AN ANALYSIS OF THE MODES OF ENTRY INTO THE CENTRAL EAST AFRICA MARKET FOR A MULTINATIONAL ENTERPRISE

BY

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Submitted to the Faculty of Management in accordance with the requirements of the degree.

MAGISTER TECHNOLOGIAE (BUSINESS ADMINISTRATION)
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PROMOTER: Mr T. Hutton

December 2001

PORT ELIZABETH
DECLARATION

I declare that:

AN ANALYSIS OF THE MODES OF ENTRY INTO THE CENTRAL EAST AFRICA MARKET FOR A MULTINATIONAL ENTERPRISE

is my own work and all sources used or quoted have been indicated and acknowledged by means of complete references. I have not previously submitted this thesis for a degree at another University or Technikon.

J.L.C. Knight

Date.
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FACULTY : Management
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ABSTRACT

The research problem addressed in this study is to determine the potential of selling and marketing consumer goods by Multinational Enterprises (MNE) within the African markets. The mode of entry, the timing of entry, the different modes of entry, selection of the entry mode, the political and economic risks, core competencies of the company and strategic alliance was researched. To achieve this, research was executed on the above areas of importance using relevant literature in which an understanding of the international markets and their options of modes of entry were highlighted. In this way one is able to understand the importance of the international markets and the concerns of doing business in Africa in order to select the entry mode that could best suit the company and the country or countries in Africa.
The literature study was then used to develop a questionnaire to test the degree to which managers in MNE in South Africa (SA) and Central East Africa (CEA) concur with regard to the decisions, risks, procedure, modes of entry and selection of modes of entry into Africa.

The empirical results obtained indicate a strong concurrence with the analysis of the modes of entry into CEA market for an MNE. The analysis of the literature study, Chapter 2 and 3, gives business a good understanding of the advantages and disadvantages of the problems and opportunities associated with the entry decisions into CEA. Many other companies are entering the African markets from other parts of the world and SA has also been seen as a launching pad into Africa. The analysis will give companies the edge in seeing the problems and opportunities in African markets and the way forward when deciding to enter.
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CHAPTER ONE

INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF CONCEPTS

1.1 INTRODUCTION

There is a growing realisation in southern Africa that sustained economic growth will be achieved only if firms in the region plan globally. Hough and Neuland (2000:357) believe that it is a fact that Southern Africa is emerging as a region of potential importance to investors because governments have made significant changes over the last five years.

Hough and Neuland (2000:3) write that rapid technological change and the increasingly global nature of competition are forcing South African firms to distribute their products more widely and quickly, cope with environmental change and reduce costs. Successful companies of the future will treat the entire world as their domain in terms of meeting their supply and demand requirements. In such globalised markets the domestic company will not be sustainably competitive.

Hough and Neuland (2000:343) continue to state that if South African companies are to compete successfully in the global market-place, would be important to become involved in the globalisation process as soon as possible and develop strategic alliances as a means of becoming internationalised. South Africa’s position in relation to other countries is
geographically better placed in marketing to the African countries. Many companies have opened plants, factories, sales and marketing offices or are arranging to open the above in order to penetrate the African market more effectively.

1.2 AFRICA AS A POWER HOUSE

The continent of Africa is the world’s largest continent after Asia. The economic powerhouse of Africa south of the Sahara Desert is South Africa. Many regard Africa as the continent of despair but other enterprising individuals and organisations have recognised the huge, untapped potential of Africa and are actively pursuing business ventures across the continent. (www.mbendi.co.za/land/af) continue that Africa's opportunities range in risk from investing in emerging market funds to one of the listed multinationals active in Africa to trading with African partners, which include:

- Oil and gas (Angola and Libya);
- Mining (West and Central Africa);
- Privatisation’s (South Africa and Nigeria);
- International trade (oil producers and SADC);
- Infrastructure (pipelines, roads, telecommunications);
- Stock exchanges that are mushrooming in many countries;
- Using educated English and French speaking African nationals;
- And leisure (big game, beaches, golf, climate, satellite, Internet, cell, low cost structure which leads to huge telecommuting opportunity).
Lockwood (2000:13) states that trade and investment potential is huge in Kenya, Tanzania and Uganda. The rewards are out there, but so are the risks. South Africa’s international trade relations have focused primarily on concluding an agreement with the European Union (EU) and, given that trade with the EU accounts for around 40 percent combined imports and exports, the effort expended on these negotiations is justified. However, last year trade with Africa contributed 90 percent of the total trade surplus, and one of South Africa’s principal selling points to foreign investors is its status as a gateway to sub-Saharan Africa.

The Sub-Saharan Africa tends toward the extremes. Birth rates and population growth rates are higher in this area than elsewhere. The HIV/AIDS epidemic is worse in this region than other regions and life expectancy is dropping in some countries. However, the cities of sub-Saharan Africa are growing more rapidly than cities elsewhere in the world and the continent’s future will be determined by urban areas, especially the large cities (www.melissa.org/english).

1.3 SOUTHERN AFRICAN DEVELOPMENT COUNTRIES (SADC) AND COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

Our Reporter (2001:11) states that the Southern African Development Community (SADC) summit convenes, August 2001, at a time when the region continues to be confronted with complex and daunting challenges of human development. About 76
million people or 40 percent of the region’s population live in extreme poverty as reflected in social indicators. However, there is also great potential and opportunity in the region to address the challenges. The region is richly endowed with human, natural, agricultural and mineral resources. With a population of about 190 million people and a combined GDP of Kwacha14.08 billion (US$176 million), the SADC region remains one of the largest untapped markets in the world.

According to Our Reporter (2001:12), South African Development Countries (SADC) trade protocol, which aims at gradually creating a free trade area in Southern Africa, is a fair and more sophisticated agreement than COMESA’S. A Mauritian regional trade official has said, “The SADC Trade Protocol is not a simple one. It gives different countries different times of implementing it in accordance with their level of economic development”.

The Southern Africa region is characterised by a range of overlapping regional integration initiatives, as well as bilateral trade agreements. Hartzenberg (2001:1) points out that in September 2000 the process of implementing the SADC Trade Protocol began in earnest; if all goes according to plan, then the SADC will be a free trade area (FTA) in 2008.

The SADC overlaps to a considerable extent with the Common Market for Southern and Eastern Africa (COMESA). Hartzenberg (2001:2) continues that ten countries (as at August 2001) are participants in the COMESA FTA (Free Trade Agreement). Some of
these (including, Zambia, Malawi, Zimbabwe, inter alia) are also SADC countries. This means that trade amongst these countries already takes place without tariff barriers (and to some extent with lower non-tariff barriers). COMESA is encouraging member states that belong to both SADC and COMESA to use the COMESA trade rules, and thus part of SADC is effectively already an FTA.

COMESA’s aims and objectives, as stated in the COMESA IN BRIEF (2000:2), are defined in the Treaty and its Protocol is to facilitate the removal of the structural and institutional weaknesses of member States so that they are able to attain collective and sustained development.

COMESA’s objective is to establish a Free Trade Area (FTA) by the year 2000 and all countries are supposed to have reduced tariff’s by 80 percent as at October 1996. In fact five countries (Comoros, Eritrea, Sudan, Uganda and Zimbabwe) have reached this level while Kenya, Malawi and Mauritius are on 70 percent and processing the 80 percent level. Tanzania is also currently processing the 80 percent tariff reduction. Angola, Ethiopia and Zaire have yet to reduce tariffs by the 60 percent reduction rate (www.comesa.int/trade).

Chafunya (2001:10) states that the SADC Heads of State and Council of Ministers need to hatch the proposed plans to formulate uniform currency for the Southern Africa Development Community (SADC) as one way of authenticating the regional grouping intentions to achieve regional economic integration. SADC technical monetary experts
indicated the need to form a unique currency or repatriation of each other’s currencies as a way of easing trade transactions within the region because several currencies were not convertible.

1.4 PROBLEMS ENCOUNTERED WITH THE ENTRY INTO AFRICAN COUNTRIES

Toyne and Walters (1989:127) feel that knowledge of the foreign market’s size, structure, growth, and other key characteristics are essential for the design of successful marketing programs. Without a detailed understanding of a market’s basic demographics and socio-cultural features and their implications for marketing, the selection of target markets and design of foreign marketing programs remain mere speculation. They add that key company decisions need to examine:

- The economic environment of foreign markets;
- Socio-cultural influences on buyer behaviour.

Kotler (2000:369) argues that because of the competing advantages and risks, companies often do not act until some event thrusts them into the international arena. Someone A domestic exporter, a foreign importer or a foreign government, solicits the company to sell abroad or the company is saddled with over capacity and must find additional markets for its goods.
Hibbert (1999:4) states that Porter (1990) investigated, on an empirical rather than a theoretical basis, why some nations’ firms succeed in international competition. More specifically:

- Why does a nation succeed internationally in a particular industry?
- What is the influence of the nation on competition in specific industries or industry sectors?
- Why do a nation’s firms select particular strategies?

Hibbert (1999:5) continues, in resolving these questions, Porter has postulated four premises:

- The nature of competition and the source of competitive advantage differ widely among industries (and even among industry segments);
- Successful global competitors perform some activities in the ‘value chain’ outside their home country and draw competitive advantage from their entire world-wide network rather than from just their home base;
- Firms gain and sustain competitive advantage in modern international competition through innovation;
- Firms that successfully gain competitive advantage in an industry are those that move early and aggressively to exploit a new market or technology.

Hough and Neuland (2000:36) concur with Michael Porter’s theory that the following
four attributes of a nation shape the environment in which local firms compete;

- Factor endowments – a nation's position in production factors like skilled labour and developed infrastructure to compete in a given industry;
- Demand conditions – the degree of health and competition the firm must face in its local market;
- Related and supporting industries – the presence or absence of supplier and related industries that are locally and globally competitive;
- Firm strategy, structure and rivalry – the conditions in the home industry that either hinder or aid the firm’s ability to create, organise and manage the nature of domestic and international rivalry.

Beamish, Morrison and Resonzweig (1997:8) state that the export decision process is complex, requiring resolution of a number of fundamental questions. Firms of any size are also faced with the same questions of where to expand (at home or abroad); if exporting, which markets; the best way to enter these markets (i.e. what distribution arrangement, method of pricing, level of promotion and whether to adapt the product and the ongoing management of their foreign export operations.

Worldwide trends influencing international business have benefited from the transfer of resources over national borders. These resources include technology, management expertise, capital, labour and natural resources. For example, an important benefit of foreign direct investment (FDI) is that a multinational enterprise (MNE) can learn
valuable skills from its exposure to foreign markets and transfer these skills and technologies to the MNE in the home country. Hough and Neuland (2000:11) continue to emphasise that the reasons for the internationalisation of an enterprise’s business include expansion of sales, resource acquisition, diversification to minimise competitive risk, saturated markets and depreciating currencies. Other objectives are achieving low costs in order to strengthen the enterprise’s competitive position and to gain access to natural resources. The political stability of countries, which are business partners is another important consideration when doing business beyond national borders.

1.5 CULTURE AND DEMOGRAPHICS AS A BARRIER TO ENTER

According to Hellriegel, Jackson and Slocum (1999:86), culture can be defined as the shared characteristics (e.g. language, religion, and heritage) and values that distinguish the members of one group of people from those of another. Hellriegel et al to suggest that a value is a basic belief about a condition that has considerable importance and meaning to individuals and is relatively stable over time. A value system comprises of multiple beliefs that are compatible and supportive of one another. For example, beliefs in private enterprise and individuals rights are mutually supportive.

Hellriegel et al (1999:133) states that there are four aspects of a culture that have direct implications for international management views. These are:

- Social change;
- Time orientation;
- Language;
• Value systems.

According to Beamish, et al (1997:7), a key element of the internationalisation process concerns where an organisation chooses to do business outside its country. Many firms conduct an incomplete analysis of potential markets. This is due, in part, to a lack of awareness regarding global demographics.

Kotler (2000:367) informs that a company might not understand the foreign customer’s preferences and fail to offer a competitive product. The company might not also understand country’s business culture or know how to deal effectively with foreign nationals. Many other challenges are listed below:

• Huge foreign indebtedness;
• Unstable governments;
• Foreign-exchange problems;
• Foreign-government entry requirements and bureaucracy;
• Tariffs and other trade barriers;
• Corruption;
• Technology pirating;
• High cost of product and communication adaptation;
• Shifting borders.
1.6 MAIN PROBLEM

What mode of entry do Multinational Enterprise consider when entering African markets?

1.7 SUB-PROBLEMS

In order to resolve the main problem the following sub-problems have been developed:

- What does a literature study reveal as the most suitable modes of entry in high-risk markets?
- What are the risk factors involved in applying one of the modes of entry?
- What barriers of entry exist in foreign countries?
- What do knowledgeable people believe are the most suitable modes of entry to high-risk foreign markets?
- What mode of entry would be most suitable for an MNE to enter the African market?
- What steps may be taken to ensure minimal risk in entering a foreign country?

1.8 DELIMITATION OF RESEARCH

In order to ensure that the research project is a manageable size, it is necessary to demarcate the research to Southern Africa and the Central East African Regions (CEA). This will not imply that the research is restricted to these areas as the topic could be
researched in a broader basis to suit all types of businesses, which will include international businesses interested in entering the CEA from other continents.

1.8.1 SIZE AND DEMARCATION OF ORGANISATIONS TO BE RESEARCHED

The scope of this research was limited to the MNE’s within South Africa and businesses that are based in CEA but who have head offices outside CEA, i.e. other MNE’s that export directly to CEA from other continents.

1.8.2 GEOGRAPHIC DEMARCATION

The research was conducted on MNE’s in South Africa which export into Africa.

1.9 DEFINITION OF KEY TERMS

The following have been defined in order to provide a clear insight into the meaning of the terms.

1.9.1 MODES OF ENTRY

Hill (2000:428) states that the choice of mode of entry into a foreign market is another issue which international businesses must decide. The various modes for serving foreign markets are exporting, licensing or franchising to host-country firms, establishing joint ventures with a host-country firm, and setting up a wholly owned subsidiary in a host
country to serve its market. Each of these options has advantages and disadvantages. The magnitude of the advantages and disadvantages associated with each entry mode are determined by a number of factors, including transport costs, trade barriers, political risks, economic risks and firm strategy. The optimal entry mode varies from situation to situation depending on various factors.

Kotler (2000:386) maintains that companies manage their international marketing activities in three ways:

- Firstly, through the *export department* - a firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company organises an export department consisting of a sales manager and a few assistants;

- Secondly, through *international divisions* – many companies become involved in several international markets and ventures. Sooner or later they will create international divisions to handle all their international activity.

Kotler (2000:387) continues that the third activity occurs through *global organisation* – several firms have become truly global organisations. Corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows and logistical systems.
Hough and Neuland (2000:265) state that firms can follow to serve foreign markets, which include exporting, licensing or franchising to foreign firms, turnkey projects, joint ventures with foreign firms and setting up wholly-owned subsidiaries in a foreign country. The market entry decision often represents the first step for most small and medium-sized enterprise wanting to expand internationally. For established companies in the international arena, however, the challenge lies in how to exploit opportunities in their existing international markets effectively and, even more importantly, how to enter new and encouraging markets.

Hough and Neuland (2000:267) regard alternative market entry modes such as:

- **Exporting**, as the simplest and least expensive way for a firm to sell its products overseas, and it has a choice between indirect and direct exporting methods. Indirect exporting involves the sale of a firm's products in foreign markets through an agent who is based in the home markets, and while direct exporting involves a firm that sells its products directly to an importer or a buyer in a foreign market;

- **Turnkey** normally includes the training of staff for the project. On a specified date the ‘key’ to a project is handed over to the client, which then ends the contractor's involvement in it;

- **Licensing** agreement is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified period of time and, in return, the licensor receives a royalty fee from the licensee;
• **Franchising** involves longer-term commitments than licensing, where the franchisor sells intangible property such as a trademark to the franchisee and obtains the latter’s contractual undertaking to comply strictly with all the rules on how to conduct its business;

• **Joint ventures** could be an international joint venture which is a business collaboration between companies based in two or more countries who share ownership in an enterprise established jointly for the production and/or distribution of goods and services;

• **Wholly owned subsidiaries** in a foreign country, the parent international company own 100 percent of the shareholding. Where this is not the case, it is a joint venture. Wholly-owned subsidiaries in other countries can be established in the following two ways:
  - Setting up a new operation in the foreign country;
  - Acquiring an established firm in the industry concerned.

### 1.9.2 CONSUMER GOODS

Crowther (2000:248) defines consumer goods as bought and used by individual customers, for example, food, clothing and domestic appliances. Crowther (2000:513) defines goods as things for sale; merchandise that is cheap, expensive, or low-quality goods, which could consist of cotton, leather or electrical goods.

Kotler (2000:397) explains that the array of goods consumers buy can be classified on the basis of shopping habits. A distinction can be made among convenience, shopping, speciality and unsought goods.
Hough and Neuland (2000:5) clarify that global commercial activities are defined as the movement of resources, goods, services and skills over international borders. The resources involved are raw materials, capital, people and technology, while goods refer to half-finished and finished products.

According to Hellriegel et al (1999:116), an export department actively searches out foreign markets for the firm’s goods or services.

### 1.9.3 MULTINATIONAL ENTERPRISE (MNE)

Hill (2000:16) says that a multinational enterprise is any business that has productive activities in two or more countries. Since the 1960s, there have been two notable trends in the demographics of the multinational enterprise:

- The rise of non-US multinationals particularly Japanese multinationals;
- The growth of mini-multinationals.

Hill explains that in the 1960’s, large US multinational corporations dominated global business activity. US firms accounted for two-thirds of foreign direct investment.

Hill (2000:17) contends that there is an increase in mini-multinationals. The trend in international business has been the growth of medium-sized and small multinationals (mini-multinationals). Although, it is certainly true that most international trade and investment is still conducted by large firms, it is also true that many medium-sized and
small businesses are becoming increasingly involved in international trade and investment.

Hill (2000:182) writes that once a firm undertakes Foreign Direct Investment (FDI), it becomes a multinational enterprise. The meaning of multinational is defined as “more than one country”.

Kotler (2000:366) confirms that since 1969, the number of multinational corporations in the world’s 14 richest countries has more than tripled, from 7 000 to 24 000. In fact, these companies today control one-third of all private-sector assets and enjoy worldwide sales of $6 trillion. International trade now accounts for a quarter of U.S. GDP, an increase from 11 percent in 1970.

Kotler (2000:558) also confirms that multinational enterprises must wrestle with a number of challenges in developing global communications programs. Firstly, they must decide whether the product is appropriate for a country. Secondly, they must make sure that the market segment they address is both legal and customary. Thirdly, they must decide if the style of the advertising is acceptable or customary in all countries involved. Fourthly, they must decide whether advertisements should be created at headquarters or locally.
1.10 SIGNIFICANCE OF RESEARCH

The increasing awareness of the advantages of doing business in other parts of Africa from South Africa has become quite evident and many companies are moving in the direction of obtaining new markets within African countries. A number of questions need to be addressed: How to select the country for export? When to export? How to export? These are challenges for all international countries wanting to be involved in other countries’ markets (www.mbendi.ac.za/land/af).

Hough and Neuland (2001:253) state that global business involves all those commercial activities between two or more countries. These commercial activities may be undertaken by private companies with a view to profit making, or by government organisations, in which case there is generally no profit motive.

Beamish et al (1997:15) state that effective international management starts with a knowledge of key variables in the global economic environment. In any industry, managers must have an overall knowledge of the where, what, why, and how of the countries and regions of the world. This knowledge starts with the size and growth rates of country markets; their populations; their trade volumes; compositions and growth rates; their natural resource bases and labour costs; and their financial positions. Beamish et al continue by writing that knowledge can be used as a first cut to identify the threats and opportunities that might arise in their international operations. It can assist them to identify countries and regions to which they might export, from which they might import, and in which they might invest in production operations.
Hibbert (1997:148) states that management must recognise that the attractiveness of market opportunities overseas varies widely among industries as well as among individual firms. Any strategy must, therefore, take account not only of corporate resources and industry prospects, but also of differences in levels of industrial activity and economic growth rates of overseas markets. There is also, of course, a wide variation in the capacities of individual firms to exploit foreign markets successfully. In setting up a strategy for international operations, therefore, management must:

- Assess opportunities in international markets for its products and technology as well as the potential risks associated with these opportunities;
- Examine the degree to which the firm can develop potential opportunities abroad in the light of its own organisational and managerial competence.

Hibbert advises that in the evaluation of alternative strategies, management must also ensure that there is some synergy of marketing, finance, technology and other resources, which can be utilised for:

- Market entry strategy;
- Development of marketing strategy in existing world markets;
- Increasing standardisation of marketing operations on a global basis.

Hibbert (1997:149) maintains that lack of planning also frustrates a vital aspect of operations – timing. To exploit market and investment opportunities overseas, the timing
of entry, negotiations, promotion and any acquisitions must be judged carefully, in a planned sequence. Unless a firm can plan and time its entry into foreign markets with precision, it may be excluded from certain promising markets permanently because the first firm that undertakes local production overseas can often negotiate with the host government for preferred treatment and special concessions. This can include a provision to make subsequent entry into the market by competitors extremely difficult, if not impossible.

1.11 RESEARCH DESIGN

In this section the methodology to be followed in the research project is described.

1.11.1 RESEARCH METHODOLOGY

In conducting the research project the following procedure will be adopted to solve the main problem and sub-problems.

1.11.2 LITERATURE STUDY

A literature study will be conducted in order to identify the key elements in developing a successful strategy in entering foreign African countries. Based on the literature study, a questionnaire will be developed and circulated amongst companies in the demarcated area.
1.12 EMPIRICAL STUDY

The empirical study will consist of four parts:

- A survey will be conducted in the delimited area to determine the problems and opportunities involved in obtaining a suitable mode of entry into foreign markets;
- A comprehensive questionnaire will be developed by the researcher, based on the information gained from the literature study. This will be used to evaluate the problems and opportunities relating to modes of entry;
- The survey will be directed at export departments, business development managers, chief executive officers, general managers, marketing directors/managers and managers.

1.13 DEVELOPMENT OF AN INTEGRATED MODEL

The results of the above literature study, together with the results of the empirical studies, will be integrated in order to form an analysis to establish the most effective means of entering foreign markets.

1.14 PROPOSED PROGRAMME OF STUDY

The research has been planned to include the following chapters.

Chapter 1 Introduction, problem statement and definition of concepts
Chapter 2 The modes of entry into foreign markets
1.15 SUMMARY

In this Chapter a brief outline is given of the importance for an MNE to be involved in foreign markets and the realisation that foreign markets, especially developing African markets, have high growth potential. This is known to be a far greater potential than developed markets. Africa is seen as a powerhouse for future MNE investment. The involvement of COMESA and SADC in developing the market structures and improving integration, is a show of confidence in the African countries’ future involvement in world markets.

The risks, problems and barriers of African markets were also discussed and this formed part of the main problem and from this, the sub-problems were developed. In ensuring the success of this research, the researcher demarcated the research to Southern and Central East African regions. The definition of the key terms were also discussed in order for the researcher to define the title and make it more meaningful.
The researcher’s procedure was explained and the proposed programme of study was outlined. Chapter Two is a discussion of the situation analysis of markets in Africa and from this, the modes of entry and the implications thereof will be discussed.
CHAPTER TWO

THE MODES OF ENTRY INTO FOREIGN MARKETS

2.1 INTRODUCTION

In Chapter 1 the problem statement and definition of concepts were discussed. It is important to be aware of the purpose of the research and the implications of foreign markets and their advantages and disadvantages. In this chapter it is necessary to understand how these markets can be entered without losing focus on the advantages or disadvantages which could either hinder or improve a company’s growth in foreign markets.

Therefore this chapter is concerned with three closely related topics:

- The decision of which foreign markets to enter, when to enter them, and on what scale;
- The choice of entry mode, and
- The role of strategic alliances.

According to Hill (2000:428), any firm that is contemplating foreign expansion must first deal with the issue of which foreign markets to enter and the timing scale of entry. The choice of which foreign markets to enter must be driven by the assessment of relative long-term growth and profit potential.
Kotler (2000:367) expands by writing that there are major decisions in international marketing:

- Deciding whether to go abroad;
- Deciding which markets to enter;
- Deciding how to enter the market;
- Deciding on the marketing program;
- Deciding on the marketing organisation.

Several factors are drawing more and more companies into the international market. These are:

- Global firms offering better products or lower prices can attack a company’s domestic markets. The company might want to counterattack these competitors in its home markets.
- The company discovers that some foreign markets present higher profit opportunity than the domestic market;
- The company needs a larger customer base to achieve economies of scale;
- The company wants to reduce its dependence on any one market;
- The company’s customers are going abroad and require international servicing.
2.2 THE KEY FACTORS AFFECTING A MNE GOING ABROAD

MNE must be aware of the key factors that allow a MNE to exploit opportunities in foreign markets. In this section the factors, reasons, concerns and stages that a MNE could apply to their strategies are exploited.

2.2.1 KNOWLEDGE OF THE FOREIGN MARKETS

The challenge for established companies in the international arena lies in how to exploit opportunities in their existing international markets effectively and, even more importantly, how to enter new and emerging markets. Hough and Neuland (2000:266) continue that the complexity of the market entry decision becomes clear when one realises that, with each market entry mode, there are advantages and disadvantages and these are determined by factors such as trade barriers, transport cost, political risks, economic risks and firm strategy.

Beamish et al (1997:3) maintains that international transactions can influence a firm’s future in both direct and indirect ways. Business decisions made in one country, (regarding factors such as foreign investments and partnership arrangements), can have significant impact on a firm in a different country and vice versa. The impact of such decisions may not be immediately and directly evident.

Beamish et al (1997:15) state that effective international management starts with the knowledge of key variables in the global economic environment. In any industry in any country, managers must have an overall knowledge of the where, what, why and how of
the countries and regions of the world. This knowledge starts with the size and growth rates of the country’s markets, populations, trade volumes, compositions, growth rates, natural resource bases, and labour costs and their financial positions. The authors maintain that this knowledge can be used as a first cut to identify the threats and opportunities that might arise in their international operations. It can assist them to identify countries and regions to which an organisation might export, and in which they might invest in production operations.

Hough and Neuland (2000:254) emphasise that firms expanding into new markets in foreign countries must, *inter alia*, deal with differing political, cultural and legal systems with unfamiliar economic and competitive conditions, advertising media, and distribution channels.

2.2.2 MULTINATIONAL ENTERPRISE’S STRATEGIC COMMITMENT

Hill (2001:432) explains that the final issue that an international business needs to consider when contemplating market entry is the scale of entry. Entering a market on a large scale involves the commitment of significant resources. Not all firms have the resources necessary to enter on a large scale, and even some large firms prefer to enter foreign markets on a small scale and then build slowly as they become more familiar with the market. The consequences of entering on a significant scale are associated with the value of the resulting strategic commitments.

A *strategic commitment* is a decision that has a long-term impact and is difficult to reverse. Deciding to enter a foreign market on a significant scale is a major strategic
commitment. Strategic commitments, such as large-scale market entry, can have an important influence on the nature of competition in a market (Hill 2001:433).

Kotler (2000:367) cites that most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties or design products to suit different customer needs and expectations.

Czinkota and Ronkainen (1996:14) believe that to prosper in a world of abrupt changes and discontinuities, of newly emerging forces and dangers, and of unforeseen influences from abroad, firms need to prepare themselves and develop active responses. New strategies need to be envisioned, new plans need to be made and the way of doing business needs to change. To stay on top, firms need to participate aggressively in the changes that take place and respond with innovation and creativity.

Hough and Neuland (2000:261) also claim that once a firm decides to enter the international market, it must formulate international and global marketing strategies consistent with its overall corporate policy and strategy.

Czinkota and Ronkainen (1996:15) point out that the growth of global business activities offers increased opportunities. International activities can be crucial to a firm’s survival and growth. By transferring knowledge around the globe, an international firm can build and strengthen its competitiveness.
Lockwood (2000:13) believes that most African markets are “hungry” for new products and are largely underserviced by transnational corporations, creating opportunities for expanding existing trade and investment links and establishing new ones. Lockwood mentions that enthusiasm for these opportunities appears to diminish in proportion to their distance from our borders. Given the difficulties from SA borders, the difficulties transporting goods to markets and exercising adequate control over foreign operations, this is understandable. But as political systems change, transport infrastructure is enhanced, and new technologies expand and improve communication, opportunities in some “less traditional” markets are emerging.

2.2.3 CORPORATE CONCERNS AND STAGES

The realisation of opportunities will require careful exploration. What is needed is an awareness of global development, an understanding of their meaning and a development of capabilities to adjust to change. One key facet is adapting the companies marketing concept to suit the needs of the environment and the foreign countries marketing requirements (Czinkota and Ronkainen, 1996:16).

Hough and Neuland (2000:253) as per the ‘Globalisation of Markets’, (1983 by Theodore Levitt) contend that a powerful force drives the world towards a converging commonality and that the force is technology. It has proletarianised communication, transport and travel. The result is a new commercial reality – the emergence of global markets for standardised consumer products on a previously unimagined scale of magnitude. Gone
are the accustomed differences in national or regional preferences; the globalisation of markets is at hand.

Czinkota and Ronkainen (1996:305) indicate that firms entering the international marketplace are faced with a host of new problems. The figure 2.1 (page 31) lists the main corporate concerns at the different export stages.

- Firms at stage one - are uninterested firms are not included because the international marketplace appears too problematic and unrewarding to them to become active;

- Firms at an export awareness stage – partially interested in the international market – are primarily concerned with operational matters such as information flow and the mechanics of carrying out international transactions. These firms understand that a totally new body of knowledge and expertise is needed and try to acquire it. Companies that have already had some exposure to international markets begin to think about tactical marketing issues such as communications and sales effort.

Czinkota and Ronkainen (1996:306) continue that firms which have reached the export adaptation phase are mainly strategy and service oriented, which is to say that they worry about longer-range issues such as service delivery and regulatory changes. Utilising the traditional marketing concept, one can therefore recognise that increased sophistication in international markets translates into increased application of marketing knowledge on the part of firms.
Figure 2.1  Main corporate concerns in each of the internationalisation stages.

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<td>1</td>
<td>Financing</td>
<td>Communication</td>
<td>Sales effort</td>
<td>Communication</td>
<td>Communication</td>
</tr>
<tr>
<td>2</td>
<td>Information on business practices</td>
<td>Sales effort</td>
<td>Obtaining financial information</td>
<td>Sales effort</td>
<td>Sales effort</td>
</tr>
<tr>
<td>3</td>
<td>Communication</td>
<td>Market information gathering</td>
<td>Physical product</td>
<td>Marketing information gathering</td>
<td>Marketing information gathering</td>
</tr>
<tr>
<td>4</td>
<td>Providing technical advice</td>
<td>Information on business practices</td>
<td>Marketing information gathering</td>
<td>Obtaining financial information</td>
<td>Providing repair services</td>
</tr>
<tr>
<td>5</td>
<td>Sales effort</td>
<td>Obtaining financial information</td>
<td>Information on business practices</td>
<td>Handling documentation</td>
<td>Information on business practices</td>
</tr>
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</table>


Beamish et al (1997:3) believes that Internationalisation has both *inward-looking* and *outward-looking* dimensions. The *outward-looking* perspective incorporates an awareness of the nature of competition in foreign markets and includes the following modes of activities:

- Exporting;
- Acting as licensor to a foreign company;
• Establishing joint ventures outside the home country with foreign companies;
• Establishing or acquiring wholly owned businesses outside the home country.

Beamish et al (1997:4) continues, that a firm might progress from (a) indirect/ad hoc exporting – perhaps from unsolicited export orders to (b) active exporting and/or licensing to (c) active exporting, licensing, and joint equity investment in foreign manufacturing to (d) full-scale multinational marketing and production.

In the global business environment, Beamish et al (1997: 7) maintains that a key element of the internationalisation process concerns the regions where an organisation chooses to do business outside its country. Many firms conduct an incomplete analysis of potential markets. This is due to a lack of awareness rewarding global demographics.

Hill (2000:430) warns that, while some markets are very large when measured by numbers of consumers (e.g. China and India), low living standards may imply limited purchasing power and a relatively small market when measured in economic terms. The cost and risks associated with doing business in a foreign country are typically lower in economically advanced and politically stable democratic nations and the risks are greater in less developed and politically unstable nations. Hill highlights another fact not yet discussed and that is the value an international business can create in a foreign market. This depends on the stability of its product offering to that market and the nature of
indigenous competition. If the international business can offer a product that is not widely available in that market and that satisfies an unmet need, the value of that product to consumers is likely to be much greater than if the international business simply offers the same type of product that the indigenous competitors and other foreign entrants are already offering.

2.2.4 THE EFFECTS OF THE INTERNAL AND EXTERNAL ENVIRONMENT

Beamish et al (1997:39) maintains that each firm operates within the social, technological, economic and political (STEP) environment of the country where it produces. The STEP environment has a strong influence on the firm:

- The cost, quality and range of products it produces;
- Domestic demand for its products;
- The product and process technology it uses;
- Its efficiency and scale of operations;
- The cost and availability of natural resource factor inputs, such as capital and labour;
- The range support industries, and how and where it markets its products.

Beamish et al (1997:40) continue that the firm’s STEP environment influences the comparative advantage of the products it produces relative to products produced by other firms abroad. Trends in the STEP environment, relative to the trends in the STEP environment of other countries, have strong influence on an ability to enter or to continue international trading operations. The STEP system in which it operates – and how it
responds to and influences comparative and competitive advantage – forms the first block in the analytical framework.

Beamish et al (1997:41) write that in a market identification, a firm with a domestic comparative and competitive advantage, gives it the potential to undertake ongoing exports. The company needs to identify markets abroad to which it can export its products. This entails the analysis of trends in demand arising from changes in population, income levels and consumer preferences in potential export markets. The analysis also concerns the impediments to trade flows, both natural ones - such as transportation costs - and measures government has taken to impede or to facilitate the linking of producers and buyers through international trade. Government policies to restrict and to promote trade can have a decisive influence on:

- Trade flows;
- The competitive position of firms in export markets;
- The availability and price imports;
- The ability of firms to compete with imports.

Hence the analysis of the level and trends in tariff and non-tariff barriers to trade is an essential component of the international trade framework.

Toyne and Walters (1989:285) mention that separate analyses of buyers, competitors, suppliers, or environmental trends are insufficient bases for formulating strategy. The firm must also analyse how these factors interact, the structure of facilitating organisations such as channel members and media, and forecasting of demand.
2.3 TIMING OF ENTRY TO FOREIGN MARKETS

Kotler (2000:369) maintains that in deciding to go abroad, a company needs to define its international marketing objectives and policies. The question of foreign total sales will it seek? Some companies start small and other companies have bigger plans. Generally speaking, it makes sense to operate in fewer countries with a deeper commitment and penetration in each. This is when:

- Market entry and control costs are high;
- Product and communication adaptation costs are high;
- Population and income size and growth are high in the initial countries;
- Dominant foreign firms can establish high barriers to entry.

According to Hill (2000:430), entry is early when an international business enters a foreign market before other foreign firms and late when it enters after other international businesses have already established themselves.

Kotler (2000:351) warns that, in commercialising a new product, market-entry timing is critical. First entry: The firm entering a market usually enjoys the “first mover advantage” of acquiring key distributors and customers and gaining reputation leadership. If, however, the product is rushed to the market before it is thoroughly tested, the product can acquire a flawed image. “First-mover advantages” and the presence of industry clusters can be overcome by entrants with sufficient resources to bear the initial losses entry entails. Such strategic moves can be assisted by government policy, which can give
a firm a “deep pocket” to finance its initial losses on entry or that can give it a protected
domestic market for initial sales.

Hill (2001:431) identifies entry as early when an international business enters a foreign
market before other foreign firms and late when it enters after other international
businesses have already established themselves.

2.3.1 ADVANTAGES

The advantages frequently associated are commonly known as first-mover advantages.
One first-mover advantage is the ability to pre-empt rivals and captures demand by
establishing a strong brand name. A second advantage is the ability to build sales
volume in that country and ride down the experience curve ahead of rivals, giving the
early entrant a cost advantage over later entrants. This cost advantage may enable the
early entrant to cut prices below the higher cost structure of later entrants, thereby driving
them out of the market. A third advantage is the ability of early entrants to create
switching costs that tie customers into their products or services. Such switching costs
make it difficult for later entrants to win business.

2.3.2 DISADVANTAGE

Hill continues to emphasis that there can also be disadvantages associated with entering a
foreign market before other international businesses.
These are often referred to as **first-mover disadvantages**. These disadvantages may give rise to pioneering costs. **Pioneering costs** are costs that an early entrant has to bear that a later entrant can avoid. Pioneering costs arise when the business system in a foreign country is so different from that in a firm’s home market that the enterprise has to devote considerable effort, time and expense to learn the rules of the game. Pioneering costs include the costs of business failure if the firm, due to its ignorance of the foreign environment, makes some major mistakes. A certain liability is associated with being a foreigner and this liability is greater for foreign firms that enter a national market early. Recent research seems to confirm that the probability of survival increases if an international business enters a national market *after* several other foreign firms have already done so. The late entrant may benefit by observing and learning from the mistakes made by early entrants. Pioneering costs also include the costs of promoting and establishing a product offering, including the costs of educating customers. These costs can be particularly significant when the product being promoted is one that local consumers are not familiar with.

### 2.3.3 THE FORCES OF DEMAND AND SUPPLY

Beamish et al (1997:42) identify the final area of analysis as the linkage of producers in one country to the buyers in the export market, once the following conditions have been realised: a firm has a competitive advantage; there is demand for its product in an export market; and government intervention in the international trade system (or through movements in real exchange) does not prevent the producer from accessing buyers in the export market; the linkage of producers in one country to buyers in the export market. A
competitive product and a receptive market are not enough: the product must somehow be transported from the factory to the point of shipment to the export market; be received in the export markets, clear customs, move through distribution channels to the point of sale; be sold to the customer; and be serviced after sale. Beamish et al point out that international channels of distribution are often long, multilayered, complex, difficult to analyse and understand, and expensive to access or to develop. Channel costs may represent three times the production cost of a product.

Beyond comparative and competitive advantage, there are two important factors that influence trade flows: the exchange rate and demand conditions over the business cycle. The concept of the “exchange rate” is a difficult one to master and to use but the influence of exchange rates on trade flows is so great that it should be mastered. The demand conditions are the needs and desires of the customer in order to satisfy those requirements (Beamish, et al 1997:51).

Hough and Neuland (2000:173) explain that the exchange rate is the money or currency of a foreign country, usually the forms of claims, drafts or bank deposits, denominated in one or more foreign currency. The exchange rate is the rate at which the currency of one country is exchanged into that of another.

Beamish et al (1997:52) highlight the fact that just as a rise in the real exchange rate reduces the competitive ability of national producers in export markets, it also increases the competitive ability of producers abroad to export to the domestic market. Hence, all
is equal, a rise in the real exchange rate leads to reduced export growth rates and increased import growth rates. Conversely, a fall in the real exchange rate leads to increased export growth rates and reduced import growth rates.

Beamish et al (1997:57) identifies other factors influencing international trade (both imports and exports). These are demand conditions over the business cycles in domestic market and in export markets, and in source countries for imports. If domestic economy is expanding relative to the economies of other countries, exporters will tend to divert production to the domestic markets, where demand and prices are rising. Producer’s abroad, faced with slack demand at home, will tend to try to push excess production onto export markets.

Czinkota and Ronkainen (2000:201) give another major reason that firms are reluctant to engage in international marketing activities. This is the lack of sensitivity to differences in consumer tastes and preferences. A second reason is a limited appreciation for the different marketing environments abroad. Often firms are not prepared to accept those distribution systems, industrial applications and uses, the availability of media, or advertising regulations may be entirely different from those in the home market. Barely aware of the differences, firms are unwilling to spend money to find out about them. A third reason is the lack of familiarity with national and international data sources and the inability to use them if obtained. Finally, firms often build up their international marketing activities gradually, frequently on the basis of unsolicited orders. Over time,
actual business experience in a country or with a specific firm may then be used as a substitute for organised research.

2.3.4 MARKET RESEARCH

Czinkota and Ronkainen (1996:202) maintain that the objective of international market research is that of foreign-market opportunity analysis. When a firm launches its international activities, information is needed to provide basic guidelines. Accomplished quickly at low cost, this can narrow down the possibilities for international marketing activities. An analysis of general market variables such as total and per capita GNP, mortality rates, and population figures will determine if the corporation’s objectives will be achieved in those markets.

Czinkota and Ronkaine (1996:203) describe the next sequence. The researcher will require information on each individual market for a preliminary evaluation. That is, information will typically locate the fastest growing markets, the largest markets for a particular product, market trends and market restrictions. The marketer must now select appropriate markets. The emphasis will shift to focus on market opportunities for a specific product or brand, including existing, latent and incipient markets. Figure 2.2 (page 41) discusses this process.
Figure 2.2  A sequential process of researching foreign market potential.

<table>
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<tr>
<th>Stage one</th>
<th>Preliminary screening for attractive country markets.</th>
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<td>Key Question? Which Foreign Markets Warrant Detailed Investigation?</td>
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<th>Stage two</th>
<th>Assessment of Industry market potential.</th>
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<td>Key Question? What is the aggregate Demand in Each of the Selected Markets?</td>
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<th>Stage three</th>
<th>Company sales potential analysis.</th>
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<tbody>
<tr>
<td></td>
<td>Key Question? How Attractive is the Potential Demand for Company Products and Services?</td>
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Source: Czinkota and Ronkainen (1996:203)

Beamish et al (1997:59) indicates that market segmentation is an important consideration when marketing products which have become increasingly important in international trade. When segmenting markets in countries abroad, several fundamental questions must be addressed:

- Is there a market segment in the potential export market that will value the product characteristics of the exporter’s product?
- Is this segment large enough to justify the costs of exporting?
- Is this segment adequately served by existing domestic producers or other exporters?
- Can the exporters access the market?

Beamish, et al (1997:57) also maintain that the factors influencing international trade (both imports and exports) are demand conditions over the business cycles in the
domestic market and in export markets and in source countries for imports. If the domestic economy is expanding relative to the economies of other countries, exporters will tend to divert production to the domestic market, where demand and prices are rising. Producer’s abroad, faced with slack demand at home, will tend to try to push excess production onto export markets.

2.4 DECIDING ON SCALE OF ENTRY

As explained by (Hill 2000: 47) different countries have different levels of economic development. A common measure of development is a country’s gross national product (GNP) per head of population. It measures the total value of goods and services of goods produced annually. However, GNP can be misleading because it does not take into account differences in the cost of living. To account for the differences in the cost of living, one can adjust GNP per capita to account for the differences in purchasing power.

Hough and Neuland (2000:137) say that the alternative measure is the purchasing power parity (PPP) estimates of per capita GNP. The basic idea of PPP is to identify the number of units a country’s currency is required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

There are a number of other indicators that can also be used to assess a country’s economic development and its likely future growth rate. These include literacy rates, number of people per doctor, infant mortality rates, life expectancy, calorie (food)
consumption per head, car ownership per 1000 people and education spending percentage of GNP.

Hill (2000:50) expands on this by stating that in an attempt to estimate the impact of such factors upon the quality of life in a country, the United Nations has developed a Human Development Index. This index is based upon three measures: life expectancy, literacy rates, and whether average incomes, based on PPP estimates, are sufficient to meet the basic needs (adequate food, shelter, and health care) of life in a country. The Human Development Index is scaled from 0 to 100. Africa rates between 30-60. In comparison, countries scoring less than 50 are classified as having low human development (the quality of life is poor); those scoring from 50 - 80 are classified as having medium human development, while those countries that score above 80 are classified as having high human development.

Many nations exert substantial restraints on global marketers through import controls. This is particularly true of countries that suffer from major balance-of-trade deficits or major infrastructure problems. In these countries, either all imports or the imports of particular products are controlled through mechanisms such as tariffs, voluntary restraint agreements or quota systems. On occasion, countries cut off imports of certain products entirely in order to stimulate the development of a domestic industry (Czinkota & Ronkainen, 1996:67).
2.5 SELECTING A MODE OF ENTRY

The choice of mode of entering a foreign market is another major issue with which international business must wrestle. The various modes for serving foreign markets are:

- Exporting;
- Licensing;
- Franchising to host-country firms;
- Establishing joint ventures with a host country firm;
- Setting up a wholly owned subsidiary in a joint venture with a host country firm;
- Setting up a wholly owned subsidiary in a host country to serve its markets (Hill, 2000:428)

Hough and Neuland (2000:271) maintain that each entry mode differs in:

- The degree of control that the company has over strategic and operational decisions that regard to its international operations;
- The degree of risk involved in its foreign operations, wherein the firm distinguishes between systemic risk (the extent of political, economic, legal and financial risks) and dissemination risk (probability of loss of know-how related to core competencies);
- The resource commitment related to the amount of the firm’s resources invested in foreign operations, including capital, physical assets, training of staff, and foreign marketing costs.
Figure 2.3  Eleven critical entry questions:

1. What domestic regulations prohibit the sale of products and/or services to specific countries?
2. What is the nature and potential size of the market?
3. What are the political and social environments like?
4. What is the competitive environment like and what barriers are there to the market?
5. What are the major (generic) response characteristics of the market in terms of the marketing mix?
6. What are the major characteristics of potential competitors?
7. What company demand can be expected?
8. What are the international logistical requirements necessary to serve the market?
9. What types of market presence are permitted and which optimum for the firm?
10. What are the resource requirements?
11. Does the market under review meet company’s objectives and goals and match its competitive advantages?

Source: Toyne and Walters (1989:229)

Toyne and Walters (1989:227) illustrate in figure 2.3 (page 45) that the:

- First step screens out the markets because of domestic regulations and management preferences;
- Second step screens out economically unattractive markets;
- Third step, provides an advanced, or in-depth analysis of the remaining market opportunities.
• Fourth step involves a trade-off analysis that compares the remaining market opportunities with the company’s objectives, current activities, and resources.

• Before a market entry decision can be made, eleven questions related to the market and the firms operations must be answered. In figure 2.3 (page 47) illustrates the remaining seven questions for advanced market-entry assessment.

Companies have a wide variety of options to choose from when they decide to go international they can export or import, license or invest abroad. Typically, the options chosen depend on the firm's international resources and the alternatives offered by the external environment. As a result, firms may choose different entry strategies for different markets (Czinkota and Ronkainen, 1996:296).

In most business activities, one factor alone rarely accounts for any given action. Usually a mixture of factors results in firms taking steps in a given direction. This is true of international market entry. Motivation consists of a variety of factors both pushing and pulling firms along the international path. In figure 2.4 (page 48), provides an overview of the major motivations to internationalise. They are differentiated into pro-active and reactive motivations:

• **Pro-active** motivations represent stimuli to attempt strategic change in international markets;

• **Reactive** motivations influence firms that are responsive to environmental changes and adjust to them by changing their activities
over time. Reactive motivation influences firms to respond to changes and pressures of the business environment rather than to attempt to blaze trails (Czinkota and Ronkainen, 1996:297).

Figure 2.4 Major motivations to internationalise small and medium-sized firms.

<table>
<thead>
<tr>
<th>Proactive:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit advantage;</td>
</tr>
<tr>
<td>Unique products;</td>
</tr>
<tr>
<td>Technological advantage;</td>
</tr>
<tr>
<td>Exclusive information;</td>
</tr>
<tr>
<td>Managerial urge;</td>
</tr>
<tr>
<td>Tax benefit;</td>
</tr>
<tr>
<td>Economies of scale.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reactive:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive pressure;</td>
</tr>
<tr>
<td>Overproduction;</td>
</tr>
<tr>
<td>Declining domestic sales;</td>
</tr>
<tr>
<td>Excess capacity;</td>
</tr>
<tr>
<td>Saturated domestic markets;</td>
</tr>
<tr>
<td>Proximity to customers and ports.</td>
</tr>
</tbody>
</table>

Source: Czinkota and Ronkainen (1996:297)

Beamish et al (1997:62) confirms that once a viable segment of the market has been selected, the next step is to determine the best strategy by which to penetrate this
segment. Strategy formulation does not end when product characteristics are matched to market segments. It should include channels of distribution, sales and advertising techniques, service before and after sales, and so on.

According to Beamish et al (1997:63), having a different strategy to the major competitors in the market has advantages. Large entrenched producers with strong brand images may find it difficult to respond to exporters following a strategy that differs from their own. Beamish et al make a convincing argument that the final and, arguably, the most important decision in a firm’s export strategy is whether to sell a standardised product world-wide or whether to tailor products and the entire marketing mix to meet an individual country's requirements. There is no right or wrong answer. The correct answer depends on a host of considerations, such as the ability and capacity of the firm to modify products, the R&D and design costs of modifications, and the effects on production, inventory and distribution costs of producing and marketing a more diverse set of products.

Beamish et al (1997:64) confers that in general, most exporters would prefer to follow a standard product and marketing mix strategy. Such a strategy reduces production, logistics and inventory costs, complexity, market and product research and development, and managerial time. Such a strategy is obviously more appropriate for some products than for others. If demand characteristics are similar in many potential export markets, then a standardised product approach is often most appropriate and vice versa.
Hough and Neuland (2000:273) deduce that, as far as pressures for cost reduction in foreign markets are concerned, the greater these pressures, the more combinations of exporting and wholly-owned subsidiaries will be preferred as a mode of entry, especially where global and transitional strategies are pursued.

Export markets take time to develop. Building and maintaining a sustainable competitive advantage in any one export market, let alone worldwide, is an investment. The initial R&D, channel of development and advertising (all necessary to launch a product) are best viewed as investments, not current costs. So, too, should the costs of entering export markets be viewed as investments. These are investments whose payoffs come only in time. The firm must invest the time and the money in export markets. It must gain expertise in export operations and in identifying export markets; identify, select and manage channels of distribution into those markets; gain technical expertise to modify products for export markets; and develop on-the-ground experience in an export market. In addition, initial losses are often incurred to penetrate markets through low prices. All these costs are investments in export markets and not expenses (Beamish, 2001:65).

2.5.1 EXPORTING

The simplest and least expensive way for a firm to sell its products overseas is by exporting and it has a choice of Indirect and Direct exporting methods. Indirect exporting involves the sale of a firm’s products in foreign markets through an export agent who is based in the home market. In direct exporting, the firm sells its products
directly to an importer or buyer in a foreign market without an intermediary being involved in the process (Hough & Neuland, 2001:267).

Kotler (2000:374) maintains that the normal way to get involved into a foreign market is through export. Companies typically start with indirect exporting. They work through independent intermediaries to export their product. Direct exporting will occur when companies eventually decide to handle their own exports. Direct exporting does not use home-country middlemen, but may employ middlemen based in the overseas market.

Cowell & Corbin (1998:14) are of the opinion that the decision to export must not be taken hastily or lightly. It will involve a drastic change of the company philosophy, a substantial modification of the company’s financial structure and of its budgetary allocation of funds and a transformation of the manner in which the company management thinks.

Hough and Neuland (2000:267) maintain that the advantage of exporting is that it requires a minimum of financial commitment (indirect exporting in particular), it is relatively easy to initiate, experts in international marketing who know the markets for the firm’s products are involved, and the risk on the part of the manufacturing firm as such, is relatively low.

Hibbert (1999:261) agrees that many manufacturing firms begin their global expansion as exporters and only later switch to another mode for serving a foreign market.
Beamish et al (1997:63) comments that, in the past, exporters in different countries tended to follow one of three different strategies. Firms in Japan tend to export one standardised product to all markets; firms in the United States tend to follow a product life-cycle strategy by first introducing a new product in the U.S. market and later exporting it as a demand by other countries become more similar to U.S. demand; firms in Europe tend to be more responsive to local market conditions and to view each market as a separate entity.

2.5.2 TURNKEY PROJECTS

Hibbert (1999:286) maintains that a turnkey contract must also assist with the marketing of the product manufactured. If the contract imposes on the contractor an additional guarantee as to the quantity and the quality of the production over a long period, the turnkey contract will become a turnkey-plus-management contract.

Hill (2001:435) confirms that companies that specialise in the design, construction, and start-up of turnkey plants are common in some industries. In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. At completion of the contract, the foreign client is handed the "key" to a plant that is ready for full operation—hence, the term turnkey. This is a means of exporting process technology to other countries. Turnkey projects are most common in the chemical, pharmaceutical, petroleum refining and metal refining industries, all of which use complex, expensive production technologies. Hill feels that a turnkey project can also be less risky than conventional FDI.
2.5.3 LICENSING

According to Hibbert (1999:261), licensing is an arrangement whereby the company is prepared to transfer, for a defined period, the right to use its commercial or industrial property, for example, technology knowledge, patent, et cetera. This will be in return for some form of compensation, usually a royalty payment.

Kotler (2000:375) points out that licensing is a simple way to become involved in international marketing. The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name.

Hill (1999:407) maintains that in a typical international licensing deal the licensee puts up most of the capital necessary to get the overseas operation going.

Beamish et al (1997:107) is of the opinion that licensing is a strategy for technology transfer. It is also an approach to internationalisation that requires less time or depth of involvement in foreign markets, compared to export strategies, joint ventures and foreign direct investment (FDI).

A licensing agreement is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified period and, in return,
the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights and trademarks (Hill, 2001:436).

The strategic advantages to licensing depend on the technology, firm size, product maturity and extent of the firms experience (Beamish et al, 1997:107).

Beamish et al (1997: 109) identifies the most important risk associated with licensing: the licensor risks the dissipation of its proprietary advantage, since the licensee acquires at least a portion of that advantage via licensing. Thus, any licensor should try to ensure that its licensee would not be a future competitor. A second risk with licensing is that the licensor jeopardises its worldwide reputation if the licensee cannot maintain the desired product standard and quality or if it engages in questionable practices.

2.5.4 FRANCHISING

Hill (1999:409) cites that, in many respects, franchising is similar to licensing, although franchising tends to involve longer-term commitments than licensing. Franchising is basically a specialised form of licensing in which the franchisor not only sells intangible property to the franchisee (normally a trademark), but also insists that the franchisee agree to abide by strict rules on how to do business.

Hellriegel et al (1999:161) concludes that a middle ground between starting a business and buying an existing business is to run a franchise. Hellriegel et al clearly states that a franchise is a business operated by someone (the franchisee) to whom a franchiser grants the right to market goods or service. In many respects, franchising is similar to licensing,
although franchising tends to involve longer-term commitments than licensing. **Franchising** is basically a specialised form of licensing in which the franchiser not only sells intangible property to the franchisee (normally a trademark), but also insists that the franchisee agrees to abide by strict rules as to how it does business.

The main advantage of franchising as a mode of entry is similar to that of licensing, since the franchisor has to bear little costs and risks. Hough and Neuland (2000:269) continue that with franchising as an entry mode, a service firm can rapidly develop a franchise network of firms in foreign markets that could be very profitable.

### 2.5.5 JOINT VENTURES

Hill (1999:410) says that joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. The most typical joint venture is a 50/50 arrangement, in which there are two parties, each of which holds a 50 percent ownership stake and contributes a team of managers to share operating control. Some firms, however, have sought joint ventures in which they have a majority and thus tighter control.

Beamish et al (1997:121) maintain that moving into foreign markets entails a degree of risk and most firms that decide to form a joint venture with a local firm are doing so to reduce the risk associated with their new market entry. As a further risk reducing measure, the joint venture may begin life as simply a sales and marketing operation, until the product begins to sell well and volumes rise.
Kotler (2000:377) maintains that forming a joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical or managerial resources to undertake the venture alone, or the foreign government might require joint ownership as a condition for entry.

According to Beamish et al (1997:114), however, joint ventures are formed because the purpose of most international joint ventures is to allow partners to pool resources and co-ordinate their efforts to achieve results that neither could obtain acting alone.

**Figure 2.5 Motives for international joint ventures formation**

<table>
<thead>
<tr>
<th>New Products</th>
<th>To take existing products to foreign markets</th>
<th>To diversify into new business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Markets</td>
<td>To strengthen the existing business</td>
<td>To bring foreign produce to local markets</td>
</tr>
<tr>
<td>Existing Products</td>
<td>New Products</td>
<td></td>
</tr>
</tbody>
</table>

Source: Beamish et al (1996:115)

Beamish (1997:115) emphasises that international joint ventures can be used to achieve one of four basic purposes. As shown in the figure 2.5 (page 57), these are:

- To *strengthen the firm’s* existing business;
- To take the firm’s existing products into *new markets*;
- To obtain new products that can be sold in the firm’s existing markets, and *diversify* into new business.
Companies using joint ventures for each of these purposes will have different concerns and will be looking for partners with different characteristics.

Beamish (1996:116) adds that firms wanting to strengthen their existing business, will most likely be looking for partners among their current competitors, while those wanting to enter new geographic markets will be looking for overseas firms in related businesses with good local market knowledge.

2.5.6 WHOLLY OWNED SUBSIDIARIES

Hill (1999:412) explains as a wholly owned subsidiary, the firm owns hundred percent of the stock. Hill proposes that a wholly owned subsidiary in a foreign market can be done in two ways:

- The firm can set up a new operation in that country;
- Or it can acquire an established firm and use that firm to promote its products in the country’s market.

Hough and Neuland (2000:266) explain that when deciding to establish a wholly owned subsidiary in a foreign country, it will give the company a high degree of control in terms of operating and marketing decisions, but will involve significantly higher costs and risks when compared to the licensing alternative.

Hough and Neuland (2000:271) identify three distinct advantages of wholly owned subsidiaries:
• Firstly, it is the preferred mode of entry when the risk of losing know-how and technological expertise is high;

• Secondly, the mode provides for effective control over and coordination with subsidiaries in a global network of companies;

• Thirdly, wholly owned subsidiaries may be a preferred option to capitalise on experience curve and location economies, especially where global and transitional strategies are pursued.

2.6 SELECTING AN ENTRY MODE

Hill (2000:442) summarises the Advantages and Disadvantages associated with all entry modes in the figure 2.6 (page 59). Due to these advantages and disadvantages, trade-offs are inevitable when selecting an entry mode. For example, when considering entry into an unfamiliar country with a track record for nationalising foreign-owned enterprises, a firm might favour a joint venture with a local enterprise. However, if the firm’s core competence is based on proprietary technology, entering a joint venture might risk losing control of that technology to the joint venture partner, in which case this strategy may seem unattractive. Despite the existence of such trade-offs, it is possible to make some generalisations about the optimal choice of entry mode.
### Figure 2.6  Advantages and disadvantages of entry modes

<table>
<thead>
<tr>
<th>Entry Mode</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting</td>
<td>Ability to realise location and experience curve economies</td>
<td>High transport costs</td>
</tr>
<tr>
<td>Turnkey Contracts</td>
<td>Ability to earn returns from process technology skills in countries where FDI is restricted</td>
<td>Creating Efficient competitors, Lack of long-term market presence</td>
</tr>
<tr>
<td>Licensing</td>
<td>Low development costs and risks</td>
<td>Lack of control over technology, Inability to realise location and experience curve economies, Inability to engage in global strategic co-ordination</td>
</tr>
<tr>
<td>Franchising</td>
<td>Low development costs and risks</td>
<td>Lack of control over quality, Inability to engage in global strategic co-ordination</td>
</tr>
<tr>
<td>Joint Ventures</td>
<td>Access to local partner's knowledge, Sharing development costs and risks, Politically acceptable</td>
<td>Lack of control over technology, Inability to engage in global strategic co-ordination, Inability to realise location and experience economies.</td>
</tr>
<tr>
<td>Wholly owned Subsidiaries</td>
<td>Protection of technology, Ability to engage in global strategic co-ordination, Ability to realise location and experience economies</td>
<td>High costs and risks</td>
</tr>
</tbody>
</table>

Source: Adopted from Hill (2001:443)
Firms with domestic products that they believe will be successful in foreign markets face choice. They can produce the product at home and export it, license the technology to local firms around the world, establish wholly owned subsidiaries in foreign countries, or form joint ventures with local partners. Many firms conclude that exporting is unlikely to lead to significant market penetration, building wholly owned subsidiaries is too slow and requires too many resources, and licensing does not offer an adequate financial return. The result is an international joint venture. While seldom seen as an ideal choice, it is often the most attractive compromise (Beamish, et al 1997:121).

2.7 GLOBAL MARKETING STRATEGIES

Global industry is an industry in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions. Kotler (2000:366) defines a global firm as a firm that operates in more than one country and captures R&D, production, logistical, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

The multidomestic strategy is heavily reliant on the work of host country nationals and country managers. For a firm to shift to a global strategy requires country managers to make a big change in their perspective which can be difficult, especially for host country nationals who are country managers. Sanyal (2001:141) advises that, to overcome this issue, the parent firm may have to appoint non-nationals to head up foreign affiliates. A program of job rotation as part of an executive development schedule to develop a cadre
of global managers, or sending country managers to headquarters on assignments, are two other approaches to develop global focused management.

Once a firm decides to enter the international market, it must formulate international and global marketing strategies consistent with its overall corporate policy and strategy. Hough and Neuland (2000:261) emphasise the need to look at the organisation and structure of international marketing, the assessment of international markets and market entry modes, which is developed on the basis of the key elements of product strategy, distribution strategy, promotion and communications strategy and pricing strategy.

Hough and Neuland (2000:263) agree that when expanding internationally, companies must decide which markets should be served, and where production should be located to serve these markets.

Hill (2000:455) quotes in Nestle’s global strategy that a successful execution of the strategy for developing markets requires a degree of flexibility, an ability to adapt in often unforeseen ways to local conditions and a long term perspective that puts building a sustainable business before short-term profitability. In Nigeria, for example, a crumbling road system, ageing trucks and a danger of violence forced the company to rethink its traditional distribution methods. Instead of operating a central warehouse, as is its preference in most nations, the company built a network of small warehouses around the country.
2.8 STEPS IN THE EXPORTING PROCESS

In order to achieve the firm’s objectives, MNE’s need to follow a procedure to ensure that the path of entry into foreign countries is as smooth as possible. In this section the MNE could apply some of these tactics in its strategic plans when entering foreign countries.

Jordaan (2001:1) he is of the opinion that SA multinational enterprises should follow this procedure when entering foreign countries:

2.8.1 RETAIL FOCUS ON AFRICAN COUNTRIES

Jordaan (2001:2) is of the opinion that the supply and demand side characteristics are the key factors that need to be explored when entering foreign African countries from South Africa. A good marketing program geared towards retail outlets and using the export process as a mode of entry would be a good form of entering into African markets.

SUPPLY SIDE

- Select SA product(s);
- Export only (This will exclude turnkey, licensing, franchising and joint ventures propositions);
- Own brand and/or customer brand. The company must maximise economics.

MECHANICS AND LOGISTICS

- Delivery from supplier to client point-to-point;
• Select mode of packaging;
• Select mode of transport;
• Confirm trans-shipment/handling;
• Control shrinkage/damages;
• Select warehousing in market place;
• Physical distribution channels – level of development of sophistication of delivery mode.

**MODEL OF UNRELENTING CHANNELS**

Market entry options:

• Wholesale and/or macro player?
• Own distribution?
• Exclusivity, e.g., Pharmacies, chains stores, etc;
• Point of sale material (POS), labelling, packaging, branding, language on packaging, symbols, colours;
• Role of branding for MNE - marketing and brand promotion reliance on mass media, sound, vision and print.

**DEMAND SIDE**

Characteristics of model MNE distribution set up.

• Understand geography / demographics;
• Finalise ownership / management;
• Select wholesale outlets;
• Select retail outlets;
• Select sub-distributors to maximise distribution;
• MNE throughput - volume/product/rejects/backup in-store;
• 10 year trend/forecast;
• Population / purchasing power / demographic / literacy / lifestyles / cultural.

MARKET SELECTION

Macro-economic

• Foreign trade solutions & agreements;
• Implications for SA supplier;
• Country risks;
• Credit rating;
• Payment situation;
• Demographics, languages, et cetera;
• Comparative analysis of countries to evaluate future prospects (SWOT).

Jordaan (2000:3) maintains that a country rating must be based on the criteria identified above. Prioritisation must be given to SA manufacturer’s export and marketing ambitions versus competitive situation of third world foreign country suppliers within their country. The risks of the manufacturer must be assessed and solutions and cost thereof must be taken into account in order to ensure that the risk is controlled and/or lowered.
Finally, an overall;

- A decision process of when to enter;
- What mode of entry to be used;
- Whether to implement the entry into the country;
- And a review of the country or countries must be part of the decision process.

2.8.2 FURTHER OPTIONS TO THE EXPORT PROCESS

Hough and Neuland, (2000:263) that the first step in the development of an international or global marketing strategy involves the selection of the international markets that the firm would wish to serve. To enable companies to decide how and where to expand internationally, all promising opportunities and options in this regard are evaluated by means of an international market assessment, a process that involves a number of analytical screening steps to identify viable international markets for the company’s products and services:

- **Initial screening:** basic need and potential: The aim is to establish, without too much cost and trouble, if there is a need for the company’s existing and/or new products and services;

- **Second screening:** financial and economic conditions: The aim is to reduce further the list of prospective countries by eliminating those that do not meet certain predetermined financial and economic criteria;

- **Third screening:** political and legal forces that could influence the attractiveness of a potential foreign market are identified;
• **Fourth screening**: sociocultural forces. This step considers all identifiable social norms and values of a specific country and assesses the potential influences thereof, should the company decide on operations in that country;

• **Fifth screening**: competitive environment focuses almost exclusively on competitive situations and forces prevailing in those selected countries which have survived the first four screening tests;

• **Finally**, the information will be supplemented by information gained from professionals in the field, on-site visits, and interviews with government officials and trade representatives. The company will then decide as to whether or not it should locate its production and/or marketing operations in one or more foreign countries. This process will serve as invaluable external information for the development of the company’s marketing strategy and operations in the target country or countries.

The investigation of the market entry options are then decided which will allow the international firm to enter foreign countries at less risk.

Sanyal (2001:173) says that many firms export in reaction to overseas inquiries pro-active firms first tend to explore markets “closer” to home. Importers too, first consider suppliers in countries closer to home before venturing afar. Closeness is measured by the physical or geographical distance, the economic distance (in terms of convergence of living standards) and cultural or psychic distance.
Sanyal’s (2001:174) recommendations, regarding issues that managers need to understand and follow when it comes to exporting, are presented in a sequential manner below:

- Assess the needs of potential market and identify potential customers;
- Assess one’s own capability to meet those needs;
- Identify the tools – technology, finance, and regulatory expertise- needed;
- Match specific capabilities of the firm to the specific needs of the customers;
- Prepare for and arrange to meet the foreign client or importer;
- Meet the importer;
- Assess the results of the meeting with particular attention to cultural issues and differences;
- Meet the importer again to discuss specific business relationships;
- Implement the sales agreement;
- Periodically re-evaluate the relationship and the arrangements.

Toyne and Walters (1989:227) are of the opinion that it generally involves a four-step analysis. The first step screens out the markets because of domestic regulations (Trading with the Enemy Act) and management preferences (Top management may decided that Europe is the only region to be reviewed). The second step screens out economically unattractive markets. The third provides an advanced analysis of the remaining market opportunities. The fourth step involves a trade-off analysis that compares the remaining marketing opportunities with company’s objectives, current activities and resources.
Kuehl (2001:2) maintains that the procedure below would need to be adapted to the market needs. Kuehl maintains that the MNE must understand and know its overall aim of entering the foreign markets.

As a step by step guide, the MNE would follow this procedure, taking into account the firm’s present strategy and core competencies.

- Start with an overall market assessment;
- Then the mode of entry research;
- A strength, weakness, opportunity and threat analysis (SWOT);
- A market analysis: Who is the target market (as detailed as possible)? What competitors already exist? What is their strategy? What can be done to differentiate the product? What is the buying potential of the target market? What is the buying potential of the distributor?
- How would the MNE reach them? – What is the marketing mix? What kind of advertising and brand building would the MNE require? What does the target group respond to?

Once the MNE has determined what kind of market potential exists, it is in a position to determine entry. If it is a limited market with lots of competition, it makes more sense to go slowly with a distributor or agent. A wide open market opportunity requires a more permanent operation such as a joint venture or a subsidiary. Kuehl concludes that there is a lack of material regarding business in African so the MNE may have to use original research such as: surveys, focus groups, business contacts, et cetera.
2.9 CORE COMPETENCIES

Hill (2001:443) believes that firms often expand internationally to earn greater returns from their core competencies, transferring the skills and products derived from their core competencies to foreign markets where indigenous competitors lack those skills. Such firms are said to be pursuing an international strategy. The optimal entry mode for these firms depends to some degree on the nature of their core competencies. A distinction can be drawn between firms whose core competency is in technological know-how and those core competencies is in management know-how.

Sanyal (2001:150) proposes ways to identify core competencies. Three tests can be used to answer that question. Firstly, a core competency should be able to provide potential access to a wide variety of markets. Secondly, a core competency should make a significant contribution to the value the customer perceives in the finished product. Thirdly, a core competency should be difficult for competitors to copy.

Hough and Neuland (2000:272) maintain that firms expand internationally to earn greater profits, primarily by transferring their products, services and skills derived from core competencies, to foreign markets, generally when they follow an international strategy. Two types of core competencies are considered – those based on technological know-how, and those based on management know-how.

Hill (2000:443) warns that if a firm’s competitive advantage (its core competence) is based on control over proprietary technological know-how, licensing and joint venture
arrangements should be avoided if possible so that the risk of losing control over that technology is minimised.

Kotler (2000:444) adds that the competitive advantage of many service firms is based on management know how. (E.g. McDonald’s). For such firms, the risk of losing control over their management skills to franchisees or joint venture partners is not that great? These firms' valuable asset is their brand name, and brand names are generally well protected by international laws.

Kotler (2000:42) explains that the key is to own and nurture the core resources and competencies that make up the essence of the business. Nike, for example, does not manufacture its own shoes, because certain Asian manufacturers are more competent in this task. But Nike nurtures its superiority in shoe design and shoe merchandising, its core competencies. A core competency has three characteristics:

- It is a source of competitive advantage in that it makes a significant contribution to perceived customer benefits;
- It has a potential breadth of applications to a wide variety of markets;
- It is difficult for competitors to imitate.

Kotler continues that the competitive advantage also accrues to companies that possess distinctive capabilities. Whereas core competencies tend to refer to areas of special technical and production expertise, capabilities tend to describe excellence in broader business processes.
2.10 STRATEGIC ALLIANCE

Hill (1999:444) says that the term, strategic alliance, refers to co-operative agreements between potential or actual competitors. Strategic alliances run the range from formal joint ventures, in which two or more firms have equity stakes (e.g., Fuji-Xerox), to short-term contractual agreements, in which two companies agree to co-operate on a particular task (such as developing a new product). Collaboration between competitors is fashionable; the 1980’s and 1990’s have seen an explosion in the number of strategic alliances. Hill continues that firms ally themselves with actual or potential competitors for various strategic purposes. Firstly, it allows entry into foreign markets, secondly, allows firms to share fixed costs of developing new products or processes; thirdly, an alliance is a way to bring together complementary skills and assets that neither company could easily develop on its own. Fourthly, it can make sense to form an alliance that will help the firm establish technology standards for industry that will benefit the firm.

Hough and Neuland (2000:344) confirm that strategic alliance is defined as a particular mode of inter-organisational relationship in which the partners make substantial investments in developing a long-term collaborative effort and a common orientation towards their individual and mutual goals.

Hough and Neuland (2000:345) suggest that firms typically engage in joint ventures to achieve objectives such as:

- To take advantage of economies of scale and diversifying risk;
- To overcome entry barriers to new markets;
• To pool complementary knowledge.

Kotler (2000:81) maintains that companies are also discovering that they need strategic partners if they hope to be effective. New technology is requiring global standards, leading to global alliances. Kotler writes that doing business in another country may require the firm to licence its product, form a joint venture with a local firm, or buy from local suppliers to meet “domestic content” requirements. As a result many firms are rapidly developing global strategic networks. Companies need to give creative thought to finding partners who might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at less cost.

Van der Meer (2001:29) maintains that there is a confluence today of two economic forces: strategic alliances and e-Commerce. Each is having far reaching impacts on the other. E-Commerce is fuelling a huge increase in the total number of alliances and the creation of several varieties of new alliance based business models. Oracle deduces that six basic types of alliances have emerged over recent years, including:

• Marketing alliances which affect the manner in which alliances go to market together;

• Customer alliances where corporation form alliances with their customers through information rich communication, based on technology;

• Outsourcing alliances, which is posing as a more compelling proposition in e-Commerce than in the bricks-and-mortar world as it
calls for specialised skills and flexibility;

- Research alliances, whilst least affected by e-Commerce, provides a challenging future as it deals more specifically with issues relating to intellectual property;

- Standards alliances in which e-Commerce demands that nearly all players focus on standards alliances and consortia.

2.11 INNOVATION

Innovation is the engine of growth. According to Hill (2000:50), there is a general agreement now that innovation is the engine of long-run economic growth. Those who make this argument define innovation broadly to include not just new products but also new processes, new organisations, new management practices and new strategies. This leads logically to a further question. What is required for the business environment of a country to be conducive to innovation? Those who have considered this issue highlight the advantages of a market economy. It has been argued that the economic freedom associated with a market economy creates greater incentives for innovation.

Sanyal (2000:144) believes that the underlying thrust of many successful strategies is the continuous ability of the firm to innovate. Innovation includes the application of new technologies and better ways of doing things. These changes come through design, development and marketing; through discovering new applications for products; and in creative use of human resources and information.
Hill (2000:53) also states that strong legal property rights are another requirement for a business environment to be conducive to innovation and economic growth. Both individuals and business must be given the opportunity to profit from innovative ideas. Without strong property rights protection, businesses and individuals run the risk that the profits from their innovative efforts will be expropriated, either by criminal elements or by the state itself. The state can expropriate the innovation by legal means, such as excessive taxation, or through illegal means, such as demands from state bureaucrats for kickbacks in return for granting an individual or firm a licence to do business in a certain area.

A nation’s readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal and cultural environment. Kotler (2000:373) furthermore emphasises that each mode of entry is associated with varying degrees of company control over operations and has varying degrees of risk. For example, companies deciding on a licensing agreement with a foreign firm, will generally have little or no influence on issues such as product development, provision and pricing in the licensee’s market but, at the same time, will experience relatively low risk.

2.12 SUMMARY

Chapter 2 discussed modes of entering into foreign markets, when to enter and at what scale of entry. The advantages and disadvantage of entering a foreign country and markets were also discussed. The balance of the modes of entry would be complicated in the African markets owing to the involvement of a third party or the loss of controls of
management protocol, patents and/or know-how. Each firm entering the African market would look at maintaining the high quality and world-class standard of management skills. It would, therefore, be advisable to operate on an export basis. This has less financial risks and is easier to initiate. Quality standards of product, service and other core competencies are also managed better in the home country. The company would then need to train, develop and educate the importer and consumer. This would ensure that the competencies are maintained to the quality of the home country.

Further options were evaluated and it was seen that countries may require different options to suit the market needs. An agent or sales office, as a further option for exporting could be considered. The scale of investment for a sales office, warehousing, packaging and assembly and/or full-scale production will all be considered at the relevant stages. The type of partners, - MNE, private local partner or joint venture, local government or local public as a partner - could all be evaluated. In most business situations the winners are going to be the MNE’s that are able to learn to manage international markets, introduce innovation and able to manage the strategic alliances effectively.

Chapter 2 discussed the problem of what mode of entry would be most suitable for an MNE to enter the African market. A literature study revealed the most suitable modes of entry in high-risk markets.
Chapter 3 will examine the political and economic risks of foreign countries and the risks of entering them without prior knowledge. MNE’s and their management teams must learn to deal with the risks inherent in other countries. As soon as they are able to do this, their business will prosper in the foreign country.
CHAPTER THREE

THE RISKS IN FOREIGN COUNTRIES

3.1 INTRODUCTION

The aim of this chapter is to outline the risk implications of entering a foreign country. MNE’s are not aware of the adverse affect that these barriers to entry can have on their long term growth and profits. When these risks are assessed correctly the MNE will be able to enter the markets more effectively and will therefore reduce the costs of entry within the foreign country and at home. This will also enable the company to adopt its strategy or new strategies far more quickly within the foreign country and marketplace.

MNE’s must operate in countries where different political, legal and economic frameworks, diverse levels of economic development and a variety of economic conditions exist. For a company to be successful, its management must carefully analyse the interaction between corporate policies and the political, legal and economic environments in order to maximise efficiency (Hough and Neuland, 2000:103).

Firms usually prefer to conduct business in a country with a stable and friendly government, but such governments are not always easy to find. Managers must therefore continually monitor the government, its policies and its stability to determine the potential for political change, which could adversely affect corporate operations. There are three major types of political risk that can be encountered: ownership risk, which exposes property and life; operating risk, which refers to interference with the ongoing
operations of a firm; and **transfer risk**, which is mainly encountered when attempts are made to shift funds between countries (Czinkota & Ronkainen, 1996:72).

### 3.2 RISK

Hellriegel et al (1999:124) states that political risk may be grouped into four principle categories: domestic instability, foreign conflict, political climate and economic climate.

- **Domestic Instability** is the amount of subversion, revolution, assassinations, guerrilla warfare and government crises in economy.

- **Foreign conflict** is the degree of hostility that one nation expresses to others. Such hostility can range from expulsion of diplomats to outright war.

- **Political climate** is the likelihood that a government will swing to the far left or far right politically.

- **Economic climate** reflects the extent of government control of markets and financial investments as well as government support services and capabilities. Such include government regulatory and economic control policies (wages, prices, imports and exports); government ability to manage its own economic affairs (inflation, budget, surpluses or deficits and amount of debt); government provision of support services and facilities (roads, airports, electricity, water, and refuse and sewage disposal), often referred to as infrastructure; and government capabilities in general.
The political, economic and legal systems of a country can have a profound impact on the level of economic development and hence on the attractiveness of a country as a possible market and/or production location for a firm. Hill (2000:46).

Mwapachu (2001:5) writes that the Africa Growth and Opportunity Act (AGOA) has some non-trade related conditions to be fulfilled. Some of these are susceptible to highly subjective interpretation.

Include:

- Proof of progress in reducing tariff levels and binding tariffs with WTO;
- Having a system in place to combat corruption;
- Non-engagement in violations of human rights;
- Elimination of barriers to US trade and investment;
- Adherence to international standards on protection of workers’ rights.

### 3.2.1 POLITICAL RISK

International business involves many types of risk and cannot be avoided but all can, to an extent, be managed. The same is true of crises, whether these afflict the company from external forces or whether they originate from problems within the company. Hibbert (1997:245) maintains that the most important is political risk, because this affects the long-term viability of investments and assets overseas. This type of risk occurs through actions of the host government, though it is not implied that these are
common in most countries. These risks discourage any FDI much depends on the political orientation and stability of the regime.

Hellriegel (1999:124) supports the view that the concern to all international and multinational corporations is the political risk associated with resource commitments in foreign countries. Political risks may be grouped into four principal categories:

- Domestic instability;
- Foreign conflict;
- Political climate;
- Economic climate.

According to Littler & Wilson (1995:101), government at both national and local levels can affect companies not only on a day-to-day basis through law, policies and its authority, but also at a strategic level by creating opportunities and threats. Specifically, these arise because, at a competitive level, government can determine industry structure via monopoly and restrictive trade practice legislation. By legislating it can thus encourage competition.

Lockwood (2000:15) indicates that political stability in Kenya has been affected by mounting frustration over the slow pace of constitutional reform and the perception by opposition parties that the ruling party repeatedly shifts the goal posts. Lockwood continues, to say that Tanzania has been politically stable for some time and this is
unlikely to change, even though future elections could mean an opposition win in Zanzibar.

The best thing about the latest plan to develop Africa is that there are no new ideas, writes The Economist (2001:15). The Millenium Action Plan (MAP) which was presented at the Organisation of African Unity summit in 2001, offers familiar solutions and entreaties: better government, more democracy, respect for human rights, market reforms and recognition that globalisation offers advantages. The Economist continues that if African governments want foreign capital and overseas markets, they must create investor-friendly political and economic systems. The country should concentrate on reducing poverty by providing safe drinking water, better health and more education. They should try to diversify their economies and to process more of their own raw materials.

3.2.2 ECONOMIC RISK

According to Credit Notes (2001:10), the primary reason for the low level of private investment in sub-Sahara is the perception, held by both domestic and foreign investors, that the risk-adjusted rate of return on capital is low. The International Monetary Fund (IMF) identifies three major resources of risk as macro-economic instability; inadequate legal systems (in particular, the difficulty of enforcing contracts); and political risk, especially armed conflicts. Credit Notes confirm that the rates on both capital and labour and the overall productivity of the sub-Saharan African economies remain low because of a variety of distortions and institutional deficiencies. The list of problems is familiar:
obstacles to international trade; overvalued exchange rates; poor infrastructure; bad governance and corruption; and insufficient competition and monopolistic structures in many sectors, notably agriculture.

Credit Notes (2001:11) also maintains that Africans found cold comfort in the latest report on the global Aids crisis published in November last year by UNAids, the United Nations agency monitoring the epidemic. In 2000 the total number of Aids deaths since the early 1980’s rose by a staggering three million to almost 22 million. Sub-Saharan Africa accounts for 70 percent of the world cases and 75 percent of its deaths. Aids is spread by heterosexual intercourse, eased on its way by migrant workers and compounded by poverty, which hobbles prevention programmes, cripples health-care systems and makes costly drugs unattainable.

3.3 THE RISKS IN THE MODES OF ENTRY

Hough and Neuland (2000:266) explain that each mode of entry is associated with varying degrees of company control over operations and varying degrees of risk as shown in figure 3.1 (page 84). For example, companies that decide on licensing arrangement with a foreign firm, will generally have little or no influence on issues such as product development, provision and pricing in the licensee’s market but, at the same time, will experience relatively low risk. Conversely, deciding to establish a wholly owned subsidiary in a foreign country will give the company a high degree of control in terms of operating and marketing decisions, but will involve significantly higher costs and risks when compared to the licensing alternatively. The largely linear relationship between a
firm’s level of control and the degree of risk associated with reference to a number of entry modes is illustrated in the figure below.

**Figure 3.1 Trade-offs in the market entry decision**

![Diagram showing the trade-offs between degree of risk and level of market control, ranging from low to high. Key points include Wholly-owned subsidiaries, Joint Ventures, Licensing, and Exporting.](image)

Source: Hough & Neuland (2000:266)

The risks are increased with one of the biggest challenges in doing business in Africa is the lack of quality information about Africa. These challenges are required to overcome some of the other challenges facing Africa, which are:

- Fluctuating currencies;
- Bureaucratic red tape, which is slowly getting easier to wade through;
- Corruption;
- Nepotism;
- Wars and unrest, though the changes in South Africa are starting to create a ripple of peace and democracy throughout the region;
- Lack of local capital;
• Monopolies such as marketing boards, state trading firms, foreign exchange restrictions, trade taxes and quotas and concentration on limited commodities all place a disincentive on exports, thus separating Africa from the world economy;

• Lack of infrastructure, though in areas such as telecommunications and energy, Africa is able to use new technologies to leapfrog more advanced economies.

However, none of these challenges is insurmountable. In fact, some entrepreneurs would contend that African risk is lower than that even of North America (www.mbendi.co.za/land/af/).

The world fears that hardship has become endemic to Africa. Children are born and live and die without ever experiencing what people in the western world would consider birthrights – sufficient food and medical care, education, political stability and institutions of civil society. In some countries the collapse has reached the point where analysts declare a complete absence of a functioning economy and investors decline overwhelming risk. Credit Notes (2001:7) adds that most of Africa remains alarmingly under-industrialised, prone to violent conflict, lawlessness and societal collapse and vulnerable to the ravages of disease and natural disasters.

Growth is likely to remain modest compared to that of other emerging regions, reflecting a range of negative factors still to be overcome, including poor transportation and communications infrastructure, low savings and private investment rates and limited
access to foreign capital. Moreover, without substantial diversification of production, economies in the region will remain overexposed to irregular weather conditions and unfavourable terms-of-trade shocks (Credit Notes, 2001:9).

3.4 RISK OF GLOBALISATION

Globalisation throughout the world has forced companies to look at opportunities in other countries. Many companies are not geared for the challenges of the global world. The new economy is a war zone and new economy companies are attacking while old economy companies are defending. It is therefore important for a company to:

- Know how to enter new markets or foreign countries;
- Know who the competitors are;
- How to successfully improve or defend their market share.

Hill (1999:9) proves that the lowering of trade barriers made globalisation of markets and production a theoretical possibility while technological change made it a tangible reality.

Hellriegel et al (1999:34) states that during the past 50 years, technological advances in transportation and communication have spurred the growth of international commerce. As a result, many firms evolved from being purely domestic to becoming truly global.

Kotler (2000:366) points out that global industry is an industry in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions.
Hill (1999:5) notes that a popular feeling is that something fundamental is happening in the world economy. The world seems to be witnessing the globalisation of markets and production.

Hibbert’s (1999:305) opinion is that the global approach does pose some problems of resourcing, control, cross-country brand promotion, communications and operations, which may not sustain a competitive position on a geographical region-by-region basis. On the other hand, global marketing can yield benefits:

- Standardising products can lower operating costs;
- Effective co-ordination can exploit a company’s best product and marketing idea.

Kotler (2000:367) feels that most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties or redesign products to suit different customer needs and expectations. Business would be safer. However, Kotler continues to stress that several factors are drawing more and more companies into the international arena. The Factors are:

- Global companies are offering better products or lower prices;
- Some foreign markets present higher profit opportunities than the domestic markets;
- Customers need a larger customer base to achieve economies of scale;
- Companies can reduce their dependence on any one market;
The companies’ customers are going abroad and require international servicing;

Technology innovations have also facilitated the globalisation of the markets. In addition, low-cost jet travel has resulted in the mass movement of people throughout the world. This has reduced the cultural distance between countries and is bringing about some convergence of consumer tastes and preferences.

Hill (1999:55) adds that in Africa there are signs of a shift toward more democratic modes of government and free market economics. Hill continues by stating that most of the countries gained independence during the 1950’s and 1960’s and the hope of them becoming western-style democracies did not happen. Most are one party states ruled by authoritarian leaders. Moreover, most of these leaders adhere to socialist theories. As a result, 30 years of economic mismanagement led to the stagnation of the African Continent. The foreign investors who might otherwise be attracted by Africa’s cheap labour are deterred by the problems of doing business in countries where the rule of law is so weak that even simple contracts can be difficult to enforce.

The risk of entering foreign markets can also affect the profit and growth for companies in their home country. The cost of the investment of people, technology and machinery are some of the direct results of failure if the project does not perform to the expectations and forecasts set by the company. Hill (1999:176) adds that Foreign Direct Investment
(FDI) occurs when a firm invests directly into the facilities to produce and/or market a product in a foreign country.

Hibbert (1997:181) defines FDI as the investing of operations overseas which requires capital that is sent out of the home country either in money or in kind to finance or equip, for example, an assembly plant, and that the capital cannot be returned except under strictly defined conditions.

According to Hill (1999:66), international business is different from domestic business because countries are different. There are national differences in political, economic and legal systems influencing the benefits, costs and risks associated with doing business in different countries. Culture, both across and within countries, can impact on the practice of international business.

Hellriegel et al (1999:614) states that culture is the unique pattern of shared assumptions, values and norms that shape the socialising activities, language, symbols, rites and ceremonies of a group of people.

3.5 RISK PERCEPTIONS – POSITIVES AND NEGATIVES

In this section the level of risk, as well as the positive and negative aspects of investing in Africa, are debated. It can now be understood that the analysis of the foreign countries before entry is important. This will improve the success rate of the MNE and that it could earn a good return on investment (ROI).
Jiya (2001:1) maintains that:

- Afro-pessimism is often glibly applied to the entire continent;
- Africa is a continent of contrasting political risk, i.e. South Africa, Botswana and Egypt are countries with investment potential. The Democratic Republic of Conga, Angola and Zimbabwe are regarded as high-risk investments.
- Little recognition is being given to political and economic progress.

Jiya (2001:2) continues, that in Africa economic progress is evident:

- Improved environment: trade liberalisation, institutional reform and infrastructure investment;
- Economic reform: macro-economic stability;
- Private sector encouragement: privatisation;
- FDI support: incentive reduction in exchange controls, investment promotion agencies;
- SADC free trade area: trade infrastructure, capital & labour flows, harmonisation of investment regimes.

Jiya (2001:3) believes that Africa is a profitable investment destination because:

- The profitability of investment is of prime interest to foreign investors;
- There are higher returns to investment in Africa than in most regions, regardless of currency situations.

This is depicted in figure 3.2 (page 91) were it can be seen that the returns in Africa are higher than in the world markets. Japan and USA have an average return of investment
of 3 percent and 12 percent respectively throughout the world. The ROI in Africa has shown a 6 percent for Japan and a 25 percent for USA. With these higher returns these super powers would need to investigate the options in Africa.

**Figure 3.2**  Foreign companies’ average investment returns since 1990.

<table>
<thead>
<tr>
<th>Country of origin</th>
<th>Africa</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>USA</td>
<td>25%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Jiya (2001:3)

Perhaps the primary reason for the low level of private investment in Sub-Saharan Africa is the perception, held by both domestic and foreign investors, that the risk adjusted rate of return on capital is low. The IMF identifies three major sources of risk: macro-economic instability: inadequate legal systems (in particular, the difficulty of enforcing contracts): and political risk, especially armed conflicts. Credit Notes (2001:10) agrees that the rates of return on both capital and labour and the overall productivity of the Sub-Saharan African economies remain low because of a variety of distortions and institutional deficiencies. The list of the problems are familiar: obstacles to international trade; overvalued exchange rates; poor infrastructure; bad governance and corruption; and insufficient competition and monopolistic structures in many sectors, notably agriculture.
Hill (2001:71) states that difference in the structure of law between countries can have important implications for the practice of international business. The degree to which property rights are protected can vary dramatically from country to country, as can product safety and product liability legislation and the nature of contract law. The rate of economic progress in a country seems to depend on the extent to which that country has a well-functioning market economy in which property rights are protected.

3.6 THE CHALLENGES OF AFRICA

Mwapachu (2001:5) writes that Africa faces a daunting challenge in advancing its trade agenda. Africa’s economic fragility lies at the heart of this challenge. One needs to look at Sub-Saharan Africa’s condition to realise this. Its average GDP growth (excluding South Africa and Nigeria) has dropped from 3.9 percent in 1996 to 2.1 percent in 1998. Half of its population (300 million) live on 65 US cents a day, down from about one US dollar per day a few years ago. Sub-Sahara is surely becoming poorer. The contribution of the manufacturing industry to GDP averaged nine percent, down from an average of 18.8 percent in 1990. In 1997 average gross domestic savings (excluding South Africa and Nigeria) were 11.1 percent compared to around 40 percent in South East Asian countries in the same period. He stresses that Africa’s competitiveness in the global economy depends importantly on the transformations of its economic stability within the regions. Africa must negotiate from a position of “steadily increasing power”. This power comes from economic integration and from economic union.
Mwapachu (2001:6) writes that the Africa Growth and Opportunity Act (AGOA) also has some non-trade related conditions to be fulfilled. Some of these are susceptible to highly subjective interpretation.

These conditions:

- Proof of progress in reducing tariff levels and binding tariffs with WTO;
- Having a system in place to combat corruption;
- Non-engagement in violations of human rights;
- Elimination of barriers to US trade and investment;
- Adherence to international standards on protection of workers’ rights.

The outlook for Africa in 2001 to Africa in 2021 is predicted to be the follow;

- Increased pressure to end conflicts and reduce arms purchases;
- Transparency and constitutional democracy under threat;
- Increase in incidence of HIV / Aids;
- Few countries benefit from high oil and PGM prices and even in these trickle down is minimal;
- Xenophobia remains a feature of most communities;
- Much-needed debt relief implemented selectively;
- Floods and drought;
- Privatisation, particularly in the telecommunications sector;
- Rivers of Central Africa make Africa the cheapest source of energy in the world;
• Africa becomes benefaction and manufacturing centre of the world using local minerals and energy;
• African percent of tourist trade significantly higher than 2001;
• Southern Africa becomes bread-basket of the continent as climate changes;
• Post HIV / Aids epidemic population smaller, richer and better educated;
• Malaria and TB eliminated (http://www.mbendi.co.za/land/af/b).

The Economist (2001:15)a, continues to conclude that if African governments want foreign capital and overseas markets, they must create investor-friendly political and economic systems. They should concentrate on reducing poverty by providing safe drinking water, better health and more education. They should try to diversify their economies and to process more of their own raw materials.

President Thabo Mbeki has blamed Zimbabwe’s economic crisis on bad policies, in what is seen as one of his most critical comments of that country (www.sabcnews.com/africa).

3.7 SUMMARY

Africa in the short term might look hopeless. Abysmal political leadership, war, HIV / Aids, corruption, lack of infrastructure and poor economic growth are just some of the problems. In the medium term, however, there is the belief that Africa could be a world powerhouse. The ingredients for success are there in the form of climate, energy
resources, mineral resources and natural diversity. Strangely enough, the continent is also a rich source of skilled people, many of whom currently underpin the IT industry of London, the medical profession of Canada and professional ranks of major multinationals. (www.mbendi.co.za//land/af/)

For Africa to achieve its potential, though, it needs political leaders who put their people before themselves and practise what they preach. Only then could Africa become the investment centre of choice. The legal, fiscal and investment regimes need to be first-rate; corporate and political governance needs to be efficient and transparent; white-collar and traditional crime needs to be combated ruthlessly; and the skills and infrastructure need to be put into place. Xenophobia, Africa’s biggest weakness, must be rooted out, reducing tensions between groups and allowing the deployment of skilled people. Africans also need to develop the self-confidence to become world leaders.

From the above, it is evident that there is a high risk factor when entering foreign countries in Africa. Most companies would be keen to enter markets with less political or economic crises, as these factors would encourage a higher return in capital investment.

Chapter 3 highlighted the risk factors that would affect decisions regarding entry, the factors involved in applying one of the modes of entry, what barriers of entry do exist in most foreign countries and what steps may be taken to ensure minimal risk in entering a foreign country.

Chapter 4, research methodology used in this study will be discussed.
CHAPTER FOUR

THE EMPIRICAL STUDY, METHODS USED AND ANALYSIS OF DATA

4.1 INTRODUCTION

Chapter 2 is an overview of the foreign markets, the modes of entry, when to enter, at what scale, and the importance of strategic alliances in foreign markets. The advantages, disadvantages and risk options taken when entering foreign markets were evaluated. In Chapter 3, the concerns for risks within the foreign markets were researched in order to ensure that the entry into new markets would not affect the company’s strategy in achieving its objectives in foreign markets.

The main problem was mentioned in Chapter one: **What mode of entry do Multinational Enterprises consider when entering African markets?** In order to resolve the main problem, a number of sub-problems have been identified. The sub-problems were identified as:

- What does a literature study reveal as the most suitable modes of entry in high-risk markets?
- What are the risk factors involved in applying one of the modes of entry?
- What barriers of entry exist in foreign countries?
- What do knowledgeable people believe are the most suitable modes of entry to high-risk foreign markets?
• What mode of entry would be most suitable for an MNE to enter the African market?
• What steps may be taken to ensure minimal risk in entering a foreign country?

The empirical study will help resolve the six sub-problems: What strategy is appropriate to enter these new markets? What are the risks when entering these foreign markets? What do knowledgeable people believe are the most suitable modes of entry to high-risk foreign markets? The manner in which the sub-problems will be addressed is explained in this chapter.

4.2 RESEARCH DESIGN

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. Cooper and Schindler (1998:130) define a plan as the overall scheme or program of the research. It includes an outline of what the investigator will do, from writing hypotheses and their operational implications to the final analysis of data. A structure is the framework, organisation or configuration of the relations among the variables of a study. A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on the relationship between the problems.

According to Jankowicz (2000:190), different kinds of issues logically demand different kinds of data-gathering arrangements so that the data will be:
• Relevant to the thesis or to the argument to be presented;
• An adequate test of the thesis (i.e., unbiased and reliable);
• Accurate in establishing causality, in situations where one wishes to go beyond description to provide explanations for whatever is happening around one;
• Capable of providing findings that can be generalised to situations other than those of the immediate organisation.

Following on from the main problem: **What mode of entry do Multinational Enterprise consider when entering African markets?**

Two sub-problems were identified to assist with the solution to the main problem, namely:

• What mode of entry would be most suitable for an MNE to enter the African market?
• What do knowledgeable people believe are the most suitable modes of entry into high-risk foreign markets?

The procedure used to solve the main problem and sub-problems is as follows:

• In Chapter two a literature study was conducted on the modes of entry and the factors influencing decision-making, regarding the export procedure and options available;
• In chapter three risks of entry were discussed;
• A questionnaire based on the modes of entry and choices shown in appendices 4.1 (page 166) was developed in order to resolve the sub-problem: What do knowledgeable people believe is an effective mode of entry and why do they think this? This was circulated to managers of MNE’s, (preferably marketing and sales personnel in or related to exporting), and business owners involved in exporting. People within companies who are part of the value chain were also approached: supply chain managers, human resources managers, managing directors and general managers.

• Finally, the results gained through the survey were analysed and the input adapted, if necessary, to decide on the most effective means of entry to foreign African countries.

4.3 PLANNING THE EMPIRICAL STUDY

The empirical study was conducted by means of e-mail survey, with the use of a questionnaire developed from chapter two and three and shown in appendices 4.1 (page 166). The results were then statistically analysed. The process followed during the empirical study is set out below.

4.3.1 THE QUESTIONNAIRE

The “communication approach” is questioning or surveying people and recording their responses for analysis. The great strength of questioning – or conducting a survey – as a
primary data collecting technique, is its versatility. It does not require that there be a visual or other subjective perception of the information sought by the researcher. Cooper & Schindler (1998:287) believe that questioning is more efficient and economical than observation. A few well-chosen questions can yield information that would take much more time and effort to gather by observation.

As stated above, the questionnaire (see appendices 4.1) is developed from the literature study, in Chapters 2 & 3. The questions were adapted to address the factors relating to the mode of entry into foreign countries by MNE.

According to Cooper & Schindler (1998:189), the Likert scale is the most frequently used variation of the summated rating scale. Summated scales consist of statements that express either a favourable or unfavourable attitude towards the object of interest. The respondent is asked to agree or disagree with each statement. Each response is given a numerical score to reflect its degree of attitude favourableness, and the scores may be totalled to measure the respondent’s attitude.

“Types of questions” Jankowicz (2000:243) recommends that the design of the question should remain open and sensitive to new aspects, issues, and answer offered by the interview.

- **Multiple-Choice Format**, Jankowicz (2000:275) identifies this as the most common and straightforward. The respondent is asked to choose a single alternative from a list of several, which are provided. An
‘Other, please specify’ alternative is always included. This gives the respondent the opportunity to respond in his or her own words because none of the alternatives provided expresses what she/he wishes to say;

- **Free Choice Format** allows the respondent to choose one or more alternatives and, again, an ‘Other, please specify’ alternative should be offered;

- **The Questionnaire** was divided into two parts. Section A consisted of demographic questions of the respondent and it offered choices for the respondent to tick. Questions in this section surveyed the respondent's current position in the organisation, total work experience in years, total work experience in an export division in years, the division of respondent, if not in the export division, and the number of employees in the company that the respondent represents.

Section B, consists of Likert Scale, multi-choice and free choice formats requiring the respondents to record the degree to which they concurred with certain statements.

- **Wording of Questions:** Because a survey is an exchange of ideas between interviewer and respondent, each must understand what the other says, and this is possible only if the vocabulary used is common to both parties. Two problems arise. Firstly, the words must be simple enough to allow adequate communication with persons of limited education. This is dealt with by reducing the level of word difficulty to simple English words and phrases. Cooper and Schindler
identify technical language as a second potential problem. Even highly educated respondents cannot answer questions stated in unfamiliar technical terms. Technical language also poses difficulties for interviewers;

- **Length of Questionnaire:**

  According to Cooper and Schindler (1998:351), most draft questionnaires or interview schedules suffer from lengthiness. By timing each question and section, the researcher is in a better position to make decisions about modifying or cutting the material.

The wording also has a great bearing on the final length of the questionnaire and, clearly, if the questionnaire is perceived as too long, the responses are likely to be careless, or, indeed, non-existent (Jankowicz, 2000:278).

### 4.3.2 PILOT STUDY

Prior to conducting the pilot study, the questionnaire was checked by Dr. Dice van Daalen, previously a Professor of Psychology at the University of Fort Hare, Alice, South Africa. Once these changes had been affected, the questionnaire was presented to six members within Johnson & Johnson’s Business Development/Export staff, Sales and Marketing, Research and Development, and Supply Chain Management departments that have a daily integration with the Business Development/Export Department.

According to Welman and Kruger (1999:146), the purpose of a pilot study is, inter alia:
• To detect possible flaws in the measurement procedures and in the operationalisation of the independent variables(s);

• To identify unclear or ambiguously formulated items;

• At the same time, such a pilot study allows researchers or their assistants to notice non-verbal behaviour, which possibly may signify discomfort or embarrassment about the content or wording of the questions.

4.3.3 INTERNET SURVEY

According to Cooper and Schindler (1998:303), computer-delivered, self-administered questionnaires using organisational Intranets, the Internet, or online services to reach their respondents, have special problems and unique advantages:

**Advantages:**

• Rapid data collection;

• More complex instruments can be used;

• Respondents that cannot be used by phone (voice) may be accessible;

• Fast access to the computer-literate;

• Listing of viable locations rather than prospective respondents.

**Disadvantages:**

• Anxiety among some respondents;

• Computer security;

• Need for low-distraction environment for survey completion.
According to Cooper and Schindler (1998:308), the ease of access to electronic mail systems makes it possible for both large and smaller organisations to use computer questioning with both internal and external respondent groups. Many techniques of traditional mail surveys can be easily adapted to computer delivered questionnaires (e.g., follow-ups to non-respondents are more easily executed and less expensive). They continue to say that it is not unusual to find registration procedures and full-scale surveying being done on World Wide Web sites. A short voyage on the Internet reveals that organisations use their sites to evaluate customer service processes, build sales lead-lists, evaluate planned promotions and product change, determine supplier and customer needs, discover interest in job openings, evaluate employee attitudes and more.

Owing to the e-mail procedure, access to people and companies becomes far more efficient, less expensive and easier for the researcher to complete the survey. The means of survey executed was due to the following factors: the respondents’ access to Internet, availability of respondent’s e-mail addresses and that survey and reminders via the e-mail as a group contact and/or individually could be used, if required. The respondents’ convenience was made easier, as questions could be answered on their systems via Internet, which allowed them to e-mail the questionnaire immediately and avoided the systems of mail and/or faxing which took longer for replies to be completed.

4.3.4 ADMINISTRATING THE QUESTIONNAIRE

The e-mail addresses of the applicants were obtained from business contacts of Multinational companies in South Africa which are involved in exporting into Africa,
Chambers of Commerce and the South African Trade and Investment Summit 2001. The questionnaire was e-mailed together with a covering letter (see Appendices 4.2, page 182) on the 22nd October 2001. The aim of the covering letter was to provide the following information:

- The aim of the research;
- The fact that the questionnaire would take less than 20 minutes to complete;
- Reference to the e-mail address which would allow the respondent to reply more quickly;
- All respondents would be given feedback.

The cut off date of the 31st October 2001 was set for return of the completed questionnaires. Thereafter the researcher e-mailed all the companies, who had not responded, in order to elicit response.

4.3.5 THE POPULATION

A list of companies was obtained from the South African Trade and Investment Summit, September 2001, Chamber of Commerce South Africa and South African MNE’s within South Africa. Companies in CEA who are involved in exporting from other parts of the world into CEA were also approached. Owing to the size of the population and the lack of sufficient information on people to contact within the companies, it was decided to obtain a list of 40 companies and businesses within the export market. This sample can quite comfortably be termed a good percentage of respondents as the top MNE's in Africa
were approached, namely: Nestle’s, Colgate, Robertson’s, Distillers, Cadburys, Johnson
and Johnson to mention a few and also some smaller but very experienced businesses
servicing the African markets. The total population used in the study may be seen in
Table 4.1.

Table 4.1: Size of population

<table>
<thead>
<tr>
<th>Area</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>34</td>
</tr>
<tr>
<td>Central East Africa</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

Source: List of companies from the Chamber of Commerce SA and South African Trade
and Investment Summit 2001

4.3.6 THE RESEARCH RESPONSE

The survey was e-mailed on the 22\textsuperscript{nd} October 2001 and a response rate of 27.5 percent
was attained by the due date, which was 31\textsuperscript{st} October 2001. Owing to the time
constraints, a follow-up of all recipients was conducted on the 30 October 2001 with a
request to complete the questionnaire by the 5\textsuperscript{th} November 2001. A further eight
questionnaires were received and this gave a response rate of 47.5 percent. Table 4.2
shows the data collection period.

Table 4.2: Summary of data collection procedure

<table>
<thead>
<tr>
<th>Date received</th>
<th>Number of questionnaires E-mailed.</th>
<th>Number of questionnaires returned</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 October 2001</td>
<td>40</td>
<td>11</td>
<td>27.5</td>
</tr>
<tr>
<td>5 November 2001</td>
<td>0</td>
<td>8</td>
<td>47.5</td>
</tr>
</tbody>
</table>
The final response rate of 47.5 percent may be accepted as a good response

4.4 RESULTS OF BIOGRAPHICAL DATA IN SECTION A OF THE QUESTIONNAIRE

Section A of the questionnaire enquired of the respondents to answer general information regarding themselves and the organisation in which they are employed. This information is classed as independent variables or biographical details and is used to facilitate comparisons with the dependent variables. The dependent variables are the questions in section B of the questionnaire.

The results of section A of the questionnaire are provided in Tables 4.3. to Table 4.7. A brief discussion of the data is provided following each table.

Table 4.3: Position of respondents

<table>
<thead>
<tr>
<th>Position of respondent</th>
<th>Response frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>8</td>
<td>42.11</td>
</tr>
<tr>
<td>General Manager</td>
<td>4</td>
<td>21.05</td>
</tr>
<tr>
<td>Director</td>
<td>4</td>
<td>21.05</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>15.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of position of respondent. Question 1.1

This questionnaire was addressed to the different levels of management of each company.

In Table 4.3 it can be seen that, of the respondents, managers accounted for 42.11 percent, while general managers and directors accounted for 21.05 percent, respectively. The fact that more managers than any other category responded suggests that a department has been formalised and was probably reporting to higher management levels.
“Other” accounts for 15.79 percent. Table 4.4 shows the analysis of respondents’ years at work.

**Table 4.4: Respondents’ years of work experience**

<table>
<thead>
<tr>
<th>Years work experience</th>
<th>Response frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 5 years</td>
<td>5</td>
<td>26.32</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>3</td>
<td>15.79</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>16 &amp; more years</td>
<td>10</td>
<td>52.63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of years work experience. Question 1.2

From Table 4.4 it can be seen that 52.63 percent of the respondents have more than 16 years work experience, 26.32 percent have five years or less experience, 15.79 percent have six to ten years experience while 5.26 percent have eleven to fifteen years experience. Table 4.5 is an analysis of employees’ experience in the export department.

**Table 4.5: Respondents’ work experience in an export division**

<table>
<thead>
<tr>
<th>Years work experience in the export division</th>
<th>Response frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 5 years</td>
<td>10</td>
<td>52.63</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>3</td>
<td>15.79</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>16 &amp; more years</td>
<td>5</td>
<td>26.32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of work experience in the export division

In Table 4.5 it can be seen that in the export department 52.63 percent of the respondents have 5 years or less experience; 15.79 percent have 6 to 10 years; 5.26 percent have 11-15 years and 26.32 percent have 16 and more year’s experience. The high percentage of
respondents in the category 0-5 years, (52.63 percent), could indicate a relatively new department and the category 16 & more years (26.32 percent) came from MNE’s, that have been involved in the African market for years. Table 4.6, is an analysis of the departments involved in the export department.

Table 4.6: Management position of respondents

<table>
<thead>
<tr>
<th>Position of respondents</th>
<th>Response frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Management</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Finance</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Marketing</td>
<td>6</td>
<td>31.58</td>
</tr>
<tr>
<td>Sales</td>
<td>7</td>
<td>36.85</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>21.05</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of the position of respondent

From Table 4.6 it can be seen that marketing and sales account for the higher percentage of respondents, 31.58 and 36.85 percent respectively. This is understandable, as the marketing and sales departments were the focus of this study. Human resource and supply chain management account for 5.26 percent of the respondents and other the balance of 27.27 percent. Table 4.7 shows the size of the organisation

Table 4.7: Respondents by size of organisation

<table>
<thead>
<tr>
<th>Size of organisation</th>
<th>Response frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-100 employees</td>
<td>2</td>
<td>10.52</td>
</tr>
<tr>
<td>101-300 employees</td>
<td>2</td>
<td>10.52</td>
</tr>
<tr>
<td>301-750 employees</td>
<td>5</td>
<td>26.32</td>
</tr>
<tr>
<td>751-1500 employees</td>
<td>5</td>
<td>26.32</td>
</tr>
<tr>
<td>1501 &amp; more employees</td>
<td>5</td>
<td>26.32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Results obtained from the analysis of the organisation.
Table 4.7 shows that of most companies that responded, (26.32 percent), fall into the group of 301-750 and 1501 and more employees respectively. The group between 101-300 employees represents 21.05 percent, 0-100 employees, 15.79 percent and 751-1500 employees, 10.53 percent. It can be seen that the bigger companies are involved in the development of the African markets.

4.4.1 SUMMARY OF SECTION A

It can be seen from the research that the export companies’ divisions are managed by middle management with an influence from the top management of the company. It is also noted that many of the companies have been in this sector of the market for 16 or more years. It is an assumption that the bigger multinationals such as: South African Breweries, Distillers, Nestle, (who answered the questionnaire) and the like have been in these foreign countries longer than most other companies. However, of the sample that was researched it was found that there were many companies’ personnel who did not have more than five years experience in these foreign markets. The research also revealed that the personnel were mainly from the Marketing and Sales departments and that the companies were medium to big companies in South African terms (301 to 1501 and more people employed). The structure within the companies was not researched and this would be an important area to assess in order to ensure success of the company and that the service levels are kept up to standard and able to function to the needs of the foreign markets.
4.5 THE VALIDITY, RELIABILITY AND PRACTICALITY OF THE QUESTIONNAIRE USED IN THE STUDY

According to Cooper and Schindler (1998:166), there are three major criteria for evaluating a measurement tool: validity, reliability and practicality.

- **Validity** refers to the extent to which a test measures what one actually wishes to measure;
- **Reliability** has to do with the accuracy and precision of a measurement procedure;
- **Practicality** is concerned with a wide range of factors of economy, convenience and interpretability.

4.5.1 VALIDITY

Cooper and Schindler (1998:167) maintain that **Validity** is the extent to which differences found with a measuring tool reflect true differences among respondents being tested. The difficulty in meeting this test is that usually one does not know what the true differences are; if one did, one would not do the measuring. The **content validity** of a measuring instrument is the extent to which it provides adequate coverage of the topic under study. If the instrument contains a representative sample of the universe of subject matter of interest, then content validity is good. To evaluate the content validity of an instrument, one must first agree on what elements constitute adequate coverage of the problem.
• **Criterion-related**: Degree to which the predictor is adequate in capturing the relevant aspects of the criterion;

• **Concurrent**: Description of the present; criterion data is available at the same time as predictor scores;

• **Predictive**: Prediction of the future; criterion is measured after the passage of time;

• **Constructive**: Answer the question, “What accounts for the variance in the measure?” Attempts to identify the underlying construct(s) being measured and determine how well the test represents them.

In this study, content validity, criterion-related validity, construct validity and predictive validity were used. In using the aforementioned validation methods, the opinion of knowledgeable people was considered in the form of a pilot study. The pilot study was done among the management of the export department and departments closely related to export at Johnson & Johnson Sub Saharan in East London, South Africa.

### 4.5.2 RELIABILITY

Cooper and Schindler (1998:171) continue to say that reliability is a contributor to validity and is a necessary but not sufficient condition for validity. Reliability is concerned with the estimates of the degree to which a measurement is free of random or unstable error. It is not as valuable as validity determination, but it is much easier to assess. Reliable instruments can be used with confidence that transient and situational factors are not interfering. Reliable instruments are robust; they work well at different times under different conditions.
In the study under consideration the researcher ensured that the contents of the research were reliable and comprehensive according to the extensive literature study (see Chapters 2 & 3) and a pilot survey was conducted on colleagues of similar profile to the recipients of the questionnaire. The aim of the pilot study was to ensure that all the questions were understandable and relevant.

4.5.3 PRACTICALITY

The scientific requirements of a project call for the measurement process to be reliable and valid, while the operational requirements call for it to be practical. Cooper and Schindler (1998:174) also say that practicality has been defined as economy, convenience and interpretability.

4.6 QUANTITATIVE ANALYSIS OF RESULTS OF SECTION B OF THE QUESTIONNAIRE

The study was designed to determine those items that will influence the mode of entry into foreign African countries. The items not supported would then be removed from the analysis to ensure the effectiveness of the mode of entry to be used.

4.6.1 ENTRY DECISIONS

The analysis of the modes of entry of MNE’s into foreign African countries proposes that the requirements and the concerns of entry are a deciding factor for all MNE’s. In order to achieve more profitability and long term growth within the globalisation of all economies, MNE’s need to extend their resources into viable foreign markets in order to
compete in the global world. Table 4.8 shows the percentage response for each statement.

**Question:** How important is it for your company to be involved in exporting into Africa?

**Table 4.8: Involvement in African countries**

<table>
<thead>
<tr>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not important</th>
<th>Irrelevant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>68.42</td>
<td>26.32</td>
<td>5.26</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 2.1

From Table 4.8, it can be seen that a unanimous decision by MNE entry into African countries is very important and/or important. Table 4.9 is an analysis of the areas to be serviced or presently being serviced within the African regions.

**Question:** Which parts of Africa are being serviced or plan to be serviced by the MNE?

In Table 4.9, it can be seen from the dispersion of MNE’s how they are doing business in these regions. The support to the countries in these regions is promising.
Table 4.9: African regions to be serviced

<table>
<thead>
<tr>
<th>Region</th>
<th>North</th>
<th>West</th>
<th>Central</th>
<th>East</th>
<th>Southern</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>Percent</td>
<td>7.32</td>
<td>14.63</td>
<td>21.95</td>
<td>21.95</td>
<td>34.15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results section B, Question 2.2

Table 4.9 illustrates the importance of certain regions to MNE’s. The Southern region is the most popular of all the regions at 34.15 percent. Central and East Africa have also experienced keen interest from MNE’s at 21.95 percent each respectively, and the Western region, at 14.63 percent. The North region, which consists mostly of the Arab states, has still to attract more FDI from SA and CEA areas.

**Question:** How important do MNE’s find the market forces of business: selling of excessive production, minimizing competition, economies of scale, et cetera, effecting their entry into Africa?

Figure 4.10 indicates the responses to forces affecting their entry into Africa. The long term growth and profits are the most important objectives that an MNE should be attaining while in foreign countries. Factors that affect foreign and home market efficiencies would need to be seriously considered before entering the country.
From Figure 4.10, it can be seen from the dispersion of the percentages that the respondents found certain market forces unimportant. In Question 2.3.1, it can be seen that most companies do not sell products into countries in order to sell off excessive production. In Question 2.3.2, it can be seen that competition is a concern for some MNE’s but on the whole MNE’s do not invest to compete with the local manufacturers or other multinationals. In Question 2.3.3, there is definite negativity towards investment in foreign countries due to domestic markets’ saturation. The markets potential due to the population size and inconsistency of supply is an advantage to a MNE entering these markets. In Question 2.3.4, it can be seen that maintaining market penetration has an importance to MNE’s and this could also be due to foreign countries and local manufacturers’ products in the market place. However, this does not show the concerns when comparing all of the respondents’ responses to Questions 2.3.5 and 2.3.6, as there is a high importance in increasing volumes and establishing new markets in foreign
markets. The competitive advantage for an MNE is to develop and educate new markets, to improve the economies of scale. This will improve profits and long term growth in the home and foreign countries.

**Question:** How do companies rate the importance of certain decisions in the success of company growth?

Figure 4.11 indicates the analysis of factors that could affect MNE growth in Africa. The decision process within each company must be made within the interests of the company objectives and stakeholders. The factors that could affect these directly or indirectly must be taken into consideration before any resources or plans are committed or finalised.

**Figure 4.11: Graphic illustration of: Growth of MNE’s in Africa**

Source: Results of section B, Question 2.4
From Figure 4.11, it can be seen from Question 2.4.1, that there is a unanimous decision, 94.7 percent, on the entry into the CEA countries. This could be due to their close proximity to SA and that the markets are more formal markets than the West and North African markets. In Question 2.4.2, it can also be seen that the importance of which countries to enter first has a deciding factor on the success of an MNE and its products speed to the market in the new country. The stability of the country, researched markets and those with IMF backing would be the first countries to consider when entering. In Question 2.4.3, it can be seen that the importance of the correct mode of entry into foreign countries is seen as important to successful business execution. Exporting is normally the first means of entry due to the lower risks involved compared to other modes of entry. Exporting would entail less investment, as the foreign partner would use their resources and purchase the goods against a “Letter of Credit” or “Cash at Bank”, therefore less risk. In Question 2.4.4, it can also be seen that the marketing program for a foreign country entry is important. The uncertainty of the countries’ purchasing power, global and local opposition and the mechanics of communicating with your target market is essential. The fact that a large proportion of the population reside in the rural areas makes the “fitting” of the marketing program even more important. Due to the lack of: a formal shopping pattern or outlets, roads, electricity and other public services to most of the population makes it difficult to communicate to the target market. In Question 2.4.5, the marketing organisation needs to ensure that the correct selection of the marketing program is made in order to assist the MNE in achieving its penetration successfully. The form of media: TV, Radio, Bills boards, magazines and in-store activity would need to be decided to ensure the effectiveness of the marketing mix within the market place.
In Question 2.4.6, it can be seen that there are mixed feelings regarding the importance of culture within the foreign country which can affect the business process. It has been proven that culture can affect market penetration as the various African cultures in the foreign countries speak different dialects and the consumer behaviour or purchasing habits could differ. In question 2.4.7, the concerns of technology within the business processes do not have an immediate affect on business at present and the respondents show a mixed feeling towards technology. The availability of technology in the countries, the costs and service support thereof is limited. If this overcome, the speed and accuracy of technology will play an important part in the development of the CEA countries as they get more involved in global business.

4.6.2 POLITICAL AND ECONOMIC RISK

Figure 4.12 indicates the importance of economic decisions when entering foreign countries. The analysis of political and economic factors could affect companies’ decision in entering foreign countries. The risk of entering foreign countries, which have poor governance, poor infrastructure, little or no market analysis information and a history of business failures would need to be considered carefully, regardless of the short or long term returns on investment.

Question: How important are economic forces in entering foreign countries?

Again, the forces of the market place have a deciding effect on the decision of entry into foreign African countries.
In Figure 4.12, it can be seen in 3.1.1 that the economic forces have a deciding effect on MNE decision process, 63.16 percent. When entering any country, it is essential that the MNE are aware of the position of the country’s economic forces as this will be one of the deciding factors for growth and profitability in the long term. Access to property rights, banking and legal facilities, public services, lowering the cost of the daily running of a business, et cetera will assist the multinational in achieving economic growth. In question 3.1.2, it can be seen that the respondents do not see trade barriers as too important, (47.37 percent neutral and 26.32 percent important), while the balance is below 20 percent. This could be because the barriers have always been there, i.e., trade restraints, duties, regulators, clearing charges, licences, inspections of goods, transport inadequacies, media costs, achieving economies of scales in order to reduce price, et cetera, will have an effect on the price point. In question 3.1.3, it can be seen that firm strategy is important, 73.68 percent, and the strategy in the home country may not suit the
new foreign country due to the fragmentation of business and the population. For example, how the multinational enters markets, services the markets and the use of the value chain to achieve this is important as this will ensure long term growth and profits. Therefore the MNE must be aware of the business forces - economic, political and marketing forces - in order to ensure a well designed program is put in place. In question 3.1.4, 52.63 percent see uncertainty as important while 21.05 percent see uncertainty of the markets as very important and not important respectively. The behaviour of the consumer to exchange rates, disposable income levels, bank interests rates, conflicts, parallel imports, smuggling and government intervention need to be understood in order for a company to function effectively. It can be seen in question 3.1.5, that the transport cost and the effect thereof is not considered to be important, at 52.63 percent. The economics of better transport being more efficient and at less cost should be considered and a better means of transport should always be researched.

**Question:** The analysis of the importance of STEP forces that would affect MNE’s when entering foreign markets?

Figure 4.13 indicates the importance of the step analysis within African countries. The analysis of individual STEP forces, (Social, Technology, Economic and Political), is essential for MNE’s and the effect of such individual forces on strategic decision-making in the short and long term is a priority.
In Figure 4.13 it can be seen that the STEP factors within foreign countries have a high rating of importance as a consideration before deciding to enter foreign countries. Question 3.2.1, social factors’ response of 26.32 percent, very important and 36.84 percent as important. In question 3.2.2, technology factors have (on average) the highest importance for consideration before entering, 31.58 percent very important and 36.84 percent important. The social and technological factor’s positive response is seen to be important and MNE’s must take into consideration the needs of their target market, smooth flow and speed of information in day to day business decisions. In question 3.2.3, economic factors have 26.32 percent, very important and 36.84 percent as important. This is probably due to the uncertainty of foreign exchange, IMF support, FDI investment, Gross Domestic Product (GDP), interest rate fluctuations, ROI, et cetera, that the MNE could obtain within the foreign country. The uncertainties with the political factors, 26.32 percent very important, 36.84 percent important and 26.32 percent neutral
is a concern as this can have a deciding effect on the role of government in business decisions and can grow or stagnate the business and/or the country.

Figure 4.14 indicates the important forces within each country that could affect MNE profits and long term growth.

**Figure 4.14: Graphic illustration of: Management forces**

![Graph](image)

Source: Results of section B, Question 3.3

In Figure 4.14, it can be seen that in question 3.3.1, 26.31 percent very important and 31.58 percent important, management would need to make decisions by comparing the value of foreign and total domestic business. The respondents saw the importance of this to enter foreign markets and the possibility of losing the domestic business that they already have. In question 3.3.2, 31.58 percent important and 31.58 percent as neutral and it can be seen that the exchange rate was weighted to uncertainty and maybe lack of control by the MNE. In other words the rate of exchange was not important for the
decision to enter foreign markets. In question 3.3.3, it can be seen that the demand conditions are important, 57.89 percent and neutral as 21.05 percent. The high percentage of importance indicates that companies must understand the market demands of foreign countries.

4.6.3 STRATEGY DECISIONS

Strategy is important to the success and profitability of any company. A good strategy would give an MNE competitive advantage and would therefore ensure its competitiveness in the market place. Table 4.15 indicates that innovation is important for an MNE to maintain competitive advantage.

**Question: Attempt to gain a sustained competitive advantage through innovation?**

**Table 4.15. Competitive advantage through innovation**

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>84.21</td>
<td>15.79</td>
<td>100</td>
</tr>
<tr>
<td>Percent</td>
<td>16</td>
<td>3</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.1.

From Table 4.15, it can be seen that the companies unanimously agree to innovation - 84.21 percent - in order to gain competitive advantage. The competitiveness of the markets in foreign countries is impacted by European and Asian MNE’s in the countries
and therefore innovation will assist in giving MNE’s competitive advantage in the market place.

Table 4.16 indicates that the competitive advantage through innovation is important.

**Question:** Importance of competitive advantage through innovation to an MNE?

**Table 4.16: Importance of innovation.**

<table>
<thead>
<tr>
<th>Very Important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>7</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>52.63</td>
<td>36.84</td>
<td>0</td>
<td>10.53</td>
<td>0</td>
<td>100 Percent</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.2

Table 4.16 illustrates the high percentage - from 52.63 and 36.84 percent, very important and important respectively – that innovation is essential to the success of a business in new markets or foreign countries. New ideas, new systems, new management skills and new products enable companies to survive in the globalisation of markets and in new or foreign countries throughout the world. Judging by the percentages, MNE's are obviously aware of this and practise this with assistance from their home market strategies and plans.

Table 17 indicates the importance of cost price strategy as a competitive advantage
Question: Sustain competitive advantage through cost price strategy?

To be competitive, one will need to be aware of the pricing parity within the market place and therefore MNE’s must adjust their pricing policy within reason and, as close as possible, to the needs of the market place. The SA MNE’s would need to compete against other foreign MNE’s, local manufacturers, parallel imports and smuggling which is already present or evident in the foreign countries or markets.

Table 4.17: Importance of cost price strategy

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td>Percent</td>
<td>57.89</td>
<td>42.11</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.3

In Table 4.17, it can be seen that there is not a major concern regarding pricing as a strategy or tactic. This is evident from the percentages: 57.89 percent who say yes, and 42.11 percent who indicate negativity. Therefore MNE’s are not convinced that cost price strategy is the answer to gaining competitive advantage.

Table 4.18 indicates the importance of cost price strategy and “first mover tactics”.

Question: How important is competitive advantage through cost price strategy and through “first mover tactics”? 

Table 4.18: Cost price strategy and first mover tactics

<table>
<thead>
<tr>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>2</td>
<td>19</td>
</tr>
<tr>
<td>26.31</td>
<td>31.58</td>
<td>0</td>
<td>31.58</td>
<td>10.53</td>
<td>100 Percent</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>19</th>
<th>100 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>9</td>
<td>15.79</td>
</tr>
<tr>
<td>15.79</td>
<td>47.36</td>
<td>10.53</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>10.53</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>15.79</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.4 and 4.5.

From Table 4.18, it can be seen from question 4.4, that cost price strategy is important for some MNE - very important and important, 26.32 and 31.58 percent, respectively – and it can also been seen that 31.58 percent see it as not important and irrelevant, 15.79 percent. In question 4.5, the option of “first mover tactics” is important at 47.37 percent, while 15.79 percent believe it is very important. However, the values neutral and not important, (10.53 and 15.79 percent respectively), are still outweighed by important. “First mover tactics” are seen as a better option than cost price strategy for competitiveness in new or foreign markets and therefore competitive advantage of “first mover tactics” is more accepted by the respondents.

**Question:** Does your company undertake production in foreign countries?

Table 4.19 indicates the percentage of MNE’s manufacturing in foreign countries. The competitive advantage of manufacturing in foreign countries would give MNE’s an
advantage through availability of product, price and easier access to markets. However, in the foreign country the core competencies, plans, strategies and controls to be implemented, efficiency levels thereof, together with patents and the like, could be hard to maintain to home country requirements or totally lost due to a lack of core competencies and poor corporate governance.

Table 4.19: Local production

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>Percent</td>
<td>31.58</td>
<td>68.42</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.6

In Table 4.19, it can be seen that most companies do not manufacture in foreign countries, (68.42 percent). Only 31.58 percent do. MNE’s must be aware of the complications and advantages of investing in manufacturing plants in foreign countries.

Table 4.20 indicates the MNE’s that manufacture in the different regions.

Table 4.20: If yes, the following analyses of countries were selected, which have manufacturing plants?

<table>
<thead>
<tr>
<th>Ethiopia</th>
<th>Kenya</th>
<th>Malawi</th>
<th>Tanzania</th>
<th>Uganda</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Other Countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>9</td>
<td>4</td>
<td>39</td>
</tr>
<tr>
<td>5.1</td>
<td>18</td>
<td>7.7</td>
<td>15.3</td>
<td>10.3</td>
<td>10.3</td>
<td>23</td>
<td>10.3</td>
<td>100 Percent</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.6.1.
In Table 4.20 it can be seen that manufacturing plants are in the countries with easier access to SA which probably have better infrastructure, FDI, support from IMF and potential for growth, due to the proximity to SA. Zimbabwe (23.1 percent), Kenya (18 percent), Tanzania (15.4 percent), Zambia and Uganda (10.3 percent each) have MNE’s manufacturing in their countries. Zimbabwe is seen as the second biggest economy behind SA while Uganda and Tanzania are growing at approximately seven percent per annum and therefore should have sufficient foreign exchange to execute business and attract FDI and IMF support.

**Question:** The importance of strategic alliances?

Strategic alliance lowers risk and allows MNE’s to enter the market more easily and more effectively with the home country partner.

**Table 4.21: Strategic alliance**

<table>
<thead>
<tr>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>47.37</td>
<td>36.84</td>
<td>15.79</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 4.7.

Table 4.21 shows that strategic alliance is very important and important, (47.37 percent and 36.84 percent respectively), while only 15.79 percent are neutral. The advantages of
strategic alliances will give the respondents access to market information, government links, regulatory and customs requirements, retail distribution links, et cetera. The disadvantages for MNE’s are the loss of: secrecy of product formula, core competencies and the implementation of these, measurement and control of various functions within the market place.

4.6.4 MARKET RESEARCH

To avoid risk and uncertainty in foreign countries, (both political and economic risks), evaluation of the market place, human development indices, et cetera would need to be researched before entering the foreign country.

**Question:** Market research as an important factor to gain insight into foreign markets?

**Table 4.22: Market research**

<table>
<thead>
<tr>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>19</td>
</tr>
<tr>
<td>31.58</td>
<td>36.84</td>
<td>21.05</td>
<td>0</td>
<td>10.53</td>
<td>100 Percent</td>
</tr>
</tbody>
</table>

Source: Results of section B, Question 5.1.

In Table 4.22, it can be seen that most MNE’s view market research as very important and important, (31.58 and 36.84 percent respectively), while 21.05 percent were neutral. The lack of information about African countries' markets and economies makes it even
more difficult to research the markets effectively. The lack of IMF investment, FDI and MNE’s in the countries for the last 10 to 20 years has also made it important to understand the markets before entering. This is the reason why strategic alliance would also ensure that more information can be made available.

Table 4.23 indicates the importance of research within the market place

**Table 4.23: The importance of research**

<table>
<thead>
<tr>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>8</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>19</td>
</tr>
<tr>
<td>21.05</td>
<td>42.10</td>
<td>10.53</td>
<td>15.79</td>
<td>10.53</td>
<td>100 Percent</td>
</tr>
<tr>
<td>4</td>
<td>10</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>21.05</td>
<td>52.63</td>
<td>10.53</td>
<td>10.53</td>
<td>5.26</td>
<td>100 Percent</td>
</tr>
<tr>
<td>4</td>
<td>12</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>21.05</td>
<td>63.16</td>
<td>10.53</td>
<td>0</td>
<td>5.26</td>
<td>100 Percent</td>
</tr>
</tbody>
</table>

Source: Results of sections B, Questions 5.1.

In Table 4.23, it can be seen that the importance of research for MNE’S is high for foreign African countries and to the importance of the analysis of opportunities, market variables and the need for preliminary evaluation. According to question 5.1.1, the importance of a market opportunity analysis would be advisable (21.05 percent very important and 42.10 percent important) as it is difficult to predict viability without research. As can be seen in question 5.1.2, the general market variables are also seen as important (21.05 percent very important and 52.63 percent important) as this will assist
the MNE in judging the market size and purchasing power. In Question 5.1.3, market
trends, behaviour, regulatory, et cetera are important (21.05 percent very important and
63.16 percent important). Managers would need to understand these barriers of entry.
The validity of foreign African countries’ market information, on-going conflicts,
corruption, smuggling, parallel imports, GDP, size of population, mortality rates, et
cetera in some/all the countries is a threat to business if unknown.

Table 4.24 indicates the percentage of the standardisation importance

**Question:** The importance of the standardisation of the MNE’S product range
throughout the world?

**Table 4.24: Standardisation of product range**

<table>
<thead>
<tr>
<th></th>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Results of section B, Questions 5.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From Table 4.24, it can be seen that standardisation is very important or important, at
26.32 and 31.57 percent respectively, while 10.53 percent are neutral 21.05 and 10.53
percent regard it as not important or irrelevant, respectively. Clearly it can be seen that
standardisation is essential in the global society. This impacts on the quality and speed to
market needs throughout the world. It is also known that people are moving regionally and globally and therefore the product needs to be in all parts of the world.

Table 4.25 indicates the requirements for quality of standardisation

**Question:** The importance of standardisation and quality of: product, packaging and packaging design?

<table>
<thead>
<tr>
<th></th>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Total respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td>6</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td><strong>Percent</strong></td>
<td>31.58</td>
<td>42.11</td>
<td>10.53</td>
<td>10.53</td>
<td>5.25</td>
<td>100</td>
</tr>
<tr>
<td><strong>Packaging</strong></td>
<td>5</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td><strong>Percent</strong></td>
<td>26.32</td>
<td>47.37</td>
<td>10.53</td>
<td>10.53</td>
<td>5.25</td>
<td>100</td>
</tr>
<tr>
<td><strong>Packaging Design</strong></td>
<td>1</td>
<td>11</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>19</td>
</tr>
<tr>
<td><strong>Percent</strong></td>
<td>5.25</td>
<td>57.90</td>
<td>15.79</td>
<td>10.53</td>
<td>10.53</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of section B. Questions; 5.2

In Table 4.25, it can be seen from question 5.2.1, that the quality of product throughout the world is very important and important, at 31.58 and 42.11 percent respectively. This would assist MNE to satisfy their customers throughout the world. It can also be seen in question 5.2.2 that the packaging of the product must be world class quality and standardised throughout the world, with a rating of 26.32 and 47.37 percent as
respectively. Here again, in question 5.2.3, the globalisation of companies is probably having an effect on the standardisation, design and quality of product and packaging and customers will demand that quality throughout the world. 57.9 percent think quality is important.

Table 4.26 indicates the importance of the product and marketing mix to foreign country requirements.

**Question:** Product and marketing mix to meet foreign market requirements?

**Table 4.26: Marketing mix**

<table>
<thead>
<tr>
<th>Very important</th>
<th>Important</th>
<th>Neutral</th>
<th>Not Important</th>
<th>Irrelevant</th>
<th>Irrelevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>9</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>31.58</td>
<td>47.37</td>
<td>10.53</td>
<td>5.26</td>
<td>5.26</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of section B. Question 5.3

In Table 4.26, again it can be seen that the product and marketing mix for an MNE must meet the needs of the foreign country and its customers. The respondents see it as very important, (31.58 percent), and important, (47.37 percent).
4.6.5 SELECTING ENTRY MODES

Mode of entry is critical to the MNE’s in achieving their objectives in foreign countries and lowering their risks by choosing the correct mode of entry.

**Question:** Which mode of entry is rated as the least expensive and which method do companies mostly select when entering foreign countries?

Table 4.27 indicates the importance of the mode of entry into foreign countries.

**Table 4.27: Mode of entry**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Total Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>13</td>
<td>68.42</td>
</tr>
<tr>
<td>Turnkey</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Franchising</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>Licensing</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>2</td>
<td>10.53</td>
</tr>
<tr>
<td>Wholly owned</td>
<td>2</td>
<td>10.53</td>
</tr>
<tr>
<td>subsidiary</td>
<td>1</td>
<td>5.26</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Section B, Questions 6.1 and 6.2

In Table 4.27, it can be seen in question 6.1 and 6.2 that there is unanimous agreement that exporting is the most popular means of entry for an MNE, at 68.42 and 78.95 percent respectively. Exporting is seen as less expensive, simpler and less risk when entering a foreign country for business purposes. MNE which participated in this survey are
probably aware of the risk factors and advantages, and therefore have chosen the export means of entry. The outline of entry in section 2.8 would give a better idea of the way of entering. It is important to establish whether the foreign markets want the product; whether they have the product; and whether they can pay for the product.

4.7 SUMMARY

The aim of this chapter was to set out the planning, the execution and results of the empirical component of the study. The research population was clearly defined and a questionnaire was prepared based on the literature gained from the literature study. A letter accompanied the questionnaire and these were posted to potential respondents. In the discussion, reference is made to the fact that a satisfactory response rate was gained through a follow-up with potential respondents after the due date.

The results of the empirical study were then analyzed in order to deduce correlation between results and the literature study. The conclusion can be reached from the empirical study that there is support for the factors obtained from the literature study and that respondents could also follow the guideline for exporting as set out in section 2.8 (page 163) and the results of the empirical study. In the next chapter, an integration of the findings of the empirical survey and literature study will be discussed with the relevant and appropriate summary and recommendations.
CHAPTER FIVE

AN INTEGRATION OF THE FINDINGS OF THE EMPIRICAL SURVEY WITH THE THEORETICAL SURVEY DEVELOPED FOR THE STUDY, SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.3 INTRODUCTION

The aim of this chapter is to integrate the results obtained from the empirical survey with the information obtained from the literature study. To achieve this, the results of the quantitative analysis are reviewed to determine whether there is inadequate support from the respondents for any statements in the questionnaire.

Leedy (2001:101) explains that quantitative research is used to answer questions about relationships among measured variables with the purpose of explaining, predicting, and controlling phenomena. This approach is sometimes called the traditional, experimental, or positivist approach.

Hague and Jackson (1996:17) explains that quantitative research is concerned with the measurement of a market and includes areas such as market size, the size of the market segments, brand share, purchase frequencies, awareness measures of brands, distribution levels, etc. Such quantitative data is required to some level of accuracy (though not in all cases to very high levels) and the methods used must be capable of achieving this.
The questions were divided into five different sections: decision to enter, economic and political risk, strategy decisions, market research and selecting a mode of entry. The questions in each section receiving inadequate support would not be considered for the entry into foreign markets. Once the results obtained from the empirical survey and the factors that promote the mode of entry into foreign markets have been integrated, a summary of the study will follow and recommendations as to other areas of research and potential problems encountered in this study will be presented. Finally, conclusions will be drawn.

The following flow chart represents the findings of the empirical study as set out in Chapter 4.

**Figure 5.1. Empirical study findings and process of entry**

1. Select the countries for export possibilities
2. The regulatory issues within each country need to be assessed
3. The economic situation of the country would need to be assessed
4. The present political situation and history of conflict would need to be known
5. The opportunities within the market place would need to be assessed
6. The synergy of home and foreign countries: objectives, goals and focus
7. The success of other multinationals in the foreign country
8. The ability to adopt the multinational home market strategies in the foreign countries
9. The mode of entry
• **Selecting the Countries.** Exporting to foreign African countries was seen as a positive decision. The MNE personnel must first target the countries that they would like to enter. This will ensure that the MNE can then focus on the countries selected and complete the necessary research required to investigate positive options.

• **Barriers and Regulations.** Research has highlighted that foreign countries have many regulatory issues govern product acceptance, registration and import restrictions. To overcome this could be an onerous task. Product regulations need to go through many processes and committees, which affects the ease of product movement and lead-time to the market place. Import regulations such as: duties, clearing charges, inspection costs, et cetera are all transport barriers and do not allow an MNE to land their inventory at a competitive price. An efficient ordering and forecasting system would need to be in place to ensure continuous supply of stock in the market place.

• **Economics of the Country.** It was found that all the countries are affected by: the rate of exchange, lack of foreign currency, freedom in executing business, the high cost of rent, property ownership, disposable income of the consumer, unemployment, registration of companies and the legitimacy of the banking and legal systems. The efficiency of the above would ensure a better business practice and profitability in the long term.
• **The Political Environment.** It was found that the past political history of African countries such as: conflicts, Government upheaval, Government control of private businesses, lack in consistency of the controls of imports and regulatory issues and poor governance affected the economic growth and stability – FDI and MNE investment.

• **MNE’s Opportunities and Objectives.** It was found that the opportunities were promising within the countries but would need to be researched in order to assess the situation of: the competitors’ activity, market saturation, local manufacturers’ activities, market needs, pricing strategies and market place service levels. The MNE objectives are important to ensure that the vision is achieved. The foreign countries environment would need to: “fit” the MNE’s strategy, their intellectual capital and the operational structures of the importer or alliance to ensure it suits the overall countries strategies. It was also found that the importer or alliance needs to understand the MNE’s management of the resources, (Marketing and Sales), to ensure success.

• **MNE’s Success.** It was found that the success of other MNE’s in the foreign countries would be the key element to the MNE’s entering the new country. How have they performed, what barriers have inhibit their growth, if any, and what determines their success or failure. If understood, this would give the new multinational an edge when
entering the markets? What is their management structure and how do they service the market, manage the logistics and marketing mix?

- **Fitting Home Market Strategies.** It was found that due to the lack of infrastructure it is essential that the importer or alliance adopt the plans and controls of the multinational. The need for: an efficient supply chain service, good marketing programs and an effective sales force are the most important areas to succeed in achieving the multinational standards of service it is accustomed to in SA. The foreign country strategies would be introduced in order to maximise the total plan, in other words, MNE’s and importers’ plans and strategies.

- **Mode of Entry.** Entering these markets is a risk as seen in the research. Many companies use a simple process to enter foreign markets. It is found that exporting is the simplest form of doing business in a foreign country. The appointment of a distributor in the foreign country is the next step. Forming an alliance with an importer in order to take advantage of the importers’ resources, contacts and knowledge of the markets is also a good option. However, due to the MNE’s investment with the alliance, the MNE is exposed to more risk in the initial stages. A simple export and import process is more appropriate. Research has also indicated that the lack of control in servicing the markets through exporting is a disadvantage but the risks are less than an alliance. The multinational must assess the market in all areas before making or choosing their mode of entry.
5.4 AN INTEGRATION OF THE FINDINGS OF THE EMPIRICAL SURVEY WITH THE THEORETICAL SURVEY DEVELOPED FOR THE STUDY

A theoretical analysis of factors promoting the modes of entry was attained through a study of information gained from secondary sources.

Secondary data is information collected by individuals or agencies and institutions other than the researcher. Welman & Kruger (1999:147) continues to say that primary data are original data collected by the researcher for the purposes of his or her own study at hand.

According to Cooper & Schindler (1998:257), secondary data is used for a research to fill a need for a specific reference or citation on some point – perhaps in a research proposal, to demonstrate why the proposed research fills a void in knowledge base. Research typically calls for early exploration to learn if the past can contribute to the present study. Data from secondary sources helps one decide what further research needs to be done and can be a rich source of hypothesis.

Desk research is the process of accessing secondary data – information collected for some purposes other than meeting the objectives of the particular project. The desk (secondary) may be the library, but increasingly it is the personal computer (PC) providing a gateway to cyber-data. Hague and Jackson (1996:51) note that the range of marketing information, which can be obtained through desk research, is vast and capable of meeting most data needs of many market research projects.
The analysis developed resolved the first five sub-problems of the study. This dealt with the modes of entry into foreign countries. Based on the information acquired to resolve sub-problems, a questionnaire was developed using the analysis of factors promoting the effectiveness of the modes of entry basis for the questionnaire. This questionnaire was designed to resolve the sub-problem; what do knowledgeable people believe is the most suitable mode of entry to high-risk foreign markets? The opinion was sought from SA MNE managers and senior managers, CEA managers and owners of business exporting into Africa from other countries.

5.2.1 SCOPE OF THE EMPIRICAL STUDY AND RESULTS

A survey was conducted among the population of managers operating in the demarcated area to test their concurrence with the analysis of the factors regarding the entry into foreign markets. The questions posed in the questionnaire were drawn up using the theoretical literature. This questionnaire was then E-mailed to managers in MNE’s, which are regarded as knowledgeable people within their organisations. The questionnaire was developed using a five point Likert-type scale to facilitate statistical analysis of the responses.

The results obtained were subjected to a quantitative analysis. The results allow one to ascertain the areas of importance or concerns. All questions showed a positive result. This indicates that there was a general trend of agreement regarding the modes of entry into a foreign African country.
The completion of the opinion survey and the subsequent analysis of the data, resolved the first sub-problem of the study identified in Chapter 1, namely, ‘What do knowledgeable people believe are the most suitable modes for entry to high risk foreign markets?’

5.2.2 A REVIEW OF THE QUANTITATIVE ANALYSIS OF RESULTS WITH A VIEW TO THE ELIMINATION OF FACTORS THAT DO NOT CONSTITUTE TO THE SUCCESSFULNESS OF EXPORTING INTO AFRICA.

An examination of the quantitative results shows that there was a positive viewpoint of the concerns and means of entry into Africa in order to execute business at a minimal risk and maximum profitability. This means that in each statement the respondents found that the importance to be involved in Africa was considered to be very important or important. The statements that were supported with a neutral perception were higher than not important or irrelevant. This analysis may indicate that these respondents have not experienced African business sufficiently to comment and therefore a research of this kind would be of benefit to the respondent(s). The support for the analysis and, as such, those factors will be supported in the final analysis. The next section deals with the finalisation of the analysis for exporting.
5.2.3 AN ANALYSIS OF FACTORS PROMOTING MODES OF ENTRY INTO FOREIGN AFRICAN COUNTRIES

The objective of this study was to develop an analysis of factors promoting the effectiveness for MNE’s exporting into Africa. Chapter 2 gives the insight and guidelines to exporting and Chapter 3 the risks entering foreign African countries. This objective was achieved by a process consisting of the following three steps:

- A study of the modes of entry, the risks were developed from relevant literature;
- The population of companies in the area was surveyed by using a questionnaire developed from the literature study, to measure the degree to which they agreed or disagreed with the literature analysis;
- The results obtained from the empirical survey were integrated with the literature study in order to construct a final analysis of factors for effective entry into Africa.

The final analysis of factors promoting the modes of entry is illustrated below:

- Basic entry decisions;
- Risks of entry;
- Market research;
- Strategy decisions;
- Entry modes and selecting entry modes;
• Strategic alliances.

The factors affecting the modes of entry are developed from the overview of the literature study and illustrations in section 2.8 show the viewpoint of other people and the literature study. These issues also received strong support from the respondent in the empirical survey.

The main concern of this research was not to make comparisons but rather, to determine the extent each factor in the literature research would assist the MNE to effectively penetrate new countries and markets in CEA.

5.3 SUMMARY OF THE EMPIRICAL STUDY

The general conclusion of the empirical study is that it can be drawn from the analysis that it is important to be involved in foreign African markets but certain factors need to be researched and considered before entering new African markets.

Therefore, in the previous section the results obtained from the empirical survey were integrated with the theoretical analysis developed in the literature study of this research. This has resulted in the development of models in section 2.8 (page 63), which would give the respondents a clear idea of the means of entry into foreign African countries.

5.3.1 RESEARCH METHOD

The main problem identified to be resolved in this study was; ‘What factors play a role in ensuring; the decision of which foreign markets to enter, when to enter them and at what
scale, the choice of entry mode and the role of core competencies and strategic alliance?"

Therefore the motivation behind this study is that due to the pressures of global competition, local companies are entering foreign countries but they struggle with the following issues: which foreign markets to enter, scale of entry and when to enter. The reason for companies wanting to enter new markets is that most companies are looking for new markets and economies of scale. However, the uncertainties of these markets need to be known or researched to increase the chance of long-term growth and profitability being sustained. These important factors from the literature analysis were also confirmed in the empirical study. The knowledge of the modes of entry factors will increase the global competitiveness of MNE’s as they will be more prepared, efficient and innovative when entering foreign countries and this will also assist their strategies and tactics within the markets.

In the light of the above, it is felt that the research, specific to entry modes, would be of use to MNE organisations when implementing entering decisions into African countries. The basis for the research was a literature study conducted on the modes of entry into foreign markets. In studying these entry modes, it was established that most of the respondents replied similarly to the questionnaire. Response shows support for entry into foreign countries and, based on the questionnaire, the importance of factors when entering markets and in the markets of the countries, has a high priority in MNE strategies. A discussion of each of the factors involving modes of entry was conducted in detail. Based on this examination, a questionnaire was developed and e-mailed to companies falling in the demarcated area of the research. Upon receipt of the completed questionnaires from the respondents, the results were tabulated and a statistical analysis
was conducted. The results were tabled and analysed and the degree of support or disagreement for the analysis was noted.

5.3.2 RESULTS OF THE LITERATURE STUDY

The results of the literature study are briefly discussed below according to the procedure followed.

(a) Entry decisions

Although many firms export in reaction to overseas inquiries, pro-active firms first tend to explore markets “closer” to home. According to Sanyal (2001:173), closeness is measured by the physical or geographical distance, the economic distance (in terms of convergence of living standards) and cultural or psychic distance (in terms of similarity). However, with more than 185 countries in the world, many opportunities may be lost without a systematic examination of the various markets. Managers can readily access macro-economic data from numerous sources about individual countries. This data can form the basis to determine their viability as export markets.

The literature study accounts for many variables that are an advantage or disadvantage to MNE’s entering foreign countries and their supplying or servicing of markets. Consideration of the risk factors (before entering and in the market place) is also important, as these market forces will have an affect on the strategies and tactics of the MNE. The lack of experience of MNE’s exporting into foreign African countries is due to companies not having sufficient knowledge or confidence in the markets and because of this MNE's do not have the ideal model to export into Africa. It is, therefore,
necessary to apply the same (or similar) structures and strategies that are being used by the MNE in their home market. The reason behind this would be to ensure that the successful strategies and tactics from the home market are carried through to ensure continuity of management and core competencies which would improve effectiveness towards the changes and be a cost saving factor. In doing this, the MNE can quickly evaluate whether these tactics suit the market or country.

The questionnaire confirms the importance of African markets for the growth of SA MNE’s. The market forces are a concern, more so the forces of economies of scale and expanding into new markets. The foreign MNE’s (from other countries) and the local manufacturers entering these markets would also consider these forces. Pioneering stages and first mover tactic should therefore become a prerequisite in these new markets.

Deciding on the markets, entry mode, marketing program, culture and technology of each country, has become an issue for the new MNE, as there is a lack of information in these foreign African countries. These factors are important for any MNE going into foreign markets and, as per the literature study and the guideline set out in section 2.8, it is important to have a procedure in place and a means of measuring these entry mode characteristics. Exporting on a small scale or through other agents (within foreign markets) has been the choice of many MNE’s and smaller companies going into Africa. In this way, the risk and management procedures and processes are reduced. The marketing activity is not a prerequisite, until the MNE sees the risk factors and the potential of the markets improving. Then the MNE will get more involved: MNE would invest in the research of the countries’ markets, invest in people to manage the process
and service the countries, set up marketing programs and networks to build the markets. The foreign country will then become part of the MNE management and human resource plans. The process will move as fast as it is strategised: plans must be specific, controls must be in place - measures, achievable objectives and a time phase set for completion. Feedback and evaluation of the process will ensure profits and long term growth.

(b) **Risk**

When a company is considering where to build factories and/or sell products, it must analyse the countries in which it contemplates doing business. Understanding the economic and political environments of these countries can help predict how trends and events in the environments of these countries might affect its future performance there (Hough and Neuland, 2000:130).

The questionnaire expressed great concern for the political and economic factors of MNE’s entering foreign countries. The high concerns and considerations for social needs, technology advancements, political stability, purchasing power of the consumer, exchange rates and other demand conditions of the market are important when entering foreign African countries. MNE’s will need to be aware of the political and economic environment, systems and functions of the foreign African countries in order to address their business more effectively and efficiently as the African countries are driven by government and IMF support, FDI and local contacts within the markets.

The lack of the availability of good current data should be of great concern to MNE’s entry the African countries, as this data will provide economic, social and political factors
that would play an important part in strategising within the countries. The improvement of technology, telecom and electricity services, and the availability of clean water will also improve communication and living standards respectively. To compound all of this, the poor condition of roads, doctors per person, hospitals and similar services have a long way to go. All of these factors will compound on the lives of people especially as an average of 65 percent of the population in CEA resides in the rural areas. To service and to communicate with these markets requires the MNE to understand the level of complexity of these countries, and until that is understood it will impact on the level of FDI.

(c) Strategy decisions

A firm’s strategy can be defined by the action’s managers’ take to attain the goals of the firm. For most firms, a principle goal is to be highly profitable. To be profitable in a competitive global environment, a firm must pay continual attention to both reducing the costs of value creation and to differentiating of its product offering so that consumers are willing to pay more for the product than it costs to produce it. Hill (2000:380) points out that strategy is often concerned with identifying and taking actions that will lower the costs of value creation and/or will differentiate the firm’s product offering through superior design, quality, service, functionality and the like.

Negative factors such as the difficulty of developing strategies in unknown markets, unavailability of information and the various barriers of entry would not outweigh the fact that there are 300 million consumers in the CEA region that would need a quality product, which is easily obtainable. Consequently, MNE’s will want to enter these
regions. The fluctuating exchange and interest rates, low disposable income and consequently the Purchasing Power Parity (PPP), (the amount of money the consumer has compared to the value of the dollar in USA to the value of the dollar in the CEA or other developed countries), will have an affect on the performance of any MNE management strategies and product range forecasts when entering these regions.

There was a very high degree of positiveness to innovative strategies, cost price strategies, “first mover tactics” and strategic alliances. Companies see innovation as an important aspect when entering new countries and markets. The competitive advantage of innovation, (whether in product, systems, management tactics, et cetera), is important, as many new MNE’s entering these regions will face the global markets and local manufacturers that are already present in these markets. Therefore the importance of cost price strategy must also be taken into consideration. The product on the retail shelf must capture the target market and also attract new target markets whose income levels may be very low. Therefore it is imperative to understand the customer’s requirements and product preferences: What does the customer want? Has the MNE got the product? Is there a similar product in the market place? Can the customer afford this product? Is the MNE aware that the customer wants product satisfaction and not features? Therefore the MNE need to find the strategy and tactics to meet this need and desire. The literature study does explain needs and requirements, and in section 2.8 various other means of entry and activity in the foreign markets are looked at chronologically. Certainly the MNE must ensure the delivery of the product in good condition and therefore the quality of packaging; presentation and the robustness of the product would be taken into consideration. It is general knowledge that an MNE needs to offer customer satisfaction
and that the product quality must be an important prerequisite. The MNE will, therefore, ensure that the standardisation of product quality is maintained throughout the world. This will increase competitive advantage for the MNE as the product range’s quality, (owing to world class technology and management know-how), will increase the product range’s chances of being a world market leader by satisfying consumers in all parts of the world.

“First mover tactics” have a roll to play in any market, especially in the niche markets of African foreign countries because the markets in these foreign countries have not been fully exploited. A good strategy would gain market share for any product category in demand by the consumer in these markets. This would then clarify the importance of strategic alliances as the knowledge, contacts and security of an alliance can offer the MNE a competitive advantage when first entering. A strategic alliance is a means of seeking new markets and sustaining growth in sales and profits by achieving a good working relationship or partnership.

(d) Market research

According to Kotler (2000:103), market research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company.

Research within markets and the importance of this information to the MNE before entering the country and forming strategies, will assist the MNE to be more competitive and lessen the risks of failure or loss of profits and aid long term growth. In this section
there is a high priority for market research in foreign countries and their markets. The uncertainty of the markets and the unavailability of up-to-date data make the entry into any of the African countries difficult. MNE’s are companies that enter new ventures with valid information of the country and its markets. The thought of conflict, bribery and corruption, et cetera discourages MNE’s from investing and entering unknown markets compared to developed countries, who have information readily available. Therefore the return on investment (ROI) within these countries is seen as of paramount importance and the more information that an MNE can obtain regarding the African country and its markets, the better for the MNE strategies and tactics in the market place.

The development of standardised products throughout the world is important. Hough and Neuland (2000:275) explain, this is primarily aimed at price-sensitive consumers and is based on mass production to benefit from economies of scale and experience curve economies to obtain low unit production costs.

The increase of market share on a global basis, rather than regional basis, does accrue in the global economy. For this reason it would be imperative to ensure that the product is standardised as it is also known that the movement of people throughout the world would affect the markets, country to country and region to region. Consumers are always comparing price to their needs and satisfaction. At the end of the comparison, it has been proven by previous research that the consumer will purchase the product that they are comfortable with or purchased before, regardless of the price.
Hough and Neuland (2000:103) explain that the political system is designed to integrate the parts of a society into a viable, functioning unit. A country’s political system has an enormous impact on how business is conducted domestically and/or internationally.

Market intelligence (government, government-related departments or businesses and their business interaction with MNE’s) was not tested and a respondent saw this as being important. It is useful to form a government alliance or an alliance through the MNE strategic alliance of the foreign country. It has been experienced that this alliance can improve and speed up certain processes: business licences, purchasing of property or offices (if required), customs knowledge, legal procedures, regulatory issues, et cetera. This also includes any other matters that can increase the efficiency of the MNE’s within their management process and entry into foreign countries. The government of the day can affect many business decisions, whether good or bad.

Kotler (2000:379) maintains that international companies must decided how much to adapt their marketing strategy to local conditions. At one extreme are companies that use a globally standardised marketing mix worldwide. Standardisation of the product, advertising and distribution channels promises the lowest costs.

The importance that MNE marketing strategy to be tailored to suit the entire marketing mix, was rated as important. This tailored strategy has the advantage that company gains confidence in the strategy they know best and because it will save costs and implementation would be quicker. On the other hand, it may not suit the foreign country profile and therefore the failure of the strategy and tactics would have the opposite effect.
Market research and the results thereof would need to be in place before implementing the new process. In future this would also allow for more cost effective and successful promotional activities. The knowledge of the market will be gained once the MNE is actively in the market and the marketing mix is at full scale. Then the MNE will be able to determine product sales, distribution, promotional activities and pricing knowledge of the market place. By being a player in the market place, the MNE will be able to evaluate the market situation far more quickly and with more confidence. Through experience, MNE will be able to develop its own marketing program. This would be influenced by the knowledge of the markets, new contacts, advertising agencies, sales and merchandising teams that are already in place, et cetera. The MNE would tailor the new marketing program to be part of the old one’s core competencies in order for the new marketing strategy to meet the foreign market(s) needs effectively.

(e) **Selecting entry modes**

Hough and Neuland (2000:266) say that firms consider criteria such as the following when selecting an appropriate market entry mode:

- The company’s objectives and expectations relative to the size and value of the anticipated international business;
- The skills, abilities, and attitudes of the company’s management towards international marketing;
- The company’s existing foreign market involvement;
- The nature and power of competition in the prospective markets.
The choice of entering foreign countries through the mode of export has been well supported by the respondents. This mode of entry, at less cost and minimal risk, has its advantages. Exporting into foreign countries will allow the MNE to evaluate the market without committing unnecessary finance, capital, intellect and other resources that would increase the risk of the new venture. As the MNE market penetration grows, the MNE must co-ordinate its strategies within the new markets and the home country in order to establish a suitable strategy, service level and the commitment of the correct resources to grow and control the markets to its full potential. The importing of raw materials for the completion of quality finished goods needs to be co-ordinated with exports desires and objectives. An alliance with the procurement orientation, (simultaneously seeking quality improvements and cost reductions) freight services, the MNE plant personnel - from the delivery process to the final customer in the foreign country - must be a single process in the supply chain. Alliance between the MNE and foreign stakeholders will also ensure a smooth operation and successful penetration of the product range, good services levels and will improve profits and long term growth for all stakeholders.

Once the above factors had been analysed, the next step was to develop a theoretical analysis of factors for the mode of entry into foreign African countries.

5.3.3 THE ANALYSIS OF THE FACTORS INFLUENCING THE MODE OF ENTRY INTO FOREIGN AFRICAN COUNTRIES

From an analysis of the above factors, it can be seen that there is a great importance and interest in exporting consumer goods into African countries by SA MNE’s. MNE’s are treating the world as their domain but countries in close proximity to SA have been the
target of selection for MNE in the initial stages. The risk of entering the market seems to be over shadowed by the advantages of entering new markets and in meeting their high supply and demand requirements.

- **Entry Decisions.** They are built around the fact that it is important to be involved in all parts of Africa. The factors that motivate entry into Africa are mainly, according to the research analysis, is to exploit new markets and economies of scale. It was noted that selecting markets with the correct strategies, (which relate to home strategies), plays an important part in MNE decisions when entering countries. Although not all the respondents found that culture and technology are important, it is still a factor for future growth of the markets. Many MNE’s are not aware of the different cultural marketing needs and the impact that technology could have in each country. Ideally, technology should be the same level of efficiency as developed countries. The growth of cellular networks in African countries is substantial, and from this, it can be estimated how huge the growth of technology will be and how it will the benefit business in the form of speed of information and improved communication channels.

- **Risks.** There are political and economic risks when entering foreign countries. Success will be determined by the way in which management deals with political and economic issues and how well it analyses the countries in which it contemplates doing business. This
helps to predict trends in the market place and assists in predicting the future performance of the foreign countries and the MNE in the foreign countries. Uncertainties about the foreign markets, together with the company’s and the understanding of the market forces, play a major part in the firm’s strategy within the foreign country. Management’s relationship with public institutions, such as government and government owned businesses, will have an effect on the market forces. All factors must be adequately researched and then managed, to obtain maximum return. Social and technology factors are also a major consideration when entering foreign countries and their markets. The difference between the domestic sales and foreign expectations, together with the volatility of the exchange rate, will have an effect social and technological advancements and on the decision making of the MNE and the strategies thereof. It is therefore important that a comprehensive analysis is made of the market place.

- **Product to the Market Place.** Strategic decisions are vital to the success of the company within foreign countries. The strategy of getting a product to the market place includes the four important elements of MNE’s marketing mix, which consist of: the product mix, distribution strategy, pricing strategy and promotional strategy. These should be balanced with the financial objectives, consumer objectives, internal process strategy, and growth objectives so that the personnel of the MNE can carry out the vision and strategy in achieving
satisfaction of the customer. The MNE would manage these components to see when, what and how they would introduce or use the respective components to the benefit of the market place in each country. The strategy could differ from country to country. The introduction of innovation to the product range and/or management procedures is a better means of obtaining market penetration and maximising market share. Cost price strategy plays an important part in the overall strategies but due to the foreign exchange rate fluctuations, (importing raw materials and export finished goods), the cost price strategies become difficult to manage and control. The lack of foreign exchange within the African countries can also affect the supply chain process and availability of goods in the market place. Continuous purchasing of the dollar, over a period, is required to ensure that the importer has sufficient funds to settle outstanding payments to the MNE (exporter) before placing further orders.

- **First Mover Tactics.** This important tactic can capture the market needs more quickly and sustain a bigger share of a market that has not been exploited fully. However, this has its disadvantages in that “first movers” become pioneers of a particular product range. The marketing and general cost involved in building a range (to sustain the market needs and to compete with the competitors who are riding on the back of the pioneering strategies), has its risks. The larger companies do
practise pioneering strategies but on the back of local entrepreneurs who started the market growth and have not been able to capture or maintain growth due to the lack of sufficient resources. This allows the MNE to exploit the market opportunities further as the entrepreneur is financially not in a position to execute or introduce such expensive MNE strategies.

- **Strategic Alliances.** This has an important role to play in the foreign markets. MNE’s will seek an alliance because they can enter into new markets and without incurring unnecessary costs, (incorrect marketing and research strategies), share resources, obtain contacts within government, overcome legal and regulatory issues and adopt to competitors’ core competencies quicker. Strategic alliance will also allow an MNE to move more quickly within the market and, through this alliance, accelerated knowledge and know how will improve the competitiveness of the MNE, at less risk and cost.

- **Market Research.** Within the foreign countries market research is a means of researching ways and ideas in order to achieve suitable vision with less risk or loss of profits and a view to long-term growth. Market and intelligence information are also important in order to grow the markets quicker and more effectively within the global and home country competitors environment. The strategies to obtain
market share and penetration will be easier to form once the MNE is aware of the problems or competitive advantages from the research that has been completed. The standardisation of product mix, will improve the quality of: products, effectiveness and adaptability of the marketing mix, costs, and ultimately service and satisfaction to the customer.

• **Entry Mode.** Selecting the correct entry mode is probably the single most important decision that an MNE will need to make when entering or expanding into foreign countries. Entry modes will differ and will relate to the degree of control, new country risks, loss of know-how, (due to the type of entry mode) core competencies, product secrecy’s, costs, et cetera. All of these need to be assessed before entering. The core competencies in foreign countries should be improved to the level of the MNE by a program of continuous training, development and investment in capital intellect. Each entry mode could differ in one or all of these factors. The degree of risks associated with this is evident on the graph, page 84. It can be seen from this graph that the risk is low for exporting and in comparison high for wholly owned subsidiaries.

The theoretical analysis was then tested in the empirical study. This is briefly described next.
5.4  RECOMMENDATIONS

The results of the study have identified certain areas that need particular attention. A discussion of these factors follows.

5.4.1  TYPES OF QUESTIONS USED

It is felt, in hindsight, that more open-ended questions should have been included in the questionnaire to establish whether the respondents identified any additional factors that could enhance the analysis. It was also felt that there could have been too many questions. However, on analysing the subject, it was also felt that this is a relatively new subject in the context of SA businesses and that a large number of questions would be required. The lack of information on business procedure and activities in African countries confirms that more knowledgeable people, companies and/or MNE’s operating within the countries would be important to this research.

5.4.2  POPULATION

The population of 40 may have been too small and possibly more of the population of SA MNE’s and CEA should have been surveyed. All manufacturing organisations in the area mentioned above draw on the same labour pool and, as such, by increasing the population, the reliability of the study would have increased.
5.4.3 APPLICATION OF THE STUDY

It is recommended that the analysis of the modes of entry into foreign African countries be taken into consideration when entering foreign African countries. If MNE’s are implementing strategies and tactics to enter foreign African countries, the research offers a procedure, facts and ideas in order to assist MNE’s with their thought and implementation process. The export management teams of most of the companies are relatively new to export and consequently they would need to follow a procedure.

Whether the companies are new or old, they will continuously be developing these markets as the African countries start to lower their barriers to entry and become more aware of the importance of MNE input. The future growth of their markets and countries economy and the analysis of this can be used as a knowledge base to build from and improve. Therefore all companies and businesses in the export market into Africa can be taken into consideration for information in order to assist with building a robust process when entering foreign African countries.

The MNE will enter the markets far more quickly by forming a strategic alliance with the selling partner to gain his expertise, his/her contacts within the country and on-hand knowledge. The development and training of the agent’s personnel’s core competencies will be beneficial for all stakeholders as a means of operating in the initial stages. The entry mode and the servicing of the customer would be developed as the partners/alliance develop their trust, communication and knowledge of one another’s business competencies. The involvement or alliance with other MNE’s in the foreign country to
improve services, marketing, distribution, et cetera, could be developed and cannot be ruled out as a strategy.

5.5 CONCLUSIONS

From the analysis of Chapters 4 and 5, it is evident that there was consensus regarding the importance of factors influencing the mode of entry into foreign African countries.

It was also evident from the above, that a compatible strategy to suit all stakeholders must be in place. Ultimately, the mode of entry must enable a MNE to enter with the least risk to maximise profits and long term growth. The literature study gave many views and means of attacking the African markets and that there are many barriers to overcome before entering a foreign country. The analysis and market research of the foreign countries was always advisable. With this information at its disposal, an MNE would be able to enter the market as a competitor or a first mover with good or better understanding and knowledge of the economics and market forces of the foreign country.

MNE entry decisions within these markets need to answer a few questions, such as: which countries to enter, when and at what scale? All the countries are not politically stable and the corporate governance would have to improve if more MNE’s are to become involved in Africa. Therefore, the decisions need to be made based on well-researched markets or secondary data from other MNE’s which have performed well within the countries of interest. The political and economic instabilities of the past and the possibility of more problems in the same countries or surrounding countries would need to be taken into consideration. Financial commitments would need to be decided in
stages, as the business that is executed in some of the countries show false growth and signs of possible upheavals politically, (elections, corruption, conflicts, et cetera), would affect growth and market penetration. The support of the IMF in each country is vital for the growth of the country’s economy and, in most cases, for its survival. A lack of support by MNE’s and the IMF can be traced to a number of factors:

- Credibility of the government;
- Management and know-how of core competencies in: infrastructure investment, risk of a nominal ROI, FDI, et cetera;
- Banking policies; exchange rate and interest rate fluctuations, et cetera;
- Low employment rate, mortality rate, et cetera;
- Legal implications;
- Lack of control and consistency in product regulations and import procedures.

All these market forces will have an effect on the growth of the markets, economy and hence disposable income of the MNE’s target market.

The entry decision tactics would need to be selected. The MNE must choose the safest option on first entry into the foreign country. Exporting, direct and indirect, has been given the confidence of the respondents and due to the advantages of less cost and risks, many companies have chosen this mode of entry. There are advantages: experience curve economies (the bigger the volumes of stock manufactured and sold the lower the price), easier access to the market place due to the knowledge of the agent or distributor, and avoidance of the costs of setting up manufacturing operations in other countries. The
foreign partners high costs of transport, trade barriers, (ROI, economies of scale, high costs of media, cost of servicing new markets: duties, clearing charges, health inspections, et cetera), and the partners lack of knowledge of the core competencies of the MNE operation in the home country, are disadvantages. Therefore, the MNE must decide on the optimal strategy on entering into foreign countries in order to satisfy all stakeholders, in the home and foreign country.

It is important to note that this research is based on the modes of entry and the risks thereof, and that the strategy of entry was not the total focus of this research. It would also be appropriate that MNE’s board members, top management and the value chain as a whole, all play an integral part in the development of the export business. The education, integration of all partners and stakeholders would need to be co-ordinated so that all can contribute towards the development of the MNE’s in foreign African countries, their markets and a compatible business strategy for all stakeholders in order to service and develop the markets effectively and profitably.
REFERENCES


Kuehl, C. (armadakuehl@earthlink.net), 26 January 2001. Competitive intelligence, market assessment, political and economic analysis. E-mail to J. Knight (knightjd@iafrica.com).


ANNEXURE 4.1

QUESTIONNAIRE ON THE FACTORS INFLUENCING THE MODE
OF ENTRY INTO FOREIGN AFRICAN COUNTRIES
SECTION A: DEMOGRAPHIC DATA

This study is based on the mode of entry into African countries. Therefore the decisions and strategies required to enter these markets would be required before the choice of entry is finalised.

The questionnaire is designed in five sections, namely, entry decisions, political and economic risk, strategy decisions, market research and selecting entry modes.

Please take a few moments to complete the following questionnaire. Your participation will be of great value to the researcher’s thesis and will assist the researcher in understanding more clearly the decisions and strategies required to enter foreign markets in Africa.

The questionnaire is designed to take 20 minutes and on completion of this questionnaire all respondents will be given feedback.
This section of the questionnaire is purely for statistical purposes.

Please place (X) in the appropriate box.

1.1 What is your current position in the organisation?

Manager  General Manager  Director  Other

If other, please state position:

__________________________________________________________

1.2 How many years work experience do you have?

0 to 5  6 to 10  11 to 15  16 & more

1.3 How many years work experience do you have in the export division?

0 - 5  6 to 10  11 to 10  16 & more
1.4 If not in the export division, please state in which division you are employed?

- Human Resource Management
- Supply Chain Management
- Research and Development
- Finance
- Marketing
- Sales
- Other

If other, please specify:

1.5 How many employees in your organisation?

- 0 – 100
- 101 – 300
- 301 – 750
- 751 –
- 1501 &
SECTION B: INTRODUCTION

This study is based on the premise that there are certain factors that influence the mode of entry into foreign African countries. This study is being conducted amongst Multinational Enterprises (MNE) in South Africa. The researcher concerned with this study has highlighted the modes of entry that can be used into African countries of the Central East Africa (CEA) and the decision process that would need to be considered before entering.
2. ENTRY DECISIONS:

PLEASE TICK THE APPROPRIATE BOX.

2.1 How important is it for your company to be involved in exporting into African countries?

2.2 Which parts of Africa are you servicing or planning to service?

2.2.1 North

2.2.2 West

2.2.3 Central

2.2.4 Southern

2.2.5 East
2.3 How important do MNE’s find these market forces affecting their entry into African markets?

2.3.1 Sell off excessive production

2.3.2 Minimize competition

2.3.3 Domestic market saturation

2.3.4 Maintain foreign market position

2.3.5 Take advantage of economies of scale

2.3.6 Expand into new markets

2.3.7 Other

If other, please specify; __________________________________________________________

________________________________________

________________________________________
2.4 How important does your company rate the following decisions to the success of the growth of your company?

2.4.1 Entering CEA markets?

2.4.2 Deciding which markets to enter?

2.4.3 Deciding how to enter the market?

2.4.4 Deciding on the marketing program?

2.4.5 Deciding on the marketing organisation?

2.4.6 Culture of the foreign country?

2.4.7 Technological change and advancement?
3. RISKS

3.1 How important are these factors to your company’s decisions in entering foreign countries?

3.1.1 General market forces, e.g. economic forces

3.1.2 Trade barriers

3.1.3 Firm strategy

3.1.4 Uncertainty

3.1.5 Transport

3.1.6 Other

If other, please specify:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
3.2 How important is the investigation of: Social, Technological, Economic and Political (STEP) position of each country, to your company, before entering in any form of business dealings?

3.2.1 Social factors;

3.2.2 Technological factors;

3.2.3 Economic factors;

3.2.4 Political factors.
3.3. When entering foreign markets how important would your company consider the following:

3.3.1 The proportion of foreign to total domestic sales the company will seek;  
1 2 3 4 5

3.3.2 Real exchange rate;  
1 2 3 4 5

3.3.3 Demand conditions.  
1 2 3 4 5
5. STRATEGY DECISIONS

Please tick “Yes” or “No” where appropriate

4.1 Does your company attempt to gain a sustained competitive advantage through innovation?

   Yes  No

4.2 How important is competitive advantage through innovation to your company?

   1  2  3  4  5

4.3 Does your company sustain competitive advantage through cost price strategy?

   Yes  No

4.4 How important is competitive advantage through cost price strategy to your company?

   1  2  3  4  5
4.5 How important is it for your firm to gain competitive advantage in a country through “first mover tactics”?

1 2 3 4 5

4.6 Does your company undertake local production in a foreign country?

Yes  No

4.6.1 If “yes”, please indicate which countries:

Ethiopia  Kenya  Malawi  Tanzania  Uganda  Zambia  Zimbabwe  Other

If other, please state:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

4.7 How important do you see strategic alliances?

1 2 3 4 5
5 MARKET RESEARCH

5.1 Does your company view market research as an important factor in gaining insight into foreign markets?

[ ] 1 [ ] 2 [ ] 3 [ ] 4 [ ] 5

How important is it for;

5.1.1 Foreign market opportunity analysis.

[ ] 1 [ ] 2 [ ] 3 [ ] 4 [ ] 5

5.1.2 Analysis of general market variables: total and per capita GNP, mortality rates and population figures (Human Development Indices).

[ ] 1 [ ] 2 [ ] 3 [ ] 4 [ ] 5

5.1.3 Research each individual market for a preliminary evaluation, i.e. fastest growing markets, largest markets, market and product trends and restrictions and/or regulators.

[ ] 1 [ ] 2 [ ] 3 [ ] 4 [ ] 5
5.2 How important is it for your product range to be standardized throughout the world?

1 2 3 4 5

How do you rate the following:

5.2.1 How important is it for the quality of the product to be standardized throughout the world?

1 2 3 4 5

5.2.2 How important is it for the quality of the packaging to be standardized throughout the world?

1 2 3 4 5

5.2.3 How important is it for the quality of the packaging design to be standardized throughout the world?

1 2 3 4 5

5.3 How important is it for your product and the entire marketing mix to be tailored to meet individual foreign country requirements?

1 2 3 4 5
6. SELECTING ENTRY MODES

PLEASE TICK APPROPRIATE BOX

6.1 Which mode of entry do you find the least expensive and simplest?


6. Wholly owned subsidiary

6.2 What methods does your company see as the best means of entering foreign countries?


6. Wholly owned subsidiary

Why do you find the mode you have chosen as the most suitable to your company.

Brief explanation.

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________
22\textsuperscript{ND} October 2001

For attention: Export Department, Africa

Dear Sir or Madame

SURVEY ON THE FACTORS INFLUENCING THE MODE OF ENTRY INTO FOREIGN AFRICAN COUNTRIES

Please find attached a questionnaire relating to the above. Your assistance in completing the questionnaire by the 31\textsuperscript{st} October 2001 would be greatly appreciated. Completion of the questionnaire should take no more than 20 minutes of your time.

When complete please forward to the undersigned using the e-mail address attached.
If you wish to receive a copy of a summary of the findings, please indicate and it will be forwarded to you in due course.

Your kind co-operation is greatly appreciated.

J.L.C. Knight
Part–time student: MBA Unit Port Elizabeth.