

Groupon's Growth And Globalization Strategy: Structural And Technological Implications Of International Markets

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ABSTRACT

Groupon is the fastest growing company in the daily deal social e-commerce arena. For this reason, their growth and globalization strategy is of particular interest to any researcher or investor interested in understanding this industry and its potential future growth and development. In this first follow-up article on mergers and acquisitions as Groupon's primary growth and globalization strategy, the researchers discuss the structural and technological implications of expanding into developing international markets. The research method utilized in this article was a case study. In a previous article, the researchers evaluated Groupon's success in utilizing M&A's as its growth and globalization strategy, by applying Ruess and Voelpel's (2012) Post Merger Integration (PMI) Scorecard. The factors discussed under the PMI Scorecard included strategic, structural, personnel, cultural and stakeholder integration. In this article, the researchers take an in-depth look at structural and technological implications of acquisitions made by Groupon in developing international markets.

A well-developed transport and communications infrastructure network is "a pre-requisite for the access of less-developed communities to core economic activities and services" (Schwab, Sala-i-Martin & Greenhill, 2011). Effective economies therefore depend on sufficient and uninterrupted electricity supply that would enable unimpeded business functioning. The ability to adopt existing technologies, specifically information and communication technologies (ICT's) is indicative of a country's level of technological readiness. In countries with limited access to the Internet, mobile broadband, smartphones and social media (like Facebook), Groupon has not managed to build an extensive database of customers. Although they may have reached a particular level of customer saturation in the USA, it cannot be argued that they have succeeded in building the same extensive network of customers in other markets, which calls into question the spending on acquisitions in other markets in order to expand their global reach.

Keywords: Daily Deal Sites; Groupon; Mergers and Acquisitions; Globalization; Structural Integration; Technological Implications of Acquisitions in International Markets

INTRODUCTION

The convergence of traditional and electronic business models, as well as traditional and new business practices, are changing the face of global business as we know it. Electronic business models provide a particular opportunity for content, community and commerce to converge. Group buying daily deal sites are the result of a convergence between content sites and social networks. Daily deal sites allow individuals to leverage bargaining power as a collective in order to obtain discounted deals on local products, services and experiences. These local discounted deals are distributed as electronic coupons via e-mail and mobile channels to subscribers of websites like Groupon (Beukes & Hughes, 2012, p. 1; Hughes & Beukes, 2012, p. 922). Daily deal social group buying sites are of interest from a strategy, as well as a development and growth perspective, as they challenge traditional paradigms on how to build a profitable business (Hughes & Beukes, 2012, p. 922). Groupon is the fastest growing and biggest daily deal social group buying site (Hughes & Beukes, 2012, p. 924).

“Conventional strategic wisdom dictates that a business first establishes itself as successful and profitable in its home market before exploring growth on a global stage” (Beukes & Hughes, 2012, p. 114). Groupon has ventured beyond its domestic market almost from the start by employing an aggressive growth and globalization strategy fuelled largely by mergers and acquisitions. Since its inception in 2008, Groupon has acquired twenty-eight companies across the USA and globally. An intentional growth and globalization strategy would imply a well-thought-through acquisition of the most viable competitors in each market. Looking at the strategic fit between Groupon and its acquisitions in terms of its intended future direction, there is evidence of hasty and ill-conceived acquisitions of companies that did not necessarily present the most viable option. In a previous article, the researchers discussed how Groupon is utilizing mergers and acquisitions as their primary growth and globalization strategy for two major reasons: (1) to acquire new markets and customers and (2) to strengthen their underlying technology.

In evaluating the effectiveness of Groupon’s growth and globalization strategy, the researchers utilized the integration factors identified by Ruess and Voelpel (2012) in the development of their Post-Merger Integration (PMI) Scorecard for balancing post-merger integration. These factors included integration on the following levels: strategic, structural, personnel, cultural and stakeholders. Strategic integration considers the strategic direction of the companies that are about to be integrated (Ruess & Voelpel, 2012, p. 79). An acquiring company has to consider how a newly acquired company would fit into the strategic direction the acquiring company would like to pursue. Structural integration complements strategic integration. The aim is to establish meaningful and strategically adequate organizational structures and processes for the newly integrated entity (Ruess & Voelpel, 2012, p. 79). Furthermore, structural integration is directly dependent on existing infrastructure and technology for the successful pursuit of the newly integrated business. When the acquiring company acquires a company outside its national borders, the infrastructure and level of technological advancement of the foreign market should be evaluated to ensure the business will be able to pursue its new intended strategy. Personnel integration requires consideration of the employees who will be retained in the newly merged entity as well as job requirements, skills development, incentive systems etc. (Ruess & Voelpel, 2012, p. 79). Cultural integration involves the merging of two, often different, organisational cultures into a newly integrated organisational culture that incorporates the most important values held by the original separate entities (Child, 2000; Salama, Holland & Vinten, 2003). Lastly, stakeholder integration demands consideration of all the external stakeholders that will be affected by the merger or acquisition. Stakeholders include customers, business partners, governments and union representatives (Ruess & Voelpel, 2012, p. 79).

In this follow-up article, the researchers further investigate Groupon’s expansion into international markets through the acquisition of imitator companies with the specific purpose of acquiring new customers and expanding their international market share. When multi-national organisations enter international markets that are structurally very different from their own, these new markets could present obstacles to effective business functioning. Multi-national organisations venturing into new markets, especially developing markets, need to carefully consider whether the existing infrastructure in those markets is conducive for effective business functioning. When the multi-national’s core business depends on information technology for successful functioning, the level of technological advances and Internet saturation and/or access to the Internet become important considerations before establishing an international branch in that particular international market. The U.N. recently offered a sobering statistic. A 2013 study found that more people have access to cell phones than toilets (Wang, 2013). This means that even if customers have access to mobile phones, this does not mean that the country has the necessary infrastructure to support new and growing e-commerce and/or foreign multi-national companies wanting to invest there. For this reason, the researchers will not only consider the technological implications of Groupon’s acquisitions, but also the structural considerations necessary for successful expansion of the business into international markets that might be significantly different from their home market.

RESEARCH PURPOSE

This study aims to provide insight and critical reflections on the structural and technological implications for multi-national organisations who wish to expand their businesses into new international (and often developing) markets. In this case study, the researchers consider the structural and technological factors that impacted on Groupon’s post-merger structural integration in international developing countries.

RESEARCH DESIGN & METHODOLOGY

The research paradigm for this study was *qualitative*; in particular, an *instrumental* case study (Stake, 2005). Case studies are aimed at discovering meaning and gaining *heuristic* understanding (Eriksson & Kovalainen, 2008, p. 117; Merriam, 2009, p. 39). Case studies are used to test, illustrate or generate theory, or alternatively to identify the sources of problems or solutions to problems (Gomm, Hammersley & Foster, 2000). A case study is, in essence, a problem-centric approach to research. This case study, in particular, will be used to discuss the structural considerations affecting the level of competitiveness of international markets that Groupon has ventured into as well as the technological factors that indicate the level of online activity in these countries. To gain a clear picture of the problem at hand, the case must be investigated from many angles by gathering data from different sources (Hesse-Biber, & Leavy, 2011, p. 265), such as documentation, archival records, physical artefacts, etc. (Yin, 2008). The case of Groupon is about an online entity situated within a milieu embedded in a number of international contexts. Groupon has expanded its business into these international markets without due consideration for the structural and technological factors that would impact on successful post-acquisition integration and business operation.

There are different perspectives on the nature of case studies. One school of thought would argue that case studies are too particularistic and thus present a limitation to the research strategy as the findings cannot be generalised (Merriam, 2009, p. 43). However, in this particular study, the data evaluated for this case study has *transferability*. Although the researchers are looking at Groupon in particular, their presence in different countries is being analysed in light of the specific structural and technological differences. These differences would affect any other high-tech company that would want to enter that market; hence, the data and analyses become transferable to other contexts and other types of companies.

LITERATURE REVIEW

Mergers and acquisitions (M&A's) are considered a natural way of expansion for growing companies as many organisations have managed to expand their businesses successfully through the acquisition of smaller organisations (Chakrabarti et.al., 1994; Collan & Kinnunen, 2011, p. 118; Hitt, Harrison & Ireland, 2000; Ooghe, Van Laere and De Langhe, 2006, p. 223; Ruess & Voelpel, 2012, p. 78). Before the global recession, there was a sharp rise in the number of international mergers and acquisitions. The average dollar value of M&A's between 2000 and 2008 was US\$648.9 billion compared to US\$253.8 billion between 1990 and 1999 (Chakrabarti et.al., 1994, p. 47; Edwards & Edwards, 2012, p. 505; United Nations, 2009). It seems, therefore, that M&A's have become a popular form of corporate development (Cartwright and Schoenberg, 2006). In fact, M&A's have become the dominant strategy through which multinational organisations expand into other countries (Edwards & Edwards, 2012, p. 505). The technology sector is no exception to this rule.

This is evident from Groupon's rapid expansion into foreign markets with the purpose of acquiring new customers and expanding its international market share. Since 2010, Groupon has acquired 13 imitator companies in foreign markets. None of these acquisitions were hostile take-overs. In fact, in some markets – for example, South Africa – the imitator company approached Groupon and in other markets, one imitator was leveraged into several neighbouring and related markets – for example, ClanDescuento in Chile (Beukes & Hughes, 2012).

Despite their popularity, M&A's have produced mixed results for stakeholders (Amihud, Dodd & Weinstein, 1986; Fowler and Schmidt, 1988; Lubatkin, 1987; King, Dalton, Daily & Covin, 2004; Lubatkin and O'Neil, 1987). On the positive side, some of the potential benefits of M&A's include increased market share, improved efficiency, expansion of research and development efforts, organisational growth (Bradley, Desai & Kim, 1983; Bruner, 2004a, 2004b; DePamphilis, 2009; Krishnamurti & Vishwanath, 2008; Pablo & Javidan, 2004; Walker, 2000), risk reduction through shared costs of risks, entrance to new markets, and stock market returns for the acquiring company (Beukes & Hughes, 2012; Chakrabarti, Hauschildt, & Sueverkruep, 1994; Hagedoorn & Duysters, 2002; Hitt, Hoskisson, Johnson, & Moesel, 1996; Ikedo, & Doi, 1983; Oster, 1994). However, on the negative side, the failure rate of M&A's is very high (Ruess & Voelpel, 2012, p. 78). Studies have shown that M&A's deliver disappointing results more often than not (Edwards & Edwards, 2012; Habelian, Devers, McNamara, Carpenter & Davison, 2009) since between 50 and 80 percent of all mergers do not achieve their strategic, operational or financial goals (Ruess & Voelpel, 2012). Additionally, the realized corporate growth of the acquired company, after the fact, remains heavily contested (Ooghe et al., 2006, p. 223). Unsuccessful post-merger

integration has also been linked to high staff turnover (Napier, 1989) and poor post-merger performance (Teerikangas & Very, 2006; Weber, 1996).

Post-merger integration in a foreign market presents additional challenges since the acquirer also has to take cognisance of the structural and technological factors that affect effective business functioning in that particular market. Before an organisation expands its business into foreign markets, it needs to consider the political and economic climate of the foreign market, the legislation and laws that will affect its operations, as well as the national culture and socio-cultural factors that affect business in that particular market. When looking at the economic viability of establishing another branch in a foreign market, the existing infrastructure and level of global competitiveness of the foreign market determines the level of expected return on investment.

The World Economic Forum publishes an annual Global Competitiveness Report where they rank different countries in the world based on the quality of their infrastructure to determine their level of international competitiveness. The 2013 report features a record number of 144 economies and thus represents the most comprehensive assessment of its kind. The report contains a detailed profile of every economy listed and measures each economy's competitiveness. Since 2005, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness (Sala-i-Martin & Artadi, 2004).

The World Economic Forum defines competitiveness as “*a set of institutions, policies and factors that determine the level of productivity of a country*”. The level of productivity, in turn, determines the level of prosperity a particular economy is able to achieve (Schwab & Sala-i-Martin, 2012, p. 4). Prosperity would be indicative of consumer buying power and the possible rates of return on investments. Thus, the higher a country's competitive ranking, the more productive the economy and the more likely the economy is to yield sustainable growth and consumers are more likely to invest in e-commerce. Since the World Economic Forum's Global Competitiveness Report represents the most robust and comprehensive evaluation of its kind, it provided the foundation for the analysis in this article.

FINDINGS AND DISCUSSION

Infrastructure refers to the fundamental facilities and systems serving a country, city or area such as transportation systems, power plants and education etc. (Dictionary.com). In other words, it is the facilities and services necessary for an economy to function (Sullivan & Sheffrin, 2003 p. 474). From a functional perspective, infrastructure enables the production of products and the development of services, as well as the distribution of these finished products and services to different target markets. It represents the physical and organisational structures that should be in place for societies, industries and businesses to exist and to function. Modernisation of infrastructure seems critical for future competitiveness on a global scale (Urban Land Institute and Ernst and Young, 2011). There are various structural factors that contribute to the development of a country's infrastructure such as roads, railways, airways, transportation and logistics, water supply, sewers, electrical grids, and communication channels, etc.

The structural factors that will be discussed in this particular case study include: 1) the quality of electricity supply, 2) the number of fixed telephone lines, and 3) the number of mobile telephone subscriptions, as these factors are all indicative of sufficient access to websites and possible online activity. Of course, there are other factors that contribute to a country's overall infrastructure – such as roads, railways, airways, logistics, water supply, etc. However, for purposes of this article, the focus will be on the factors necessary for *e-commerce*. For these factors to be present at a particular level within a country, there would have to be an extant and developed broader infrastructure that includes roads and logistics. For global business success, a well-developed transport and communications infrastructure network is “*a pre-requisite for the access of less-developed communities to core economic activities and services*” (Schwab, Sala-i-Martin & Greenhill, 2011).

As mentioned above, Groupon has acquired 13 imitator companies in foreign markets. In some instances, imitators have been leveraged to allow Groupon to expand their global reach into neighbouring countries. Groupon currently has a presence in the following geographical regions: Africa (one country), Asia (nine countries), the Middle East (two countries), Europe (three countries), the European Union (14 countries), North America (three

countries), Latin America (six countries) and Oceania (two countries). Table 1 illustrates the structural considerations affecting the global competitiveness of the countries that Groupon operates in.

Table 1: Structural Considerations Affecting the Global Competitiveness of Countries in Which Groupon Operates

Country	Global Rank 1/144	Global Score (1-7)	Stage Of Development (1-3)	Quality Of Overall Infrastructure (1-7)	Electricity Supply (1-7)	Fixed Telephone Lines (Per 100 People)	Mobile Telephone Subscriptions (Per 100 People)
Africa							
South Africa	52	4.37	Stage 2	4.5	3.9	8.2	126.8
Asia							
China	29	4.83	Stage 2	4.3	5.2	21.2	73.2
Hong Kong	9	5.41	Stage 3	6.5	6.8	61.1	209.6
India	59	4.32	Stage 1	3.8	3.2	2.6	72.0
Indonesia	50	4.40	Stage 2	3.7	3.9	15.9	97.7
Japan	10	5.40	Stage 3	5.9	5.9	51.1	102.7
Malaysia	25	5.06	Stage 2	5.4	5.9	14.7	127.0
Singapore	2	5.67	Stage 3	6.5	6.7	38.9	149.5
South Korea	19	5.12	Stage 3	5.8	6.0	60.9	108.5
Taiwan	13	5.28	Stage 3	5.5	6.3	72.7	124.1
Middle East							
Israel	26	5.02	Stage 3	5.0	5.5	46.3	121.7
U.A.E	24	5.07	Stage 3	6.4	6.4	23.1	148.6
Europe							
Norway	15	5.27	Stage 3	5.2	6.5	42.7	116.8
Russia	67	4.20	Stage 2	3.5	4.3	30.9	179.3
Turkey	43	4.45	Stage 2	5.3	4.6	20.7	88.7
European Union							
Belgium	17	5.21	Stage 3	5.9	6.6	43.1	116.6
Finland	3	5.55	Stage 3	6.5	6.6	20.1	166.0
France	21	5.11	Stage 3	6.4	6.7	55.9	105.0
Germany	6	5.48	Stage 3	6.2	6.4	63.0	132.3
Greece	96	3.86	Stage 3	4.5	5.2	49.9	106.5
Ireland	27	4.91	Stage 3	5.2	6.5	45.2	108.4
Italy	42	4.46	Stage 3	3.9	5.8	34.6	151.8
Netherlands	5	5.50	Stage 3	6.2	6.8	43.5	115.4
Poland	41	4.46	Stage 2	4.0	5.5	18.2	128.5
Portugal	49	4.40	Stage 3	6.2	6.3	42.3	114.9
Romania	78	4.07	Stage 2	2.8	4.2	21.9	109.2
Spain	36	4.60	Stage 3	5.8	6.1	42.3	114.2
Sweden	4	5.53	Stage 3	5.8	6.6	48.7	118.6
UK	8	5.45	Stage 3	5.6	6.7	53.2	130.8
North America							
Canada	14	5.27	Stage 3	6.0	6.6	47.9	75.3
Mexico	53	4.36	Stage 2	4.4	4.6	17.1	82.4
USA	7	5.47	Stage 3	5.6	6.0	47.9	105.9
Latin America							
Argentina	94	3.87	Stage 2	3.4	3.5	24.9	134.9
Brazil	48	4.40	Stage 2	3.4	4.9	21.9	123.3
Chile	33	4.65	Stage 2	5.4	5.4	19.5	129.7
Columbia	69	4.18	Stage 2	3.4	5.1	15.2	98.5
Peru	61	4.28	Stage 2	3.4	4.8	11.1	110.4
Puerto Rico	31	4.67	Stage 3	5.0	5.1	22.1	83.0
Oceania							
Australia	20	5.12	Stage 3	5.2	6.3	46.6	108.3
New Zealand	23	5.09	Stage 3	4.9	6.0	42.6	109.2

Global Competitiveness score (1-7): Aggregate score, 1 = low development and 7 = high development; Stage of development: Stage 1 = Factor driven, Stage 2 = Efficiency driven, Stage 3 = Innovation driven; Quality of overall infrastructure (1-7): 1 = Extremely underdeveloped, 7 = Extensive and Efficient by International standards; Electricity Supply (1-7): 1 = insufficient and suffers frequent interruptions, 7 = sufficient and reliable; Fixed telephone lines: Number of active fixed telephone lines per 100 population.

Source: Schwab & Sala-i-Martin, 2012

In Table 1, the global competitiveness score for each country Groupon operates in is summarised by geographical region. The first indicator of global competitiveness is the country's ranking. The 2012-2013 Global Competitiveness Report evaluated 144 countries. Thus, Table 1 indicates each country's rank out of 144 on the list. Each country is assigned a global score that is aggregated into a single index representing the twelve pillars of development that the report measures – institutions, infrastructure, macro-economic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. Therefore, the global rank indicates how successfully a country has managed to develop in light of all twelve of the pillars. A score of one indicates a low level of development and a score of seven indicates a high level of development.

Whilst all these pillars are important, not all of them would require the same level of attention in each country. The pillars that require the most attention would depend on the stage of development the country is in (see column four of Table 1). There are three stages of development:

1. Stage 1 indicates **factor-driven** economies that are primarily based on unskilled labour and natural resources. The key pillars to focus on in a factor-driven economy include institutions, infrastructure, macro-economic environment, and health and primary education as these factors represent the bases from which all other economic activity would stem.
2. Stage 2 represents **efficiency-driven** economies which are focused on developing more efficient production processes, increasing product quality, managing prices, and increasing wages. Efficiency-enhancing pillars are higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, and market size.
3. Stage 3 represents **innovation-driven** economies where businesses have to focus on developing new and unique products using sophisticated production processes as this is the only way they would be able to sustain high wages and higher standards of living. Therefore, the innovation-driven pillars include business sophistication and innovation.

The USA would be an example of a Stage 3 economy that is innovation-driven explaining, to an extent, their leadership in the development of e-commerce business models, like the business model of Groupon. Although an innovation-driven economy, like the USA, is able to sustain the complexities of e-commerce business models, these business models might not be sustainable in countries that are in a different stage of development. An evaluation of the different regions that Groupon has a presence in shows that some of the countries are in Stage 1 or 2 of development, which means that these economies are not able to sustain the complexities inherent in e-commerce and the execution of business through social group buying.

Effective economies depend on sufficient and uninterrupted electricity supply that would enable unimpeded business functioning. Furthermore, a solid and extensive telecommunications network allows for rapid and free-flow of information. This increases overall economic efficiency by ensuring effective business decision-making based on relevant and current information available to the right people at the right time (Schwab et al., 2011). Looking at the Middle East, Europe, the European Union (excluding Poland), North America and Oceania, these countries are all in Stage 3 of economic development and are therefore able to sustain e-commerce and social group buying business models. However, countries in Africa, Asia and Latin America are not in the same stage of development. Some of Groupon's most significant post-acquisition challenges arise from these three regions. In Africa, Groupon has a presence in only one country – South Africa.

The supply and access to electricity in South Africa has not been in line with the growth of the population and associated demand for electricity. Various regions of South Africa still do not have a consistent supply of electricity. In 1996, only 58% of South Africans had access to electricity. By 2001, access had increased to approximately 70% of the population (Zuma, 2011). However, this still means that 30% of the population do not have access to electricity and the massive increase in energy supply has placed additional pressure on the national electricity grid. Since 2008, South Africa has battled with an inconsistent supply of electricity and has faced power cuts which have cost the economy US\$5.5 billion (Styan, 2013). The unequal distribution of electricity in South Africa also means that some provinces and cities do not have access to the Internet. This limits Groupon's operations to just four major cities – Johannesburg, Cape Town, Pretoria and Durban. Groupon, therefore, has

limited market share in South Africa with most of the daily deals being advertised in Johannesburg – the largest metropolitan city based on population and access to employment.

In Asia, India is currently in Stage 1 of economic development, representing the largest disparity between Groupon's home country and any of the foreign markets they have entered. More than 400 million people in India do not currently have access to electricity. Quality of life in this country is limited by access to electricity and clean fuels. On an average day, there is a nine percent shortfall of electricity supply which results in "lost" annual economic growth of approximately 1.2 percent (Randall, 2012). Similar to South Africa, the unequal distribution of electricity supply means that Groupon only has access to markets in a few major cities – Ahmedabad, Bangalore, Chandigarh, Chennai, Delhi, Hyderabad, Jaipur, Kolkata, Mumbai, Nagpur and Pune (Wauters, 2011).

The quality of overall infrastructure (i.e. the second pillar of global competitiveness) for each country indicates the location of economic activity as well as the kind of sectors and industries that can flourish in any given country. Well-developed infrastructure reduces the distance between different regional markets and integrates these markets into one national market, as well as connecting it to other countries and regions (Schwab & Sala-i-Martin, 2012, p. 5). This means that e-commerce can only flourish in an integrated and well-connected economic market with a stable transport and communications infrastructure network. The communications infrastructure is reflected in its electricity supply, number of fixed telephone lines and mobile phone subscriptions.

Business operations and Internet access can be hampered or helped by access to fixed telephone lines. The effectiveness of an Internet connection depends on latency and throughput. Latency affects the speed of a network. It refers to any kind of delay that could typically be incurred during the processing of network data (Mitchell, 2013). The bandwidth size of any Internet connection is dependent on the quality of the fixed telephone lines and the quality of network cables used in these telephone lines. Throughput is defined as "*the amount of raw material that can be processed at any given time*" (Dictionary.com, 2013). Again, the bandwidth of an Internet connection determines the rate of throughput of data and determines the speed at which e-commerce transactions can be processed.

Looking at the number of fixed telephone lines per 100 people, two countries (South Africa and India) in Table 1 have less than ten fixed telephone lines per 100 people. Furthermore, nine countries (China, Indonesia, Malaysia, United Arab Emirates (U.A.E.), Finland, Poland, Romania and Mexico) have less than 25 fixed telephone lines per 100 people. The lack of fixed telephone lines does not, in itself, present an obstacle if other infrastructure makes up for it; for example, as is the case with Finland. With widely dispersed communities and no dominant national provider of fixed land lines, mobile phones (in particular, Nokia) developed much quicker in this country. In Finland's case, overall infrastructure balanced out because the pace of development in other areas compensated for the lack of development of fixed telephone lines. Nokia's emergence in the early 1990's as one of the world's leading mobile-phone makers dramatically influenced Finland's prosperity, contributing four percent to the country's overall GDP. Finland became a European technology hub and the economy has tripled in size between 1993 and 2008 (Lawton, 2011).

Finland is a Stage 3 economy. Since they are innovation-based, they can compensate for infrastructure in a way that Stage 1 and 2 countries cannot. Finland has 166 mobile phone subscriptions per 100 people, indicating the shift to this type of technology to support their communication needs. In countries like South Africa, India, Indonesia, Poland, Romania and Mexico, the infrastructure is not developed enough to compensate for the lack of fixed telephone lines, resulting in an arrearage in e-commerce, in particular. From the markets that Groupon has entered (or leveraged into), there are 15 countries that have not reached Stage 3 of economic development yet and would thus not be able to sustain e-commerce business activities in the long run.

The ability to adopt existing technologies, specifically information and communication technologies (ICT's), is indicative of a country's level of technological readiness. ICT access and usage are key enablers of a country's overall technological readiness and are therefore pivotal for continued growth and productivity, especially for e-commerce (Schwab & Sala-i-Martin, 2012, p. 6). Technological readiness is a pre-cursor for innovation as the level of technological readiness of a particular country determines its ability to innovate in Stage 3. With the exception of U.A.E. and Finland, all the other countries identified above as having limited Internet connectivity also scored low on technological readiness – with a score of below 5 out of 7 (Schwab & Sala-i-Martin, 2012).

The technological factors that emanate from the structural factors include Internet access and saturation, smart phone users and registered Facebook users. Technological factors indicate online activity using various platforms and thus potential participation in e-commerce and social group buying. Although there are more social media platforms, Facebook seems to have the highest global saturation and would therefore provide an accurate reflection of participation on online social media platforms. Additionally, until recently, most of Groupon's advertising expenditure was on Facebook (Bercovici, 2012), providing a clear link to potential Groupon customers. Table 2 represents a summary of the technological factors that point to online activity in the countries that Groupon operates in.

Table 2: Technological Factors Indicating Online Activity in the Countries That Groupon Operates In

Country	Population Estimate (2011)	Internet Access	Internet Penetration (% Of The Population)	Internet Bandwidth Speed (Kb/S)	Smartphone Users	Smartphone Penetration (% Of The Population)	Registered Facebook Users (31 March 2013)	Facebook Penetration (% Of The Population)
Africa								
South Africa	49,004,031	6,800,000	13.90%	18.9	8,700,000	17%	5,534,160	11.29%
Asia								
China	1,336,718,015	513,100,000	38%	2.7	77,000,000	6%	597,520	0.04%
Hong Kong	7,122,508	4,894,914	68.70%	964.6	4,900,000	61%	3,746,460	54.31%
India	1,189,172,906	121,000,000	10.20%	5.4	33,200,000	3%	62,963,440	5.37%
Indonesia	245,613,043	55,000,000	22.40%	7.2	18,100,000	8%	47,165,080	19.41%
Japan	126,475,664	101,228,736	80%	23.1	18,100,000	14%	12,911,300	10.14%
Malaysia	28,728,607	17,723,000	61.70%	10.7	5,200,000	19%	13,085,000	46.28%
Singapore	4,740,737	3,658,400	77.20%	547.1	4,400,000	90%	2,757,720	58.66%
South Korea	48,754,657	40,329,660	82.70%	17.2	16,400,000	34%	8,286,920	17.11%
Taiwan	23,071,779	16,174,000	70%	34.6	8,200,000	36%	13,036,320	56.94%
Middle East								
Israel	7,473,052	5,263,146	70.40%	11.3	3,100,000	44%	3,739,440	50.85%
U.A.E	5,148,664	3,555,100	69.00%	27.6	*	*	3,370,780	67.75%
Europe								
Norway	4,691,849	4,560,572	97.20%	151.3	2,100,000	43%	2,760,680	55.37%
Russia	138,739,892	61,472,011	44.30%	31.9	25,000,000	18%	7,585,740	5.39%
Turkey	78,785,548	35,000,000	44.40%	33.9	8,300,000	11%	32,438,200	41.69%
European Union								
Belgium	10,431,477	8,489,901	81.40%	131.1	3,000,000	28%	4,923,480	47.33%
Finland	5,259,250	4,661,265	88.60%	118.4	2,300,000	43%	2,267,140	43.23%
France	65,102,719	50,290,226	77.20%	78.6	18,800,000	30%	25,307,820	39.07%
Germany	81,471,834	67,364,898	82.70%	74.8	23,000,000	28%	25,050,580	30.62%
Greece	10,760,136	5,043,550	46.90%	26.0	3,900,000	35%	3,971,980	36.11%
Ireland	4,670,976	3,122,358	66.80%	69.0	1,600,000	35%	2,225,720	48.15%
Italy	61,016,804	35,800,000	58.70%	60.8	22,800,000	38%	23,028,220	38.16%
Netherlands	16,847,007	15,071,191	89.50%	162.5	6,300,000	38%	7,516,620	45.16%
Poland	38,441,588	23,852,486	62.00%	40.2	7,100,000	19%	10,253,960	26.63%
Portugal	10,760,305	5,455,217	50.70%	135.3	3,700,000	35%	4,706,960	44.09%
Romania	21,904,551	8,578,484	39.20%	114.5	2,900,000	14%	5,679,800	25.87%
Spain	46,754,784	30,654,678	65.60%	64.1	20,800,000	46%	16,918,200	36.38%
Sweden	9,088,728	8,441,718	92.90%	244.4	4,800,000	52%	4,788,120	52.94%
UK	62,698,362	52,731,209	84.10%	116.1	25,000,000	40%	32,175,460	51.61%

Table 2 cont.

Country	Population Estimate (2011)	Internet Access	Internet Penetration (% Of The Population)	Internet Bandwidth Speed (Kb/S)	Smartphone Users	Smartphone Penetration (% Of The Population)	Registered Facebook Users (31 March 2013)	Facebook Penetration (% Of The Population)
North America								
Canada	34,030,589	27,757,540	81.60%	70.2	10,400,000	30%	17,749,520	52.70%
Mexico	113,724,226	42,000,000	36.90%	8.7	8,700,000	8%	39,945,620	35.52%
USA	313,232,044	245,203,319	78.30%	47.2	111,800,000	35%	163,071,460	52.56%
Latin America								
Argentina	41,769,726	28,000,000	67.00%	25.7	*	*	20,403,520	49.35%
Brazil	203,429,773	79,245,740	39.00%	29.0	28,000,000	14%	66,552,420	33.09%
Chile	16,888,760	10,000,000	59.20%	20.4	*	*	9,506,360	56.77%
Columbia	44,725,543	25,000,000	55.90%	16.8	*	*	17,685,920	40.01%
Peru	29,248,943	9,973,244	34.10%	9.3	*	*	10,002,340	33.44%
Puerto Rico	3,989,133	1,698,301	42.60%	135.4	*	*	1,258,940	32.14%
Oceania								
Australia	21,766,711	19,554,832	89.80%	50.4	10,200,000	47%	11,489,580	53.40%
New Zealand	4,290,347	3,625,553	84.50%	23.7	1,800,000	42%	2,269,160	53.36%

Sources: *Population estimate, Internet users & Internet penetration:* Internet World Stats. (n.d.). Internet users in the world on December 31, 2011, accessed 14 May 2012 from: <<http://www.internetworldstats.com/stats1.htm>>. *Internet bandwidth:* Schwab, K. & Sala-i-Martin, X. (2012). The Global Competitiveness Report: 2012-2013. World Economic Forum. Geneva, Switzerland: SRO-Kundig. Accessed on 2013-04-02 from: <http://www.weforum.org/reports/global-competitiveness-report-2012-2013>. *Smartphone users and market penetration:* Sterling, B. (2011). *42 Major countries ranked by Smartphone penetration rates*, accessed 25 April 2013 from: <<https://www.google.co.za/search?q=42+MAJOR+COUNTRIES+RANKED+BY+SMARTPHONE+PENETRATION+RATES&ie=utf8&oe=utf8&aq=t&rls=org.mozilla:enUS:official&client=firefox-a>>. *Registered Facebook users and Facebook market penetration:* Socialbakers. (2013). Facebook statistics by country, accessed 2 April 2013 from: <<http://www.socialbakers.com/facebookstatistics/page2/?interval=lastmonth>>.

Table 2 provides a break-down of potential online activity in each country where Groupon currently operates. The countries are categorised according to the same geographical regions as in Table 1. Table 2 provides a population estimate for each country and indicates the percentage of the population that has access to the Internet, as well as the number of smartphone users and the number of active Facebook profiles. From Table 1, it is evident that some countries lack the necessary electricity supply and number of fixed telephone lines required for sustainable Internet activity. An alternative solution to a lack of telephone lines is through mobile broadband or smartphones that provide users with access to the Internet right in the palm of their hands. Owning a mobile phone does not guarantee access to the Internet, though. This can only happen through a smartphone equipped with the software to enable that kind of functionality. Thus, it becomes necessary to determine whether customers from markets with limited land line connectivity might have access to an alternative form of connectivity to the Internet via mobile broadband and their smartphones. The percentage of mobile broadband connections and the number of smartphone users in a particular population becomes significant.

Irrespective of the platform used to access the Internet, Internet bandwidth serves as a significant indicator of online activity since the speed of the Internet would affect the ease of use. Hong Kong, Singapore and Sweden have the highest smartphone penetration of all the countries in which Groupon operates. These countries are also at the top of the list in terms of Internet bandwidth. Bandwidth refers to “*the volume of information per unit of time that a transmission medium, such as an Internet connection, can accommodate*” (Fisher, 2013) and is usually measured in kilobytes per second (kb/s). Using the analogy of a pipe with water running through it, the size of the pipe determines the speed at which water flows through. As the bandwidth increases, so does the amount of data that can flow through at any given time (Fisher, 2013). This would increase downloading speed, for instance. Hong Kong is at the top of the list with Internet bandwidth of 964.6 kb/s. Singapore is second with 547.1 kb/s and Sweden is fourth on the global list with 244.4 kb/s.

In comparison, China, India, Indonesia, Mexico and Peru all have bandwidth speeds below 10 kb/s. The extent of the disparity between the nations on the top of the list and the nations at the bottom of the list is staggering. Countries like South Africa, Japan, Malaysia, South Korea, Taiwan, Israel, U.A.E., Russia, Turkey, Greece, Poland, Argentina, Brazil, Chile, Columbia and New Zealand all have bandwidth speeds that are much slower than the USA. If people in the USA can access Groupon comfortably with their level of bandwidth (on 47.2 kb/s and a ranking of 33rd in the world), picture the challenge faced by consumers in these markets with half the bandwidth capacity and often only one-third of the Internet saturation levels.

According to Meeker (cited by Duncan, 2012), mobile devices running iOS and Android now account for 45% of browsing compared to just 35% for Windows machines, pointing to rapidly expanding access to the Internet through mobile devices. Some countries have expanded their mobile broadband, thus priming their economies to move from an efficiency-based focus to the next stage of innovation. Connecting to the Internet through smartphones still presents limitations to latency and throughput, thus pointing to the fact that a lack of certain infrastructure cannot be fully circumvented by the introduction of new technologies since there still has to be some form of existing broader telecommunications backbone. The speed of smartphone connectivity via mobile broadband is still dependent on fixed line infrastructure, including fibre-optic cables and satellites. Although wireless technologies have significantly reduced the infrastructure costs related to expanding access to the Internet, by eliminating the need to invest in “the last mile” of fibre-optic cables from the infrastructure backbone to a user’s home (Rouse, 2005), these costs cannot be eradicated completely. Furthermore, smartphone technology enables access to data-rich websites like Facebook and Groupon, again limiting full access to the Internet to smartphone users and excluding a vast majority of other mobile phone users.

Several countries listed in Table 2 have limited internet saturation, indicating that only a small percentage of the population actually has access to the Internet and therefore to e-commerce and the products and services offered through social group buying. With the exception of Malaysia (with 61.7% Internet saturation) and Poland (with 62% Internet saturation), none of the countries in Stage 1 or 2 of economic development have an Internet saturation rate higher than 55%, which means that in these countries, almost half of the population does not have access to the Internet. It could be argued that for an e-commerce business model to be lucrative, it should be possible for an online company to access at least 60% of the target market. In countries like South Africa (13.9%), China (38%), India (10.2%), Indonesia (22.4%), Romania (39.2%), Mexico (36.9%) and Peru (34.1%), the Internet

saturation is less than 40%. In these markets, Groupon would have access to approximately 10% to 30% of the population since more than 60% of the population does not have access to the Internet. Even in some of the developed economies that are in Stage 3 of development, the Internet saturation rates are lower than 60% - for example, in Russia (44.3%), Turkey (44.4%), Greece (46.9%), Italy (58.7%), Portugal (50.7%), Brazil (39%), Chile (59.2%) and Puerto Rico (42.6%).

As mentioned already, it is possible for consumers to access the Internet through other channels such as mobile broadband and smartphones. Mobile broadband subscriptions for countries in Stage 1 or 2 of economic development are still very low. For example, India is in Stage 1 of economic development and has a mere 1.9 mobile broadband subscriptions per 100 people in the population (1.9/100) (Schwab & Sala-i-Martin, 2012, p. 494). The mobile broadband subscriptions for countries in Stage 2 of economic development are not much better – with South Africa at 19.8/100, China at 9.5/100, Indonesia at 22.2/100, Malaysia at 12.3/100, Romania at 14.1/100, Mexico at 4.6/100, Columbia at 3.7/100, and Peru at 1.4/100. (A list of Mobile Broadband Subscriptions is available upon request from the authors.)

Looking at the smartphone penetration in the markets with low Internet saturation rates, the majority of countries have smartphone penetration rates below 20% (South Africa, China, India, Indonesia, Russia, Turkey, Romania, Mexico and Brazil). No statistics were available for Peru and Puerto Rico. The only exceptions are Greece (with 35% smartphone penetration), Italy (with 38%) and Portugal (with 35%). Even though these markets have slightly higher smartphone penetration rates, it is still below 40% and thus still presenting e-commerce businesses with limited access to their target markets.

Social group buying is an extension of social media. Until recently, Groupon advertised extensively on Facebook to attract potential coupon users by driving e-mail signups and selling daily deals. Groupon's advertising expenditure was exclusively managed by a company called AdParlor who markets themselves as a platform for making social network advertising easy (Constine, 2011). In effect, Groupon thus outsourced its core business to AdParlor. Transitioning from customer acquisition to customer activation, Groupon decided to no longer advertise on Facebook in order to cut its marketing costs. It decided that it has enough customers for now, switching from attracting new customers to wringing value out of existing subscribers (Bercovici, 2012). The customer base that Groupon has managed to attract is disproportionately located. The unanswered question here is, "What about customers in developing markets?" These customers still have limited access to the Internet and it is highly unlikely that they are aware of all the Groupon deals being offered. Just because Groupon has attracted a sufficient number of customers in the developed markets, does not mean that they can now ignore the customers in the developing markets, since they have expanded their business to these markets. Perhaps Facebook advertisements with Groupon deals in these markets are still necessary.

Active Facebook profiles in developing markets are indicative of consumers' online activity and their level of comfort in using social media, since social group buying is an extension of social media. The countries with the lowest Facebook penetration are China (with 0.04%), India (with 5.37%) and Russia (with 5.39%). USA-based electronic companies have struggled to gain access to the Chinese market due to political reasons, such as the censorship enforced by the Chinese government (Vaitheeswaran, 2013). These markets also represent cultural barriers due to significant differences in values between the USA and these countries. Even in light of these differences, the rate of Facebook penetration as an indicator of social media activity in these markets does not bode well for Groupon. Additionally, these three countries form part of the BRICS (Brazil, Russia, India, China and South Africa) grouping of emerging economies (The Economist, 2008; Van Agtmael, 2007). While Groupon rushed with the rest of the world to invest in these countries due to the promised pay-off of high growth and high return on investment, the truth has not been as inspiring as the marketing campaign. Although these markets are delivering high returns on investment, the majority of the growth is in commodities and manufacturing and not from innovation-based products as one would expect from Stage 3 economies like the USA. As e-commerce is a manifestation of an innovation-based economy the actual focus of these economies goes some way in explaining Groupon's mediocre performance in these markets. South Africa (in Africa) and Indonesia, Japan and South Korea (in Asia) all have Facebook penetration rates below 20%. Japan is a Stage 3 economy and South Africa, Indonesia and South Korea are all regarded as high growth economies. Low social media activation in these markets is a troubling challenge for social group buying entities, like Groupon, to overcome.

CONCLUSION

The speed at which Groupon was acquiring imitator companies in other markets did not allow for the establishment of proper synergistic operations. Rather than focusing on improving its technology, Groupon was struggling to deploy its basic platform across all of its foreign markets and is consequently running on dozens of incompatible platforms. No doubt, the effect of entering markets that are vastly different in terms of infrastructure and technological development compared to its home market. Despite infrastructure and technological advancement in the European market being the most similar to the USA, Groupon has experienced some of their biggest losses in sales and growth in these markets. Groupon has also had to write down the value of its assets in China (Popper, 2013). In extreme cases, there are reports of foreign operations making sales calls and sending spreadsheets back to Chicago without using the Groupon e-commerce platform at all (Popper, 2013). These cases testify to the challenges that developing economies face in catching up with technological advancement and business practices. Often their infrastructure and level of technological readiness constrain their pace of progression in e-commerce activities.

In countries with limited access to the Internet, Groupon has not managed to build an extensive database of customers. Although they may have reached a particular level of customer saturation in the USA, it cannot be argued that they have succeeded in building the same extensive network of customers in other markets, which calls into question the spending on acquisitions in other markets in order to expand their global reach.

High-tech companies planning to invest in foreign markets should carefully consider the reasons and potential return on investment of investing in specific developing markets. Emerging market growth does not equate to innovation readiness. Markets that are racing to catch up with technology might not be equipped to sustain e-commerce business activities without a fully developed broader telecommunications backbone to support online activity. In the famous words of Richard Branson (1993), “*Growth does not always lead a business to build on success. All too often, it converts a highly successful business into a mediocre large business.*”

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