-term relational approaches, reinforces that corporate political strategies should incorporate both transactional and relational approaches. In explaining a preference, Hoskisson and Hitt (1990) add that firms with a high dependence on government policy are more likely to use a relational approach to political action, arguing that single business or related-product-diversified firms necessarily have a narrower focus on political issues because they are concerned with limited industry domains. These focussed domains create opportunities for specialised political capital. They (Hoskisson and Hitt, 1990) term those relationships with decision-makers that yield in-depth information on particular policy domains as yielding Specialised Political Capital. In addition, highly related-product-diversified firms are more likely to adopt a relational approach to political action in an attempt to develop specialized political knowledge, and to form relationships with key policy-makers within their domains of interest. Lenway and Murtha (1994) also note that firms operating in more corporatist countries often adopt a relational approach to political action to build social capital.

The choice between a transactional versus relation approaches could also, according to Hillman (2003), be related to the reactive or proactive nature of the strategies eventually employed. This is in addition to the relationship-term perspective of Weidenbaum (1980) and the national political systems perspective of Lenway and Murtha (1994) and Hillman and Keim (1995). He (Hillman, 2003) is of the opinion that in the transactional approach; firms wait until specific issues arise before attempting to gain access to or influence political decision makers, engaging in political activities in an ad hoc manner. With the relational approach firms establish relationships so that when issues arise, the vehicles for access and influence are already in place, making for involvement in a more ongoing manner.

Focussing on corporatist nations, Hillman and Keim (1995) expand on the work of Lenway and Murtha (1994) by adding that rather than promoting the interests of one group at the expense of another, corporatist nations in general promote more positive-sum policies. They (Hillman and Keim, 1995) argue that if a firm has chosen a transactional approach to political strategy it is more likely to use collective participation with election issues. Hillman (2003) also later found that conformity pressures in the choice of political strategy are related to degree of corporatism or pluralism in a country. Hillman and Keim (1995) use the analogy of the public policy process as a market and reiterate that the concept of mutual interdependence and exchange is of critical importance.

Exploring the topic of the various possible strategies employed, Mahon, Heugens and Lamertz (2004) list the following as possible political strategies in ascending cost order: Free-rider strategy, Follower Strategy, Information Influence Strategy, Public Exposure Strategy, Leader Strategy and Entrepreneurial Strategy. Keim and Zeithaml (1986) expand on these by adding more detail on the tactical implementation of a constituency building strategy, employing campaign contributions through a political action committee, advocacy advertising, lobbying and coalition building. They (Keim and Zeithaml, 1986) define constituency building as those corporate efforts to identify, educate and motivate the individuals who may similarly be affected by public policies that have an impact on the corporation, into partaking in political actions. The natural constituency of a corporation include employees, shareholders, suppliers, dealers and the community. Lord (2003) found that constituency building consistently ranks as the most effective means of political influence available to business, and, whilst competitors may be fierce rivals in the market place, they are potentially valuable allies in the public policy arena.

Common ground in terms of fundamental values has been identified by Forrest (2005) as the enabler of collaboration between the various disparate social units as per Keim and Zeithaml (1986). The interpersonal and inter-organizational relations reflect a presumption of trust; that all network actors can be relied upon to make decisions and behave in ways that are mutually beneficial. He (Forrest, 2005) found the gradual building of trust between individual network participants and government implementers to be pivotal, thus generating political capital through which actors are able to affect government decisions. The quality of the participation is related to the extent to which political capital is generated by network members; a function of the political receptivity to network activism by government institutions and other policy stakeholders.

The strategy predominantly followed by organisations is what Wilts and Quittkat (2004) term 'in-between'; the extent determined by both institutional structures and prevailing processes within the relevant political arena. Rehbein and Schuler (2002) concludes that political strategy is formed when external political, macro-economic, and industry environments is passed through the filter of the firm's organizational structures, resources, political experience, issue salience and stakeholder dependence. Smith (1994) noted that firms in the US have started adopting what he terms "strategic philanthropy", assuming an activist stance on social issues such as hunger, AIDS and environmentalism.

The actual political strategy process followed is explored by Mahon, Heugens and Lamertz (2004) as a part of their work on strategic issues management of political strategy. They (Mahon, Heugens & Lamertz, 2004) found an early warning system to be central to the process, warning of potentially harmful social trends before they fully mature. This system has three essential functions; issue scanning, evaluative processing and responses.

In summary, Hillman (2003) found that firm strategies can shape government policy and that political strategies are associated with firm performance. Hillman and Hitt (1999) describe corporate political behaviour as an attempt to use the power of government to advance private ends, strategic to the extent that individual firms are able to influence the nature of public policy. Political strategy, together with social strategy and legal strategy, make up the area known as non-market strategy; dealing with issue evolution and stakeholder behaviour simultaneously (Mahon, Heugens and Lamertz, 2004). Public Choice Theory; the use of economic or relational actor models to explain political decision-making, is based on the principle of rent-seeking

and views business politics as an effort by well placed and obstructive interest groups to extract undue value (Goldsmith, 2002; Vogel, 1996, Shaffer, 1995). There are three variables affecting the choice of strategy, these are the country specific political system, incentives to supply policy and the life-cycle of policy making (Hillman and Hitt, 1999; Lenway and Murtha, 1994). Corporatist political systems have institutionalized participation by certain interests in the public policy process; usually business and labour and sometimes agriculture, and exhibit a culture of cooperation and consensus. Pluralist political systems on the other hand are characterised by a wider variety of interest groups that can influence political decisions on any given issue and competition amongst firms and self-interest-seeking behaviour by individual firms is the norm (Hillman and Hitt, 1999; Lenway and Murtha, 1994;). The approach to political strategy is either transactional or relational (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990). Weidenbaum (1980) sees the transactional approach as referring to a relatively short-term exchange relationship or interaction and the relational approach to a long-term exchange relationship. Hoskisson and Hitt (1990) add that firms with a high dependence on government policy are more likely to use a relational approach, that single business or related-product-diversified firms are concerned with limited industry domains that create opportunities for specialised political capital. Highly related-product-diversified firms are more likely to adopt a relational approach. Lenway and Murtha (1994) also note that firms operating in more corporatist countries often adopt a relational approach to political action to build social capital. Hillman (2003) is of the view that in the transactional approach, firms engage in an *ad hoc* manner, waiting until specific issues arise before attempting to influence political decision makers. With the relational approach firms establish relationships in an ongoing manner, so that when issues arise, the vehicles for access and influence are already in place. Literature on political action reveals action on three levels; collective action, action by individual corporations, and, action by individuals within corporations such as executives (Hillman, 2003; Lenway and Murtha, 1994; Hillman and Hitt, 1999; Hillman and Keim, 1995). Constituency building consistently ranks as the most effective means of political influence available to business (Lord, 2003) but an 'in between' strategy is predominantly being followed (Wilts and Quittkat, 2004).

## **6. Studies specific to MNE - host government relations in South Africa**

There are number of important studies that have been done on various facets of MNEs in host countries. Although these appear to be unrelated on the surface they each address a facet that is relevant to this study. These include work on South African subsidiaries of US based pharmaceutical and chemical companies

(Blumentritt and Nigh, 2002), the role of culture in business in the African context (Kristiansen, 2004), the role of affirmative action in Corporate Social Responsibility (McWilliams and Siegel, 2001), the analysis of the MNE court case against the South African Government to protect HIV pharmaceutical patent rights (Smith, 2003), an article on improved negotiation positions for civil groups in South Africa in relation to CSR (Hamann and Acutt, 2003), and, a discussion on the effect of socially constructed norms in a host country with specific reference to corruption as an accepted or appropriate behaviour (Rodriguez, Uhlenbruck and Eden, 2005).

A study of large, US based Multinational Companies in the so-called SIG 28 group (chemical and pharmaceutical), with operations in South Africa, was done by Blumentritt and Nigh (2002). They found that MNC interactions with the South African host government are characterized by the degree of localization as based on characteristics of the subsidiary and its host country, as well as on coordination as based on the overall objectives of the MNE. The political activities within the South African affiliates were found to be integrated based on the influence of both inter-subsidary strategic factors and host country environments; the more the subsidiary is integrated with its affiliates in a strategic sense, the greater its integration in a political sense. Importantly, they (Blumentritt and Nigh, 2002) confirmed a distinct difference between international business-government relations and MNE-host government relations, reinforcing that political imperatives are endogenous as opposed to exogenous factors. The main decision factors had been the host country environment (social groups, labour unions) and multilateral environments (trade agreements), the host's degree of political risk, the government involvement in the economy, and, the attractiveness (taxation, human resource, industrial development) of the host economic; with distinctive abilities to interact with governments found to potentially be an organizational competency. In conclusion they (Blumentritt and Nigh, 2002) found a definite link between a subsidiary's economic and political activities, but no support for a positive relationship between host country attractiveness and inter-subsidary coordination of political activities. Also, that methods used and positions taken in the home country are not necessarily prudent in the host country.

The role of culture in MNE business relations in central Africa was the focus of a study by Kristiansen (2004). He (Kristiansen, 2004) found that subcultures within national African contexts to probably be of vital importance in the development of value systems, trust, and social networks, and thereby also for business success. Here the value of a person's social capital is determined the qualities of his social

networks, social networks which are again determined by the initial bases of social capital, his ethnicity, religion, all which have been proven to be common bases of faction. This leads him (Kristiansen, 2004) to conclude that culture as such can be defined as a collective subjectivity, thus a shared set of values, norms and beliefs.

The socially constructed norms of accepted or appropriate behaviour in the host country were found by Rodriguez, Uhlenbruck and Eden (2005) to constrain the MNE's economic choices, especially as it relates to corruption. The arbitrariness of corruption increases the incentives for MNEs to enter via indirect investment, especially to partner with local firms. External legitimacy thus achieved has increased benefits, negating government officials that face less risk when abusing non-legitimate firms and are more likely to engage in corrupt behaviour with them. Another source of external legitimacy is social networks, the development of which is stimulated by arbitrary corruption. They (Rodriguez, Uhlenbruck & Eden, 2005) found that firms develop coping mechanisms when dealing with uncertain and non-transparent rules. If the believe that government will protect property rights is low, interpersonal trust will be very important but very scarce, relational trust that can be developed through repeated trades, reputation, and social networks. Once this trust has developed in existing partners, firms are reluctant to shift, acting as barriers-to-entry for new firms.

Another unlikely source of external legitimacy identified by Rodriguez, Uhlenbruck & Eden (2005) is the corruption itself, following from corruption being socially valid where it is pervasive, compliance with the practices of a corrupt environment is likely to yield external legitimacy. The state can provide the firm resources and procurement contracts that make it appear accepted and legitimate, which may improve the firm's visibility in the eyes of local customers and reduce the need for integration in local networks. On the other hand, adaptation by the subsidiary to host country conditions may lead to the adoption of local norms and customs that are at odds with those of other MNE subunits, thereby threatening internal legitimacy. They (Rodriguez, Uhlenbruck & Eden, 2005) concluded that the greater the institutional distance between the home and host environments (differences among regulatory, normative, and cognitive institutions), the greater the threat to internal legitimacy, and especially corruption affects institutional distance the most where it is highly pervasive. Under pervasive (i.e. broadly diffused) corruption, MNE subunits can be expected to comply with corrupt government agents, and, becoming isomorphic with a pervasively corrupt environment means complying with pressures to pay bribes, engaging in corrupt activities, creating acceptance by government agencies. They

(Rodriguez, Uhlenbruck & Eden, 2005) found that arbitrariness however reduces the perceived economic and legitimacy gains from engaging in corruption, encouraging the firm to resist local corruption. In this environment external legitimacy is more likely to be enhanced when the MNE develops partnerships with local organizations and personal relationships with host government agencies and their officials.

The protection of patent rights of multinational pharmaceutical companies through a legal case in South Africa was the focus of a study by Smith (2003). The government announced plans to permit distribution of generic versions of patented HIV/AIDS drugs, at a fraction of costs of patented originals. A consortium of drug companies brought a suit against the SA Government, a party to the World Trade Organization, for violations of the Trade-related Aspects of Property Rights (TRIPS) agreement. He (Smith, 2003:57) summarises the outcome as follows

*“Accused of putting profits before people, ... 39 of the world’s largest drug makers caved in to public pressure ... It was hailed as a stunning triumph for the developing world; a \$360 billion industry was brought down by a country that represents just half of one percent of the pharmaceutical market”, and also “a business model is unacceptable if it makes the defence of industrialized country markets a greater priority than the health of poor people in developing countries”*

The access issue is now a strategic consideration for every major pharmaceutical company. He (Smith, 2003) concluded that the South African court case and the access problem serve to highlight business’ crisis over the scope and meaning of social responsibility.

The benefits of the CSR concept for South African civil society have been described by Hamann and Acutt (2003). They (Hamann and Acutt, 2003) found society to have increased power and rights and hence better negotiating positions, provided that government plays an active role in facilitating fair and effective partnerships, whilst Non-government Organizations (NGOs) insist on the crucial importance of the ability to threaten legal recourse. Government legislation and its willingness to regulate thus remain crucial elements in the CSR debate. MNEs, as part of the private sector, are viewed as potentially important rural and urban development agents, particularly in partnership with the government, community groups and NGOs. They (Hamann and Acutt, 2003) claim that South African business mainly employ accommodation and legitimisation as CSR tactics; accommodation in the implementation of cosmetic changes to business practice in order to preclude bigger changes, and, legitimisation in the influence by business over popular and

policy-related discourse in order to define what questions may be asked and what answers are feasible. As elsewhere in the world, large companies and business associations are arguing for CSR on the basis of the so-called business case; a more responsible, strategic approach to environmental management, labour relations and community development should lead to better relationships and improved reputation (Hamann and Acutt, 2003).

A pervasive sense of mistrust in South Africa has also been noted by Hamman and Acutt (2003), which they in large part ascribe due to the apartheid legacy (in which, after all, industry is implicated) with both labour and NGOs frequently referring to the overriding significance of prior negative experiences in their dealings with industry and how these impede the possibility of partnerships. Industry representatives also acknowledge the existence of such mistrust and its effects on the interaction between civil society and business. Also, as a result of such experiences, there is also a fair amount of ideological resistance to cooperating with business.

Two major sources of demand for CSR have been identified by McWilliams and Siegel (2001); consumer demand and demand from other stakeholders such as investors, employees and the community. This they (McWilliams and Siegel, 2001) found to be consistent with the theory of the firm, in which it is assumed that the management of publicly held firms attempt to maximize profits. Firms with skilled labour shortages use CSR as a means to recruit and retain employees. Governments may encourage pro-active environmental practices, and community groups may desire support for local social services. Government contracts require that firms undertake a certain level of CSR investment, requiring firms to hire additional staff to advance CSR through affirmative action, improved labour relations and community outreach. They (McWilliams and Siegel, 2001) noted that CSR attributes are likely to be found in industries with highly differentiated products such as food, cosmetics, pharmaceuticals, financial services and automobiles.

## **7. Summary**

The literature on networks is built on descriptive work on the actors and their ties (Borgatti and Forster, 2003; Ng, 2004), the types of social and business networks (Pollit, 2002), and then the functioning of these networks. Tracing the origin of network research to the disciplines of Sociology, Political Science and Public Management (Berry *et. al*, 2004); back to the work of Moreno (1934) in the Gestalt psychology and Nadel (1957) and Mitchell (1969) as part of the Manchester group.

Granovetter (1973) started to promote the dissemination of information across networks. Freeman (1979) described the importance of an individual's position in a network.

Extensive research has been done on the actions of actors within networks, specifically within social networks, to advance their economic interests (Bourdieu, 1986; Garguilo and Benassi, 2000). Here the focus has been on dependencies and the flow of resources. Related is the concept of affiliation networks where an actor belongs to multiple social networks, and more specifically to the characteristic of high density social relationships that produce homogeneous and clustering behaviours, leading to closed networks (Ng, 2004).

The network concept was extended to include the firm (Goshal and Bartlett, 1990) and also inter-firm networks (Amin and Thrift, 1994; Sydow and Windeler, 1998). Network organizations evolved as a concept and became the flavour in the 1980s (Thoreli, 1986; Powell, 1990; Semlinger 1991, Staber, 2004). This culminated in a very loose arrangement referred to as project organizations (Casson, 2000; Hales, 2002). Multinational Enterprises (MNEs) are viewed as a special form of intra-firm network, connecting the various operating units and subsidiaries (Goshal and Bartlett, 1990; Holm, Johanson & Thilenius, 1995). Anthropologic theories are employed to explain the development of political and economical networks as MNEs develop subsidiaries and interact with host governments and political groups (Haley, 2001). Joint Ventures as specialised networks are used to enter new markets, including those in foreign countries (Chen and Chen, 1998; Das, Sen & Sengupta, 1998; Stuart, 2000; Kostova and Roth, 2002). Granovetter (1985) refers to the extent to which an organization is involved in networks as its network embeddedness. Embeddedness has been related to Transaction Cost Economics (Granovetter, 1985, Kristiansen, 2004), a relational theory where economics dominate.

Networks with government are especially important to business, Schuler (2002) noted that these are a prerequisite for building strategic alliances with legislators. The firm may be granted certain incentives and privileges on the strength of participation in networks (Yeung, 2005). Special policy networks extend beyond government and business to include local communities (Forrest, 2003).

Business is also involved in social networks (Haley, 2001) where a degree of social responsibility is introduced (Gerlach and Palmer, 1981), as well as normative pressures on business strategies (Lenway and Murtha, 1994). Hamman and Acutt

(2003) observe a strategy of name-and shame and name-and-praised used more often by communities to manipulate business.

Networks, together with trust and norms make up social capital (Pollit, 2002; Parts, 2004). The groundwork on social capital was done by Bordieu (1986) commenting on the strategic value of social capital as a resource, Coleman (1990) relating associated norms and reciprocity to facilitating collective action, often across socio-economic and ethnic divides, and Fukuyama (1999) focussing on informal and shared values in trust, but the term became hugely popular after the publications of Putnam (2000). Burt (1992) introduced a radical concept called structural holes, showing that a lack of ties on the side of actors improves the position of those actors they are connected to. The dimensions of social capital are structural (ties, configuration and stability), cognitive (shared goals, norms and culture) and relational (trust) (Inkpen and Tsang, 2005; Edelman *et.al*, 2004). Healy (2004) described these dimensions considering social structure/networks, shared knowledge, group norms and identity and social engagement. Putnam (2000) highlighted the roles power structure and ideology in social capital, especially in homogeneous networks (creed, class and ethnicity). Kristiansen (2004) observed that ethnicity, religion and classes are common bases for faction.

The benefits of social capital include privileged access to knowledge and information, preferential opportunities for new business, reputation, influence and enhanced understanding of network norms (Friedkin and Johnsen, 1999; Inkpen and Tsang, 2005; Edelman, 2004). It was especially the economic advantages that have received a lot of attention from researchers; Coleman (1988) highlighting the impact of the structure of relations, Bordieu (1986) referring to the various capitals (economic, cultural and social), and the strategic use of social assets (Clark, 1987; Hochchild, 1989), and, relations as collateral in economic exchange (Douglas, 1995). It was also concluded that the economic is inseparable from the everyday social (Biggart and Castanias, 2001)

Network characteristics are used to explain racial and gender differences in employee status (McGuire, 2000) and social capital to mediate the relationship between race and social support (James, 2000). Some negatives of social relations are highlighted; Edelman *et. al* (2004) warns against the exclusionary effects of strong and beneficial localised ties, Biggart and Castanias (2001) against the non-rational social and emotional relations interfering with rational economic decision-making. McPherson and Smith-Lovin (1987) investigated homophily, the tendency of

people to interact with their own kind. This was extended to explain the role of homophily on group outcomes (Reagans and Zuckerman, 2001), transmission of tacit knowledge (Cross, Borgatti & Parker, 2001) and an us-against-them thinking (Edelman *et. al*, 2004)

Social cognition is the area that focuses on an actor's perception of his position and role in a network, flowing from work on informant accuracy research (Bernard *et. al*, 1985). Cognition of the network determines the interaction within the network (Casciaro, 1998; Carley and Krackhardt, 1996) and the cognitive maps of who-knows-what determine the efficiency of exploitation (Potgieter *et. al*, 2006)

Borgatti and Forster (2003) have introduced an alternative perspective to the literature on networks by focussing on the dimensions researched, these being the direction of causality, level of analysis, explanatory mechanisms and explanatory goals.

The business-government relations are introduced by the theory on markets; market imperfections (Dunning, 2001b; Haley 2001) and how MNEs exploit these (Hymer, 1971; Dunning, 2001a; Goshal and Bartlet, 2000). Porter (1985) attributes the success of MNEs to their ability to configure and coordinate their activities to exploit market imperfections. Mercantilist theories have governments having the upper-hand in their battle with MNEs (Agmon, 2003; Callio and Rowland, 1973) controlling access to markets, investment outlets and raw materials (Hillman and Keim, 1995). The dependency school view MNEs as creating a dependence by the host governments (Brewer, 1992) and that according to the Marxist doctrine, societies are penetrated and inequalities created (Haley, 2001; Vogel, 1996). MNEs add to unemployment by using technologically advanced, capital intensive manufacturing processes (Vernon, 1971). Pluralist theorists have shown a positive effect by MNEs on the host countries (Goldsmith, 2002, Shaffer, 1995)

It is only the extent to which regulation of MNEs by the host governments that is argued on (Lenway and Murtha, 1994). This field is referred to as regulatory economics (Calzolari, 2001) and often relies on the agent-principle model (Chen, 2004) or that of the market (Hillman and Keim, 1995). Dunning (1999) call on host governments to act as strategic oligopolists to advance the home economy. A government's ability to implement international economic strategies relies on their domestic policy instruments (Lenway and Murtha, 1994).

Business-Government relations present as a continuously shifting position (Peng, 2000; Vogel, 1996, Shaffer, 1995; Brewer, 1992). Uneven access and control of raw materials, markets, resources, technology and information and the change herein leads to this dynamic situation (Vogel, 1996). An adversarial culture results from the different mandates the two parties have, that of constituents versus that of shareholders (Agmon, 2003). Bilateral monopoly models (Penrose, 1952) view government as monopolising access to the state itself, as well as operating conditions afterwards and MNEs controlling capital, technology and management and marketing skills. Vernon (1979) described the obsolescing bargain, initially government wants to entice MNEs to invest and gives favourable conditions, once MNEs are heavily invested government forces them to renegotiate or simply renege. Chen (2004) introduces a view of mutual dependence, depending on the circumstances on party has the most power. The use of relational actor models led to the development of public choice theory (Goldsmith, 2002; Vogel, 1996; Shaffer, 1995) where using the principle of rent-seeking views business politics as an effort to extract undue value. Economic rents are policy-induced gains such as licence fees, tariffs, taxes and subsidies. Two approaches to configuring business-government relations are used (Goldsmith, 2002; Lenway and Murtha, 1994); the state-centred or corporatist model has the major interest groups organised in organizations, trying to forge cooperation, and, the society centred model that encourages self selected interest groups to compete for members and for favourable policies from government.

Three basic types of political activity are utilised by business; passive reaction, positive participation and public policy shaping that is proactive (Weidenbaum, 1980). The approach could either be a short term exchange, transactional, or, a long term exchange relationship, relational (Hillman and Hitt, 1999). Schollhammer (1995) refers to political action on three levels; collective action, action by individual corporations and actions by individuals within corporations. Hillman and Hitt (1995) identified two primary incentives for political decision makers to supply policies and these are information for decision-making and direct incentives such as constituent support and financial inducements, both personally and for campaigns.

Various researchers have done work that has very little in common with each other, but that they have significant bearing on MNE political strategy. Blumentritt and Nigh (2002) investigated a group of US multinational chemical and pharmaceutical companies (SIG28) that are represented in South Africa and found a definite link between a subsidiary's economic and political activities. Kristiansen (2004)

researched the role of culture in a national African context and found subcultures to be of vital importance for development of value systems, trust, social networks and as such for business success. He also found that ethnicity, religion and class are common bases for faction. Smith (2003) commented on the event surrounding the court case where MNEs brought a law suit against the South African Government to protect the patents on their pharmaceutical AIDS treatment against generic copies. "A business model is unacceptable if it makes defence of an industrialized country markets a greater priority than the health of poor people living in developing countries" (Smith, 2003, p57). Hamann and Acutt (2003) describe important benefits of the Corporate Social Responsibility concept for civil society groups in South Africa, in terms of increased power and rights and hence better negotiating positions, provided Government plays an active role in facilitating fair and effective partnerships. Rodriguez, Uhlenbruck and Eden (2005) found that an MNE's economic choices are constrained by socially constructed norms of accepted or appropriate behaviour in the host country.

The theory on Corporate Social Responsibility (CSR) is based in economic theory and ethics models that conclude that firms that are conducting business with stakeholders on a basis of trust and cooperation have an incentive to demonstrate a sincere commitment to ethical behaviour (McWilliams and Siegel, 2001). Smith (2003) noted that there are two clear motivating factors to pursue a strategy of CSR; the desire to do good (the normative case), and CSR that reflects an enlightened self-interest (the business case). Donaldson (1999) draws on social contract theory for business, founded on consent; corporations exist only through the cooperation and commitment of society.

The friction between business and governments (Agmon, 2003) and especially MNEs and Host Governments (Penrose, 1952, Vernon, 1970; Vogel, 1996) is documented. The value of networks has been shown (Bordieu, 1986; Garguilo and Benassi, 200), especially when operating in joint ventures in foreign markets (Haley, 2001; Chen and Chen, 1998, Stuart 200) but also the barriers to MNEs gaining access to the government networks of host governments, race and gender differences (McGuire, 2000; James, 2000), ethnicity, religion and class (Kristiansen, 2004) and, homophily (McPherson, Smith-Lovin and Cook, 2001; Reagans and Zuckerman, 2001).

The benefits of social capital include enhanced understanding of network norms and enhanced reputation (Friedkin and Johnsen, 1999; Inkpen and Tsang, 2005;

Edelman et. al, 2004), collateral in economic exchanges (Douglas, 1995), mediation of relationships between races (James, 2000). Social capital thus has the potential to break down the barriers to networks with host governments as described in the previous paragraph. The problem is that together with trust and norms, social capital is the exact outflow of those networks that these barriers are blocking.

Literature on Joint Ventures has validated the strategy of MNEs in the use of local partners with established relations to circumvent the lack of network ties (Chen and Chen, 1998; Das, Sen & Sengupta, 1998; Stuart, 2000; Kostova and Roth, 2002). The literature is silent on the impact that using third parties with established ties have on the evolution of an MNEs own ties and networks in a host country. Empiric study will confirm the extrapolation of the benefits of social capital in establishing networks between MNEs and Host Governments. The use of third parties with existing ties will be upgraded from circumventing a lack of ties to a strategy to break down barriers to enable the forming of independent, self-sustained networks.

In the next chapter the gap in the literature will be identified and a contribution to the current body of knowledge described in terms of problem statement, research questions and propositions.

### **Chapter 3**

#### **Problem Statement and Propositions**

##### **1. Introduction**

Following the literature review in chapter two it is now possible to identify a gap in the literature and thus an area of contribution for this study. In broad terms the gap revolves around the description of the process of creating social capital in relations between MNE employees and a host government. In this chapter the gap is described in detail by firstly presenting a short overview of literature specifically applicable. Following this, the gap is comprehensively described and translated into research objectives. The fulfilment of the research objectives is the ultimate goal of the study, the addition to our current knowledge on the role of social capital in MNE host government relations.

##### **2. Literature Study**

As a field of study, social economics approaches economic activities from a social perspective (Smelser and Swedberg, 2005:3). These studies draw on two bodies of knowledge, sociology and economics. In the study of social capital in relations between MNEs and host governments, the economic perspective focuses on interactions at the broader organisational level (Dunning, 2001b; Haley, 2001; Goshal and Bartlett, 2000; Porter, 1985), whilst the social perspective is aimed at the relations amongst the various individual actors (Bourdieu, 1986; Coleman, 1990; Fukayama, 1999, Putnam, 2000;).

As a branch of business – government relations, MNE – host government relations literature focus on the uniqueness of relations between these two entities. Areas of study include the conditions that exist in the environment in which they interact (Dunning, 2001a; Dunning, 2001b; Goshal and Bartlett, 2000), the objectives they pursue (Agmon, 2003) and the various perspectives on the resultant outcomes of the MNE – host government relationships on the host country (Haley, 2001).

MNE host government relations also contain a portion of a second body of knowledge, that of social capital. Literature on the social phenomena of relations describes the concept of social capital (Putnam, 2000; Healy, 2004); the networks that people are involved in, and, the role that trust and norms play in these networks (Pollit, 2002; Knack, 2002; Parts, 2004; Coleman, 1990). This study relates to the area where these two bodies of knowledge intersect; MNE – host government relations from the social capital perspective.

Existing literature on the social capital perspective of business relations is mainly focussed on the issues of networks that businesses are involved in (Pollit, 2002; Tung, 2002; Ng, 2004), as well as the normative and trust facets of these network relations (Healy, 2004). The various forms of business networks that exist, such as inter-company co-operative networks that facilitate supply or distribution or to support research and development, have been extensively described (Goshal and Bartlett, 1990). Business is also involved in networks with other stakeholders such as customers, shareholders, the community and government (Powel, 1990; Schuler, 2002; Yueng, 2005; Hamann and Accut, 2003). Crucial to the existence of networks are the relations amongst the participants (Inkpeng and Tsang, 2005).

The main areas of study of the relations in these business networks have been; customer relationship marketing that support the relations in networks with customers (Parts, 2004), corporate social responsibility that addresses the relations with the community, which include the shareholders (Hamann and Accut, 2003), and, business political strategy that focuses on the relations between business and government (Forrest, 2003; Mahon, Heugens and Lamertz, 2004; Hillman and Hitt, 1999; Keim and Ziethaml, 1996). The normative facet of business relations is occupied in the main by the issue of corruption (Ginwala, 1998; Leisinger, 1998; Gethmann, 1998; Koslowski, 1998).

### **3. Gap Analysis**

Specific studies have progressively enabled the discovery of the gap in the literature. Agmon (2003) describes the adversarial background against which business – government networks operate. Dunning (2001b) and Healy (2001) explain the reasons for the distrust and the resultant poor relations between MNEs and host governments. Parts (2004), Putnam (2000), Bordieu (1986) and Coleman (1990) highlight the role of social capital in establishing and maintaining relations, and building trust.

A role for social capital in establishing relations was identified when Putnam (2000) described the bridging characteristic that social capital exhibits in overcoming ethno-cultural barriers in the forming of networks inside an organisation. Kristiansen (2004) exposes social capital to be exclusive in its uniqueness to a specific relationship, but he also observes that a significant function of social networks is to demolish and transverse contextual demarcation lines and enhance social capital. He (Kristiansen, 2004) thus credits the networks, instead of social capital (Putnam, 2000), with the bridging potential. Networks result in the bridging phenomena which includes the new trust and norms.

As a component of social capital, trust between MNE employees and government officials is the focus of work by Graeff (2005). Chen (2004) refers to this form of trust as positive agency relations that develop between MNE employees and government officials as a result of repeated interaction and communication. Corruption, as a normative issue in MNE host government relations, is the basis for work by Ginwala (1998) in the South African environment.

None of these studies specifically address the concept of social capital in MNE host government relations. There is a void for a study that actually brings together MNE host government relations and social capital. This gap is surprising on the one hand, considering the magnitude of the work on relations with other stakeholders, especially customer relations (Powel, 1990; Schuler, 2002; Yueng, 2005; Hamann and Accut, 2003), but also understandable in light of the sensitivity of the topic and the related difficulties in conducting the research (Healy, 2004).

#### **4. Research Problem**

In order to position social capital in MNE host government relations, the objective is to research the process of interaction between the parties from the perspective of the MNE executives, with specific reference to the actions of MNE executives to create social capital to bridge barriers. The objective is to explain the “why” and “how” of social capital creation by MNE executives. Also of interest is how effective these efforts are in creating social capital in overcoming barriers to relations.

##### **4.1 Problem Statement**

The challenges MNE managers face in creating social capital in MNE relations with a host government come in the form of restraining forces or barriers. The source of social capital in the business environment is different to that of typically a social environment. Social networks and relations have their origin in kinship or in other forms of social proximity, such as communities or the work place (Putnam, 2000, Bordieu, 1986). Social capital spontaneously evolves as a result of repeated interactions. In contrast, in business relations, especially those between MNE employees and host government officials, a number of barriers exist that are prohibitive to interaction, the source of social capital and resulting relations (Agmon, 2003). Barriers to interaction and the development of trust have to be actively broken down; networks, trust and norms that form social capital, that otherwise would evolve spontaneously, now have to be actively pursued and forged. Social capital has to be laboriously created to facilitate interaction and relations (Putnam, 2000).

Different to the social arena, business has to artificially construct business networks, in contrast to the subconscious evolution of the majority of social networks. Social relations that have evolved naturally, spontaneously produce social capital as a by-product. Business has to create social capital to initiate and maintain relations with a host government, forcing the process in reverse with a bottom-up approach.

As a result of the presence of numerous restraining forces that act as barriers, the relations between MNEs and government have to be consciously and forcefully forged, employing company resources (Kristiansen, 2004; McGuire, 2000; James, 2000; Putnam, 2000; Bordieu, 1986). Conflicting objectives and a history of win-lose outcomes sustain distance between host governments and MNEs (Agmon, 2003; Shaffer, 1995). MNEs are perceived as a threat to the authority of government, as competing with government, as an extension of the home country government and thus a tool of political domination, as exploitive of the local resources and population (Hillman and Keim, 1995, Vogel, 1996; Diskin, 2003; Brewer, 1992). It is for these reasons that the relations between host governments and MNEs are typically strained.

Cultural diversity amongst the citizens of the various nations of the world constitutes a significant barrier to the spontaneous evolution of MNE – host government relations (Smelser and Swedberg, 2005). Ethno-cultural distance presents as discrepant norms that are prohibitive to the forming of networks (Bordieu, 1986). This cultural diversity that is inherent to the multinational business environment, acts as a barrier that adds to the difficulty in establishing relations (Goldsmith, 2002). The cultural diversity is in stark contrast to the homogeneity that is characteristic of general social relations and is the source of congruence in norms and the origin of trust (Edelman *et. al*; 2004).

From the above arguments it is evident that the understanding of social capital in MNE host government relations from the MNE executives' perspective is incomplete as a result of the absence of any contribution to elucidate the process of its creation, why it would be pursued, and, the actual outcomes of its creation in this specific scenario.

#### **4.2 Research Questions and Propositions**

In order to enable the resolution of the research problem a number of questions are formulated, the answers to which are provided by researching related propositions (Eisenhardt, 1989). These in turn each support a research objective. Although the propositions are formulated to answer the research questions, they have their foundations in the literature of social capital and business relations, as do the research

questions. This ensures that the research remains firmly rooted in the literature and will produce the required contribution to the current body of knowledge.

The first objective of this study is to describe the process that MNE executives go through in creating bridging social capital with government employees. It includes the planning, the expectations and the tactics during interaction with government officials.

The first two questions deal with the “how” and “why” of the development of social capital between MNE executives and a host government:

1. What process do MNE executives follow to create social capital with government officials?

The questions on how social capital is created are answered by researching propositions that are derived from the literature on business political strategy. Firstly, the two approaches to establishing relations between business and government in the home country, namely the relational approach (maintaining relations continuously, irrespective of the presence of issues that need resolution), as opposed to the transactional (striking-up relations as required by the issues that arise), (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980), provide the basis for the first proposition. Hillman and Hitt (1999) found that the social capital implications of long-term relational approaches reinforce that corporate political strategies should incorporate both transactional and relational approaches. It is thus deduced that the MNE executive uses an exhibition of mastery of the situational business requirements as a transactional component, in combination with leveraging perceived personal relational attributes in the relational arena to create social capital. In the host government environment the transactional approach would be an exhibition of technical competence, and, the relational approach social interaction according to personal attributes and preferences.

P<sub>1</sub>: MNE executives combine a transactional approach with a relational approach to create social capital with senior host government officials.

The policy of BEE implemented by government provides an environment where the role of a third party in MNE host government social capital can be explored.

A second objective is to report on the role third parties with existing relations with government employees fulfil in the creation of bridging social capital. This objective is formulated in the second research question:

2. What is the role of network ties between Government employees and ethno-culturally related third parties in the process of creating social capital between MNEs and the host government?

The magnitude of ethno-cultural diversity that typically presents in MNE host government relations compels the exploration of a possible role for third parties that are ethno-culturally related to the host government employees. Healy (2004) observes that the earliest work of the economic force behind developing social capital was that of ties with “resource-filled others”. Further, in employing the joint venture as an entry strategy into a host country, the extent of the existing relations of the local partner is deemed pivotal (Das and Katayama, 2003; Gulati, 1998), providing external legitimacy (Rodriguez, Uhlenbruck and Eden, 2005). A critical driving force behind the decision to employ joint ventures is the effort to achieve legitimacy through network access (Stuart, 2000). Holm, Erikson and Johanson, (1996) go as far as to conclude that in essence, the joint venture as an entry mode selection, is an element in relationship development. The formulation of this proposition is further supported by a statement from a prominent businessman in South African healthcare, Medi-Clinic chairman Dr. Erwin Hertzog: “Private healthcare can be an emotional field, we need partners who can put our case clearly to the authorities. (He said) empowerment was good for networking and credibility” (Khan, 2005).

P<sub>2</sub>: BEE partners with Government ties facilitate the introductory exposure for MNE executives, thus effectively overcoming barriers-to-entry.

The next two questions attempt to assess the outcome of the efforts to create social capital.

The third objective is to determine if social capital with a bridging characteristic develops between MNE executives and host government officials.

3. To what extent does bridging social capital develop in MNE – host government relations?

The proposition to answer the third question is formulated according to the literature on the bridging characteristics of social capital by specifically Putnam (2000), and, the positive agency relations as a result of repeated interaction that Chen (2004) notes,

overcoming the restraining effects that the various barriers have on the relations between MNEs and host governments. As a result of the interaction between Government employees and MNE managers, the potential is there for social capital to develop (Putnam, 2000; Bordieu, 1986), and, if it does, it is proposed to sustain independent relations.

P<sub>3</sub>: Social capital develops to exceed the threshold required to act as bridging social capital and enable MNE executives and Government officials to have business interactions that are independent of the third party.

The last objective is to determine if the bridging characteristic of social capital created in the business environment extends into the social environment. The question relates to whether bridging of ethno-cultural barriers in the business sphere enables social relations between actors.

The purpose of last question is to uncover a possible difference between the barriers in the business environment and those in the social environment.

4. Does the bridging social capital that develops in the business environment also bridge the barriers to networks in the social milieu?

The literature describing the contextual nature of networks in the social environment (Parts, 2004; Fukayama, 1999, Bordieu, 1986) and that of networks in the business environment (Putnam, 2000, Coleman, 1988), as well as the difference of private and institutional social capital (Healy, 2004), form the basis for the proposition that the social capital will not be transferable. Kristiansen (2004) further supports the view that social capital is exclusive and unique to a relationship in a specific environment.

P<sub>4</sub>: Social capital that develops in the business environment will not bridge the ethno-cultural barriers as they present in the social networks.

The difference in the forms of social capital is significant to the extent that it is not necessarily transferable from the one situation to the other, especially in the direction from business to social. It is suggested that in the South African society, barriers to entry into social networks are more pronounced than into business networks, especially the barrier of ethno-cultural exclusivity. Although this barrier is equally present in business networks, it is proposed to not function as effectively and to be breached far more frequently than is the case in the social context. Often business simply extends beyond

the ethno-cultural barrier as a matter of necessity. The profit motive as a driving force is thought to trump ethno-cultural exclusivity as a restraining force and interaction amongst across cultural groups occurs frequently. In general society as a social sphere, this interaction is currently still far less pronounced. In light of the view point that social capital is made up of networks, trust and norms, and the fact that trust in the business sphere of life is the same as in the social sphere (Inkpen and Tsang, 2005), leaves the question of whether a different set of norms exist in the social network to that of a business network? These different sets of norms potentially applying even though the networks have actors that are common to both.

### **4.3 Summary**

In this chapter the literature review in chapter two was used to describe the gap in the literature and identify the contribution to the current body of knowledge. A research problem has been formulated and four objectives determined; each with a research question and proposition. The propositions are again based on the literature, ensuring that the contribution remains grounded in the literature.

In the next chapter the research design and data analysis is described. These are determined by the objectives, research questions and propositions in this chapter.

## **Chapter 4**

### **Research Design and Analysis**

#### **1. Introduction**

In chapter three the gap in the literature was identified and the contribution of the study described. The research problem has been stated and four research objectives developed. Each objective has been formulated as a research question and the question supported by a proposition.

The methodology for data collection and analysis is decided on according to the requirements as defined by the problem statement, objectives, the questions and propositions as described in the previous chapter. The nature of the intended contribution determines the research philosophy adopted. It is only now possible to make a final decision on the structure of the study in detail, only now that the literature has been studied, a gap identified, and, the nature of the contribution decided upon.

The gap in the literature on MNE host government relations and social capital presents an opportunity to contribute to the basic understanding of the process MNE executives employ in pursuit of relations with a host government. The format of the contribution is descriptive and exploratory in nature. In essence, the contribution is thus, as Eisenhardt (1989) puts it, to create theory that better describes the concept of social capital in MNE host government relations.

In this chapter the methodology for the study is described. Firstly the specific approach adopted, then the design of the study, followed by the tools employed for data collection and the process of data analysis. Finally, a review of the steps in the due diligence process to ensure validity and avoid bias, acknowledging the limitations of the study, but also dispelling some perceived limitations.

#### **2. Approach to the research**

In chapter three the nature of the contribution was identified as qualitative, as a description of how and why MNE executives develop social capital, and as such case study research has been identified as the methodology of choice. Case study research is the ideal format to solve “how” and “why” problems (Perry, 2001), in essence a “knowledge-generating strategy” (Remenyi, Money, Price & Bannister, 2002).

The decision on case study research as most appropriate for this study is further motivated by the conclusion by Patton and Appelbaum (2003) that the need for case

studies arises from the desire to understand complex social phenomena, which this study certainly qualifies as, considering their observation that a number of organisational issues are related to the intersection of human agents and organisational structures. As human agents the MNE executives and host government officials, combined with their respective MNE and host government structures, make for extremely complex social phenomena.

This study employed multiple case studies since, in general, multiple-case studies have a distinct advantage over a single-case study (Amaratunga and Baldry, 2001). Multiple cases strengthen results by replicating the pattern matching, thus increasing confidence in robustness of the conclusions. The selection of cases have not been done at random as in quantitative research, but according to what Stake (1994) refers to as “theoretical sampling” (versus statistical sampling) – looking for extreme cases and polar types which are transparently observable during the course of the research.

The format of case study research subscribed to is as described by Amaratunga and Baldry (2001:98): “*an intensive format in real life context, a detailed examination of an event that is believed to exhibit the operation of the identified theoretical principle*”. Special attention has been paid to complexities in observation, reconstruction and analysis, and, giving the views of the actors.

Final justification is provided by Stake (1994:236) in that the target of the study is included in the justification of using case studies; “*case study is not a methodological choice, but a choice of object to be studied*”. From this perspective case study research was confirmed as the only viable methodology.

### **3. Study design**

Only once case study research had been accepted as the method of choice, was it possible to finalise the structure of the study.

The structure of this study is based on the prescriptions by Amaratunga and Baldry (2001), also drawing on the work of Eisenhardt (1989), Patton and Appelbaum (2003) and Perry (2001). Noor (2008) also comes to a similar conclusion regarding the appropriateness of such a structure for case study research and Figure 4.1 is an adaptation of his proposed structure. Chronologically, the structure is constructed retrospectively from the point where case study research is accepted as the most appropriate research format (after the literature research and identification of the gap). Table 4.1 depicts the phases of the study, as well as what each phase entails:

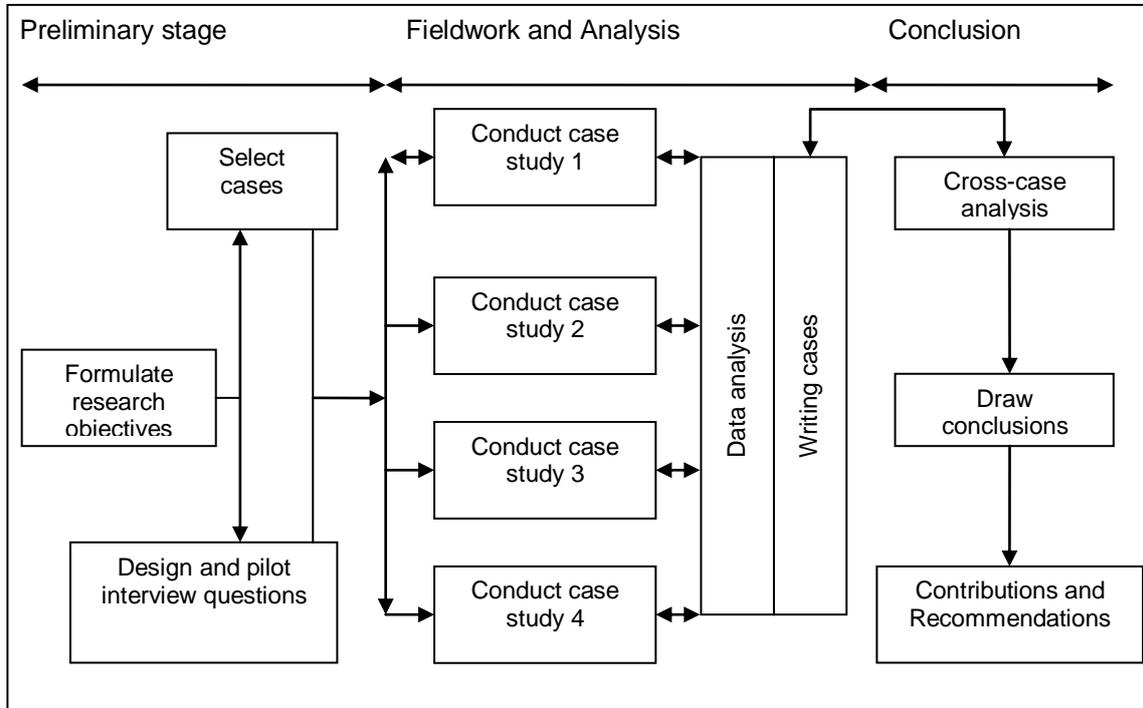
**Table 4.1. Structure of the study.**

Research Phase	Output
Literature review	Research objectives: <i>a priori</i> constructions and relationships
Research design	Deciding on the most appropriate research methodology, designing collection and analysis methodology
Case studies	In-depth and causal explanations of the process employed by MNE executives to develop social capital with government employees "Operationability" of research objectives; case study strategy
Phase one analysis	Initial qualitative findings; intra-case analysis
Phase two analysis	In-depth analysis of qualitative findings, inter-case analysis and theory building and verification
Draw conclusions	Interpret and explain results
Contributions and Recommendations	Achieve research objectives and answer research questions. Suggest changes to theory and practise

Adapted from Amaratunga and Baldry (2001:99).

The literature review in chapter two has culminated in the identification of a gap, forming the basis for the research objectives, research questions and propositions described in chapter three. In this chapter, the *a priori* codes and constructs employed in the setting up of the interview questions and codes of analysis have also similarly been derived from the literature, ensuring that the study remains rooted in the literature. As suggested by Amaratunga and Baldry (2001) the operationability of the research objectives and case study strategy were evaluated whilst conducting the first case study. The process of data collection from the four cases and the analysis of the data have been one interwoven process, and not two discreet processes as might be suggested by the structure employed as in table 4.1 above.

The detailed methodology of the case study research is an extension of the chosen structure and as such a continuation of the guideline adopted there. It is represented in the following flow diagram adapted from Noor (2008):

**Figure 4.1. Stages involved in conducting the case studies**

Adapted from Noor (2008:1603)

To clarify the link between the table above and the structure of this study, the literature study in chapter two enables the identification of a gap, followed by the description of the research problem which gives rise to the research objectives, research questions and propositions described in chapter three. In this chapter (chapter four) the interview questions are designed with the case selection done in parallel. The interviews initiate the case studies with Case 1 additionally fulfilling the role as would a pilot case (Perry, 2001) in order to test the data collection methodology (Eisenhardt, 1989). Data analysis starts as the first data is collected with intra-case analysis and then cross-case analysis. The process of analysis stimulates the collection of further data to the point of saturation. These results are reported in chapter five and conclusions, contributions and recommendations given in chapter six.

### 3.1 Case selection

This study subscribes to the definition of a case study as a bounded system with all facts and measurements interconnected and each case as a whole study that stands on its own right (Amaratunga and Baldry, 2001). The interactions between a senior executive of an MNE, a third party, and, government, concerning one specific business transaction, the supporting documentation such as presentations and the preparations thereof, the

agendas, minutes and resolutions, tender documents and submissions, including tender awards; e-mail, telephone and other communications; all constitute a case study.

Although the single transaction will be the main focus, this transaction is obviously not happening in a vacuum and constitutes an event on an extended time-line. Woodside and Wilson (2003:494) relate the time span of events to the reporting thereof as:

*“this dominant logic assumes that the individual responding can retrieve and is willing to report her own thinking processes, the thinking processes of others involved in the decision process, and the post hoc sequence of events that occurred over several days, weeks, months, or years”*

This single event is thus influenced by preceding events and has effects on those that follow. In a “how” and “why” study personal attitudes and opinions are reflective of the sum total of all experiences. Also, the outcomes of the efforts at creating social capital will be only evident in events that occur subsequently.

The case studies are made up of the interactions between the executives from four MNEs, a third party (either their BEE partners or business partners) and senior government officials. These interactions have been researched from the perspective of the MNE executive, specifically through in-depth interviews with senior executives and various printed documents relating to the events. Some counter balancing perspective was provided by information in the public domain, inputs from related BEE entities as well as from non-related role players in the healthcare industry, amongst them some of the biggest BEE entities. Lastly a survey of MNE executives was done through two trade organisations to further evaluate the data from the case studies. Four cases have been selected as advocated by Noor (2008) for situations where the subject matter is complex and of a sensitive nature. The criteria for selection are a combination of the following:

- Extreme cases and polar types which are transparently observable during the course of the research (Stake ,1994).
- A willingness to reveal the information required.
- Representing an organisation that is active in the industry and with a significant product/service range.
- Executives that collectively cover a spectrum of activities and experiences as well as training and personality types.
- Perceived to have a high probability of revealing data that would answer the research questions.

The four executives represent multinational companies across the spectrum of healthcare, excluding the private hospitals, although all four have major business

relations with the private hospitals. The sensitive nature and risk associated to the MNE with the dissemination of proprietary information has been a constraint on the willingness from executives to partake in the study. Politically incorrect opinions or criticisms of government also bear the risk of the MNE being ostracised from government business and the executive exposing himself/herself to disciplinary action by the MNE for conduct not in its best interest. In almost all cases, including responses to the survey, the opinions were qualified as being those of the individual and not that of the MNE. The fact that executives from MNEs competing in each of the various niches in healthcare were selected supported the aim of researching polar types and extreme cases. A drawback of selecting extreme cases and polar types is that these cases are very distinct and readily recognisable. Extreme care has been taken to keep the identity of the executives and the MNEs hidden and fortunately in no instance did this inhibit the ability to report the data or results of this study.

In this study the first case served the additional functions as would a pilot case. The same characteristics that made this case ideal as a pilot made it invaluable to the study as a fully fledged case. The proviso was that the piloting process would not negatively impact on the quality and validity of the data collected. It was subjectively concluded that no meaningful impact was made on the data mainly due to two factors. A critical step in the due diligence process is that of testing of constructs and without exception all were confirmed valid, the result of it being firmly founded in the literature. The only adjustments made were in the area of interview protocol that facilitated a smoother interview process. The result was that the difference in data collection amongst the cases, including the first was non-significant\*. Secondly, the methodology of case study research in qualitative studies is such that continuous changes and exploration in data collection is inherent to the research philosophy (Amaratunga and Baldry, 2003; Tere, 2006; Ratcliff, 2004).

It was concluded according to the selection criteria above, that this case had the optimal potential to evaluate the constructs, the questions and data collection protocol, as well as the coding for qualitative data analysis (QDA or codes-of-analysis). The first case has been especially instrumental in the confirmation the constructs developed. Due to the fact that the process of creating social capital by MNE executives had not been described yet, constructs were derived from literature on associated topics such as social capital in other situations, joint ventures and business political strategy, similar to the process of developing the propositions. The pilot study has thus been used to “*enhance the*

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\* Not statistically determined, but subjectively.

*constructs through the principle of 'controlled opportunism'; that of probing emergent themes and taking advantage of opportunities"* (Eisenhardt, 1989:539).

It was during the first case that the "operationability" of the objectives and constructs identified from the literature were tested. This was also the opportunity to refine the data collection plans with respect to both the context of data and procedures to be followed. It is especially the blurring of boundaries of data collection and analysis in qualitative research that strongly motivated the attention piloting actions during the first case. As alluded to earlier, it is also this flexibility in data collection and analysis, together with the richness of data in this case in an environment where sensitivity restricts access, which allows and urges its inclusion as a fully fledged case. Various experts confirm the practice of piloting during the first case as valid in qualitative case study research under these conditions (Perry, 2001; Eisenhardt, 1989; Noor, 2008); the pilot exceeding what is customary in theory-confirming research, "*the pilot study is not a pre-test or dress rehearsal, but an integral part ...*" (Perry, 2001:310).

The second case was identified as the main or central case, again according to the selection criteria above. The central case had been selected on the probability that it will provide the most significant contribution to the study. The MNE is one of the market leaders in the segment that it operates in and does significant volumes of business with government. In the industry it is labelled as controversial, a real extreme case and polar type. The executive was readily accessible and the potential of documented data available the greatest, additionally a significant amount of information regarding its interaction with government is in the public domain.

The third case was selected for the uniqueness of its product offering to government. The technical skill related to the product and services offered provided for the extreme case and polar type that would provide for data to better elucidate the topics studied. The company, and thus its executives, has a relatively low-key sales and marketing profile, which is unusual for the healthcare industry.

The last case was selected for its poor strike rate in securing government business. This is in spite of sound private market business and government business being actively pursued, having extensive sales promotional activity in the public sector.

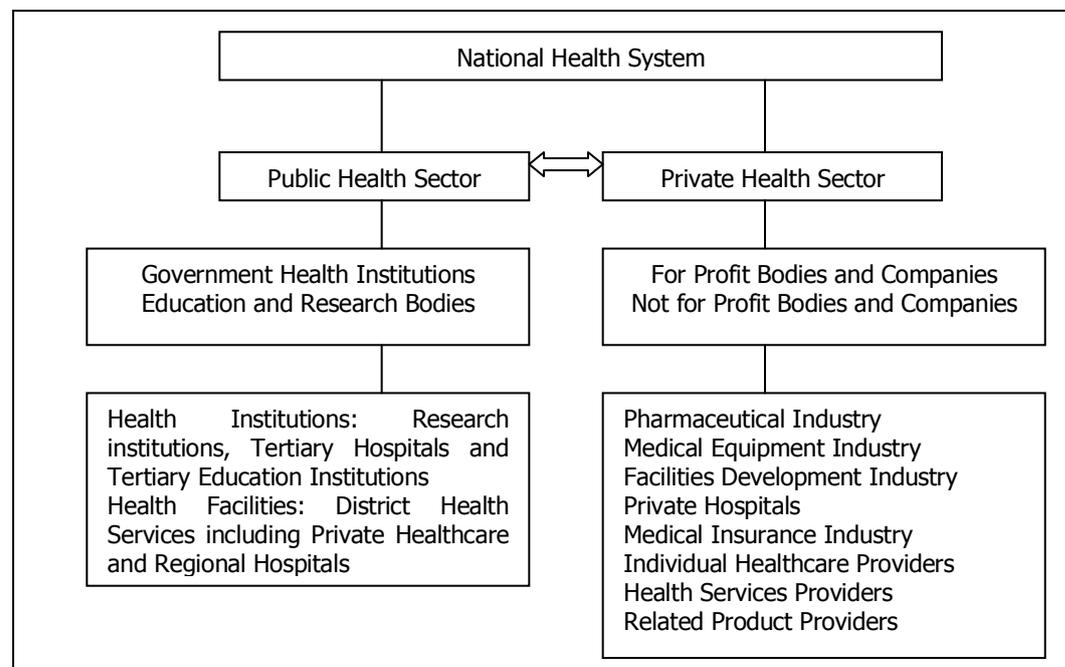
### **3.2 Research population**

The South African Healthcare industry constitutes the ideal population to select cases from. It is typical of South African industry, but also not radically different from most other

countries that MNEs would typically be active in. It is an industry with high levels of activity as the result of numerous economic, social and political events. Healthcare expenditure in South Africa was approximately R107 billion in the year 2004, this is equivalent to 8.7% of GDP which is relatively high by international standards (PSI HIV/AIDS Southern Africa Project Report, 2006). The Healthcare industry has actually been at the forefront of change as it has been one of the key areas of focus for Government, a result of its election manifesto to improve healthcare delivery to the masses (African National Congress, 1994b).

The healthcare industry is divided into two distinct sectors, public and private. Figure 4.2 depicts the various institutions and organisations that resort under each.

**Figure 4.2. The Macro Organisation of the South African National Health System**



Adapted from PSI HIV/AIDS Southern Africa Project Report (2006:2)

The boundaries between the public and private healthcare sectors are not as distinct as figure 4.2 may indicate. There are numerous entities such as MNEs and healthcare providers that provide products and services in both of these.

Most of the globally active multinational pharmaceutical and medical equipment companies are active in the South African market (Snyman, 2001), and, the healthcare industry is well developed (Leinberger, 2007) and highly competitive. Healthcare has both

technologically advanced First World medicine in secondary and tertiary institutions, and, third world healthcare in primary healthcare centres. The market is made up of a Private Healthcare sector that services 7 million medical aid members and dependents belonging to 108 medical aid schemes (Board of Healthcare Funders, 2007) and a State Healthcare sector that provides for 42 million people. There were 386 provincial public hospitals in 2003 (PSI HIV/AIDS Southern Africa Project Report, 2006). The private hospital market is highly developed with three dominant private groups competing with state-of-the-art facilities and highly skilled service providers in the paramedical field, general medicine and specialist care (Private Health, 2006).

The South African Industrial Development Corporation identifies the following segments in the South African Healthcare market:

- Manufacturing, supply or distribution of:
  - Pharmaceuticals, medicinal chemicals and botanical products;
  - Medical devices and technology, medical and surgical equipment; appliances and dental supplies;
  - Optical instruments and photographic equipment (appliances for measuring, checking, testing and navigating);
- Medical schemes administration and medical schemes management;
- Biotechnology;
- Medical and dental practice activities;
- Clinics and related services;
- Hospital activities (general hospital; maternity homes, tuberculosis hospital; psychiatric hospitals; detached operation theatres and other hospitals);
- Human health services (supplementary health services or paramedical practitioners, nursing services, chiropractic services, and health spa centres and other health services);
- Management services of the above businesses.

Mashaba (2008:4)

Interaction between MNEs and Government takes place at all levels of business. Firstly, as discussed (Khanyile, 2007c; Moodley, 2004b; Morris, 2004; Smetherham, 2004, Wessels, 2003), on legislative issues concerning the trading environment, at the most senior levels, between MNE management and Government ministers at national and provincial level, as well as with their technical advisors (Gardin and Adams, 2004; Moodley, 2004a; Moodley, 2004g; Trade body close to agreement on cheap drugs for the poor, 2003; Tsabalala-Msimang, 2003).

Secondly, Government procures on a national and provincial level utilising a tender system. The tender documents reveal a significant amount on the interaction between employees from Government and those from MNEs (South Africa, National Treasury, 2005). MNEs get involved at various levels in the tender process. MNEs' promoting of their products to end-users and decision-makers in government play a significant role in the drafting of product specifications called for in tenders (Moodley, 2005e). Tenders also typically require the successful bidder to provide training for the operational staff as well as maintenance in the case of equipment (South Africa, National Treasury, 2005). A product available on tender still has competition in the form of therapeutic alternatives and promotion is done with caregivers to push the use of products.

#### **4. Measurement instruments and data collection**

In this study the collection of quality data occupies a central position; Chenail (1995:2) observes that *"the main focus in qualitative research is the data itself, in all its richness, breadth, and depth. When all is said and done, the 'quality' in a qualitative research project is based upon how well you have done at collecting quality data"*.

The data collection is inextricably linked to the theory, and this link is controlled in the due diligence process. This was achieved by employing the suggestion of Perry (2001:310) that small models of theory drawn as boxes and lines are developed from the literature review, as a practical support to the data-collection phase. Ratcliff (2004) advocates the further use of these diagrams during the data analysis phase where it provides an outline of generalized causation that supports the logical reasoning process.

The primary method of data collection is semi-structured in-depth interviews, consisting of only a base number of pre-defined questions. The International Development Research Centre (2004:1) has remarked that: *"Qualitative techniques such as the use of loosely structured interviews with open-ended questions ... will therefore be appropriate in many studies. For sensitive topics they may be the only reliable technique"*, and in light of the sensitivity of the data collected this method was selected.

The questions are mostly open questions, as suggested by Eisenhardt (1989), Woodside and Wilson (2003) and Perry (2001), requiring the individual to relate the story of what happened during an interaction, what the approach to the interaction had been, what the preparation entailed and what the objectives and expected outcomes were. These questions were then followed by a series of discretionary probing questions that answer the research issues, should the interviewee not have addressed them during the first less

structured section of open questions. As each question is open and elicits the telling of a story, the questions were relatively few in number but in fact the interview proved fairly lengthy, pushing the boundaries of what the interviewees would tolerate. Discretion was used and *ad hoc* questions were asked to explore topics that arose during the interview. Impressions and observations of the interviewer on attitudes, emotions and the various tactics and strategies indirectly communicated were recorded. The main focus is on approaches, activities, processes and outcomes. The interviews were recorded by transcription and voice recording.

The questions have been linked to the theory and research objectives through the development of constructs. The constructs originated from the literature study, specifically those sections that have been identified in chapter three as directly having bearing on the research problem, research objectives, research questions and propositions. These constructs have been transformed into questions for the in-depth interview, and have then also been expanded to contribute to especially the *a priori* codes-of-analysis used in the data analysis (See Table 4.3 Constructs, interview questions and codes of analysis).

The questions are mostly open questions and as such relate to multiple constructs and the data collected for a question again are analysed for multiple codes-of-analysis. The questions in the questionnaire were also arranged to facilitate the logical flow of the events under review. The questionnaire as used in the interview is attached in Appendix 1, and the summary of the data results in Appendix 2 gives a detailed reflection of the literature sources where the codes originate from.

To enhance the richness of the case studies and provide for triangulation; agendas, presentations, minutes, resolutions and e-mails are also collected and analysed. Published government tender awards in respect of these organisations in the public domain, where available have been analysed. The fact that data may be discrepant did not render such data invalid, the National Science Foundation (1997) cautions that the one issue of analytic validity that often arises concerns the need to weigh evidence drawn from multiple sources and based on different data collection modes, such as self-reported interview responses and observational data. Triangulation of data sources and modes is critical, but the results may not necessarily corroborate one another, and may even conflict.

In addition, a short Likert scale survey (Likert, 1932) was distributed to executives through two trade organisations that represent multinational pharmaceutical companies

to enhance the findings of the case studies by testing whether the opinions of the executives in the case studies could be confirmed. The survey and the results are attached in Appendix 3.

During the analysis of data, especially in the cross case analysis, a number of themes emerged that warranted further clarification. This is as predicted by Amaratunga and Baldry (2001) when they noted that analysis and collection of data is one continuous process, frequently overlapping. Additional data was collected by employing three methods. Firstly additional documents such as tenders, strategy and marketing plans, and, e-mail communications were sourced to give further insight. Secondly, various impromptu follow-up interactions with the executives were arranged where some of these themes were further explored. These communications were mostly of a sensitive personal nature such as perceptions, attitudes, convictions and the extent of personal networks; all pursued in a very informal manner. Third parties, both BEE partners and independent entities, were also engaged on the topics. As these were not part of the initial interviews, the data was afterwards recorded and where appropriate additional codes created. These contributed in the main towards the formulation of emerging themes as well as conclusions. Thirdly, the survey was constructed and distributed to a wider group of executives through two trade organisations. The questions were set up to specifically enhance the validity of the study by increasing the reach beyond the four case studies.

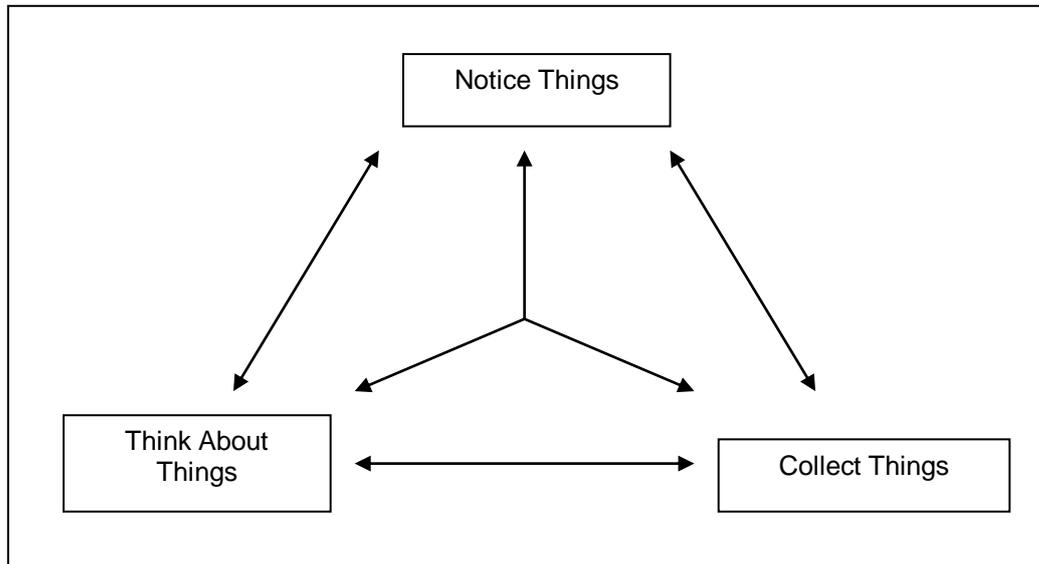
## **5. Data analysis**

In contrast to quantitative research, collection and analysis in this qualitative study has been one continuous and repetitive process where data analysis and data collection frequently overlapped (Amaratunga and Baldry, 2001). The data analysis has not been a discrete procedure carried out at the final stages of the research as is typical in quantitative studies. As described by Basit, (2003), it has been an all-encompassing activity that continued throughout the life of the project. The National Science Foundation, (1997) refers to qualitative analysis as fundamentally an *iterative* set of processes. There is thus no distinct process of data analysis that is totally separate from collection and interpretation (Tere, 2006; Amaratunga and Baldry, 2003). The International Development Research Centre (2004) notes that this is part of what distinguishes qualitative analysis, a loop-like pattern of multiple rounds of revisiting the data as additional questions emerge, new connections are unearthed, and more complex formulations develop along with a deepening understanding of the material. Thus, collection, processing, analysis and reporting of qualitative data are closely intertwined and not distinct successive steps as is the case with quantitative research.

It had often been necessary to go back to the original field notes and verify conclusions, collecting additional data where available data appeared controversial, and gathering additional feedback from all parties concerned, as predicted by the International Development Research Centre (2004). The data collection was initiated by conducting in-depth interviews, the first case fulfilling the additional role of pilot. Additionally, supporting documentation in the form of contracts, e-mails, presentations and company profiles provided data. As the interviews were written up and within-case and cross-case analysis initiated, themes emerged, questions surfaced and issues were identified that required clarification.

Additional data was collected by setting up *in promptu* discussions with the interviewees, as well as collecting additional printed material where possible. Industry role players outside of the specific cases, such as major BEE entities, were also engaged on the emergent themes to facilitate understanding and support interpretation. This is in line with the observations by Seidel (1998), of a repeating cycle in qualitative research, a process that is iterative and progressive. When the researcher thinks about things, he also starts noticing new things in the data. He then collects and thinks about these new things. In principle the process is an infinite spiral. It is also a recursive process because one part can call you back to a previous part. While busy collecting things, new things to collect may simultaneously be noticed. He (Seidel, 1998) also calls the process holographic, in that each step in the process contains the entire process. When first noticing things, the researcher is already mentally collecting and thinking about those things.

In figure 4.3 the reiterative nature of the qualitative process is depicted; the process of deciding on what to collect, collecting it and analysing it, all one process.

**Figure 4.3 The data analysis process**

Adapted from Seidel (1998:1)

It is at the literature study stage that things are noticed for the first time and are thought about, the consideration culminating in the defining of the gap and eventually, what should be collected. Collecting, noticing and thinking happen concurrently until the potential is exhausted. Unless adherence to the scope of the study is very strict, it would be a never-ending process. Qualitative analysis exposes an infinite amount of nuances to the topic studied.

### 5.1 Coding

The challenge to this study, as with any qualitative study, is to bring structure and systemisation to the data analysis and interpretation. The National Science Foundation (1997) has stated that although qualitative analysts are justifiably wary of creating an unduly reductionistic or mechanistic picture of an undeniably complex, iterative set of processes, a few basic commonalities can be identified in the process of making sense of qualitative data. In this study this concern is addressed by the use of coding or categorizing the data, playing a key role again in analyses.

Seidel and Kelle (1995) refer to the role of coding as noticing relevant phenomena; collecting examples of those phenomena; and analysing those phenomena in order to find commonalities, differences, patterns and structures. They (Seidel and Kelle, 1995) also noted that creating categories triggers the construction of a conceptual scheme that suits the data and this scheme helps the researcher to ask questions, to compare across

data, to change or drop categories and to make a hierarchical order of them. Category names can come from the pool of concepts that researchers already have from their disciplinary and professional reading, or borrowed from the technical literature, or are the words and phrases used by informants themselves (Basit, 2003).

Although deciding on themes or codes is viewed by some as *“an unmitigated, qualitative act of analysis in the conduct of a particular study, guided by intuition and experience about what is important and what is unimportant”* (Bernard, 1996:2), this study employs the guidelines by Gibbs and Taylor (2005) to direct the process of selecting codes. This was done by applying the description of the types of codes in table 4.2 to the classification of sources as described in the section underneath. The resultant codes are reflected, with references, in Appendix 2, and the relation to the interview questions and constructs are shown in table 4.3

**Table 4.2. Types of phenomena that are coded**

No	What can be coded	Example
1	Behaviours, specific acts	Seeking reassurance, Bragging
2	Events – short once in a lifetime events or things people have done that are often told as a story.	Wedding day, day moved out of home for university, starting first job
3	Activities – these are of a longer duration, involve other people within a particular setting	Going clubbing, attending a night course, conservation work
4	Strategies, practice or tactics	Being nasty to get dumped Staying late at work to get promotion
5	States – general conditions experienced by people or found in organisations	Hopelessness “I’ll never meet anyone better at my age” settling for someone who is not really suitable
6	Meanings – A wide range of phenomena at the core of much qualitative analysis. Meanings and interpretations are important parts of what directs participants’ actions. What concepts do participants use to understand their world? What norms, values, and rules guide their actions What meaning or significance it has for participants, how do they construe events what are the feelings What symbols do people use to understand their situation? What names do they use for objects, events, persons, roles, setting and equipment?	The term ‘chilling out’ is used by young people to mean relaxing and not doing very much Jealousy “I just felt why did she get him” A PhD is referred to as ‘a test of endurance’ (because finishing a PhD is a challenge)

No	What can be coded	Example
7	Participation – adaptation to a new setting or involvement	About new neighbours “In my new house I have to keep my music down at night as the neighbours have young children”.
8	Relationships or interaction	Seeing family “Now my sister lives in the next road she visits more and we’ve become much closer.
9	Conditions or constraints	Loss of job, moving away (before lost contact with old friends)
10	Consequences	Confidence, positive attitude attracts opportunities
11	Settings – the entire context of the events under study	University, work place, housing estate
12	Reflexive – researcher’s role in the process, how intervention generated the data	Probing question “How did you feel when he said that?”

Adapted from Gibbs and Taylor (2005:2)

As sources of codes, Gibbs and Taylor (2005) propose the following classification:

- The first group of codes are the *a priori* codes. These have been derived from a range of sources; previous research or theory, research or evaluation questions that are being addressed, questions and topics from the interview schedule or supporting documents and interactions, and, a gut feeling about the data or the setting. These are what the University of South Alabama (2003) term the pre-existing codes. Perry (2001) also advocates the use of codes-of-analysis derived from existing theory. *“This use of prior theory to provide codes shows that prior theory is emphasised again in the data analysis part of the report of case research. The prior theory is also used to provide a tight structure used to categorise the interviews into sub-sections of a report of the data analysis”* (Perry, 2001:318).
- In contrast, the grounded codes emerge from identifying new themes from the data, actively guarding against pre-existent prejudices, presuppositions and previous knowledge of the subject; termed the inductive codes by the University of South Alabama (2003). Descriptive coding, when coding is used to describe what is in the data, and, analytic or theoretical coding, are codes based on the analytical thinking

by the researcher about why what is occurring in the data might be happening. Both these are forms of grounded coding.

The codes in the analysis matrix in Appendix 2 are grouped and numbered according to the above classification, denoting their origin. In table 4.3 that follows, the relationships between the constructs, interview questions and codes-of-analysis are shown. The codes are numbered according to the matrix used in the analysis (Appendix 2). References are given for the codes and these then apply collectively to the construct they relate to.

**Table 4.3 Constructs, interview questions and codes of analysis**

Construct	Question	Codes-of-analysis
1. Connectedness 1.1 Density and degree	With which of the individual stakeholders in your organisation and industry do you have relations?	17. Density (Borgatti and Forster, 2003; Gargiulo and Benassi, 2000; Bourdieu, 1986); # of ties linking the actors in network, big or small network 18. Centrality (Borgatti and Forster, 2003); Position relative to other actors 19. Degree (Borgatti and Forster, 2003); # personal of ties
1.2 Closeness	What is the extent of the relations that you have with the stakeholders in your organisation? (Continuum from acquaintance to personal friend, alone or with third party present) In your opinion, is it acceptable and/or advisable to befriend stakeholders on a personal, social level?	20. Closeness (Borgatti and Forster, 2003); Independent access to other actors 21. Betweenness (Borgatti and Forster, 2003); Frequency of being between other actors, often present/absent 28. Proximity status (Pollit, 2002; McPherson et al, 2001) ; Spatial relation and frequency of exposure/interaction 29. Relatedness (Pollit, 2002; Edelman et. al, 2004); Family ties (kinship) and ethnicity
2. Interaction 2.1 Frequency	How often do you interact with the stakeholders?	77. CRM system; Formal system of targeting individual government employees 78. Sales and marketing exposure; Level of training and experience in sales and marketing 79. Relationship orientation; Resource and time allocated to developing relations 80. General cross-ethnic relations; Status of relations with locals in private market
		81. Historical dealings with government; Historical events with government; political and business, personal and company. 82. Social interaction as business tactic; Do MNE managers pursue pure social interaction

Construct	Question	Codes-of-analysis
2.2 Nature	What format does your interaction take? (business meeting, meals, social events)	26. Homogeneity requirements (Putnam, 2000; Ng, 2004; Edelman et. al, 2004); Tolerance and awareness of network diversity/ heterogeneity
3. Relatedness 3.1 Connection	What drives the interaction and maintains relations with these stakeholders? (what maintains the bond)	<p>10. Culture conformation and exclusivity (Kristiansen, 2004; Edelman et. al, 2004; Bourdieu, 1986; Putnam, 2000; Coleman, 1990) ; Conformation to, and segregation levels</p> <p>11 Community involvement (Coleman, 1988; Pollit, 2002); Spatial relationship and participation</p> <p>15. Structural SC status (Coleman, 1988; Inkpeng and Tsang, 2005; Edelman et. al, 2004); Number of ties, configuration, stability</p> <p>16. Cognitive SC focus (Inkpeng and Tsang, 2005; Edelman et. al, 2004); Shared goals and culture; social context. Affiliation networks</p> <p>30. Homophily (McPherson et al, 2001, McPherson, Smith-Lovin and Cook, 2001; Reagans and Zuckerman, 2001; Edelman et. al, 2004); Tendency to interact with own kind</p>

Construct	Question	Codes-of-analysis
4. Trust 4.1 Congruence	Is the nature of your business competitive or do you have a similar outcome in mind? (win-loose or win-win)	<p>6. Collective action (Berry et. al, 2004, Putnam, 2000, Coleman, 1990); Conforming to social group in driving collective action</p> <p>7. Norms of reciprocity (Gargiulo and Benassi, 2000; Bourdieu, 1986; Healy, 2004; Coleman, 1990; Putnam, 2000); Perception of obligation and indebtedness</p> <p>33. Power (Bourdieu, 1986); Relative to other actors, and locus</p> <p>34. Information (Bourdieu, 1986; Staber, 2004); Access and control vs. other actors</p> <p>86. Relational grounding; Experience in relationship marketing</p> <p>87. Out-going personality; Extrovertedness</p> <p>88. Negativity; Preconceived perceptions</p> <p>89. Ethical; Role of ethics in personal conduct</p> <p>90. Liberal; Level of political liberalism</p> <p>91. Strategic ability; Competence in identifying appropriate strategy</p> <p>92. Relational affinity; Inertia to mixing/relationship building</p> <p>93. Racial awareness; Sensitivity to differences and demarcation lines</p>
4.2 Trustworthiness	Are you cognitive of the reputation and credibility of the individuals that represent government?	<p>3. Inclination to trust (Healy, 2004; Konoirdos, 2005; Putnam, 2000; Pollit, 2002; Fukuyama, 1999); Relative inclination to trust</p> <p>22. Risk aversion (Healy, 2004; Konoirdos, 2005); Assuming risk to evaluate trustworthiness, relative risk aversion</p> <p>23. Rate of trust (Healy, 2004; Konoirdos, 2005); Relative time to trust, speed of gaining/giving trust</p>

Construct	Question	Codes-of-analysis
5. Norms 5.1 Values	Do you have similar business guidelines? Are the principles similar? Is the social behaviour and business protocol similar?	4. Normative influence (Healy, 2004; Pollit, 2002; Fukuyama, 1999); Relative weight of norms, level of principledness 8. Culture and beliefs (Kristiansen, 2004; Bourdieu, 1986; Putnam, 2000); Role in personal conduct, perceived relative weighting 24. Common goals (Ng, 2004; Coleman, 1990; Putnam, 2000; Friedkin and Johnsen, 1999); Idealism on outcomes, win-win or win-loose 25. Position perception (Potgieter et. al, 2006); Perception of who one is, where belongs, norms of behaviour accepted 27. Tacit rules (Cross, Borgatti and Parker, 2001); Subconscious awareness of the unspoken 31. Social cognition (Borgatti and Foster, 2003; Brewer, 2000); Accuracy of own perception of own role/position in network
		32. Network perception (Casciaro, 1998; Potgieter et. al, 2006); Accuracy of perception of network workings 83. Political conviction; Personal political convictions

Construct	Question	Codes-of-analysis
6. Evolution 6.1 Process	<p>Tell me about the meeting/s you have had with government; why, how you prepared and what you did to win them over.</p> <p>If the info is not volunteered:            Is networking a conscious objective?            Do you identify individuals that you pursue relations with?            Your meeting with government, what kind of planning and preparation went into it?            Who initiated the meeting?            Who set the agenda?            Who chaired the meeting?            Who attended?            What was the mood of the meeting?            Is there any socialising during or after business meetings?            How have your relations changed from the initial exposure?            Have you had interaction with the BEE partner not present, and if so, please describe these?</p>	<p>41. Success (Haley, 2001; Brewer, 1992); Successes in historical dealings</p> <p>42. Failures (Haley, 2001; Brewer, 1992); Failures in historical dealings</p> <p>43. Embeddedness (Holm, Eriksson and Johanson, 1996; Granovetter, 1985; Tung, 2002); Extent of organisation's involvement in networks</p> <p>44. Operational gov- bus networks (Chen, 2004; Shaffer, 1995); Extent and level of organisation's involvement, operational</p> <p>45. Decision-making gov networks (Peng, 2000; Chen, 2004; Hillman, 2003; Lenway and Murtha, 1994; Goldsmith, 2002, Brewer, 1992; Shaffer, 1995); Extent and level of organisation's involvement, senior levels</p> <p>46. Political activity (Schuler, 2002; Yeung, 2005; Forrest, 2003; Hillman and Hitt, 1995); Extent and level of organisation's involvement, lobbying</p> <p>47. Government business activity (Schuler, 2002); Extent of organisation's aspirations, gov as target customer</p> <p>48. Collective activity (Schuler, 2002); Extent of political participation in competitor activity and trade organisations</p>

Construct	Question	Codes-of-analysis
		<p>49. Corruption (Rodriguez, Uhlenbruck and Eden, 2005; Ginwala, 1998; Leisinger, 1998); Perception, attitude and participation</p> <p>50. CSR (Hamann and Acutt, 2003; Smith, 2003; Artraud-Day, 2005; Henderson, 2005; Gethmann, 1998; Koslowski, 1998); CSR as strategy, tactical implementation</p> <p>51. Transactional strategy (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980); Weighting on issue specific interaction</p> <p>52. Relational strategy (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980); Weighting on continued interaction</p> <p>53. Firm ethnic profile (Kristiansen, 2004; Chen, 2004; Putnam, 2000); Ethnic make-up of executive, firm</p> <p>54. Government ethnic profile (Kristiansen, 2004; Chen, 2004; Putnam, 2000); Ethnic make-up government employees</p> <p>55. JV history (Chen and Chen, 1998; Stuart, 2000; Holm, Eriksson and Johanson, 1996); JV involvement and objectives</p> <p>56. MNE Government trust (Agmon, 2003); Reigning levels of trust</p>

Construct	Question	Codes-of-analysis
		<p>61. Third Party relations strategy (Chen and Chen, 1998; Stuart, 2000; Holm, Eriksson and Johanson, 1996); Role for third party in government relations</p> <p>62. Interaction process; Chronology of interactions with government.</p> <p>63. Interaction format ; Personal, e-mail, phone</p> <p>69. Preparations; For interaction; meeting/presentation</p> <p>70. Relational content; Fraction of presentation dedicated to relationship development</p> <p>71. Technical presentation content; Mastery shown through technical competence in presentation</p> <p>72. Course of meeting; How do the events unfold during the meeting</p> <p>73. Perceived relational attributes; Own perception of relational strengths and employment hereof</p> <p>74. Independent relations; Do business relations continue afterwards, independently?</p> <p>75. Social relations; Does pure social interaction follow business relations</p>
6.2 Intent	What are the outcomes that you expect from the interactions with government?	13. Strategic focus on SC (Inkpen and Tsang, 2005; Bordieu, 1986; Douglas, 1995); Consciously leveraging SC

Construct	Question	Codes-of-analysis
		14. Bridging SC focus (Putnam, 2000; Coleman, 1990; Kristiansen, 2004; Healy, 2004); Pursuit of SC with bridging objective 35. Adversarial state (Agmon, 2003; Vogel, 1996); Status of relations with government 36. Magnitude of bargaining power (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992); Relative to government 37. Locus of bargaining power (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Haley, 2001); Competitive advantages vs. government 38. Weakness (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Blumentritt, 2003); Disadvantages vs. government 39. Opportunities (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Blumentritt, 2003); Perception of opportunities 40. Threats (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992); Perception of threats in the external MNE government environment
7. Context 7.1 Type	What are the factors that motivate the interaction with government?  What obstacles do you have to overcome to have good relations with government?	64. SC Realizations; Are desired SC out-comes achieved 65. Level of relations; Business, social 66. Objective realisation; Are the objectives (business) achieved
		67. Barrier perceptions; What are the barriers to government relations 68. Accessibility; How accessible are the various levels of government 84. Sources of barriers; What is the perceived origin for barriers 85. Blind side; Unawareness as to own short comings; ID and resolution of issues

Construct	Question	Codes-of-analysis
8. Social capital 8.1 Networks	<p>To what extent do you interact with individuals in your social circles on a business level?</p> <p>What is the role of networking in the positions of the various senior managers?</p>	<p>1. Social network involvement (Coleman, 1988; Ng, 2004; Pollit, 2002; Friedkin and Johnsen, 1999); Participation in personal social networks</p> <p>2. Business network involvement (Ng, 2004, Burt, 1998); Individual participation in business networks</p> <p>5. Interaction pattern (Allen, 1977 in Borgatti and Foster, 2003); Type, actors, frequency, of interactions in social groups</p> <p>9. Institutional affiliation (Healy, 2004; Putnam, 2000; Coleman, 1990; North, 1990; Olson, 1982); Participation, perception, leveraging value of membership</p> <p>12. Networking (Borgatti and Foster, 2003; Friedkin and Johnsen, 1999; Burt, 1992; Coleman, 1990); Active pursuit of personal and co business networks</p> <p>76. Third-party ties; The role that government ties play in the choice of third party</p>

In table 4.3 above the codes appear as they relate to the questions and constructs and the codes are not in sequence, as can be seen from their numbers. In appendix 2 the codes appear in sequence. Codes 1 to 56 are *a-priory* codes derived from the literature; codes 1 to 35 from the literature on social capital and codes 36 to 56 from the literature on business – government relations. Codes 57 to 75 have their origin in the interview questions that were put to the executives. Codes 76 to 79 were developed from gut-feel, stemming from the ability to predict possibly important variables as a result of the close involvement with the subject matter. Codes 80 to 86 are grounded in the data collected with codes 80 to 82 being descriptive and 83 to 86 analytical. Codes 88 to 93 reflect the interviewer's perceptions on a ten-point scale. The last code, code 94 is a general code and facilitated the recoding of important data that did not fit anywhere else. This is as per Gibbs and Taylor (2005) as described in the section preceding table 4.3.

Seidel (1998) notes that in regard to what he terms “little bit of data, lot of right brain” strategy, the coding and collecting of segments of data can provide the foundation for the process of intensive analysis of a small bit of data. This is premised on the idea that code words in QDA (Qualitative Data Analysis) are primarily heuristic tools.

The process of coding was also subjected to the general due diligence practices as described later in this chapter; Chapter 4, Section 6. Basit (2003) cautions against the temptation to view coding as simply converting the qualitative data to numbers to elucidate events and views, and, that social phenomena need not be explained numerically. It is the quality and richness of the response to a social situation which should be focused on. The idea is to ascertain ‘what’ they feel, and ‘why’ they feel that way. This will also incorporate ‘who’ feel the way they do, and ‘where’, ‘when’ and ‘how’. He (Basit, 2003) argues that such a detailed scrutiny clearly cannot be carried out by using numbers, percentages and statistics. What coding does, above all, is to allow the researcher to communicate and connect with the data to facilitate the comprehension of the emerging phenomena and to generate theory grounded in the data (Basit, 2003).

The actual analysis of the data according to the codes-of-analysis was done on three levels as prescribed by Tere (2006) and Ratcliff (2004). The three levels of analysis utilised are:

- Thematic analysis that is highly inductive; the themes having emerged from the data and not imposed upon it. An event was evaluated and a hypothetical statement of what happened developed. Then another similar event was looked at to see if it fits the hypothesis. If it didn't, the hypothesis was revised. Exceptions to hypothesis were looked for and when found, the hypothesis was

revised once more, to fit all examples encountered. As mentioned, the data collection and analysis took place simultaneously. The comparative analysis used next is closely connected to thematic analysis. Using this method, data from different people was compared and contrasted and the process continued until satisfaction that no new issues were arising.

- Content analysis, which was the more mechanical part of the analysis that fits right at the other end of the qualitative data continuum, was left until a significant portion of the data had been collected. Coding by content was used to facilitate this analysis; what do people talk about the most? Attention was paid to seeing how themes relate to each other. The aim was to find latent emphases, political views, some which were implicit, others overt and discovered by looking at the surface level to identify emphasis. Once again, the decision what to look for was driven by the theory.
- Discourse analysis, also known as conversational analysis, formed the final part of the data analysis. The methods employed looked at patterns of speech, such as how people talked about a particular subject, what metaphors they used, and so on. Here speech was viewed as a performance; performing an action rather than describing a specific state of affairs or specific state of mind, viewed as a descriptive of the social situation and the cultural patterns within it. This was done with sensitivity to semantic relationships and acts that emphasize the meanings of the social situation to participants. Finally the discourse analyses related the social situation and cultural meanings.

(Tere, 2006; Ratcliff, 2004)

The analysis described above was repeated a number of times as new data was added in response to emerging questions and themes and was the final step in the repetitive collection-analysis-collection cycle. In the qualitative analysis, the National Science Foundation (1997) noted that it is the analyst who decides which data are to be singled out for description according to principles of selectivity. This involves some combination of deductive and inductive analysis. They (National Science Foundation, 1997) also noted that while initial categorizations are shaped by pre-established study questions, the qualitative analyst remains open to inducing new meanings from the data available. At saturation 161 data sources were analyzed for 94 codes.

The first analysis event was a within-case analysis of the first case, which in turn was performed inside every other specific case. The within-case analysis revolved around the analysis of write-ups. The objective of the within-case analysis was to become intimately familiar with each case as stand-alone entity, as Woodside and Wilson (2003:497) put it:

*“... deep understanding of the actors, interactions, sentiments, and behaviours occurring for a specific process through time...”*. As this first analysis was done, new codes were added and additional data collected. With each round of data analysis, the analysis became more detailed, probably the result of the analyses of the other data pieces. Initially it was what Woodside and Wilson (2003:497) refer to as a sense-making focus: *“focussing on what they perceive, framing what they perceive, interpreting what they have done including how they go about solving problems and the results of their enactments – including nuances, contingencies, in automatic and controlled thinking processes”*.

The with-in case analysis was followed by analysis of cross-case patterns. Here the focus was on within-group similarities and inter-group differences. The principles applied in analyzing across cases were in essence also those employed in the intra-case analysis (National Science Foundation, 1997). It was at this stage where the comparison between the empirical evidence and the theoretical propositions developed in chapter 3 was initiated. In the cross-case analysis an explanation building approach was assumed. This is similar to pattern matching but the aim is to analyse the data by building an explanation about the case. The process allowed for the unique patterns of each case to emerge before pushing towards generalised patterns across cases (Amaratunga and Baldry, 2001). Further, pairs of cases were compared and data grouped according to the source comparisons made.

All through-out the data analysis process particular attention had been paid to exceptions in the data, heading the advice from Miles and Huberman (1994:270), that qualitative analysts have to be alert to patterns of inter-connection in their data that differ from what might have been expected, those denoting what they refer to as "following up surprises". Unlike quantitative researchers, who need to explain away deviant data, qualitative analysts are usually delighted when they encounter twists in their data that present fresh analytic insights or challenges.

The final step of the data analysis involved coming to conclusions regarding the analysis performed. To facilitate the drawing of conclusions, the National Science Foundation (1997) suggests stepping back to consider what the analysed data means and assessing their implications for the questions at hand. After this was done, the process of verification, integrally linked to conclusion drawing, was initiated. These entailed revisiting the data as many times as necessary to cross-check or verify the emergent conclusions. This was also done subject to the general due diligence practices as described later in this chapter; Chapter 4, Section 6.

An integral part of the conclusion-drawing process has been discourse with various individuals that are knowledgeable on a topic, either as a result of academic study or experience. Inevitably explored these themes have been explored with all individuals encountered that could possibly enhance understanding or provide for deeper insight, no-one informed on the research motive behind, the same way one would discuss the weather, sport or international economics. A significant contribution was made by executives of the top BEE companies and black entrepreneurs, only exacerbating the yearning for similar access to government officials at these levels.

Bernard (1996:3) describes qualitative analysis thus:

*“When you do a qualitative analysis of a text, you interpret it. You focus on and name themes and tell the story, as you see it, of how the themes got into the text in the first place (perhaps by telling your audience something about the speaker whose text you’re analyzing). You talk about how the themes are related to one another. You may deconstruct the text, look for hidden subtexts, and in general try to let your audience know the deeper meaning or the multiple meanings of the text”.*

Seidel (1998:2) adds *“In the thinking process you examine the things that you have collected .....to make general discoveries about the phenomena you are researching”.*

## **6. General due diligence**

Case study research, specifically in qualitative studies, require a very stringent due diligence procedure as these studies are prone to bias due to the loose structure compared to large quantitative studies. In the next section, Section 7, the specific concerns are addressed more comprehensively. The methodology of a qualitative study has to provide for protecting against bias in both the collection and interpretation of the data. Coetzee (2008:88) refers to these as efforts aimed at protecting the truth:

*“Given that, in the interpretive research paradigm, truth is considered as multiple and constructed by the researcher, the key concern is that of bias and the integrity of the account where the truth is sought. Therefore, trustworthiness has become the criterion for academic rigour in interpretive research”*

He (Coetzee, 2008) advocates the use of Guba’s Model of Trustworthiness (Guba, 1981, as cited by Krefting, 1990) that defines trustworthiness in terms of four criteria, namely truth value, applicability, consistency and neutrality:

1. *Truth value* asks whether the researcher has established confidence in the truth of the findings. What credibility would the findings have?
2. *Applicability* asks to what degree the findings can be applied to other contexts. What transferability do the findings have to other applications?
3. *Consistency* asks whether the findings would be consistent if the inquiry were replicated with the same studies, or in a similar context. How dependable are the findings from the input?
4. *Neutrality* asks to what extent the researcher's personal bias has been hedged. Can the findings be confirmed by way of an external audit?

In this study the due diligence process entails firstly the upfront determination of what the contribution of each step of the research is and what specific due diligence outcomes are pursued. Secondly the specific steps taken during each step are reflected and thirdly the controls in each step to ensure that the general due diligence had been effective and the standards achieved.

**Table 4.4 The general due diligence process in this study**

<b>Research Phase</b> (Amaratungra and Baldry, 2001; Noor, 2008)	<b>Contribution &amp; Requirements</b>	<b>Due Diligence Activity</b>	<b>Control</b>
1. Literature review	Understanding of subject matter. Idea formation Identification of the Gap in current knowledge where a contribution is to be made (Noor, 2008). Research objectives: <i>a priori</i> constructions and relationships (Amaratungra and Baldry, 2001)	Systematic exploration (Eisenhardt, 1989; Perry, 2001) Integrated synthesis, critical analysis and evaluation (Ackerman, 2002). Referencing according to scientific standards (UNISA, 2008)	Verify against guidelines (Ackerman, 2002; UNISA, 2008) UNISA Graduate School of Business Leadership Colloquia.
2. Formulate research objectives	Contribution towards current body of knowledge. (Ackerman, 2002; Saunders, Lewis & Thornhill, 1997; Huberman and Miles, 2002) Contribution towards management practise. (Ackerman, 2002; Saunders, Lewis & Thornhill, 1997) Delineation of the scope of the study (Ackerman, 20002)	Identification of the Gap in current knowledge from the literature where a contribution is to be made (Remenyi, Money, Price & Bannister, 2002; Ackerman, 2002). Aligning the research objectives to the contribution to be made (Perry, 2001; Eisenhardt, 1989) Formulation of research questions and propositions, grounded in literature, towards achieving research objectives, rationale theoretically founded (Ackerman, 2002) Promoters' review	Verify against guidelines (Ackerman, 2002; UNISA, 2008) UNISA Graduate School of Business Leadership Colloquia. Expert opinion
3. Research design	Deciding on the most appropriate research methodology (Remenyi, Money, Price & Bannister, 2002; Perry, 2001) Designing collection and analysis methodology (Amaratungra and Baldry, 2001; Noor, 2008)	Full exposition of investigation. Special attention to samples, measuring instruments, data analysis - technique/procedure and references. Recognize limitations (Ackerman, 2002)	UNISA Graduate School of Business Leadership Colloquia. Expert opinion Promoters' review <sup>†</sup>

<sup>†</sup> The promoters have contributed throughout the study but at this phase their contributions have been pivotal to control of due diligence.

<b>Research Phase</b> (Amaratunga and Baldry, 2001; Noor, 2008)	<b>Contribution &amp; Requirements</b>	<b>Due Diligence Activity</b>	<b>Control</b>
4. Design and pilot interview questions	Extract data to satisfy research objectives (Webb, 2000; Stake, 1994; Yin, 1994)	Models of theory drawn as boxes and lines developed from the literature review, as a practical support (Perry, 2001:310). Design constructs from the literature that relate to the research objectives, research questions and propositions, and, translate into interview questions (Perry, 2001; Frazer and Lawley, 2000, Eisenhardt, 1989). Expert opinion.	Adjust post pilot Pre-test propositions Evaluate data gathered through the in-depth interview Expert opinion
5. Select cases	Provide data to satisfy research objectives (Patton and Appelbaum, 2003; Amaratunga and Baldry, 2001; Stake, 1994; Yin, 1994)	Apply selection criteria: A willingness to reveal the information required. Representing an organisation that is active in the industry and with a significant product/service range. Collectively cover a spectrum of activities and experiences as well as training and personality types. Perceived to have a high probability of revealing data that would answer the research questions (Noor, 2008).	Compare case profile to industry profile (Patton and Appelbaum, 2003) Evaluate probability of providing information (Eisenhardt, 1989) Evaluate profile as extreme case (Eisenhardt, 1989)
6. Conduct case studies	Collect untainted data (Lubbe, 2008; Patton and Appelbaum, 2003; Yin, 1994) Truth value Consistency Neutrality (Coetzee, 2008)	Adhere to interview questionnaire. Vigorous verbatim transcription of interviews. Tape recording of interviews (Saunders, Lewis & Thornhill, 1997) Collect additional data (Seidel, 1998)	Evaluate adherence post-interview and correct Revisit transcription

<b>Research Phase</b> (Amaratunga and Baldry, 2001; Noor, 2008)	<b>Contribution &amp; Requirements</b>	<b>Due Diligence Activity</b>	<b>Control</b>
7. Writing cases	Accurately record data Truth value Neutrality (Coetzee, 2008)	Transcription of the interview supplemented by tape recording and printed data. (Saunders, Lewis & Thornhill, 1997) Additional data collection as dictated by emerging questions during data analysis. ((Amaratunga and Baldry, 2001) Structured write-up (Chenail, 1995).	Revisit transcription Verify transcription with interviewees Promoters' review <sup>‡</sup>
8. Within-case analysis	Expose single case characteristics (Woodside and Wilson, 2003; University of South Alabama, 2003) Consistency Neutrality (Coetzee, 2008)	Models of theory drawn as boxes and lines developed from the literature review (Perry, 2001:310), providing an outline of generalized causation that supports the logical reasoning process (Ratcliff, 2004). Coding based in literature (Basit , 2003; Gibbs and Taylor, 2005) Analysis on three levels (Tere , 2006; Ratcliff, 2004) Data analysis and collection to saturation as per emerging themes (Amaratunga and Baldry, 2003)	Evaluate unit of analysis (Grunbaum, 2007) Test understanding of case variables (Woodside and Wilson, 2003) Test explanatory power of analysis (International Research Development Centre, 2004)
9. Cross-case analysis	Expose similarities and differences Provide for emerging of themes (Woodside and Wilson, 2003; University of South Alabama, 2003) Consistency Neutrality (Coetzee, 2008)	Coding based in literature as per Basit (2003) Data analysis and collection to saturation as per emerging themes (Amaratunga and Baldry, 2003) Develop hypotheses <sup>§</sup> that explain all occurrences (Tere, 2006; Ratcliff, 2004)	Evaluate unit of analysis (Grunbaum, 2007) Test explanatory power of analysis (International Research Development Centre, 2004) Evaluate emerging themes (National Science Foundation, 2007)

<sup>‡</sup> The promoters have contributed throughout the study but at this phase their contributions have been pivotal to control of due diligence.

<sup>§</sup> These hypotheses explain occurrences in the data and are not to be confused with the research propositions/hypotheses.

<b>Research Phase</b> (Amaratunga and Baldry, 2001; Noor, 2008)	<b>Contribution &amp; Requirements</b>	<b>Due Diligence Activity</b>	<b>Control</b>
10. Draw conclusions	<p>Accurately reflect data analysis results in conclusions (Ackerman, 2002)</p> <p>Generally repeatable across analysts (Eisenhardt, 1989)</p> <p>Truth value</p> <p>Applicability</p> <p>Consistency</p> <p>Neutrality (Coetzee, 2008)</p>	<p>Interpret results, outcome fully discussed</p> <p>Confirm opinions from case studies through trade organisation survey.</p> <p>Support conclusions from the data.</p> <p>Answer research questions and test propositions</p> <p>Explain exceptions</p> <p>Test conclusions against literature (Ackerman, 2002)</p> <p>Explain deviations from literature (Eisenhardt, 1989)</p> <p>Self awareness of subjectivity (National Science Foundation, 1997).</p>	<p>Review of survey questions by industry expert and promoters</p> <p>Test conclusions with role players and experts</p> <p>UNISA Graduate School of Business Leadership Colloquia.</p> <p>Acknowledge subjectivity and study limitations (National Science Foundation, 1997)</p>
11. Contributions and Recommendations	<p>Achieve research objectives aligned to data analysis and conclusions (Woodside and Wilson, 2003; Eisenhardt, 1989; Perry, 2001)</p> <p>Applicability</p> <p>Consistency</p> <p>Neutrality (Coetzee, 2008)</p>	<p>Verify link between objectives and contributions (Thomas, 2004; Ackerman, 2002)</p> <p>Cross references to relevant studies and underlying theory (Ackerman, 2002)</p> <p>Introspection to attain a conscious appreciation of the subconscious decision-making processes (Woodside and Wilson, 2003)</p>	<p>Test conclusions with role players and experts</p> <p>UNISA Graduate School of Business Leadership Colloquia.</p> <p>Promoters' review**</p>

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\*\* The promoters have contributed throughout the study but at this phase their contributions have been pivotal to control of due diligence.

Each of these study phases are addressed in a specific chapter in this study and Table 4.4 preceding should be read with the related chapter as foreknowledge. In addition, each chapter should be read with Table 4.4 as reference for the due diligence processes that relate to that activity of the study. The chapters applicable to each phase are as follows:

**Table 4.5 Study phase and related chapter in this study**

<b>Research Phase (Table 4.4)</b>	<b>Chapter</b>
1. Literature review	Chapter 2: Literature Study
2. Formulate research objectives	Chapter 3: Research Questions and Propositions
3. Research design	Chapter 4: Research Design and Analysis
4. Design and pilot interview questions	Chapter 4: Research Design and Analysis
5. Select cases	Chapter 4: Research Design and Analysis
6. Conduct case studies	Chapter 5: Results
7. Writing cases	Chapter 5: Results
8. Within-case analysis	Chapter 5: Results
9. Cross-case analysis	Chapter 5: Results
10. Draw conclusions	Chapter 6: Contributions, Recommendations and Conclusions
11. Contributions and Recommendations	Chapter 6: Contributions, Recommendations and Conclusions

## **7. Limitations of case study research**

As with any type of research, case study research also suffers from limitations, but a number of perceived limitations are based on inaccurate perceptions and criticisms.

Criticisms against the use of case study research revolve around a lack of rigour and an excess of bias, exposing the dangers of *ad hoc* theorising. As this is a real threat to the validity of this study the process employed throughout has been extensively dealt with in the previous section, Chapter 4, Section 6.

The National Science Foundation (1997:1) is of the opinion that the relative lack of standardization of data analysis is at once a source of versatility and the focus of considerable misunderstanding; *“That qualitative analysts will not specify uniform procedures to follow in all cases, draws critical fire from researchers who question whether analysis can be truly rigorous in the absence of such universal criteria ...”* In their opinion this stance by qualitative researchers has fed a fundamentally mistaken but relatively common idea of qualitative analysis as unsystematic, undisciplined, and “purely subjective.”

Perry (2001:309), on the strength of Yin’s (1989) observations agrees “The flexible approach in the inductive format is of great risk for especially inexperienced researchers:

*“the process is not well documented in operational terms ... and is fraught with dangers. The intensive use of empirical evidence can lead to theory that is overly elaborate and complex. Case study researchers may be unable to identify the most important relationships due to a lack of statistical methods such as regression analysis”.*

In this study a structured and systematic approach was followed throughout, referenced to literature on the methodology of case study research in qualitative research. The lack of statistical methods for data analysis is inherent, but such methods are totally inappropriate to this study and have a high probability of deterring from the opportunity to identify emerging themes.

The absence of statistical methods raises a concern over subjective judgements during data collection rendering constructs invalid. In this study this subjectivity is critical to its successful contribution, in line with the perspective from Patton and Appelbaum (2003:68) that this subjectivity is a necessity; *“Qualitative designs call for the persons most responsible for interpretations to be in the field, making observations, exercising subjective judgement, analysing and synthesising, all the while realising their own consciousness”.* In this study the identity of the researcher influenced the study based on access; referring on the ability to get close to the object of the study in order to truly find out what is happening, and, pre-understanding; referring to such things as peoples’ knowledge, insights, and experience before they engage in a research project. The pre-understanding that is critical and unique to this study, is influenced by: 1) a knowledge of theories, 2) a knowledge of techniques, 3) a knowledge of institutional conditions, 4) an understanding of social patterns which encompasses a company’s cultural value system of often tacit rules of cooperation, social intercourse, communication, etc. and, 5) the personal attributes of the researcher such as intuition, creativity, vitality and human

understanding, all of which the researcher must be very aware (Patton and Appelbaum, 2003).

Woodside and Wilson (2003:498) go as far as to state that *“To learn requires the subjective significance of persons and events occurring in a case study; and the linkages and causal (or influence) paths among concept variables identified in a case requires deep understanding”*, and in this study learning is pivotal to explain the “how” and “why” of social capital development with host governments from the MNE executives’ perspectives.

A condition of this subjectivity, concerns the qualitative analyst's need to be self-aware, honest, and reflective about the analytic process (National Science Foundation, 1997).

Another aspect frequently raised as a limitation (Amaratunga and Baldry, 2001) is that it is difficult to generalise findings to different settings as phenomenon and context are necessarily dependent. Here it revolves around the variable of external validity; specifically whether external conditions are considered to produce significant variation in the phenomenon studied. The argument that as such, case study research provides limited basis for traditional scientific generalisation. But, scientific generalisation is not the over-riding objective; *“Case studies aim not to infer global findings from a sample to a population, but rather to understand and articulate patterns of linkages of theoretical importance”* (Amaratunga and Baldry, 2001:100). Eisenhardt (1989:547) also is of the opinion that the theory-building process is so intimately tied with evidence that it is very likely that the resultant theory will be consistent with empirical observation. This study has paid particular attention to achieving this state of close relation to theory and evidence as reflected by the constant referencing to literature and data collected, mostly in table format to expose integral linkage between literature, data and conclusions.

Patton and Appelbaum (2003) do concede that the generalizability is determined by the strength of the description of the context, and producing narrow and idiosyncratic theory is a real risk. As this is a bottom up process where data produce generalization of theory; the theory describing highly idiosyncratic data will be idiosyncratic and narrow. This study acknowledges the instances where anomalies are exposed (Chapter 5, Section 4.3.4)

Although this study aspires to as high a level of consistency as described by Coetzee (2008), a number of researchers are of the opinion that in qualitative analysis, it is not necessary or even desirable that anyone else who did a similar study should find exactly the same thing or interpret his or her findings in precisely the same way (Patton and

Appelbaum, 2003), but, that qualitative analysts are obliged to describe and discuss how they did their work.

All efforts have been made to conform to an open and honest presentation of analytic processes that provides an important check on an individual analyst's tendencies to get carried away, allowing others to judge for themselves whether the analysis and interpretation are credible in light of the data. *"Undoubtedly, the researcher's subjectivity does intervene, but to the extent that this intervention is clearly stated, it becomes objectified into an object that is clearly the researcher's point-of-view"* (Hamel, 1993 in Patton and Appelbaum, 2003:69). Woodside and Wilson (2003) recommend the interviewer attain a conscious appreciation of the subconscious decision-making processes through introspection.

## **8. Summary**

In this chapter the final structure of the study was decided on, made possible once case study research was identified as the most appropriate format to gather data. This became possible after the literature study had been completed, the gap therein identified and a possible contribution became apparent. The theory-building nature of the contribution dictates case study research as most appropriate.

A case was defined as the interactions between a senior manager of an MNE, a third party, and, government, concerning one specific business transaction, the supporting documentation such as presentations and the preparations thereof, the agendas, minutes and resolutions, tender documents and submissions, including tender awards; e-mail, telephone and other communications; all constitute a case study. It was decided to select four case as recommended by Noor (2008) in studies of sensitive topics where information was hard to come by. Cases were selected according to being extreme cases and polar types which are transparently observable during the course of the research (Stake ,1994), a willingness to reveal the information required, representing an organisation that is active in the industry and with a significant product/service range, collectively covering a spectrum of activities and experiences as well as training and personality types, perceived to have a high probability of revealing data that would answer the research questions (Noor, 2008).

The cases were selected from the South African healthcare industry which is highly evolved and has a plethora of role players to constitute a comprehensive and fully developed market. Various factors that influence this market have been identified. Government has identified Healthcare as a main focus in its election manifesto.

Healthcare has both technologically advanced First World medicine in secondary and tertiary institutions and third world healthcare in primary healthcare centres. The market is made up of a Private Healthcare sector that services 7 million medical aid members and dependents belonging to 108 medical aids (<[www.Medicalschemes.com](http://www.Medicalschemes.com)>) and a State Healthcare sector that services 42 million people. The private market is highly developed with three dominant private hospital groups with state-of-the art facilities and highly skilled service providers in the paramedical field, general medicine and specialist care (Private Health, 2006). The government procurement is significant and utilises a comprehensive tendering system. Almost all the multinational pharmaceutical (150) (MIMS, 2006) and medical equipment enterprises are represented as well as a number of local companies, some themselves multi-nationals. The healthcare industry is heavily legislated with various recent changes in the laws. The setting of transformation standards by the industry in the Health Charter and a large amount of BEE transactions being concluded and places a significant burden on the MNEs. Interaction between Government and MHE employees is required at various levels.

It was decided that the primary method of data collection would be in-depth interviews using open-ended questions based on constructs derived from the literature review. Data will also be collected through printed material, both in the public domain as well as proprietary, such as contracts, tender awards, e-mail communications, articles, presentations and company profiles. Finally a survey of executives belonging to two trade organisations was done to confirm opinions from the case studies. During the analysis of data, especially in the cross case analysis, a number of themes emerged that warranted further clarification. Additional data was collected through additional documents such as tenders, strategy and marketing plans, and, e-mail communications were sourced to give further insight. Secondly, various impromptu follow-up interactions with the executives were arranged where some of these themes were further explored. Third parties, both BEE partners and independent entities, also provided further insights.

Data collection and data analysis has been one continuous and repetitive process where analysis and collection frequently overlapped. The data analysis has not been a discrete procedure carried out at the final stages of the research as is typical in quantitative studies. As the interviews were written up and within-case and cross-case analysis initiated, themes emerged, questions surfaced and issues were identified that required clarification and thus additional data to be collected. Discoveries are made by thinking about things collected. More data have been collected to gain deeper understanding. The analysis of data follows the collection at every case and the theory building commences immediately and repetitively. Analysis and collection is not separate and discrete but

recollection is done as the need emerges from analysis. Supporting data is added until the point of closure is reached.

Coding was employed to bring structure to the data analysis. Codes-of-analysis are derived from the literature and are closely related to the constructs derived from the same literature, used in formulating interview questions. Coding is employed as a means to organise data in a way that facilitates analysis and interpretation. Analysis employing coding is done by noticing relevant pre-existing phenomena in theory, collecting examples, and, analysing these to find similarities, differences, patterns and structures. Categories of codes provided for a conceptual scheme from which to ask questions, compare cases and produce a hierarchical order. Pre-existing codes have been derived from theory, research questions and the researcher's gut-feel. Grounded codes have emerged from the data; both descriptive and analytical. Coding was done according to the guidelines by Gibbs and Taylor (2005) that source codes from behaviours, events, activities strategies, practice or tactics, states, meanings, participation, relationships or interaction, conditions or constraints, consequences and settings.

Analysis of the data collected was done on three levels. Thematic analysis provided for a hypothetical explanation of what transpired in a case. This was continuously amended until all cases were explained. Content analysis followed, exploring the content of the data texts, led by what emerged from the theory, research questions and gut-feel. Codes facilitated this analysis. Discourse analysis looks at the text with focus on semantics to reveal hidden meaning.

The methodology of a qualitative study has to provide for protecting against bias in both the collection and interpretation of the data, efforts that Coetzee (2008:88) refers as aimed at protecting the truth. A general due diligence process had been employed that directed the research activities at each phase of the study according to the requirements of each, describing the due diligence practices as well as the controls in place to ensure truth value, applicability, consistency and neutrality.

Limitations of case study research in qualitative studies are both real and the result of misunderstanding of the objectives of such studies. Generalizability of such studies is determined by the context of the study as determined by the variables of the cases studied. Scientific generalisation is not the over-riding objective though, but rather to understand theoretical patterns (Amaratunga and Baldry, 2001); explaining "How" and "Why". The main criticism against the use of case study research proposes a lack of rigour and an excess of bias and the associated dangers of *ad hoc* theorising. This threat

to the validity of this study has been negated by the employment of a rigorous due diligence process.

In the next chapter, chapter five, the results of this study are presented. The results are the outflow of the data collection and analysis process described in this chapter. Firstly the results of the intra-case analysis are reported, then those of the cross-case analysis; all results linked to analysis and referenced to specific pieces of data.

## **Chapter 5**

### **Results**

#### **1. Introduction**

In the previous chapter it was shown how the process of research was designed, how the data had been collected and how the process of analysis was done. These have been a series of overlapping collections and analyses events until the emergent themes have been satisfactorily explored. The codes-of-analysis have guided the analysis and collection.

As the with-in case analysis and cross-case analyses were done, the emergence of themes directed the collection of further data. The additional data had been collected through mainly informal discussions and additional documentation, as well as through the survey distributed through the trade organisations.

Six executives responded to the survey which is low but above expectation, considering the sensitivity and the experience of other researchers in surveys on similarly sensitive topics (International Development Research Centre; 2004). Of these one response was received without being completed. As the survey was done blindly the respondent could not be traced to actually fill out the questionnaire.

In this chapter the results of the data analysis is reported. Firstly the data itself is discussed in short where after the four within-case analyses are reported on. This is done in the form of a case write-up. All four cases are analysed for actor characteristics, government relatedness, planning and the context of relations. Afterwards a short summery of the survey is given. This is followed by a cross case analysis; relating to the similarities amongst the cases as well as the differences, also discussing the unexpected anomalies in the results. Where appropriate the results of the survey will also be incorporated into the discussion. It is these analyses that reveal the interesting "following-up surprises" (Miles and Huberman 1994:270) that present fresh analytic insights. The research questions are answered and the propositions evaluated next. Emergent themes will be identified that are more comprehensively discussed in the next chapter, Chapter 6, Contributions, Recommendations and Conclusions.

#### **2. The data**

Validity of the results is proven by clearly showing the link between results, analysis and data. This is achieved by including data tables throughout the reporting of the

results, containing the quotes of - , and references to data, as in the content, thematic and discourse analysis that was done.

In total the interviews have been supplemented with more than 160 supporting documents and communications, as well as data collected during various impromptu interactions with the managers as well as with the third parties; all analysed employing 94 codes of analysis. Some documents that are not specifically dealing with the specific unique transaction, are deemed to be related in that they are representative of what the norm is in dealings between the government and the MNE and did provide for insight. There were also a number of discussions with various people that are knowledgeable on certain subjects related to this study to facilitate understanding and support the interpretations.

There is a candid effort to reflect the results in as much depth as possible but within the limitations relating to confidentiality. The sensitivity of the topic and of the material shared has necessitated the commitment to non-disclosure. Some personal and company characteristics are so unique that disclosure would mean that the identities be revealed. Although this has not materially affected the ability to explain phenomena, it does provide for opportunities for further empiric work in large qualitative studies where identity is better hidden.

A summary of the content analysis of the data according to the codes as described in Chapter 4 is provided in Appendix 2. This summary reflects the similarities and differences amongst the cases. The results of the survey of executives of two trade organisations is reflected in Appendix 3.

### **3. Within-case analysis**

The results are supported by the data in the table that follows at the end of each case analysis. The statements are referenced to the number in the first column of the table.

#### **3.1 Case 1**

The executive has functioned at an executive level of various companies. He has a clinical background and has a special interest in managed healthcare, dealing with especially healthcare providers and medical insurers. From the interview it is apparent that he values professionalism highly <sup>1</sup> (Case 1 is referenced to Table 5.1), fitting perfectly with the clinical background.

This case revolves around his efforts to secure the government tender specifically, but also extends to dealing with government in general; the various events and interactions around the supply of products on the subsequent award of the government tender, as well as his perceptions of this specific case and other related issues.

### 3.1.1 Actor characteristics

His personal social networks revolve around his children and their families<sup>2</sup>. From the various interactions it has become apparent that he has a wide circle of acquaintances but few very close friends, and that his career is the most important thing in his life. He is cautious and does not trust easily as a result of bad experiences in his business dealings<sup>3</sup>, but also in his personal life.

He is very aware of ethno-cultural differences but liberal in political convictions<sup>4</sup>. Homophily features extensively in his personal networks, but to a much lesser extent in business<sup>5</sup>. His relational skills, although very good, would have benefited from a formal sales and marketing grounding<sup>6</sup>.

He is high in connectedness with extensive ties to numerous role players in the industry; customers, BEE entities, medical aid employees, company employees and competitors. He has been a longstanding member of the executive of various trade organisations and has been a key figure during the transition in South African healthcare. It was in conversations with other role players that he was identified as a target for this study, and in informal conversations and the interview it was confirmed that he is acquainted with a large number of the role players in healthcare<sup>7</sup>.

In contrast to the rest of the healthcare industry, relations with Government employees are relatively few and restricted to a few individuals in the legislative departments. He himself stated in the interview that there are no relations with the main political figures or with the top decision makers just below the politicians<sup>8</sup>. His status in business networks becomes apparent from his participation in editing of draft contracts where his inputs are requested and where the changes he suggests are headed. From the e-mails it is also deduced that he is a kingpin, he is extensively copied and also communicates with a range of people<sup>9</sup>. Connectedness in relation to Government is markedly lower.

His centrality in networks is high in degree as he has a large number of ties, driving the interaction amongst actors in the various networks. Betweenness is high and he is present in all interactions with Government employees, however limited they are<sup>10</sup>.

Closeness in centrality is high with all role players except for government where he does not have independent access. Interaction has a high frequency with role players in the business networks but with government on the lower end of the spectrum<sup>††</sup>.

Communications are done mostly via e-mail, then via telephone and lastly in personal interaction<sup>10</sup>. Although proximity is critical to him, the interaction is strictly as directed by business requirements<sup>1</sup>. All business networks, excluding where government is present, do entail some form of social interaction. This social interaction is almost exclusively incidental to business activities such as meetings or congresses<sup>11</sup>. The relatedness to actors in the networks is the business activities, both current as well as an extensive history of past business dealings.

In informal discussions he exhibited sensitivity to the tacit rules reigning in networks and respects their homogeneity requirements, including his own resultant exclusion.

### 3.1.2 Government relatedness

The relatedness between the company and government is different for each of the two parties; the MNE requires legislation and is looking for business opportunities, whereas government requires product and technical assistance<sup>12</sup>. In his opinion the value of the third party is often not limited to their established relations, *“but simply being BEE compliant is enough”*. He does describe his selection of a third party as *“approached a friendly person affiliated to the Rulers”*. The transaction applicable to this case had been executed as an arms-length buy-and-sell by a BEE entity between the MNE and government<sup>13</sup>.

Trust amongst actors in all networks except with government is high. The executive feels that ideally discrepant objectives that lead to distrust should be negated by the fact that both the company and government is pursuing effective treatment of patients<sup>12, 20</sup>. At the operational levels the relations are a lot better. A series of communications between the firm, a third party and government regarding out-of-stock situations causing an inability to fulfil the contractual agreement, show no signs of distrust; *“Please arrange for the urgent delivery of the orders and advise me of the date of dispatch”*.<sup>14</sup> Trust at decision-making and political levels is impacted by differences in other objectives though. The company is focussed on profit maximization, the medical insurers on cost containment, customers on profit maximization<sup>12</sup> and the government on achieving political objectives<sup>15</sup>.

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<sup>††</sup> Deduced from various informal discussions

Historical interactions with government have led to a high level of predictability, facilitating the evolution of functional levels of norms<sup>10</sup>. This is supported by the content of the planning that precedes the presentations<sup>16</sup>. Government's dominance in the relations has supported an authoritarian stance by it, leading to unilateral action and alienation of the rest of the role players<sup>15</sup>. He frequently voices the opinion that the reputations of the various actors are good but collectively, government is seen not to be acting in good faith. Discourse analysis (choice of "paranoia") reveals the negativity he feels regarding government's trustworthiness; *"Given the paranoia that exists about the state versus private sector healthcare and the apparent policy adopted by the state to nationalise healthcare, one could be forgiven for thinking the sectors are in fact in competition with each other"*. Norms of affordability and care for all patients are common, but the drivers at the opposite ends being profit maximization and political convictions<sup>12, 15</sup>.

Relations with government are one of the company's key objectives and resources allocated accordingly<sup>12</sup>. From the various interactions with him, especially uncovered in the interview, but also from the presentations, the importance and process of government interaction become apparent. Specific interactions are planned. The company initiates the various meetings<sup>10</sup>, and prepares extensively<sup>16</sup>. Much effort is spent on verifying the political objectives of government, but also on the preferences of the individuals to be met<sup>16</sup>. The less formal period preceding the official meeting is where he aims to establish trust and credibility<sup>17</sup>. This is done by upfront making his objectives known, *"no cloak-and-dagger"*, interspersed with some general one-on-one conversations. This openness and frankness is intended to generate credibility and trust. Since it is informal it is not reflected in the presentation itself, but he confirmed the strategy personally<sup>17</sup>.

### 3.1.3 Planning

The planning does not include any tactics to develop social capital beyond the trust and credibility required for relations to facilitate the successful conclusion of the business at hand<sup>11, 18</sup>.

Repeat interaction is limited to the feedback on points on the agenda such as written confirmation of the minutes and resolutions. All activities are aimed at supporting the desired business or legislative outcome and very little on augmenting relations and social capital<sup>18</sup>. The fact that a tender has been submitted via a third party is acknowledgement thereof, as well as that there is no evidence of communications with

government directly regarding the performance against the contract, only via the third party. Evolution of relations has been very limited and no significant improvement has taken place over the past few years<sup>8</sup>.

### 3.1.4 Context of relations

The context of the relations and social capital is restricted to business as conveyed in the interview and informal conversation<sup>11</sup>, nothing in any supporting data to suggest contrary. Even with other actors than government employees, the social interaction is restricted to social interaction against the business backdrop, nothing beyond. There is no intent to establish social relations and become part of any social networks to be leveraged in the business<sup>18, 19</sup>. The resultant level of social capital is low and consciously restricted to business networks and the trust and norms required for networks to function in the business environment. Social capital with government employees is very low and networks are still to be penetrated, even at the business level; trust is low and norms discrepant<sup>3, 4, 8</sup>. Interaction frequently takes the form of conflict resolution to resolve disagreements<sup>20</sup>. No attempt at networking in the government environment is made as barriers are perceived to be insurmountable<sup>††</sup>.

The executive is relatively introverted<sup>23</sup> in nature with high standards of professionalism. This also stems from his background as medical clinician and his role in high level negotiations in the medico-political environment. Although he is cognisant of the importance of networks<sup>21</sup>, he does not support social relations<sup>18</sup> and prefers for relations to evolve over time<sup>22</sup>. He is of the opinion that being socially involved “*clouds one’s judgement*” in business matters. His handling of the development of relations is identical to how social capital spontaneously evolves in the social arena. He also shows a lot of inertia to actively pursue relations and exhibits a distinct lack of assertiveness<sup>††</sup>. He states that: “*Relations should be cordial at all times, certainly with no place for animosity*”, and also “*It (socialising<sup>§§</sup>) may be acceptable in other industries, but healthcare is very professional*”. He is sensitive to cultural differences between government employees and MNE managers but attributes most of the conflict rather to the political agenda and practical issues of implementation<sup>4</sup>, “*social political convictions are anti-capitalism*”. His perception of the interactions with government is that they do not act in good faith and are doing window dressing; “*Bridging barriers is impossible unless they have the political will to meet halfway*”.

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<sup>††</sup> Interviewer’s perception

<sup>§§</sup> Author’s insert

**Table 5.1 Data in support of the results of the Case 1 with-in case analysis**

Ref	Code	Data	Source
1	25. Position perception 27. Tacit rules 81. Historical dealings gov 82. Social interaction as business tactic	Most to be gained from business being conducted in a professional manner. The government official chairs the meeting as a sign of his "seniority". The mood is very formal. Never digresses into a more informal atmosphere. Formal but friendly, no purpose in getting acrimonious. Definitely no place for any form of animosity. Cordial relations are called for. Most is to be gained from a balanced social professional scenario. There exists a line that is not to be crossed. Social interaction emerges with long term relationships, getting to know them personally but still there is a line not to be crossed.	interview
		Request for PA to provide contact details "Vriendelike groete" ***	MNE e-mail to BEE
2	1. Social network involvement	Routinely has supper with family members at various restaurants	Follow-up discussions
3	3. Inclination to trust 23. Rate of trust	There exists a question mark on the level of bias of the government. The company is not convinced that government is unbiased in its pursuit of legislated endpoints. There is great mistrust insofar this (company-government) <sup>†††</sup> relationship is concerned. Trust needs to be built in personal and direct relationships.	interview
		Suffered financial losses as a result of being double-crossed	Follow-up discussions

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\*\*\* Afrikaans, directly translated as "friendly greetings", formal form of address limited to written communication

††† Author's insert

Ref	Code	Data	Source
4	8. Culture and beliefs 13. Strategic focus on SC 27 Tacit rules 31. Social cognition 49. Corruption	There exists a huge cultural gap that needs to be bridged.  Not only do we have cultural differences, but the socio-economic diversity is vast. There is a huge cultural gap between those from the company and government, not meant in a disrespectful manner, but pointing-out the reality.  Social behaviour is always courteous and positive. However, the same cannot be said regarding the business ethic.  It has to be give-and-take, both parties need to recognise the differences. Often it remains a one-sided affair. Both Government and the MNE fail to recognise that they need to "give". I have been exposed to meetings that have been one sided. Both parties need to recognise the cultural gap	interview
	90. Liberal	9/10	Interviewer's perceptions
5	10. Culture conformation and exclusivity 30. Homophily	Socialises with family and friends limited to own ethnic group.  Has business relations across ethnic groups	Follow-up discussions
6	86. Relational Grounding	None, but experienced in the board room	Informal discussions
	92. Relational Affinity	8/10	Interviewer's perceptions
7	2. Business network involvement 15. Structural SC status	Has extensive knowledge of, and personally knows numerous role players in the industry. He is also well known himself.	Informal discussions  Interviewer's perceptions

Ref	Code	Data	Source
8	24. Common goals	One could be forgiven for thinking the sectors are in fact in competition with each other.	Interview Informal discussions
	32. Network perception	I make a conscious effort to keep in contact with government departments responsible for company related disciplines. I try to meet at least on a quarterly basis.	
	33. Power	Unfortunately those that attend are often not the person(s) we had hoped, but other senior personnel instead.	
	35. Adversarial state	Unfortunately those that attend are often not the person(s) we had hoped, but other senior personnel instead.	Fax from government employee to BEE
	36 Magnitude of bargaining power	Friction results from a lack of a consultative process.	
	64. SC realisations	I do meet with the same individuals but they sometimes change as they move on in government.	
		Our relationships with individuals have changed for the better, but not with the decision makers – to our best knowledge.	MNE e-mail to BEE
		List of contacts in government.	
		Request to BEE Personal Assistant for details of contacts in government.	
9	18. Centrality	Editing of proposed contractual agreements.	e-mails interview Informal discussions
	21. Betweenness	Volumes and frequency of e-mails received. In-betweenness in interactions.	
10	5. Interaction pattern	With my colleagues as often as possible – at least once a week. With the industry stakeholders at least three-monthly but in many cases monthly. I aim to keep close contact with government with quarterly meetings, e-mailing about monthly in addition to telephone conversations.	interview
	12. Networking	I make a conscious effort to keep in contact with government departments responsible for company related disciplines. I try to meet at least on a quarterly basis.	
	43. Embeddedness	Interaction with government is initiated by our company.	
	46. Political activity		
	63. Interaction format		
65. Levels of relations			
11	52. Relational strategy	Relations are strictly on business basis as a choice of government officials and company policy, no lunches, no parties and functions. There should be a business purpose to even a social meeting.	interview

Ref	Code	Data	Source
12	33. Power 34. Information 37. Locus of bargaining power 38. Weakness 67. Barriers perceptions	<p>The state sector is becoming increasingly relevant.</p> <p>Private sector physicians work closer and closer with government.</p> <p>Government is still reliant on the private sector where skills lie.</p> <p>The company has forged a working relationship with all the major academic centres in SA, which centres advise on PMB treatments.</p> <p>Government has to put the prescribed minimum benefits (PMBs) into legislation, forcing medical aids to pay.</p> <p>The pharmaceutical industry needs to sell a product and show a profit in doing so.</p> <p>The funder wants to pay as little as possible for treatment and is known for cutting expenses to the bare minimum.</p> <p>Its objective is to optimise care, but government is understaffed.</p>	interview
13	47. Government business activity 66. Objective realisation	+R50mil awarded via BEE.	Award docs
		Product produced in SA, Austria and France. Import content 1% – 96%.	Tender docs
	43. Embeddedness	Buy-and sell arrangement by BEE.	e-mail MNE to BEE
	59. Third party advantage	Supply agreement MNE and BEE for tender.	Letter from MNE to Gov
		Tender award to BEE.	Gov letter to BEE
14	44. Operational gov-MNE networks 60. Third Party role	Orders exceed volume called for, stock from MNE available soon, request not to invoke penalty clause.	MNE e-mail to BEE, BEE letters to government

Ref	Code	Data	Source
	61. Third party relations strategy	Notice of non supply, impending penalties. BEE to MNE requesting stock forecast.	Various Letters from government provinces to BEE, BEE to MNE
		Notice to procure outside tender award as a result of out-of-stock.	BEE letter to government
15	38. Weakness 40 Threats 45. Decision-making gov networks 56. MNE government trust 66. Barrier perceptions	Government will implement its party political plans regardless of input given by the private sector and ourselves. The process of consultation as promoted by Government is nothing more than window-dressing. The perception is that it (government) <sup>+++</sup> is very negative towards private healthcare. The negativity is not necessarily originate from any individuals but is documented in the ANC health manifesto. Concerned that mutual dependence is not defined in the health charter. The political objective as reflected in the health charter is the origin of conflict. Although the objectives should be similar the execution is not. The origin of the conflict is political, statements as per the health charter does not concur with private objectives. The apparent policy adopted by the state is to nationalise healthcare.	interview
16	51. Transactional strategy 69. Preparations	Gained a full understanding of government thinking by consulting with people directly or indirectly involved in government business, its party politics and its future policies. This extended to outside healthcare.	interview
17	51. Transactional strategy 52. Relational strategy 57. Strategy to develop SC 70. Relational content	Build credibility during the initial social interaction preceding the start of the formal business meeting. Also declaring the intentions upfront and clearly. Refrain from any “cloak-and-dagger” games. Be honest and pursue trust.	interview

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<sup>+++</sup> Author's insertion

Ref	Code	Data	Source
18	51. Transactional strategy 52. Relational strategy	<p>... this (social relations<sup>sss</sup>) will cloud judgment. It is not a prerequisite to have social relations, I have seen instances where those with social relations have been consciously disadvantaged. Social friendships may actual deter from the business relations. I can see social relations playing a role in other industries but not in healthcare, it is a very specialised discipline.</p> <p>The little bit of social contact in business meetings is an opportunity to declare intentions.</p> <p>Credibility is a result of the company's programmes speaking for themselves. Also by giving government officials access to the intellectual property (documents) generated by the company. The content of these together with the actions of the company gives credibility. Credibility is a product of the Company's technical knowledge.</p> <p>Business often suffers when the relations become too friendly.</p>	interview
19	58. Tactics to develop SC	<p>Limited social interaction is acceptable but again in my industry objectives regarding social interaction of the individual stakeholders are quite diverse, sometimes resulting in practices that authorities might frown upon.</p> <p>Most to be gained from a balanced social professional scenario.</p> <p>There exists a line that is not to be crossed.</p>	interview
20	67. Barrier perceptions	<p>The private industry (our industry) appears to be in conflict with government in so far the future of private healthcare is concerned and the future government models, whatever this eventually represents. Therefore, it seems that although we should essentially have similar objectives, we don't. There is great mistrust insofar this relationship is concerned. The execution of the process is not in parallel, although the objectives are in the main similar, and this leads to conflict. As a result the meetings often take the form of conflict resolution meetings. It remains a challenge to agree on a similar endpoints.</p>	interview
21	52. Relational strategy 69. Preparations	<p>We researched specific individuals in government and their objectives, consciously have a networking objective when doing research.</p> <p>Networking is vital to business going forward.</p>	interview

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<sup>sss</sup> Author's insertion

Ref	Code	Data	Source
22	58. Tactics to develop SC	Social relations happen in cases of a long term relationship. Relations with government are left to evolve naturally as a function of time. Trust needs to be built in personal and direct relationships.	interview
23	87. Out-going	7/10	Interviewer's perception

The numbering in the first column relates to the references in the statements in the text of the case analysis preceding this table.

### 3.2 Case 2

The executive has ascended the corporate ladder through the Sales and Marketing department. He has had extensive training in selling skills and relationship marketing as well as a number of years of practical experience<sup>\*\*\*\*</sup>. His strategic awareness of relations is high<sup>24</sup> (Case 2 is referenced to Table 5.2) but the academic concept of social capital he has no notion of<sup>†††</sup>.

This case revolves around a fixed term contract with government, the negotiations and presentations preceding, the interaction with various third parties in fulfilling the contract and the subsequent unwinding thereof.

#### 3.2.1 Actor characteristics

His private social network consists exclusively of his family. He has no friends but does superficially mingle with neighbours, including of other races<sup>†††</sup>. He ascribes a significant amount of segregation between individuals to socio-economic standing and not as much to ethno-cultural differences.

He has a very high level of connectedness and the density is correlated with a high number of ties<sup>25</sup>. Although the personal conversations and interview reflect the high number of ties, the legal documents and e-mails show that the centrality is relatively low as he is not consistently copied, and, although there are a high number of ties, he is also not consistently present when actors meet. He has complete independent access to all actors though<sup>26</sup>, but concurs that centrality is low. In the case of government employees he has penetrated the operational levels completely<sup>27</sup> and but has had limited interaction at legislative and political level. He has also very little access to the top decision makers on business transactions. He has a high frequency of interactions, mainly telephonically and in person, but also e-mails in some cases<sup>26</sup>. The interactions are of a business nature but do sometimes include business-social, even with lower level operational government employees<sup>28</sup>. There is no purely social interaction<sup>29</sup>.

#### 3.2.2 Government relatedness

The relatedness amongst the actors is the business that acts as the connection, founded in mutual dependence<sup>27</sup>. Government also requires technical support, as well as after-sales services and maintenance. Information from the interview and informal conversations are confirmed by the specifications in the tender documents and

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\*\*\*\* Revealed in informal discussions

††† Deduced by interviewer

presentations done where a significant amount of emphasis is placed on both maintenance and training<sup>30</sup>. Trust levels are very high on the technical level but significantly lower on the transactional business dealings levels; *“You have to distinguish between provincial government structures such as “Provincial institution” and the state which run on different sets of rules, and then military on top which is also government and has a completely different way of dealing with things”*.<sup>31</sup>

A history of legal action has left high levels of distrust and even animosity between the company and the government<sup>32</sup>. Government has sent instruction to the firm to *“... the abovementioned equipment will no longer be utilised.... therefore requests you to uplift the machine with immediate effect”*. The company has also not been awarded a tender in spite of being the lowest bidder; from a legal document *“In addition, our client’s prices are lower than the successful tenderor’s prices”*<sup>33</sup>. Discourse analysis of his remarks regarding the effects of legislation; *“BEE regulations now even determines the structure of the company”*, reveals some bitterness. He is personally very distrusting of government employees at higher levels as a result the discrepant norms on what is acceptable in the structuring of the business transactions<sup>34</sup>; *“Had the process been 100% honourable it would be non-competitive”*, referring to the competition between government and the private sector. He also mentioned that he is not allowed access to the higher levels as he is probably not trusted with the transactional information<sup>35</sup>.

### 3.2.3 Planning

He clearly identifies social capital, although in concept and not by name, as driving the successes of the company, with both internal and external relations being top-of-mind; *“Very, very important, 90% of the success of the company. It (relations<sup>\*\*\*\*</sup>) plays an important role in the selling function to customers, the after-sales service and maintenance of equipment. Relations with colleagues are critical to the smooth running of the company itself. Contacts are extremely important. Even the best product will not sell if you do not have the relationship. Relations determine the success of a manager”*.

Relations with government are actively pursued and planning and follow-up is extensive<sup>36</sup>. Individuals in key positions in government are identified and targeted<sup>37</sup>. If at all possible a *“coincidental exposure in an informal environment”* is arranged<sup>37</sup>. Extensive research is done, including attention to the personal lives of attendees<sup>37</sup>: *“Investigate his history and identify his loyalties, is he in someone’s pocket?”*. Detailed action plans are drafted to tailor make presentations to all the individuals present. From

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\*\*\*\* Author’s insertion

the presentations it is clear that conscious efforts are made to satisfy the technical business requirements of each individual, the presentation even contains financial reporting information for the employees responsible for finance present, as well as the treasury act as it relates to the Public Finance Management Act (PFMA) for the legal employees present (this conclusion also supported by the company profile documents)<sup>38</sup>, as well as latching on to personal hobbies, interests, family situations or occurrences. Constructive links to personal interests are prepared and established<sup>37</sup>.

A high frequency of follow-ups is employed to purposefully nurture relations. Although the link to the individual and his personal traits and environment is used to gain acceptance, credibility and trust; the intent and focus is on the success of business deals<sup>39</sup> and the social interactions are limited to business social, nothing beyond to include the purely social<sup>40</sup>. This is confirmed by the presentation and e-mails and no evidence of anything to prove purely social relations could be found. His relations with government employees are improving significantly, except for the top legislative and political levels where no access has been secured. Discourse analysis of *“A number of ex-government employees set up private businesses leveraging the relations they have within government structures. Half the value of the expenditure is charged as a premium for these relations”* And, *“Up to 40% is added to the margins for commissions and ‘chocolate money’ (bribes<sup>§§§§</sup>)”* exhibits extensive despondence with the transactional ethics

### 3.2.4 Context of relations

In conversations and the formal interview he emphasises that he consciously restricts social interaction to the business environment and does not wish for it to extend to the social arena<sup>41</sup>. He is sensitive to socio-economic disparities that may be sources of discomfort and uneasiness to the other party<sup>42</sup>. He thus possesses a massive amount of business social capital, so much as to present a competitive advantage in business, even though it does not extend into social relations. He gives high priority to networking but does realise its short-comings: *“It (social relations<sup>\*\*\*\*\*</sup>) is positive if it does not become excessive. It should be founded in business principles and ethics and should not be accompanied by expectations, no strings attached. Business entertainment has become the standard but excesses are not acceptable. Often you can expect a backlash when you scale down or from those not included”*.

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§§§§ As explained by the interviewee

\*\*\*\*\* Author’s insertion

It is thus concluded that the executive is extremely alert and proficient in the concept of relations and networks, he is very sensitive to the existence of tacit rules but not of what they exactly entail, probably as he is not part of the networks. This sensitivity is the result of a background in sales and extensive training in selling techniques: *“They first have to buy me”*. He is also very supportive of the networks that come with BEE as reflected by the firm’s BEE scorecard <sup>43</sup>. This is affirmed by the description of the role of the BEE partners <sup>43</sup>.

He makes a clear distinction between politicians and those at operational level, even though they may be very high up <sup>44</sup>. He ascribes the distance with government operational employees as more a result of inadequate training and lack of experience *“There is a correlation between poor education and soliciting of bribes. Time and education is the solution to corruption”*; as well as to MNEs being overly aggressive in pursuing business transactions. He is encouraged by the ability of social capital to bridge the cultural divide <sup>45</sup> but extremely negative on the systems employed by government to conduct business and the resultant loop holes for what he perceives to be unethical business practices <sup>27, 46</sup>.

**Table 5.2 Data in support of the results of the Case 2 with-in case analysis**

Ref.	Code	Data	Source
24	2. Business network involvement	Relations are very, very important. It is 90% of the success of the company. It plays an important role in the selling function to customers and the after-sales service and maintenance of equipment. Relations with colleagues are critical to the smooth running of the company itself. Contacts are extremely important. Even the best product will not sell if you do not have the relationship. Relations determine the success of a manager	interview
25	2. Business network involvement 12. Networking	Often invited by customers to interact. Have to socialize with families of employees and also sponsor them to entertain their families. Personal interaction with international suppliers happens at congresses and workshops	interview
26	4. Interaction pattern 63. Interaction format	Daily on the phone and e-mail, in person weekly in their offices or in hospitals	interview
27	4. Inclination to trust 23. Rate of trust 38. Weakness 49. Corruption 67. Barrier perceptions	Efforts to build relations when government employees are in a competitor's pocket is futile, you know you are not going to get the business. A lot of the distrust from government employees. Mutual dependence reflected in that government officials and customers initiate the interactions and telephone calls.	interview
28	19. Degree 58. Tactics to develop SC	Socialising should be founded in business principles and ethics and should not be accompanied by expectations, no strings attached. "Business entertainment" has become the standard but excesses are not acceptable. It is not a negative to have social relations. Differentiates between Business-socials and Social-socials. But allows his staff to do frequent socialising with customers. If he does, he takes groups and not individuals. Will have an incidental meal as part of a business meeting, but at cheap place, such as breakfast	interview

Ref.	Code	Data	Source
29	52. Relational strategy 57. Strategy to develop SC	These relate to only the business relationship and never progress to a social relationship.	interview
30	41. Success	Products and associated services to be rendered to government	Order against tender award
		MNE will provide training, and in-service to all relevant hospital staff, initially and on an ongoing basis Under no circumstances will competitors be allowed access to MNE products	MNE government contract
31	40. Threats	Have to distinguish between provincial government structures ("Provincial Structure") and the state which run on different sets of rules, and then military on top which is also government and has a completely different way of dealing with things. Very low levels of knowledge on products they are suppose to purchase.	interview
32	35. Adversarial state 81. Historical dealings with government	Government has been taken to court by our company and others "because they make their own rules". There is also a significant amount of manipulation by competitors to prevent company from marketing certain products.	interview
33	35. Adversarial state 42. Failures 56. MNE Government trust	We can confirm that we do understand how the preferential points system works No local supplier of "product" can claim local manufacture We now request that you supply us with a copy of the award documents indicating the calculation of the preference points We further base our request on the following: Promotion of Administrative Justice Act, Promotions of Access to Information Act, Common Law Rights of Review.	Objection to tender awarded to competitor

Ref.	Code	Data	Source
34	4. Normative influence 40. Threats 49. Corruption	A number of ex-government employees have set up private businesses leveraging the relations they have within government structures. Half the value of the expenditure is charged as a premium for these relations. Up to 40% can be added to the margin for commissions for these ex-employees.  Very different in some cases due to the practise of bribes and commissions (chocolate money). Ethics. Even when the front companies are doing it, it goes against the grain. They are underpaid for the job level and they are offered the bribes by wealthy businessmen	interview
35	40. Threats 42. Failures 56. MNE Government trust	If government trusted the supplier they would have saved on paying consultants  Efforts to build relations when government employees are in a competitor's pocket is futile, you know you are not going to get the business. In this case business relations are not built on relations but on Money (bribes)	interview
36	27. Tacit rules 52. Relational strategy	I upfront identify the individuals to be met with and do research on them. Investigate his history and identify his loyalties.  Is he in someone's pocket?	interview
37	12. Networking 13. Strategic focus on SC 27. Tacit rules 31. Social cognition 34. Information 52. Relational strategy 62. Interaction process 69. Preparations	Definitely identifies individuals to target for networking. Preference is to have a "coincidental" (but well planned) first exposure in a non-formal, non-structured meeting. Priority is to get info on his personal life (also from him) but some are extremely cold  In presentations ensures that the needs/preferences questions of every, and all individuals attending are addressed.  Makes them feel important. Very important to remember the info shared in previous conversations and revisit those topics in follow-up. Consciously researches individuals to be encountered for the first time. The individual must realise that he has gone to the trouble to find out something about them. If a customer has a problem and mentions it always enquire about it the next time you meet.	interview
38	34. Information	An institution to which this act applies may not borrow money, or issue a guarantee, indemnity, or security, or enter into any other transaction that binds or may bind that institution or Revenue Fund to any future financial commitment ...	Public Finance Management Act

Ref.	Code	Data	Source
39	33. Power 51. Transactional strategy 52. Relational strategy	Attempts to eventually focus exclusively on the product after the social intro's. Leverages his intellectual abilities and knowledge to gain credibility. Uses numerous and frequent meetings to establish trust. Uses personal facts as discussion points to link meeting.	interview
	51. Transactional strategy	World-wide leader, advanced technology employed Product features and benefits to patient and care provider Market share International footprint	Presentation – International MNE profile
40	52. Relational strategy 75. Social relations	These relate to only the business relationship and never progress to a social relationship.	interview
41	12. Networking 52. Relational strategy	It is not enjoyable to socialise when you are obliged to do it. Differentiates between Business-socials and Social-socials. But allows his staff to do frequent socialising with customers. If he does he takes groups and not individuals. Will have an incidental meal as part of a business meeting. "Business entertainment" has become the standard but excesses are not acceptable. Often a backlash when you scale down or from those not included.	Interview
42	8. Culture and beliefs	Consciously avoids inviting to his house due to differences and sensitivities around material wealth. Has an example of a black neighbour where they frequently mingle across the cultural barriers with respective friends. Same economic and business level.	interview
43	32. Network perception 61. Third party relations strategy	Extensively makes use of black employees and BEE partners to set up meetings. They definitely have networks within their own cultural groups. Enables the meeting and opens a door where MNE manager would not get in.	interview

Ref.	Code	Data	Source
	12. Networking 53. Firm ethnic profile 60.Third party role	Perform all the duties of a non-executive directors as stipulated in the Company's Act  This service shall incorporate corporate affairs in general and the following areas more specifically: Networking / liaising with decision makers who are clients to the business, Working with the Company's tender department, Working with the sales department, Corporate profile enhancement, and Assisting other departments in the company wherever possible	Agreement MNE and BEE

Ref.	Code	Data	Source
	53. Firm ethnic profile 60. Third party role	<p>“Person” shall serve on the board of “Company”, for as long he holds shares in “BEE Company”. As part of his service to the board he will do the following:</p> <ul style="list-style-type: none"> <li>• “Role 1”.</li> <li>• Assist management through networks in business wherever possible</li> <li>• Assist with public relations efforts wherever possible.</li> <li>• “Role 2”.</li> </ul> <p>“Person” shall serve on the board of “Company”, for as long he holds shares in “BEE Company”. As part of his service to the board he will do the following:</p> <ul style="list-style-type: none"> <li>• Oversee the human resources role in consultation with management. This will include ensuring that the following is adhered to: <ul style="list-style-type: none"> <li>○ Transformation in keeping with the BBBEE Codes of Good Practice,</li> <li>○ “Role 3”</li> <li>○ “Role 4”</li> </ul> </li> </ul> <p>This service shall incorporate corporate affairs in general and the following areas more specifically:</p> <ul style="list-style-type: none"> <li>• Networking / liaising with decision makers who are clients to the business,</li> <li>• Working with the Company’s tender department,</li> <li>• Working with the sales department,</li> <li>• Corporate profile enhancement, and</li> </ul> <p>Assisting other departments in the company wherever possible.</p>	Roles for BEE partners
44	40. Threats	<p>One has to distinguish between provincial government structures and the state which run on different sets of rules, and then military on top which is also government and has a completely different way of dealing with things. They have very low levels of knowledge on products they are suppose to purchase.</p>	interview

Ref.	Code	Data	Source
45	57. Strategy to develop SC	<p>Uses numerous and frequent meetings to establish trust. Uses personal facts as discussion points to link meeting. Do not try to hard to impress, do not be to aggressive, humbleness is valued.</p> <p>Low levels of education are transparent with some individuals. Easily felt intimidated. Used this need by providing product specs to be called for in an unbiased fashion (not exclusive towards competitor products), built credibility and perceived as honourable. Give them info to make them look good</p> <p>Time and education will erase the differences, will install values of trustworthiness, report and turn down corruption.</p> <p>Government need to improve the income of its employees to devalue temptations</p>	interview
46	4. Normative influence 35. Adversarial state 40. Threats 42. Failures 49. Corruption 56. MNE Government trust 59. Third Party advantage	<p>A number of ex-government employees set up private businesses leveraging the relations they have within government structures. Leaving provincial structures, starting up one-man shows, and sourcing equipment from the suppliers they have relations with and providing to the state where they again have networks. Almost no deal where someone does not get a commission.</p> <p>Half the value of the expenditure is charged as a premium for these relations. Add 40% to margin for commissions etc to these ex-employees.</p> <p>We can confirm that we do understand how the preferential points system works</p> <p>No local supplier of “product” can claim local manufacture</p> <p>We now request that you supply us with a copy of the award documents indicating the calculation of the preference points</p> <p>We further base our request on the following: Promotion of Administrative Justice Act, Promotions of Access to Information Act, Common Law Rights of Review.</p>	<p>interview</p> <p>Objection to tender awarded to competitor</p>

The numbering in the first column relates to the references in the statements in the text of the case analysis preceding this table.

### 3.3 Case 3

The Executive is an engineer by training and ascended through the technical and project departments. He is well versed in business with formal post-graduate business qualifications but has no specific relationship training or experience<sup>++++</sup>. He is an introvert and highly academic and analytical<sup>47</sup> (Referenced to Table 5.3). He spends his personal time with his family and he has very few friends. He is strongly religious and politically conservative.

The events around the securing of a government tender for the design, development, equipping and maintenance of healthcare facilities, and, the subsequent fulfilment thereof constitutes this case.

#### 3.3.1 Actor characteristics

He is surprisingly low in connectedness with relatively low density as reflected by the number of ties. This is the executive's own opinion from the interview and informal conversations. In the business environment the ties are mostly to actors on a senior level that are also active in the same technical field<sup>48</sup>, although he occupies an extremely senior level in the local organization. Ties with government employees are also restricted to those that he interacts with on an operational technical level<sup>49</sup>. He is also low in centrality as reflected by the betweenness where he is not often present at meetings nor does he facilitate them<sup>50</sup>. Closeness is limited as his independent access is restricted to only those actors that partake in the technical activities of a project<sup>49</sup>. The frequency of interaction with government employees is dictated by the specific project as well as the current stage the project finds itself in<sup>51</sup>. The above is confirmed by the limited number of e-mails he receives as well as the small amount he sends out. When he does the audience is limited. On those agendas and minutes that he is copied on, he frequently is not an attendee at the meeting.

#### 3.3.2 Government relatedness

The nature of the interaction is exclusively business based with even almost no business social interaction as this is consciously avoided, even during tea and lunch breaks<sup>52</sup>. The relatedness of actors that binds them together in his networks is based solely on the proceeds each receives from the project and that also dictate interaction<sup>53</sup>. Trust does not extend beyond the operational actors where it is also limited to a belief in the intention to fulfil the project obligations<sup>54</sup>. Congruence, as similarity of

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<sup>++++</sup> From informal discussions

objectives, does not go beyond successful completion of business projects. He does not perceive the actors to be trustworthy and their reputations have been tarnished by the conduct in historical dealings <sup>55</sup>. He has had his intellectual property used by government to enable a business transaction with a competitor<sup>++++</sup>. He ascribes his exclusion from government networks to distrust resulting from his public disapproval of certain business practices <sup>56</sup>. The discrepancy in norms he attributes to cultural differences, mainly religious beliefs. <sup>57</sup>.

### 3.3.3 Planning

His personal contribution is limited to technical support to the third parties as well as ensuring performance against the contractual obligations <sup>47</sup>. In the presentations it transpires that the strategy is to exhibit the company's skills and competencies, a proven track record and a solid relationship with the third party <sup>58</sup>.

He is focussing his personal efforts on the project environment only. He acts as the technical hub in the transaction <sup>59</sup>. In the contracts it is stated as: “ *‘Proposal’ means the proposal to be prepared and submitted as a tender or quotation by the Joint Venture in response to an invitation (from government to tender<sup>§§§§§)</sup>*”, as his role in joint venture with the third party. The function and origin of his social capital is thus restricted to participation in project networks with very low trust levels and congruence of norms with the resultant social capital low.

### 3.3.4 Context of relations

He has acknowledged the improbability of he himself acquiring the relations with government to successfully conduct business <sup>56</sup> and; “*The most difficult part is securing the project, not doing it*”, also, “*Biggest business opportunities reside in relationships. Often the government employee involved identity is not known*”. His principles are very far from those that apply in the current business environment but “*that is what the times dictate*”. The crises of principles he manages by delegating those issues that relate to the structuring of the transactions to employees within the firm that do not have the same objections <sup>60</sup>. Although not competent at networking he appreciates the value of relations. He also identifies individuals and entities with established government relations to partner with and thus indirectly acquires relations <sup>61</sup>. These relations are built on a share of the profits. This strategy is confirmed by the numerous contractual agreements with third parties that relate to individual transactions with government wherein the counter parties is responsible for government interaction and relations, and

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++++ Disclosed in informal discussions

§§§§§ Author's insertion

the MNE's (his) obligations are centred on the actual contractual performance<sup>62</sup>. This is similar to joint venture strategies with locals with established relations as an entry mode into foreign markets.

As support, individuals in the organisation in especially the sales department that are culturally related to government officials and BEE partners are tasked with building relations with government officials. The majority of business transactions are done through intermediary companies with existing ties with government and that have been awarded contracts<sup>63</sup>. His is not in the proximity of the transaction itself, is thus spatially absent and as such the probability of any relations developing are very remote.

Although his personal relations have made no progress, those that attribute to the company have improved dramatically and he has managed to gain dominance in the market. This reflects active planning and control of evolution of social capital.

**Table 5.3 Data in support of the results of the Case 3 with-in case analysis**

Ref	Code	Data	Source
47	2. Business network involvement 12. Networking 13. Strategic focus on SC 20. Closeness 31. Social cognition 33. Power 52. Relational strategy 53. Firm ethnic profile 61. Third party relations strategy	<p>Focussed exclusively on the factors relevant to the implementation of the project.</p> <p>The senior executive enters much later, purely for technical support.</p> <p>Delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and sets up the meetings dealing with technical project matters. Has no focus on the individual to be met in the preparation for the meeting.</p> <p>Own aim is to support the political activities with technical knowledge. Focussed exclusively on the factors relevant to the implementation of the project.</p>	interview
48	2. Business network involvement 19. Degree	<p>Have good relations but restricted to the business environment, does not socialise at all.</p> <p>It is very dangerous to have friendly relations as it introduces additional emotions into the business relations.</p> <p>Have had people at his house but only for business meetings, no social with families.</p>	interview
49	13. Strategic focus on SC 17. Density 35. Adversarial state 38. Weakness	<p>The meetings are exclusively project driven, not political at all. Delegated the political agenda totally to the BEE partner and the black employees.</p> <p>Often the government employee involved identity is not known.</p>	interview

Ref	Code	Data	Source
50	18. Centrality 21. Betweenness 28. Proximity status	Copied after-the-fact on e-mails, agendas and contracts	Contacts e-mails
51	5. Interaction pattern	Frequency of interaction is project dependent as well as the stage of the project. Some projects and stages require more or less attention. A definite segregation between political and operational employees at a government level.	interview
52	5. Interaction pattern 19. Degree	Socialising is limited to lunch during lunch break in meetings. Socialising is limited and generally avoided and interaction is formal and restrained. In the government delegation individuals do not want to expose themselves to the others by socialising, their behaviour aims to impress the most senior official.	interview
53	5. Collective action 24. Common goals	Relations with these BEE individuals based on share of the spoils and is project specific. The collective interest in the project. Both parties drive the meetings as they have the need to meet.	interview
54	3. Inclination to trust	Information shared in all networks is extensively filtered. Information that one receives from front companies and BEE partners is often not accurate but tailor-made to elicit the reaction desired.	interview
55	3. Inclination to trust. 4. Normative influence 22. Risk aversion 23. Rate of trust 88. Negativity	In the business scenario people lie a lot, as the situation dictates. They put their sails to the wind. People are not to be trusted. Honesty is also not the source of good relations as it gets misused. The key is in not divulging information unnecessarily and only then filtered.	interview

Ref	Code	Data	Source
56	12. Networking 13. Strategic focus on SC 20. Closeness 25. Position perception 32. Network perception 68. Accessibility	Success of any transaction in Africa is based on the network you are able to access. If the project is not secured before the government employee leaves one starts the process from scratch. The most difficult part is securing he project not doing it. Network does play an important role in the eventual award. Big concern is that the lifespan of the project is longer than the duration of government political employee service. There is not access to these political officials independent of the BEE partner.	interview
57	4. Normative influence 10. Culture conformation, exclusivity 26. Homogeneity requirements 49. Corruption 93. Racial awareness	Radically different to own principles but is what the times dictate. Differ on what practices are acceptable. A function of the way two cultures are brought up as well as the differences in religion. Personal principles are different. No, the culture is the origin of differences.	interview
58	12. Networking 31. Social cognition	"Third Party" shall be responsible for the following matters, to the exclusion of "MNE" All communications with the client, the "Provincial" Government Collection and disbursement of payments to suppliers, including "MNE" "MNE" shall design, organize and deliver through its staff who possess the relevant qualifications, ratings, certifications and experience training of nominated local personnel of the client	JV Third Party-MNE for gov business
	51. Transactional strategy 71. Technical presentation content	Inspection of "product" in "home country" by "Provincial" MOH team. Inspection of "production facilities" in "European Countries" by "Provincial" MEC and team.	MNE project plan

Ref	Code	Data	Source
59	4. Interaction pattern 63. Interaction format	Frequency of interaction is project dependent as well as the stage of the project. Some projects and stages require more or less attention. Often with the middleman via sms and e-mail, one-on-one once a month. Preparation for the project requires a lot of work. Securing a project may require frequent interaction to support BEE. Some of the deals are big and the project extensive and require a lot of preparation. Deadline for tenders mean a lot of work and interaction.	interview
60	4. Normative influence 8 Culture and beliefs	Personal principles are different. The way to deal with this immense gap is to assign the decision making to an executive who is not as distant. Leaves those decisions on moral issues as well as dealing with it to others in the company. The principles applied in business is a result of those that they live by.	interview
61	12. Networking 13. Strategic focus on SC	Relations are very important. Actually work through a front company or connected third-party individuals. Networking extensively with colleagues. Biggest business opportunities reside in relationships.	interview

Ref	Code	Data	Source
62	41. Success 59. Third party advantage 60. Third party role 66. Objective realisation	<p>“WHEREAS ‘Third Party’ conducts business as a Turnkey Medical Equipment supply Company, AND WHEREAS ‘Third Party’ has secured the firm intention from the proposed client (government *****) to contract for the delivery of the equipment and services, AND WHEREAS ‘Third Party’ is the prime contractor and consequently has contacted ‘Company’, as it considers them to possess such necessary skills to install equipments, with the view of outsourcing parts of the contract to ‘Company’, AND WHEREAS ‘Company’ has the expertise and accredited systems to provide the support to the services, the associated administrative and regulatory functions, AND WHEREAS ‘Company’ makes available all the infrastructure and systems, and, all administrative and financial services to the Joint Venture, AND WHEREAS ‘Third Party’ and ‘Company’ wish to establish a Joint Venture for the purpose of executing a contract already awarded to ‘Third Party’ in its name by ‘Region’ Government, ‘Country’ for the provision of Equipment and Maintenance Services for the ‘Name’ State Specialist Hospital, ‘Region’; AND WHEREAS ‘Third Party’ and ‘Company’ as the Members of the Joint Venture undertake to mutually execute these projects in accordance with the Terms of Reference and subject to the Terms of Appointment of the ‘Region’ State Government”.</p>	JV Third Party-MNE for gov business
		<p>“Third party” shall be responsible for the following matters, to the exclusion of “Company”</p> <p>9.1.1.1 All communications with the client, the “Region” State Government</p> <p>9.1.1.2 Collection and disbursement of payments to suppliers, including “Company”</p>	Service agreement MNE and Third Party for gov tender

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\*\*\*\*\* Author’s insertion

Ref	Code	Data	Source
		We note that the principal would prefer a non-exclusive appointment. Whilst we find nothing objectionable with a non-exclusive appointment, we find it contradictory that a non-exclusive sub-contractor agreement should contain the restrictions and trade restraint set out in clause 2.4 of the draft	Comments from BEE regarding contract with MNE
63	12. Networking 27. Tacit rules	The Front company or BEE partner is responsible for securing the deal, whether at political or operational level. Delegates the relational aspects to the sales people (black) in combination with the front company. The political agenda is discussed in an exclusive, secretive meeting between the BEE/Front Company and the political government employee beforehand. Here the political government employee also gets the upfront information to display at the “official” meeting afterwards.	interview
	41. Success 66. Objective realisation	“Third Party” as the prime contractor in the project has requested for the services of “MNE” for “project requirements” while “MNE” has agreed to undertake and execute these projects in accordance with the Terms of Reference and subject to the Terms of Appointment of the “provincial” Government	Service agreement MNE and Third Party for gov tender
	51. Transactional strategy 71. Technical presentation content	“MNE” is the largest medical company in “home country” We cover from Southern Africa right up into Sub Saharan Africa. “Product” is extremely proud to have been awarded “Award” in the United States of America (Copies attached)	Letter of introduction to government

The numbering in the first column relates to the references in the statements in the text of the case analysis preceding this table.

### 3.4 Case 4

This Executive has a degree in biochemistry, supplemented with qualifications and experience in finance. He also has extensive grounding in relationship marketing, initiated during his stint in the finance industry. He has an extensive record of milestone business transactions in the healthcare industry <sup>64</sup>. (Referenced to Table 5.4) He socialises extensively in the community which he resides in and especially so with the neighbours in close proximity. He and his wife belong to the local bridge<sup>+++++</sup> club.

His efforts to secure government business, specifically a major tender that was put out for healthcare services which he was unable to secure even a portion of, are the main events of this case. He did manage to sub-contract with the entity awarded the contract though.

#### 3.4.1 Actor characteristics

His networks are high in density and thus connectedness with a massive amount of ties throughout the industry, across all cultural groups <sup>70</sup>. This is evident from the interview and informal discussions, and confirmed by e-mail communications. In the government sector, by contrast, there are no ties whatsoever <sup>65</sup>. He is also high in centrality in the private market with numerous ties, high closeness with independent access to all actors, and high frequency of presentness <sup>66</sup>, where he leverages his ties to successfully conclude big transactions<sup>+++++</sup>, testimony to his extensive networks. He is relatively trusting but this does not omit the signing of formal contracts.<sup>§§§§§§</sup> He is not overtly principled to the extent that it would negatively influence his ability to conclude business deals. <sup>\*\*\*\*\*</sup> Networking is a cornerstone of his business strategy <sup>70</sup>.

#### 3.4.2 Relatedness

Interaction in government is limited to his efforts to set up initial meetings, and sometimes the initial meeting itself, where the interaction ends <sup>67</sup>. He ascribes his lack of success in government to: “ ... *reasons are manifold, firstly the cultural difference. They do not understand the product message or do not want to understand. There is no two way communication, they appear interested, but there is never any progress beyond the first meeting. We are fobbed-of as it is not their department’s decision alone, and so-forth*” and “*This is not as a result of culture or representing government,*

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<sup>+++++</sup> Playing cards game

<sup>+++++</sup> Reflected by e-mails and MOUs to broker deals

<sup>§§§§§§</sup> Numerous contracts in existence

<sup>\*\*\*\*\*</sup> deduced by interviewer

*they are not qualified for the position they have*” and *“The distance experienced with government officials is a function of both the government environment and the personal traits of the individual”*. He is very aware of his absence in any of the government networks <sup>65</sup> but ignorant of the internal workings thereof, thus low in related network perception. In contrast numerous relations in the private sector have transcended the purely business relations to include business-social relations <sup>68</sup>. His relations in business cover the whole social-extent spectrum, from professional business relations to friendships <sup>69</sup>. Relatedness in private started off as business that acted as the initial link. In government no link could be established, and he has experienced constant failure <sup>70</sup>. As such he has not been able to establish any trust, trust as reflected by congruence in objectives, trustworthiness and reputation of individuals <sup>71</sup>. Norms have also not been established, evaluated or tested.

### 3.4.3 Planning

He has devoted a lot of time and energy to establishing relations with government <sup>72</sup>. Extensive targeting initiated the planning phase with strategies to establish relations <sup>73</sup>. Starting at the lower levels and getting references to the higher levels was combined with a top-down approach <sup>74</sup>. He has made extensive use of BEE partners, some presentations scrutinised he has done under the BEE company banner <sup>75</sup>, but they have not been able to secure a transaction. No meetings have progressed past the initial interaction and no business transactions have been concluded. The evolution of relations has not gone past the planning process<sup>+++++</sup>. The intent is to use the track record of the company as well the footprint in the private market to establish credibility and get the relations going <sup>76</sup>. At the operational levels the acceptance has been better but not at decision-making level.

From the presentations it is clear that the technical expertise and company credentials form the mainstay of the thrust to achieve credibility and gain trust. In the prologue of the contracts the company is described in terms of its technical expertise and competences as it relates to its ability to perform against its contractual obligations <sup>77</sup>.

### 3.4.4 Context of relations

A highly successful businessman in the private market with extensive networks across all ethno-cultural groups <sup>70</sup>, he has been notably unsuccessful and frustrated in the government sector <sup>78</sup>. Discourse analysis of the previous quote as well as *“fish where the fish are”* motivating his abandonment of government, reflects severe negativity

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<sup>+++++</sup> Interview confirmed in informal discussions

towards conducting business with government. His use of the words “...*or do not want to understand*” and “*fobbed off*” also support this deduction in the discourse analysis. He is an extrovert but his previously successful strategies and tactics have not made any inroads into government <sup>79</sup>. He is abandoning all efforts to secure business with government in the short to medium term.

**Table 5.4 Data in support of the results of the Case 4 with-in case analysis**

Ref	Code	Data	Source
64	9. Institutional affiliation 16. Cognitive SC focus 78. Sales & marketing exposure 86. Relational grounding	"Executive" read the B.Sc.Hons. Microbiology from University "X" in 1971. He started off his career in teaching, spent time in the pharmaceutical industry in training, product development and marketing management before starting "Y" Journal in 19"ZZ". He also was the General Manager for "AA" Bank for 9 years	Company Profile
65	5. Collective action 13. Strategic focus on SC 25. Position perception 35. Adversarial state 67. Barrier perceptions 79. Relationship orientation	Relations feature very highly, relations are critical, especially with government but success has been very limited. The distance experienced with government officials is a function of both the government environment and the personal traits of the individual. Relations with government officials are very poor because of the cultural differences. The cultural differences with the new government stops business from occurring. Acknowledges that the problem may be with him. Feels that people generally likes interacting with him.	interview
66	1. Social networks 2. Business networks 15. Structural SC 17. Density 19. Degree 82. Social interaction as business tactic	Personal friends with a large number of individuals in the private sector.	interview

Ref	Code	Data	Source
67	9. Culture conformation, exclusivity 36. Magnitude of bargaining power 38. Weakness 42. Failures 64. SC realisations 66. Objective realisation 88. Negativity	There is a total lack of success, for which the reasons are manifold Yes social interaction definitely adds value to the relationship. Actually led by the customer's preference. Observed that culture definitely plays. Acknowledges that the problem may be with him.	interview
69	18. Centrality 19. Degree 20. Closeness 65. Level of relations	Range from personal friends to cold and clinical business relations. Government falls in the latter. Families are not involved and should not be. Did not happen in the previous government either. Definite reluctance to involve families. Businessmen understand each other but wives don't.	interview
70	2. Business network involvement 5. Interaction pattern 13. Strategic focus on SC 26. Homogeneity requirements	Historically has been successful in building relations. Relations with government officials are very poor. We focus on all sectors of the market. The approaches that work in the private sector fail with government. The approach to negotiation is very different.	interview
71	23. Rate of trust	Deterioration in relations blamed mostly on the incompetence of individuals involved	interview
72	24. Common goals	A case of meetings on meetings and no decision is ever made, fobbed off.	interview

Ref	Code	Data	Source
73	12. Networking 43 Embeddedness 69. Preparations 80. General cross-ethnic relations	Networking is definitely a conscious objective  Yes definitely adds value to the relationship. Actually led by the customer's preference. Individuals to pursue relations with are identified. But we have gone cold, fish where the fish are, making money in the private sector.  Your meeting with government, what kind of planning and preparation went into it? Difficult to get info. With bottom up you try and get info, something other than business to discuss.	interview
		Both parties realise that the implementation of the terms of this agreement may lead to enhancement of either party's business and consequently both commit to further discussions towards equitable benefit from such enhancement should it be deemed necessary.	Contract with black customer group
		And whereas "MNE" is an experienced healthcare operator with numerous contacts in the healthcare sector	Contract with black customer group
74	13. Strategic focus on SC 42. Failures 52. Relational strategy	The company drives the interaction. The product is the "bond" and it is a function of the sales drive. Sales initiatives that drives and maintains the contacts  I have tried two avenues; firstly top-down, gradually working my way down to the actual people using products, and also from the bottom-up, from the users up to the decision-makers and senior procurement officials. Both unsuccessful!	interview

Ref	Code	Data	Source
75	37. Locus of bargaining power 53. Firm ethnic profile 59. Third party advantage 71 Technical presentation content	National and Local distribution Capacity in “providing services” Competence in “services” The leading healthcare company in cost effective and quality services Effective and efficient services Utilisation of collective skills Continuous development Utilisation of state of the art technology Private Public Partnerships BEE credentials & Black ownership and Board of Directors	Government presentation under BEE banner
		Black guy (BEE partner) enabled the meeting but not even his credibility could clinch the deal. He set up the meeting. Company sent through a resume of product to be discussed in an e-mail with the topics to be discussed. Often the e-mail was not even read beforehand.	Interview
76	37. Locus of bargaining power 51 Transactional strategy	International product Adapted to SA requirements and needs 15 years SA experience Product features and benefits Successes	MNE presentation
77	37. Locus of bargaining power 51 Transactional strategy	WHEREAS “Company” wishes to enter into an agreement with XXXX whereby “Company” members will provide cost effective, quality and accessible health care products to members in terms of this Agreement and future arrangements with “Company” and/or participating providers”.	BBE contract
		In the drive to built trust and credibility upfront go to lengths to explain the company BEE credentials, the successes of the company and its product.	interview

Ref	Code	Data	Source
		<p>“MNE” has the ultimate distribution rights of “international product” (the premier “services” system that is implemented in more than 300 sites in the USA). The rights and source code is now held by “subsidiary” after this joint venture company was created between “MNE” and “third party”. The software was customised for South Africa and Africa over the past seven years. The “international product” system is owned by “MNE mother company”, an American based Healthcare Company.</p> <p>“JV” has built a strong relationship with “MNE mother company” so much so that “JV” has been exclusively contracted for implementation and additional services to all “MNE mother company” clients outside of the USA</p>	MNE third party JV presentation
78	8. Culture and beliefs 10 Culture confirmation, affiliation	<p>The cultural differences in the previous government did not stop business from being done.</p> <p>Lack of success – reasons are manifold, firstly the cultural difference.</p> <p>The approaches that work in the private sector fail with government. The approach to negotiation is very different</p>	interview
79	13. Strategic focus on SC 38. Weakness 52. Relational strategy	One tends to stick to strategies that have been successful for you in the past.	interview
80	41. Successes 51 Transactional strategy 59. Third party advantage	<p>“Third Party” hereby appoints “MNE” to provide the Services in respect of the international product” system at the premises of “government department” as set out in Annexure A, on a consultancy basis for the duration of this Agreement, and subject to the terms and conditions as set out in this Agreement. “MNE” hereby accepts the said appointment. The services to be rendered in terms of the License Agreement entered into by and between “government department” and “MNE” falls outside the scope of this Agreement.</p> <p>“MNE” shall provide the Service on behalf of “third party, the details of which are stipulated in Annexure A, and such other duties as may be agreed upon between “MNE” and “third party” from time to time and which will be attached as further Annexure(s) to this Agreement.</p>	SLA third party service level agreement

The numbering in the first column relates to the references in the statements in the text of the case analysis preceding this table.

### 3.5 Survey results

The survey is a direct outflow of the preceding within-case analysis and an effort to verify the opinions of the executives interviewed as well as those of third parties. The survey was done amongst multinational executives in the pharmaceutical industry which are members of two of the trade organisations. Some of the differences of opinions are ascribed to the fact that it is probable that the some of the circumstances in the pharmaceutical industry are unique and different to the rest of healthcare. One of the case studies was done on an MNE in the pharmaceutical industry. The references refers to the question number as in the survey results attached in Appendix 3. (Roman numerals)

Three respondents agreed with those in the case studies that it is generally not possible for a Multinational executive to establish significant relationships with senior government officials, but two were of the opinion that it could be possible <sup>i</sup>. It is not known if they have in fact managed to establish relations or just think it possible, probably the latter.

All the respondents were of the opinion that the chances for a multinational company of successfully doing business with government are determined more by the need for its products, than by the relationships the company has with government officials <sup>ii</sup>. This is contrary to what was expressed in the case studies. In the pharmaceutical industry the products are mostly unique R&D products without substitutes.

On whether, in healthcare, BEE entities play a critical role in the introductory interaction between Multinational Enterprise and government, two respondents were divided in opinion and the other were unsure <sup>iii</sup>. The executives in the case studies were unanimous in the importance that a BEE partner plays in this role. The vast majority of pharmaceutical purchases by government is done on open bi-annual tender and not on an individual deal basis.

Four respondents were confident that after the initial contact the interaction between multinational executives and senior government officials can happen independently of a BEE partner, and one was unsure <sup>iv</sup>. The executives were of the opinion that this was only possible at the lower operational levels. It is fair to assume that the survey executives also refer to operational levels as no interaction with political officials are known, as reflected in <sup>v</sup>.

Three respondents were in agreement with the executives in the case studies that senior government officials are not part of the business networks amongst the various role players in the healthcare industry such as the funders, pharmaceutical companies, equipment companies, professional practitioners and hospital groups, and two were not sure <sup>v</sup>.

On the possibility of doing business with government in the absence of networks, trust or norms between the two parties, one respondent said it was impossible, one was not sure, and three were of the opinion that it was possible <sup>vi</sup>. Three of the four companies in the case studies were successfully conducting business with government in the absence of social capital. This is one of the contentious issues addressed in the emergent themes.

Three of the executives in the survey agreed that it is inappropriate for multinational executives to attempt to establish social relations with senior government employees and two disagreed <sup>vii</sup>. The four executives in the case studies were of the opinion that it is inappropriate. The pharmaceutical industry is known to be on the forefront of relationship marketing.

The Apartheid history of South Africa pre-1994 elections were considered by three respondents to remain a source of animosity between senior government officials and Multinational Enterprise executives, whilst two thought that it did not play a role <sup>viii</sup>. Both the groups of third parties and executives partaking in the case studies were of the opinion that it still plays a role.

There was an even distribution in opinion in the survey on whether the political objectives of government are a source of animosity between senior government officials and Multinational Enterprise executives; two thought that it is, two that it isn't, and one was not sure <sup>ix</sup>. In the case studies two executives ascribed significant importance to politics whilst the other two put it on equal footing to other contributing factors.

Three respondents disagreed that the opinions of multinational executives of the political environment have a significant emotional dimension, which is more pronounced than for any other factor in healthcare in South Africa and two were unsure <sup>x</sup>. In all four the case studies this was the case, but it was in the executives' blind spots. It is probable that the surveyed executives are also emotional at a subconscious level.

One executive thought that there is no place for social capital in the professional relations between senior government officials and Multinational Enterprise executives, one was unsure and three saw a role for social capital <sup>xi</sup>. All four executives in the case studies viewed the pursuit of social capital as unprofessional. As mentioned, the pharmaceutical industry is generally familiar with relationship marketing.

Three respondents did not think that government officials from cultural groups different to those of multinational executives actively maintain a distance in their relationships with these executives, one was unsure, and one thought that they did <sup>xii</sup>. This was the unanimous opinion in the case studies. It is probable that this is due to the fact that they have not been required to interact with senior officials.

In the survey four executives agreed with the four from the case studies that the relations that multinational executives have with individuals in the private market from cultural groups different to their own are significantly better than those with senior government officials that are culturally removed, whilst one thought they were the same <sup>xiii</sup>.

The four respondents in the survey again concurred that not only were the relations in the private market better, but also that individuals in the private healthcare market from different cultural groups are less distant from multinational executives than those in government, whilst the same executive disagreed <sup>xiv</sup>.

Contrary to the perspectives of the four executives in the case studies, all five executives in the survey are of the opinion that government does business with multinational enterprise in healthcare because it needs the products or services rather than because of relationships with these enterprises <sup>xv</sup>. This is probably a function of the fact that most MNE pharmaceutical companies promote original R7D products that are unique.

Three executives in the survey support the notion that the profit motive in the private market breaks down barriers between the different cultural groups, one was unsure and one disagreed <sup>xvi</sup>. This possibility is later further explored in chapter six.

On whether the introduction of a profit motive would sway government officials to cross political and ethnic barriers to engage multinational executives, two surveyed executives are of the opinion that it would, two that it would not and one was unsure <sup>xvii</sup>.

Four executives in the survey disagreed, of which three did so strongly, that cultural differences are more responsible for the poor relations between senior government officials and multinational executives than are conflicting political objectives, whilst one was undecided<sup>xviii</sup>. The executives interviewed in the case studies were divided, one thought politics to be dominant, two saw neither as most responsible and the fourth saw cultural differences as most significant.

All five executives that responded to the survey disagreed, three strongly so, that government does business with multinational enterprise in healthcare because there is some form of financial incentive for the government officials<sup>xix</sup>. Three of the four executives commented on the financial inducements that are part of the structuring of government business deals. It is probable that the opportunity to secure inducement to sway adjudication in pharmaceutical tenders that are open and cyclical for unique non-substitutable products are limited.

Four of the five executives in the survey aired their views as to what the most important reason for the distance between multinational executives and senior government officials is. These are<sup>xx</sup>:

- *“Do not see that we put our patients first and think Multinational Companies are only here to milk the system. Lack of trust from both sides”.*
- *“Politically and economically motivated.”*
- *“Fear of being considered corrupt as a governmental official“*
- *“Because it is impossible to meet with them. One cannot get an appointment, when they are invite to address a meeting and accept there is still no guarantee that they arrive and if they do they arrive late and leave immediately after their presentation claiming urgent business, as an industry we never are urgent business My overall impression is that government does business with any Pharma company (local or multinational, represented in South Africa or not) based on price of product. Any other (social) activity by a company is ignored. BEE status is only a very minor component in tender awards for example and only considered if prices are similar between bidders. Department of health purchases on the preferential pricing policy, which is in conflict with DTI<sup>#####</sup> policy on BEE”.*

The fifth respondent applauded the effort to better understand the South African healthcare industry.

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##### Department of Trade and Industry

#### 4. Cross-case analysis

Following the within-case analysis it is now possible to compare across cases and identify the similarities, as well as the differences. This section reflects back on the examples and references to data from the previous within-case analysis section.

##### 4.1 The faces of government

Firstly though, it is appropriate to clarify the various roles of government officials as this relates to the objectives of both MNEs and government, as well as the format of the interaction. These were concluded from the interaction with the various executives in this study (Table 5.6, reference 4). A summary follows in Table 5.5 afterwards.

- Political level – These are the ministers, MECs (Members of the Executive Council) of the provinces and various Director Generals of the departments. Audiences with these people are extremely rare and interaction limited to invites to present on proposed legislation.
- Senior Administrative level – These are the top officials in the national and provincial departments responsible for procurement and tenders. They still are politically very powerful but are the final decision-makers in business transactions. They as a rule do not interact with suppliers and only evaluate tenders and do the awards.
- Lower Administrative level – Employees at the various regional offices and depots, as well as at the health facilities, responsible for the procurement of stock on tenders. Some individuals are very mobile with access higher up and can provide information and access to the senior level. They are also able to drive inclusion on the tenders. Depending on the power and influence of the individual they can be easy or difficult to access.
- Professional staff – These are the various healthcare providers at the facilities. This group also includes the various academics at the teaching institutions, commonly involved in both lecturing students and treating or researching patients. They use the products, services and equipment and are very important in the request for inclusion in tenders. They are mostly the origin of product specifications called for in tenders. It is important that they have a positive experience of the MNE's products and services, and frequent interaction and training is critical. Although it is mostly MNE employees from the sales and technical levels that interact with them, the senior MNE managers do interact at congresses and CME (Continuous Medical Education) sessions.

**Table 5.5. Differentiating the various types of government employees**

	<b>Decision-making power</b>	<b>Accessibility</b>	<b>Social Capital</b>
<b>Political</b>	High	Very low	Very low
<b>Senior Admin</b>	High	Low	Low
<b>Junior Admin</b>	Low	High	High
<b>Professionals</b>	Medium	High	High

Concluded from the interviews in this study (Table 5.6, reference 4)

Starting with the professional healthcare providers, the MNE managers have well established business relations with the majority, in some cases on par with those in the private sector. Academics at the teaching facilities are important role players in the clinical positioning of products, services and equipment, including conducting clinical trials. As the top national academics they are the opinion leaders and have a massive influence on what is regarded as the most appropriate clinical treatment prescribed to in the private sector.

The lower levels of administrative personnel as a rule ensure the availability of products and equipment at the end-user level. They are typically seen by the sales and technical staff but senior MNE managers will call on them as a courtesy. Some of these individuals are very well connected throughout the facilities and departments and are part of the inner circles. The more powerful and better connected they are, the harder it is to establish relations with them. This is a function of both the high frequency of targeting by MNEs as well as a reflection of self-worth.

The higher levels of the administrative officials are those that personify government's position as customer and are targeted by the senior MNE managers. These government officials are actively avoiding interaction with MNE managers and direct access is almost impossible.

The political level fulfils government's role as legislative entity. Access for MNE managers as company representatives is very near to impossible. The healthcare industry is organised into representative bodies tasked with interacting with government at this level. Even in this role MNE executives find government inaccessible.

Ethnically, the profile becomes almost exclusively black the higher up one goes. At the lower levels the ethnicity is mixed.

As a whole, the differences amongst the managers in the process of developing social capital with government can be ascribed to interpersonal differences in strengths and preferences, significantly influenced by personality, and, training and experience; as well as the level and function of the government employees targeted and the specific set of circumstances it dictates.

## **4.2 Similarities**

The results are supported by the data in the table at the end (Table 5.6) and the statements referenced to the data in the first column

### **4.2.1 Appreciation of social capital**

The executives all show high appreciation for personal social capital, especially networks based on kinship, such as family, and they treasure their family time. There is evidence of increased encroachment by business demands on their personal time, time which they hold as sacred. It follows that there is a distinct reluctance to allow strangers into this space, or, to intrude into that of clients or business partners. This is evident from the interviews and informal conversations <sup>1</sup> (Referenced to table 5.6). The executives in the survey were less reluctant to enter this personal space of government officials <sup>vii, xi</sup> (Referenced to Appendix 3, Roman numerals).

All the managers exhibited an awareness of the role of relations <sup>vi</sup> in business and each has a definite strategy to address relations <sup>2</sup>. None of the presentations contained any dedicated section to relations but for the contribution towards gaining credibility and creating trust in the firms' ability to perform against the intended contract. Not one of the executives is familiar with the term social capital but they do address the various components thereof, especially networks (relations) and trust. It is fair to equate their understanding of relations to the concept of social capital.

Personal norms are substituted by company policies and procedures and the law of the land. This falls under the umbrella of professional conduct <sup>3</sup>.

### **4.2.2 Access to government**

Government has a dual persona; firstly that of customer and secondly that of legislative/political entity, and these two groups are experienced distinctly different by the executives <sup>4</sup>. The government employees in the operational parts of healthcare,

including academia, and those at the lower levels of procurement at hospitals, regional or central administrative departments, are viewed as distinctly separate from the senior decision makers and politicians. As the level of power and political reach of a government employee increases, so does the inaccessibility, as shown by the volumes and content of communications, but also the intensity of planning should an audience with higher level employees be secured. MNE managers have an acute awareness of internal politicking within government ranks and are very sensitive to not doing harm to an individual within the government ranks as this creates enemies. This friction in the relations between the operational employees and political levels is evident, as well as amongst employees at the same level. In meetings the various individuals are doing their utmost to impress their colleagues and superiors. One executive explained the sequence and motivations for various meetings as:

*“Decisions are actually taken in secretive political meetings and the official formal ‘open’ meeting supposed to be making decisions are more of tokens. This is the way that the political government employees protect themselves, look knowledgeable and know what is happening”*

The perception is that at the higher levels, especially at the political levels, there is a conscious effort to avoid all contact with private sector executives, almost as if it is a government policy not to engage the private sector <sup>4</sup>. Three of the executives in the survey disagreed with this perception <sup>xii</sup>. This negative perception is supported by discourse analysis that has shown executives to use similarly negative language. Interaction and meetings are meaningless tokens that only happen to satisfy legal requirements for consultation, and a general atmosphere of animosity exists with no room for discourse;

*“Friction results from a lack of a consultative process, there exists a question mark on the level of bias of the government. The perception is that government is very negative towards private healthcare. The negativity does not necessarily originate from any individuals but is documented in the ANC health manifesto.”*

There was some support for this perception from the minutes and resolutions from some of these meetings. Business' inputs are not considered and government acts unilaterally and autocratically. This is confirmed by the comment of one survey respondent that the ideology is known, but not the policy <sup>ix</sup>. From the tender conditions, as well as Service Level Agreements to support tenders, this is evident. Even if the relations at lower levels are better, it is still significantly worse with government customers than with those in the private healthcare market, also for those surveyed <sup>xiii</sup>,

### 4.2.3 Perceptions on origins of distance

The MNE executives have a number of explanations for the distance with government<sup>5</sup>. Firstly, the political objectives as per the ruling party's various election manifestoes are distinctly socialistic and clashes with the capitalist nature of MNEs. Policies of Redress are experienced as reverse discrimination and unjustifiably prejudicial against MNEs. Some individuals in government are also militant to the extent that it is believed that they bear a grudge against MNEs. Executives responding in the survey also unanimously viewed politics as the main cause of strife with government<sup>xviii</sup>.

There is doubt on how honourable government's intentions are<sup>5</sup>, the negativity once again confirmed by discourse analysis. This is especially evident in the response by one executive to the open question in the survey as to the main reason for the animosity between MNEs and government<sup>xx</sup>:

*"Because it is impossible to meet with them. One cannot get an appointment, when they are invite to address a meeting and accept there is still no guarantee that they arrive and if they do they arrive late and leave immediately after their presentation claiming urgent business, as an industry we never are urgent business"*

Trade executives and senior managers have often been stood-up by ministers and provincial MECs (Member of the Executive Committee, the provincial parliament) at meetings, or the delegation from government watered-down with low ranking employees without any decision-making power. Media reports, quoting Government officials, are also often resentful of the relationships and business conducted with customers in the private healthcare market, a market heavily-handedly regulated by government; the reason for approaching the court for reprieve has been: *"because they make their own rules"*. Even though the government officials are supposedly of the same political conviction, individual variances in interpretation of policies and business strategies are massive and confusing.

Secondly, the ethno-cultural differences are perceived to be a significant barrier<sup>5</sup>. MNE executives feel that ethnicity; together with political conviction, are the main bases for their exclusion by government. Especially black African government employees are deliberately leveraging politics and ethnicity to increase distance with MNEs and disadvantage them in business with government. This perception is supported by the good relations the MNE executives have with black African customers in the private sector, as well as with Indian and Coloured government employees. Also, BEE partners have defined and enduring business relations with MNEs, and these relations

are not differentiated to other business relations in spite of culture, ethnicity or political conviction.

A significant amount of the homophily by government employees is, over-and-above political conviction and ethnicity, ascribed to the need to ensure that business practices remain hidden <sup>5</sup>. There is consensus that, in the vast majority of the business transactions with government, there is some form of self-enrichment involved; *“There is almost no deal where someone does not get a commission (bribe<sup>sssssss</sup>).”* Trust is at a premium, leaking of these details will cost government employees their careers, lead to criminal prosecution and severely tarnish the image of government. On the other hand, this risk is negated by dealing with like-minded individuals from a similar ethno-cultural origin share social capital; the networks, trust and norms. Not one of the executives surveyed had similar impressions though <sup>xix</sup>.

The lack of training and experience of government officials also presents as a barrier <sup>5</sup>. This not only results in an inability to effectively manage the details of the business, but also a reluctance to interact meaningfully, at the risk of being exposed. The lack of interaction and meaningful discussion in the business situation is ascribed to a lack of training and experience. Government employees lack the technical expertise to evaluate the products and services on offer. They are also not well versed in business practices and do not have the negotiation skills to secure the best deal. This, together with the fact that the remuneration they receive is comparatively low, leaves them vulnerable to bribing.

#### 4.2.4 Social interaction as part of the plan

Relating to the objective of establishing relations with government, all the executives place a premium on the professional nature of the relations that they are pursuing <sup>6</sup>, *“There is most to be gained from a balanced social professional scenario.”* In interacting with government, the interaction is more formal than with the private market clients. In the survey the executives also noted that the government employees did not form part of the networks of other healthcare stakeholders <sup>v</sup>. No relations beyond what is required to successfully conduct business are pursued. All social interaction is incidental to the business meetings, such as during tea or lunch breaks. The tone of the conversations remains very formal and familiarity is taboo. Even with customers in the private market socialising is done against a business background and almost never allowed to reach the level of pure social interaction. No socialising takes place with

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<sup>sssssss</sup> Author’s own insertion, as the interviewee used the phrase

families present. Sometimes events are organised for private customers and their families but these are at a neutral venue (not at homes) and have business as the main focus of the event, such as at congresses.

Social interaction in the business environment is seen as those social events that are incidental to the business being conducted or even social activities a bit more removed from conducting business;

*“There should be a business purpose to even a social meeting, and stick to the business agenda. Social interaction emerges with long term relationships, get to know them personally but there still is a line not to be crossed.”* (line into the personal social realm<sup>\*\*\*\*\*</sup>).

The intent is clearly to improve business social capital and the trust that comes with it<sup>6</sup>. The intention is not to become personal friends but to have a less than strictly formal environment. Personal space such as homes and family are excluded from these business social events. MNE executives are of the opinion that even if the business social capital which develops is sufficient to bridge the ethno-cultural barrier in the social environment it is something they will not exploit.

#### **4.2.5 Planning and managing the interaction**

The general approach of executives to interaction with government employees shows a significant amount of similarity<sup>7</sup> but with some differences in the strategy, the differences to be discussed in the following section. Firstly all have identified relations with government as important, both in its capacity as customer and as legislator. Strategies have been put in place with action plans to achieve them.

A lot of planning precedes meetings with government<sup>7</sup>. This ranges from researching the individuals to be present, their convictions and objectives, those of government in general on the issues and communicating topics for discussion and agendas with the government counterparts. The first meeting is initiated by either government or set up by the BEE partner, or by the sales person (often culturally related to the government officials) or by a third party tasked by government with securing the products or services.

The first meeting between MNE managers and government officials is almost always facilitated by a third party<sup>7</sup>. Only one executive in the survey disagreed with this requirement<sup>iii</sup>. It is only in the case of legally required consultation meetings that

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\*\*\*\*\* The line between business and social arenas

precede the introduction of new legislation where MNE executives or their representative bodies are summonsed to do presentations on a topic. Very little two-way communication and discussions take place during these, as confirmed by the response from one executive to the survey <sup>xx</sup>; “.and leave immediately after their presentation”.

At the meeting venue, the period immediately preceding the official meeting is utilised by the executives for light social interaction with government counterparts<sup>+++++</sup>. The topics are all business related and very little if any informal small talk is made. This period, together with the initial few minutes of the business presentation, is where the managers spend their efforts on building trust and credibility, the part with relational focus.

Credibility is primarily built through an exhibition of the technical competences of the manager and the company, its experience and successes <sup>7</sup>. The intellectual property (IP) is portrayed as the enabler of the business transaction, their guarantee on the ability to perform. This has been confirmed by all presentations and company profiles utilised, without exception. Interestingly enough, although these managers have progressed to what is typically the strategic level of the organisation, they ensure that their technical skills and product knowledge are up-to-date and they keep tight control of these presentations to government. The relationship with the third party and BEE credentials (by statutory requirement ethno-culturally related to the government officials) are extensively punted to prove conforming to government policies and objectives. The process entails building credibility in the technical skills and competences of the MNE and its managers, then followed by an exhibition of support for government and compliance with its policies of redress and black empowerment.

#### **4.2.6 Subsequent contact**

Following the initial meeting, a process of follow-up is employed to further nurture the newly established relations <sup>8</sup>. Feedback is given on the issues emerging from the initial meeting. The feedback is mostly in the form of minutes that are distributed, often containing resolutions taken, or in the form of a proposed contract. The bulk of the communication happens electronically; via e-mail, with some telephonic conversations. Follow-up interactions are strictly dictated by business requirements, especially face to face meetings, be they formal or a bit less structured and informal. As with all customers, the MNE managers are guided by the level of formality the government

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<sup>+++++</sup> As related in informal discussions

employees employ in the relations that ensue and these almost without exception stay on the formal side <sup>7</sup>. Although the MNE almost exclusively drives the subsequent interactions with government, no interactions are pursued solely for the purpose of building and improving relations.

Those networks that have developed with government officials are held together solely by the common business interest and normally have a lifespan dictated by the duration of the business process or project, nothing beyond. No relations with political figures or decision-makers have evolved, only with operational employees at implementation level. Two executives in the survey disagreed somewhat with this view <sup>i</sup>.

**Table 5.6 Data in support of the similarities amongst the cases**

Ref	Code	Data	Case	Source
1	1. Social network involvement	Has supper with grown-up children. A few good friends	1	Interview & informal discussions
	5. Interaction pattern	Relations are strictly on business as a choice of government officials and company policy, no lunches, no parties and functions. This is not detrimental to the relations in the healthcare industry.		
	25. Position perception	Social friendships may actual deter from the business relations. Can see social relations playing a role in other industries but not in healthcare, is very specialised discipline.		
	27. Tacit rules	There exists a line that is not to be crossed		
65. Level of relations	75. Social relations	Socialises with wife and child. Superficially with neighbours	2	Interview & informal discussions
		It is not enjoyable to socialise when you are obliged to do it	3	Interview
		Consciously avoids inviting to his house due to differences and sensitivities around material wealth		
		Socialises with family, few friends from church group	4	Informal discussions
		He socialises extensively in the community which he resides in and especially so with the neighbours in close proximity. He and his wife belong to the local bridge***** club.		

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\*\*\*\*\* Playing cards game

Ref	Code	Data	Case	Source
2	2. Business network involvement	Consciously have a networking objective when doing research.	1	Interview
	12. Networking	Networking vital to business going forward		
	13 Strategic focus on SC	Keep on a business principle in relations. Choice of government departments and company policy		
	43. Embeddedness	Cordial relations are called for. Most to be gained from a balanced social professional scenario		
	52. Relational strategy	Limited social interaction is acceptable but again in my industry objectives regarding social interaction of the individual stakeholders are quite diverse		
	57. Strategy to develop SC	Social interaction emerges with long term relationships, get to know them personally but still is a line not to be crossed.		
	61. Third party relations strategy	Trust needs to be built in personal and direct relationships. Have had no personal social contact with any government officials. Info on individuals from a social, political and cultural view; also about what they want to do. Networking vital to business going forward. Little bit of social contact in business meetings opportunity to declare intentions.		
	65. Level of relations			
	69. Preparations			
	70. Relational content	Relations are very, very important. 90% of success of the company. Plays an important role in the selling function to customers, the after-sales service and maintenance of equipment. Relations with colleagues are critical to the smooth running of the company itself. Contacts are extremely important. Even the best product will not sell if you do not have the relationship. Relations determine the success of a manager. Shows interest in the person and his family/personal live. This approach results from sales training as well as a personal style/preference. In presentations ensures that the needs/preferences questions of every, and all individuals attending are addressed. Makes them feel important. Very important to remember the info shared in previous conversations and revisit those topics in follow-up. Consciously researches individuals to be encountered for the first time. The individual must realise that he has gone to the trouble to find out something about them. If a customer has a problem and mentions it always enquire about it the next time you meet.	2	Interview
	75. Social relations	Interaction must extend beyond the conclusion of specific business (or a deal). Will help in future events..		
	79. Relationship orientation			

Ref	Code	Data	Case	Source
		<p>Relations are very important. Networking extensively with colleagues. Biggest business opportunities reside in relationships.</p> <p>Especially the negotiation and preparation stages take a very long time. Success of any transaction in Africa is based on the network you are able to access. The most difficult part is securing the project not doing it. The Front company or BEE partner is responsible for securing the deal, whether at political or operational level.</p> <p>The meeting is exclusively project driven, not political at all. Delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and sets up the meetings dealing with technical project matters.</p>	3	Interview
		<p>Very high, relations are critical, especially with government but success has been very limited.</p> <p>Range from personal friends to cold and clinical business relations. Government falls in the latter.</p> <p>Personal friends with a large number of individuals in the private sector.</p> <p>Historically has been successful in building relations.</p>	4	Interview
3	<p>4. Normative influence</p> <p>8. Culture and beliefs</p> <p>23. Rate of trust</p> <p>27. Tacit rules</p> <p>30. Homophily</p> <p>35. Adversarial state</p> <p>49. Corruption</p> <p>60. Third party role</p>	<p>Keep on a business principle in relations. Choice of government departments and company policy.</p> <p>Most to be gained from business being conducted in a professional manner.</p> <p>Rate level of social relations as "balanced". Definitely no place for any form of animosity. Cordial relations are called for. Most to be gained from a balanced social professional scenario</p> <p>.Business purpose to even a social meeting, and stick to the business agenda.</p> <p>However, the same cannot be said regarding the business ethic. Exists a huge cultural GAP that needs to be bridged</p> <p>Did not present our case in conflict with any government policy but as an adjunct to.</p>	1	Interview

Ref	Code	Data	Case	Source
	83. Political conviction 89. Ethical 90. Liberal 93. Racial awareness	<p>A number of ex-government employees set up private businesses leveraging the relations they have within government structures. Half the value of the expenditure is charged as a premium for these relations. Add 40% to margin for commissions etc to these ex-employees.</p> <p>Almost no deal where someone does not get a commission</p> <p>Had the process been 100% honourable it would be non-competitive. A lot of friction results from the fact that the company competes with the government employee's supplier of preference. Efforts to build relations when government employees are in a competitor's pocket is futile, you know you are not going to get the business. In this case business relations are not built on social capital but on Money (bribes) Should be founded in business principles and ethics and should not be accompanied by expectations, no strings attached. "Business entertainment" has become the standard but excesses are not acceptable. Often a backlash when you scale down or from those not included.</p> <p>Very different in some cases due to the practise of bribes and commissions (chocolate money). Ethics. Even when the front companies are doing it, it goes against the grain.</p>	2	Interview
		<p>Actually work through a front company or connected third-party individuals.</p> <p>The most difficult part is securing he project not doing it. The Front company or BEE partner is responsible for securing the deal, whether at political or operational level.</p> <p>Radically different to own principle but is what the times dictate. Differ on what practices are acceptable.</p> <p>A function of the way two cultures are brought up as well as the differences in religion. Personal principles are different. The way to deal with this immense gap is to assign the decision making to an executive who is not as distant.</p> <p>Leaves those decisions on moral issues as well as dealing with it to others in the company. The principles applied in business is a result of those that they live by.</p>	3	Interview
		No place for politics or racism in business	4	Informal discussions

Ref	Code	Data	Case	Source
4	5. Interaction pattern	The company has forged a working relationship with all the major academic centres in SA, which centres advise on PMB (prescribed minimum benefits) treatments. Government has to put the prescribed minimum benefits (PMBs) into legislation, forcing medical aids to pay. Make a conscious effort to keep in contact with government departments responsible for company related disciplines. It remains a challenge to agree on a similar endpoint. The political objective as reflected in the health charter is the origin of conflict. Although the objectives (treatments) should be similar the execution is not. Origin of conflict is political, statements as per the health charter does not concur with private objectives. Gained a full understanding of government thinking by consulting with people directly or indirectly involved in government business, its party politics and its future policies.	1	Interview
	12. Networking			
	24. Common goals			
	32. Network perception			
	35. Adversarial state			
	42. Failures			
	43. Embeddedness			
	44. Operational gov bus networks			
	45. Decision making gov networks			
	52. Relational strategy			
54. Government ethnic profile	List of contacts in Government		Fax from government	
60. Third party role	Directorate of Radiation is a para-statal and sets regulations for equipment specs and use. Huge burden in regulations and paperwork, also friction that ended in court. Update of existing legislation not functional. Competitor companies report each other to hamper sales. What is in the law and what is in the enforcement differs a lot. Military now also part of the state and shares tenders and procurement. Have to distinguish between provincial government structures and the state which run on different sets of rules, and then military on top which is also government and has a completely different way of dealing with things.	2	Interview	
65. Levels of relations				
68. Accessibility				
74. Independent relations				
93. Racial awareness	MNE will provide training, and in-service to all relevant hospital staff, initially and on an ongoing basis Under no circumstances will competitors be allowed access to MNE products		MNE Gov contract	

Ref	Code	Data	Case	Source
		<p>Big concern is that the lifespan of the project is longer than the duration of government political employee service. Operational (normally professionals) employees do last longer. A definite segregation between political and operational employees at a government level.</p> <p>The Front company or BEE partner is responsible for securing the deal, whether at political or operational level.</p> <p>Delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and sets up the meetings dealing with technical project matters.</p> <p>The political agenda is discussed in an exclusive, secretive meeting between the BEE/Front Company and the political government employee beforehand. Here the political government employee also gets the upfront information to display at the “official” meeting afterwards.</p> <p>There is not access to these political officials independent of the BEE partner. Often the political figure remains anonymous.</p> <p>Decisions are actually taken in secretive political meetings and the official formal “open” meeting supposed to be making decisions are more of tokens. The way that political government employee protect themselves, look knowledgeable and know what is happening.</p>	3	Interview
		<p>Inspection of “product” in “home country” by “Provincial” MOH team</p> <p>Inspection of “production facilities” in “European Countries” by “Provincial” MEC and team</p>		MNE project plan
		<p>For the company as a customer mainly, regulatory affairs handled by the representative bodies.</p> <p>Tried two avenues. 1. Top-down: gradually working the way down to the actual people using products. 2. Bottom-up: from the users up to the decision-makers and senior procurement officials.</p>	4	
		<p>That both sectors co-ordinate efforts, where appropriate, with relevant with statutory bodies, State bodies, and academic institutions (where relevant) in the formulation of comprehensive skills development strategies</p>		Health Charter, Proposals, “Representative Trade Body”

Ref	Code	Data	Case	Source
5	3. Inclination to trust 7. Norms of reciprocity 8. Culture and beliefs 22. Risk aversion 23. Rate of trust 26. Homogeneity requirements 27. Tacit rules 30. Homophily 31. Social cognition 32. Network perception. 35. Adversarial state 36 Magnitude of bargaining power 37. Locus of bargaining power 42. Failures 45. Decision making gov networks 49. Corruption 53. Firm ethnic profile	<p>It §§§§§§§§§§ should primarily have common objectives.</p> <p>One could be forgiven for thinking the sectors are in fact in competition with each other.</p> <p>There exists a question mark on the level of bias of the government</p> <p>Friction results from a lack of a consultative process.</p> <p>Perception that government is very negative towards private healthcare. The negativity is not necessarily originate from any individuals but is documented in the ANC health manifesto. Given the paranoia that exists about the state vs private sector healthcare. The apparent policy adopted by the state to nationalise healthcare.</p> <p>Ultimately the relationship should not be competitive, should be collaborative. The company not convinced that government is unbiased in its pursuit of legislated endpoints. Government not negative towards the company as such but towards private healthcare in general.</p> <p>There is great mistrust insofar this relationship is concerned. The execution of the process not in parallel, although the objectives are in the main similar and this leads to conflict. As a result the meetings often take the form of conflict resolution meetings. It remains a challenge to agree on a similar endpoint. The political objective as reflected in the health charter is the origin of conflict. Although the objectives (treatments) should be similar the execution is not. Origin of conflict is political, statements as per the health charter does not concur with private objectives</p> <p>Who attended? Unfortunately not the person(s) we had hoped, but senior personnel instead.</p> <p>Government will implement its party political plans regardless of input given by the private sector and ourselves. The process of consultation as promoted by Government is nothing more than window-dressing.</p>	1	Interview

Ref	Code	Data	Case	Source
	54. Government ethnic profile 60. Third party role 64. SC realisations 67. Barriers perceptions 68 Accessibility 88. Negativity	<p>A number of ex-government employees set up private businesses leveraging the relations they have within government structures. Half the value of the expenditure is charged as a premium for these relations. Add 40% to margin for commissions etc to these ex-employees.</p> <p>Taken to court by this company and others "because they make their own rules". Manipulation by competitors to prevent company from marketing certain products.</p> <p>Very low levels of knowledge on products they are suppose to purchase.</p> <p>Easier to build relations with Indians and Coloureds, significant amount of distrust between black and white.</p> <p>Very different in some cases due to the practise of bribes and commissions (chocolate money). Ethics. Even when the front companies are doing it, it goes against the grain. They are underpaid for the job level and they are offered the bribes by wealthy businessmen.</p> <p>Very theoretical and not based in practice – lack experience. Very lowly educated in very high positions as political appointment. Found a correlation between poor education and soliciting of bribes. Time and education is the solution to corruption.</p> <p>Government employees are cautious partly because they do not feel sure of their own positions. Result of constant scrutiny from public but also inside politics.</p>	2	Interview

Ref	Code	Data	Case	Source
		<p>The political agenda is discussed in an exclusive, secretive meeting between the BEE/Front Company and the political government employee beforehand. Here the political government employee also gets the upfront information to display at the “official” meeting afterwards.</p> <p>In the government delegation individuals do not want to expose themselves to the others by socialising, their behaviour aims to impress the most senior official. There is not access to these political officials independent of the BEE partner. Often the political figure remains anonymous. Decisions are actually taken in secretive political meetings and the official formal “open” meeting supposed to be making decisions are more of tokens. The way that political government employee protect themselves, look knowledgeable and know what is happening</p>	3	Interview

Ref	Code	Data	Case	Source
		<p>Lack of success – reasons are manifold, firstly the cultural difference. Do not understand the product message or do not want to understand.</p> <p>Fobbed-of as it is not their departments decision alone etc. Not as a result of culture or representing government, not qualified for the position they have.</p> <p>The distance experienced with government officials is a function of both the government environment and the personal traits of the individual.</p> <p>Relations with government officials are very poor because of the cultural differences. They also fail to grasp the most simplistic product concepts. The individual does not give any direct feedback when products are detailed in the sales situation. A case of meetings on meetings and no decision is ever made, fobbed off. Lack of negotiating competence, they are not taught.</p> <p>The cultural differences with the new government stops business from occurring. Deterioration in relations blamed mostly on the incompetence of individuals involved</p> <p>Would typically read the mood of the meeting and sell self (socially) accordingly, in the case of government the reception was to cold and impersonal. Did find black government employees very difficult, coloured and Indian easier. Had a successful meeting with and Indian employee when accompanied by and Indian BEE partner.</p>	4	Interview

Ref	Code	Data	Case	Source
6	4. Normative influence 5. Interaction pattern 7. Norms of reciprocity 12. Networking 24. Common goals 27. Tacit rules 31. Social cognition 32. Network perception 45. Decision-making gov networks 47. Government business activity 52. Relational strategy	<p>Relations are strictly on business as a choice of government officials and company policy, no lunches, no parties and functions.</p> <p>Not a prerequisite to have social relations, have seen instances where those with social relations have been consciously disadvantaged. Social friendships may actual deter from the business relations. Can see social relations playing a role in other industries but not in healthcare, is very specialised discipline.</p> <p>Not a prerequisite. Most to be gained from business being conducted in a professional manner. It is possible that people with personal relations will be advantaged as people have different requirements.</p> <p>Business often suffers when the relations become to friendly.</p> <p>Limited social interaction is acceptable but again in my industry objectives regarding social interaction of the individual stakeholders are quite diverse, sometimes resulting in practices that authorities might frown upon. Rating personal social interaction as 5/10 or average. Rate level of social relations as "balanced". Definitely no place for any form of animosity. Cordial relations are called for. Most to be gained from a balanced social professional scenario.</p> <p>Meetings are held at a neutral venue. No spouses. Social relations happen in cases of a long term relationship. There exists a line that is not to be crossed. A neutral venue avoids unreasonable expectations. Business purpose to even a social meeting, and stick to the business agenda. Social interaction emerge with long term relationships, get to know them personally but still is a line not to be crossed</p> <p>Relations with individual government employees have become independent of the BEE partner although it has not been pushed it evolved. Happened over time, to build trust evolves into more personal levels which as such is acceptable to both parties. No purely social contact with any government official as a result of the business contacts</p>	1	Interview

Ref	Code	Data	Case	Source
		<p>The relations should be co-operative.</p> <p>General respect as well as quick response time to their communications. Don't have to send them gifts or thank-you's. Very formal, in some cases Mr. &amp; Mrs; first names seldomly used.</p> <p>Should be founded in business principles and ethics and should not be accompanied by expectations, no strings attached. "Business entertainment" has become the standard but excesses are not acceptable.</p> <p>Often a backlash when you scale down or from those not included. Not a negative to have social relations. Once in a while, as a means to get to know the guy a bit better. Had been on the receiving end of entertainment as a customer, felt resentment when he had not been invited.</p> <p>We meet at a neutral venue. Consciously avoids inviting to his house due to differences and sensitivities around material wealth.</p>	2	
		<p>Have good relations but restricted to the business environment, does not socialise at all.</p> <p>It is very dangerous to have friendly relations as it introduces additional emotions into the business relations. In the business scenario people lie a lot as the situation dictates. Put their sails to the wind</p> <p>People are not to be trusted. Restricted to business</p> <p>Normally at a neutral venue, but leaves the choice up to the other party. Have had people at his house but only for business meetings, no socialising with families</p> <p>Delegated the political agenda totally to the BEE partner and the black employees.</p>	3	Interview
		<p>"Third Party" shall be responsible for the following matters, to the exclusion of "MNE"</p> <p>All communications with the client, the "Provincial" Government</p> <p>Collection and disbursement of payments to suppliers, including "MNE"</p>		JV Third Party MNE for gov contract

Ref	Code	Data	Case	Source
		<p>Relations range from personal friends to cold and clinical business relations. Government falls in the latter. Personal friends with a large number of individuals in the private sector.</p> <p>Yes social interaction definitely adds value to the relationship. Actually led by the customer's preference.</p> <p>At a neutral venues. Families are not involved and should not be. Did not happen in the previous government either. Definite reluctance to involve families. Businessmen understand each other but wives don't</p> <p>The approaches that work in the private sector fail with government. The approach to negotiation is very different.</p>	4	Interview

Ref	Code	Data	Case	Source
7	4. Normative influence 7. Norms of reciprocity 9. Institutional affiliation 12. Networking 14. Bridging SC focus 24. Common goals 27. Tacit rules 31. Social cognition 34. Information 36. Magnitude of bargaining power 37. Locus of bargaining power 46. Political activity 51. Transactional strategy 52. Relational strategy 54. Government ethnic profile 56. MNE government trust 58. Tactics to develop SC 60. Third party role	<p>Gained a full understanding of government thinking by consulting with people directly or indirectly involved in government business, its party politics and its future policies. This extended outside healthcare. Did not present our case in conflict with any government policy but as an adjunct to.</p> <p>Researched specific individuals in government and their objectives. Consciously had a networking objective when doing research. Build credibility during the initial social interaction preceding the start of the formal business meeting. Also declaring the intentions upfront and clearly. Refrain from any “cloak-and-dagger” games. Be honest and pursue trust. Credibility is a result of the company’s programmes speaking for themselves. Also by giving government officials access to the intellectual property (documents) generated by the company. The content of these together with the actions of the company gives credibility. Credibility is a product of the Company’s technical knowledge. The meeting is initiated by the company. The company suggests an agenda that is formally sent to government with the invite to add to it. The government official chairs the meeting as a sign of his “seniority”. The mood is very formal. Never digresses into a more informal atmosphere. Official minutes are taken and resolutions agreed on are minuted. BEE partners enable meetings, open doors and break down barriers. Relations with government left to evolve naturally as a function of time. Trust needs to be built in personal and direct relationships. Have had no personal social contact with any government officials. Info on individuals from a social, political and cultural view; also about what they want to do. Networking vital to business going forward. Little bit of social contact in business meetings opportunity to declare intentions. Programmes made available to inspect and peruse. “Action speaks loader than words” Rely on the current customer client base to give credibility. Meetings stick to the agenda, do not digress. Formal but friendly, no purpose in getting acrimonious. It is not only the network of the BEE partner opens doors, but also the mere fact that you have a BEE partner with you that does.</p>	1	Interview
		BEE credentials, status and points		Tender application
		Price 90%, PDI status 10% (PDI 3, female/disabled 1, small business 2, local manufacturing 4)		

Ref	Code	Data	Case	Source
	62. Interaction process 65. Level of relations 67. Barrier perceptions 69. Preparations 70. Relational content 71. Technical content 72. Course of the meeting 73. Perceived relational attributes 74. Independent relations 79. Relationship orientation 82. Social interaction as business tactic	<p>Upfront identify the individual/s to be met with and do research on them. Investigate his history and identify his loyalties (“is he in someone’s pocket”). In the initial moments of the meeting socialise to put him/them at ease before progressing to business/product. Definite focus on networking, selling himself first, “have to buy me”. Never knocks competitors. Definitely identifies individuals to target for networking.</p> <p>Preference is to have a “coincidental” (but well planned) first exposure in a non-formal, non-structured meeting. Priority is to get info on his personal life (also from him) but some are extremely cold. Often they are cautious and intimidated. A definite change in that it is not frowned upon in government ranks to have good relations with MNEs. Does not prepare a detailed agenda but only communicates the broad topic of the meeting. Extensively makes use of black employees and BEE partners to set up meetings. They definitely have networks within their own cultural groups. Enables the meeting and opens a door where MNE manager would not get in. These government employees (that are very high up and very influential) are very cautious and would only meet on a neutral venue, but definitely not at the company offices. They are only needed for an introduction and the relations mostly become independent of the third party. These relate to only the business relationship and never progress to a social relationship. The prerequisite is frequent exposure. Attempts to eventually focus exclusively on the product after the social intro’s. Leverages his intellectual abilities and knowledge to gain credibility. Uses numerous and frequent meetings to establish trust. Uses personal facts as discussion points to link meeting. Do not try to hard to impress, do not be to aggressive, humbleness is valued with the black people. Has an example of a black neighbour where they frequently mingle across the cultural barriers with respective friends. Same economic and business level. Government employees are cautious partly because they do not feel sure of their own positions. Result of constant scrutiny from public but also inside politics.</p>	2	Interview

Ref	Code	Data	Case	Source
		World-wide leader, advanced technology employed Product features and benefits to patient and care provider Market share International footprint		Presentation – International MNE profile
		Date established Size and headcount Experience of management expresses as cumulative years in industry Beneficial deal structures Knowledge as competitive edge SA branches MNE spectrum Market position Product diversification Service Selling solutions Negotiate with international parent for better price on behalf of SA gov Partner to gov in assisting with planning		Presentation - Local profile

Ref	Code	Data	Case	Source
		<p>The meeting is exclusively project driven, not political at all. Delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and sets up the meetings dealing with technical project matters. Has no focus on the individual to be met in the preparation for the meeting. No agenda put forward and follows as dictated by the project plan. Socialising is limited to lunch during lunch break in meetings. Socialising is limited and generally avoided and interaction is formal and restrained. In the government delegation individuals do not want to expose themselves to the others by socialising, their behaviour aims to impress the most senior official. Own aim is to support the political activities with technical knowledge. Focussed exclusively on the factors relevant to the implementation of the project. Delegates the relational aspects to the sales people (black) in combination with the front company. The senior executive enters much later, purely for technical support when the relations with the company are already established</p>	3	Interview
		<p>Black guy (BEE partner) enabled the meeting but not even his credibility could clinch the deal. He set up the meeting. Company sent through a resume of product to be discussed in an e-mail with the topics to be discussed. Often the e-mail was not even read beforehand. In the bottom-up process researched the individual to be met with the subordinate. In the drive to built trust and credibility upfront go to lengths to explain the company BEE credentials, the successes of the company and its product. Would typically read the mood of the meeting and sell self (socially) accordingly, in the case of government the reception was to cold and impersonal. Did find black government employees very difficult, coloured and Indian easier. Reference from previous level used to gain entrance and to act as agenda. Preoccupied with meetings.</p>	4	Interview
8	5. Interaction pattern 7. Norms of reciprocity 12. Networking 15. Structural SC status	<p>Make a conscious effort to keep in contact with government departments responsible for company related disciplines. Meet at least on a quarterly basis.</p> <p>Aim to keep close contact with government, quarterly meetings, e-mail about monthly in addition to telephone conversations. The communications are with specific individuals.</p>	1	Interview

Ref	Code	Data	Case	Source
	18. Centrality 21. Betweenness 25. Position perception 27. Tacit rules 28. Proximity status 31. Social cognition 32. Network perception 44. Operational gov networks	Daily on the phone and e-mail, in person weekly in their offices or in hospitals. Shows interest in the person and his family/personal life. Very important to remember the info shared in previous conversations and revisit those topics in follow-up. If a customer has a problem and mentions it always enquire about it the next time you meet Mutual dependence reflected that government officials and customers initiate the interactions and telephone calls. Also a function back-up and support inherent to the products. Interaction must extend beyond the conclusion of specific business (or a deal). Will help in future events. They are only needed for an introduction and the relations mostly become independent of the third party. The prerequisite is frequent exposure.	2	Interview
	45. Decision making gov networks 52. Relational strategy 62. Interaction process	Frequency of interaction is project dependent as well as the stage of the project. Some projects and stages require more or less attention. Often with the middleman via sms ***** and e-mail, one-on-one interaction at least once a month. Both parties drive the meetings as they have the need to meet.	3	Interview
	63 Interaction format 68. Accessibility 74. Independent relations 77 CRM System	No two way communication, appear interested, but no progress beyond the first meeting. Gives feedback frequently to the targeted individual, both telephonically and on e-mail. Get feedback more frequently from private sector. The company drives the interaction.	4	Interview

The numbering in the first column relates to the references in the statements in the text of the case analysis preceding this table.

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\*\*\*\*\* Short Message Service – text messaging on mobile phones

### 4.3 Differences

The differences amongst the cases carry significant importance to the study as they motivate the revisiting of the existing assumptions and exploration of possible novel theory that would explain these. Even though all the executives had similar views on the importance of relations with government, the approaches towards it has been very different, founded on their respective convictions and beliefs, as well as the levels of business goals realised.

The results on the differences amongst the cases are supported by the data in the table at the end (Table 5.7). The statements in the text are referenced to the first column of the table. The supporting reference for the survey refers to the survey questions in Appendix 3 (Roman numerals).

#### 4.3.1 Functional background

Although everyone is sensitive to relations with government, those from a sales and marketing background are a lot more adept to the process of development of social capital <sup>9</sup> (Referenced to table 5.7) They are also the extroverts and portray a more positive attitude towards relations. They exhibit a higher level of assertiveness, tending to employ more involved strategies and directed towards networking and building relations. Here the employing of a ten-point scale to reflect the interviewer's perceptions and conclusions supported the analysis tremendously. Those executives surveyed also were more positive towards employing social capital <sup>xi</sup>; possibly a function of being in pharmaceuticals, generally renowned for its sales and marketing prowess. It is significant to note that training, experience and personality does not guarantee success, especially by measured against their own targets and objectives.

#### 4.3.2 Strategic preference

The strategies to develop social capital, when viewed from the relational and transactional perspectives, highlight the differences. In the first case the relational facet is the evolutionary result of the various interactions on a transactional level, the addressing of issues as they become relevant, the targeted objective of the executive <sup>10</sup>. Since the interactions are as infrequent as the issues that need resolution, and, since not the same government officials are involved each time, well developed relations are very few.

*“Relations are strictly on business principles as is the choice of government officials and as per company policy; no lunches, no parties and functions. This is not detrimental to the relations in the healthcare industry. I do not meet with the same individuals every time but they sometimes change as they move on in government.”*

In the second case the executive targets individuals and sets up a “*coincidental exposure in an informal environment*”. He is a lot more assertive in his approach and is the most knowledgeable and experienced in relationship marketing, having had international training and progressed through the sales and marketing department <sup>11</sup>.

In the third case the executive has come to terms with his inability to strike-up relations and is working exclusively through third parties <sup>12</sup>:

*“The meetings are exclusively project driven, not political at all. I have delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and sets up the meetings dealing with technical project matters. I have no focus on the individual to be met in the preparation for the meeting.”*

The executive in the fourth cases leverages his experience in sales and marketing to have a reactive strategy according to the feed back received from the government employees. This provides for flexibility and an approach that is appropriate to the situation as it unfolds <sup>13</sup>.

### **4.3.3 Perceptions on origins of distance**

A number of differences in approach and experiences, also successes are apparent. Whilst everyone agrees that the ethno-cultural distance is significant, there is a difference of opinion on the magnitude thereof in the Government-MNE relations <sup>14</sup>:  
*“Not only do we have cultural differences, but the socio-economic diversity is vast. There is a huge cultural gap between those from company and government, not meant in a disrespectful manner but it is reality.”* The confusion arises from the discrepancy presented by the vastly superior relations they have established with the same ethno-cultural group in the private sector, compared to those in government. Those executives surveyed reported similarly superior relations in the private sector <sup>xiii, xiv</sup>.

Generalisations on the attitudes and conduct of government officials are also not consistent <sup>15</sup>; *“The problem may be with me”*. There is a vast amount of latitude in the interpretation of policies and procedures amongst the various officials, but even a bigger difference in interpretation between MNE executives and government officials. The uncertainty regarding the policy, even though the ideology is known as aired in the survey <sup>ix</sup>, confirms this perspective. The perception is that some individuals will use political policies of redress as an excuse to discriminate against MNEs and unjustly advantage their friends. Others will gladly forego political convictions for monetary

rewards. Some individuals are consciously avoiding any interaction; others do not honour appointments, some are indifferent. On the other side of the spectrum, MNEs are sometimes approached by officials wanting to engage in business transactions <sup>15</sup>.

This inconsistent conduct relates back to the nature of the interaction; whether political or business or operational, and then also the objectives the of business transactions <sup>15</sup>. Tenders are published with product or service specifications and conditions such as BEE status of the company to be met <sup>16</sup>. One executive responding to the survey felt that the BEE preference points are not diligently considered <sup>xx</sup>. These tenders could be open to all suppliers or by invitation only. Secondly, the process could entail a process of hard sell, product presentation and demonstration and business negotiations to follow the demand thus created. Lastly, government officials or third parties may approach the MNE with the business deal already in hand. The only remaining issue is to conclude the deal structure. Often the MNE deals with a third party that 'sells-on' to government, with a secondary transaction and separate deal structure, all at arm's length. This deal structure is mostly confidential and not discussed with the MNE managers present and as such has already taken place between government and the third party <sup>15</sup>. The suspicion is generally that this is where the deal is secured through enrichment of the government employees themselves. The life-span of the relations is dependent on the type of business; be it a once-off transaction, a period tender, equipment that require training and maintenance or a capital project such as facility construction.

The practise of bribery to acquire business is universally condemned but accepted as a fact of doing business with government <sup>16</sup>. Surveyed executives did not support this view at all <sup>xi</sup>. The high level of risk to government employees associated with this practice is credited with the reluctance to engage with MNE managers. The perception is that government employees will rather transact with front companies or BEE partners, even black employees, who do not condemn this business practise. This has created a lucrative market for a middleman or front company <sup>16</sup> that handles the transaction structure for a fee or commission or mark-up. These third parties are often ex-government employees with established networks within government. They are given the business deals upfront and then negotiate the terms with the MNE to provide the products or services <sup>15</sup>. The cultural distance thus presents more as one of divergence in business norms that is detrimental to trust and as such impairs the development of social capital. In the survey the executives all felt that the need for products take priority over relationships <sup>ii</sup>, and as such also thought it possible to have relationships independent of the BEE partners <sup>iv</sup>.

The experience of third parties, including related BEE partners also differ greatly <sup>17</sup>. The success of BEE partners are also not a given. Simply being of the same ethno-cultural group does not mean access to the inner circle or network. Unless there is a pre-existent relationship results are poor; *“The BEE partners’ expectations were also disappointed”* and *“The BEE partners have had limited success in getting leads and deals.”* Some partners also over exaggerate the extent of their relations or have an exaggerated notion of the reach of their networks. Results are disappointing for the MNEs. Other third parties and intermediaries have proven to not always be completely honest. Often the deals are not as secured as they would like to profess.

Third parties shop around for the best personal deal and do not keep MNE proprietary knowledge on technical aspects confidential. Their technical knowledge is inadequate or alternatively quality is not paramount in the decision process. Come-backs on after-sales-service, maintenance, and queries on over exaggerated product claims by third parties revert back to the MNE <sup>15</sup>. This implies that the social capital between MNEs and third parties also remains low, but that the driving force of profit is greater than the opposing force of distrust.

Although all the MNE executives are critical of the current state of government business practice they have found ways of competing and all play by the rules set by government officials.

**Table 5.7 Data in support of the differences amongst the cases**

Ref	Code	Data	Case	Source
9	12. Networking	Not a prerequisite to have social relations, have seen instances where those with social relations have been consciously disadvantaged. Social friendships may actual deter from the business relations. Can see social relations playing a role in other industries but not in healthcare, is very specialised discipline.	1	Interview
	13. Strategic focus on SC			
	14. Bridging SC focus			
	15. Structural SC focus			
	28. Proximity status	Limited social interaction is acceptable but again in my industry objectives regarding social interaction of the individual stakeholders are quite diverse, sometimes resulting in practices that authorities might frown upon. Rating personal social interaction as 5/10 or average. Rate level of social relations as "balanced". Cordial relations are called for. Most to be gained from a balanced social professional scenario.		
	73. Perceived relational attributes	Shows interest in the person and his family/personal life. This approach results from sales training as well as a personal style/preference. In presentations ensures that the needs/preferences questions of every, and all individuals attending are addressed. Makes them feel important.	2	Interview
	78. Sales and Marketing exposure			
	86. Relational grounding	Definite focus on networking, selling himself first, "have to buy me". Definitely identifies individuals to target for networking. Preference is to have a "coincidental" (but well planned) first exposure in a non-formal, non-structured meeting. Priority is to get info on his personal life (also from him) but some are extremely cold.		
	87. Outgoing personality	The Front company or BEE partner is responsible for securing the deal, whether at political or operational level.	3	Interview
91. Strategic ability				
92. Relational affinity				
93 Racial awareness	It is very dangerous to have friendly relations as it introduces additional emotions into the business relations. The meeting is exclusively project driven, not political at all. Delegated the political agenda totally to the BEE partner and the black employees.			

Ref	Code	Data	Case	Source
		<p>Range from personal friends to cold and clinical business relations. Personal friends with a large number of individuals in the private sector.</p> <p>Yes social interaction definitely adds value to the relationship. Actually led by the customer's preference.</p> <p>Historically has been successful in building relations.</p> <p>Historically also often had cultural gap with Afrikaans government employees but always managed to bridge it and had very good social relations with them.</p> <p>Would typically read the mood of the meeting and sell self (socially) accordingly.</p>	4	Interview
10	5. Interaction pattern 12. Networking 13. Strategic focus on	Relations with individual government employees have become independent of the BEE partner although it has not been pushed it evolved. Happened over time, to build trust evolves into a more personal level which as such is acceptable to both parties.	1	Interview
11	SC 14. Bridging SC focus 16. Cognitive SC focus	In the initial moments of the meeting socialise to put him/them at ease before progressing to business/product. Definite focus on networking, selling himself first, "have to buy me". Definitely identifies individuals to target for networking. Preference is to have a "coincidental" (but well planned) first exposure in a non-formal, non-structured meeting. Priority is to get info on his personal life (also from him) but some are extremely cold.	2	Interview
12	25. Position perception 32. Network perception 36. Magnitude of bargaining power	<p>The Front company or BEE partner is responsible for securing the deal, whether at political or operational level.</p> <p>I have delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and then set up the meetings dealing with technical project matters. The political agenda is discussed in an exclusive, secretive meetings between the BEE/Front Company and the political government employee beforehand.</p>	3	Interview

Ref	Code	Data	Case	Source
13	45. Decision making gov networks 46. Political activity 52. Relational strategy 57. Strategy to develop SC 59. Third party advantage 61. Third party relations strategy 73. Perceived relational attributes 79. Relationship orientation80.General cross ethnic relations 85. Blind side 87. Out going personality	Actually led by the customer's preference. Would typically read the mood of the meeting and sell self (socially) accordingly.	4	Interview

Ref	Code	Data	Case	Source
14	4. Normative influence 8. Culture and beliefs 10. Culture conformation and exclusivity 14. Bridging SC focus 25. Position perception	<p>No difference in the cultures regarding social behaviour. Social behaviour is always courteous and positive.</p> <p>However, the same cannot be said regarding the business ethic. There exists a huge cultural GAP that needs to be bridged.</p> <p>Not only do we have cultural differences, but the socio-economic diversity is vast. There is a huge cultural gap between those from company and government, not in a disrespectful manner but reality.</p> <p>Has to be give and take, both parties need to recognise differences. Often it remains a one-sided. Both Government and the MNE fail to recognise that they need to “give”. Both parties need to recognise the cultural gap</p>	1	Interview

Ref	Code	Data	Case	Source
	26. Homogeneity requirements	Extreme lack of trust from Blacks, much easier with Europeans. Also much easier with Indians and Coloureds in government. Difficulty is not only because of being in government, also culture. Low levels of education are transparent with some individuals. Easily felt intimidated.	2	Interview
	27. Tacit rules			
	30. Homophily	Admits a shortcoming with him in to be a lack of trust and a lack of understanding of blacks. Say something that he may take different to the intention, also misreads the body language. You have to meet the cultures you deal with halfway. Easier to build relations with Indians and Coloureds, significant amount of distrust between black and white. A lot of the distrust from government employees is related to bad experiences with the company		
	31. Social cognition			
	32. Network perception			
	49. Corruption			
	53. Firm ethnic profile	They are very cautious to get involved socially. They are never rude at operational levels.		
	54. Government ethnic profile	Different interests eg rugby and soccer. Put value in different things eg like different makes of cars. Dress code is also different, probably dress a lot smarter.		
	56. MNE Government trust	Priority is to get info on his personal life (also from him) but some are extremely cold. Often they are cautious and intimidated. A definite change in that it is not frowned upon in government ranks to have good relations with MNEs.		
	67. Barriers perceptions	These government employees (that are very high up and very influential) are very cautious and would only meet on a neutral venue, but definitely not at the company offices.		
	68. Accessibility			
	80. General cross ethnic relations	Do not try to hard to impress, do not be to aggressive, humbleness is valued with the black people. Has an example of a black neighbour where they frequently mingle across the cultural barriers with respective friends.		
	83. Political conviction	They are on the same economic and business level. Government employees are cautious partly because they do not feel sure of their own positions. Result of constant scrutiny from public but also inside politics.		
	93. Racial awareness			

Ref	Code	Data	Case	Source
		<p>Big concern is that the lifespan of the project is longer than the duration of government political employee service. Operational (normally professionals) employees do last longer. There exists a definite segregation between political and operational employees at a government level.</p> <p>Theirs are radically different to own principles but is what the times dictate. Differ on what practices are acceptable. It is a function of the way the two cultures are brought up as well as the differences in religion.</p> <p>Personal principles are different.</p> <p>The culture is the origin of the differences</p> <p>The principles applied in business is a result of those that they live by.</p> <p>The differences are not reconcilable. They are North and South</p>	3	Interview

Ref	Code	Data	Case	Source
		<p>Lack of success to which the reasons are manifold, firstly the cultural difference. They do not understand the product message or do not want to understand. There is no two way communication, they appear interested, but there is no progress beyond the first meeting. We are fobbed-of as it is not their departments decision alone etc. This is not as a result of culture or representing government, they are not qualified for the positions they have.</p> <p>In general cross ethnic relations range from personal friends to cold and clinical business relations. Government falls in the latter. Personal friends with a large number of individuals in the private sector. The distance experienced with government officials is a function of both the government environment and the personal traits of the individual. Whole range of relations possible on the spectrum.</p> <p>Yes, social interaction definitely adds value to the relationship. Actually led by the customer's preference. Observed that culture definitely plays a role eg. Prefers rugby and the customer soccer.</p> <p>Historically has been successful in building relations. Relations with government officials are very poor because of the cultural differences. They also fail to grasp the most simplistic product concepts. The individual does not give any direct feedback when products are detailed in the sales situation. A case of meetings on meetings and no decision is ever made, fobbed off. Lack of negotiating competence, they are not taught. From the previous government bureaucracy and incompetence has become worse. The art of negotiation is totally absent. The cultural differences in the previous government (Afrikaans) did not stop business from being done. The cultural differences with the new government stops business from occurring. Deterioration in relations blamed mostly on the incompetence of individuals involved</p> <p>In the private market our approaches to business are very similar. He should have changed but you get a formula that works and you stick with it.</p> <p>The approaches that work in the private sector fail with government. The approach to negotiation is very different</p> <p>Did find black government employees very difficult, Coloured and Indian easier. Had a successful meeting with and Indian employee when accompanied by and Indian BEE partner. Black guys do not seem to open to you, more rapport with Indian and coloured.</p>	4	Interview

Ref	Code	Data	Case	Source
15	3. Inclination to trust 4. Normative influence 16. Cognitive SC focus 22. Risk aversion 23. Rate of trust 24. Common goals 26. Homogeneity requirements 30. Homophily 35. Adversarial state 36. Magnitude of bargaining power 37. Locus of bargaining power	<p>One could be forgiven for thinking the sectors are in fact in competition with each other. There exists a question mark on the level of bias of the government. Friction results from a lack of a consultative process.</p> <p>Perception that government is very negative towards private healthcare. The negativity does not necessarily originate from any individuals but is documented in the ANC health manifesto.</p> <p>Ultimately the relationship should not be competitive, but should be collaborative. The company not convinced that government is unbiased in its pursuit of legislated endpoints. Government is not negative towards the company as such but towards private healthcare in general.</p> <p>There is great mistrust insofar this relationship is concerned. The execution of the process not in parallel, although the objectives are in the main similar and this leads to conflict. As a result the meetings often take the form of conflict resolution meetings. It remains a challenge to agree on a similar endpoint. The political objective as reflected in the health charter is the origin of conflict. Although the objectives (treatments) should be similar the execution is not. Origin of conflict is political, statements as per the health charter does not concur with private objectives.</p> <p>Who chaired the meeting? <input type="checkbox"/> Government official – always. Who attended? Unfortunately not the person(s) we had hoped, but senior personnel instead.</p>	1	Interview

Ref	Code	Data	Case	Source
	46. Political activity 48. Collective activity 56. MNE Government trust 59. Third party advantage 60. Third party role 61. Third party relations strategy 66. Objective realisation 76. Third party ties 81. Historical dealings with government	Directorate of “Regulatory Body” is a para-statal and sets regulations. It place a huge burden in regulations and paperwork, this also led to friction that ended in court. Directorate of “Regulatory Body” is slowing-up the process of selling with regulations. Restrictive to the point where customers are steering away from “products” for instance. Impacts on sales of “products”. Taken to court by this company and others “because they make their own rules”. Manipulation by competitors to prevent company from marketing certain products. One has to distinguish between provincial government structures and the state which run on different sets of rules, and then military on top which is also government and has a completely different way of dealing with things. A lot of friction results from the fact that the company competes with the government employee’s supplier of preference. Competitors bring in rubbish product to just make money, government does not consider quality and it destroys the relations with all MNEs in the end. Mutual dependence reflected in that government officials and customers initiate the interactions and telephone calls.	2	Interview
		Your securing of the above tender refers. We hereby agree to supplying products under the following conditions: 1. That “third party” provides MNE with an official order from government for the products under the above tender. 2. That MNE trains the staff on the use of the products		Agreement third party re tender secured

Ref	Code	Data	Case	Source
		<p>The collective interest in the project drives meetings. Both parties drive the meetings as they have the need to meet.</p> <p>Frequency of interaction is project dependent as well as the stage project is in. Some projects and stages require more or less attention.</p> <p>He gives only he needed information through and also filters the info he passes on. Honesty is also not the source of good relations as it gets misused. The key is in not divulging info unnecessarily and only then filtered.</p> <p>The political agenda is discussed in an exclusive, secretive meeting between the BEE/Front Company and the political government employee beforehand. Here the political government employee also gets the upfront information to display at the "official" meeting afterwards. Often the political figure remains anonymous.</p> <p>Decisions are actually taken in secretive political meetings and the official formal "open" meeting supposed to be making decisions are more of tokens. The way that political government employee protect themselves, look knowledgeable and know what is happening.</p>	3	Interview

Ref	Code	Data	Case	Source
		<p>AND WHEREAS "Third Party" has secured the firm intention from the proposed client<sup>+++++</sup> to contract for the delivery of the products and services,</p> <p>AND WHEREAS "Third Party" is the prime contractor and consequently has contacted "MNE", as it considers them to possess such necessary skills to perform such services or deliver such products, with the view of outsourcing parts of the contract to "MNE"</p> <p>AND WHEREAS "MNE" has the expertise and accredited systems to provide the support to the services, the associated administrative and regulatory functions,</p> <p>AND WHEREAS "MNE" makes available all the infrastructure and systems, and, all administrative and financial services to the Joint Venture,</p> <p>AND WHEREAS "Third Party" and "MNE" wish to establish a Joint Venture for the purpose of executing a contract already awarded to "Third Party" in its name by "Provincial" Government, .....</p>		JV Third Party-MNE for gov business
		<p>Acknowledges that the problem may be with him</p> <p>Did find black government employees very difficult, coloured and Indian easier. Had a successful meeting with and Indian employee when accompanied by and Indian BEE partner</p>	4	Interview
		<p>"Third Party" hereby appoints "MNE" to provide the Services in respect of the "international product" system at the premises of "government department" as set out in Annexure A, on a consultancy basis for the duration of this Agreement, and subject to the terms and conditions as set out in this Agreement. "MNE" hereby accepts the said appointment. The services to be rendered in terms of the License Agreement entered into by and between "government department" and "MNE" falls outside the scope of this Agreement.</p> <p>"MNE" shall provide the Service on behalf of "third party, the details of which are stipulated in Annexure A, and such other duties as may be agreed upon between ""MNE" and "third party" from time to time and which will be attached as further Annexure(s) to this Agreement.</p>		SLA third party service level agreement

+++++ Provincial Government

Ref	Code	Data	Case	Source
16	3. Inclination to trust 4. Normative influence 8. Culture and beliefs 23. Rate of trust	Limited social interaction is acceptable but again in my industry objectives regarding social interaction of the individual stakeholders are quite diverse, sometimes resulting in practices that authorities might frown upon. However, the same cannot be said regarding the business ethic. There exists a huge cultural GAP that needs to be bridged	1	Interview
	26. Homogeneity requirements	Corrupt practice means the offering, giving, receiving or soliciting, of anything of value to influence the action of a public official in the procurement process or contract execution.		Tender contract

Ref	Code	Data	Case	Source
	30. Homophily	A number of ex-government employees have set up private businesses leveraging the relations they have	2	Interview
	35. Adversarial state	within government structures. Half the value of the expenditure is charged as a premium for these relations.		
	37. Locus of bargaining power	Adds 40% to margin for commissions etc to these ex-employees.		
	40. Threats	Government employees are leaving provincial structures, starting up one-man shows, and sourcing products from the suppliers they have relations with and providing to the state where they again have networks. Almost		
	46. Political activity	no deal where someone does not get a commission.		
	49. Corruption	Had the process been 100% honourable it would be non-competitive. The relations should be co-operative.		
	53. Firm ethnic profile	The quality of products should be most important. A lot of friction results from the fact that the company competes with the government employee's supplier of preference. Instances where the tender docs are submitted without prices and the government employee fills it out after submission. Cases where government employees actually are employed by their supplier of choice afterward leaving the government's employ.		
	54. Government ethnic profile	Middlemen should be disallowed to add margin to the product. MNE adds margins to accommodate them and this makes products expensive. Planning to in future introduce a public opening of tenders to avoid fraud.		
	56. MNE government trust	Efforts to build relations when government employees that are in a competitor's pocket is futile, you know you are not going to get the business. In this case business relations are not built on social capital but on Money (bribes)		
	59. Third party advantage	Very different business practices in some cases due to the practise of bribes and commissions; "chocolate money". Very different ethics. Even when the front companies are doing it, it goes against the grain. They are underpaid for the job level and they are offered the bribes by wealthy businessmen. The tougher the business gets the more prevalent bribes become		
	60. Third party role	Very lowly educated employees in very high positions as political appointments. Found a correlation between poor education and soliciting of bribes. Time and education is the solution to corruption. Time and education will erase the differences, will install values of trustworthiness, to report and turn down corruption. Government needs to improve the income of its employees to devalue temptations.		
	67. Barriers perceptions			
	68. Accessibility			
	76. Third party ties			
	80. General cross ethnic relations			
	81. Historical dealings with government			
	83. Political conviction			

Ref	Code	Data	Case	Source
	84. Sources of barriers 88. Negativity 90. Liberal 93. Racial awareness	Leaves those decisions on moral issues as well as dealing with it to others in the company. The Front company or BEE partner is responsible for securing the deal, whether at political or operational level. The political agenda is discussed in exclusive, secretive meetings between the BEE/Front Company and the political government employee beforehand. "Third Party" shall be responsible for the following matters, to the exclusion of "MNE" All communications with the client, the "Provincial" Government Collection and disbursement of payments to suppliers, including "MNE"	3	Interview  JV Third Party MNE for gov business
17	5. Interaction pattern 7. Norms of reciprocity 9. Institutional affiliation 12. Networking 13. Strategic focus on SC 21. Betweenness 23. Rate of trust 24. Common goals 26. Homogeneity requirements 39. Opportunities 41. Successes 42. Failures	BEE partners' expectations were also disappointed. They do enable meetings, open doors and break down barriers. We have engaged government with the BEE partner not present but have always consulted with them. BEE partners are often not present in internal discussions on a business level. It is very important that BEE partners are briefed on the objectives of the meeting and what the expected outcomes are. It is not only the network of the BEE partner that opens doors but the mere fact that you have a BEE partner with you that does. Relations with individual government employees have become independent of the BEE partner although it has not been pushed; it evolved. We initiated the meeting by approaching a "friendly" person affiliated to the political rulers. Our relationship with individuals has changed for the better since the initial exposure, but not with the decision makers – to our best knowledge. Buy-and sell arrangement between MNE and BEE Supply agreement between MNE and BEE for tender Price 90%, PDI <sup>+++++</sup> status 10% (PDI 3, female/disabled 1, small business 2, local manufacturing 4) <sup>+++++</sup>	1	Interview  e-mail MNE to BEE Letter from MNE to Gov Tender docs

+++++ Previously Disadvantaged Individual

Ref	Code	Data	Case	Source	
	45. Decision making gov networks	Government is responsible for the legislation directing the tender process. Sets requirements on BEE for preferential points in tender system (90% price & 10% preferential points).	2	Interview	
	47. Government business activity	The BEE black employees also suffer from networks limited to their own colour. We have also been disappointed with what the BEE partners have been able to deliver in terms of networks			
	51. Transactional strategy	Extensively makes use of black employees and BEE partners to set up meetings. They definitely have networks within their own cultural groups. Enables the meeting and opens a door where MNE manager would not get in. These government employees (that are very high up and very influential) are very cautious and would only meet on a neutral venue, but definitely not at the company offices. They are only needed for an introduction and the relations mostly become independent of the third party *****.			
	52. Relational strategy				
	53. Firm ethnic profile				
	54. Government ethnic profile	BEE accepts the product supplied by MNE and is giving the reassurance that responsibility will be taken to ensure that it is paid for once the process is finalised			BEE letter to gov
	55. JV history				
	59. Third party advantage	BEE is to bid for tenders for the supply of medical products to be sourced from MNE exclusively BEE shall be entitled to be paid a Revenue fee for its part in having secured each Tender in an amount that is to be agreed on a tender-for-tender basis			Agreement MNE and BEE party
	60. Third party role				
	61. Third party relations strategy	It is acknowledged by both parties that MNE shall, for the duration of this agreement, i.e. for a period of 6 (six) months and solely in order to facilitate the funding of BEE, agree to pay BEE a management fee of ....			
	64. SC realisations	This is hereby a proposal for MNE to give BEE an offer on the contracts that the two companies have won together. These contracts include the following:	Offer to buy-out, BEE to MNE		
	66. Objective realisation	<input type="checkbox"/> X Province on-going term contracts; as well as			
	68. Accessibility	<input type="checkbox"/> Y Province term contracts			

§§§§§§§§ Criteria for adjudication of tenders

\*\*\*\*\* Relates only to operational levels, no access to decision-makers

Ref	Code	Data	Case	Source
	74. Independent relations 75. Social relations 76. Third party ties 80. General cross ethnic relations 83. Political conviction 85. Blind side 88. Negativity 91. Strategic ability 93. Racial awareness	<p>The Codes of Good Practice deal with the measurement of Ownership and Management (relevant to sector transformation charters), together with Preferential Procurement, Employment Equity, Skills Development, Enterprise Development and the Residual element (Corporate Social Investment). The above elements guide state organs when awarding licences, tenders, concessions and sales of assets</p> <p>Voting rights: Exercisable Voting Rights in the Enterprise in the hands of black people.            Exercisable Voting Rights in the Enterprise in the hands of black women</p> <p>Economic Interest: Economic Interest in the Enterprise to which black people are entitled            Economic Interest in the Enterprise to which black women are entitled</p> <p>Economic Interest in the Enterprise to which the following natural persons are entitled: black designated groups, black Deemed Participants in Distribution Schemes or Employee Schemes; or black Participants in Cooperatives</p> <p>Bonus points: Involvement in the ownership of the Enterprise of: black new entrants, black Deemed Participants of Broad-Based Ownership Schemes; or Black Participants in Cooperatives</p>		MNE BEE status report to gov

Ref	Code	Data	Case	Source
		<p>Relations with these BEE individuals are based on share of the spoils and are project specific. The biggest business opportunities reside in relationships. Often the identity government employee involved is not known. Information that one receives from front companies and BEE partners is often not accurate but tailor made to elicit the reaction desired.</p> <p>If the project is not secured before the government employee leaves one starts the process from scratch. The most difficult part is securing he project not doing it. The Front company or BEE partner is responsible for securing the deal, whether at political or operational level.</p> <p>Communication with the middleman takes place often, via sms and e-mail, one-on-one at least once a month. Preparation for the project requires a lot of work. Securing a project may require frequent interaction to support the BEE efforts.</p> <p>I have delegated the political agenda totally to the BEE partner and the black employees. The BEE individuals source the opportunities and then set up the meetings dealing with technical project matters. He has no focus on the individual to be met in the preparation for the meeting. The political agenda<sup>+++++</sup> is discussed in an exclusive, secretive meeting between the BEE/Front Company and the political government employee beforehand.</p> <p>There is no access to these political officials independent of the BEE partner. Often the political figure remains anonymous. Own aim is to support the political activities with technical knowledge. Focussed exclusively on the factors relevant to the implementation of the project. Delegates the relational aspects to the sales people (black) in combination with the front company. The BEE partners have had limited success in getting leads and deals. The black sales rep is used beyond just opening the door, the senior executive enters much later, purely for technical support when the relations with the company are already established. Decisions are actually taken in secretive political meetings and the official formal “open” meeting supposed to be making decisions are more of tokens.</p>	3	Interview

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+++++ Transactional detail

Ref	Code	Data	Case	Source
		We note that the principal would prefer a non-exclusive appointment. Whilst we find nothing objectionable with a non-exclusive appointment, we find it contradictory that a non-exclusive sub-distributorship agreement should contain the restrictions and trade restraint set out in clause 2.4 of the draft. In effect, the Sub-Distributor would have neither a market assurance of exclusivity nor the liberty to expand her own product base and, by extension, revenues.		Comments from BEE regarding contract with MNE
		The need for the Agreement to be as flexible as possible is actually betrayed by clause 2.3 of the draft which clarifies that “the relationship created hereby between the Principal and the Sub-Distributor shall be that of Seller and Purchaser”. We do not think that the Principal, as Seller, should retain radical rights over the articles sold including the enunciation of rules governing post-sale dealings with the articles sold		Comments from BEE regarding contract with MNE
		As set out herein, “BEE” appears to exist solely for the purpose of submitting tenders, and is without management, employees or assets. Whilst it is not an illegal activity, it may tarnish your client’s reputation if itl was to proceed and a tender was rejected on the basis that “BEE”, to use a popular term, is simply fronting for “MNE”		Legal opinion
		The black BEE partner enabled the meeting but not even his credibility could clinch the deal. He set up the meeting. In the drive to built trust and credibility upfront we go to great lengths to explain the company BEE credentials, the successes of the company and its product. Had a successful meeting with and Indian employee when accompanied by and Indian BEE partner. Have not met without the BEE partner	4	Interview
		Both parties realise that the implementation of the terms of this agreement may lead to enhancement of either party’s business and consequently both commit to further discussions towards equitable benefit from such enhancement should it be deemed necessary.		Contract with black customer group

Ref	Code	Data	Case	Source														
		<p>The tender proposals of bidders who meet the criteria stated in paragraph 34 will be assessed according to the following weighted tender evaluation criteria:</p> <table data-bbox="546 395 1744 769"> <thead> <tr> <th data-bbox="546 395 1106 427">Criteria</th> <th data-bbox="1106 395 1744 427">Weight</th> </tr> </thead> <tbody> <tr> <td data-bbox="546 427 1106 467">Relevant experience</td> <td data-bbox="1106 427 1744 467">10%</td> </tr> <tr> <td data-bbox="546 467 1106 507">Capacity</td> <td data-bbox="1106 467 1744 507">10%</td> </tr> <tr> <td data-bbox="546 507 1106 547">Technical capability and infrastructure</td> <td data-bbox="1106 507 1744 547">20%</td> </tr> <tr> <td data-bbox="546 547 1106 587">Understanding of service requirements</td> <td data-bbox="1106 547 1744 587">20%</td> </tr> <tr> <td data-bbox="546 587 1106 643">Black Economic Empowerment (BEE) Status (Status categories as specified in the Department of Trade and Industry's Code of Good Practice issued according to the Broad Based Black Economic Empowerment Act, Act 53 of 2003)</td> <td data-bbox="1106 587 1744 643">20%</td> </tr> <tr> <td data-bbox="546 643 1106 769">Price and Costing Model</td> <td data-bbox="1106 643 1744 769">20%</td> </tr> </tbody> </table>	Criteria	Weight	Relevant experience	10%	Capacity	10%	Technical capability and infrastructure	20%	Understanding of service requirements	20%	Black Economic Empowerment (BEE) Status (Status categories as specified in the Department of Trade and Industry's Code of Good Practice issued according to the Broad Based Black Economic Empowerment Act, Act 53 of 2003)	20%	Price and Costing Model	20%		Tender docs
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The numbering in the first column relates to the references in the statements in the text of the case analysis preceding this table.

#### 4.3.4 Anomalies in outcomes

##### 4.3.4.1 Ineffective CRM

The executive in the fourth case exhibits the biggest discrepancy in relations between the private and government sectors. He has extensive relations in the private market <sup>2</sup> (References 1 to 8 from Table 5.6, and References 9 to 17 from Table 5.7, both preceding) and has had successful business dealings with private black healthcare organisations <sup>17</sup>. This is evident from various contracts, joint presentations, and, agendas and minutes of meetings with them. In the government he has had no success and has decided to abandon his efforts to penetrate that market. As a sales and marketing guru he relishes in relationship marketing. His strategies in the private market have had no successes in government <sup>4</sup>. He employs his technical skills and products to provide him with credibility and gain trust as the relations progress. He does not prepare a plan to nurture relations but uses the situational approach as a foundation. He intuitively works on relations from this point onwards <sup>5</sup>;

*“Yes it (social interaction<sup>\*\*\*\*\*</sup>) definitely adds value to the relationship. I am actually led by the customer’s preference. I would typically read the mood of the meeting and sell myself socially accordingly, in the case of government the reception was to cold and impersonal. I have found Black government employees very difficult, Coloured and Indian easier”.*

He has not had one success in the situational approach, nor has he been able to forge any relations <sup>7</sup>. He has used BEE partners to set up meetings <sup>7</sup> but even they have not been able to secure any success beyond an initial exposure <sup>8</sup>. He ascribes his lack of success to a reluctance to interact, general inability to make a decision and a lack of business acumen. He perceives black government officials to be nurturing the distance, rather than trying to bridge it <sup>5, 14</sup>.

In the second case, the executive has a sales and marketing background <sup>2</sup> and has had training in the home country in customer relations, coupled with years of international experience <sup>9</sup>. He employs a relational approach as the main strategy <sup>2, 9</sup>. Government officials that are important to the business of the company are identified and targeted for relation-building. Targeting is done on information accumulated in market activities, especially at the lower operational levels. Often there is no justifiable reason for a formal meeting with the official and a coincidental, *impromptu* exposure is manufactured <sup>7</sup>.

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\*\*\*\*\* Author’s insertion

It is significant that in spite of all his efforts and skills he has not managed to even have one initial exposure to any of the political or senior administrative employees<sup>14</sup>. The BEE partners have been either unwilling or unable to set this up with him involved; *“I have been disappointed with what the BEE partners have been able to deliver in terms of networks.”* This he ascribes to the fact that he is not trusted to keep the nature of the business transactions confidential<sup>16</sup>. At the lower administrative and professional levels he has excellent relations<sup>4, 8</sup>, inclusive of the most influential officials with access higher-up in government. He actively targets individuals to build relations with; during meetings and interactions he executes strategies aimed at resolving individual officials' problems and needs with technical presentations, indirectly addressing the company's needs<sup>7, 8</sup>. His one-on-one interactions focus on the government employee's personal life to build rapport. Follow-up communications and meetings are planned, linking to previous queries and problems voiced by these officials, and even enquiring after family members. His technical expertise and business acumen is respected and he is often the source of training material and specifications for tender documents<sup>7</sup>.

#### 4.3.4.2 Outsourcing relations

The executive in the third case has provided for the unexpected, that which Miles and Huberman (270:1994) define as "following up surprises". His unorthodox approach has been very successful, in essence the result of his poor relational skills<sup>5</sup>. As an engineer, he fits the hackneyed profile; reserved, flustered and introverted<sup>§§§§§§§§§§</sup>. His strategy is the result of the acknowledgement of his own inability to penetrate the government networks and establish relations<sup>2, 4</sup>. In light of his reluctance to built relations with government<sup>14</sup>, he has pursued a limited number of third party entities with established government relations<sup>16</sup>.

He transacts with various middlemen, front companies and brokers that act on behalf of government<sup>4, 17</sup>; *“The BEE individuals source the opportunities and sets up the meetings.”* from the interview, and, the third party is responsible for *“All communications with the client, the “Region” State Government ; Collection and disbursement of payments to suppliers, including “Company”* from a contract. He has already gained a reputation for delivery, and is often approached by entities with the deal-in-hand already. He focuses on the technical aspects alone and places a priority on excellence in delivery; of products and services<sup>7</sup>, achieving dominance in the government sector. In his opinion the success lies in the arms-length relationship. The barriers to the development of social capital such as

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§§§§§§§§§§ Observed by interviewer

political convictions, government-MNE frictions, lack of trust and norms<sup>6</sup> and exclusivity of networks<sup>3</sup> are avoided. He has in essence tapped into the networks indirectly<sup>3</sup> but as he has no ownership of the relations<sup>17</sup>, he is of the opinion that it does leave him vulnerable to competition.

### **5. Research questions and propositions**

The answering of the research questions and the testing of the propositions provide the link between the data and results in this chapter and the contributions, recommendations and conclusions in the next chapter, chapter six. It is also an integral part of the due diligence process to ensure that the link between the contributions, recommendations and conclusions, and, the theory remains intact. It also supports the emergence of themes from the data analyses.

The first objective of this study is to describe the process that MNE executives go through in creating bridging social capital with government employees. It includes the planning, the expectations and the tactics during interaction with government officials.

The first two questions deal with the “how” and “why” of the development of social capital between MNE executives and a host government:

1. What process do MNE executives follow to create social capital with government officials?

It is thus proposed that:

P<sub>1</sub>: MNE executives combine a transactional approach with a relational approach to create social capital with senior host government officials.

The transactional approach has proven to dominate in the interaction with government. This is mainly due to the fact that the relational facet is not aggressively driven as a rule, but very cautiously implemented in response to the feedback from a customer. In the case of government officials the feedback has not been inviting the relational facet as the distance has been actively guarded. The transactional facet is a much more hard-sell approach and is dictated by the demands of the business at hand, not to the same extent reliant on the customers' state of receptiveness. The situational has taken on some relational characteristics in that the MNE executives leverage their technical competence and track record to establish credibility and develop some trust, at least in their ability to perform.

A second objective is to report on the role third parties with existing relations with government employees fulfil in the creation of bridging social capital. This objective is formulated in the second research question:

2. What is the role of network ties between Government employees and ethno-culturally related third parties in the process of creating social capital between MNEs and the host government?

It is thus proposed that:

P<sub>2</sub>: BEE partners with Government ties facilitate the introductory exposure for MNE executives, thus effectively overcoming barriers-to-entry.

MNEs do rely extensively on their BEE partners, but also on other third parties with established relations, to set up the initial meeting. This is especially the case since in the main the strategy is weighted to the situational approach in the absence of established relations. MNE managers do try and leverage their relations with the third party to enhance their credibility and gain the trust of the government officials. This remains secondary to the company credentials in skills, products and historically successful transaction to enhance image and build credibility.

In a number of cases the third party actually secures the business deal independently from the MNE and then has a secondary agreement with the MNE to fulfill the obligations to government. The MNE Government interaction at decision-making level is limited and facilitated by the third party.

The third party enables the MNE to overcome the barriers to the initial interaction but not to developing social capital. Although the barriers to entry in relation to building of networks and social capital have not been overcome, the barriers to conducting business are breached.

The next two questions attempt to assess the outcome of the efforts to create social capital.

The third objective is to determine if social capital with a bridging characteristic develops between MNE executives and host government officials.

3. To what extent does bridging social capital develop in MNE – host government relations?

It is thus proposed that:

P<sub>3</sub>: Social capital develops to exceed the threshold required to act as bridging social capital and enable MNE executives and Government officials to have business interactions that are independent of the third party.

A significant proportion of the meetings set up by third parties do lead to a successful conclusion of a business deal. Often, the deal has already been secured by the third party and the meetings are a formality. Total independence of the third party has not proven to be the rule though. At the operational level interaction between the government and MNE employees do proceed independent of any third party, jointly towards the performance as required by the business transaction.

At the top decision-making levels, in none of the cases has sufficient social capital develop to gain independence from the third party. In fact, very seldomly do the parties meet at this level beyond the first meeting. This is where the business proposal is presented. Agreement, contracts and structuring could all happen afterwards, without the parties meeting again. In effect, almost no social capital develops at this level. This is in line with the situational approach employed as evident in testing proposition 1, where the objective is not to establish long term relations, but to address the unique matter at hand.

This proposition has been proven to not be true and no social capital has developed in any of the cases. No independence from the third party has been achieved.

The last objective is to determine if the bridging characteristic of social capital created in the business environment extends into the social environment. The question relates to whether bridging of ethno-cultural barriers in the business sphere enables social relations between actors.

The purpose of last question is to uncover a possible difference between the barriers in the business environment and those in the social environment.

4. Does the bridging social capital that develops in the business environment also bridge the barriers to networks in the social milieu?

It is thus proposed that:

P<sub>4</sub>: Social capital that develops in the business environment will not bridge the ethno-cultural barriers as they present in the social networks.

The social capital that develops is not sufficient to ensure total independence even in the business arena, as seen when evaluating proposition 3, so much less in the social arena. The desire to interact on a social level has proven to be totally absent from both the MNE and government employees' side. No attempt is made at establishing any social relations whatsoever, not from either party. No social interaction is taking place at all and the role of a third party is thus not relevant in this environment.

## 6. Emerging themes

### 6.1 Distance between MNEs and government

The first theme that emerged was that of the distance between MNE managers and government employees. The literature refers to the adversarial state of relations between MNEs and government (Agmon, 2003), but this is a distance that surpasses mere adversary. This has been universally reported by all managers, by the BEE entities, by third parties, and, emerged from the supporting data. Theme analysis is backed by the content analysis and discourse analysis.

The emotive quality of this theme has been surprising. Discourse analysis of the words and phrases used such as *"paranoia"*, *"anti-capitalism"*, *"the state versus the private sector"*, *"apparent policy adopted by the state to nationalise healthcare"*, and *"The perception that government is very negative towards private healthcare. The negativity does not necessarily originate from any individuals but is documented in the ANC health manifesto"*, are confirmed by the ten-point scale perceptions of the interviewer of the levels of negativity from executives. Perceptions from all parties on the sources and nature of the distance are an equal mixture of fact and emotion, highly surprising at these top levels. Emotions range from outrage, disbelief and resentment to frustration and desperation; *"... relations are critical, especially with government but success has been very limited"*. It is apparent that all parties are heavily influenced by personal convictions on politics, economics, ethnicity and culture, and also, religion.

Without exception, all executives indicated upfront that their perceptions of the origins of this distance was probably flawed, as they only applied in the specific government – MNE context and could not be extrapolated to relations with ethno-cultural distant

individuals in the private market or with ethno-cultural related individuals in government.

The political objectives of government are seen as anti-industry and anti-capitalist. The socialistic nature of the policies and prejudicial advantaging of BEE entities is perceived as discriminatory. Autocratic implementation of legislation and impractical regulation has caused havoc, even grinding transactions to a halt in the private market. Regulations regarding dispensing by general practitioners and mark-ups by pharmacies through to requirements by the “Regulatory” Board have been detrimental;

*“Government department’ is slowing-up the process of selling of “product” with regulations. It is restrictive to the point where customers are steering away from “product” for instance. It impacts on sales of “product”. We have taken them to court because they make their own rules”.*

In contrast government now constitutes proportionally a bigger customer than ever, the result of increased spending on healthcare and infrastructure. The animosity is also not experienced to the same extent from non-blacks of similar political conviction in government positions.

The ethno-cultural distance is most significantly reflected by the inability of MNE managers to establish any meaningful relations with government officials. Even the primary objective of establishing threshold business relations of any enduring duration have failed. On the other hand, ethno-culturally related third parties and BEE partners have succeeded. MNE managers do not manage basic access whereas third parties secure the business upfront. But then, relations with ethno-culturally distant individuals on non-political and non-decision-making levels; at the professional and operational levels in government, are very good. Also, in the private sector, relations with these ethnic groups are healthy and business is flourishing.

The distance is reflective of the absence of social capital, in other words, of networks, of trust and of congruence of norms. MNE managers experience the barriers to building of social capital as insurmountable as a result of exclusion on the basis of political conviction, ethnicity, historical adversary and condemnation of corruption and criticism of government.

## **6.2 Confusion over social capital**

There is consensus on the desire to separate business and social life. All executives have voiced a distinct reluctance to involve their families in business relations or to get

involved in social relations as families with business partners and their respective families. This is seen as unprofessional conduct. Personal space such as the home was also off-limits to business dealings.

Separation of business and social is evident in the norms and principles that apply in the personal lives, compared to that of the business environment. The law of the land functions as the normative point-of-departure in business, supplemented by what is perceived as conduct that may be harmful to the credibility of the company. In the personal lives issues of religion, personal ethics and convictions dominate. Homogeneity requirements are also very low in business compared to the social milieu.

The social interaction with co workers is sometimes inclusive of families but takes place at public venues mostly. In rare cases limited socialising between families in personal homes do take place but is characterised by homogeneity of the group.

There is thus a distinctive form of social interaction that takes place in the business world. The socialising is directly related to business and removed from the actors' social environment. Social interaction ranges from relatively formal to very informal. Although it is socialising, it is more business than social.

All the executives allow the business counterpart, or in this case the government employee, to dictate the level of business socialising that takes place. Without exception the interaction has remained on the formal end of the spectrum and has been incidental to the formal business meeting itself. At the academic and operational levels business social is more extensive but not on par with the private sector.

None of the executives actively pursue pure social relations with government employees. The active avoidance of socialising has effectively negated the exploration of social capital (networks, trust and norms) via the various forms of interaction. The "social" in social capital carries with it this negative connotation, whereas in reality the essence is in relations.

### **6.3 Social capital as a prerequisite for business**

Although none of the MNE executives are familiar with the term social capital, they all relate to the constituents there of; networks, trust and norms. Networking is universally recognised and the critical role of relations acknowledged. Trust in business relations is also paramount but does not take the place of formalised contractual agreements. Norms are reflected by general professional conduct and transacting within the law.

Other forms of capital such as human capital, as well as relationship marketing and CRM they are cognisant of.

All the executives are highly conversant on the role that networks and networking play in the conducting of business. Their social networks are distinct and separate from the business networks and no one leverages personal relations. Networks result incidentally to the conducting of business, the result of long term, frequent interactions and business transactions.

Although the theoretical awareness is high, no one pro-actively networks. There is a distinct inertia to strike-up relations without an immediate business transaction on the table. Building networks with government officials is perceived as impossible, in the main due to poor outcomes on efforts in the past. No formal system is utilised to manage the process of networking such as would be utilised by sales people.

Trust in business relations is the result of historical outcomes. In general business trust is very low with no gambling with company assets and business. Policies and procedures regulate assumption of risks such as credit terms. As a rule government is distrusted as a result of historical business transactions and authoritarian implementation of legislation. The trust threshold for effective business relations, in the presence of contractual agreements, may be as low as mere faith and conviction of the counter party's intention and ability to perform.

Corruption is perceived as the main contentious issue in the norms of government business. All acknowledge the existence of corruption. Whatever the personal norms and principles are, the executives make numerous concessions in the interest of business. This is also the case in homogeneity requirements in networks.

#### **6.4 The phenomenon of bridging**

Notwithstanding the distance that MNE executives experience with government and the inability to strike up the most basic of relations, business still takes place. The barriers have been bridged.

In light of the fact that no significant relations have been developed and that social capital is required to conduct business (Biggart and Castanias, 2001); leaves two possible explanations. Firstly, the social capital required is insignificant in the MNE Host Government environment, or, secondly, some alternative or supplementary forms

of social capital are at play. It is also not inconceivable that a combination of the two variations could apply.

The lack of social capital necessitates the search for alternative sources of bridging of barriers. The bridging social capital as described by Putnam (2000) has not been found in MNE host government business relations. Executives have exhibited an array of ways and means to substitute social capital to enable the conducting of business.

The role of social capital in bridging of barriers in MNE - host government relations, as well as alternative sources of bridging needs further exploration in the next chapter.

## **7. Summary**

A number of themes have emerged from the results. The first is that of the distance between the government officials and MNE executives. The extent of this distance surpasses what was expected as per the literature on the nature of MNE host government relations. The reasons and sources will drive the discussion to follow.

The social interaction amongst business partners is distinct from the interaction in their respective social spheres. There is also a universal desire to keep these separated and an almost religious respect for the social space of others.

The role of social capital in facilitating business has proven to be rather dubious. The network, trust and normative requirements of business are very distinct from that of the social environment and the resulting social capital not comparable.

In the absence of relations, the role of social capital in bridging of barriers and facilitating business requires rethinking. A-typical social capital may be relevant to the business environment or alternative sources of bridging should be considered.

Each executive has a different combination of constructs that constitutes his unique set of relations and network activities. They are all very aware of the importance of networking in general but also of relations with government. All use ethno-culturally related third parties to support their government strategy. Relations at the significant political and decision-making levels have proven elusive. This has meant failure to some but others are thriving. Success in building social capital in the private market is not indicative of success in the government arena.

In the next chapter the answering of the research questions and so fulfilling the research objectives, together with the emerging themes, will be further expanded on to constitute the contributions of the study, leading to recommendations and conclusions.

## Chapter 6

### Contributions, Recommendations and Conclusions

#### **1. Introduction**

The contributions in this chapter is a direct result of the process of answering the research questions from the results of the data analysis in the previous chapter, chapter five, combined with further expanding of the themes that have emerged in that process. Recommendations and conclusions follow the contributions.

The objective of this study has been to describe how MNE executives create bridging social capital in relations with host government. It also describes the role of third parties in bridging the barriers that exist.

The first questions deal with the “how” and “why” of the development of social capital between MNE managers and a host government:

1. What process do MNE executives follow to create social capital with government officials?
2. What is the role of network ties between Government employees and ethno-culturally related third parties in the process of creating social capital between MNEs and the host government?

The following questions attempt to address the outcome of the efforts to create social capital:

3. To what extent does bridging social capital develop in MNE – host government relations?
4. Does the bridging social capital that develops in the business environment also bridge the barriers to networks in the social milieu?

As a qualitative study exploring “how” and “why” questions” using coding as an analytical tool, not only for content analysis of data, but also for discourse and thematic analysis, has lead to the emergence of a number of themes that enhance our understanding of social capital in MNE host government relations as well as the phenomenon of bridging.

#### **2. Contributions**

The contributions can be grouped into two groups; firstly those that result from answering the research questions and in so doing satisfying the research objectives. These contributions are the result of the process of structuring the study in such a way that the gap in the literature is filled and the current body of knowledge expanded.

- MNE executives favour the transactional approach almost exclusively in interacting with a host government. This stems from the perceived futility of efforts in the relational approach. Technical presentations that address the issue at hand are done in very formal meetings. An exhibition of the company's and individual's track records, skills and competences are leveraged to promote credibility and achieve a position of trust with government.

Interactions with government are planned extensively and preparation includes researching government and individual preferences and policy positions to achieve success in the proposal. Control and execution of the meeting resides at the highest level in the organization.

- Third parties, both independent from the MNE, but also its BEE partners, are pivotal in business transactions with government. By definition the third parties are ethno-culturally related to government and have exhibited relations with government employees. These entities facilitate the transaction in varying degrees. At the minimum they provide for access to government officials, enabling the MNE to propose a business transaction. At the other end of the spectrum they already have the transaction secured and negotiate with the MNE at an arm's length. Third parties negotiate the terms of the transaction with government exclusively. The absence of any subsequent interaction between MNE executives and government officials leads the researcher to conclude that their contribution is not towards the creation of social capital between the two entities, but purely facilitating a business transaction.

On a political level third parties have not shown the ability to leverage relations with politicians to provide access for MNE executives.

- The absence of any significant social capital in MNE government relations places a question mark behind its role as bridging agent in these relations. Firstly one has to question the relevance of barriers such as ethno-cultural differences and politics in successful business transactioning between MNEs and the state. Is social capital a pre-requisite?

In the perspective that all interaction between people is social, the social capital required in this situation is either very small in magnitude or so radically different as to be almost unrecognizable. It is also probable that the social capital that the

third party has with government on the one hand, and, with MNEs on the other, act as linking social capital in the absence of any direct social capital between the two. Social capital is context dependent.

- Bridging that has taken place in the MNE government business arena has not extended into the social milieu. The almost religious respect that executives exhibit for an individual's personal social space reflects the contextual nature of social capital. This is supported by the differences in especially the normative aspects of business and social. Homogeneity conditions in the social space are such that ethno-cultural differences prove to be exclusionary and prohibitive. Efforts to penetrate these social networks are taboo and viewed as unprofessional conduct, detracting from the business social capital.

The second set of contributions have emerged as themes from the analysis of the data. These are not the result of a priori codes from literature or theory, but have literally emerged from the analysis. They have emerged from the process of analysis in search of resolving the research questions and are thus inseparably related and grounded. They represent the surprises that the qualitative researcher strives for and provide for the unexpected contribution to the body of knowledge.

- The distance between MNEs and the South African government is beyond what is described in the literature. Adversary resulting from competition for resources or the yields of commerce (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992), or, resulting from opposing demands from citizens and shareholders (Agmon, 2003) is exacerbated by a history of strife between local black ethnic groups and ex-European settlers. Residual animosity as a result of this history comes to the fore in every interaction. The distance is actively maintained and nurtured by individual government employees. The policies of Redress place significant burdens on MNEs that influences the trading conditions and profitability.

The theory needs to provide for political orientation of the host government to a much larger extent to adequately explain the adversarial relationship between MNE and host countries, especially in those emerging markets with a history of colonial occupation. This would give increased weighting to Brewer's (1992) Lowi typology variable of asymmetrical protection-interaction and Taylor's (1990) corresponding correlation with dissatisfaction with government relations.

The political convictions of the host government have also proven to play a much more significant role than what the literature reflects. Politics not only influences the policies and legislation that regulate the trading environment, but also has a significant influence on the mood during interactions with government. Politics evoke a range of emotions unique to business interactions with the host government. As a variable of the trading environment, all parties exhibit an uncharacteristically emotive response to it. Outside of the government arena, resentment and public condemnation of the other party's historical actions or current philosophies is not part of typical business transactions.

MNE managers need to be politically adept to be efficient in the MNE host government arena.

- Extensive confusion reigns in the marketplace on the term social capital. This originates from the broader and narrower definition in academia and business of what social constitutes. The perspective that all interaction between humans is by definition social, is in contrast to the understanding of social as interaction in the personal social space. It is imperative that this confusion be resolved as the application of social capital has significant bearing in business management.

This study exposes the need to place emphasis on the relational component of social capital as the contributor of social interaction advantages. The relations extend beyond the social arena to those relations in business as well, and the advantages similarly extend to interaction beyond the social arena to business. The cornerstone of social capital is interaction between people that gives rise to relations, leading to social capital, made up of networks, trust and norms and these are all context specific (Parts, 2004; Fukayama, 1999, Bordieu, 1986; Putnam, 2000, Coleman, 1988). This study has also indicated that socialising is context specific, distinct in the business arena and distinct in the social arena. Terms to specify context such as business social capital and social social capital greatly adds to this confusion. It is proposed that consideration be given to referring to social capital as relational capital instead, should this phenomenon be confirmed by other studies.

If the above suggestion is heeded, it follows that business relational capital is the result of relations in the business arena that produce trust and norms specific to the network. Here social interaction is more accurately then, informal interaction. In the social arena we find social relational capital, as opposed to

social social capital, and the interaction is socialising. The value of theory in the field of business management resides in its application and applying this convention would greatly enhance understanding by non-academic executives.

- This study has highlighted the inconclusive nature of the role of social capital in business relations. The total absence of meaningful relations between MNE executives and government official leads to the conclusion that social capital is relatively unimportant in this arena or that it is so distinct as to be unrecognisable.

It would be foolish to simply discard the role that concomitant third party social capital play in linking government and MNEs.

It is therefore the conclusion that social capital is an inherent characteristic of any human interaction but that the nature, the extent and the threshold requirements are distinct and that the various components thereof determined by the context. In MNE host government business it is subservient to other forces that drive the business transaction and not as critical as in other areas of business (Bordieu, 1986; Swindler, 1986; Coleman, 1988; Burt 1992, Biggart and Castanias, 2001).

- Social capital cannot be credited absolutely with the bridging of barriers to business transacting between MNEs and government. Bridging social capital has not been created as no enduring relations have ensued, no networks have been formed and congruence of norms is absent. Trust is limited to performance against contractual obligations.

It is much more plausible to ascribe the bridging phenomenon to either the force exerted by the need for the exclusive product and the services on offer, or, the profit motive.

The profit motive could be credited as a significant driving force in overcoming the exact same barriers in the private market. Ethno-cultural distance identical to that with government has been bridged easily and relations established. Political differences, although not as instrumental as in the government sector are also bridged. Both customers and MNEs have proven to negate on homogeneity requirements that apply to their social networks in business relations, and MNE executives have shown willingness to compromise on norms.

It is thus more plausible in this instance to attribute the barrier in MNE host government relations to the absence of a profit motive. Third parties and MNE executives were unanimous that enrichment is integral to almost all successful business transactions. Also those successful transactions are facilitated by the third parties' introduction into the equation. It is not inconceivable that the absence of a transaction to mask enrichment and the resultant profit motive can be credited with the inability to bridge barriers in the political arena. The most significant barrier could then be described as the normative condemnation of enrichment as bribery and corruption in public, and the sanction that goes with it magnifies this barrier.

## **2.1 Filling the gap**

These contributions represent the process of providing validation of the propositions and in so doing adding to the current body of knowledge.

### **2.1.1 Creating social capital**

The process that MNE executives employ in creating social capital is dominated by one single variable, their inability and the perceived futility of trying to establish relations with senior government officials.

Firstly, the two approaches to political strategy described in the theory on relations with government in the home country (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980) can be applied equally to interaction between MNEs and a host government. The almost total abandonment of the relational approach in favor of the transactional approach is the result of the perception of wasteful effort in pursuing relations. Executives have not only realised the futility of trying to establish relations but have also achieved some business success in spite of poor relations. This has left available only the route of gaining the required business trust through credibility in proving ability and track record.

In as far as the objective of influencing political policy goes, MNE executives have not managed to have any meaningful interaction with government at all. The trade bodies have had a single invite to present to government and no opportunity for discourse was given. The consensus is that government is but too aware of the objective of corporate political behaviour, what Hillman and Hitt (1999), call "*an attempt to use the power of government to advance private ends, strategic to the extent that individual firms are able to influence the nature of public policy*". Keim and Baysinger (1988) conclude that the

overall objective of political behaviour is to produce public policy outcomes that are favourable to the firm's continued economic survival and success, mostly at the expense of government's political objectives. Most frequently the reason for engaging government is in its capacity as customer though.

Government is not a homogenic entity, but is contextualized by the functional position that the official occupies, be it political, decision-making in a business context or operational in administration, or, as end-user of product or services. Access, and thus also relations gradually, diminish the higher up in government, to a level of non-existent at political level.

The importance of relations with government is reflected in the fact that responsibility for it resides at the most senior level of the MNE. Executives maintain tight control over the process. They oversee the planning of the interaction from driving the setting-up of the meeting, the gathering of information preceding, the preparation of the presentation and also doing the presentation itself. Further proof of the pivotal role of the transactional approach, leveraging technical ability to establish credibility, is the high level of technical specialist knowledge maintained on the products and services by these executives.

The difference in approach in the private sector to that to the government sector resides clearly in the relational facet. The technical aspects are dealt with as extensively, but are supported by a relational component. The relational component is implemented as dictated by the reaction of the customer. In the private sector the customer is clearly more receptive whereas government employees portray a cultivated distance.

All MNE executives equate the respect for the relational distance that a customer is afforded to professional conduct. No attempt is made to aggressively breach the barriers to this distance at all. It could also be ascribed to a number of other factors. The first is the fear of rejection. The historic failures have also dampened enthusiasm. All the executives have expressed an inert sense of not belonging in these exclusive networks. The utter dominant role that government occupies affords MNEs no position of power to use as a springboard, or, that would entice government officials to negate the barriers they have erected.

It is interesting to note that, what is perceived as lack of assertiveness from lesser sales people in dealings with customers, is labeled professionalism at these very senior levels. It is probable that risk aversion becomes more pertinent to an individual MNE employee the higher up in the company as the related customers are also more senior.

This study reaffirms the literature on the nature of the political convictions and ambitions of a government and its officials being decisive in the approach to interacting with a host government (Lenway and Murtha, 1994). Its findings agree with Blumentritt and Nigh (2004) that attribute the choice of strategy to the presiding local political environment. In their study of US based Multinational Companies (chemical and pharmaceutical) represented in South Africa, they found that political activities within affiliates are integrated based on the influence of both inter-subsidary strategic factors and host country environments, and, that political imperatives are endogenous.

The reaction to the expected outcomes confirms the views of Mahon, Heugens and Lamertz (2004) that critical to the creation of political capital are the expected political competition, the political institutional arena, access to key political players and the actual involvement in political activity. In this study senior government officials have been shown to be extremely difficult to access, with audiences extremely rare, no established relations and historical failures, huge ethno-cultural distance and active nurturing of these; all have molded the MNE tactics into a discernable approach.

The role played by third parties with established relations with government has been decisive in the choice of relational strategy. It has enabled MNEs to focus on more supportive than enabling strategies.

MNE executives focus on a transactional approach in dealing with government, as Hillman (2003) describes it as reactive; where once the issue has arisen, key decision makers are approached. In this study the issue that arose has been an eminent business transaction. Various writers refer to the fact that the approach to political strategy is either transactional or relational (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980). In line with Weidenbaum's (1980) observation this transactional approach refers to a relatively short-term exchange relationship or interaction. His notion that executives aim to identify evolutionary approaches to political strategy based on patterns of interaction across time is reaffirmed by the severe relegation of the relational approach in light of repeated failures to establish any relations with government officials. It is telling that in the South African environment business does not have access to government, Lenway and Murtha (1994) found that typically firms operating in more corporatist countries often adopt a relational approach to political action to build social capital.

These relations are very short term, even when compared to the time frame for a transactional approach to building social capital, restricted to its role in facilitating the

business deal. It is not aimed at developing social capital as networks, trust and norms; more at developing the trust in the MNE and its managers' ability and intention to fulfil the proposed business contract. It is in essence restricted to a business presentation and the social interaction is so formal that it is in essence an extension of the agenda. No actual tactics other than ad hoc attempts are employed to forge relations or create a bond with the government officials in attendance.

The interaction between the operational levels where actually performance against the business contract happens leads to much higher levels of social capital between MNE employees and government workers.

Two themes emerged from the contribution on the process of building social capital with government, that of the distance between MNEs and the host government, and, the social nature of business social capital. Both these are further discussed in the next section.

### **2.1.2 Third party network ties**

The policies of redress and BEE have created a space in the market for third parties, ethno-culturally related to government and most often with well established relations. As already alluded to in the previous section, these have been decisive in the choice of relational strategy as well as in the process of creating the necessary social capital.

This study confirms the transferability of the principles of leveraging relations that apply in other business circumstances onto the MNE host government arena. The theory and studies on joint ventures with locals as an entry mode in foreign countries (Das and Katayama, 2003; Gulati, 1998), have shown the critical role locals with established relations could possibly play in achieving business success. Similarly, these Joint Ventures are mainly formed to achieve legitimacy through network access (Stuart, 2000). The Joint Venture as an entry mode selection is in essence an element in relationship development (Holm, Erikson & Johanson, 1996), as is the case of engaging a third party with established host government relations. It is also a validation of the principle of the economic perspective on the advantages of social capital, which as its foundation has the focus on ties with "resource-filled others" (Healy 2004).

This study also bears out the findings of Rodriguez, Uhlenbruck and Eden (2005), who observed that firms develop coping mechanisms when dealing with uncertain and non-transparent rules, one of them being partnering with locals. In every case the third party with an established relationship with government has played a pivotal and enabling role.

The BEE policy of government has legislated forced joint ventures with locals, not only as an entry mode but as a way of competing for established businesses, yielding the same advantages as would be if the strategy had been voluntary.

In every event in this study, the BEE partners, as well as other third parties with established government ties, have been instrumental in the breaching of barriers to access. The creation of bridging social capital has been notably absent, casting doubt on the bridging role for social capital in the MNE host government environment. This, in light of the fact that evidently bridging has taken place and business success achieved. The source of bridging is an emerging theme that will be further discussed in the next section of this chapter.

Third parties have proven unable or reluctant to provide frequent access to government officials for MNE managers. Once the threshold for interaction in order to achieve business success is achieved, there is no motivating factor for further meetings. In fact, to third parties which leverage relations with government officials as a competitive advantage with MNEs, facilitating direct relations will leave them vulnerable.

The business social capital that has supported successful business transactions has been, to say the least, atypical. No penetration of networks has taken place and no relations have ensued. Trust is restricted to the ability of both parties to perform against the business contract, often transacting at arms-length. Congruence of norms is irrelevant. In conclusion, the business social capital (networks, trust and norms) that the MNE requires to successfully do business with government can be acquired through a third party.

Contrary as proposed, the third party has not played a role in the development of social capital between the MNE managers and government officials, but has leveraged its own social capital with government officials as a substitute in the absence of that of the MNE's. This the third parties are able to do because they have the necessary social capital with both parties. In essence their social capital now acts as linking social capital, linking two disparate parties.

Extensive analysis of the detail of the MNE host government relations show that actually the third party has not made a direct contribution to relationship development as Holm, Erikson and Johanson (1996) indicated, but has enabled MNEs to indirectly access these government networks without having to overcome the barriers to developing their own relations. MNE executives and government officials never actually develop any social

capital. Contrary to what the superficial analysis indicated, the third party is not there to provide legitimacy (Stuart, 2000), to overcome barriers to interaction, but actually acts as a broker or intermediary to facilitate the transaction in the absence of any social capital. This is confirmed by the case where a BEE partner without established relations, manages to set up a meeting, but no relations result from this.

Interaction between the MNE and government, if any, is then solely for the purpose of verifying the social capital of both parties with the third party, as well as confirming the ability and intentions of the opposing parties to perform against the contract. Douglas (1995) has described the use of social capital as collateral to assure economic relations by reducing risk and sustaining predictable economic outcomes; in this study social capital is proven to fulfil this role in the extreme, albeit indirect social capital from a third party. Both parties are convinced of the economic outcome of the transaction between them, on the strength of their respective social capital with a third party.

This finding reaffirms the capital nature of social capital (Coleman, 1988, Burt, 1992, Bordieu, 1986); a strategic asset that can be acquired, controlled and leveraged beyond its characteristics of personal internalisation by the individual. It indicates that business social capital can be acquired and successfully leveraged even if the individual managers do not personally possess the relations. In line with Bordieu's (1986) strategic perspective of social capital, MNE managers still strive to develop their own bridging social capital at every opportunity, including those opportunities provided by the third party. Even in light of the barriers proving to be insurmountable, the bridging is done indirectly by the social capital that the third party has.

In essence the conclusion is that both MNE managers and government officials will forego the relations, trust and norms that make up social capital on the strength of those of the third party with each respectively. This does not mean that the MNE managers do not reaffirm this trust that the third party has in it by exhibiting its capabilities at an initial meeting (transactional approach), or, by trying to establish their own relations (relational approach).

### **2.1.3 Bridging social capital**

The need to further enhance the theory on social capital to provide for the social capital between MNEs and host governments is evident from the preceding discussions on the process of its creation and the role of third parties.

Firstly, a qualification of the extent of relations and nature of the social capital that is necessary to successfully conduct business with the host government is called for. In contrast to the seemingly infinite amount required for political access, the conclusion is that the business social capital in this environment is highly differentiated. On the surface, the threshold for functional relations, i.e. successful business transactions, is relatively low. Networks are loose with low levels of cohesion, normative and trust requirements are also low and very little interaction takes place.

The existence of relations with third parties with established government relations is potentially distorting and could project an inaccurate picture. This is suggested by the failures to achieve independence from third parties in securing business from the host government. The social capital required is actually very high, without a third party the relationship has proven not to get off the ground. In addition to the barriers to business – government relations (Agmon, 2003) and ethno-cultural distance (Kristiansen, 2004), there is also a normative and trust element related to the sensitive issue of personal enrichment of officials.

Although the existence of bribery and corruption is universally accepted by all parties <sup>\*\*\*\*\*</sup>, it remains very sensitive and reactions are extreme as seen from the discourse analysis. All parties publicly condemn the practise and find the addressing of the issue offensive. Still, it is reported as the norm in business transactions. This practice constitutes a barrier to both the government officials as well as the MNE managers (Ginwala, 1998). To both government and MNE employees the risks associated with exposure place a huge premium on the trust that the practice will remain confidential and not become public. Closely related are congruent norms on the acceptability of this practise. This confirms what Rodriguez, Uhlenbruck and Eden (2005) found, that an MNE's economic choices are constrained by socially constructed norms of accepted or appropriate behaviour in the host country, in effect social capital. Arbitrariness of corruption increases the incentives for MNEs to partner with local firms (third parties). The dilemma of local MNE managers is that although compliance with the practices of a corrupt environment is likely to yield external legitimacy, adoption of local norms and customs that are at odds with those of the home country, poses a threat to the subsidiary's internal legitimacy in the worldwide organisation. The reputational risk could be detrimental to investor sentiment and destroy the share price.

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\*\*\*\*\* In the case studies, not the survey

There thus exists a discernable premium on relations with government. Third parties with established relations and social capital act as brokers between MNEs and government. The margin they add to the transaction is a monetary reflection of the value of the social capital, of networks, trust and norms. Access to the political and legislative levels has almost insurmountable barriers, indicative of the huge amounts of social capital required. At the purely operational levels barriers are low and social capital is well established.

It follows that the bridging function of social capital is directly related to the barriers in question. The higher the requirements of the network of norms and trust, of homogeneity, the greater the magnitude of the bridging required. The social capital to secure the business transaction through a third party has proven so low that a single interaction between government and the MNE is often sufficient.

The counter perspective is that the social capital between the host government and MNE is but incremental social capital, that the social capital between the government officials and the third party is so significant as to act as bridging social capital between the MNE and the government. MNEs are able to leverage third party social capital as bridging social capital to overcome the threshold for concluding business transactions with government. The social capital of third parties act as linking social capital, linking two opposing parties in MNEs and the host government. The latter argument is the most probable one as there is agreement that no transaction will be possible in the absence of the bridging provided by the third party.

## **2.2 Emergent themes**

These contributions have emerged as themes from the systematic analysis of the data as suggested in qualitative analysis, stimulated by the process of answering the research questions through testing of the propositions. It is ancillary but provides for the novel thinking on the subject matter. This highlights the value of qualitative research if done in a structured fashion.

### **2.2.1 Distance between MNEs and government**

The complexity of the South African trading environment that MNEs face has been evident from this study. The literature describes the typical adversarial nature of relations between government and business (Agmon, 2003), and even the ethno-cultural distance between MNE executives and government in the East (Chen, 2004) and the difficulties faced in Africa (Goldsmith, 2002).

The distance that present between MNEs and government, and the barriers that sustain it, has been shown to be multi-faceted and complex. This topic has evoked an unexpected emotive response from all role players; be it MNE executives (*“everybody lies”*), BEE partners or related third parties (*“We are not rent-a-black-face”, we require access to their (the MNE’s<sup>+++++</sup>) intellectual property”*); from all ethnic groupings.

The role of politics in MNE host government relations is evident from the fact that ethno-cultural distance is easily bridged in the private market. Ethno-cultural distance can not be negated in totality as relations with non-blacks in government structures have proven to be a lot easier.

Thematic and especially discourse analysis of the data collected, as well of the interactions with the top BEE entities subsequently, have revealed the significance of the history of South Africa. As one BEE partner put it:

*“They still use the handbooks from the colonial era on how to conduct business in the African countries. They are surprised if their bribes do not give them what it used to. We (Black Africans<sup>+++++</sup>) have come a long way since then”*

Adversary between MNEs and government extends beyond competition for the yields of trade and the conflicting objectives of citizens and shareholders. The majority of decisions by government are justified by all against the background of the pre-1994 elections status. MNEs, BEE partners, third parties and government all ascribe the current status quo to a politics of redress. Naturally, with differing perspectives on how just and justifiable the process is.

The theory on the adversary between MNEs and host governments needs to provide for the role of historical strife to a much larger extent, especially in the emerging markets with a history of colonization and subsequent liberation. Deep-seated animosity between the different indigenous ethnic groupings and ex-European settlers in the host country is perceived to result in a knee-jerk reaction by government against MNEs. The perception is also that ethno-cultural distance is exacerbated by a conscious desire to maintain this distance by the locals now in power, marginalizing MNEs. Also exacerbated are the fears of MNE dominance, dependence on MNEs as well as guarding against resource stripping. One can only speculate on the significance that an education in socialistic countries has had on this perspective of government. The role of a history of strife is not negated by an announcement by government to the contrary.

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+++++ Author’s insertion  
 \*\*\*\*\* Author’s insertion

MNE executives need to acknowledge the existence of the complications provided for by the history of the country. Terms of engagement will necessarily include some form of redress that will add to the burden on the MNE. Aligning the business with the objectives of government as far as feasible will provide for opportunities, even in the absence of social capital and relations.

Business executives are expected to be analytical, a skill deterred by emotions. Dealings with government entail confronting its politics, and politics is proving to be a highly emotive variable; and MNE executives seem to be at a loss. Research has proven to be challenging in its addressing of the political facet of government relations in light of the interference of political perspectives of the role players. The contribution of this study is in the recognition of the host government's political aspirations and not in any opinion on merits thereof.

It would be negligent not to acknowledge the burdens and emotions related to the politics of redress, simply to be politically correct and not offend. Only then is honest analysis possible and can effective strategies and tactics follow. This has been shown to be the differentiating factor of those executives with successful dealings with government, even in light of opposing beliefs.

### **2.2.2 Social capital as relational capital**

The difference in the understanding of the term social capital between MNE executives and academics is demonstrative of the contextual nature of social interaction. Although business is a subsection of society and inseparable from everyday social life (Biggart and Castanias, 2001), executives clearly differentiate between the two. Business is often put as contrasting social. Interestingly, the term relations are more closely related to successful business transactions, whereas networking slants more to the socialising aspect. Networking is seen as something that happens at cocktail parties.

Interaction amongst actors is the source of social capital but in MNE host government interaction there is no evidence of anything social. The term social is thus ascribed a narrow and a wider interpretation. In the wide definition all interaction between people is social in nature. In the narrow definition interaction of a relaxed informal nature is social, this referred to as socialising in the social environment. The conclusion from the data analysis is that MNE executives' interpretation of social capital is the preferential treatment bestowed on an individual that results from relations and trust in the individuals' social sphere. This is analogous to what is acquired by birth as belonging to a royal

family; attempting to penetrate from the outside is viewed as encroaching on personal space and very unprofessional.

A solution to the erroneous assumption of what constitutes social capital would be to refer to it as relational capital. The familiarity of most executives with relationship marketing would support the comprehension of the facets of social capital, or then relational capital. It would be much more accurate to use the term Relational Capital, avoiding the contradiction of the unsocial nature of MNE host government relations. The relations in the social environment would then yield Social Relational Capital, and the relations in the business world, Business Relational Capital. The context denominates the relational capital, business or social.

Relational capital is also not stringently bounded. Relational capital originating in the social environment may fulfil a facilitating function in the business arena or vice versa. Although the relational capital is context dependant, actors, networks, trust and norms may overlap. This provides some support for Pollit's view (2002) that people known and trusted in a social network will still be known and trusted when economic transactions are concluded. This study does not support this view as an absolute though. If the argument is made that relational capital is contextualised, so are the networks, trust and norms. It may be related but not identical. Norms in the social environment are more principled and homogeneity requirements more severe. Executives definitely compromise for the sake of business. It also explains the selective transferability of relational capital.

The extreme environment in which MNE executives interact with host government employees has exposed the unsocial nature of social capital in business. The interaction is very formal, almost militant. As such the relational capital, the networks, trust and norms are significantly different from those ascribed to the same actors in the social environment. The extent of social capital requirements are then also relatedly different as proven by the yielding of successful business by these relatively absent levels of social capital.

Further proof of the acknowledgement of the contextual nature of relational capital is that none of the executives have identified personal social relations with government employees as a means of gaining access to business.

### **2.2.3 Social capital as prerequisite for business relations**

The arguments in the previous sections now begs the question; to what extent are successful business transactions actually dependant on social capital?

This study has only confirmed the fact that all the role players in MNE host government relations and business are cognisant of a probable role for the facets of social capital in business success. There are serious doubts around the extent of social capital as a condition precedent for the successful conclusion of business. Although there are indications of a possible role for certain facets of social capital in MNE host government relations, successes in the apparent absence, or even the presence of disparate norms and distrust, have called for a rethink.

Firstly all the executives acknowledge the importance of relations in business, especially with government. Most of the failures are ascribed to a lack of relations. In successful transactions the role of relations are viewed as a lot less pivotal. The established relations of a third party are credited, at most with the access and initial introduction. In spite of concluding numerous successful business transactions almost no relations have evolved.

If the relations are absent, can one speak of networks? The business networks are made up of actors related through business with no interactions that would constitute relations. Networks, as a constituent of social capital, are thus also absent.

Congruence of norms is also lacking. Not only are the norms discrepant but some practices are publicly denounced as immoral; government officials are accused of being corrupt and MNE executives to be racist and exploiting the citizens (Rodriguez, Uhlenbruck and Eden 2005; Ginwala, 1992). A significant amount of the emotions involved in MNE host government interaction is the result of normative perspectives. The normative aspect generates negative social capital and still successful business transactions take place.

Trust is closely related to congruence of norms, to trust the other party to act in an agreed and predictable manner. Confidence in the fact that the particulars of a transaction that could be harmful to the counterparty would not be disclosed also plays a cardinal role in trust. Norms of reciprocity revolves around the trust that credits with the counterparty will be repaid, that obligations will arise and will be honored. In this study none of these forms of trust has been evident, only the trust in the ability and intention to perform to the business contract. Viewed from a social capital perspective, non-existent, but sufficient for the successful conclusion of business.

The discrepant norms and public condemnation of the other party's values and conduct have exacerbated the ethno-cultural barriers. Relations are at a low. Here the effect of negative social capital is seen. Still, business takes place between MNEs and government.

To negate the significance of third party social capital in this equation would be a grave oversight. The concomitant social capital with government and the MNE is the enabling factor for the business. It acts as the driving force to overcome the threshold to interaction and at least sets the transaction on a successful course. The role of the third party ranges from an enabler of the first interaction to an independent business entity the buys from the MNE and on-sells to government. It does little to contribute to better relation between the MNE and government independently though.

Social capital by definition describes any human interaction but it is concluded that the nature, the extent and the threshold requirements are distinct and that the various components thereof are determined by the context.

The stale-mate on political issues and the inability of a third party to secure an audience does raise some questions as to what other factors, over and above relations and social capital, do possibly contribute to the successful conducting of business.

### **2.2.3.1 Context and components of social capital**

Claiming that social capital is context specific implies that social capital is indeed unique to every situation. This means that the networks, norms and trust differ, as do the constituents of networks (closeness, betweenness, centrality, degree, proximity, etc.), of trust (reciprocity, aversion, homophily, etc), and of norms (culture, beliefs, common goals, etc). Not only do all of these variables differ inherently according to the context, but the prominence of each is also a factor of the unique situation.

The following diagrams are graphical presentations to highlight the varying prominence of each in the different contexts of the social and business environments, especially in the MNE Host Government relations. The first diagram (Figure 6.1) is a graphical representation of what could be considered the baseline positions of the various components of social capital in the social environment. In the diagrams (Figure 6.2 and Figure 6.3) that follow, the change in position on the continuum for each component in firstly general business but then also MNE host government business, attempts to reflect increased or then decreased prominence of a component.

These diagrams are intended to indicate the direction of change, as well as the emergence of new components and do not represent the magnitude thereof to scale as would a graph.

**Figure 6.1. Graphic depiction of the perceived relative prominence of the components of Social Social Capital**

Relative Prominence	
	Low <span style="float: right;">High</span>
<b><u>Main components</u></b>	
Networks	◆
Trust	◆
Norms	◆
<b><u>Other components</u></b>	
interaction	◆
ethnicity	◆
reciprocity	◆
beliefs	◆
culture	◆
spatial proximity	◆
density	◆
centrality	◆
degree	◆
betweenness	◆
closeness	◆
risk	◆
shared objectives	◆
homogeneity	◆
homophily	◆
cognition	◆
perception	◆
power	◆
information	◆

Concluded from this study

This diagram (Figure 6.1) represents the networks, trust and norms that make up social capital at the top, spanning the various components of social capital. Social capital in the social arena is taken as the baseline and the variance from these positions are indicative in the diagrams that follow.

**Figure 6.2. Graphic depiction of the perceived relative prominence of the components of Business Social Capital**

Relative Prominence	
	Low <span style="float: right;">High</span>
<b><u>Main components</u></b>	
Networks	◆
Trust	◆
Norms	◆
<b><u>Other components</u></b>	
interaction	◆
ethnicity	◆
reciprocity	◆
beliefs	◆
culture	◆
spatial proximity	◆
density	◆
centrality	◆
degree	◆
betweenness	◆
closeness	◆
risk	◆
shared objectives	◆
homogeneity	◆
homophily	◆
cognition	◆
perception	◆
power	◆
information	◆

Concluded from this study

In the next diagram (Figure 6.2) the social capital in the business arena is depicted. The networks, trust and norms are different in their relative weighting and significance as dictated by the specific context. In the Top layer the prominence of the network component is more significant but norms are less important. Culture and homophily is lower and power, information but also the risk higher.

**Figure 6.3. Graphic depiction of the perceived relative prominence of the constituents of MNE Host Government Social Capital**

Relative Prominence	
	Low <span style="float: right;">High</span>
<b><u>Main Components</u></b>	
Networks	◆
Trust	◆
Norms	◆
<b><u>Other components</u></b>	
interaction	◆
ethnicity	◆
reciprocity	◆
beliefs	◆
culture	◆
spatial proximity	◆?
density	◆?
centrality	◆?
degree	◆?
betweenness	◆?
closeness	◆?
risk	◆
shared objectives	◆
homogeneity	◆
homophily	◆
cognition	◆
perception	◆
power	◆
information	◆
adversary	◆
politics	◆

Concluded from this study

In the last diagram (Figure 6.3) the Social capital in the MNE host government relations are depicted. The trust, norms and networks are very specific to this environment, as are the components. Here new components such as the role of a history of strife and political aspirations emerge as very important.

The addition of the component of politics and the size thereof relative to the other components is an attempt to indicate the significance thereof in the social capital in the MNE host government environment. Inclusive in this component are the roles of the actual political convictions and related policies, but also of the history and the emotional facet of dealing with the political component.

The actual significance of the network components still have a question mark as it is unsure whether it is insignificant or whether it is substituted by that of the third party.

#### **2.2.4 The phenomenon of bridging and a possible role for the profit motive.**

In the absence of any significant social capital, in fact in the presence of negative social capital, is it reasonable to ascribe any bridging of barriers to social capital?

It is first necessary to conclude what exactly constitute barriers in relations between MNEs and government and what the significance thereof in successful transactioning and resolution of political issues are.

As discussed in the previous section, the distance between MNE and government, resulting from the presence of barriers, is significant and multi faceted in origin. Ethno-cultural and racial awareness are prominent in all discussions on this relationship. The politics of government, linked to a history of strife and resultant policies of redress, does add to this distance in the form of anti-MNE sentiment.

In the business arena there exists a driving force significant enough to overcome these barriers. This is notably absent in the political arena.

In the absence of social capital as described by Putnam (2000), bridging of barriers has to be ascribed to another force. Executives have exhibited an array of ways and means to substitute social capital to enable the conducting of business.

The profit motive is the most probable substitute to bridging social capital. It is the desire to make money that motivates the third parties to engage MNEs in the first place. They either strike-up BEE deals with companies or act as independent contractors. Here they fulfil the role as middleman, as facilitator or broker, or as independent entity that buys and sells. The general consensus amongst all parties on the presence of enrichment in the final transaction with government supports this role of profit. It has emerged that third parties not only leverage the norms of reciprocity as a result of relations with government officials but also financial inducements, as also described by Hillman and Hitt (1999).

In the private market this system is much more efficient as it is normatively accepted, and ethno-cultural barriers and political convictions are much more readily breeched. Granted, politics play a less influential role in the private market. The pursuit of profits has also motivated individual executives to compromise personal norms and convictions, and to negate requirements of homogeneity in business networks.

The profit motive act as the common objective that is characteristic of networks (Healy, 2004), the shared goals that he ascribes a normative function to. This is reflected by the way that the profit motive impacts on personal norms.

The role of the third party in the bridging and the significance of the social capital between it and the MNE have been shown to be critical to the success of the securing of business. Almost all the barriers to relations between MNEs and the host government are present in relations between the third party and the MNE. In the absence of any pre-existent social capital to act as bridging social capital, the bridging has to be credited to another force. In this instance the profit motive is able to bridge all these barriers and forge relations between the MNE and the third party. Hillman (2003) has identified direct financial incentives as one of three possible resource strategies used in interacting with government.

This can also explain the inability to overcome barriers to engaging with government on a political level. There are also third parties with significant relations with politicians but these are not engaging MNEs to act as middlemen as there is no profit. Introducing profit in this equation is blatant bribery and corruption and condemned by society (Rodriguez, Uhlenbruck & Eden 2005; Ginwala, 1992). It is also probable that more senior government officials are more cautious as a result of their public profile.

Another consideration is the relevance of the distance and presence of negative social capital to the conducting of business. The driving force represented by the needs fulfilled by the business transaction, the need for the service or product, is a sufficient driving force in itself. In the absence of any third parties with concomitant ties in the market, business would still have been conducted. These third parties have been introduced as a competitive force into the equation as a result of politics of redress, but as such do not explain a bridging role for social capital, merely transacting following the route of least resistance in the pursuit of positive outcomes.

It now also follows that the pursuit of relations with government could be to optimise efficiencies in effort. The lack of relations is universally credited by all executives with the failure to engage government on a political level. As such, relations are a pre-requisite for any success. Contextualising relational capital into business and social relational capital will enable further investigating of the significance thereof in relations that exist between politicians and business. This would be between locals and politicians, ethno-culturally related, as there are none between MNEs and politicians. In any case, none that are known.

A variable that does not receive sufficient attention in the literature on bridging social capital is the role of that force that in the first place brings the actors together in a network. Ng (2004) credits this force with creating dependency relationships resulting from patterned resource exchanges in networks. In the social arena, in the absence of significant barriers, networks evolve naturally as the result of a commonality such as kinship or social proximity (Coleman, 1988). In this evolutionary process the social capital progressively builds on itself, thus exhibiting the bridging phenomena. Outside of the purely social arena, in the presence of significant barriers that act as restraining forces to network formation some external force has to be applied to bring actors together and force them to interact. Actors may be forced into social proximity such as in the workplace, or by a common objective such as task achievement, or, by the profit motive. The bridging of barriers is the result of the external force, not social capital. The social capital that ensues is the result of the forced interaction and a secondary bridging as a result occurs.

It also urges a reconsideration of conclusions on the actual bridging phenomena observed by Putnam (2000) amongst ethno-culturally diverse employees and the crossing of contextual demarcation lines noted by Kristiansen (2004). Bridging of barriers to facilitate relations and network formation cannot be evaluated without considering what actually drives the forming of relations and the maintaining thereof. This is a case of driving forces versus opposing forces in the form of barriers. Bourdieu (1986), Coleman (1990), Fukuyama (1999) and Putnam (2000) are of the opinion that social capital is made up of networks and the associated trust and norms, and, that this facilitates collective action. This does not explain successful interaction in the presence of negative social capital, distrust and discrepant norms.

It is thus surmised that it is inaccurate to solely attribute bridging to social capital or networks in especially the business arena. The presence of a common objective is primary. The threshold level for successful business relations are represented by those

networks where norms are reduced to a common economic objective and trust limited to an expected economic outcome. This argument strongly supports the concept of cognitive social capital used by Inkpeng and Tsang (2005) and Edelman *et. al.* (2004) that refers to shared goals.

### **3. Limitations and Further Research**

This study has been explorative in nature and the themes that have emerged have been explored to highlight possible enhancement of the theory. The conclusions are drawn on what emerged from the case studies and these should be used as the foundation for designing secondary studies to confirm it.

This study was done in one industry in a single country. Conclusions are specific to the cases studied and generalisations are not necessarily true in other cases, industries or countries.

This study has been the first on the topic of bridging social capital between MNEs and a host government. Numerous issues have arisen out of this explorative process, providing for opportunities for further research.

As with any qualitative study answering the “how” and “why” questions this now requires further empiric qualitative verification of the assumptions as well as further illuminating of the emergent topics.

This study has exposed numerous areas that warrant further study. Firstly a study, similar study to this one, but focusing on the perspective of host government officials is needed. This would require access to these officials as well as a by them willingness to share sensitive information, researchers with social capital in this arena. Very challenging indeed.

Another area of study would focus on the detail of various facets of relational capital as it presents in MNE host government relations, as graphically depicted in Figures 6.1, 6.2 and 6.3. Also included would be the influence of context on the components of relational capital such as trust, norms, relations and networks.

Also of interest, following the identification of a possible role for profit, to research the driving forces in commercial engagement in the presence of otherwise exclusionary barriers.

Lastly a study that focuses on the emotive facet of politics in MNE host government relations.

This list is by no means exclusive and for this researcher, although tempting, these are beyond the scope of this thesis.

#### **4. Conclusions**

The contributions in the previous segment have to a large extent been the result of some preliminary conclusions on the results. The final conclusion revolves around the contributions of this study.

The process that MNE executives follow in attempting to create social capital with host government employees has been described. Relations with government are top-of-mind to MNE executives, especially in light of the battle to secure government business, but also the complete inaccessibility of politicians.

Third parties, in the form of BEE partners or independent trading entities, which are politically and ethno-culturally related to government, play a crucial role in MNEs transacting with government.

Social capital plays a role in business relations, the significance thereof is contextual and in MNE host government relations it is probably subservient to other factors. Indirect social capital in the form of concomitant social capital between third parties and MNEs, and, third parties and government, act as linking social capital between MNEs and government. This linking social capital acts as a substitute in the absence of social capital between MNEs and government.

The conclusion is that the force exerted by the need for the product or service and/or the profit motive are the dominant bridging agents to the barriers between MNEs and government. This is supported by the total absence of relations, the perception of omnipresent enrichment in successful transactions and the ease at which the same barriers are bridged in the private sector, which is totally profit driven. The inability to access political levels is also ascribed to an inability to provide financial inducement at the risk of exposure to the sanctions associated with bribery and corruption. In the absence of the profit motive that drives individuals to compromise on social capital and homogeneity requirements, these barriers are maintained and even nurtured.

This study has provided contributions that fill the gap in the literature as described after the literature study; specifically addressing the concept of social capital in MNE host government relations. This has added to the current body of knowledge. As a result of being a qualitative study, but also the first to address this topic, it has challenged some concepts on MNE government relations, as well as some on social capital in business. Beyond what is contributed to the field management study by enhancing theoretical understanding, this study also contributes to the in-market application the principles of social capital by business executives.

A history of ethno-cultural strife and animosity deserve a lot more prominence in literature on relations between MNEs and host governments, especially in explaining the positions in ex-colonial emerging markets. Mandates from citizens to redress, to correct imbalances, are especially challenging to MNEs and often have the effect of reverse-discrimination. Previously oppressed ethnic groups, now constituting the host government, also find it difficult to separate the current set of conditions from what existed in the past.

The addition of politics as a variable is also much more significant in MNE host government relations than in other environments experienced by executives. Politics have a direct effect on the trading environment through the specific regulatory nature of legislation. Politics has also emerged as a highly emotively loaded variable that influences the mood of interactions. These extreme emotions are often foreign to MNE board rooms and have the potential to negatively impact on rational decision-making.

The use of terminology, the interpretation of which is specific to the academic field, has probably aided the lagging implementation of social capital concepts by executives. Social, in the academic terms, is inclusive of all human interaction, business and social. Social, from the business executives' perspective, is restricted to the social arena, most often excluding the business arena, the crossing into which is perceived as unprofessional. Referring to relational capital instead will facilitate a much more readily acceptance of the aspirations of informal interaction, and would go a long way to "decriminalise" socialising with business intentions. Social relational capital and business relational capital also more accurately reflects the concepts from the business executive's position.

This study has filled gaps in the literature but has also laid barren numerous topics still begging for resolution through further research. This is as Miles and Huberman

(1994:270) predicted: *“qualitative analysts are also usually delighted when they encounter twists in their data that present fresh analytic insights or challenges”*.

## **5. Recommendations**

The field of social capital, or, relational capital, has immense potential to contribute to understanding and improving relations in business, especially in MNE host government relations. This study, as the first in this field, has exposed many areas of possible contributions to the as yet limited current body of knowledge. It is recommended that should the negative association between the social in social capital and unprofessional conduct in business confirmed in other studies, serious consideration should be given to a change in terminology to relational capital, even in its use in academia.

There is a need to further uncover the intricacies at work in MNE host government business and political relations. This specific environment is sufficiently different to any other business sphere as to present with unique characteristics and requirements. A better theoretical investigation, description and understanding would enable business executives to more effectively operate in this environment, to the advantage of both its stakeholders and local citizens.

The in-market application of relational capital has been extensively proven in customer relationship marketing. Management training of senior executives should incorporate the theoretical basis for this concept as well as practical application thereof beyond pure sales. All the role players in this study have exhibited a high level of awareness of the various components of relational capital, some instinctively and some as the result of some training. The understanding of the concept of social capital has been glaringly absent.

In the South African context MNE executives are challenged by the emotive dimension of MNE host government relations. This is the inseparable consequence of our history of ethno-cultural strife as well as the current politics of redress. It is recommended that companies provide for specialist training on the broad concept of politics and the emotive facet thereof, but also the specifics of politics in South Africa.

The analogy of relations as a capital asset, similar to financial and human capital remains valid. Business executives need to be upskilled on relational capital to a level comparable to their comprehension of human resources or business finance. The requirement is to both add to the theory and to then expose executives to it in business training.

Relational capital is of immense strategic value and should be reflected on the balance sheet of a company as an asset.

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## **Appendices**

### **Appendix 1**

#### **Questions that test the constructs**

##### 1 Connectedness

###### 1.1 Density and degree

With which of the individual stakeholders in your organisation and industry do you have relations?

###### 1.2 Closeness

What is the extent of the relations that you have with the stakeholders in your organisation? (Continuum from acquaintance to personal friend, alone or with third party present)

In your opinion, is it acceptable and/or advisable to befriend stakeholders on a personal, social level?

##### 2 Interaction

###### 2.1 Frequency

How often do you interact with the stakeholders?

###### 2.2 Nature

What format does your interaction take? (business meeting, meals, social events)

##### 3 Relatedness

###### 3.1 Connection

What drives the interaction and maintains relations with these stakeholders? (what maintains the bond)

##### 4 Trust

###### 4.1 Congruence

Is the nature of your business competitive or do you have a similar outcome in mind? (win-loose or win-win)

###### 4.2 Trustworthy

Are you cognitive of the reputation and credibility of the individuals that represent government?

## 5 Norms

### 5.1 Values

Do you have similar business guidelines?

Are the principles similar?

Is the social behaviour and business protocol similar?

## 6 Evolution

### 6.1 Process

Tell me about the meeting/s you have had with government; why, how you prepared and what you did to win them over.

If the info is not volunteered:

Is networking a conscious objective?

Do you identify individuals that you pursue relations with?

Your meeting with government, what kind of planning and preparation went into it?

Who initiated the meeting?

Who set the agenda?

Who chaired the meeting?

Who attended?

What was the mood of the meeting?

Is there any socialising during or after business meetings?

How have your relations changed from the initial exposure?

Have you had interaction with the BEE partner not present, and if so, please describe these?

### 6.2 Intent

What are the outcomes that you expect from the interactions with government?

## 7 Context

### 7.1 Type

What are the factors that motivate the interaction with government?

What obstacles do you have to overcome to have good relations with government?

## 8 Social Capital

### 8.1 Networks

To what extent do you interact with individuals in your social circles on a business level?

What is the role of networking in the positions of the various senior managers?

**Semi-structured questions for the interview:****Introduction**

To reaffirm the nature and the objectives of the study I would like to share the following with you:

- 1 The intention is to uncover and describe the process of building relations with government
- 2 All the information is treated as confidential
- 3 The identity of you and your organization will be hidden from all individuals and institutions apart from myself.

**The Company**

1. What priority do relations with various stakeholders have in your organisation?
2. What role does government play as a stakeholder in your company?
3. The business with government, is the format competitive or do you have common objectives?

**The Individual**

4. What is the extent of your relations with the various stakeholders in your company?
5. How often do you interact and how?
6. What drives the interaction and what maintains relations with these stakeholders? (what maintains the bond)?
7. In your opinion, is it acceptable and/or advisable to befriend stakeholders on a personal, social level?
8. Do you rate social interaction on a scale, and if so how and why?
9. If you have social interaction would you have it at your/their home or at a neutral venue?
10. Do you have similar business principles to your government counterparts?
11. Is the social behaviour and business protocol similar?
12. Are the principles by which you live similar?
13. If not identical, are they reconcilable?

**The interaction**

14. Please tell me about your initial meeting with government; why, how you prepared and what you did to win them over.
15. If the info is not volunteered:

Is networking a conscious objective?

Do you identify individuals that you pursue relations with?

Your meeting with government, what kind of planning and preparation went into it?

Who initiated the meeting?

Who set the agenda?

Who chaired the meeting?

Who attended?

What was the mood of the meeting?

Is there any socialising during or after business meetings?

How have your relations changed from the initial exposure?

Have you had interaction without the BEE partners being present?

Was the interaction different with them absent?

16. What are the outcomes that you expect from the interactions with government?

Any topics that arise from the interview will be explored and recorded

Appendix 2

Summary of the within-case analysis of content for each case according to codes.

				Case 1		Case 2		Case 3		Case 4		
Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources	
<b>1. A Priory</b>												
<b>1.1 Literature</b>												
<b>i. Social Capital</b>												
1	<b>Social network involvement</b> (Coleman, 1988; Ng, 2004; Pollit, 2002; Friedkin and Johnsen, 1999)	Participation in personal social networks	High on family Few but close friends	Community interaction varies	High children only, few good friends, infrequently	Interview Informal disc	Wife, children infrequently, neighbours, no friends	Interview Informal disc	Family and few friends Congregation	Interview Informal disc	Very high, very social Bridge club	Informal disc
2	<b>Business network involvement</b> (Ng, 2004, Burt, 1998)	Individual participation in business networks	Big networks, limited to high levels	Access to strategic levels Frequency Level of leveraging	High Industry-wide Gov depts. quarterly meets weekly comms, phone e-mail Medico-political	Interview e mails Informal disc	Intra co networks/relations allows for smooth running Relations determine success of manager Often invited by customers Little socialising with employees Int. suppliers at congresses- very formal	Interview Informal disc	Only on professional discipline Operational Networks extensively with colleagues Only buss relations no social	Interview Informal disc	Extensive Across industries All levels Low Government Relations from personal friends to cold and clinical bus partners	Interview e-mails legals informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
3	<b>Inclination to trust</b> (Healy, 2004; Konoirdos, 2005; Putnam, 2000; Pollit, 2002; Fukuyama, 1999)	Relative inclination to trust	History of disappointments Contractual support	Great variation	Cautious Low a.r.o. bad experiences in business and pvt. life	Interview legals e mail Informal disc	Assumes trustworthiness until proven otherwise Trusting by nature	Interview Informal disc e-mails	Distrust- all info received extensively filtered Info received from BEE/front co etc not accurate, tailor-made to elicit desired response People lie a lot Limits info given to need-to-know and filters General distrust of people in high positions, even own co	Interview Informal disc e-mails legals	Trusts easily Relatively trusting but requires contracts Exaggerated results promised	Interview Informal disc e-mails legals

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
4	<b>Normative influence</b> (Healy, 2004; Pollit, 2002; Fukuyama, 1999)	Relative weight of norms, level of principledness	Accept business norms to differ from personal	Gap between personal and business norms	HC is professional knee-jerk to personal relations business suffers if to friendly no place for animosity cordial relations most gained from professional neutral venue avoids expectations	Interview e mails Informal disc	Corruption main gripe Mutual respect Sensitive to cultural origin Quality of products should decide Credible specs for tender, no lock-out Bribes unacceptable Business principles fairly similar Differences will be erased by time and edu, install values of trustworthiness, report and turn down corruption Gov need to incr remuneration Blacks value humbleness	Interview Informal discussion	High a.r.o. religion Incompatible Actively avoids deception and lies Honesty is mis-used Personal value very strict- religion Buss norms result from personal values	Interview	Not constrained, very flexible Fairly similar across cultures in pvt., but not gov Not overtly influenced	Interview Informal disc
5	<b>Interaction pattern</b> (Allen, 1977 in Borgatti and Foster, 2003)	Type, actors, frequency, of interactions in social groups	Low frequency, small groups Family	Number, frequency of friends	Children, business colleagues Drinks, lunch weekly	informal discussion	Infrequent and superficial Week-ends, family child's sport No friends Neighbours' braai	Informal disc	Family and church One-on-one, very small groups Infrequent	Interview informal disc	Almost daily with business partners, friends, neighbours	Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
6	<b>Collective action</b> (Berry et. al, 2004, Putnam, 2000, Coleman, 1990)	Conforming to social group in driving collective action	Firm as vehicle for collectively	Level of individualism	Highly independent, team leader Company needs priority	Interview e mails Presentations legals	Firm cause NB Team dependant, certain activities as individual Lacks employee support	Interview informal disc e mails presentations	Individualist but relies on the team Delegates Important excluding technical business	Interview informal disc e mails	Team player, facilitates meetings Delegates	e-mails informal disc
7	<b>Norms of reciprocity</b> (Gargiulo and Benassi, 2000; Bourdieu, 1986; Healy, 2004; Coleman, 1990; Putnam, 2000)	Perception of obligation and indebtedness	Feel indebted, no expectations themselves	Extend to which favours are recalled	Strong adherence Possible detrimental to business	informal disc Interview	Does not leverage credits Customer owed service After-sales service as debt	Interview e-mails presentation Informal disc	Disappointed if the favours not returned Low expectations as result of history	Interview Informal disc	High and leverages it Expects and returns often	Informal disc
8	<b>Culture and beliefs</b> (Kristiansen, 2004; Bourdieu, 1986; Putnam, 2000)	Role in personal conduct, perceived relative weighting	Sensitive to role in others Feel excluded	Varying influence	Professionalism Cordial conduct Relatively unimportant Sometimes feels marginalised	Interview Informal disc	Relatively unimportant but sensitive to others Feel excluded Races similar but place premium on longevity of products Gov very cautious in social involvement Never rude at ops levels Dress different, value other cars Rugby vs. soccer	Interview Informal disc	Big influence, creates distance No desire to mix Radically different to own beliefs "Is what times dictate" Differ on what practices are acceptable. Differences due to upbringing and religion	Interview informal disc	Big influence but actively oppressed Ascribes individual behaviour to culture	Interview informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
9	<b>Institutional affiliation</b> (Healy, 2004; Putnam, 2000; Coleman, 1990; North, 1990; Olson, 1982)	Participation, perception, leveraging value of membership	Value membership of firm	Opinion of which memberships are NB	Medical fraternity and firm	Interview presentations e mails informal disc	Very little Relatively unimportant but sensitive to others Feel excluded	Interview presentations e mails informal disc	Church, professional body Firm as shared destiny/profits university especially MBA alumni	Interview presentations e mails informal disc	Firm University alumni	Interview presentations e mails informal disc
10	<b>Culture conformation and exclusivity</b> (Kristiansen, 2004; Edelman et al, 2004; Bourdieu, 1986; Putnam, 2000; Coleman, 1990)	Conformation to, and segregation levels	High in personal lives, some relaxation in business	Level in business	High socially, low business Across barriers in business	Interview e mails legals presentations Informal disc	Very low Across barriers in business and personal	Interview e mails legals presentations Informal disc	Very high, especially including religion Forced in business, uncomfortable	Interview e mails legals presentations Informal disc	Aware but personally low Cross cultural business focus	Interview e mails legals presentations Informal disc
11	<b>Community involvement</b> (Coleman, 1988; Pollit, 2002)	Spatial relationship and participation	Relatively low community involvement	Function of family structure	Kinship Work Infrequent interaction with removed ind.	informal discussion	Neighbourhood and school Mingles with Black neighbour	informal discussion	Sometimes befriends co-workers on individual basis, not family Forced in business, uncomfortable	informal discussion	High, interacts with neighbours Social clubs	informal discussion
12	<b>Networking</b> (Borgatti and Foster, 2003; Friedkin and Johnsen, 1999; Burt, 1992; Coleman, 1990)	Active pursuit of personal and co business networks	High awareness, relatively low activity	Strategic focus	Realisation but low implementation Differentiate buss from soc networking No conscious activities, function of business interaction	Interview Informal disc	Strategic focus Consciously pursues but with reservations	Interview e mails presentations Informal disc	Avoids, some as result of operational interaction Very low, limited to suppliers off goods and prof. services (architects)	Interview e mails informal disc	Very high, way above 50% Historically very successful Leverages networks	Interview e mails legals presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
13	<b>Strategic focus on SC</b> (Inkpen and Tsang, 2005; Bordieu, 1986; Douglas, 1995)	Consciously leveraging SC	Awareness of networks, norms, trust	Level of resource allocated and active pursuit	Separate social and business clouds judgement other industries, not HC SC required relatively low	Interview Informal disc	Strategically aware Attention to building trust relations	Interview e mails presentations Informal disc	Very low on SC, leverages technical expertise Environment of no SC, outsources	Interview informal disc e mails	Definitely Attention to building trust, and networks	Interview e mails presentations Informal disc
14	<b>Bridging SC focus</b> (Putnam, 2000; Coleman, 1990; Kristiansen, 2004; Healy, 2004)	Pursuit of SC with bridging objective	Trust as facilitator of bridging	Perceived potential and success	Common goal outweighs bridging SC Some value to long term relations Frequent interaction builds trust and bridges	Interview Informal disc	Trust as result of actions Service Bridges but stops short of transactional trust	Interview e mails presentations Informal disc	Minimal trust required via contracts Outsources SC, common business objective with 3d party as bridge	Interview e mails legals presentations Informal disc	High and leverages it Interaction leads to trust through experience	Interview e mails presentations Informal disc
15	<b>Structural SC status</b> (Coleman, 1988; Inkpen and Tsang, 2005; Edelman et. al, 2004)	Number of ties, configuration, stability	Number of ties relatively high, stable, business dependant	Peripheral ties vary significantly	High number of extended, stable ties Personal limited Business high and stable Gov few	Interview Informal disc	High number of stable ties, limited to operations excl high up Superficial	Interview e mails presentations Informal disc	Limited ties to operations, stable professionally Restricted to family.	Interview Informal disc e mails	High number of ties, stable, across industries Leverages it	Interview e mails Informal disc
16	<b>Cognitive SC focus</b> (Inkpen and Tsang, 2005; Edelman et. al, 2004)	Shared goals and culture; social context. Affiliation networks	Firm as base of trust, collectively	Firm culture differ	Co as affiliation Personal goals second to firm	Interview Informal disc presentations e-mails	Co affiliation Firm as vehicle for personal goals	Interview Informal disc	Very high, culture and religion Discrepant goals and culture overcome	Interview Informal disc	Low Success of firm is own success	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
17	<b>Density</b> (Borgatti and Forster, 2003; Gargiulo and Benassi, 2000; Bourdieu, 1986)	# of ties linking the actors in network, big or small network	Very dense, almost all connected	Size and reach of networks	Dense, big network Connected to all Reach but few ind. Dense # ties	Interview Informal disc presentations e-mails	Dense, medium network Connected to most	Interview Informal disc presentations e-mails	Small network, low density Poorly connected	Interview Informal disc presentations e-mails	Big and dense in pvt., across industries Connected to all	Interview Informal disc presentations e-mails
18	<b>Centrality</b> (Borgatti and Forster, 2003)	Position relative to other actors	High centrality	Issue dependant	High centrality on all issues Enabler in firm	Interview e mails legals presentations Informal disc	High centrality on technical operational issues Not close enough	Interview Informal disc presentations e-mails	High centrality on technical operational issues Technical hub	Interview Informal disc presentations e-mails	High centrality on all issues	Interview e mails legals presentations Informal disc
19	<b>Degree</b> (Borgatti and Forster, 2003)	# personal of ties	Few business ties personal	Conversion of business ties into personal ties	High # ties Conversion according to personal attributes Evolutionary	interview informal disc	Very few personal ties, consciously	interview informal disc	No personal ties, trust issues	Interview Informal disc	More personal ties, no conscious avoidance	Interview Informal disc
20	<b>Closeness</b> (Borgatti and Forster, 2003)	Independent access to other actors	High to all in network	Network reach	High closeness Big network with extensive access	Interview e mails legals presentations Informal disc	High only at ops/tech levels Limited access outside operations	Interview e mails presentations Informal disc	Restricted Limited access outside operations	Interview e mails presentations Informal disc	Big network with extensive access	Interview e mails presentations Informal disc
21	<b>Betweenness</b> (Borgatti and Forster, 2003)	Frequency of being between other actors, often present/absent	Related to role in network	Varying degrees	High in betweenness amongst almost all actors Often present	Interview e mails legals presentations Informal disc	High only at ops level Low betweenness, frequently one-on-one	Interview e mails presentations Informal disc	Low betweenness, mostly one-on-one Some project teams high betweenness in technical aspects	Interview e mails presentations Informal disc	High in betweenness amongst almost all actors as broker Often present	Interview e mails legals presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
22	<b>Risk aversion</b> (Healy, 2004; Konoirdos, 2005)	Assuming risk to evaluate trustworthiness, relative risk aversion	Firm aversion higher, mitigated by legals	Personal aversion vary	Risk averse, high distrust a.r.o. history Low personal aversion	interview informal disc	Risk averse Conscious of hurting feelings	interview informal disc	High personal and firm aversion	Interview e mails legals presentations Informal disc	Low personal aversion	interview informal disc
23	<b>Rate of trust</b> (Healy, 2004; Konoirdos, 2005)	Relative time to trust, speed of gaining/giving trust	Frequency of interaction dependant	Level achieved	Average to long Trustworthy	Interview e mails legals presentations Informal disc	Trusted technically Trusts quickly	Interview e mails legals presentations Informal disc	Trusted technically Trusts no-one Very long, maybe never	Interview e mails legals presentations Informal disc	Trusts up to a point Trusted	Interview e mails legals presentations informal disc
24	<b>Common goals</b> (Ng, 2004; Coleman, 1990; Putnam, 2000; Friedkin and Johnsen, 1999)	Idealism on outcomes, win-win or win-loose	Win-win from firm's side	Level of win-win from partners' side	Cooperation win-win Believe government to act in own interest, selfish	Interview e mails legals Informal disc	Subscribes to win-win but process not 100% honourable	Interview e mails legals Informal disc	Relations built on share of the spoils Gov not in competition but has checks and balances Expert inspectors on behalf of gov Win-win exploited to win-loose by government	interview informal disc	Common objective, product assists government in operations Win-win, government not concerned with MNE welfare	interview informal disc
25	<b>Position perception</b> (Potgieter et. al, 2006)	Perception of who one is, where belongs, norms of behaviour accepted	Under-rates own position Exclusion	Assertiveness	High accuracy and awareness Unwilling to extend own standing	interview informal disc	Unaware of limited transactional trust Prepared to improve position	interview informal disc	Feels socially/culturally distant and excluded. Excessive respect for position No aspiration to enter	interview informal disc	Acts as broker, accurate perception Aware of status as outsider	interview informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
26	<b>Homogeneity requirements</b> (Putnam, 2000; Ng, 2004; Edelman et al, 2004)	Tolerance and awareness of network diversity/heterogeneity	High awareness and tolerance in business networks Low in social networks	Government networks high awareness, low tolerance	High tolerance and awareness, excluded from government Degrees of trust on homogeneity Social interaction high homogeneity	Interview e mails legals Informal disc	High tolerance in business and personal, excluded from government Neutral venue Avoids invite to house-differences and sensitivities in material wealth Mingles with black neighbour-same economic and buss level	Interview e mails legals Informal disc	Low tolerance in personal, business high Awareness high due to being excluded	Interview e mails legals Informal disc	High tolerance in business Low requirements	Interview e mails legals Informal disc
27	<b>Tacit rules</b> (Cross, Borgatti and Parker, 2001)	Subconscious awareness of the unspoken	Aware of existence, unsure of content	Varying levels of sensitivity	Very high - professionalis m Sensitive to tacit rules and politics	Interview e mails legals presentations Informal disc	High awareness and sensitivity to existence Content not known	Interview e mails legals presentations Informal disc	High awareness but inept Very low sensitivity covered by avoidance	Interview e mails presentations Informal disc	Politically skilled, high awareness	Interview e mails legals presentations Informal disc
28	<b>Proximity status</b> (Pollit, 2002; McPherson et al, 2001)	Spatial relation and frequency of exposure/ interaction	Proximity reflects connectedness	Desire to be close Personality trait	High exposure frequency, spatially close Spatial proximity high requirement	Interview e mails presentations Informal disc	Spatially distant with low frequency Co-workers and neighbours	Interview Informal disc	Spatially absent, very low frequency People have been to house but for business meets only	Interview Informal disc	Spatially omni-present, high exposure Neutral venues, wives do not understand business Same for previous gov	Interview e mails legals presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
29	<b>Relatedness</b> (Pollit, 2002; Edelman et al, 2004)	Family ties (kinship) and ethnicity	Personal life high, business irrelevant	Experience with government varies	High - limited friends outside Some level of nepotism in firm, nothing with business partners Confirmed in government	Interview Informal disc	Socialises in the main with family Some level of nepotism in firm, nothing with business partners Confirmed in government	Interview Informal disc	Low in business, confirmed in government and exploited Exclusive basis for interaction	Interview e mails legals presentations Informal disc	Low in business, unconfirmed in government Not required but valued	Interview Informal disc
30	<b>Homophily</b> (McPherson et al, 2001, McPherson, Smith-Lovin and Cook, 2001; Reagans and Zuckerman, 2001; Edelman et al, 2004)	Tendency to interact with own kind	High in personal life, low in business	Varies within the firms	High within firm, low in customers High socially, low business	Interview e mails presentations Informal disc	Low within firm and business partners Socialise with employees and families if they fit Only interact with those that appeal socially Obliged social not enjoyable Material equals	Interview e mails Legals presentations Informal disc	Very high socially Low within firms and business partners	Interview e mails legals presentations Informal disc	High within firm, low in customers	Interview e mails presentation s Informal disc
31	<b>Social cognition</b> (Borgatti and Foster, 2003; Brewer, 2000)	Accuracy of own perception of own role/position in network	Very high	Varying understanding of reasons	High accuracy and awareness good understanding	Interview e mails legals presentations Informal disc	Accurate ops, but not buss High accuracy with poor understanding	Interview e mails legals presentations Informal disc	Highly accurate with good understanding High, focus on technical strengths	Interview Informal disc	High accuracy with poor understanding	Interview Informal disc
32	<b>Network perception</b> (Casciaro, 1998; Potgieter et al, 2006)	Accuracy of perception of network workings	Broad understanding accurate	Varying insight into detail	High accuracy and awareness Good understanding down to the detail	Interview e mails legals presentations Informal disc	Blind Broadly understands but lacking detailed insight	Interview e mails presentations Informal disc	Not interested Limited to own exclusion	Interview Informal disc	High Broadly understands but lacking detailed insight	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
33	<b>Power</b> (Bourdieu, 1986)	Relative to other actors, and locus	High especially a.r.o. position, technical	Dependent on role in network	High in power a.r.o. position and role Positional power, not driver	Interview e mails legals presentations Informal disc	Limited to technical expertise	Interview e mails presentations Informal disc	High technical power, low social and limited business	Interview e mails presentations Informal disc	High in power a.r.o. position and role Locus of access due # of ties	Interview e mails legals presentations Informal disc
34	<b>Information</b> (Bourdieu, 1986; Staber, 2004)	Access and control vs. other actors	Unlimited to formal info	Varying in tacit and informal info	Very high in formal and informal Source of info	Interview e mails legals presentations Informal disc	Tech very strong High in formal only Command of languages	Interview e mails legals presentations Informal disc	Very high on technical High in formal only	Interview e mails legals presentations Informal disc	High in formal only High on connections	Interview e mails legals presentations Informal disc

				Case 1		Case 2		Case 3		Case 4		
Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources	
<b>ii. Business Government Relations</b>												
35	<b>Adversarial state</b> (Agmon, 2003; Vogel, 1996)	Status of relations with government	Generally strained	Impact as barrier varies	Political agenda implemented irrespective of pvt. input Paranoia state vs. pvt. Nationalise pvt. Health? Pvt. and state competing? Friction lack of consultation Friction not with co but industry Mutual dependence not in Health charter Distrusts gov Conflict origin is political Heal Char anti-pvt. Friction a.r.o. opposing objectives	Interview e mails legals tenders presentations Informal disc	Poor a.r.o. historical dealings Good products and service Questionable transacting Friction over Para Statal regulations Court case-performance, specs, payment Whistle blowing by competitors Application and enforcement of law discrepant Competing against gov employee pref. provider	Interview e mails legals tenders presentations Informal disc	Operationally good relations otherwise significant distance Distrust a.r.o. corruption, leaking confidential info and sharing IP with competitors IP used but business based on bribes by competitors	Interview e mails legals tenders presentations Informal disc	Massive distance Distance a.r.o. being gov, but also ind. personalities Burocracy and incompetence even worse than previous gov Cultural gap has always been there, but is now stopping business Approaches effective in pvt fail in gov, negotiations differ	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
36	<b>Magnitude of bargaining power</b> (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992)	Relative to government	Relatively high	Product and service specific	High up to before political level Gov determines PMBs Creates med aid legist mutual dependence Citizen demands supports co	Interview Informal disc	Limited to current contracts Gov 50% of turnover Legislate tender process BEE requirements Para Statal Radia Board - equipment specs -huge paper work burden Tech competence low in gov	Interview e mails legals tenders presentations Informal disc	Low, directly Government is customer Products of parity with many substitutes	Interview Informal disc	Low, products of parity and luxury	Interview Informal disc
37	<b>Locus of bargaining power</b> (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Haley, 2001)	Competitive advantages vs. government	Desirability of products Firm IP	Willingness to deal	Products, services and IP Need to cooperate Gov reliant on pvt. skills	Interview e mails legals tenders presentations Informal disc	Technical IP, some products and services	Interview e mails legals tenders presentations Informal disc	IP very strong locus of power but products of parity Transacting channels and partners	Interview Informal disc legals presentations	Competitive advantage in pvt. not extending to gov. Gov technologically behind	
38	<b>Weakness</b> (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Blumentritt, 2003)	Disadvantages vs. government	Political policies and regulation Price control Significant customer	Leveraging legislation	Dependant on reimbursement regulations Tender specs and awards ↑ relations academia Gov determines PMBs Expensive	Interview e mails legals tenders presentations Informal disc	Dependant on product regulations Tender specs and awards Products of parity History of adversary Distrust	Interview e mails legals tenders presentations Informal disc	Closed tenders Tender specs and awards Tender process easily manipulated Incentive driven	Interview e mails legals tenders presentations Informal disc	No conscious realization of need Inability to uncover need Products and services of parity	Interview e mails legals tenders presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
39	<b>Opportunities</b> (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Blumentritt, 2003)	Perception of opportunities	Healthcare recapitalisation and increased spending	Extent of opportunities available to MNE	↑ gov costs need for intervene ↑ pat# Insuff gov capacity Limited within in current policies Future needs	interview informal disc tenders	New focus on infrastructure Training and workshops High with curbing of corruption	interview informal disc tenders presentations	High with correct third parties Many opportunities in increased spending	interview informal disc tenders presentations	Lots of opportunities but barriers High with education	interview informal disc presentations

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
40	<p><b>Threats</b> (Peng, 2000; Vogel, 1996; Shaffer, 1995; Brewer, 1992; Blumentritt, 2003)</p>	<p>Perception of threats in the external MNE government environment</p>	<p>Socialistic political doctrine International withdrawal Insignificant contribution to international revenue</p>	<p>Perception of probabilities vary</p>	<p>Budget constraints Attention to primary healthcare Local competitors Different objectives make money vs. pay as little roles not defined</p>	<p>Interview e mails tenders presentations Informal disc</p>	<p>Cheap products from East Corruption Regulatory incompetence Ex gov employees now pvt. - (relations) BEE determine CO structure Roll-out of legislation Rad regula slowing selling/ installations move to other modalities Gov employees little knowledge of products Low education in high positions Theoretical knowledge no experience and practical app Middlemen add margin-expensive Comp sell poor quality/service-taints industry Often no public opening tenders Gov employee in comp pocket</p>	<p>Interview e mails presentations Informal disc</p>	<p>Corruption Lack of technical knowledge Government budget control Project outlives polit gov employee, ops lasts longer Negotiation and preparation takes very long Start from scratch if not secured before term ends Bribery</p>	<p>Interview e mails tenders presentations Informal disc</p>	<p>Inability to convince gov of need due to low knowledge, negotiation skills and apathy National Health Insurance New technology Poor infrastructure</p>	<p>interview informal disc</p>

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
41	<b>Success</b> (Haley, 2001; Brewer, 1992)	Successes in historical dealings	Same criteria of success	Varying levels achieved	Assist gov to utilise capacity Tender completion Training of government employees Continued professional development	Interview e mails legals tenders presentations Informal disc	Tender completion Training of government employees Continued professional development Enabling service to public Generated tender specs- lack of knowledge- credibility and make employee look good	Interview e mails legals tenders presentations Informal disc	High success rate but still disappointed in strike rate Project hand-over Training Service and maintenance Transacting	Interview e mails legals tenders presentations Informal disc	Better results with Indian gov employee if accompanied by Indian BEE (also coloureds)	Interview Informal disc
42	<b>Failures</b> (Haley, 2001; Brewer, 1992)	Failures in historical dealings	Unsuccessful bids Regulatory lobbying	Varying co-opting of third parties	Convincing government on best practice Public-Private cooperation	Interview Informal disc legals presentations	Catastrophic buss in past Product performance Up skilling government employees Third party cooperation	Interview e mails legals tenders presentations Informal disc	Securing project commitment/funding Lost deal to competitors using own IP Projects shelved after high investment Overrun of projects due to gov's non-performance	Interview e mails legals tenders presentations Informal disc	No inroads Fobbed off No progress beyond 1st meet Blacks very difficult	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
43	<b>Embeddedness</b> (Holm, Eriksson and Johanson, 1996; Granovetter, 1985; Tung, 2002)	Extent of organisation's involvement in networks	Extensively involved in operational networks	Varying involvement in political and strategic networks	Industry wide involvement including competitors No direct political exposure Utilise third parties	Interview e mails legals tenders presentations Informal disc	Firm very limited network Insources Third party	Interview e mails legals tenders presentations Informal disc	High embeddedness as organisational network (suppliers of goods and services) Professional services suppliers Third parties extended	Interview e mails legals tenders presentations Informal disc	Extensive network throughout industry	Interview Informal disc
44	<b>Operational gov-bus networks</b> (Chen, 2004; Shaffer, 1995)	Extent and level of organisation's involvement, operational	Better relations with operational levels	End-user relations differ	High involvement including end-users, academics Assist to utilise capacity well equipped but understaffed protocols optimal care training	Interview e mails tenders presentations Informal disc	Very high involvement including end-users, some academics	Interview e mails tenders presentations Informal disc	High operational involvement but project specific	Interview e mails tenders presentations Informal disc	Limited involvement as result of inability to strike a deal	Interview Informal disc
45	<b>Decision-making gov networks</b> (Peng, 2000; Chen, 2004; Hillman, 2003; Lenway and Murtha, 1994; Goldsmith, 2002, Brewer, 1992; Shaffer, 1995)	Extent and level of organisation's involvement, senior levels	No direct access	Varying indirect access	Some access on government demand Lack of consultation quarterly meets co initiates interaction conflict resolutions struggle to agree on endpoints	Interview Informal disc	No access, unable to penetrate Not trusted	Interview Informal disc	Very low but effectively outsourced to third parties Indirect access Legislative reach negligible	Interview Informal disc	No access Probably ex-colonial label	Interview Informal disc

	Codes	Description	Similarities	Differences	Case 1		Case 2		Case 3		Case 4	
					Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
46	<b>Political activity</b> (Schuler, 2002; Yeung, 2005; Forrest, 2003; Hillman and Hitt, 1995)	Extent and level of organisation's involvement, lobbying	Trade organisations	Varying lobbying submissions Third party lobbyists	Some lobbying but little discourse Quarterly industry meets	Interview Informal disc	Third party lobbying Legal challenges and court cases	Interview Informal disc	Very low directly Extensive third party lobbying	Interview e mails tenders presentations Informal disc	Representative bodies lobby	Interview Informal disc
47	<b>Government business activity</b> (Schuler, 2002)	Extent of organisation's aspirations, gov as target customer	Major focus on government as customer	Varying levels of success	Growing Third party contribution increasing	Interview e mails tenders legals presentations Informal disc	High BEE and third party diminishing	Interview e mails tenders legals presentations Informal disc	High via third parties Reputation good	Interview e mails tenders legals presentations Informal disc	No success initially Government targeted extensively Now only pvt. where the fish are	Interview e mails tenders legals presentations Informal disc
48	<b>Collective activity</b> (Schuler, 2002)	Extent of political participation in competitor activity and trade organisations	Agreement for need	Varying opinion on viability and engagement	Extensive participation Appreciates collectivism value	Interview e mails presentations Informal disc	None High levels of friction with competitors	Interview Informal disc	Extensively as individual only in professional body	Interview Informal disc	As per industry norm	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
49	<b>Corruption</b> (Rodriguez, Uhlenbruck and Eden, 2005; Ginwala, 1998; Leisinger, 1998)	Perception, attitude and participation	Universally accepted and condemned	Varying indirect involvement	No direct involvement Suspects third party inducement	Interview Informal disc	Direct and indirect inducement 40% of value for relations- kick backs, commissions Almost no deal without commission Blank tender docs submitted Gov employees work for pref. supplier afterwards In competition pocket Business not on SC but bribes Front co channel bribes (chocolate money)- focus in home countries Goes against the grain Low paid employees bribed Tougher the environment the more bribing Correlation between low education and soliciting bribes	Interview Informal disc	High levels of corruption perceived Arms-length through third parties Acknowledges enabling role but distances direct involvement	Interview Informal disc	Acknowledges existence, no involvement	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
50	<b>CSR</b> (Hamann and Acutt, 2003; Smith, 2003; Artraud-Day, 2005; Henderson, 2005; Gethmann, 1998; Koslowski, 1998)	CSR as strategy, tactical implementation	No CSR strategy or activities Free samples outlawed	Varying opinion on returns	No returns, ignored by decision-makers	Interview Informal disc	Low, some donations of goods Personally as social responsibility	Interview Informal disc	None Third parties' domain as they secure the deal	Interview Informal disc	None Need to secure business first	Interview Informal disc
51	<b>Transactional strategy</b> (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980)	Weighting on issue specific interaction	Main focus a.r.o. lack of business and political access	Level of direct involvement and third party role differ	Focus Direct and through third party	Interview e mails tenders legals presentations Informal disc	Balanced BEE and third party	Interview e mails tenders legals presentations Informal disc	Sole focus Engages third parties extensively	Interview e mails tenders legals presentations Informal disc	Direct and third parties Leads, drives presentations and meetings	Interview Informal disc
52	<b>Relational strategy</b> (Hillman and Hitt, 1999; Hoskiss and Hitt, 1990; Weidenbaum, 1980)	Weighting on continued interaction	Abandoned as independent strategy Some attention during transactional activities	Level of engagement of third parties with established ties	Limited to building trust in transactional exposures	Interview e mails presentations Informal disc	Building trust and credibility in transactional exposures BEE partners Third parties 90% of the success of a co Selling function After sales service Maintenance contracts Relation building futile gov employee in pocket of competitors targeted ind.interaction	Interview e mails presentations Informal disc	Relations evolve exclusively from project interaction Outsourced to third parties	Interview e mails presentations Informal disc	Universal objective Highly successful in pvt, no success in gov.	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
53	<b>Firm ethnic profile</b> (Kristiansen, 2004; Chen, 2004; Putnam, 2000)	Ethnic make-up of executive, firm	White executives	Firm profile varies	White, + all races	Interview e mails Informal disc	White mainly, some black Sales non-whites	Interview e mails Informal disc	White and black sales people	Interview e mails Informal disc	Ex Colonial, firm mixed	Interview e mails Informal disc
54	<b>Government ethnic profile</b> (Kristiansen, 2004; Chen, 2004; Putnam, 2000)	Ethnic make-up government employees	Decision-makers black	Operational staff vary	Academia white, ops mixed, senior black	Interview e mails Informal disc	Mainly black, some Indian National gov differs from provincial-different rules Military also part of gov procure	Interview e mails Informal disc	Mostly black but mixed as consultants to government	Interview e mails Informal disc	Mostly black, also Indian	Interview Informal disc
55	<b>JV history</b> (Chen and Chen, 1998; Stuart, 2000; Holm, Eriksson and Johanson, 1996)	JV involvement and objectives	Some form of cooperation with locals	Varying scope of joint venture transactions	Limited, vertical integration Tender through third parties	Interview e mails tenders legals presentations Informal disc	High, tender via third parties with contacts	Interview e mails tenders legals presentations Informal disc	Fully fledged JVs, arms-length to third parties, tender through third parties Extensive share of the spoils	Interview e mails tenders legals presentations Informal disc	Limited, no need None except for BEE arrangements	Interview Informal disc
56	<b>MNE Government trust</b> (Agmon, 2003)	Reigning levels of trust	Distrusting of politicians	Varying levels of decision-makers and operational staff	Politicians not honest Gov biased Very negative Locus not indiv but ANC manifesto Biased in pursuit of legisl endpoints	Interview Informal disc	Politicians, most decision-makers and some operational staff not trusted Low a.r.o. history Extreme distrust from blacks in gov-Indians coloureds better Consultant info to gov-	Interview Informal disc	No one trusted Very low until award of business	Interview Informal disc	Distrusts commitment and skills	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
	<b>1.2 Research questions</b>											
57	<b>Strategy to develop SC</b> (Blumentritt and Nigh, 2002; Mahon, Heugens and Lamertz, 2004; Hillman and Hitt, 1999; Keim and Baysinger, 1988)	General approach to developing SC	Firm credentials and track record to give credibility and trust	Evolutionary to conscious efforts	Evolutionary, upfront on intentions, no social Individuals well defined strictly buss gov choice and co policy - not negative for relations separate social from buss focus on corruption negative SC left to develop over time Networking crucial - not done	Interview e-mail agendas Informal disc	Networking with focus on ind. personal life and work aspirations/preferences Command of language Numerous and frequent meetings to generate trust	Interview e-mail agendas Informal disc	Relations 100% delegated BEE and black employees Assign relations to exec/BEE that is not culturally/normative as far removed	Interview e-mail agendas Informal disc	Interaction and social exposure Reacts to messages from counter party	Interview e-mail agendas Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
58	<b>Tactics to develop SC</b> (Blumentritt and Nigh, 2002; Mahon, Heugens and Lamertz, 2004; Hillman and Hitt, 1999; Keim and Baysinger, 1988)	Specific actions in support of strategy	Phone and e communications to follow up	Assertiveness	Monthly comms specific individuals Meets, e-mail, Telephone neutral venue no spouses Social only as result of long relations-natural Evolution	Interview e-mail agendas Informal disc	Targets ind. for networking "Coincidental", well planned first meeting in an informal environment Priority to extract personal information Uses pers detail to link presentation Not to aggressive, try too hard to impress	Interview e-mail Informal disc	BEE sources opportunities and sets up meetings Supports BEE political/relational with strong technical- make look good	Interview e-mail agendas Informal disc	Bottom-up, users to decision makers and top-down- no results Use bottom to open doors higher and visa versa	Interview e-mail Informal disc
59	<b>Third Party advantage</b> (Chen and Chen, 1998; Stuart, 2000; Holm, Eriksson and Johanson, 1996)	Driving force for engaging third party	Existing relations Access to government missing	Extent of role in securing deal	Gov engagement Pvt. market access	Interview e mails tenders legals presentations Informal disc	Definite networks in their own cultural groups Secured deals	Interview e mails tenders legals presentations Informal disc	Relations are NB Fronting Share in the spoils Biggest business opportunities reside in relationships	Interview e mails tenders legals presentations Informal disc	Established relations of third aptry	Interview Informal disc
60	<b>Third Party role</b> (Chen and Chen, 1998; Stuart, 2000; Holm, Eriksson and Johanson, 1996)	Role of third party in organisation	Relational responsibility	Operational tasks	Increase footprint Do not present but informed and consulted	Interview e mails legals presentations Informal disc	Buss leads Securing contracts Setting up meets	Interview e mails legals presentations Informal disc	Earn commissions or % no more Secure gov contracts Interactions driven from both sides as required	Interview e mails legals presentations Informal disc	Identify role players Set up meetings	Interview e-mail Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
61	<b>Third Party relations strategy</b> (Chen and Chen, 1998; Stuart, 2000; Holm, Eriksson and Johanson, 1996)	Role for third party in government relations	Access, opportunity to present	Level of involvement in securing business	Access to gov Just being BEE not necessarily relations BEE disappointed with gov	Interview e mails tenders legals presentations Informal disc	Extensively used to set up meetings Enables and opens doors that MNE man would not get in Negotiates contracts	Interview e mails tenders legals presentations Informal disc	They have the relations Often ID of gov employee unknown Network plays role in award of tender BEE used beyond access, actually clinches the deal Decisions made in secretive political meets, open forums mere tokenism Gov employee protects himself on transactional details, looks knowledgeable in open forum	Interview e mails tenders legals presentations Informal disc	Set up meeting, even their credibility could not clinch deal	Interview e-mail presentations Informal disc
62	<b>Interaction process</b>	Chronology of interactions with government.	Up to presentation stages the same Operational interaction similar	The transacting interaction differ from deal to deal	BEE sets up meet Afterwards do meet without but always consult BEE not in buss meets	Interview e mails legals presentations Informal disc	Mutual dependence- co and gov initiates interaction Function of back-up to equipment	Interview e mails legals presentations Informal disc	Frequency of interaction is project dependant	Interview e mails legals presentations Informal disc	Bottom-up, users to decision makers and top-down- no results Use bottom to open doors higher and visa versa	Interview e-mail presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
63	<b>Interaction format</b>	Personal, e-mail, phone	Phone and e communications to follow up MNE initiated As dictated by business	Extent of government initiated	Quarterly meets gov e-mails gov and industry stakeholders Industry quarterly meets	Interview e mails legals presentations Informal disc	Daily on phone or e-mail, personally weekly at hosp or their offices	Interview e mails legals presentations Informal disc	As required by the project Middleman, sms or e-mail Face-to-face once a month Preparation requires lot of work and frequent interaction to support BEE Deadlines mean hard work	Interview e mails legals presentations Informal disc	Frequent Initiated by co Feedback to gov employees A lot more response from pvt.	Interview e-mail presentations Informal disc
64	<b>SC Realizations</b>	Are desired SC outcomes achieved	Business relations not at target Trust low	Expectations vary over time a.r.o. experience	Insufficient relations None with decision-makers	Interview e mails presentations Informal disc	Only at ops level Little or no access to top levels	Interview e mails presentations Informal disc	No personal aspirations, result from outsourcing still disappointing (over-promise) but still dominant	Interview e mails presentations Informal disc	No realisation, very despondent, see no possibility	Interview e-mail Informal disc
65	<b>Level of relations</b>	Business, social	Almost non-existent at decision and political level	Threshold levels differ per transaction	No social relations as was not pursued	Interview e mails presentations Informal disc	Buss success a.r.o. tech exclusivity and third parties	Interview e mails tenders legals presentations Informal disc	Co has extensive relations but transitional and flimsy; deal specific	Interview e mails tenders legals presentations Informal disc	Very low, do not get off-the-ground	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
66	<b>Objective realisation</b>	Are the objectives (business) achieved	Lagging behind private sector Not satisfied	Varying levels of success	Not sufficiently but some Progress has been gradual	Interview e mails tenders legals presentations Informal disc	Secured a lot of deals, Those lost are for the wrong reasons, not business	Interview e mails tenders legals presentations Informal disc	BEE has had limited success? Over-promise and under-deliver on abilities	Interview e mails tenders legals presentations Informal disc	No Unable to even secure follow-up meeting	Interview Informal disc
67	<b>Barriers perceptions</b>	What are the barriers to government relations	Culture History of strife Knowledge and Experience	Relative weighting and contribution of each	Social behaviour similar - courteous Political objectives anti-industry Cultural gap Socio-economic diversity Differences irreconcilable in absence of common objective.	Interview e mails Informal disc	Ex gov employees with gov networks now pvt. competitors Time and education solution to bribery Blacks cold and distant, do not share personal info Often cautious and intimidated Cautious do not feel secure in positions Constant public scrutiny and internal politics	Interview e mails Informal disc	Culture Religion Bribery Unfair advantaging of their own Exclusion and distant	Interview e mails Informal disc	Culture Avoidance Indecision and empowerment Fobbed off No progress beyond initial meeting Not qualified for the position Fail to grasp most basic concepts Do not give any feedback on presentations Meeting on meeting, no decisions made Not taught to negotiate Deterioration of relations more result of incompetence than culture	Interview e mails Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
68	<b>Accessibility</b>	How accessible are the various levels of government	Politicians totally inaccessible Operational levels relatively accessible Much worse than private sector	Decision makers vary in indirect access via third party	Decision makers low, rest limited, academia high	Interview e mails presentations Informal disc	Ops levels pleading for assistance Not taboo anymore to have good relations with MNEs Employees higher up only meet at neutral venues, definitely not at co offices	Interview e mails presentations Informal disc	Definite segregation between political and operational employees	Interview e mails presentations Informal disc	Very restricted higher up Physical access does not equate cooperation	Interview e mails presentations Informal disc
69	<b>Preparations</b>	For interaction; meeting/presentation	Extensive research and planning Policies, institutional and individual preferences studied	Agenda setting varies in detail and structure of meeting	Interview individuals on gov buss, policies and visions Researched specific individuals and social political cultural personal objectives Research with networking objective Agenda set by co and sent to gov to add to	Interview e mails Agendas presentations Informal disc	ID and research ind. that will attend Ind. history and loyalty to comp (in-pocket) Make ind. aware that their prefs have been researched No formal agenda but comm. broad topic	Interview e mails Agendas presentations Informal disc	Political meet precedes, often secretively, only gov employee and 3d party Gov employee briefed on technical to impress at main meet	Interview e mails Agendas presentations Informal disc	Sent through proposed agenda and resume of products e-mail Often not even read Researched ind. to meet Info from lower levels, also on personal	Interview e mails presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
70	<b>Relational content</b>	Fraction of presentation dedicated to relationship development	Relatively low, much less than 5% of time	Content and timing of relational matter	Utilise time before formal presentation Declare intentions upfront no cloak and dagger Credibility comes from tech content and access to co IP	Interview e mails Agendas presentations Informal disc	Technical content must satisfy every attending individual's needs. Interaction must be beyond conclusion of deal-supports future deals	Interview e mails Agendas presentations Informal disc	Purely project driven, no "political content Socialising limited to communal lunch at meet Mood is formal and restrained	Interview e mails Agendas presentations Informal disc	Explain BEE credentials to built trust, also success of co and products Sell self according to mood	Interview e mails Agendas presentations Informal disc
71	<b>Technical presentation content</b>	Mastery shown through technical competence in presentation	Extensive technical focus Features and benefits Exhibit IP	Detail specific to the nature of deal	Present in support of gov policies, not in conflict Exhibit IP programs, protocols etc	Interview e mails Agendas presentations Informal disc	Leverages knowledge and intellect to gain credibility Addresses each ind. concerns	Interview e mails Agendas presentations Informal disc	Purely project driven, no "political content	Interview e mails Agendas presentations Informal disc	Extensive but little report or feedback/questions	Interview e mails Agendas presentations Informal disc
72	<b>Course of meeting</b>	How do the events unfold during the meeting	Atmosphere formal and business-like Some social interaction precede the meeting Enjoy tea with some social interaction	Agenda and adherence to structure varies	Not always targeted individuals that attend Relationship building precedes official presentation Gov official chairs-senior Mood formal never digress Minutes taken incl. resolutions	Interview e mails Agendas presentations Informal disc	Initial moments of meeting socialise to put everyone at ease Never knocks competitors After social gets to product	Interview e mails Agendas presentations Informal disc	No focus on individual No agenda, flow as dictated by project Political meeting precedes, often secretly, only gov employee and 3d party	Interview e mails Agendas presentations Informal disc	Mood of gov meet cold and impersonal Government employees disinterested No participation	Interview e mails Agendas presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
73	<b>Perceived relational attributes</b>	Own perception of relational strengths and employment hereof	Easy to interact with Professional Credible and trustworthy	Ability to strike-up relations Inclination to interact	Professional Credible Technically knowledgeable Reads situation well	Interview Informal disc	Credible, knowledgeable, honourable, warm	Interview Informal disc	Easy personality Actively avoids deception and lies Honesty is mis-used Filters info given out	Interview Informal disc	People like interacting with him Read people well	Interview Informal disc
74	<b>Independent relations</b>	Do business relations continue afterwards, independently?	Relations do not survive the project	Sometimes limited independence from third party during the project	Yes, very limited just evolved	Interview e mails tenders legals Agendas presentations Informal disc	BEE just needed for the introduction High frequency exposure prerequisite	Interview e mails tenders legals Agendas presentations Informal disc	No access without BEE Totally third party dependant	Interview e mails tenders legals Agendas presentations Informal disc	Not even business relations established	Interview e mails tenders legals Agendas presentations Informal disc
75	<b>Social relations</b>	Does pure social interaction follow business relations	Unanimous in government's reluctance Own reluctance to socialise	Appropriateness of social relations Role of culture vs. government mandate	No, not invited by government employees nor pursued by executive	Interview Informal disc	Never happened and do not foresee it happening Not pursued	Interview Informal disc	Very anti-social with business partners, especially government	Interview Informal disc	No, will pursue if government employees were open, maybe	Interview Informal disc
<b>1.3 Gut-feel</b>												
76	<b>Third-party ties</b>	The role that government ties play in the choice of third party	Selling point of third party Highly valued by MNE	Varying levels of realisation	Third party mainly as stakeholder Approached a friendly person affiliated to rulers	Interview e mails tenders legals Agendas presentations Informal disc	Ex gov now pvt. co's with networks Very NB BEE ties also limited to own cultural groups BEE has been disappointing in delivering against networks	Interview e mails tenders legals Agendas presentations Informal disc	Very high, approached with deal-in-hand	Interview e mails tenders legals Agendas presentations Informal disc	High in light of own inability to strike up relations	Interview e mails tenders legals Agendas presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
77	<b>CRM system</b>	Formal system of targeting individual government employees	No IT system or otherwise at executive level Universally employed at sales level	Awareness of the value and applicability	No, IT system Otherwise highly IT enabled	Interview Informal disc	Targeted but not systemised, not very IT orientated	Interview Informal disc	None, no relational inclination	Interview Informal disc	No, formal system Extensive Rolodex business card system	Interview Informal disc
78	<b>Sales and marketing exposure</b>	Level of training and experience in sales and marketing	High awareness of role of sales and marketing	Theoretical and practical experience vary Application of principles	Low, clinical background. As customer and target	Interview e mails legals Agendas presentations Informal disc	Good training, extensive experience and competent	Interview e mails legals Agendas presentations Informal disc	None practically, but some theory	Interview e mails legals Agendas presentations Informal disc	High, extensive experience in pvt. and prev gov	Interview e mails legals Agendas presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
79	<b>Relationship orientation</b>	Resource and time allocated to developing relations	Appreciate a role for relations	Differ in appropriateness, pursuit, assertiveness and origin of good relations	Low, always business undertone Does value evolutionary relations as business counterpart	Interview e mails legals Agendas presentations Informal disc	Intra-co relations NB Relations sell Socialise with employees and families Socialise with those that appeal socially Obliged socialisation not enjoyable How you speak-respect Response time No need for gifts/thank you's Show interest in his personal life Address ind. needs - makes them feel NB Remember previous remarks, address Repeatedly Definite networking focus- have to buy me first before buying the product IDs individuals	Interview e mails legals Agendas presentations Informal disc	None, credibility valued very high and achieved on performance and tech expertise Outsourced to third parties	Interview e mails legals Agendas presentations Informal disc	Relations are critical, especially gov, but very difficult Totally acceptable to progress bus relations to pure social Led by customer preference	Interview e mails legals Agendas presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
<b>2. Grounded in data</b>												
<b>2.1 Descriptive</b>												
80	<b>General cross-ethnic relations</b>	Status of relations with locals in private market	Relations in private superior Reduced effects of ethnicity and culture, but not non-existent	Levels of Homophily experienced Levels of Homophily applied	Very good relations across the spectrum Trusted by black professionals Numerous successes	Interview Informal disc	Culture important- black and Japanese difficult, Europeans Indians Coloureds easier Black neighbour who mingles with	Interview Informal disc	Very limited Few blacks active in pvt. market, some Indians	Interview Informal disc	Focus on all areas with good success in pvt., all races	Interview Informal disc
81	<b>Historical dealings with government</b>	Historical events with government; political and business, personal and company.	Disappointed by government business ethic	Extent of deals gone bad differ	Personally disappointed Co frustrated but no disasters	Interview Informal disc	Court cases on application of regulations Gov distrusts co due to a history	Interview Informal disc	Double-crossed by gov, using his IP	Interview Informal disc	Very poor rate of clinching deals Also had cultural gap with Afrikaners but bridged far easier Ended with some excellent social relations	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
82	<b>Social interaction as business tactic</b>	Do MNE managers pursue pure social interaction	Acknowledges possible role Wary a.r.o. perceived associated risks	Extent of strategy and implementation Tactics vary	No, sees social relations as possibly detracting from business	Interview Informal disc	Frequency 1/10, quality 7/10 Differentiates business social vs. social socials Allows staff to do more frequent Prefers to entertain in groups Cheap places Wimpy breakfast Positive if not excessive Founded in buss principles No strings/expectations Buss entertainment acceptable Backlash if scale down or not included Receiving end of entertainment-resented non-inclusion Limited- way to get to know	Interview e mails presentations Informal disc	Dangerous to socialise-introduces new emotions into the situation. People lie lot restricts to pure business only	Interview Informal disc	Yes but led by customer preference Culture plays role in inclination to socially interact	Interview Informal disc
<b>2.2 Analytical</b>												
83	<b>Political conviction</b>	Personal political convictions	Political convictions suppressed in business arena	Different convictions	Liberal but segregated socially (ethnicity)	Interview Informal disc	Not race, but socio-economic standing	Interview Informal disc	Conservative	Interview Informal disc	Liberal but acknowledges differences	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
84	<b>Sources of barriers</b>	What is the perceived origin for barriers	Politics Ethnicity and Culture History	Relative weighting and contribution of each	Social political convictions anti capitolism Culture Socio-cultural	Interview Informal disc	Established relations of ex-gov Nature of gov Cultural difference Education levels- feel inferior and intimidated Difference in material wealth Lack of understanding of blacks- misreads body lang or what they mean	Interview Informal disc	Culture-normative values irreconcilable Gov employees do not want to expose themselves, need to impress the most senior gov official	Interview Informal disc	Many fold, firstly culture Do not, or do not want to understand product message Different interests, soccer/rugby	Interview Informal disc
85	<b>Blind side</b>	Unawareness as to own short comings; ID and resolution of issues	Ability to interact is blind High awareness on propensity though	Ability to turn disadvantages into positives	Networking crucial but not actively pursued Blind on social connection	Interview Informal disc	Limited skill in the buss dealings, only tech Not part of decision-making circle	Interview Informal disc	High awareness of short-comings in especially relational abilities	Interview Informal disc	Acknowledges he may have the problem Unaware of what it is	Interview Informal disc
86	<b>Relational grounding</b>	Experience in relationship marketing	Awareness of importance of relations	Difference in implementation	None, clinical back ground but experienced in the board room	Interview e mails tenders legals Agendas presentations Informal disc	Wife in sales-interacting with spouses	Interview e mails tenders legals Agendas presentations Informal disc	None, glaring short coming but highly aware of the fact	Interview e mails tenders legals Agendas presentations Informal disc	Extensive in pvt. sector, across industries	Interview e mails tenders legals Agendas presentations Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources						
	<b>Interviewer's Perceptions (10-point scale)</b>											
87	<b>Out-going personality</b>	Extrovertedness	Appreciate value	Differ greatly	7	Interview Informal disc	6	Interview Informal disc	3	Interview Informal disc	8	Interview Informal disc
88	<b>Negativity</b>	Preconceived perceptions	Very negative on government conduct	Influence on business success vary	8	Interview Informal disc	5	Interview Informal disc	9	Interview Informal disc	9	Interview Informal disc
89	<b>Ethical</b>	Role of ethics in personal conduct	Ethics related to business risk	Vary levels of ethics	8	Interview e mails Legals Informal disc	6	Interview Informal disc	9	Interview Informal disc	6	Interview e mails Legals Informal disc
90	<b>Liberal</b>	Level of political liberalism	Much more liberal view of business environment than personal sphere	Levels of enlightenment vary	9	Interview Informal disc	9	Interview Informal disc	4	Interview Informal disc	7	Interview Informal disc
91	<b>Strategic ability</b>	Competence in identifying appropriate strategy	Strategic planning done through-out	Strategic assumptions vary in accuracy	8	Interview e mails legals Agendas presentations Informal disc	5	Interview e mails legals Agendas presentations Informal disc	5	Interview e mails legals Agendas presentations Informal disc	4	Interview e mails legals Agendas presentations Informal disc
92	<b>Relational affinity</b>	Inertia to mixing/relationship building	Inertia to initiate social interaction peaks at top executive level	Aversion related to personality	8	Interview Informal disc	7	Interview Informal disc	3	Interview Informal disc	9	Interview Informal disc

					Case 1		Case 2		Case 3		Case 4	
	Codes	Description	Similarities	Differences	Summary	Data sources	Summary	Data sources	Summary	Data sources	Summary	Data sources
93	<b>Racial awareness</b>	Sensitivity to differences and demarcation lines	Very aware of being prejudiced against	Vary in levels of own prejudices	9	Interview Informal disc	6	Interview Informal disc	9	Interview Informal disc	9	Interview Informal disc
	<b>Other</b>											
94	<b>Pertinent issues</b>				Pvt. mkt focus give and take, currently one-sided		Fronting adds costs Unfair process- secret opening, ex employees compete, employees in pocket, pref. supplier Language as leverage German Relations limited to higher ops levels		Most difficult part is securing the project, not doing it Profit/common goal is the glue Outsources relations in effect Sub-contractor to those with deal-in-hand		Very negative Experience gov as uneducated, inexperienced, distant, incompetent Burocracy and incompetence even worse than previous gov Background Sales and Marketing. Jovial and extroverted. Salesman's personality. Frustrated by the poor success and inability to generate relations and sales. Blames it on the lack of business acumen especially the art of negotiation. Has given up on trying to build relations with government because has had no results.	

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Dear Sir/Madam

Thank you very much for your willingness to share your perspectives by answering the questionnaire. There are 20 questions and it should take about 10 minutes to complete. This forms part of a doctoral study under the auspices of the Graduate School for Business Leadership, University of South Africa, researching the relations between multinational enterprise executives and senior government officials in the healthcare industry.

### Instructions

1. Select the "REPLY" button on your e-mail control bar.
2. In the reply e-mail, scroll down to the original e-mail section and fill out the questionnaire in the text.
3. Select the "SEND" button on the e-mail control bar.

Please be assured that this questionnaire is done in the utmost anonymity and that only the questionnaire pages will be supplied by the recipient to the researcher.

Herewith an explanation of some of the concepts as they relate to this study:

Concept	Explanation
Multinational Enterprise	Companies in the South African healthcare industry that compete under license from an international parent or supplier.
Government employee	Senior employees with political or commercial decision-making power at provincial or national level.
BEE entity	An Empowerment partner to the multinational, the relationship of which may be firm or loose.
Networks	Groups of people that interact for business, political or social purposes
Social Capital	The networks, trust and norms amongst various individuals

**Questionnaire**

The following statements relate to relations and interaction between Multinational Enterprise executives and senior government employees in the healthcare environment. Please mark the column of the number that most accurately reflects your perspective of the accuracy of the statement with an X; 1 – Strongly Disagree, 2 – Disagree Somewhat, 3 – Not sure, 4 – Agree Somewhat, 5 - Strongly Agree

Statements	Strongly Disagree 1	Disagree Somewhat 2	Not Sure 3	Agree Somewhat 4	Strongly Agree 5
1. It is generally not possible for a Multinational executive to establish significant relationships with senior government officials.		2		1	2
2. The chances for a multinational company of successfully doing business with government are determined more by the need for its products, than by the relationships the company has with government officials.				3	2
3. In healthcare, BEE entities play a critical role in the introductory interaction between Multinational Enterprise and government.	1		3	1	
4. After the initial contact the interaction between multinational executives and senior government officials can happen independently of a BEE partner.			1	4	
5. Senior government officials are not part of the business networks amongst the various role players in the healthcare industry such as the funders, pharmaceutical companies, equipment companies, professional practitioners and hospital groups.			2	3	
6. It is possible to do business with government in the absence of networks, trust or norms between the two parties.	1		1	3	



Statements	Strongly Disagree 1	Disagree Somewhat 2	Not Sure 3	Agree Somewhat 4	Strongly Agree 5
7. It is inappropriate for multinational executives to attempt to establish social relations with senior government employees.		2		2	1
8. The Apartheid history of South Africa pre-1994 elections remains a source of animosity between senior government officials and Multinational Enterprise executives.	1	1		3	
9. The political objectives of government are a source of animosity between senior government officials and Multinational Enterprise executives.		2	1*	2	
10. The opinions of multinational executives of the political environment have a significant emotional dimension, which is more pronounced than for any other factor in healthcare in South Africa.		3	2		
11. There is no place for social capital (defined above) in the professional relations between senior government officials and Multinational Enterprise executives.		3	1	1	
12. Government officials from cultural groups different to those of multinational executives actively maintain a distance in their relationships with these executives.	1	2	1	1	
13. The relations that multinational executives have with individuals in the private market from cultural groups different to their own are significantly better than those with senior government officials that are culturally removed		1		2	2
14. Individuals in the private healthcare market from different cultural groups are less distant from multinational executives than those in government.		1		2	2

\* Respondent commented: "Know the ideology but not the policy"



Statements	Strongly Disagree 1	Disagree Somewhat 2	Not Sure 3	Agree Somewhat 4	Strongly Agree 5
15. Government does business with multinational enterprise in healthcare because it needs the products or services rather than because of relationships with these enterprises.				2	3
16. The profit motive in the private market breaks down barriers between the different cultural groups.		1	1	3	
17. The introduction of a profit motive would sway government officials to cross political and ethnic barriers to engage multinational executives.		2	1	2	
18. Cultural differences are more responsible for the poor relations between senior government officials and multinational executives than are conflicting political objectives.	3	1	1		
19. Government does business with multinational enterprise in healthcare because there is some form of financial incentive for the government officials	3	2			
20. The most important reason for the distance between multinational executives and senior government officials is: .....					
<p><b>1)</b> Do not see that we put our patients first and think Multinational Companies are only here to milk the system. Lack of trust from both sides. <b>2)</b> Politically and economically motivated. <b>3)</b> Thank you for your time and participation in this endeavor to better understand the complexity of the South African healthcare environment <b>4)</b> Fear of being considered corrupt as a governmental official <b>5)</b> Because it is impossible to meet with them. One cannot get an appointment, when they are invite to address a meeting and accept there is still no guarantee that the arrive and if they do they arrive late and leave immediately after their presentation claiming urgent business, as an industry we never are urgent business My overall impression is that government does business with any Pharma company (local or multinational, represented in South Africa or not) based on price of product. Any other (social) activity by a company is ignored. BEE status is only a very minor component in tender awards for example and only considered if prices are similar between bidders. Department of health purchases on the preferential pricing policy, which is in conflict with DTI policy on BEE <b>6)</b> <i>No input from respondent</i></p>					

