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**ENTRY MODE SELECTION OF MULTINATIONAL ENTERPRISES ENTERING
HIGH RISK COUNTRIES IN SUB-SAHARAN-AFRICA**

By

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SUMMARY

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Abstract

Throughout the years, different theories and models have been developed regarding multi-national enterprises (MNEs) entry into foreign markets. One such model is the Organisational Model, identifying three different types of enterprise, each selecting a different mode of market entry during foreign market expansion. These are: mass-production enterprises, disaggregate-production enterprises and project-based enterprises. This model was based on studies focusing mainly on the US, Europe and Asia. Research indicates, however, that MNEs increasingly identify sub-Saharan Africa (SSA) as a region for possible expansion. In view of persistent risk within the SSA region, this study's focus is on determining which entry modes MNEs use when entering a perceived high-risk market in SSA.

This research study focused on MNEs that have expanded or are currently expanding into a perceived high-risk country in SSA. A qualitative research design was selected, applying an in-depth case study analysis to six different MNEs . two

MNEs representing each type of enterprise as categorised by the Organisational Model. Semi-structured personal interviews were conducted with each participant. Each interview focused on elements relating to the MNE's perception of, and approach to selecting entry mode into, high-risk markets.

Findings predominantly did not find support for the Organisational Model, indicating that MNEs entering perceived high-risk markets in SSA preferred different entry mode strategies and approached risk consideration differently. Some findings did confirm the literature, by indicating that MNEs consider country risk when entering a foreign market in SSA.

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ABBREVIATIONS

During the research study, the following abbreviations were used:

- AEO African Economic Outlook
- CRA Country Risk Assessment
- CRR Country Risk Rating
- GDP Gross Domestic Product
- FDI Foreign Direct Investment
- H-O-S Heckscher-Ohlin-Samuelson
- IFC International Financial Corporation
- IFDI Inward Foreign Direct Investment
- IMF International Monetary Fund
- INV International New Ventures
- IMS International Market Selection
- JSE Johannesburg Stock Exchange
- MENA Middle-East and North-Africa
- MNE Multinational Enterprise
- OLI Ownership-specific, Location-specific- and Internalisation advantage
- LDC Least Developed Country
- SADC Southern African Development Community
- SMEs Small and Medium Enterprises
- SSA sub-Saharan Africa

- The DRC The Democratic Republic of Congo
- UK United Kingdom
- U-model UPPSALA model
- UNCTAD United Nations Conference on Trade and
Development
- US United States of America

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION AND PROBLEM STATEMENT

The manner in which multinational enterprises (MNEs) internationalise has received a great deal of attention in literature and models developed over the years. Collings (2008:175) and Schotter and Bontis (2009:149) define MNEs as enterprises which operate in numerous countries. Once established in another country, these enterprises concern themselves with a variety of business functions within that country's borders in order to gain a competitive advantage. Fisch (2008:110) and Johanson and Vahlne (1990:11) define internationalisation as a process whereby an enterprise establishes itself gradually in a foreign market by gathering information about the international market it wishes to enter and the operating systems used in this market, and in time commits the necessary resources to this market. Two of the most prominent models of internationalisation, as stated by Gabrielsson, Kirpalani, Dimitratos, Solberg and Zucchella (2008), Malhotra and Hinings (2010) and Verbeke and Yuan (2010), are the Uppsala model of internationalisation (U-model), and the OLI paradigm.

The first of these models was developed by Johanson and Vahlne (1977) and is called the U-model. The U-model states that an enterprise will start by exporting products to another country by using sales agents located in the foreign market it wants to enter. These exports assist in determining the size and nature of the initial market it wishes to enter, and thus reduce market development costs. As these markets develop and as the enterprise's products become established, the enterprise will replace the international sales agents with its own sales agents. Only after the enterprise has established its own sales agents in the foreign country will the enterprise expand operations to the foreign market.

However, Johanson and Vahlne (1977:23; 2009:1412) identify two problems which these enterprises might encounter during the process of internationalisation. The first problem is the amount of time it might take for the enterprise to establish itself in the

foreign market it is trying to enter. The reason for this is the ~~psychic distance~~, which Johanson and Vahlne (1990:13; 2009:1412) define as factors such as culture and language, which make it difficult to understand the foreign market. The second problem is the difficulty of obtaining market knowledge regarding the foreign market the enterprise wishes to enter. Two different types of knowledge can be identified: objective knowledge, described as knowledge that can be taught and learned; and experiential knowledge (learning), described as knowledge only learned through personal experience. Experiential knowledge can, for instance, change the manner in which certain tasks are performed, depending on what has been learned during the process of gaining experience in that particular task. Therefore, experiential knowledge needs to be gained in the foreign market and can therefore not be learned prior to the internationalisation process.

The model continues by indicating that market commitment will be through small steps. However, these authors identify three exceptions to the need for experiential knowledge: firstly, when an enterprise owns a large number of resources such as labour, natural resources or capital. Secondly, when the market to be entered is a stable and homogeneous market, knowledge can be gained by means other than experience; and thirdly, experience can be generalised to specific markets, but only if the enterprise has gained a large amount of experience from similar markets (Johanson & Valne, 1990:12).

The second internationalisation model was developed by Dunning (1988:3) and Dunning and Lundan (2008:580) and is called the OLI, or eclectic paradigm; it focuses on why an enterprise would internationalise using foreign direct investment (FDI). Dunning (1988:3) identifies three different advantages which can be achieved by making use of FDI. These advantages are ownership-specific (O); location (L); and internalisation (I) advantages.

Ownership advantage (O) refers to an enterprise's owning knowledge, skills, capabilities, processes or physical assets that will give it the opportunity to gain a competitive advantage in a foreign market. The enterprise will, however, use FDI to expand in order to retain current knowledge, or else because it is too difficult to license the knowledge to someone else. This is termed an ownership advantage,

because the enterprise owns the knowledge that would give it the advantage in the foreign market (Dunning, 1988:3; Dunning & Lundan, 2008:580).

Secondly, Dunning (1988:3), Ball, Geringer, Minor and McNett (2010:87) and Peng (2009:160) refer to *location-specific advantage* (L). This advantage is commonly found in enterprises operating in a specific location and refers to advantages that depend on geography. These geographic advantages might include locations with cheaper factors of production, such as affordable labour costs, or locations chosen for being situated near the enterprise's primary resource, for instance coal or oil; or for being near its target market, which allows it a competitive advantage over its competitors.

The final advantage in the OLI paradigm is the *internalisation advantage* (I), whereby the enterprise's importing and exporting activities are replaced by the organisation's physically establishing itself in the foreign market which it used to import to or export from. This in return provides the organisation with the opportunity to physically expand into the foreign market in which it already has an established target market. This expansion will allow the enterprise different advantages, such as reducing the costs involved in exporting and importing and allowing the enterprise to be transformed into an MNE (Dunning 1988:3-4; Ball *et al.*, 2010:87 and Peng, 2009:160).

More recently, Malhotra and Hinings (2010) have developed the Organisational Model, which has not only identified the shortcomings of models such as the Uppsala model and the OLI paradigm, but has also put forward a new perspective on the internationalisation of enterprises. Based on the work of Malhotra and Hinings (2010), the following can be viewed as the shortcomings of the previous two models.

Malhotra and Hinings (2010:332) first start by explaining that there are other forms of learning than experiential learning. These forms of learning will speed up the process of internationalisation of enterprises when a non-incremental internationalisation process is sought. These forms of learning include learning through imitating other enterprises when internationalising, or acquisitions in the form of ownership and/or management of other local units.

Secondly, Malhotra and Hinings (2010:332) state that manufacturing enterprises differ from service enterprises because of different characteristics, in particular those due to resource recoverability. Labour-intensive service enterprises tend to enjoy higher resource recoverability than capital-intensive manufacturing enterprises. Furthermore, service enterprises with little or no international experience within a particular international market might find it easier to establish a high resource-commitment mode of operation in that international market, primarily because most service enterprises have lower overhead costs and have the ability to redeploy resources more easily than manufacturing enterprises.

Thirdly, Malhotra and Hinings (2010:333) identify the fact that enterprises following existing customers into a new market tend to select a modal path more aggressively than enterprises seeking an entirely new target market in a foreign market. Therefore, the focus of the enterprise, whether it is customer-focused or market-focused, will play a significant role during internationalisation. This implies that when an enterprise follows already existing customers into a host market, internationalisation needs to occur as soon as possible, without a great deal of time passing between the initial steps of expansion from home to host country. Therefore, these enterprises will internationalise aggressively, using FDI as a means of choosing a modal path, which will enable the enterprise to establish a physical presence within the foreign market as soon as possible. When an enterprise, however, seeks a new market, it will have the opportunity to spend more time in researching the host country and taking the necessary steps to choose the best modal path.

Fourthly, Malhotra and Hinings (2010:333) indicate that the choice of modal path and the commitment made within a particular market need to be separated. The reason for this is that internationalisation is seen as a process during which the enterprise needs to make certain sacrifices in order to progress further. This can be accomplished by the enterprise if it consciously approaches the internationalisation process strategically, focusing on building long-term relationships and increasing the efficiency of operations. This will ensure that the enterprise's degree of presence within the host market increases, and will then lead to a suitable choice of modal path. The choice of modal path, however, might be complicated, difficult and

expensive to embark on; it is important that the enterprise makes the best possible choice. This indicates that commitment to a market does not necessarily equal a bigger investment in the market.

Lastly, Malhotra and Hinings (2010:333-334) focus on whether or not an enterprise truly needs to have a physical presence in the host country. They refer to the location advantage found in the OLI paradigm. This advantage is not applicable to all enterprises, since the need for a physical presence within a host country is closely related to the choice of modal path. For instance, the choice of modal path might not require the enterprise to establish a physical presence within the host country. If the enterprise finds it more feasible to export only from a location with a location advantage, a physical presence within the market being exported to might not be necessary. However, when the need arises to establish a physical presence in the market, the enterprise will follow this path. Again, this will be greatly influenced by the choice of modal path, as well as the location advantage associated with the host country.

Malhotra and Hinings (2010:334) argue that the internationalisation path chosen will depend on the type of enterprise. These different enterprises are identified by three different characteristics which these authors have identified in a framework of prototypical characteristics of manufacturing and service enterprises proposed by Bowen, Siehl and Sneider (1989). The framework consists of three different characteristics: standardised as opposed to customised output; the degree of customer participation; and capital intensity as opposed to labour intensity. These characteristics were used to develop a continuum with three types of enterprises as reference points on the continuum: mass-production enterprises; disaggregate-production enterprises; and project-based enterprises. The internationalisation process of each type of enterprise is then determined by establishing the impact each characteristic has on the different elements within the internationalisation process (Malhotra & Hinings, 2010:334).

According to Malhotra and Hinings (2010:334-335), mass-production enterprises use standardised production, producing products in bulk. These bulk products are mostly produced through mechanised production, thus indicating that these enterprises are highly capital intensive, with little customer participation being experienced.

A disaggregate-production enterprise uses a medium degree of customisation. This is found in enterprises such as fast-food enterprises, where a customer would order a meal which is on a standardised menu; however, a change in certain aspects of the meal might be requested. The components, such as patties, bread, sauces and so forth are therefore mass-produced by people using machines. This indicates that a disaggregate-production enterprise is only moderately labour intensive. With an enterprise such as this, customers only contribute to the completion of the final product to a limited extent, by for example ordering a certain meal. The appearance of the meal and the packaging is decided upon beforehand, and the customer cannot have any effect on those elements (Malhotra & Hinings, 2010: 335-336).

Lastly, Malhotra and Hinings (2010:335) identify the project-based enterprise; in this enterprise the customer has a great influence on the final project by stating step by step what the completed project should encompass. This indicates that the project-based enterprise not only has high customer participation, but uses a high degree of customised production, therefore completing the project according to the specific needs of the customer. These enterprises are generally more labour intensive and mainly use people to complete the final project. Table 1.1 gives a summary of each enterprise as discussed above.

Table 1.1: Types of enterprises according to the organisational model

Enterprise type	Differentiating Characteristics		
	Nature of production activities	Nature of dominant asset	Degree of centrality of clients
Mass-production enterprise	Mass production	Least people intensive	Low
Disaggregate-production enterprise	Disaggregate production	Moderately people intensive	Medium
Project-based enterprise	Project-based production	Highly people intensive	High

Source: Malhotra and Hinings (2010:336)

Malhotra and Hinings (2010:345) identify the level of foreign market uncertainty as one of the criteria for an MNE in selecting a mode of entry when expanding into a foreign market. According to Malhotra and Hinings (2010:332), an enterprise following an incremental process of internationalisation will decrease its overall risk, since the enterprise's expanding systematically will allow ample time to identify potential risks as it expands into the foreign market; however, this will not benefit the enterprise regarding the overall profit received.

In order to understand this uncertainty accompanying an enterprise when entering a foreign market, country risk must first be defined. This can be done in a number of ways. Country risk can be defined as the country's ability to fulfil all of the international financial obligations it has taken on, or the influence the country's macroeconomic and political environment has on the financial and economic factors within that country (Kosmidou, Doumpou & Zopounidis, 2008:1; Huang, 2007:56).

According to Carment (2001:1) and Robles (2011:1), macroeconomic instability and human development are factors contributing to differentiating one country's risk from that of another. Macroeconomic instability includes financial, political, economic and exchange risks commonly found in the volatility of exchange rates. Human development within a country's borders refers to the education and training in specific industries, and the relationships which a country has built internationally with other markets and countries, such as being associated with trading blocs, allowing trade to occur between a set of countries within the trading bloc at a minimal charge.

Carment (2001:1) and Robles (2011:1) point out that different types of perceived risks in a country, and the volatility found in these perceived risks in each country, will not only differentiate between the level of risk among different countries, but will also have an effect, positive or negative, on the amount of investment in a specific country.

One of the more commonly found methods an enterprise can use to determine the amount of risk in a country is to determine its country risk rating (CRR). This can be done through performing a Country Risk Assessment (CRA), which Ball *et al.* (2010:429) explain as an assessment which consists of six phases:

- Basic needs assessment
- Economic or financial screening
- Political or legal screening
- Sociocultural screening
- Competitive screening
- Final selection

These risks are then used to determine or calculate the amount of risk associated with investing abroad and make up a CRR (Hoti, 2003:1; Hoti & McAleer, 2004:3). Hoti (2003:2) and McAleer, Da Veiga and Hoti (2011:1455) define a CRR as the rating attached to a country's capability and willingness to meet certain obligations

and responsibilities; it is commonly used by MNEs when seeking information when considering expanding into a particular foreign market.

These CRAs are done by enterprises such as Moody's, Political Risk Services, Standard and Poor's and similar firms that specialise in determining the risk rating of countries. Hoti (2003:2) and McAleer *et al.* (2011:1455) stress the importance of CRAs of developing countries, stating that there is limited information available regarding this. Furthermore, these assessments might serve as a support mechanism to countries, should there be MNEs wishing to determine the risks associated with a country.

In order to develop the Organisational Model, Malhotra and Hinings (2010) used studies which predominantly focused on the United States of America (US), Europe and Asia (Barkema & Drogendijk, 2007; Benito & Gripsrud, 1992; Contractor & Kundu, 1998; Erramilli & Rao, 1993; Goerzen & Makino, 2007; Kim & Hwang, 1992; Li & Guisinger, 1992; Pedersen & Shaver, 2011). As a result, the ability to generalise the theory to MNEs wishing to expand into Africa, and in particular sub-Saharan Africa (SSA) is not known.

A focus on Africa and in particular SSA is justified, considering that the continent experienced a 5% growth in FDI in 2012, reaching inflows of US\$ 50 billion (UNCTAD, 2013:40). According to African Economic Outlook (AEO) (2013:52) and UNCTAD (2013:40), inward FDI (IFDI) increased during 2013 by another 9.6%, but remained stable during 2014, with North Africa experiencing a decline of 15% in FDI inflows, reaching US\$ 12 billion, and SSA experiencing a 5% increase of IFDI, reaching US\$ 42 billion (UNCTAD, 2015:3). According to AEO (2016:59), another decline in FDI inflows was experienced during 2015 from 2013 and 2014, reaching US\$ 13.4 billion. It is, however, expected that FDI inflows into the African continent will remain consistent during 2016.

Furthermore, the SSA region experienced an average growth rate of 4.9% in 2012, for example Kenya (4.7%), Malawi (5%) and Rwanda (4.6%), continuing throughout 2013 (World Bank, 2014b). The industries that benefited most from the increase in FDI were primarily the extractive industries in countries such as the Democratic Republic of the Congo (DRC) and Mozambique, followed by consumer-oriented

manufacturing and services, as changes took shape demographically (UNCTAD, 2013:xvi). Furthermore, Greenfield investment projects grew from 7% to 23% between 2008 and 2012 (UNCTAD, 2013:xvi), contributing to a high percentage of growth rates experienced in least-developed countries (LDCs) during 2012 (UNCTAD, 2013:74).

This led to Africa being the only region experiencing an increase in FDI during 2012, following consistent growth in FDI since 2010 (UNCTAD, 2013:66). In particular, a record high growth of 20% in FDI inflows was experienced by LDCs worldwide during 2011. 2012. This was led by stronger growth in FDI inflows in SSA countries such as the DRC and Mozambique, each reaching a 96% growth rate, and Uganda with a 93% growth rate. However, Burundi and Mali experienced negative FDI inflows of -82% and -44% respectively (UNCTAD, 2013:74). UNCTAD (2013:74) reported that several SSA countries, such as Mozambique, Senegal, Nigeria, Uganda and the United Republic of Tanzania, were the recipients of large investments. Mozambique received a US\$0.5 billion investment by Hong Kong (China) in real-estate projects, as well as nearly 45% of India's total Greenfield projects, making the country the recipient that received the largest number of Greenfield projects in the world from India (UNCTAD, 2013:74). Furthermore, Mozambique received approximately US\$ 5.2 billion in FDI for offshore gas projects (UNCTAD, 2013:40). According to UNCTAD (2013:74), Senegal received US\$ 0.6 billion in cement and concrete product investment by Nigeria and Uganda, adding that Uganda and the United Republic of Tanzania each received a US\$ 168 million investment for an air transport project, accompanied by a US\$ 5 million investment for sales and marketing in pharmaceutical products from India.

FDI inflows from developing countries into SSA continue to be an important source of income for the region (IFC, 2011:26), with Malaysia, South Africa, China and India reported as the four major developing countries investing in the SSA region in 2012 (UNCTAD, 2013:16). However, divestments recorded for Angola (UNCTAD, 2013:3) to the value of US\$ 6.9 billion, and a 24% drop in FDI flows to South Africa in 2012, due to divestments in the mining sector (UNCTAD, 2013:40), contributed to FDI flows decreasing in southern Africa from US\$ 8.7 billion during 2011 to US\$ 5.4 billion in 2012.

Although opportunities are rising within the SSA region, barriers to investment and business remain. Information regarding this region is minimal, while deplorable infrastructure extends over most of the African continent. Furthermore, a skilled and semi-skilled workforce tends to be scarce, and regulatory mechanisms are lacking (IFC, 2011:13).

The International Monetary Fund (IMF) (2014:15) identified a further four downside risks possibly threatening the economic outlook for SSA. The first downside risk is fiscal uncertainty and vulnerability among certain countries within the SSA region. Some of these fiscal uncertainties and vulnerabilities include the wage increase during 2013 for civil labourers in Zambia, as well as the fiscal- and current-account deficits experienced by Ghana. In addition to the above, the credit gap in SSA, that is the amount of underfinancing experienced by an enterprise, entity or individual during loans or overdrafts, is the highest in the world (UNCTAD, 2013:77). This credit gap makes it difficult for countries such as the Seychelles to possibly counter unexpected economic shocks during the following years (IMF, 2014:15), due to their high levels of debt, while unemployment is inflated or increasing in most SSA countries, and pervasive poverty follows suit (World Bank, 2014a:83).

Secondly, neighbouring or locational risk might be experienced in the SSA region. This might occur as worsening security situations in Central Africa and South Sudan are expected to cause possible spill-over effects into other countries in the SSA region (IMF, 2014:15). South Africa is also currently experiencing spill-over effects from the economic difficulties experienced by Europe, one of South Africa's primary export destinations (IMF, 2013:3).

The third downside risk relates to growth opportunities in emerging markets being shortened: that is, lower demand for commodities with a lower value, which will have an influence on countries exporting natural resources such as South Africa. Another cause of economic difficulty in South Africa is the labour unrest in the South African mining sector (IMF, 2014:15).

China will have an influence with regard to this risk, as China is expected to move from consumption to investment as the country grows in the coming years. Moreover, as China is a major source of FDI and financing within the SSA region,

newly tightened financing conditions within the Chinese market will affect SSA in the years to come (IMF, 2014:16). Even though China might possibly bring more FDI inflows into the SSA region, these financially tighter conditions might lead to fewer investments being received than expected. In any case, both scenarios will lead to China importing fewer products from the SSA region.

Lastly, countries investing in the SSA region might affect the SSA region negatively, because capital flows from these countries might be reversed and monetary conditions within these countries might be tightened. The result of this might be increased inflation rates and a reduction in domestic demand, and banking and financial sectors might experience certain strain. The four possible effects that might occur are, firstly, that some governments might find it difficult to refinance already existing bonds. Secondly, funding conditions set aside for the private sector might be tightened. This indicates that countries with a large number of foreign investments might experience revaluation of, for example, stock bonds and assets. Thirdly, strain might be experienced by the financial sector, because borrowers might not be able to repay loans in the capacity that banks were hoping they would be able to. This might be because of foreign currency depreciation, reducing these borrowers' capacity to repay the amount that they should be repaying. Lastly, inflation could be affected, causing a rise in concern by certain SSA countries (IMF, 2014:16).

Malhotra and Hinings (2010:345) state that their study provides a good starting point for future studies on how different organisational factors work together to influence the internationalisation process. Akbar and Samii (2005:389) add that emerging markets are important markets for testing theories, models and concepts of business management. As a result, with SSA increasing in popularity with MNEs wishing to expand into the region, coupled with persistent risk within the region, this study aimed to determine: ~~Which~~ Which modes of entry do enterprises use when expanding into perceived high-risk countries in SSA?+

1.2 LITERATURE REVIEW AND PROPOSITIONS

1.2.1 Risk perception

According to Malhotra and Hinings (2010:343) and Benito and Gripsrud (1992:465), the market uncertainty an enterprise faces when entering a foreign market is one of the factors influencing the selection of a modal path. They add that this selection of modal path differs for each type of enterprise, depending on the market uncertainty of the particular host country.

This market uncertainty, and the costs associated with it, can be mitigated by an increase in market or industry knowledge about the host-country (Benito & Gripsrud, 1992:462; Pedersen & Shaver, 2011:266). However, even though increased knowledge might mitigate the uncertainty and costs related to the internationalisation, enterprises might still face certain disadvantages when entering a foreign market. These disadvantages, according to Pedersen and Shaver (2011:266) include, firstly, laws within the particular market, the possibility of a different language and the environment in which the enterprise will compete. A second disadvantage could be the political environment and possible bias by the government, consumers and suppliers against a foreign enterprise, and thirdly, the possible risk associated with exchange rates. All of these disadvantages constitute a broad perspective of country risk.

Anderson and Gatignon (1986:3) and Dikova and Van Witteloostuijn (2007:1013) agree with this argument by stating that in making a long-term strategic decision when selecting an entry mode into international markets it is important to choose the option providing the highest risk-adjusted return on investment.

Thus, after examining the above literature, the following proposition was identified:

Proposition 1: *The perceived risk of the country being entered will influence the mode of entry being used by a multinational enterprise.*

1.2.2 Mass-production enterprises

As discussed earlier, Malhotra and Hinings (2010:336-337) describe a mass-production enterprise as an enterprise that uses standardised, mechanised production during its production process, producing products in bulk. Because mass-

production enterprises use a mechanised production process they tend to be highly capital intensive, focusing more on the production process itself than the customer, indicating a low customer centrality.

Requirements for a physical presence within the host country among mass-production enterprises will be influenced by two aspects; namely, the dominant asset used by the enterprise, and the customer's centrality during production. The dominant asset, people or physical capital, will in turn give birth to a relationship or technical component. The technical component, ensuring that operations are done efficiently and economically, is, however, predominantly found within mass-production enterprises, since these enterprises are more capital intensive, with a low degree of customer centrality. In certain foreign countries a country-specific (or location-specific) advantage is identified through valuable local resources which, when applied accurately, provide a means to accomplish more economical and more efficient operations. However, in order for an enterprise to gain these location-specific advantages fully, a physical presence within this specific foreign market should be established (Malhotra & Hinings, 2010:338).

Different modal path possibilities arise during a mass-production enterprise's internationalisation process, such as exporting or wholly owned ventures. In a situation where the enterprise exports products into a foreign market and finds no advantage for establishing a physical presence, it will simply continue to export into the country. However, if a location advantage such as lower labour cost or exporting incentives is found within a particular country, then the mass-production enterprise will establish a physical presence within the foreign market by increasing the degree of presence of the enterprise within the foreign market, moving toward resource commitments via joint ventures or wholly owned ventures (Malhotra & Hinings, 2010:338).

The Organisational Model continues by explaining that a mass-production enterprise's choice of modal path may also be influenced by the amount of uncertainty found within the host country (Malhotra & Hinings, 2010:338). Once the mass-production enterprise has determined a high degree of market uncertainty, a gradual process of internationalisation will be undertaken. This process will start by the enterprise exporting products into the foreign market or using licensing

agreements as an initial means of market entrance. Once experience is gained within the foreign market, arrangements such as partnerships with enterprises within the host country will be explored. Only once the mass-production enterprise finds it feasible to start a plant branch within the host market will higher control forms such as wholly owned subsidiaries be considered (Malhotra & Hinings, 2010:338).

Kim and Hwang (1992:35) agree, by indicating that MNEs that select a high-risk market to internationalise to will limit their exposure to these risks by initially committing to low-resource commitments and avoiding direct investment during the initial internationalisation process. This indicates that exports or licensing will be the initial step in the process of internationalisation for mass-production enterprises when the host country carries a perceived high risk. As SSA was identified as a high-risk region, the following proposition was stated:

Proposition 2: *When mass-production enterprises expand into a perceived high-risk country in SSA, they follow a systematic (slow and steady) internationalisation process.*

1.2.3 Disaggregate-production enterprise

The second type of enterprise identified by Malhotra and Hinings (2010:334) is the disaggregate-production enterprise. A disaggregate-production enterprise usually includes enterprises such as fast-food restaurants, hotels and so forth. Since these disaggregate-production enterprises have a moderate customer centrality, a physical presence within the host country is required (Malhotra & Hinings, 2010:340).

According to Malhotra and Hinings (2010:341), franchising and management contracts are the preferred mode of entry selection by disaggregate production enterprises. Malhotra and Hinings (2010:340-341) explain that both franchising and management contracts are long-term contracts, which rely on renewals in order for the enterprise to remain and expand further in a foreign market. This is referred to as the contractual path.

Aung and Heeler (2001:626) and Malhotra and Hinings (2010:340) explain that franchising entails the use of an already known brand by an individual, or franchisee, when this individual buys the right to use this brand. Once the brand is bought by the

franchisee, the franchisee obtains privileges such as marketing and training of personnel. These services, as well as the brand itself, are owned by the franchisor, who sells the right of using the brand and all the advantages included with it to the franchisee.

A management contract entails a contract signed with a separate enterprise that takes control of managerial responsibilities for either a project or a specific function in the enterprise. This type of service is similar to services provided by a franchisor but differs in that these enterprises perform these managerial duties instead of just providing a platform for managers to implement them (Aung & Heeler, 2001:626; Contractor & Kundu, 1998:338).

Resource commitment remains stable as the contractual path continues, since intangible resources, for example brand consciousness, are the predominant commitment to the market. As the disaggregate-production enterprises' presence increases within the foreign market, so do the resource commitments (intangibles), and the initial asset investment advantages for numerous contracts. This increasing resources commitment, accompanied by continuous contractual advantages, justifies continuous market commitment. As this contractual path continues, the disaggregate-production enterprise might, however, find the need to move towards a more controlled equity mode, such as wholly owned subsidiaries, in order to overcome certain host market risks, which might include real-estate contract cancellation by host country owners. When this occurs, a combination of equity and non-equity entry modes would apply to the disaggregate-production enterprise as both an institutional and resource commitment (Malhotra & Hinings, 2010:341).

As discussed, SSA is regarded a high-risk region and in conjunction with the abovementioned literature the following proposition was identified:

Proposition 3: *When disaggregate-production enterprises expand into a perceived high-risk market in SSA, they prefer using a management service contract and franchising as mode of entry.*

1.2.4 Project-based enterprises

Malhotra and Hinings (2010:342) describe project-based enterprises as enterprises that follow a specific project into the host country, thereby exporting human and capital resources needed for the completion of a project. The degree of presence of a project-based enterprise within the host market usually lasts only for as long as it takes to complete the first project. Therefore, in order for a project-based enterprise to increase its degree of presence within the particular host country, more projects need to be found. This can be done by building valuable relationships with current and potential customers. Furthermore, project-based enterprises have a high customer centrality. Since project-based enterprises work closely with their customers, different customers will prove to have different needs. These needs will influence the degree of presence needed in a particular market by the project-based enterprise, since some customers might require a more hands-on approach. Thus, the degree of presence within the host market required by the project-based enterprise will be greatly influenced by the needs of each customer.

Therefore, no one modal path is identified for a project-based enterprise, as the expansion into a host market will vary depending on the initial project and the demands of each customer. Therefore, if a project-based enterprise is more project-focused (thus entering a foreign market only to complete a project), then the choice of modal path will be a turnkey project. Ahola, Laitinen, Kujala and Wikström (2008:88) and Ball *et al.* (2010:448) describe a turnkey project as the exporting of human and capital resources into a host market for the completion of a project. They further define a turnkey project as the exporting of management expertise, technology and relevant capital equipment used to design and erect a plant. The necessary training for personnel who are used to start and complete the project is provided to those individuals and teams involved in the completion of the project.

A project-based enterprise, however, might experience the need to establish a physical presence in the host market if the number of projects received, or the amount of resources allocated, justifies the establishment of a physical presence within the host market. Modal paths such as wholly owned ventures or joint ventures might be considered when a physical presence is established in the foreign market. These modal paths (wholly owned subsidiary or a joint venture) would provide

project-based enterprises with the capability to transfer human and capital resources into the foreign market. However, even though a permanent modal path might be selected by the project-based enterprise as it changes its focus from a project focus to a market one, a project-to-project approach is still incorporated alongside a more permanent modal path (Malhotra & Hinings, 2010:343).

According to Malhotra and Hinings (2010:343), market uncertainty will not affect a project-based enterprise's choice of modal path, for two primary reasons. Firstly, a project-based enterprise will export only the resources needed for the completion of a project. Secondly, when the project-based enterprise has committed more resources to the host country on a more permanent project-to-project base, the overall risks experienced in the host country, whether high or not, are carried by assets such as human assets, thereby mitigating the overall risk, as human assets can easily be repatriated and returned to their home country.

As the discussed statistics confirm, SSA is considered a high-risk region. Thus, the following proposition can be stated:

Proposition 4: *The focus of a project-based enterprise (project focus versus market) will influence the project enterprise's choice of mode of entry when expanding into a new market.*

1.3 RESEARCH DESIGN

According to Malhotra (2010:100), the foundation of a research study (namely, data accumulation, collection and problem solving), is found within the research design. Furthermore, different types of research design can be identified, each with numerous advantages and disadvantages that should be taken into consideration before selecting the correct research design for a research study (McDaniel & Gates, 2002:63; Las Das, 2008:42).

The following section provides a short explanation of the research design chosen for this study, with a more comprehensive explanation following in Chapter 4.

1.3.1 Exploratory versus Conclusive study

Malhotra (2009:96) states that there are two types of research design: exploratory research designs and conclusive research designs.

Cooper and Schindler (2003:151) and Tustin, Ligthelm, Martins and Van Wyk (2005:84) describe exploratory research as research mostly used in qualitative research, and research that is mostly unstructured and flexible. They add that exploratory research is used for searching for the general problem that is needed in order to conduct the research, possible alternative decisions that can be used throughout the research to solve the problem, and different variables that could contribute to the overall research.

Conclusive research designs comprise two categories: descriptive research design and explanatory or causal research designs. Mitchell and Jolley (2012:225) and Monsen and Van Horn (2008:57) describe descriptive research design as a research design aimed at answering questions such as *who, what, where and when.* They explain that the main focus when using a descriptive research design during a study is to determine the relationship between two different variables and how they correlate to one another.

Explanatory research, on the other hand, is used to answer questions found in descriptive research, thereby finding a cause for problems identified during descriptive research (Chui, 2007:50; Sahu, 2013:10).

As this study was focused on testing the organisational model in high-risk markets in SSA, and the propositions tested in this study were derived from this model and a literature review, this study can be classified as a conclusive study, and in particular a descriptive conclusive study.

1.3.2 Method of data collection

Cooper and Schindler (2003:147) state that there are two different methods of collecting data. The first method is identified as the monitoring process, whereby the researcher will observe and monitor a specific situation, such as the traffic count at a traffic light. The second method of data collection is identified as the interrogation/communication process. During this process of data collection, the

researcher gathers data by questioning specific participants by means of either personal or impersonal methods. These methods might include interviews (personal or telephonic), self-administered/reported instruments (for example via mail or the internet), or data collected after the completion of an experiment.

The data collection method chosen for this study was the interrogation/communication process, in that semi-structured interviews were conducted with six participants: two participants from each of the three different types of enterprise identified in the Organisational Model.

1.3.3 Cross-sectional versus longitudinal study

Cooper and Schindler (2014:128) and Wilson (2010:11) describe the distinction between cross-sectional and longitudinal research studies as the amount of time needed to complete a particular research project. Longitudinal designs are commonly used where one case or several cases are examined over an extended period of time (Cooper & Schindler, 2014:128; Wilson, 2010:11). Each result is then recorded over the extended period and only then will conclusions be drawn (Wilson, 2010:11; Cooper & Schindler, 2014:128). According to Cooper and Schindler (2014:128) and Wilson (2010:11) examples of disciplines where longitudinal studies are more applicable include medical and social studies, as well as political, business and economic studies, where statistics regarding a particular country or region are published over a specific time by specific organisations, such as the IMF or UNCTAD (Cooper & Schindler, 2014:128; Wilson, 2010:11).

Cross-sectional designs, however, are conducted at one particular point in time and involve research accumulated from multiple case studies (Cooper & Schindler, 2014:128; Wilson, 2010:12). These designs prove to be less time consuming and costly. However, although the research is conducted at a faster rate than that with longitudinal research designs, not every research question can be answered using a cross sectional design. In fields where data changes quickly in such a way that it will influence the study to a great extent, longitudinal designs should rather be considered (Cooper & Schindler, 2014:128; Wilson, 2010:12).

As this study used data that does not change frequently (that is, the mode of entry chosen by an enterprise), a cross-sectional research design was used for this study.

1.3.4 Topical scope of the study

Cooper and Schindler (2003:150) draw a distinction between statistical studies and case studies.

According to Cooper and Schindler (2003:150), statistical studies test hypotheses and capture a population's characteristics. Accumulated generalisations are drawn from the data that represents the identified sample and the validity (trustworthiness) of the research study.

Case study designs, however, predominantly use qualitative data, making rejection or support for propositions more difficult. More detailed data is accumulated from multiple sources, resulting in more detailed results (Cooper & Schindler, 2003:150). Furthermore, since data is gathered from multiple sources it is more easily verified than in statistical studies.

This research used a case-study design, as semi-structured interviews were conducted with six representatives from six different enterprises to test the stated propositions.

1.4 CHAPTER LAYOUT

• CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT

Chapter 1 focuses on introducing the background to the study, the problem statement, a literature review that led to the propositions and a brief explanation of the research design used during this study.

• CHAPTER 2: INTERNATIONALISATION

This chapter explains the historical development of internationalisation, and provides the foundation for explaining the theories on which the organisational model was built. Internationalisation theories, such as Uppsala, the OLI paradigm, the Transactional Cost Theory, and International New Ventures are discussed.

- **CHAPTER 3: COUNTRY RISK**

Country risk forms a crucial part of this research study and therefore a detailed description of different types of international market selection and different types of risk follows. Furthermore, the chapter describes the role of risk-rating organisations, and the influence these organisations have on investments within a foreign country.

- **CHAPTER 4: RESEARCH METHODOLOGY**

In this chapter, a comprehensive discussion of the methodology used is provided. This includes: the research methods, case selection, case-study protocol and finally the reliability (dependability) and validity (trustworthiness) of the study.

- **CHAPTER 5: CASE STUDY REPORT: ANALYSIS AND INTERPRETATION OF FINDINGS**

Six cases studies are formulated after semi-structured interviews were conducted with the six identified participants. Thereafter a thorough discussion follows, comparing the literature and findings in order to find support for or against each proposition.

- **CHAPTER 6: CONCLUSION**

Chapter 6 draws conclusions from the findings discussed in Chapter 5 and provides recommendations and limitations based on the Organisational Model for enterprises entering high-risk markets in SSA. Finally, suggestions for future research are made.

CHAPTER 2

INTERNATIONALISATION

2.1 INTRODUCTION

According to Krull, Smith and Ge (2012:1104), internationalisation is defined as a change in an enterprise's operational activities. Casillas and Acedo (2013:16) amplify this by explaining that internationalisation takes place over an extended period, during which an enterprise will increase its presence in the foreign market into which it is internationalising.

As time went on and enterprises continued to internationalise, this piqued the interest of researchers, who then developed a variety of internationalisation models and theories (Buckley, 1988; Coase, 1937; Dunning, 1988; Hymer, 1976; Johanson & Vahlne, 1977; Li & Guisinger, 1992; Kontinen & Ojala, 2012; Malhotra & Hinings, 2010; McDougall, Shane & Oviatt, 1994; Vernon, 1966).

According to Narayanan (2015:106), this research found that internationalisation enabled enterprises to expand business operations into foreign markets and escape intense competition in the home country, thereby allowing smaller enterprises a means of survival. Furthermore, it proved beneficial for those economies into which these enterprises were expanding, as each enterprise brought along new technologies and capital and created employment when entering the new country, thereby decreasing the overall unemployment rate and increasing living standards and economic growth in the host country.

The following discussion will follow the development of internationalisation by focusing on two categories of internationalisation theories. The first category focuses on four different foundation theories of internationalisation found within the disciplines of international economics and international trade. The second category includes a focused discussion on theories derived from and based on the above-mentioned foundation theories of internationalisation. It is important to explain that

the primary focus will be on those internationalisation theories relevant to the Organisational Model.

2.2 INTERNATIONALISATION THEORIES

The end of the Great Depression in the 1930s brought with it numerous trade barriers imposed by different countries. This was known as the end of the first wave of globalisation. It was only after World War II and predominantly during the 1960s and 1970s that enterprises started to engage with international markets once more. This gave rise to the second wave of globalisation, and the beginning of research into the internationalisation of enterprises. Researchers developed numerous theories and models of internationalisation during this wave, contributing to what is known today as the international business discipline (Almunia, Bénétrix, Eichengreen, O'Rourke & Rua, 2009:1; Eichengreen & Irwin, 2009:2; Fisch, 2008:110-111).

2.2.1 Foundation theories of internationalisation

Although internationalisation theories were developed mainly during the second wave of globalisation during the 1970s, other theories arose in order for researchers to develop each individual theory. These theories were predominantly found within other disciplines, such as international economics and international trade and investment management (Almunia *et al.*, 2009:1; Buckley & Casson 1976:32; Eichengreen & Irwin, 2009:2; Fisch, 2008:110-111).

The following section will briefly discuss four of these foundation theories, as well as arguments for and against each theory. These theories are: i) Transaction cost theory; ii) Monopolistic advantage theory; iii) the Product Cycle theory; and (iv) the Oligopolistic reaction theory.

2.2.1.1 Transaction cost theory

Although it was originally not named as such, Coase (1937) explained the transaction cost theory for the first time in his dissertation, *The nature of the firm*. In his dissertation, Coase (1937) explains how an enterprise will use different economic transactions, for example costs in using the price mechanism, in order to participate in different economic and enterprise activities. These costs are referred to as ~~transaction costs~~ or ~~marketing costs~~

Coase (1937:1-2) begins by describing an economic system as an automatic system in which demand and supply, production and consumption automatically affect one another. The economic system, furthermore, greatly relies on the price mechanism, and the effect that price has on demand and supply, as the determining factor. The price mechanism cannot, however, be generalised to all situations. For example, when a worker is transferred from one branch of a bank, say a bank in Cape Town, to another branch of the same bank in Pretoria, the change is not due to the price mechanism, but to other factors: in this case economic planning, found within an economic system. Economic planning therefore differs from individual planning, leading to the fourth production factor, namely the organisation, or entrepreneur.

Within the enterprise, decisions are made not on the basis of price but through entrepreneurial coordination. Inside the enterprise the entrepreneur or organisation replaces market transactions, that is, the price mechanism, thereby organising each factor of production within the enterprise, whereas outside of the enterprise the price mechanism will have control over production, which is then organised by a variety of exchange transactions within the market (Coase, 1937:2).

The more transactions an entrepreneur adds to the enterprise, the larger the enterprise will grow and the fewer transactions will result. An enterprise will continue to expand until the cost of a transaction within the enterprise is equal to the same marketing cost in the open market and equal to the same cost by a competing enterprise. If expansion stops when the cost of a transaction within the enterprise is equal to that in another competing enterprise, but below the marketing cost in the open market, it becomes clear that there is a market transaction between the two enterprises. Each one of these enterprises' market transactions will therefore occur below the marketing cost in the open market. If it becomes feasible to have another market transaction, the enterprises must divide the cost associated with it, so that the cost will be the same for each of the enterprises. Thus, the larger the number of transactions used by the entrepreneur/organisation, the larger the difference between the type of transaction and the place in which the transaction is found . thus indicating that efficiency will decrease as the number of transactions increases (Coase, 1937:8).

In 1960 Coase (1960:3) added to his earlier work by explaining what will happen if transaction costs are not found within enterprises. Firstly, the enterprise or entity harming the other enterprise or entity must provide the latter with remuneration for damages caused; this, however, must include a system of pricing where no costs are present. Secondly, he states that when assuming that pricing occurs without costs, liability for payments of any damages toward the other enterprise or entity does not lie with the enterprise or entity causing harm.

Fox (2007:373) identifies numerous criticisms of the work produced by Coase. The first criticism entails the neglect of the presence of transactional costs found in practice, that is, the real world, and the absence of factors such as wealth, income, ownership or liabilities. The second criticism is aimed at Coase's 1960 article. Coase (1960) focuses on perfect competition by stating that a costless pricing system will have to be present; therefore, those who criticise Coase's theory by arguing that his theory cannot be applied to practice or the real world must also argue that perfect competition is indeed as impossible as transaction costs. The third criticism identifies two problems with regard to Coase's definition of transaction costs. The first problem is that transaction costs are only present in market exchange, and the second problem is that only three costs form part of transaction costs: costs involved during the uncovering of prices, negotiation costs (terms of an exchange), and conclusion costs for the above-mentioned negotiations.

2.2.1.2 Monopolistic advantage theory

Hymer (1960) begins by identifying two types of capital movement within international business: firstly, direct investment, which is explained as full control gained by the investor over the foreign enterprise into which the investor chooses to invest, and secondly, portfolio investment, during which the investor does not hold direct control over the invested foreign enterprise.

Hymer (1960:33) explains that enterprises within a foreign country might be controlled either by citizens in the host country or by international owners. Ownership exercised by international owners might include joint ventures, wholly owned ventures and so forth, thus providing the international enterprise with an easier market entry into a foreign country through ownership of the foreign enterprise. Hymer (1960:33) identifies three reasons why a foreign enterprise might decide to

control an international enterprise that it had invested in. Firstly, there is the elimination of competition through the purchasing of enterprises already operating within the foreign market. A second reason could be advantages like lower labour costs, proving profitable as time continues, held by the international enterprise that the host country's enterprises do not have, and thirdly, the need for the enterprise to diversify by expanding its product range or the geographical area in which it operates, therefore not indicating any form of control. Thus, foreign direct investment occurs due to imperfect competition within markets (such as monopolistic or oligopolistic markets), by foreign enterprises possessing advantages over host country enterprises. These advantages include economies of scale, more advanced technology, and market knowledge in marketing, management or finance.

International enterprises investing in a foreign enterprise might still experience certain barriers to entry during internationalisation. Firstly, a lack of market knowledge might prove a challenge for international enterprises. Secondly, foreign governments, suppliers and customers might wish to purchase only locally produced products, for example South Africans wishing to purchase only the Proudly South African brand. Thirdly, exchange rate risk will prove a barrier, as fluctuations in the exchange rate always carry some form of risk with them (Hymer, 1960:33).

A physical presence of the enterprise operating within a foreign market is not mandatory, since the enterprise might have some advantages over competitors within the market, such as exporting its products to that foreign country after producing the products in its home country, where it already has a physical presence, at a lower labour cost. Secondly, the advantages that the enterprise has might be sold or rented to enterprises already functioning in the foreign market, for example, enterprises with licensing arrangements or subsidiaries in the foreign market (Hymer, 1960:46-47).

According to McDougall *et al.* (1994:473), the monopolistic advantage theory states that all enterprises that have the same monopolistic advantage will act in the same way. Hence, the monopolistic advantage theory claims that internationalisation occurs through the optimisation of costs as well as obtaining returns internationally.

Commenting on this, Horaguchi and Toyne (1990:488) and Yamin (1991:66) state that the monopolistic theory is limited compared with the internationalisation theory

and the OLI paradigm. Horaguchi and Toyne (1990:489) explain that Coase's theory of the firm is absent in the monopolistic theory and that Hymer (1976) views MNEs as only monopolistic enterprises.

2.2.1.3 Product cycle theory

As time progressed, questions arose regarding the existence of international trade and international investment, and why enterprises participated in it. These questions were addressed by Vernon (1966:190) with his product cycle theory, which identifies three different stages in the life cycle of a product, namely the location of new products, the maturing of products and the standardisation of products.

Vernon (1966:194) explains the first stage in the product cycle theory as the location of new products, during which products will be produced in the same market in which consumption will occur, indicating that producers already operating in that market will discover opportunities within that market more easily than will those operating elsewhere. Although production for an identified market does not have to take place near that market, these producers might decide, based upon certain locational advantages, to produce these products in the domestic market where these opportunities were originally discovered. Vernon (1966:195) explains that during the early development of a product's cycle, the product tends to be unstandardised for a specific time, indicating that resources and processes used during the production of the product might focus on a variety of areas.

As time progresses, products become more standardised, giving rise to the second stage of the product cycle, the maturing of products. During this stage, differentiation is still present but takes place to a lesser extent. The measure by which differentiation takes place is through the introduction of a variety of product lines or product types. For example, if a new chocolate is launched within a new market, only plain milk chocolate will be introduced. As time progresses, the product will become standardised to a certain extent as regards the packaging and taste; however, other elements might be introduced as time goes on, progressing to different chocolate bars, such as nuts or coconut. This standardisation of the enterprise's products also leads to locational impacts for the enterprise involved. The flexibility identified during the early stage of product development will now decline, as it becomes possible for the enterprise to achieve economies of scale through mass production. The

enterprise will now begin to sign long-term contracts with suppliers and customers, and the need for expansion to a foreign market by exporting will begin to arise, followed later by the possibility of establishing a physical presence within the foreign market (Vernon, 1966:196. 197).

At this stage of production, Vernon (1966:197. 198) assumes that once the product has been established within the foreign market, demand for the said product will arise in other foreign locations. During this stage the enterprise will focus on remaining competitive by at first exporting to this market. The entrepreneur company will now have to compare numerous factors, such as the existence of higher production costs within the host country as against costs involved in paying importing taxes to the host country, as well as technology and other resources found within the host country, before establishing itself physically in a new foreign market.

During the last stage of the product cycle theory, namely the standardisation of products, foreign investors might decide to relocate to a foreign market due to such aspects as cheaper factors of production (lower labour costs), after a great deal of market knowledge has been gathered (Vernon 1966:202. 203).

Vernon (1976:652) later revisited the product cycle theory and added that the theory would not be applicable to MNEs operating or starting the internationalisation process within developing and less-developed countries. Furthermore, Aswathappa (2010:92) states that the product-cycle theory focused on enterprises within the US during a time when the US dominated international trade. Today, however, the US is not the only dominating country competing in the international trade arena, and therefore the theory cannot be generalised in the same way as before.

2.2.1.4 Oligopolistic-reaction and MNEs

Small groups of enterprises began to follow one another into a foreign market, which Knickerbocker (1973) identified as the oligopolistic reaction. During this reaction, these enterprises would follow a leading enterprise into a foreign market, seeking the advantages that the leading enterprise had identified.

Knickerbocker (1973:1) defines oligopolistic reaction as similar competitive behaviour and choices made by a small number of competing enterprises engaged within the same market. Two findings were discussed; firstly, that similar enterprises

operating within the same industry will work together during FDI within a foreign country, and secondly, that those enterprises that are leading international expansion will seek out oligopolistic-structured industries. The latter, however, may include enterprises from different industries diversifying operations, or enterprises from different countries wishing to enter one country together. The reasons behind these alliances will vary according to industry, enterprises and countries involved (Knickerbocker, 1973:1).

Two determinants of entry concentration are identified, namely, market structure and market stability. Regarding the first determinant, Knickerbocker (1973:53) hypothesised that the larger the output activities for enterprises leading international expansion after World War II, the larger was the amount of oligopolistic reaction found within that foreign market. If only a few enterprises compete against one another in a particular market, one enterprise's action becomes an acutely determining business practice; for example, if a competing enterprise decreases its products price, then the other competitors will follow suit. However, the larger the amount of competition, the easier it becomes to dilute one competitor's actions among the remaining competing enterprises, thus decreasing the risk effect associated with the actions of one enterprise on all the others competing within the same market.

The second determinant of entry concentration is identified as industry stability. Stable markets experienced less oligopolistic reaction after World War II, with the exception of new entrants in such an industry. Once new entrants began to enter a stable market, enterprises already in the market that were from the same home country experienced an oligopolistic reaction (Knickerbocker, 1973:85).

Knickerbocker (1973:101) adds that an enterprise that is focused on diversification should have little need for an oligopolistic reaction within a foreign market, as it would be able to function on its own and not within an oligopoly.

2.2.2 Theories of internationalisation

Internationalisation processes are seen as complex and embarked on from different perspectives and dimensions, each entailing a different approach to operational expansion into foreign countries. Each enterprise engaged in this process will

achieve specific set objectives in its pursuit to expand, while engaging in and discovering existing and new enterprise opportunities (Narayanan, 2015:106).

According to Narayanan (2015:106), different motivating factors for expanding into foreign markets exist for different enterprises. These factors include limited exposure to growth within the home countries and limited or expensive access to natural and other resources within the home country, as well as the possibility of engaging in business opportunities arising in foreign countries geographically near the home country.

The following discussion of the literature review includes different internationalisation processes. Each of these processes is unique and focuses on a different area of interest to enterprises, or on different types of enterprise during internationalisation. Furthermore, Malhotra and Hinings (2010) have used the internationalisation processes discussed below in the compilation of the Organisational Model.

2.2.2.1 Internationalisation theory

Buckley and Casson (1976:89) explain the internationalisation theory by identifying two clear stages used to analyse the international capability of MNEs. The first stage identifies elements that control industry internalisation. During this stage, maximum internalisation is accomplished within the intermediate-product markets; this includes two industry-specific factors, such as obstacles found within licensing knowledge and the importance of knowledge movements within the market and between the enterprise and the market.

The second stage states that internalisation of an enterprise will lead automatically to internationalisation, changing the enterprise into a MNE. The theory then predicts that research and development enterprises will experience a positive relationship between profits and research and development intensity (Buckley & Casson, 1976:89).

Buckley and Casson (1976:89) conclude by stating that the MNE will always decipher knowledge and use this knowledge to undergo necessary change. Instead of relying on new products, these MNEs will have to adapt current skills and products to already existing foreign markets and industries. Furthermore, MNEs that tend to be more specialised than others would rather consider licensing agreements with

enterprises that already have the necessary strategic relationships and knowledge within the host country. Joint ventures will be selected as a mode of entrance in order to maximise profits.

Two identified problems arise regarding the internationalisation theory; namely, the relationships established between choices of internationalisation and structures within the market, and the relationship found between internationalisation and competitive advantage (Buckley, 1988:657; McDougall *et al.*, 1994).

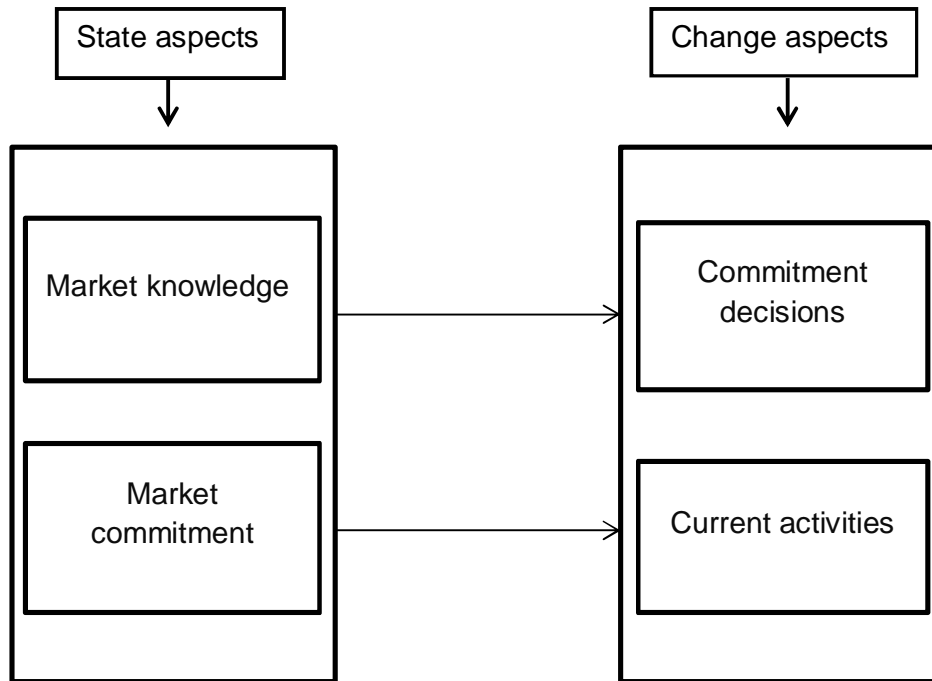
Buckley (1988:657) confronts these problems by suggesting solutions to each. The first problem, namely the relationship established between choices of internationalisation and structures within the market, is confronted by differentiating between theories of internationalisation and market power; however, three areas need greater attention: welfare implications regarding multinational enterprise operations, political variables, and social variables. The second problem is confronted by re-evaluating the relationship found between internationalisation and competitive advantage.

2.2.2.2 The Uppsala (U-model)

The U-model was developed by Johanson and Vahlne (1977:24; 2009:1412), using empirical observations of Swedish enterprises. These empirical observations indicated that enterprises start to internationalise into foreign markets by initially exporting products into the host market, using sales agents as distributors. After a significant period these enterprises will establish their own sales subsidiaries within the market, and if the market share demands it, manufacturing will follow suit.

Figure 2.1 indicates the relationship between state aspects and change aspects, whereby state aspects include market commitment and market knowledge, and change aspects include commitment decisions and current activities (Johanson & Vahlne, 1977:26; 1990:12).

Figure 2.1: The basic mechanism of internationalisation: state and change aspects



Source: Johanson and Vahlne (1977:26)

The first aspect described is the state aspect, comprising market commitment and market knowledge. Apart from the state aspects affecting the enterprises' behaviour during the completion of a project, it will also influence the enterprises' choice of the level of market commitment. As the enterprise aspires to increase returns on investments, it aims to keep the possibility of risks at a minimum. The state of internationalisation is assumed to affect possible risks and opportunities when the enterprise attempts further commitment within a foreign market. Therefore, the reason that market commitment and market knowledge are taken into account is that they will influence opportunities and risks (Johanson & Vahlne, 1977:26-27).

According to Johanson and Vahlne (1977:27), market commitment is divided into two categories or factors: firstly, the number of resources committed within the host country, and secondly, the degree of commitment or discovering of alternative uses for resources committed within the host country.

Market knowledge is needed because market commitment cannot be made without some knowledge of the said market. Johanson and Vahlne (1977:27) identify two

types of knowledge. Firstly, when an opportunity or problem arises within a particular market, knowledge about distribution lines and transferability of money is needed in order for the enterprise to make sufficient choices for the initial market commitment. Secondly, this knowledge is used to evaluate alternatives and is gathered with regard to specific areas of the market and activities found within that market.

Apart from the types of knowledge, two classifications of knowledge are identified, namely objective knowledge and experiential knowledge; these are concerned with the methods through which knowledge is acquired. The first type of knowledge, objective knowledge, is knowledge that can be taught throughout the process of internationalisation; for example, the passing on of skills through managers or supervisors (Johanson & Vahlne, 1977:28)

The second type of knowledge, experiential knowledge, must, however, be gained through experience; that is, learned. Thus, experiential knowledge can be defined as the knowledge experienced by human resources within the host market . by individuals who have been working in the host market for a period of time. The more experience that is gained by human resources, the more skills will adapt to changes found in the host market. Furthermore, the more experiential knowledge gathered, the easier it becomes for the enterprise to identify possible opportunities and/or problems within the host country. Experience is used to formulate strategies for exploiting opportunities and countering problems in the host country that seem relevant to the enterprise. Experiential knowledge is therefore crucial, as it cannot be easily learned without the enterprises actively participating in the process of internationalisation. Thus, the more experience that is gained within the host country, the more resources will be committed to the said market (Johanson & Vahlne, 1977:28). Therefore market knowledge and market commitment will have a direct influence on one another, whereby the higher the value of knowledge accumulated regarding a particular host country, the higher the commitment will be (Johanson & Vahlne, 1977:28).

The second group of aspects, namely change aspects, are identified as current activities and commitment decisions. Once a current activity is taken on, the consequence of that activity will only be realised at a later stage. For example, if a new product line were launched by the enterprise within the host country, the impact

on sales would only be realised at a later time. The new product line will represent the enterprises' increasing market commitment, thereby indicating that market commitment will increase because of current activities (Johanson & Vahlne, 1977:28-29).

Johanson and Vahlne (1977:29) and Pedersen and Shaver (2011:264) explain that current activities can, moreover, be seen as a vital source of experience. In order to understand this one must distinguish between enterprise experience and market experience. Thus, a hired individual must identify information within the microenvironment of the enterprise and market. In situations in which an individual carries knowledge regarding a particular host country, it becomes increasingly difficult to substitute individual knowledge for current activities. However, the less interaction that is needed between the enterprise and its environment, the more production-oriented the enterprises' activities become. This will enable the enterprise to replace individual knowledge with current activities. This would lessen the need for the enterprise to use an incremental process when internationalising to a new host country.

Johanson and Vahlne (2009:1424) change current activities to learning, creating and trust building. Experiential learning is still considered the most important aspect of learning. However, the degree to which an opportunity is appealing, and the amount of already accumulated knowledge, will determine the tempo, efficiency and the extent of the process of learning, knowledge creation and trust building. Opportunity development is added as an important element of relationship building and the creative process is promoted through trust, commitment and knowledge in relationship building.

The second change aspect is the choice of committing resources to a host country. Firstly, these choices are based upon what opportunities and/or problems are identified within the market. These opportunities and/or problems are dependent upon the amount of experience gained by the enterprise, and might even be directly linked to experience. Human resources working within the organisation therefore identify both problems and opportunities, and are actively involved in the market. Those human resources will therefore easily identify solutions to problems, and opportunities might lead to new growth opportunities within the host market.

Therefore, the solutions to problems and growth opportunities identified will be based on the current market situation (Johanson & Vahlne, 1977:29; Pedersen & Shaver, 2011:264).

Alternative solutions can, however, be identified by individuals working for the enterprise in the host country by means of demands or offers. Two effects can be identified: the economic effect and the uncertainty effect. The economic effect is based upon increased experience during the scale of production within the host country. The uncertainty effect, however, is based upon market uncertainty, whereby the individuals responsible for decision making find difficulty in identifying current and future factors which might influence the host market (Johanson & Vahlne, 1977:29).

Johanson and Vahlne (1977:30) and Pedersen and Shaver (2011:264) therefore point out that further commitment within a market will probably be made by the enterprise in small steps, unless the enterprise has a large amount of experience in the host country or owns a significant number of resources within the host country under homogeneous and stable market conditions.

Furthermore, the amount of time it takes these enterprises to internationalise into a host country is directly related to the psychic distance between the home and host country. This was found among the Swedish enterprises that participated in this study, who indicated that they first expanded into markets that were psychologically closer to them. Psychic distance, which is composed of factors such as language, level of education, business ethics and practices and culture, might influence the movement of information between the home and host country. This is primarily because the more developed a country becomes, the easier it is for those investing in the country to gather information about commerce within that country, and the easier it becomes to bridge language and cultural gaps within that country. Therefore, one aspect during the process of internationalisation will have an influence on the next aspect (Johanson & Vahlne, 1977:24; 1990:13; 2009:1412).

Furthermore, after criticisms arose regarding the U-model, Johanson and Vahlne (2009:1413) revisited the model, claiming that many factors had indeed changed since the original U-model was developed in 1977. Factors such as changing enterprise behaviour, economic and regulatory factors and developments in research had brought a need to revisit the U-model and change it accordingly.

During the revision of the U-model, the term *market commitment* was changed to *network position*. Johanson and Vahlne (2009:1424) now assume that the process of internationalisation develops within a network, which is described as a grouping of relationships consisting of numerous factors such as knowledge, trust and commitment. This network promotes, or works against, the process of internationalisation of enterprises, indicating that when the focal enterprise is using a network to internationalise, an advantage will either be gained through the network or not.

The concept of *relationships* was added to the second change variable, *commitment decisions*. The commitment decisions made by enterprises are made with the intention of building a relationship or a network, thereby indicating the level of commitment by the enterprise to the host country through the mode of entry or by the dependence on other enterprises (Johanson & Vahlne, 2009:1424).

Further, Johanson and Vahlne (2009:1425) identified three exceptions in the revised model. Firstly, the internationalisation process depends on relationships and networks, whereby one enterprise uses knowledge from another enterprise or network to learn about a foreign market when internationalising. The second exception occurs when the enterprise follows the enterprise or network with which it has built a relationship in order to internationalise. The third exception concludes that the U-model is more relevant to smaller enterprises, as larger enterprises have more access to knowledge than smaller enterprises.

Many researchers and studies have pointed out that the U-model takes only certain factors into consideration, and is thus a model that establishes narrow thinking regarding internationalisation. Many other commentators argue against the *incremental process* of enterprises. These include Malhotra and Hinings (2010:331), who state that not all enterprises use an incremental process of internationalisation; some others use other internationalisation processes and different methods of resource commitment. McDougall *et al.* (1994:475) found no empirical evidence among International New Ventures (INVs) to support the incremental process identified in the U-model. Contradicting the U-model, INVs internationalised their operations immediately after start-up, showing no evidence of a slow and steady internationalisation approach. Apart from INVs, service

enterprises internationalise differently as well, committing fewer resources into a foreign market and requiring considerable customer interaction throughout the production process (Barkema & Drogendijk, 2007:1133). Furthermore, Pedersen and Shaver (2011:264) argue that an enterprise will establish itself for an extended period of time within a domestic market before considering internationalising, using very little time on the internationalisation process.

In spite of criticism, in summary the U-model can be described as representing an incremental process whereby an enterprise will internationalise from the home country to a host country, or from a host country to another host country.

2.2.2.3 The OLI-eclectic paradigm of internationalisation

Dunning (1976) introduced a holistic framework that described characteristics influencing international production and the growth thereof, called the OLI-eclectic paradigm. The OLI-eclectic paradigm uses different strands of economic theory in order to provide a full explanation of various transnational activities in which enterprises get involved. Taking into account the fact that the classical and neoclassical theories of trade only explain the international trade arena to some extent, the paradigm begins where the Heckscher-Ohlin-Samuelson (H-O-S) theory of trade leaves off. The H-O-S theory states that a country with a large number of capital-intensive products will produce predominantly capital-intensive products and will therefore export these products and import labour-intensive products (Grosse & Behrman, 1992:112; Hill, 2014:174). Therefore, the OLI paradigm begins where transaction costs are experienced as positive in the intermediate goods market (Dunning, 1988:1-2; Dunning & Lundan, 2008:580).

The eclectic paradigm continues by describing specific factors, such as degree, structure and pattern of international production, and is determined by the organisation of three advantages, namely ownership-specific advantage, that is, competitive or monopolistic advantages; location-specific advantage; and internalisation-specific advantage.

Firstly, *ownership-specific advantages* must be sufficient for it to prove financially feasible for the enterprise to set up a permanent presence within the host country (Dunning, 1988:2; Dunning & Lundan, 2008:580; Denisia, 2010:107). Three types of ownership-specific advantage are identified. Firstly, an enterprise will have

ownership-specific advantage within the host country if it owns assets within the host country allowing the generation of income, for example, rental income generated from property owned in a foreign market. The second type of ownership-specific advantage is ownership of a branch plant in the host country; if, for example, an enterprise owned a factory within the host market, production and distribution costs might be cheaper than elsewhere. The third type of ownership-specific advantage occurs when the geography or multinationality of the enterprise is diverse. This is explained by dividing geography and multinationality between ownership-assets-advantages (Oa) and ownership-transaction-advantages (Ot). Oa refers to assets owned by the enterprise within the host country, such as ownership of specific high-quality natural resources used to produce products at a lower cost than competitors. Ot refers to the MNE's ability to gain transactional benefits experienced during the exchange of some economic transaction (Dunning, 1988:2-3; Dunning & Lundan, 2008:581; Denisia, 2010:107).

Location-specific advantages indicate the geographical choice of a physical presence an MNE will establish within a foreign market, and closely relates to ownership-specific advantages. In many cases, this choice is made according to specific advantages, such as low labour costs, that can be gained from the location where the MNE chooses to physically establish itself. If the enterprise will gain financial benefits from opening a branch plant such as a factory within the host country, instead of spending more on high labour costs found in the enterprise's home country, a location-specific advantage is identified (Dunning, 1988:4-5; Dunning & Lundan, 2008:585; Denisia, 2010:108).

Dunning (1988:3-4), Dunning and Lundan (2008:587) and Denisia (2010:108) explain that the final advantage, *internalisation-specific advantage*, indicates that enterprises with already existing ownership-specific advantages should keep these advantages within the enterprise by transferring them to another country in their own enterprise, instead of selling them, thus keeping the enterprise's core competencies within the enterprise. Thus, internalisation occurs by establishing a physical presence in a foreign market which the enterprise used to export to. Dunning (1988:4) identifies three main reasons for internalisation. First are reasons due to the risk and uncertainties accompanying foreign markets. Secondly, when large enterprises enjoy economies of large-scale production, such enterprises might

exploit them, leading to internalisation. Lastly, sometimes other costs and benefits develop outside of the transaction of goods and services, for example costs and benefits associated with the supply chain of the product.

After explaining the original paradigm he had presented, Dunning (1988:10) developed a restatement of the original eclectic paradigm. He admitted that some criticisms had been made of the eclectic paradigm: that the paradigm did not incorporate certain behavioural factors and characteristics into its framework. Taking this into consideration, two interrelated areas of the economic analysis are now incorporated into the theory of international production. Firstly, financing of intermediate products is taken into consideration. Therefore, the more easily financing can be transferred across borders, the more easily international production will take place. Secondly, when market failure is present, economic activities across borders can be explained.

2.2.2.4 International new ventures

As time continued, enterprises began to operate internationally from the initial stage of production, giving rise to a new field of research in the international business discipline. McDougall *et al.* (1994) began research on these enterprises, developing the International New Venture Theory, and referring to them as International New Ventures (INVs); these enterprises are also referred to as born globals (González-Menorca, Fernández-Ortiz & Emeterio, 2012:68). This theory holds that international new ventures will enter the foreign market immediately or shortly after inception, therefore internationalising immediately to a foreign market instead of using a slow and steady incremental process as suggested by the U-model (McDougall *et al.*, 1994: 470).

This theory is explained by answering three questions: Who are the founders of INVs? Why compete internationally instead of in their home country? and What activities in business do these INVs carry on? (McDougall *et al.*, 1994:471).

Firstly, McDougall *et al.* (1994:479) state that those who start an INV are entrepreneurs who, by expanding into a foreign country, are seeking possible higher revenue through new and emerging opportunities and through better knowledge of networks found within the foreign market or industry.

Secondly, the entrepreneur is actively involved in each step of the internationalisation process, and this enables the enterprise to develop certain organisational abilities in order to avoid dependence on the host country abilities (for example, joining trading blocs with neighbouring countries and taking advantage of flexible labour laws (McDougall *et al.*, 1994:481. 482).

Thirdly, during the developmental stage of the enterprise's growth, the enterprise will use a hybrid governance structure in order to decrease the use of resources during the initial process of internationalisation (McDougall *et al.*, 1994:482-483).

These authors (McDougall *et al.*, 1994:483) continue by highlighting a limitation of their theory. This limitation states that the theory is an explanation of a limited occurrence, and that it can therefore not be generalised to the larger spectrum of enterprises. McDougall *et al.* (1994:483) and Madsen and Servais (1997:563) admit that this limitation to their theory is applicable because they focused only on a micro-segment of entrepreneurial enterprises and MNEs. They add that although their theory is not generalisable, micro-theories are still needed to explain theory-specific aspects of a larger theory.

Oviatt and McDougall (2005:37) continued their work on INVs by identifying four types of INVs. The first two types of INVs, export/import start-ups and multinational traders, both form part of new international market makers. The third type of INV is termed geographically focused start-ups, while the fourth type is referred to as global start-ups. Each one of these INVs is distinguished by the amount of value-chain activities present within the enterprise, and the number of foreign countries entered by the enterprise.

Export/import start-ups are the first type of international market makers. These enterprises usually have an already existing market within a foreign country. Therefore, they export either because physically establishing a branch in that country is not financially feasible, or the already existing market within the foreign country has not yet grown enough to support the establishment of a physical presence in the said market (Oviatt & McDougall, 2005:37).

Multinational traders are the second type of new international market makers. They operate in the same manner as export/import start-ups, the difference being that

where export/import start-ups primarily focus on one foreign country in particular, multinational traders export/import to and from numerous foreign countries (Oviatt & McDougall, 2005:37).

Geographically focused start-ups, as the name suggests, focus on a set geographical area, primarily because some advantage is experienced in that geographical area: specific assets that are geographically restricted, such as natural resources. Therefore, the geographically focused start-up will focus on incorporating numerous activities found within the value-chain instead of only one, like inbound or outbound logistics (Oviatt & McDougall, 2005:37-38). Thus, instead of already having an existing market that this enterprise can serve through exports, it would rather seek specific advantages: resources such as low labour costs that can be used as an asset in order to incorporate numerous value-chain activities in order to succeed financially within the foreign market.

Lastly, global start-up enterprises are currently the fastest-growing type of INV, since they seek out noteworthy competitive advantages throughout different activities found within the enterprise. These start-ups operate beyond geographical borders by seeking out opportunities and natural resources and aiming at achieving the highest number of possible outcomes. Since these enterprises operate over such a wide geographical area, they need a wide array of skills. Because of these large skill-sets these enterprises tend to be the most successful INVs found in international markets (Oviatt & McDougall, 2005:38). Thus, although also focusing on different geographical areas, the global start-up will not only focus on imports and exports to and from numerous geographic locations, but will also focus on different activities found within the different geographical locations to obtain a competitive advantage.

2.2.2.5 Internationalisation pathways of family enterprises

The family business is defined as the original unit found within the economy, and makes up the largest part of all small and medium enterprises (SMEs) in the world (Kontinen & Ojala, 2012:2). Kontinen and Ojala (2012:8) begin by defining a family enterprise as an enterprise with three axes. Firstly, family that includes a young business family entering the business, working together and passing the baton; secondly, ownership that can be divided between controlling owner, sibling partnership and cousin consortium; and thirdly, business that can be divided

between a start-up enterprise, the expansion or formalisation of the enterprise, and the maturity of the enterprise. Each of the above three axes will have an influence on the others.

Kontinen and Ojala (2012:3) built their theory on previous research with regard to the internationalisation of family businesses. They used three internationalisation pathways of SMEs previously identified by Bell, McNaughton, Young and Crick (2003:3). These pathways include, firstly, traditional SMEs, which are enterprises that use an incremental or gradual method of internationalisation (see the U-model). Second are born-again globals, which are enterprises that react to crucial events which take place within the enterprise, such as a merger or ownership change, and then internationalise, and thirdly, born globals (see INVs). Most family enterprises are perceived to use the traditional pathway of internationalisation; however, after another generation takes over, rapid internationalisation can be experienced (that is, born-again globals). Therefore, two questions were asked (Kontinen & Ojala, 2012:3):

- What are the different internationalisation pathways that family enterprises will take?
- What are the different features found within each of these pathways?

In order to provide answers to these questions, Kontinen and Ojala (2012:6) examined numerous internationalisation models such as the U-model and the theory of INVs. Within these models Kontinen and Ojala (2012:6) identified three different pathways found during the internationalisation of SMEs. These pathways were a combination of the U-model and INVs.

The first pathway, the slow and steady internationalisation of enterprises into foreign markets, begins by the enterprises initially starting to internationalise to countries culturally and geographically close to the home country, in which the enterprise is already established. Therefore, enterprises following this pathway will only consider internationalising into a foreign market after they have successfully established themselves in their home market (Kontinen & Ojala, 2012:6).

The second pathway, born globals, includes enterprises that will internationalise immediately to a variety of international markets at the same time, selling their

products in markets where larger quantities are sold. Furthermore, the focus will be on niche markets and also first-mover opportunities, that is, opportunities not yet taken by other enterprises. These enterprises relate to INVs in that they will use opportunities where a large amount of industry knowledge is available (Kontinen & Ojala, 2012:7).

The final pathway includes enterprises that will internationalise primarily because of some sort of sudden event, such as a change in ownership. These sudden changes usually lead to a new source of finance or opportunities and networks and a growth in size; they are described as born-again globals (Kontinen & Ojala, 2012:7).

Thus, after identifying the three pathways of internationalisation of SMEs, these researchers identified different internationalisation of family enterprises. During their research, Kontinen and Ojala (2012:27) discovered that ownership structure usually influences the internationalisation pathways of family enterprises. The traditional pathways were therefore mostly followed by family enterprises practising the founder-manager method of ownership, in that the person responsible for starting the enterprise would also manage the enterprise.

The internationalisation pathway changes completely, however, when ownership is passed from one generation to another. When this happens, the internationalisation is more to be likened to that of born-again globals. Born-again globals establish themselves within the home country, operating there for some time with no apparent need to internationalise. Once established, the enterprise will rapidly begin internationalising, focusing as much energy and resources on the internationalisation process as possible (Kontinen & Ojala, 2012:27).

Kontinen and Ojala (2012:29) discovered that family enterprises acting as born globals and born-again globals during internationalisation focused on forming new relationships and networks, whereas those focusing on a traditional method of internationalisation built on already existing relationships. Daszkiewicz and Wach (2014:8) point out, however, that different types of family enterprises will react strategically differently according to specific attributes found within the type of family enterprise.

2.3 CONCLUSION

This chapter defined internationalisation and sketched the history of internationalisation. It then described some of the most commonly referred to internationalisation models used to determine how an MNE would enter a foreign market.

The models described were the transaction cost theory (*Nature of the firm*), the product-cycle theory, the monopolistic advantage theory, the U-model, the internationalisation theory, the OLI-eclectic paradigm, the theory of international new ventures and the internationalisation of family enterprises.

Since the development of these models, many other studies have followed, such as *An organisational model for understanding internationalisation processes* (Malhotra & Hinings, 2010); *The globalisation of service multinationals in the “Triad” regions: Japan; Western Europe and North America* (Li & Guisinger, 1992); *Internationalising in small, incremental or larger steps?* (Barkema & Drogendijk, 2007); and *Internationalisation revisited: the big step hypotheses* (Pedersen & Shaver, 2011).

CHAPTER 3

INTERNATIONAL MARKET SELECTION AND COUNTRY RISK

3.1 INTRODUCTION

Risk can be defined as a situation that carries uncertainty in an unknown new market, leading to foreign investors focusing on specific country factors upon entry. These specific country factors, also referred to as country risk factors, are predominantly defined through a compilation of numerous risks commonly found within a particular country's borders. These risks lead to a change in the way in which enterprises approach foreign markets (Hammer, Kogan & Lejeune, 2004:1; Meldrum, 2000:1). Country risk can also be defined as the total risk of every factor found within a foreign market's borders and experienced by the enterprise during internationalisation (Musonera, 2008:2; Petrovi & Stankovi, 2009:11; Van den Berg, 2014:10).

3.2 INTERNATIONAL MARKET SELECTION

International market selection (IMS) is primarily described as the process during which an enterprise takes numerous decisions in order to select the best international market into which it would like to internationalise (Papadopoulos, 1988:38; Papadopoulos & Martin Martin, 2011:133). Alexander, Rhodes and Myers (2011:184) and Sakarya, Eckman and Hyllegard (2007:210) state that numerous general problems exist that influence international market selection, including market knowledge and psychic distance, both concepts discussed in Chapter 2. The more available the foreign market knowledge, or the closer the psychic distance between home and host country, the easier it is for an enterprise to select a foreign market into which to expand. According to Brewer (2001:16), Australian enterprises considered two criteria: market attractiveness and the enterprise's competitive position, while psychic distance was found not to be an important criterion.

Two broad approaches to international market selection are identified in the literature, namely systematic international market selection and non-systematic market selection. The following section will explain both these approaches (Ball *et al.*, 2010:429; Brewer, 2001:169; Cavusgil, 1985:30; Górecka & Szalucka, 2013:34; Kumar, Stam & Joachimsthaler, 1994:33; Malhotra & Papadopoulos, 2007:8; Papadopoulos & Martin Martin, 2011:136).

3.2.1 Systematic international market selection

Cavusgil (1985:30); Górecka and Szalucka (2013:34); Malhotra and Papadopoulos (2007:8), and Papadopoulos and Martin Martin (2011:136) identify several IMS approaches, indicating that traditionally enterprises implement a sequential systematic approach, varying between different steps. Górecka and Szalucka (2013:35) and Marchi, Vignola, Facchinetti and Mastroleo (2014:2201) identify an alternative IMS approach, the non-systematic IMS approach, but indicate that this would only be selected when an enterprise is following an already existing client into the foreign market, or enters a market via exports when the market risk is low. This, however, cannot be applied to every enterprise, and therefore systematic IMS approaches are usually selected in order to determine which foreign market holds the least risks and would be the most advantageous for an enterprise (Ball *et al.*, 2010:429; Brewer, 2001:169; Cavusgil, 1985:30; Kumar *et al.*, 1994:33).

The following section will discuss the three main systematic IMS approaches (Ball *et al.*, 2010:429; Brewer, 2001:169; Cavusgil, 1985:30; Kumar *et al.*, 1994:33). These approaches include the six-stage approach, the four-stage approach and the three-stage approach.

3.2.1.1 Six-stage approach

Ball *et al.* (2010:429) propose a systematic IMS model consisting of six different phases. The arrangement of these phases signifies the easiest to most difficult analysis found in each screening phase, based on the availability and subjectiveness of the data:

- Phase 1 - Initial screening

According to Ball *et al.* (2010:428-429), when initially deciding to enter a foreign market an enterprise should first determine whether there is a demand for the

enterprise's product or service in the foreign market. If demand is lacking, no sustainable revenue will be generated. Other factors to consider are country-specific factors, such as climate or natural resources. For example, certain farm produce can only grow in a tropical climate; therefore, if the enterprise wishes to specialise in the production of one of these agricultural products, a location with a tropical climate would be selected.

Another method of determining the basic needs in a foreign market is foreign trade. An enterprise can research various markets to which competitors are currently exporting. This research can be gathered from numerous governmental or organisational reports, such as the UN *World Trade Statistics Yearbook*. These reports contain information such as units exported and the dollar value per unit, which may be used to calculate average price per exported unit. Furthermore, the enterprise can examine reports indicating which markets are major importers of specific products, such as the *Annual Worldwide Industry Review*, and those indicating which countries have an established market for other products, such as the Country Market Surveys. These trade flows will indicate the amount of current sales within a prospective country (Ball *et al.*, 2010:428-429).

Market potential and product demand are, however, not fully indicated by imports. Other factors, such as political factors, might affect the market potential in a foreign market, including marketing and pricing. Import statistics indicate only which products are being bought from foreign markets and at what price. However, markets may change and therefore import statistics should not be the only determining factor when assessing foreign market potential and needs.

When a country indicates small market potential and low market needs, the foreign market will be removed from further considerations. Those countries remaining will be considered during Phase 2 (Ball *et al.*, 2010:429; Górecka & Szalucka, 2013:35).

- Phase 2 . Screening of financial and economic forces

After those foreign markets with insufficient demand have been eliminated, Ball *et al.* (2010:430-431) explain that a smaller number of foreign markets will remain. The enterprise will now evaluate economic and financial factors such as trends in inflation and interest rates, as well as financial factors such as paying habits of consumers.

Two measures based on economic data are useful in particular, namely market indicators and market factors.

Market indicators can be defined as economic data that serve as yardsticks for measuring the relative market strengths of various geographic areas, while market factors can be defined as economic data that correlate highly with market demand for a given product (Ball *et al.*, 2010:430-431).

When looking at market indicators the enterprise can consider various indices. The different indices applied might include market size, market growth rate and a particular industry's market readiness, such as e-commerce readiness (Ball *et al.*, 2012:306).

Market factors are similar to market indicators, except that they tend to correlate highly with the market demand for a given product (Ball *et al.*, 2012:306). For example, if a company producing car batteries knows that car batteries need to be replaced every three years and knows how many cars were sold in a country in a given year, it would be able to establish what the demand for car batteries would be in three years' time. This is a process known as estimation by analogy (Ball *et al.*, 2012:306).

- Phase 3 . Screening of political and legal forces

Next, the enterprise will consider the political and legal forces in a potential market (Ball *et al.*, 2010:432; Veldhuis, 2013:21). This phase considers a number of political and legal factors, such as policy stability, political stability, barriers to entry, profit remittance barriers, and legal and regulatory forces (Bouyahiaoui & Hammache, 2014:3; Meldrum, 2000:2; Narayanan, 2015:114; Nath, 2008:72; S voiu, Dinu & Ciuca, 2013:41; Van den Berg, 2014:12; White & Fan, 2006:155;).

Policy stability differs to a large extent from political stability. Policy stability relates to the policy changes within a country's borders by government and includes regulations regarding taxation and capital controls expanding across a foreign country's borders (Julio & Yook, 2013:1). Political stability relates to the stability of the political environment within the foreign country and includes factors such as potentially unstable governments and infighting among political party leaders. Stability within the political environment of a country might be short lived, as

governmental elections occur every few years; policy changes, however, will influence the long-term environment within a foreign country, as a changed policy might influence an enterprise's long-term strategic planning in the foreign market. It is, however, important to remember that political stability might have a direct influence on the policy stability within the foreign country. When new governments are elected, policies might change, influencing the enterprise's decisions within that country's borders (Ball *et al.*, 2010:432-433).

Looking at entry barriers such as import quotas or tariffs, Ball *et al.* (2010:432) are of the opinion that perceptions of entry barriers can be either positive or negative. If the enterprise wants to export to a foreign market, entry barriers such as tariffs and quotas will be considered negative. However, if the enterprise's aim is to establish a branch plant within the foreign market, these barriers might prove advantageous, as they restrict imports from possible competitors.

Other entry barriers might include regulatory requirements demanding 51% ownership by host country citizens, or certain industries being reserved for the host government. Such entry barriers will be a decisive factor during the enterprise's international market-selection phase and may be the reason for an enterprise to eliminate a particular country as a possible foreign market to enter (Koch, 2001:358; Kumar *et al.*, 1994:33).

Countries might also have profit remittance barriers. With profit repatriation barriers, enterprises will find it difficult to repatriate profits from the foreign market, as the host country might not be able to provide the foreign enterprise with foreign exchange in order to repatriate profits (Ball *et al.*, 2010:432). Devereux and Maffini (2007:13) add that taxation within a foreign market might also be a remittance barrier. Taxation on profits might influence the amount of return on investment that the MNE would have received. These political and legal forces might be cause for concern among foreign investors, leading to enterprises eliminating the market from the list.

- Phase 4 . Screening of sociocultural forces

Van den Berg (2014:12) and White and Fan (2006:155) explain socio-cultural risks as the cultural distance between home and host countries. These risks include language(s) spoken, etiquette, ethics and customary laws. According to Brewer

(2007) and Johanson and Vahlne (1977), this difference between socio-cultural factors is called the psychic distance between countries. Johanson and Vahlne (1977) found that the greater the psychic distance between home and host country, the more hesitant the enterprise is to enter the market, though Malhotra and Hinings (2010) explain that these socio-cultural differences are highly dependent on the type of production done by the enterprise. Brewer (2007:49) developed an index used to determine the psychic distance found between foreign markets. This index is composed of seven primary elements, including:

- Commercial ties, which can be described as business exchanges between different countries, creating a stronger flow of information between the two countries involved. This flow of information becomes stronger once enterprises from one country decide on investing within the other country.
- Political ties between countries might include regulatory agreements that might influence not only trade but also enhance the flow of information between the two countries involved.
- Historical ties might allow different countries to understand one another's culture and business practices more easily. These historical ties might be due to partnerships during wars, or colonial relationships, such as those between countries that once formed part of the Soviet Union.
- Geographical ties are described as the physical distance between two countries. The shorter the physical distance between the two countries, the easier it should be to gather the needed information with regard to one another.
- Social ties involve enterprise differences found between enterprises from different countries. Although enterprise differences differ from cultural differences, enterprises interact with one another during business transactions and differences might emerge during all the operational steps involved. In order to overcome these enterprise differences, the enterprises involved can focus on factors such as language and culture among the workforce in the corresponding enterprises' country and find some means to accommodate these, such as hiring an interpreter or translator.
- Information about countries will aid other countries in overcoming the psychic distance. This information can be found in secondary research conducted and compiled by institutions such as the UN and the World Bank.

- A higher level of development found within a country will provide another country with an easier means to overcome psychic distance. This is primarily because the more developed a country becomes, the easier it is for those investing in the country to gather information about commerce within that country and the easier it becomes to bridge language and cultural gaps within that country.

Ball *et al.* (2010:433) and Veldhuis (2013:21) thus point out that the enterprise should understand the socio-cultural forces within a foreign market, and consider whether the socio-cultural barriers are too great to overcome. If the enterprise finds the barriers limiting it should determine whether the market is feasible to enter or not.

- Phase 5 . Screening of competitive forces

During the fifth screening stage, Ball *et al.* (2010:433-434), Veldhuis (2013:21) and Porter (1980:49) identify possible different factors that an enterprise could consider during a competitor analyses. These might include:

- What are the number, size and financial strength of competitors?
- What is the current market share of each competitor?
- What current and future marketing strategies are implemented by competitors?
- What is the effectiveness of competitors' promotions?
- What is the quality of each competitor's products or product lines?
- Are these competitor's products produced locally or internationally?
- What are the competitor's pricing policies?
- What is the degree of after-sales service provided by competitors?
- What are the different distribution channels used by each competitor?
- What is the current market coverage; thus, are there any possible niche markets? For example, what are the subcultures, regional or ethnic, within the potential foreign market? Do these subcultures provide a possible niche market; for example, providing a market for potential culture-specific products?

The enterprise will eliminate countries where strong competitor's presence decreases market feasibility, unless its management is following one of the following two strategies: firstly, having a presence in the same markets where competitors are active or, secondly, presuming that entering a competitor's foreign market will turn the competitor's attention away from home country competition (Ball *et al.*,

2010:434). Hereafter, the enterprise will proceed to making the final selection of new markets.

- Phase 6 - Final selection of new markets

After the completion of each of the above screening stages, one or a limited number of potential foreign markets will remain, leading to the final selection of new markets. During this stage, the enterprise should consider the following:

Firstly, Ball *et al.* (2010:434) and Veldhuis (2013:21) state that the enterprise could send a representative into a foreign market it wishes to enter in order to gather insightful information that can only be found within the market. Foreign cultures, languages and business etiquette can only be fully understood once experienced.

Secondly, an enterprise can also accompany a government-organised trade mission during which a group of representatives of enterprises are sent to a foreign market with the goal of experiencing the market and building potential networks for future opportunities within it. Embassies within the foreign market will make contact with potentially interested enterprises and send information about the group of representatives to these enterprises (Ball *et al.*, 2010:434-435).

Furthermore, most foreign markets organise specialised trade fairs, during which enterprise representatives from different global markets can engage with one another to build possible networks. One such trade fair is *Automechanika*, which specialises in the business-to-business automotive industry (Ball *et al.*, 2010:435).

Thirdly, Ball *et al.* (2010:436) explain that a field report might be needed in order to provide insightful information regarding the final decision. The enterprise might require additional data that can be gathered by conducting face-to-face interviews and surveys with citizens within the foreign market, providing different information from the secondary data regarding the market. Therefore, this will provide the enterprise with a different perspective on the competitive analysis from the one provided during Phase 5. When the enterprise decides to gather data within the host market, a research team from the home market should be appointed to gather the data, as this team will be familiar with how the market operates. The gathering of primary data could, however, lead to the following complications.

Firstly, cultural problems such as language barriers between the researcher and the participants may result in misinterpretation of market research. Furthermore, the lack of knowledge regarding cultures may deliver unreliable information, for example by interviewing the woman in the family whose husband has the buying power and decision-making power over their finances, or encountering the general mistrust of strangers, causing the person interviewed to refuse or manipulate information (Ball *et al.*, 2010:436).

A further complication, namely technical difficulty, might occur, such as the use of outdated maps (Ball *et al.*, 2010:436). An example of this could be the extensive street name changes in the City of Tshwane in South Africa, made to honour those individuals who had contributed to the country's freedom. Old street names were removed immediately, outdating maps regarding the city (*City of Tshwane Metropolitan Municipality v Afriforum and Another* (157/15) [2016] ZACC 19 (21 July 2016):12).

3.2.1.2 Four-stage approach

Brewer (2001:169) developed a market-selection model that focused specifically on Australian enterprises. In this model, Brewer (2001:169) identified four different stages that an enterprise would go through during market selection: to establish a country market set, to identify a country, to evaluate the country, and lastly, to select a market.

- Step 1: Establish a country market set

According to Brewer (2001:162), many enterprises will group countries that they wish to enter together, thus creating a country market set such as SSA or Western Europe. In some cases, however, certain enterprises might be prohibited from entering a foreign market due to laws and regulations, or technical and technological incompatibility between host and home country technology. In such a case the enterprise will create a country market set that excludes these markets. This country market set, however, might still include countries that could prove not feasible for the enterprise to enter. Such countries would be eliminated by the enterprise as the international market-selection process continues.

- Step 2: Identify a country

Once a country market set has been identified, the enterprises' focus moves towards identifying and evaluating markets with higher levels of future returns. Reasons for identifying a country as a potential future market include having a continuous number of projects, following existing clients into the foreign market, and entering markets through country recommendations by representatives of other enterprises. Thus, enterprises identify feasible foreign markets either reactively or proactively. Countries regarded as a high priority are moved on to the next selection step, whereas countries regarded as a low priority, even though those countries might have high potential, are disregarded (Brewer, 2001:162; Brouthers & Nakos, 2005:367).

- Step 3: Country evaluation

Once a potential country has been identified, Brewer (2001:162) found that Australian enterprises would consider only two criteria in selecting a market to expand into, namely market attractiveness and the enterprises' competitive position within the foreign market.

Market attractiveness considers four different factors. Firstly, the market perception is evaluated, during which the enterprise needs to determine if a market is truly attractive, or simply assumed to be attractive. Secondly, the opportunity's true size within the country will determine whether the country would be a long-term investment or not. Thirdly, new product development possibilities should be considered within the foreign market. This new-product development would typically occur in countries where a large volume of sales occur and a great deal of wealth is generated. Finally, market size is considered, that is, what the true size of the market would be for the enterprises' product or service. Thus, the larger the market, the larger the possible sales volume might be.

Secondly, the enterprise strives to achieve the highest competitive position within the foreign country. Thus, the greater the competition within a particular foreign market, the more reluctant an enterprise would be to enter such a market. Participants indicated that markets where large competitors were already established made these markets uncompetitive, as their operations could not compete with these market

leaders. Markets where fewer competitors were present and markets where the enterprise had some advantage, such as advanced technology, proved more attractive.

- Step 4: Select a market

Once markets had been evaluated, the enterprise would now continue by selecting countries deemed feasible for future development. Depending on market profitability, resource allocation would be considered, measured either objectively or subjectively. In Brewer's (2001:163) study, some cases showed that certain foreign markets could be rejected even after being considered feasible during the evaluation process. Reasons for this decision were a lack of allocated funds to explore that foreign market more thoroughly, or because the necessary time and resources to focus on certain larger foreign markets was limited.

3.2.1.3 Three-stage approach

Cavusgil (1985:30), Kumar *et al.* (1994:33), Koch (2001:67) and Ozturk, Joiner and Cavusgil (2015:124) identified a three-stage approach to IMS, namely the preliminary screening stage, an analysis of industry market potential (identification stage), and the analysis of enterprise sales potential (selection stage).

- Preliminary screening stage

During the preliminary screening stage, variables such as political, economic, sociocultural and other macro-economic variables can be used to eliminate foreign markets that do not compare favourably with the enterprise's goals and objectives. These macro-economic variables might include situations where labour unrest within an industry will make that specific foreign market unfavourable, or where strict rules and regulations might limit the enterprise's operations (Cavusgil, 1985:30; Koch, 2001:67; Kumar *et al.*, 1993:33; Ozturk *et al.* 2015:5).

- Analysis of industry market potential (identification stage)

According to Cavusgil (1985:30); Koch (2001:67); Kumar *et al.* (1994:33); and Ozturk *et al.* (2015:124), once the screening stage is completed, the enterprise will begin to analyse each identified foreign market's industry according to specific market- and industry-related variables. These variables include its competitive nature, such as

the number of competitors within the market, the nature of competing or substitute products, prices of competing or substitute products and so forth. Each variable should be thoroughly evaluated to ensure that the enterprise has the needed information to determine its competitive position within the potential market. Once each foreign market's industry has been evaluated, market segments within each market can be identified that would provide the enterprise with a positive competitive position within that market.

- Analysis of enterprise sales potential (selection stage)

During this stage, enterprise-specific information, such as the enterprise's current product portfolio and goals, objectives and strategies, is compared with each potential foreign market in order to determine which one would be most suitable for expansion. Even though the enterprise might be able to use secondary data during this stage to compare the enterprise's specific information with each foreign market, it might prove beneficial to employ a marketing research enterprise within the market. Data gathered within the foreign market might enable the enterprise to develop a clearer understanding of the market's needs and possible reaction to specific products and brands, and will provide needed insights into the cultural distance between the enterprise's home country and the foreign market (Cavusgil, 1985:30; Koch, 2001:67; Kumar *et al.*, 1993:33; Ozturk *et al.*, 2015:124).

3.2.2 Non-systematic international market selection

Although Ball *et al.* (2010:436); Brewer (2001:163); Brouthers and Nakos (2005:367); Cavusgil (1985:30); Kumar *et al.* (1994:33); Koch (2001:67); Ozturk *et al.* (2015:124) and Veldhuis (2013:21) show support for a systematic international market selection processes, a number of studies have shown that enterprises may also apply a non-systematic international market-selection process (Malhotra & Papadopoulos, 2007:15; Ozturk *et al.* 2015:128).

According to Górecka and Szalucka (2013:35) and Marchi *et al.* (2014:2201), entrepreneurs of smaller enterprises prefer the use of a non-systematic international market-selection approach, in which some would follow clients into a foreign market or start exporting into a country whose psychic distance is closer to their own. Furthermore, a partner already operating in a foreign market might be selected as a means of market entry. This partner would be importing the enterprise's products

into the foreign market. When such strategic decisions occur, risk mitigation and avoidance might occur when the enterprise simply exports products into the foreign market, sharing the market entry risk with the said partner. In this regard, Górecka & Szalucka (2013:35) and Marchi *et al.* (2014:2201) explain that other reasons why SMEs might prefer to use a non-systematic IMS process might include lack of managerial knowledge or experience, or restricted access to secondary and primary data on the foreign market. Cavusgil (1985:28) and Malhotra and Papadopoulos (2007:15) found that enterprises selecting a non-systematic IMS approach tended to perform more poorly than counterparts selecting a systematic IMS approach.

3.3 RISK ASSESSMENTS AND COUNTRY RISK RATINGS

Even though the history of country risk assessments (CRAs) can be traced back to the early 1960s, when short-term and long-term indicators were identified when calculating a country's ability to service debt, CRA only became a priority for the international world (including banks, MNEs, government bodies and the public) during the second oil-price shock between 1979 and 1980 (Petrovi & Stankovi , 2009:12).

Currently there are many international banks and private institutions conducting the necessary research to determine CRAs of different countries. Once all the necessary information is gathered by these organisations, it is compiled and presented in a single document providing an analysis of each country's country risk rating or CRR (Hammer *et al.*, 2004:1; Petrovi & Stankovi , 2009:12; S voiu *et al.*, 2013:41). Some of the better-known organisations that conduct these CRAs are (Bayar, 2012:25; Bouchet, Clark & Gros Lambert, 2003:12; 94-102):

- Standard & Poor (S & P)
- Moody's
- Fitch IBCA

These organisations use different methods, such as a fully qualitative method, structured qualitative method, the checklist method and other quantitative methods, to measure a country's CRA (Basu, Deepthi & Reddy, 2011:4; Nath, 2008:75).

The first method, the fully qualitative method, is explained by Nath (2008:75) as a flexible, formatted, in-depth analysis of specific country factors. These country factors usually include the economic, political and socio-cultural environments found within the said country's borders. Country-specific strengths and weakness can be analysed during the fully qualitative method; however, it might prove difficult to draw a country comparison from the accumulated data.

Secondly, the structured qualitative method includes a semi-structured analysis, explained as an analysis comprising some form of standardised format, selecting specific country factors and stipulating a predetermined scope and focus of analysis. Comparisons are drawn between different countries by applying economic statistics found within each country (Nath, 2008:76).

According to Nath (2008:76), the third method, namely the checklist method, entails providing the country with a set score regarding specific qualitative variables. Qualitative variables are a scoring based on judgement of facts and quantitative variables that include interval scales, ordinal scales and ratio scales, for example the population size within a country. Each country-specific factor is allocated a specific scale from lowest to highest, and each country is analysed by using this scale. Once analysed, each country is provided with a specific CRR. The checklist method used most often by banks and other country-rating enterprises is the weighted checklist approach, which calculates the final CRR by allocating a specific weight to each country-specific factor.

Lastly, other quantitative methods include numerous methods of applying data to previously identified patterns found among different countries. This enables the analyst to determine in which risk category country-specific factors, the data collected, should be categorised. It should be noted that these methods are predominantly used in CRAs requiring econometric or statistical research (Nath, 2008:77).

All of the data gathered by these organisations is then compiled into reports and a CRR for each involved country is calculated (Hammer *et al.*, 2004:1; Nath, 2008:75).

According to Hayakawa and Kimura (2013:2), the higher a country's CRR, the more discouraging it becomes for MNEs to invest within that market. Thus, after a CRA

analysis of a specific country is completed, the results published will influence FDI inflows into the said country either positively or negatively. If the published results prove negative, investors will probably be reluctant to invest within the country. These negative reviews, however, might also lead to a larger problem, such as the divestment of current investors within the foreign market. These divestments within an already declining foreign market might lead to a continuing downward slope within the relevant economy, worsening current economic conditions. International organisations such as the IMF have voiced criticism of these rating enterprises regarding the rating analyses used. Criticism include rating agencies premature reactions which brought chaos to certain countries in their times of need (Hammer *et al.*, 2004:1).

One such example is the downgrading of government bonds, increasing default risk within a downgraded country. Aizenman, Binici and Hutchison (2013:583) explain that downgrading announcements by rating agencies have a detrimental effect on investors, borrowers, issuers and governments within a particular country, leading to more expensive sovereign debt. Liquidity might also follow such a downgrade, since investors might divest from the said market, so a country's regulatory requirements are highly dependent on CRAs (Eijffinger, 2012:12). Countries recently affected by such downgrading include Greece, Portugal and Ireland, graded as junk in 2010 (Aizenman *et al.*, 2013:583).

3.4 DIFFERENT TYPES OF RISK

Bouyahiaoui and Hammache (2014:3); Meldrum (2000:8) and Svoiu *et al.* (2013:41) state that different enterprises take different types of risk into consideration before entering a foreign market, predominantly because different types of risk will affect enterprises differently, depending on the type of operation that the enterprise is undertaking within the foreign market.

Feinberg and Gupta (2009:386) and Rodríguez, Montiel and Ozuna (2013:9) explain that country risk involves country-specific risks experienced when operating and investing in a particular country, arising from different risk factors due to economic factors, regulatory and legal factors, socio-political organisations, geography, foreign exchange rates and so forth. According to Bouchet *et al.* (2003:12), a thorough

examination of these risks needs to be made in order to understand what the different risks are. These risks can include, but are not limited to:

- Natural disasters: Bouchet *et al.* (2003:12) and Van den Berg (2014:11) explain natural disasters as Acts of God occurring within the host country that could affect the enterprise negatively.
- Economic risks: Economic risk is described as changes in economic variables such as inflation, exchange rates, GDP per capita, balance of payment, deficiencies in infrastructure and so forth. Different economic factors have different influences on an investment made within a particular country (Bouchet *et al.*, 2003:12; Bouyahiaoui & Hammache, 2014:3; Meldrum, 2000:2; Musonera, 2008:4; S voiu *et al.*, 2013:41; Van den Berg, 2014:11; White & Fan, 2006:155).
- Political risk: Bouyahiaoui and Hammache (2014:3); Meldrum (2000:2); Narayanan (2015:114); Nath (2008:72), S voiu *et al.* (2013:41), Van den Berg (2014:12) and White and Fan (2006:155) explain that changes in government, political instability, crime and terrorism, and policy and regulatory changes can lead to political risk faced within a foreign country's borders.
- Financial risk: Financial risks explain a foreign country's credit rating vulnerability and restriction of access to credit and capital markets (Van den Berg, 2014:12; White & Fan, 2006:155).
- Socio-cultural risks: Van den Berg (2014:12) and White and Fan (2006:155) state that socio-cultural risks include both the enterprise's culture and the foreign country's culture. Some examples include the presence of nepotism within the enterprise, casual enterprise operations versus formal enterprise operations, language barriers within the foreign country, customary laws within a country (explained as traditional customs within different cultures that are not officially recognised as a country's laws, but have been treated as such over the years), and a reluctance to provide information to foreign enterprises.
- Transfer risk: When a foreign government decides to determine or restrict capital flows, transfer risks occur. Thus, transfer risk will influence any investment within the country's borders, indicating how easily a country can receive foreign currency, thus determining how difficult fund transfers will be from host to home country. Measures used when determining the severity of transfer risk are trends found in quantitative measures. These include, firstly, the ratio of debt payments

relative to exports; secondly, the ratio of debt payments relative to exports including FDI; and thirdly, forex reserves divided by different imported products (Bouyahiaoui & Hammache, 2014:3; Meldrum, 2000:2; S voiu *et al.*, 2013:41).

- Exchange risk: Bouyahiaoui and Hammache (2014:3); Meldrum (2000:2) and S voiu *et al.* (2013:41) explain that a sudden change in a currency's exchange rate is referred to by risk analysts as currency risk. This risk might affect foreign clients' repayment values. Since this risk relates closely to transfer risk, the measures used to determine the severity of exchange risk closely relate to the measures used when determining the severity of transfer risk, including the policy established by the foreign market regarding exchange rates, floating exchange rate systems, or over- and under-valuation of a currency.
- Location risk (neighbouring risk): When a problem occurs with a particular country's trading partner, trading bloc (such as the Southern African Development Community (SADC) or in the country's region (for example SSA), spill-over effects might occur, having detrimental effects on the aforementioned country. An example of this is the spill-over effect found in Europe after Greece entered another recession. Other results have indicated that Africa would experience growth in FDI once neighbouring countries have a larger extent of openness toward the developed world (Bouyahiaoui & Hammache, 2014:3; Jordaan, 2005; Meldrum, 2000:2; and S voiu *et al.*, 2013:41).
- Sovereign risk: Bouyahiaoui and Hammache (2014:3); Meldrum (2000:2); Nath (2008:71) and S voiu *et al.* (2013:41) state that a government's ability to pay foreign debt and meet debt and loan obligations is described as a sovereign risk. Reasons for which a foreign government cannot meet foreign obligations might be from a political viewpoint or a lack of forex. When determining country risk, sovereign risk carries a large weight in determining a country's risk factor; it is usually used as the first indicator in determining whether or not a country carries a large perceived risk or not. Transfer risk measures are used when measuring the severity of a country's sovereign risk. The measurement can be made by determining what the country's repayment history to other countries or monetary institutions has been over the years. Once this has been measured, the enterprise would have an understanding regarding the country's repayment capabilities.

3.5 CONCLUSION

Literature discussed during this chapter showed that enterprises would use either systematic or unsystematic international market-selection processes when selecting a foreign market. The literature showed that SMEs preferred to use a non-systematic IMS process, whereas larger enterprises might prefer using a systematic IMS process, as this process determines the degree of foreign market risk, and the markets most advantageous for the enterprise. Furthermore, several organisations determining a CRR by means of a CRA were identified; a premature reaction by these organisations regarding a country's CRR might have detrimental effects on FDI. Apart from the CRA and CRR affecting FDI decisions among MNEs, numerous country risks were identified, each influencing the enterprise to a different extent. Once all of the above factors have been taken into consideration, a well-reasoned strategic decision can be taken regarding future foreign expansion.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

According to Kumar (2008:5) and Singh and Bajpai (2008:163), research methodology is the process followed when scientific research is conducted. This process enables researchers to identify a problem faced within a particular discipline or enterprise, and use a systematic approach in order to solve it.

This chapter will focus on the choice of a research design, the data collection instruments, data analysis and data interpretation that were used during this research study.

4.2 PROBLEM STATEMENT AND OBJECTIVES

Defining the problem statement is one of the first and most important steps of the research process. The problem statement will provide the researcher with a clear foundation, and indicate what direction the remaining research should take. Once the problem statement has been identified, the researcher will be able to identify possible research objectives. Both the problem statement and research objectives should be stated clearly to enable the researcher to accumulate the necessary data to address the problem statement (Cooper & Schindler, 2008:583; Jha, 2014:32).

4.2.1 Problem statement

The manner in which MNEs internationalise has received a great deal of attention in the literature over the years. One of the more recently developed internationalisation models was developed by Malhotra and Hinings (2010), namely the Organisational Model. This model not only identified the shortcomings of other internationalisation models, such as the Uppsala model, but also put forward a new perspective on the internationalisation of enterprises.

Malhotra and Hinings (2010:334) argue that the internationalisation path chosen will depend on the type of enterprise. The model identifies three different enterprises on

a continuum ranging from a mass-production enterprise to a disaggregate-production enterprise and finally a project-based enterprise. Each of these main types can be defined as follows:

Mass-production enterprise: A mass-production enterprise produces products in bulk by using a standardised mechanised production process, indicating that these enterprises are highly capital intensive, with little customer participation.

Disaggregate-production enterprise: A disaggregate-production enterprise uses a moderate degree of customisation, thereby indicating that these enterprises are only moderately labour intensive. Each customer will only influence the final product to some extent, for example ordering a specific meal at a restaurant, while the manner in which the meal is prepared and presented to the customer is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

In developing the Organisational Model, however, Malhotra and Hinings (2010) used studies which predominantly focused on the US, Europe and Asia (Pedersen & Shaver, 2000; Goerzen & Makino, 2007; Li & Guisinger, 1992; Erramilli & Rao, 1993; Contractor & Kundu, 1998; Benito & Gripsrud, 1992; Kim & Hwang, 1992; Barkema & Drogendijk, 2007), while little is known about Africa in general and SSA in particular.

As explained in detail in Chapter 1, a focus on SSA in particular seems justified, considering that the continent has experienced consistent FDI growth since 2010. In 2012 Africa was the only region experiencing an increase in FDI, though this has slowed lately in some of the countries. FDI inflows from developing countries into SSA continue to be an important source of income for the region (IFC, 2011:26), with Malaysia, South Africa, China and India reported as the four major developing countries investing within the SSA region in 2012 (UNCTAD, 2013:16).

However, as discussed in Chapter 1, although opportunities are rising within the SSA region, investment barriers and barriers to conducting business remain. These include limited Information on this region, poor infrastructure, lack of a skilled and semi-skilled workforce and regulatory mechanisms (IFC, 2011:13). The IMF (2014:15) has identified a further four downside risks that might threaten the economic outlook for SSA. The first is fiscal uncertainty and vulnerability among certain countries within the region. Secondly, neighbouring or locational risk might be experienced in the SSA region (IMF, 2013:3). The third risk relates to growth opportunities being lowered: lower demand for commodities with a lower value, which will have an influence on countries exporting natural resources such as South Africa. Lastly, countries investing within the SSA region might affect the SSA region negatively, as capital flows from these countries might be reversed and monetary conditions within these countries might be tightened (IMF, 2014:16).

Therefore, with SSA increasing in popularity and with MNEs wishing to expand into the region despite the persistent risk in the region, this study aimed to determine: %Which modes of entry do enterprises use when expanding into perceived high-risk countries in SSA?+

4.2.2 Research objectives

After considering the research question, the following propositions were stated:

- Proposition 1:* The perceived risk of the country being entered will influence the mode of entry being used by a multinational enterprise.
- Proposition 2:* When mass-production enterprises expand into a perceived high-risk country in SSA, they follow a systematic (slow and steady) internationalisation process.
- Proposition 3:* When disaggregate-production enterprises expand into a perceived high-risk market in SSA, they prefer using a management service contract and franchising as mode of entry.
- Proposition 4:* The focus of a project-based enterprise (project focus versus market) will influence the project enterprises' choice of mode of entry when expanding into a new market.

4.3 RESEARCH DESIGN

Malhotra (2010:100) states that the research design is the foundation structure for accumulating the necessary data, conducting the research project and solving the research problem. Furthermore, McDaniel and Gates (2002:63) state that there are different types of research design for the different types of research that can be conducted, and that each of these research designs has advantages and disadvantages. In addition, Kolb (2008:24) states that the choice will depend on whether the researcher needs a question to be answered with quantifiable facts or not.

This study can be classified as a descriptive study, as it aimed to determine which modes of entry enterprises select when entering high-risk countries in SSA. Since this study was conducted only once, it can be classified as a cross-sectional study. In this study, semi-structured interviews were conducted with six different participants, two each from the three types of enterprise identified in the Organisational Model. The data accumulated from each participant was then analysed and six different case studies compiled, which were then used to find support for, or evidence against, each of the four propositions.

4.3.1 Why use a case study design?

Yin (2009:4) and Gibbert, Ruigrok and Wicki (2008:1465) explain that case studies are used in a variety of disciplines, primarily to explain complex phenomena in social sciences, and explain characteristics found in specific events such as processes used by enterprises. Furthermore, a case-study design should also be used when the population is considered to be hard to reach (Guest, Bunce & Johnson, 2012:61).

According to Zikmund (2003:115), Yin (2009:4) and Cooper and Schindler (2008:184), one of the advantages of case-study research is that an entire enterprise can be investigated in great detail.

During this study, a case-study design was used, as the population was selected according to predetermined criteria, making the population hard to reach. In particular, two enterprises representing each of the three enterprise types had to be interviewed. Additionally, these enterprises had to have expanded into a high-risk market in SSA.

Secondly, this study aimed to determine the mode of entry selected by these enterprises, indicating that their process of expansion had to be analysed in depth.

4.3.2 Case selection

According to Yin (2008:39), four different types of case-study designs can be identified: single-case holistic design, multiple-case holistic design, single-case embedded design and multiple-case embedded design.

Yin (2012:17) states that a single-case study allows a study to be done on one enterprise and focuses on the collection and analysis of highly qualitative data over an extensive period. Multiple case studies occur when a study contains more than one single case, and may be either a holistic or embedded case-study design. The difference between a holistic and embedded case-study design, however, depends on the phenomenon studied and the research question asked. A holistic case-study design studies each case in its entirety, whereas an embedded case-study design might incorporate a collection of quantitative results (Yin, 2009:59).

Therefore, a multiple-case holistic design was used in this study. The researcher analysed two case studies for each type of enterprise identified during Chapter 1: mass-production enterprise, disaggregate-production enterprise and project-based enterprise, which had expanded into a perceived high-risk market within SSA. Since the information gathered was from a small sample, the utility thereof would have to be maximised. In order to achieve this, an information-oriented case selection was used, as opposed to a random selection. Furthermore, the research focused on typical cases, used as an informative measure regarding specific circumstances or experiences of a specific individual or enterprise. A typical case study represents the typical representative of a particular group, such as an enterprise, and one case study was therefore seen as typical of other similar cases (Yin, 2009:48). Table 4.1 provides a summary of the characteristics of the case enterprises and the participants who participated in this study.

Table 4.1: Characteristics of the case enterprises and the participants in this study

Respondent	Type of enterprise	Number of employees	Participant's position within the enterprise	Enterprise age	Length of the initial interview
A1	Mass-production enterprise	Between 7500 and 8000	Financial Director of all of Africa	48 years*	17mins:33secs
A2	Mass-production enterprise	500	Director of A2 international	29 years*	13mins:47secs
B1	Disaggregate-production enterprise	Between 1100 and 1300	International Business Development Manager	31 years*	21mins:18secs
B2	Disaggregate-production enterprise	Over 16 000	Executive Director of Africa	68 years*	14mins: 44secs
C1	Project-based enterprise	Over 14 000	Head of Project-Development	About 41*	10mins: 55secs
C2	Project-based enterprise	7000 worldwide	MD for Africa including Middle-East and North-Africa	7 years*	14mins: 44secs

*Enterprise operational under current trading name

Each participant was an individual who had been or was currently working with the process of expanding into Africa or sub-Saharan Africa. Each participant therefore

had the needed expertise to provide valid, accurate and reliable information regarding expansion into SSA.

4.4 DATA COLLECTION

According to Yin (2008:27), each step (i.e. the research question, the propositions and the unit of analysis) throughout the scope of the study contributes to the formulation of the questions that will be asked during the data collection process. In this study, in-person semi-structured interviews were conducted with six participants: one representative from each identified enterprise. An in-person semi-structured interview is a personal, face-to-face interview in which the researcher asks the subject questions that have been prepared beforehand. The compiled questions were flexible, allowing participants to provide answers that provided the researcher with the ability to analyse the information comprehensively.

In order to ensure consistency in the conducting of the interviews, the researcher used a case-study protocol. The protocol included an introduction to the research study that explained to the participants the purpose of the research undertaken. Furthermore, each participant was assured that his or her identity would be anonymous, and all information obtained would be kept confidential.

The questions included in the interview protocol were divided into two sections. The first section included five introductory questions that covered information regarding the enterprise itself. Thereafter, the main body of questions followed, eight questions being concerned with the enterprises' expansion into SSA. The interview protocol can be found in Appendix A.

4.5 DATA ANALYSIS

4.5.1 Reliability (Dependability)

Reliability (dependability) is defined by Gibbert *et al.* (2008:1468) and Yin (2008:45) as the quality that ensures that other researchers would accomplish the same results if following the same process as the original researcher. Reliability can be ensured

through transparency and replication. Transparency can be increased by thoroughly documenting and clarifying procedures applied during the research study. Replication is enhanced by an accurate compilation of all documentation, such as case-study notes compiled during the data-collection process (Gibbert *et al.*, 2008:1468; Yin, 2008:45). During this study transparency and replication were enhanced by compiling a clear case-study protocol and case-study database.

4.5.1.1 Interviews/ case-study protocol

Gibbert *et al.* (2008:5) explain that a case-study protocol documents the entire procedure of how the case study has been conducted. Yin (2009:79) states that a case-study protocol explains the rules and procedures followed during implementation, and not just the research instrument itself. An interview protocol addresses a different target group from that used with other research methods. In particular, a case-study protocol enables the researcher to ensure procedural consistency throughout each interview conducted, instead of developing ad-hoc questions directed at the participants. A case-study protocol is of the utmost importance under all circumstances, and is essential when compiling multiple case studies.

Furthermore, according to Brereton, Kitchenham, Budgen and Li (2008) and Yin (2009:81), the following sections should be included in a case-study protocol:

- An overview of the case-study protocol, including the objectives, problems faced during the case studies and so on.
- Field procedures, including the name of the enterprise to be visited, contact persons, interview preparation prior to the interview, explanation of interview procedures to the participant prior to interview, and the letter of confidentiality.
- Case-study questions: specific questions that should be kept in mind during the collection of data.
- A case-study report guide; that is, all documentation used during the data collection process, case evaluation design, possible outcomes and theoretical support.

The case-study protocol for this study can be found in Appendix A.

4.5.1.2 Case-study database

The second method that was used to accomplish reliability (dependability) was a case-study database, containing all documentation accumulated during the data collection process. The different components used in the developing of a case-study database include (Yin, 2009:119; Gibbert *et al.*, 2008:1468):

- Case-study notes: Case-study notes are notes made by the interviewer during the interview. These notes may be in the form of interview transcripts, typed or written notes in a formal format, or in a diary format, audio tapes and the like.
- Narratives: Narratives occur when the interviewer compiles open-ended answers from different questions in the case-study protocol. This provides the researcher with the ability to integrate different answers to different questions, and is especially useful in a multiple-case analysis. These answers may be fragments of a larger explanation when treated as separate, and might therefore provide the researcher with necessary explanations during the compiling of each case study.

The case-study notes for the study can be found in Appendix B. During this study, each participant's identity was treated as anonymous and information obtained was treated as confidential.

4.5.2 Validity (Trustworthiness)

As internal validity (credibility) is only used during explanatory or causal studies, this study will focus only on construct validity (conceptualisation and operationalisation) and external validity (transferability or generalisability) (Yin, 2008:40).

4.5.2.1 Construct validity (Conceptualisation and Operationalisation)

Construct validity focuses on the conceptual or operational quality regarding a certain topic. Therefore, construct validity explains whether the study will, or will not accurately explain that which is being investigated (Gibbert *et al.*, 2008:1466; Yin, 2008:41). According to Gibbert *et al.* (2008:1468) and Yin (2009:42), construct validity can be enhanced through two methods. Firstly, a clear chain of evidence can be established by writing the research study in such a way that the reader can reconstruct the researcher's research path from the initial research question to the possible conclusions that the researcher drew. Secondly, triangulation can be used,

which is defined as the use of different sources, such as (in this case) the literature, data obtained from each participant and an academic reviewer.

In this study construct validity was accomplished by firstly establishing a clear chain of evidence through recording the research study systematically in such a way that the reader would be able to follow the development of the research from the research question to each conclusion drawn. Secondly, triangulation was achieved by utilising similar literature (i.e. academic journals and textbooks), conducting interviews with participants working within the SSA market, and by allowing an academic expert in the field of international business to review each phase of the study.

4.5.2.2 External validity (Generalisability)

According to Polit and Beck (2012:525), qualitative research usually does not concern itself with generalisation, since qualitative research focuses in depth on cases regarding human experience, and sampling decisions are not generalised to a target population. However, when considering generalisation, qualitative research focuses on a middle ground, stating that generalisation should be regarded as a working hypothesis that should be retested regularly. During this research study, transferability was applied to accomplish generalisation. Often referred to as reader generalisability, transferability enables readers of the research to extrapolate findings to different groups of people or settings. Thus, researchers should compile detailed research records in such a way that the research study provides readers with the ability to transfer findings from one scenario to another.

Flyvbjerg (2006:229) explains that case studies are applied to hypothesis testing, which should consider generalisation. In order to explain generalisation of case studies, however, the case selection should be understood. As explained in section 4.3.2, a multiple-case holistic design case study was selected for this research study. Furthermore, information-oriented case selection enabled information gathered from a small sample to be utilised optimally. Flyvbjerg (2006:229) identifies information-oriented selection as a strategy for the selection of cases and samples, and explains that such a strategic selection of case studies could increase their generalisability. In conclusion, typical case studies were selected, since one case study is generally

seen as typical of other similar cases, enabling the researcher to generalise findings from one case to other similar cases.

4.5.3 Assimilation of case-study data

After all the interviews had been transcribed, the various case studies were compiled. Thereafter, commonalities and differences between the two enterprises representing each type of enterprise were identified. Once commonalities and differences had been identified, the analysed data were compared with the Organisational Model. The comparison drawn within each case study allowed the researcher to find support for or against the relevant propositions, draw conclusions, and identify possible limitations and recommendations for this research study and provide suggestions for future research.

4.6 CONCLUSION

The problem statement identified the research problem that the research study faced, and identified four research objectives for this study.

A multiple-case holistic design was selected as the case-study design. Furthermore, the small population and hard-to-reach sample size was explained, providing evidence why only six enterprises were used to compile the case studies. Semi-structured, in-person interviews were conducted with each participant, and a table was provided indicating critical information of each participant. In conclusion, the reliability (dependability), validity (trustworthiness) and the assimilation of cases were described.

CHAPTER 5

CASE STUDY REPORT: ANALYSIS AND INTERPRETATION OF FINDINGS

5.1 INTRODUCTION

The following chapter provides a discussion of six different case studies. Interviews were conducted with six participants, two from each of the three types of enterprise discussed in Chapter 1. Each case study describes how the enterprise concerned identified high-risk markets, and how each enterprise entered these perceived high-risk markets. The case studies start with a brief discussion of the enterprise's background and related information on the enterprise, followed by a discussion relating to SSA, as well as the perceived high-risk markets within SSA that the enterprise entered. Next, the mode of entry selected for these perceived high-risk markets is identified for each of identified enterprises (mass-production enterprises, disaggregate-production enterprises and project-based enterprises). As the participants were assured of confidentiality, the names of the enterprises have been omitted from the cases. The extracts from the interviews recorded below are relevant *selections* from the interviews, which are given in their entirety in Appendix B.

5.2 CASE STUDIES

Case studies 1 and 2 describe two mass-production enterprises; case studies 3 and 4 focus on two disaggregate-production enterprises, and case studies 5 and 6 provide information on two project-based enterprises.

5.2.1 Case study one: Mass-production enterprise (A1)

5.2.1.1 Enterprise background

In explaining the enterprise's history, the subject stated that *our African interests, although old, have only been under our control, as I understand it, for about 15 years, because we bought them from a foreign entity who wanted to divest, adding that *we've had it for I think 15. 20 years, roughly.* A1 has been in existence since the 1920s, initially starting out as a group of numerous entrepreneurs producing*

cardboard boxes in South Africa. Over the years, A1 has grown into an MNE producing packaging material by acquiring numerous similar enterprises worldwide. Apart from its operations in South Africa, A1 has a presence in ten SSA countries, namely Nigeria, Ethiopia, Kenya, Tanzania, Malawi, Zimbabwe, Zambia, Angola, Mozambique and Botswana. A1 also operates in non-SSA countries, adding nine operating sites in the UK to its portfolio. Currently, A1 specialises in six different types of products and services and is a Johannesburg Stock Exchange (JSE) listed enterprise, with employees ranging between 7500 and 8000 people in the South African, African and UK-European markets.

5.2.1.2 Type of enterprise

During the interview, the subject was provided with a summary of each type of enterprise as described in Chapter 1, upon which the subject identified A1 as a mass-production enterprise. A1 predominantly produces products in bulk by using a highly mechanised, standardised production process. However, the subject indicated that A1 had some disaggregate-production operations through trade and fabrication customisation during the production processes.

5.2.1.3 High-risk market entered over the past ten years

The subject identified two countries as high-risk markets, namely Nigeria and Angola, but indicated that Nigeria proved the higher risk, stating that owing to %Boko Haram in the north, tending toward the centre, a lot of those transit lines were being cut off. That then raised risk trends significantly, because some of the product that we produce and create is actually destined for markets beyond Nigeria,+and added that %the nature of the economy under Goodluck Jonathan+proved to be high risk.

The terror threats led to a significant decline in market demand for A1's products produced within the Nigerian market; the market has only recently been recovering. Furthermore, the subject stated, %Until the shock of the oil price, you could still do relatively big extractions in terms of fund floods+, adding that the Nigerian economy had %gone pear-shaped because of oil now.+

5.2.1.4 Reasons for expansion into a high-risk market

The subject explained, %Nigeria is very good at protecting its own interestsō they said, no more importation of cigarette boxesō So it was quite a specific facility, dedicated to their production flowō we were sitting on a contract [i.e. to manufacture

cigarette boxes inside Nigeria], with a dedicated offtake the risk was just non-existing, almost, you could immediately wrap up and be in the market. So we've already had a year and a bit benefit out of actually doing an acquisition +

After initially entering the Nigerian market, A1 received a second opportunity within Nigeria for further expansion by acquiring an already existing beverage facility in the south of Nigeria. The south of Nigeria provided a unique opportunity, as the southern part of the country has 20 million people. Furthermore, the subject explained that the risk was very little, because in that particular product line, a whole heap of the product is consumed in the southern part of the country. The subject continued, as long as you have a market, then it's mitigated, indicating that A1 had an already established market in the south of Nigeria.

5.2.1.5 Mode of entry

During the initial entry into the Nigerian market, the subject indicated that we expanded into that arena through a very specific contract, explaining that this contract allowed A1 to establish a wholly owned subsidiary within the Nigerian market. This wholly owned subsidiary, moreover, allowed A1 to export to other SSA countries surrounding Nigeria, with the subject stating that some of the product that we produce and create is actually destined for markets beyond Nigeria. +

After thorough consideration, A1 deemed a second opportunity within the Nigerian market to be feasible, and acquired an already existing beverage facility, establishing another wholly owned subsidiary.

5.2.1.6 Market risk influences on entry mode selection

A1 indicated that the initial mode of entry, namely the Greenfield investment with a long-term contract attached to it, carried little risk with it, because we were sitting on a contract with a dedicated offtake. +

5.2.1.7 Reasons for entry mode selection

During a follow-up question, the subject explained that the Greenfield investment with a long-term contract was a totally risk-free way of entering that market, given Nigeria's risk rating during time of expansion.

5.2.1.8 Future entry mode selection

After careful consideration, the subject indicated that each country in Africa is unique, stating that %Each country has its own little problems, its own little issues, and you have to, once you know what countries you are aiming at, do all the research in terms of risk mitigation, and then start making decisions.+

The subject added that each scenario found within a foreign market would require a different type of market entry, ranging from acquisitions to Greenfield investments.

The subject indicated that another possibility of entry mode selection when entering a high-risk market would be the introduction of partners in foreign operations.

5.2.1.9 Summary

From the above responses, the following can be summarised from this case study:

- The subject identified Nigeria as the country that for the enterprise held the highest-risk in SSA.
- A1 entered the Nigerian market by initially using a wholly owned subsidiary linked to a long-term contract.
- Risk factors such as the terrorist attacks by Boko Haram affected A1's operations within the Nigerian market negatively.
- Although stating that risk had no influence on the initial market entry decision into the Nigerian market, the subject stated, %Each country has its own little problems, its own little issues, and you have to, once you know what countries you are aiming at, do all the research in terms of risk mitigation, and then start making decisions.+ This indicated that A1 does consider risk when entering foreign markets.

5.2.2 Case study two: Mass-production enterprise (A2)

5.2.2.1 Enterprise background

A2 was formed when two enterprises merged in the PVC pipe and fitting industry in 1987, expanding into the rest of SSA with manufacturing and trading operations. Apart from South Africa, A2 has manufacturing facilities in five SSA countries: Botswana, Namibia, Tanzania, Angola and Mauritius, and has a presence in six surrounding SSA countries: the DRC, Uganda, Burundi, Rwanda, Zambia and Kenya. At the time of this study, A2 had not yet expanded into non-SSA countries

and employed approximately 500 employees. The enterprise was established under its current trading name in 2002; the shareholding is via an offshore Mauritian company called A2+International Limited.

5.2.2.2 Type of enterprise

After being provided with a summary of the three types of enterprise, the subject indicated that approximately 80% to 90% of its operations were mass-production, adding that we do some form of customisation through fabrication.

5.2.2.3 High-risk market entered over the past ten years

The country that proved the highest risk for A2 is Angola; the country was perceived to be a high-risk market and still is a high-risk environment. The subject added that when a market was perceived to be a high-risk market, higher margins could be coupled with products sold. These high margins allowed A2 to compensate [for] the eventualities where you may lose a business or take a serious knock.

In addition, the subject stated that Tanzania can also be identified as high risk; however, the country does not hold as high a risk as Angola. High-risk factors identified for the Angolan market include its fairly high corruption levels and fairly primitive legal system based on the Portuguese system, which they customise and it's not very business friendly.

5.2.2.4 Reasons for expansion into a high-risk market

The subject indicated that Angola has a high growth rate, and explained that there was a demand for our product; there weren't many competitors at that stage in time, and as a result [we could] demand higher margins.

The subject, however, did indicate that Angola's economy declined after the oil price decreased, indicating that this had harmed the enterprise's operations.

5.2.2.5 Mode of entry

A2 entered the Angolan market by acquiring an already existing enterprise; the subject explained that it was established already, so all the registration of the company etc. was done. A2 initially asked the previous owner of the acquired enterprise to teach A2 how basic operations worked within the Angolan market, asking him to stay on for a period of time in order for A2 to learn the ropes.

Thereafter the previous owner left the enterprise and retired. However, in order for A2 to overcome foreign market barriers such as the language and market knowledge about the Portuguese and Angolan legal system and accounting world, the subject stated that we got a Portuguese partnership in this business. Therefore, A2 selected a wholly owned subsidiary for its initial market entry.

5.2.2.6 Market risk influences on entry mode selection

Upon being asked whether A2's selection of mode of entry was affected by the perceived high risk within the foreign market, the subject responded by saying: Yes, absolutely.

5.2.2.7 Reasons for entry mode selection

According to the subject, the only reason for selecting this mode of entry was because the opportunity came to us. The subject continued by explaining that had this opportunity not occurred, we wouldn't have entered.

5.2.2.8 Future entry mode selection

The subject stated that every market would determine its own entry mode, stating that it depends very much on a case-to-case basis. The subject indicated that A2 would prefer to use the same mode of entry as that selected during entry into the Angolan market, namely acquisition, stating that we would seriously consider this methodology of entry. However, the subject did state that acquisition is not always possible and that A2 is currently entering another foreign market differently, explaining that we will start very small to learn the ropes about how banking, legal, and corruption in that country works. Once you are satisfied that you can expand, you start with a bigger investment. The subject explained that this is considered in the case of markets very far away.

The above responses indicate that although A2 did not follow a slow and steady approach to entering the Angolan market, A2 would select this process when entering perceived high-risk markets that are geographically farther away from A2's headquarters.

5.2.2.9 Additional information

According to the subject, you have to obviously look at the market. How big the market is, the demand for your product. Whether you have the knowledge to operate

in the market.+ Thereafter, the subject explained that you have to do a serious competitor analysis: what the competition is that you are going to face.+

Next, the subject indicated that enterprises should ask, %Can you get your money out of the country? That is extremely important, because if you invest in the country, at some point you're going to want to repatriate profits.+ The subject added that the enterprise should also consider taxation within the foreign country's borders, as this might cause problems for the enterprise if they were not analysed beforehand.

Lastly, the subject indicated that the foreign market's labour law would affect business decision making significantly, stating, %You have to look at the labour environment . what risk you face when you dismiss local employees.+

5.2.2.10 Summary

From the above responses, the following can be summarised from this case study:

- Angola was identified as the country with the highest risk in SSA for A2.
- A2 entered the Angolan market through a wholly owned subsidiary and entered into a Portuguese partnership to overcome foreign market barriers.
- A2 would prefer using acquisition as a mode of entry, but foreign markets with a large geographic distance from the headquarters will be approached with a slower market entry, thus initially exporting until a market is established for A2's product. Only once the market is established will A2 consider establishing a wholly owned subsidiary or a joint venture.
- Before entering a foreign market, A2 undertakes a thorough risk analysis of the said market, considering numerous country risks before deeming a foreign market feasible.

5.2.3 Case study three: Disaggregate-production enterprise (B1)

5.2.3.1 Enterprise background

B1 commenced operations in August 1985, when the first hotel opened in Bryanston. The B1 hotel group focuses on quality accommodation, homely ambience and friendly service. As one of the 250 largest hotel chains in Africa, B1 has expanded into six SSA countries: Kenya, Botswana, Mozambique, Tanzania, Uganda and Namibia. Currently B1 employs between 1100 and 1300 employees in the SSA region.

5.2.3.2 Type of enterprise

After thorough consideration of the different types of enterprise, the subject indicated that its operations could be classified as a disaggregate production enterprise.

5.2.3.3 High-risk market entered over the past ten years

According to the subject, B1 normally avoids entering high-risk markets, stating, "We avoid the politically and economically high-risk countries where governance, competitiveness, fiscal management and ease-of-doing-business is relatively poor." However, the company is currently busy expanding into Mozambique, a country that it considers to be high risk.

The subject explained that Mozambique is considered high risk, not from a terror, disease, conflict, or instability point of view, but from the point of view that the economy is small and shallow and might prove high risk, considering that the economy is reliant on export revenue from natural resources.

5.2.3.4 Reasons for expansion into a high-risk market

According to the subject, countries grow in different cycles; although the market is currently in a downturn, it will recover over time. "We look at countries with a 20-plus year view, so we invest through cycles. We're in it for the long run."

5.2.3.5 Mode of entry

The subject used the same mode of entry to enter each market, stating, "We source the land, build the hotel, establish a local company, and operate the hotel, thus selecting a wholly owned subsidiary when entering a foreign market."

5.2.3.6 Market risk influences on entry mode selection

Furthermore, the subject indicated that risk should be considered regarding the process of purchasing land, that building a hotel takes into consideration many factors within a country's borders and that it is a complex process. Risk-mitigating factors such as, "relatively good governance, law systems, language" were identified. Other risk factors that B1 considered included the corruption perception index, the ease-of-doing-business index, taxes and the competitive environment. The subject indicated that the perception of risk within the foreign market definitely influenced B1's choice of mode of entry.

5.2.3.7 Reasons for entry mode selection

The subject had one primary reason for selecting wholly owned subsidiaries as a mode of entry, stating that %we want to be fully in charge of control of the product. We don't have to rely on somebody else.+

5.2.3.8 Future entry mode selection

The subject indicated that the entry mode selection currently used during internationalisation had proved successful, and explained that for the time being, the same mode of entry would be selected for future expansions.

5.2.3.9 Additional information

The subject pointed out three primary factors of consideration regarding SSA and Africa as a whole. Firstly, the subject warned, %be careful with seeing Africa as the rising continent,+ adding that governance in each country should be considered. Secondly, the subject indicated that enterprises should be careful when expanding into African countries that do not diversify their economies but have a single-based commodity economy like Nigeria. Finally, the subject stated that enterprises should keep wealth generation and wealth distribution in mind when entering a foreign market.

5.2.3.10 Summary

From the above responses, the following can be summarised from this case study:

- The subject indicated that Mozambique could be considered a high-risk market.
- B1 uses a wholly owned subsidiary when expanding into all SSA markets.
- The subject indicated that certain economies would not be selected for expansion, as the types of risk present in some foreign markets are not feasible for B1.

5.2.4 Case study four: Disaggregate-production enterprise (B2)

5.2.4.1 Enterprise background

B2 initially entered the market as a car dealership in 1948; the subject explained that the enterprise was %quite established+. Thus far, excluding South Africa, B2 has expanded into 13 SSA countries, namely; Lesotho, Swaziland, Namibia, Botswana, Zimbabwe, Mozambique, Malawi, Zambia, the DRC, Angola, Kenya, Nigeria and Ghana. Furthermore, B2 has five divisions and employs over 16 000 employees throughout the enterprises' operations worldwide.

5.2.4.2 Type of enterprise

After each type of enterprise was described to the subject, it was indicated that B2 could be classified as a disaggregate production enterprise, with some characteristics of the project-based enterprise.

5.2.4.3 High-risk market entered over the past ten years

The subject identified three high-risk markets B2 has entered over the past ten years: Zambia, Mozambique and Zimbabwe. These markets proved to be high risk, as they were all politically unstable. However, according to the subject, Zimbabwe proved to be the most risky.

According to the subject, Zimbabwe's high-risk factors include its political instability, and government getting involved in businesses, and demanding a stake in businesses, adding: "They basically drove out the environment for private companies to get involved." This political action forced private enterprises to give the Zimbabwean government shares in their enterprises. Another problem B2 identified in the Zimbabwean market is repatriation risk, stating that: "getting your money out of the country, it's very risky and questionable at times."

5.2.4.4 Reasons for expansion into a high-risk market

Asked why B2 still invested in Zimbabwe, the subject stated that the South African market was becoming saturated "reaching a point of stableness" and the growth rate year on year was really low. In order to expand and seek higher growth opportunities, the subject identified Zimbabwe as a good investment, simply stating, "it's a big growth environment, lots of opportunities. We just decided that there are so many opportunities that we are willing to take the risk."

5.2.4.5 Mode of entry

The subject said that acquisition has always been the enterprise's strategy, stating that "We don't go into Greenfield." Instead, B2 acquires similar enterprises in foreign markets. Upon explaining B2's mode of entry into the identified high-risk markets, the subject explained, "We bought companies in those countries, and made them a part of our group and then took them and grew further."

5.2.4.6 Market risk influences on entry mode selection

B2 considered numerous risks before entering Zimbabwe, stating that once risks are identified, the enterprise should decide if you want to go into it or not.

Acquisition enabled B2 to acquire already established resources, and existing knowledge, particularly with regard to the political environment in which the foreign enterprise operates.

5.2.4.7 Reasons for entry mode selection

B2 had always used acquisition as a mode of entry, stating that it has been a proven track record of success for us. We've always grown by acquisition.

5.2.4.8 Future entry mode selection

Although the subject indicated that they would consider selecting acquisition as a mode of entry during future expansion, the subject did admit that it was not feasible in all high-risk markets. We are finding more and more that we aren't getting the companies that do the same as us. So, we are going to reach a point where we are going to have to start Greenfields, and grow from the bottom up. In Angola and the DRC we definitely see that as a challenge; we're not going to find a company to buy.

5.2.4.9 Additional information

The subject explained that the African market is a high-growth environment, adding that more and more companies from throughout South Africa are going into the African environment. Furthermore the subject explained that the African market is always going to be risky, explaining that this risk could be beneficial to the enterprise if mitigated correctly.

5.2.4.10 Summary

From the above responses, the following can be summarised from this case study:

- The subject identified Zimbabwe as the SSA country that held the highest risk for it.
- B2 only use one mode of entry when entering a foreign market, namely acquisitions.

- B2 uses acquisitions to help reduce risk as a means of entering a high-risk market. By acquiring an already existing enterprise within a high-risk market, B2 has gained access to already established relationships and existing resources.
- B2 is starting to face difficulties with the current entry mode strategy, as fewer enterprises with similar operations are available in high-risk markets.

5.2.5 Case study five: Project-based enterprise (C1)

5.2.5.1 Enterprise background

C1 was formed after five construction enterprises merged, each with a history of its own dating back to the 1930s. In 1974, C1 began trading shares to the public, becoming one of the biggest construction enterprises worldwide. Under the existing registered name, C1 has been operational for approximately 41 years. Apart from South Africa, C1 has a presence in the rest of Africa, the Middle East and Eastern Europe, with offices in South Africa, Ghana, Mozambique and Zimbabwe. Middle Eastern operational experience includes Jordan, Dubai, Abu Dhabi and Oman. Furthermore, Eastern European operational experience includes Poland, Hungary and Russia. Currently C1 employs over 14 000 employees, which include labour on each international project's site.

5.2.5.2 Type of enterprise

After taking the three types of enterprise identified in Chapter 1 into consideration, the subject identified the enterprise's operations as a project-based enterprise.

5.2.5.3 High-risk market entered over the past ten years

Although operating in nearly all of SSA, the subject identified only the DRC, Mali and Liberia as high-risk countries, stating that the DRC had proved to hold the most risk.

Of the DRC the subject stated, "One of the main issues is the regulatory, legal framework, adding that the laws get a bit confusing and that leaves you sometimes at risk handling that." The subject identified only one risk each for Liberia and Mali. After the 2015 Ebola outbreak, the company experienced a different type of threat in the Liberian market, stating that "that left us with quite a challenge." Mali, however, proved high risk for a different reason; the subject pointed out that only political instability raised cause for concern.

5.2.5.4 Reasons for expansion into a high-risk market

The subject explained that high-risk markets proved attractive, as we would hope that the margins or the profits are higher+. Furthermore, since most of these countries are developing, the demand for infrastructure is high, providing C1 with a large market to serve.

5.2.5.5 Mode of entry

With regard to a choice of mode of entry, the subject indicated that the enterprise's operations are project-to-project focused when seeking opportunities in foreign markets, stating that: we always either identify one single project through a tender or alternatively an unsolicited proposal+, indicating that turnkey projects are predominantly C1's focus. However, when considering high-risk markets, the subject indicated that we follow existing clients+. Furthermore, the subject stated that although entry was project based, the long-term strategy would be to establish a wholly owned subsidiary.

5.2.5.6 Market risk influences on entry mode selection

According to the subject, market risk has an influence on the enterprise's entry selection.

5.2.5.7 Future entry mode selection

When explaining which mode of entry would be preferred for future market entry, the subject indicated that C1 would select a turnkey project for future expansions, stating that: we believe that we can handle the risk, we're going to that country+.

5.2.5.8 Summary

From the above responses, the following can be summarised from this case study:

- The DRC was identified as the SSA country with the highest-risk for C1.
- C1 uses turnkey projects as a mode of entry, but would prefer to establish a physical presence within a market where there are continuous projects.
- Risk analysis is one of C1's initial tasks before entering a foreign market, thereby ensuring that the risks present are risks that C1 would be able to handle.
- The subject pointed out that following an existing client into a foreign market is obviously a big advantage+, limiting payment risks significantly. In addition, the subject indicated that the mechanism of payment; if secured, is often attractive+.

5.2.6 Case study six: Project-based enterprise (C2)

5.2.6.1 Enterprise background

Although operations began in 1932, C2 only began trading under its current trading name in 2009. The enterprise currently has offices in over 27 countries and projects in over 80 countries worldwide. Currently C2 has a presence in all of SSA, but with offices in only Angola, Nigeria, Tanzania, Kenya, Uganda, Ethiopia, Mozambique, Ghana and Zimbabwe. Non-SSA countries where C2 has a presence include Australia, China, Hong Kong, Indonesia, Macau, New Zealand, the Philippines, Qatar, Singapore, Thailand, the UAE and Vietnam. C2 employs approximately 7000 employees worldwide, with 2300 employees in South Africa and 400 employees in the rest of Africa.

5.2.6.2 Type of enterprise

After being provided with a summary of the different types of enterprises, the subject identified C2 as a project-based enterprise, adding that ~~we~~ we sell services+.

5.2.6.3 High-risk markets entered over the past ten years

The subject indicated that although Libya had proved high risk over the years, it was not nearly as risky as Angola.

With regard to risks faced in Angola, the subject mentioned ~~the~~ the civil war until 2002~~o~~o. Some places are still military active or unstable, and you have to have armed escorts.+ From an enterprise-risk point of view, payment and the repatriation of profits proved difficult: ~~the~~ there's always the issue of can you get your money, can you get paid, when will you get paid, where will you get paid~~o~~ o, adding that the current risks in Angola had moved from a political risk to a commercial risk.

5.2.6.4 Reasons for expansion into a high-risk market

The subject explained that the enterprise targets high-risk markets, as ~~we~~ we made most of the money in places where there are high risk+. When considering client service in a high-risk market, the subject explained that servicing high-risk markets proves favourable in the long term.

5.2.6.5 Mode of entry

The subject explained that although turnkey projects were preferable as a mode of entry, the mode of entry selected when entering a foreign market is highly dependent

on market requirements, explaining that nowadays we have to set up companies as a requirement.

According to the subject, different markets have different regulations for foreign investments and operations. Certain countries do not allow enterprises to enter the foreign market without setting up a local office. Countries want you to be registered locally – you also need work permits. Furthermore, in order to open bank accounts in host markets, the enterprise should have a physical presence within the foreign market.

In Angola in particular, C2 initially entered the Angolan market under its previous trading name by embarking on numerous turnkey projects, and only established a subsidiary during 2010 when C2 began trading under its current trading name. C2 will thus establish a wholly owned subsidiary or joint venture in the foreign market if the foreign market requires it, and even then the choice between a wholly owned subsidiary and joint venture will be determined by the host government.

5.2.6.6 Market risk influences on entry mode selection

The subject said, When we win a project in a country, we go in, sign the contract, start doing it. Nowadays it's necessary for us to basically set up a company. The subject added, We do what is required, stating that when the market requires a physical presence within the host country, a physical presence will be set up, thus emphasising that our mode of entry is determined by the type of project.

5.2.6.7 Reasons for entry mode selection

According to the subject, the decision on the mode of entry is highly dependent on the customer's requirements. We try and work legally in these countries. If they say we must have a company, we set up a company.

However, the subject explained that many countries do not require a physical presence in the foreign market, repeating that our mode of entry is determined by the type of project.

5.2.6.8 Future entry mode selection

The subject indicated that the type of entry mode selected would remain as is, stating that we would see what the requirements are. According to the subject,

each market differs. In certain markets majority shareholding has to belong to citizens of the country, whereas in other countries this is not a requirement.

5.2.6.9 Additional information

The subject indicated that in our industry risks are becoming more than what they used to be, with currency risk ranking as the highest risk. Furthermore, the subject indicated that repatriating profits within SSA has become increasingly difficult over the last two years, indicating that we pay tax on whatever you take out, and there are also a limitation on the amount that you can take out.

5.2.6.10 Summary

From the above responses, the following can be summarised from this case study:

- The subject identified Angola as the market carrying the highest perceived risk, indicating that the choice of entry mode was initially a turnkey project that developed into a wholly owned subsidiary as time progressed.
- The subject indicated that entry mode selection is highly market dependent, stating that each market within SSA has its own requirements for market entry. Thus, although C2 uses a turnkey project approach in foreign markets, the host government will determine whether C2 will use only a turnkey project or whether it would use it in conjunction with a wholly owned subsidiary or joint venture.
- The perceived risk in the Angolan market did not influence C2's mode of entry during initial expansion. Mode of entry selection was, however, influenced by the market requirements.

5.3 DISCUSSION

5.3.1 High-risk markets

In Chapter 1, numerous downside risks were identified that proved SSA to be a high-risk region. During each of the above interviews, subjects were asked to identify the SSA countries they were operating in, as well as which SSA country they had entered over the last ten years that they would consider to be high risk. Table 5.1 shows the SSA countries in which the participants' enterprises operate.

Table 5.1: SSA countries where the case enterprises operate

Case Study	Current SSA countries of operation (excluding South Africa)
A1	Nigeria, Ethiopia, Malawi, Zimbabwe, Mozambique, Botswana, Tanzania, Angola, Zambia, Kenya (Nigeria)*
A2	Namibia, Mauritius, DRC, Uganda, Burundi, Rwanda, Botswana, Tanzania, Angola, Zambia, Kenya (Angola)*
B1	Kenya, Botswana, Mozambique, Tanzania, Uganda, Namibia (Mozambique)*
B2	Namibia, Zimbabwe, Mozambique, Malawi, DRC, Botswana (Zimbabwe)*
C1	All SSA countries excluding Angola and Somalia (the DRC)*
C2	All SSA countries (Angola)*

SSA country entered over the last 10 years with the greatest perceived risk to the case enterprise

Although some participants identified more than one high-risk country, the following section will focus only on the five most risky countries as identified by the six participants. A1 identified Nigeria as the market with the highest risk it had entered over the past ten years, whereas both A2 and C2 identified Angola as the most risky. B1 identified Mozambique and B2 and C1 identified Zambia and the DRC respectively.

Nigeria was identified as a high-risk country by A1 due to the Boko Haram terror group that operates predominantly in the north of the country, as well as the unstable oil price. Five risks were identified for Angola by the two participants from A2 and C2. A2 indicated that the oil price instability influenced operations negatively, and that the legal system was a Portuguese-based legal system, which made it difficult to understand and to register enterprises. Furthermore, A2 indicated that the high levels of corruption proved troublesome. C2 explained that some physical risk remained from the previous civil war, which made business operations within the

Angolan market difficult, adding that commercial risks such as the repatriation of profits seemed to replace the physical risks previously dominating the market.

B1 identified only one reason for considering Mozambique as high risk, indicating that Mozambique had a small economy that relied heavily on natural resources. B2 identified three risks for the Zimbabwean market, namely political instability and the fact that the government was steadily growing its involvement in enterprises operations, while profit repatriation proved increasingly more difficult. Finally, C1 identified one reason for considering the DRC as high risk, namely that the DRC had a regulatory system that could easily be mistakenly applied. 5.2 provides a summary of the risks per country.

Table 5.2: Reasons for identifying the selected SSA countries as high-risk

SSA country	Reasons for high-risk consideration
A1 (Nigeria)	<ul style="list-style-type: none"> • Terror risk such as Boko Haram • Volatile oil price
A2 (Angola)	<ul style="list-style-type: none"> • Volatile oil price influences enterprises operations negatively. • Portuguese based legal system; difficulty in doing business such as enterprise registrations, banking and legal systems • High corruption levels
C2 (Angola)	<ul style="list-style-type: none"> • Physical risk due to previous civil war • Commercial risk, such as the repatriation of profits
B1 (Mozambique)	<ul style="list-style-type: none"> • Small economy reliant on revenue from natural resources
B2 (Zimbabwe)	<ul style="list-style-type: none"> • Political instability, including government involvement in enterprises • Profit repatriation risk, for example difficulty in transferring funds from the market
C1 (the DRC)	<ul style="list-style-type: none"> • Application of laws confusing

Table 5.3 provides a summary of the reasons for entering the above-mentioned high-risk markets. A1 explained that a Nigerian enterprise approached it with a long-term contract to manufacture cigarette boxes within the Nigerian market specifically for A1, whereas A2 indicated that an opportunity was identified in the Angolan market to acquire an already existing enterprise. A2 added that the Angolan market has a high growth rate, and explained that fewer competitors were present within the market, and therefore A2 found a higher demand for its product within the Angolan market.

C2 simply indicated that markets considered high risk tend to provide higher returns. Therefore, C2 decided to expand into the Angolan market, although it was perceived as a high risk. B1 explained that although the Mozambican economy is currently experiencing a downturn, all economies recover over time, and therefore B1 expects the Mozambican economy to do the same.

B2 explained that the industry B2 operated in within the South African market had become saturated, and that had led to B2 seeking new opportunities elsewhere. The Zimbabwean market began to show growth, leading B2 to explore possible expansion opportunities within the Zimbabwean market. Lastly, apart from believing that markets with high risk yielded high returns, C1 indicated that the demand for infrastructure within the DRC had increased immensely, creating a high demand for the services rendered by C1. Therefore entering the DRC proved a feasible decision.

Table 5.3: Reasons for entering high-risk markets

Countries	Reasons for entering a perceived high-risk market
A1 (Nigeria)	<ul style="list-style-type: none"> Nigeria banned the importation of certain products. This decision led to a Nigerian enterprise offering A1 a long-term contract for the manufacturing of cigarette boxes within the Nigerian market.

Table 5.3: Reasons for entering high-risk markets

<p>A2 (Angola)</p> <p>C2 (Angola)</p>	<ul style="list-style-type: none"> • A2 received an opportunity to purchase an already existing enterprise. • Angola is a high growth rate market for A2. • A2 had fewer competitors present within the Angolan market. • The Angolan market indicated a high demand for A2's product. • C2 targets higher-risk markets as they may possibly lead to higher returns.
<p>B1 (Mozambique)</p>	<ul style="list-style-type: none"> • Although the Mozambican economy is currently experiencing a downturn, B1 believes that all economies will adjust in time.
<p>B2 (Zimbabwe)</p>	<ul style="list-style-type: none"> • B2's industry within the South African market became saturated. • Zimbabwe presented many new growth opportunities that South Africa did not have.
<p>C1 (the DRC)</p>	<ul style="list-style-type: none"> • C1 believed that higher risk would lead to higher profit margins. • The DRC had a high demand for infrastructure development, indicating a large market for C1's services.

5.3.2 Risk perception

According to Malhotra and Hinings (2010:338), different types of enterprise will select different entry modes when entering a market. Furthermore, the uncertainty found within a certain market will influence decisions made by the enterprise during internationalisation (Pedersen & Shaver, 2000:4; Benito & Gripsrud, 1992:462).

Five of the enterprises in this study indicated that risk did influence their choice of a mode of entry when entering a new market. Although A1 stated that the perceived high-risk in the Nigerian market did not influence market-entry decisions, the participant added, "Each country has its own little problems, its own little issues, and you have to, once you know what countries you are aiming at, do all the research in terms of risk mitigation, and then start making decisions." The subject for A2 said, "Yes, absolutely." B1's subject explained that "you have to consider the risk." The subject for B2 explained, "You have to look at the risk, and identify all of the aspects of risk, and then decide if you want to go into it or not." The subject for C1 said, "This

is really very much what our strategy's about, adding that %b we believe we can handle the risk, we're going to that country+.

C2 was the only enterprise not influenced by the perceived high risk of a country, as the participant consistently indicated that C2's choice of mode of entry was market dependent, indicating that %we basically do what is required+.

According to Koch (2001:357), the entry mode selected, accompanied by the perceived risk of a foreign market, might influence the enterprise's internationalisation decisions. These internationalisation decisions will in turn influence the choice of entry mode, depending on the degree of presence the enterprise requires in the foreign market. Brouters, Brouters and Werner (2003:1182) support this, stating that different types of enterprise select different entry modes when entering foreign markets with high uncertainty. These decisions in turn are based upon how easily adaptable each mode of entry is in different markets.

Therefore, as five of the six enterprises indicated that risk did have an influence on their choice of mode of entry, support was found for Proposition 1, which stated:

The perceived risk of the country being entered will influence the mode of entry being used by a multinational enterprise.

5.3.3 Mass-production enterprises

The two mass-production enterprises identified different SSA countries as being high risk, with both initially selecting the same entry mode (wholly owned subsidiaries). A1 initially entered the Nigerian market after receiving a long-term contract from a client stating that A1 would manufacture cigarette boxes within the Nigerian market for the said client. The contract enabled A1 to establish a manufacturing facility, allowing exporting to other markets as time progressed. After considering what future entry modes A1 would select when entering a high-risk market, the subject explained, %Each country has its own little problems, its own little issues, and you have to, once you know what countries you are aiming at, do all the research in terms of risk mitigation, and then start making decisions.+.

A2 acquired an already existing enterprise in the Angolan market, indicating that %it was established already so all the registration of the company etc. was done.+ Therefore, the acquired enterprise had already established market knowledge and

relationships within the Angolan market. A2 initially asked the previous owner to teach them how basic operations worked within the enterprise before he retired. In order, however, to overcome market barriers such as the language and market knowledge about the Portuguese and Angolan legal system and accounting world, A2 entered into a partnership with a Portuguese partner.

The subject indicated, however, that although A2 would prefer to select acquisition as a mode of entry when entering a perceived high-risk market, geographically distant countries are approached somewhat more slowly, stating that we will start very small to learn the ropes about how banking, legal, and corruption in that country works. Once you are satisfied that you can expand, you start with a bigger investment. During expansion into the Angolan market, the subject indicated that the opportunity came to us, and explained that had it not been for this opportunity buying an existing business, A2 never would have entered the Angolan market.

However, according to Malhotra and Hinings (2010:338), when high market uncertainty is found within the market, one of two approaches will be undertaken, namely a systematic process of internationalisation, or a licensing agreement, which is a contract agreement between two enterprises whereby one enterprise gives another enterprise access to its patents, technology and so forth (Ball *et al.*, 2010:449). The systematic process could entail slowly entering a foreign market by initially exporting, and starting operations within the foreign market once the enterprise finds the market feasible.

According to Malhotra and Hinings (2010:338), mass-production enterprises would use a wholly owned subsidiary or joint ventures when entering a foreign market if they identified a locational advantage within the foreign market. Initially A1 acquired an existing enterprise (wholly owned subsidiary) with a specific long-term supply contract in place. A2 initially acquired an already existing enterprise that had a large amount of market knowledge and already established relationships within the foreign market.

The findings of this study contradict those of the Organisational Model to some extent, with both mass-production enterprises selecting a wholly owned subsidiary when initially entering the Nigerian and Angolan markets. A2, however, did indicate that a slow and steady approach would be considered if the foreign country had a

significant geographical distance from A2's headquarters. According to the literature, mass-production enterprises will select a licensing agreement or a systematic slow and steady approach when entering a high-risk foreign market, only considering shifting toward a more controlled form of entry mode once the market is deemed feasible.

Therefore, the study could not find support for Proposition 2, stating: *When mass-production enterprises expand into a perceived high-risk country in SSA, they follow a systematic (slow and steady) internationalisation process.*

5.3.4 Disaggregate-production enterprises

As was the case with the mass-production enterprises, both disaggregate-production enterprises identified different high-risk markets, but both used a wholly owned subsidiary when entering these high-risk markets. B1 purchased land in the foreign market in order to build and establish a hotel, while B2 acquired another enterprise with similar operations. B2, however, did indicate that acquisition is starting to prove difficult in high-risk markets, stating that *we are finding more and more that we aren't getting the companies that do the same as us. So we are going to reach a point where we are going to have to start Greenfields, and grow from the bottom up. In Angola and the DRC we definitely see that as a challenge; we're not going to find a company to buy.* This contradicts the model proposed by Malhotra and Hinings (2010:340), who stated that disaggregate-production enterprises would prefer to select non-equity modes of entry such as franchising and management contracts.

Both franchising and management contracts are, however, highly dependent on long-term contract renewal in order to remain in and continue market entrance into foreign markets. This entire process is referred to as the contractual path. As market commitment continues through continuous contracts and resource commitment within the foreign market, the disaggregate-production enterprise might consider a more controlled mode of entry, such as wholly owned subsidiaries. During such a consideration, disaggregate-production enterprises might consider a combination of equity and non-equity entry modes,

Therefore, with both disaggregate-production enterprises using wholly owned subsidiaries to enter high-risk markets, no support was found for the following proposition:

Proposition 3: *When disaggregate-production enterprises expand into a perceived high-risk market in SSA, they prefer using a management service contract and franchising as mode of entry.*

5.3.5 Project-based enterprises

As was the case with the two groups of preceding case studies, both project-based enterprises identified two different high-risk countries. Regarding the modes of entry used when expanding into those markets, both participants selected a turnkey project. C1 starts with turnkey projects, moving to equity modes such as wholly owned subsidiaries as a continuous flow of projects is received. The subject explained that when entering high-risk markets, *we follow existing clients*. This corresponds closely with the literature, which indicates that project-based enterprises with a high project focus will primarily prefer turnkey projects. However, as a continuous flow of projects continues, the project-based enterprise might prefer to establish a physical presence within the foreign market, thus shifting its focus from projects to the market (Malhotra & Hinings, 2010:343). After considering the risk assessments within foreign markets, the subject for C1 stated that *assessing the risks in the countries is a big exercise for us*.

C2, on the other hand, indicated that although turnkey projects are selected, C2 follows market requirements: *Nowadays we have to set up companies as a requirement*. As a result, C2 would enter a foreign market via a turnkey project, wholly owned subsidiary or joint venture, depending on what the market requirements were. C2's subject, however, indicated that *high risk is high reward; we made most of the money in places where there are high risks*.

Findings indicated that only one of the subjects would follow the Organisational Model's proposed modal path when entering a perceived high-risk market in SSA. C1 would predominantly use turnkey projects when entering a foreign market and only establish a wholly owned subsidiary when there was a constant flow of projects. C2 would enter a foreign market in a manner dependent on market requirements. The latter approach is becoming more frequent in SSA, as countries within the region are constantly changing policies regarding foreign investments. An example of this is the current Zimbabwean law requiring that local citizens own 51% of all

foreign enterprises' shares (Section 3(1)(a) of the Indigenisation and Economic Empowerment Act (14/2007)).

Thus, this study could not find sufficient support for Proposition 4: *The focus of a project-based enterprise (project focus versus market) will influence the project enterprise's choice of mode of entry when expanding into a new market.*

5.4 CONCLUSION

The accumulated data for this research study was analysed and utilised to compile six case studies and five discussions. Each case study represented one participant, explaining findings such as the SSA country with the highest perceived risk entered over the past ten years, initial entry mode selected during market entry of these high-risk markets, and future entry mode selection into similar high-risk markets.

Five discussions followed. The first discussion (high-risk markets) explained which countries each enterprise considered high risk, as well as the reasons for expansion into these markets perceived as high risk. Thereafter, four discussions followed finding support for or against each proposition. Discussion 2 (risk perception) indicated that five out of six participants did consider country risk when entering a foreign market, finding support for Proposition 1. Discussion 3 (mass-production enterprises) indicated that both participants (A1 and A2) selected wholly owned subsidiaries when initially entering a country with a perceived high risk, thus failing to find sufficient support for Proposition 2. Discussion 4 (disaggregate-production enterprises) indicated that both participants selected wholly owned subsidiaries when entering a country with a perceived high risk, therefore not finding support for proposition 3 indicating that the two participants would not select franchising and management contracts when entering a foreign market. During Discussion 5 (project-based enterprises), both enterprises entered perceived high-risk countries differently. C1 preferred utilising a turnkey project in foreign markets and only moved toward more controlled entry mode, such as wholly owned subsidiaries or joint ventures, when a continuous number of projects were found within a foreign market. C2's mode of entry depended greatly on the regulations within the foreign market. Thus, support was not found for Proposition 4.

CHAPTER 6

CONCLUSION

6.1 INTRODUCTION

According to Calmorin and Calmorin (2007:325), the conclusion chapter provides a summarised discussion of all results accumulated during the data analyses and findings and provides recommendations based on the findings.

This chapter will begin with a review summarising each of the previous chapters. This will be followed by conclusions regarding all the findings discussed in Chapter 5, as well as each proposition. Recommendations based on the findings, future research and limitations identified during this study will conclude this chapter.

6.2 REVIEW OF PREVIOUS CHAPTERS

Chapter 1 provided an in-depth discussion of the Organisational Model, which proposes that the type of enterprise will determine the entry mode selected when expanding into a new market (Malhotra & Hinings, 2010:334). In their model, Malhotra and Hinings (2010:336) identified three types of enterprise on a continuum ranging from a mass-production enterprise to a disaggregate-production enterprise and finally a project-based enterprise. In particular, the model drew a distinction between markets with a location advantage and markets without such an advantage, and which entry mode each of these enterprises was likely to select when entering markets with high risk and high uncertainty versus more stable markets (Malhotra & Hinings, 2010:345). However, most of the studies on which this model was based had focused on the US, Western Europe and Asia (Barkema & Drogendijk, 2007; Benito & Gripsrud, 1992; Contractor & Kundu, 1998; Erramilli & Rao, 1993; Goerzen & Makino, 2007; Kim & Hwang, 1992; Li & Guisinger, 1992; Pedersen & Shaver, 2000); as a result, this model had not been tested in SSA.

As explained in Chapter 1, a focus on SSA was considered justified, considering that the African continent had experienced consistent FDI growth since 2010, ranging

from a 5% increase in 2012 to a 9.6% increase in 2013 (AEO, 2013:52; UNCTAD, 2013:40). Although identified as the only region experiencing FDI growth during 2012 (UNCTAD, 2013:74), IFDI remained stable for the African continent during 2014 (AEO, 2016:59). According to the AEO (2016:59), the stable growth was a result of a 15% decline in FDI flows into North Africa and a 5% increase in IFDI in SSA. Although IFDI in Africa is expected to remain consistent throughout 2016 (AEO, 2016:59), the continuous IFDI growth in SSA indicates growing opportunities within the region (IFC, 2011:13). However, barriers to investment such as poor infrastructure and unskilled labour are still present within the market (IFC, 2011:13). The IMF (2014:15) identified four downside risks within the SSA region, namely:

- Fiscal uncertainty and country vulnerability
- Neighbouring or locational risks
- Shortened growth opportunities influencing natural-resource focused countries
- Divestment from current investors due to tightened monetary conditions within these countries.

Therefore, with an increased interest in SSA among MNEs accompanied by the continuous risk found within the region, the following research question was identified: Which modes of entry do enterprises use when expanding into perceived high-risk countries in SSA?+

Chapter 2 was the first literature chapter, focusing on a variety of internationalisation theories, and was divided between two main sections: the foundation theories of internationalisation and other theories of internationalisation. The first section described four different foundation theories of internationalisation, each derived from a variety of different disciplines such as economics and international investment. The first theory, the transaction cost theory, describes how enterprises can utilise different transactions or costs in everyday economic and enterprise activities (Coase, 1937). The second theory was the monopolistic advantage theory (Hymer, 1960:46. 47). Monopolistic advantage is explained as an enterprise investing in a foreign enterprise in order to gain full control over assets, providing the enterprise with certain advantages, such as competitor or a locational advantage.

The third foundation theory discussed was the product-cycle theory. Vernon (1966:190-203) identified three different stages in the product life cycle. Firstly, the location of the new product should be determined, indicating that production will shift to the market of consumption by, for example, allowing an already operational producer to produce the product within the foreign market. Secondly, during the maturity of the product, product differentiation occurs to a lesser degree. Finally, cost advantages such as lower labour costs might be identified within the market, making it feasible for the enterprise to relocate.

The final foundation theory of internationalisation was the oligopolistic-reaction theory and MNEs. Knickerbocker (1973) explains this theory as one whereby only a few enterprises dominate a particular industry within a country. After one of these enterprises decides to expand into a foreign market, the other enterprises will follow suit, with the predetermined perception that all market entrants will share similar cost and location advantages to those identified by the first market entrant.

Thereafter, five internationalisation theories were identified, namely the internationalisation theory, the Uppsala-model, the OLI-eclectic paradigm, international new ventures, and internationalisation pathways of family enterprises. Buckley and Casson (1976:89) explain the internationalisation theory through two stages: firstly, the identification of elements that control industry internalisation and secondly, enterprise internalisation that will lead to internationalisation.

The second theory, the U-model, explains that enterprises internationalise by applying a sequential internationalisation process, during which the enterprise will first export. Once exports have increased, a sales subsidiary will be identified within the foreign market to ensure increased distribution. As the market grows more viable, market demand might warrant the enterprise opening its own sales subsidiary within the market and, once market share demands it, opening a branch plant (Johanson & Vahlne, 1977:24; 2009:1412).

Thirdly, Dunning (1976) explains that the OLI-eclectic paradigm is determined by three different advantages: ownership-specific advantages (O), location-specific advantages (L); and internalisation-specific advantages (I). Ownership-specific advantages include asset ownership (rental income from owned property); branch

plant ownership within the foreign market; and the diversity of the geography or multi-nationality of the enterprise. Location-specific advantage concerns the geographical location of the enterprises physical presence in the foreign market, which might lower production costs by, for example, lower labour costs. The final advantage, internalisation-specific advantage, suggests that enterprises should transfer existing advantages to foreign subsidiaries, in order to keep the core competences within the enterprise.

The fourth theory, international new ventures (INVs), concerns newly established enterprises that are able to internationalise immediately after inception, or shortly thereafter. Examples of these enterprises include internet-based enterprises headquartered in the home country, but selling products directly after the enterprise begins operations for the first time in a host country.

The chapter concluded with the explanation of the final internationalisation theory: the international pathways of family enterprises. In this theory, Kontinen and Ojala (2012:6) identified two different methods of internationalisation for family enterprises, both highly dependent on the type of ownership regime. Traditional pathways were found to be preferred by enterprises managed by the founder of the enterprise, but when a new generation ascends into ownership, a born-again global approach is used, during which the initial focus on home country operations is followed by rapid internationalisation.

Chapter 3 was the final literature chapter, focusing on country risk. The chapter began by defining country risk as a combination of risks found within a foreign country's borders that might influence an enterprise during the internationalisation process (Musonera, 2008:2; Petrovi & Stankovi , 2009:11; Van den Berg, 2014:10). Thereafter, two different international market-selection processes were discussed, namely the systematic international selection process and the non-systematic process. The chapter distinguished between the different international market-selection processes: the six-stage approach, the four-stage approach and the three-stage approach. Small enterprises preferred utilising the non-systematic approach when selecting new markets. The reasons for this approach might range from following new clients into a foreign market to a lack of managerial knowledge or simple risk mitigation and avoidance (Górecka & Szalucka 2013:35; Marchi *et al.*,

2014:2201). However, according to Cavusgil (1985:28) and Malhotra and Papadopoulos (2007:15), enterprises utilising a non-systematic IMS approach performed more poorly than those utilising a systematic IMS approach.

Next, Bayar (2012:25) and Bouchet et al. (2003:12) identified numerous organisations specialising in determining a country's risk, including Standard & Poor (S&P), Moody's and Fitch IBCA. The higher a country's risk rating (CRR) derived from the country's CRA, the more discouraged MNEs become about investing in the foreign market. Negative CRRs may result in significant problems, such as divestments of current investors from one market.

The chapter concluded with a summary of numerous types of country risk, including natural disasters, economic risk, political risk, financial risk, socio-cultural risk, transfer risk, exchange risk, location risk and sovereign risk.

Chapter 4 described the research methodology used during the data collection process and began with the problem statement followed by the stated propositions. Thereafter the research design was discussed. Gibbert *et al.* (2008:1465) and Yin (2009:4) explain that case studies are used in social sciences to explain complex phenomena such as a particular process used by an enterprise. Guest *et al.* (2012:61) explain that when a study focuses on a hard-to-reach population, a case study should be used. Therefore, as the population selected for this research study was considered to be hard to reach, case studies were selected. Furthermore, since the study aimed to determine the entry mode selection of each enterprise within a high-risk SSA market, case studies would allow for an in-depth analyse of the expansion process followed by each enterprise. Four different types of case-study designs were identified, from which a multiple-case holistic design was selected. Yin (2009:59) defines a multiple case study as a study containing multiple single cases, and a holistic case study as one where an entire case is examined in its entirety. Furthermore, considering that the sample was small, an information-oriented case selection was used. The study also made use of typical case selection, as two enterprises representing each of the identified enterprises, namely mass-production enterprises, disaggregate-production enterprises and project-based enterprises, were selected.

Next, the data collection process was explained, in which in-person semi-structured interviews were conducted with each participant by using a predetermined interview protocol. Questions in the interview protocol were based on each of the four propositions and comprised two sections, namely enterprise-specific information and a section focusing on the enterprise's expansion into SSA.

The chapter concluded with a thorough explanation of the data analysis.

In Chapter 5, six case studies were compiled and analysed. Each case study comprised the following sections (a summary of each section is discussed under 6.3):

- Enterprise background
- Type of enterprise
- High-risk market entered over the past ten years
- Reasons for expansion into a high-risk market
- Mode of entry
- Market risk influences on entry mode selection
- Reasons for entry mode selection
- Future entry mode selection
- Additional information
- A summary of each case study

Thereafter, five discussions based on the case studies followed, relating to high-risk markets, risk perception, mass-production enterprises, disaggregate-production enterprises and project-based enterprises (see 6.3 for a full summary regarding each discussion).

6.3 RESEARCH OBJECTIVES

With MNEs continuously entering high-risk countries in SSA, and considering that the Organisational Model had not been tested in the region, the research study aimed at determining: *Which modes of entry do enterprises use when expanding into perceived high-risk countries in SSA?* Four propositions were identified to answer the research question, namely:

Proposition 1: *The perceived risk of the country being entered will influence the mode of entry being used by a multinational enterprise.*

Proposition 2: *When mass-production enterprises expand into a perceived high-risk country in SSA they follow a systematic (slow and steady) internationalisation process.*

Proposition 3: *When disaggregate-production enterprises expand into a perceived high-risk market in SSA, they prefer using a management service contract and franchising as mode of entry.*

Proposition 4: *The focus of a project-based enterprise (project focus versus market) will influence the project enterprise's choice of mode of entry when expanding into a new market.*

6.4 FINDINGS

This section will provide a summarised discussion of the findings provided in Chapter 5, as well as the links between each proposition and the findings.

6.4.1 Enterprise specifications

Each case study compiled in Chapter 5 used data collected from six MNEs which were operating in the SSA region, with two MNEs being selected from each of the enterprise types identified by the Organisational Model.

A1 and A2 described their operations as predominantly mass-production, as each enterprise's focus lies within manufacturing, producing standardised, mechanised products. However, both enterprises added that a small percentage of their products were customisable.

The second group of enterprises, B1 and B2, indicated that their operations were disaggregate by nature, in that certain components of services rendered were standardised, and other components of the same services were customisable to some extent for each customer. B2 added that although some services were highly project-based, the enterprise leaned more towards being a disaggregate-production enterprise.

Lastly, both C1 and C2 agreed that their operations could best be described as project-based, indicating that each enterprise entered a market to complete a specific project according to customers needs, and that in some cases a physical presence was required.

The enterprises ranged in size from as few as 500 employees to as many as 16 000 employees, while in terms of age of enterprise, the MNEs varied in age from 7 years to 68 years (trading under the current trading name).

6.4.2 High-risk market considerations over the past ten years

While a total of ten high-risk countries were identified by the six subjects, five SSA countries were identified as having the highest risk. A1 identified Nigeria, while A2 and C2 identified Angola as the market with the highest risk. B1 indicated that Mozambique was a high-risk country it was currently expanding into, whereas B2 indicated that Zimbabwe's changing political and legal environment had caused the country to be seen as the market with the highest risk. Finally, C1 identified the DRC as the market with the highest risk.

6.4.3 High-risk factors

A variety of reasons were mentioned for considering each of these countries to be high risk. A1 indicated that high-risk factors in Nigeria included the terror risk caused by Boko Haram and the volatile oil price. A2 claimed that the volatile oil price, confusing legal systems and high corruption levels contributed to Angola's high-risk status, while C2 added the physical risk stemming from the civil war and the difficulty in repatriating profits from the country. B1 simply stated that Mozambique had a small, undiversified economy, whereas B2 stated that Zimbabwe was politically unstable and that profit repatriation proved difficult. Finally, C1 stated that laws in the DRC were confusing, and this made the country a high risk.

6.4.4 Reasons for expanding into a high-risk market

As was the case with the reasons for considering a country to be high risk, a number of different reasons were identified for expanding into high-risk countries. According to the subject, A1 expanded into Nigeria, even though it was considered to be a high-risk country, as the fact that the Greenfield investment in Nigeria was accompanied by a long-term contract limited the risk to the enterprise. A2's subject

indicated that Angola had a high growth rate and there seemed to be a high demand for its product, coupled with few competitors in the market.

The subject for B1 stated that although economies experience a downturn, all economies would recover, resulting in B1~~§~~ choosing to enter Mozambique, as Mozambique has long-term growth prospects. B2~~§~~ subject simply indicated that Zimbabwe had many growth opportunities, while C1~~§~~ subject indicated that higher risk could lead to higher profit margins and therefore C1 had entered the DRC. Finally, C2~~§~~ subject simply explained that higher risk would lead to higher returns.

6.4.5 Mode of entry

Four of the six participants indicated that a more controlled mode of entry such as a wholly owned subsidiary is preferred in the SSA region.

A1 initially entered the Nigerian market by establishing a Greenfield investment linked to a long-term manufacturing contract, thus a wholly owned subsidiary. A2 acquired an established enterprise, thereby selecting a wholly owned subsidiary as the initial mode of entry into the Angolan market.

Both B1 and B2 selected a wholly owned subsidiary as an entry mode, albeit in different forms. B1 purchased land in Mozambique and built its enterprise from the ground up, while B2 acquired an enterprise with similar operations to its own in Zimbabwe.

C1 and C2 each selected a turnkey project as an entry mode for their initial market entry into the DRC and Angola respectively.

6.4.6 Market risk influences on entry mode selection

Five out of six participants indicated that risk did have an influence on their entry mode selection when entering a foreign market. A1 initially stated that the risk in the Nigerian market had little influence on the decision to enter the market, ~~%~~because we were sitting on a contract with a dedicated offtake+. However A1~~§~~ subject added that, ~~%~~Each country has its own little problems, its own little issues, and you have to, once you know what countries you are aiming at, do all the research in terms of risk mitigation, and then start making decisions.+ Confirming this, A2~~§~~ subject stated, ~~%~~es, absolutely+ when considering whether market risk influenced A2~~§~~ entry mode selection. B1 explained that the Greenfield investment process B1 undergoes is

extremely complex and therefore factors such as %relative good governanceõ law systemsõ language+ should be taken into consideration. The subject identified numerous risks as influencing decision making regarding B1's mode of entry, namely corruption, the ease of doing business, taxes and the competitive environment within the potential foreign market. B2 confirmed A1's subject's response by stating that after risks are considered, enterprises should %decide if you want to go into it or not.+ Finally, the subject for C1 explained that a country risk assessment is a vital part of C1's strategy. Only C2 stated that %when we win a project in a country, we go in, sign the contract, start doing it. Nowadays it's necessary for us to basically set up a company.+ The subject continued, %Our mode of entry is determined by the type of project+, adding that %we do what is required+. Therefore, C2 determined market entry according to market requirements and not the risk within the foreign country.

The findings therefore found support for Proposition 1, stating: *The perceived risk of the country being entered will influence the mode of entry being used by a multinational enterprise.*

6.4.7 Reasons for entry mode selection

The reason for entry mode selection differed between each participant. The subject for A1 explained that the reason for selecting a Greenfield investment attached to a long-term contract %was a totally risk-free way of entering+ the Nigerian market. A2 explained that the Angolan market offered a %high growth rate,+ and that %there was a demand for our product; there weren't many competitors at that stage in time+. This resulted in A2's ability to make a higher profit. The subject for B1 explained that a wholly owned subsidiary enabled B1 to achieve full control over operations, with the subject explaining, %We don't have to rely on somebody else.+ B2's subject pointed to acquisition as having %a proven track record of success+ for B2, and said that this entry mode had always allowed it to grow and expand into foreign markets. According to the subject from C1, high-risk markets held the hope that %the margins or the profits are higher.+ The subject added that developing countries such as the DRC have a high demand for infrastructure; therefore a large market is available for C1 to serve. C2's subject explained that C2 made most of its %money in places where there are high risk,+ and stated that over the long term high-risk markets proved favourable.

6.4.8 Future entry mode selection

A1 and A2~~s~~ subjects explained that every market differed, and therefore different modes of entry should be considered to cater for specific foreign market needs. A2 did indicate that acquisitions would be preferred in the future, but explained that in certain markets it simply is not possible. In markets where acquisitions are not possible, the subject explained that ~~we~~ we will start very small. Once you are satisfied that you can expand, you start with a bigger investment.+

B1 and B2 explained that wholly owned subsidiaries had proved feasible in numerous foreign markets and would therefore be considered as future modes of entry. C1 explained that turnkey projects would be considered in future expansions. Lastly, C2 shared A1 and A2~~s~~ approach to the subject, stating that each foreign market differs, and that C2 ~~would~~ would see what the requirements are+within the foreign market.

6.4.9 Additional information

Four participants: A2, B1, B2 and C2, provided additional information. A2~~s~~ subject identified numerous factors that should be considered during foreign market entry. The subject explained, ~~you~~ you have to obviously look at the market. How big the market is, the demand for your product. Whether you have the knowledge to operate in the market,+ explaining that, secondly, ~~you~~ you have to do a serious competitor analysis, what the competition is that you are going to face.+ Thereafter, the subject mentioned questions regarding profit and taxation: ~~Can~~ Can you get your money out of the country? That is extremely important, because if you invest in the country, at some point ~~you~~ you are going to want to repatriate profits,+ and added that the enterprise should consider the foreign country~~s~~ taxation regulations in order to avoid unnecessary problems. In conclusion, the subject for A2 explained that ~~you~~ you have to look at the labour environment . what risk do you face when you dismiss local employees?+

B1 explained that three factors should be regarded when considering SSA and Africa in its entirety. The subject warned that, firstly, Africa should not be seen as the rising continent, explaining that enterprises should separately consider the governance in each country in SSA that the enterprise wished to enter. Secondly, the subject warned against single-commodity based economies, explaining that enterprises

should rather expand into diversified African economies. Lastly, the subject advised that enterprises expanding into foreign markets should keep wealth generation and wealth distribution in mind during the decision-making process.

B2_q subject explained that although the African market ~~is~~ always going to be risky, a growing number of South African enterprises are expanding into the African market as it is a high-growth environment. The subject explained that risk, if mitigated correctly, could become beneficial for enterprises.

Finally, C2_q subject explained that risks are becoming an increasing phenomenon in the industry C2 is operating in. Currency risk, as well as the repatriation of profits and taxation laws, is increasingly becoming problematic.

6.4.10 Mass-production enterprises

The findings for the mass-production enterprises indicated that neither A1 nor A2 selected the modal path as indicated by the Organisational Model for a mass-production enterprise entering a perceived high-risk market, as both participants selected a wholly owned subsidiary. A1 initially entered the Nigerian market with a Greenfield investment after receiving a long-term contract from a client in the market. This contract stated that A1 had to produce cigarette boxes for the said client, which enabled A1 to establish a manufacturing facility within the Nigerian market that also allowed it to export to surrounding markets as time progressed. For future entry mode selection, the subject explained that markets differ, therefore similar entry modes to the one selected in Nigeria could not be guaranteed. A2, on the other hand, acquired an already existing enterprise in Angola. A2 indicated that although a slow and steady modal path had been used in geographically distant countries, acquisitions would be preferred when entering a high-risk market. This, however, was highly market dependent.

Malhotra and Hinings (2010:338) indicate that mass-production enterprises use a gradual (slow and steady) process when uncertainty is found within the foreign market: that is, exports into the foreign market, or licensing agreements.

However, this study could not find support for Proposition 2, stating: *When mass-production enterprises expand into a perceived high-risk country in SSA they follow a systematic (slow and steady) internationalisation process.*

6.4.11 Disaggregate-production enterprises

In the case of the disaggregate-production enterprises, this study found that both B1 and B2 selected a wholly owned subsidiary as mode of entry when entering a perceived high-risk market. B1 selected a Greenfield investment in Mozambique, while B2 selected an acquisition to expand into Zimbabwe. Both enterprises indicated that these are their preferred modes of entry. B2, however, admitted that Greenfield investments might have to be considered in future expansions as the number of enterprises the company is able to acquire are getting fewer. This finding contradicts the Organisational Model, which states that for disaggregate-production enterprises management service contracts and franchises is the preferred modal form (Malhotra & Hinings, 2010:341).

The model does, however, explain that at some stage a disaggregate-production enterprise might consider shifting toward a more controlled equity mode, to overcome country-specific risks, such as contract cancellation of non-equity contracts by real-estate owners in the host country (Malhotra & Hinings, 2010:341).

Therefore, no support could be found for proposition 3 stating:

Proposition 3: When disaggregate-production enterprises expand into a perceived high-risk market in SSA, they prefer using a management service contract and franchising as mode of entry.

6.4.12 Project-based enterprises

Both participants, C1 and C2, selected a turnkey project when initially entering the DRC and the Angolan market respectively. C1 indicated that they would use turnkey projects for future expansion, only establishing a physical presence if the number of projects in the foreign market justified such a commitment. C2, however, indicated that the requirements of each market, such as host government demands, would dictate which mode they should use.

Thus, with only one of the two project-based enterprises indicating that a project focus as against market focus would determine which mode of entry they would use, sufficient support could not be found for Proposition 4, stating: *The focus of a*

project-based enterprise (project focus versus market) will influence the project enterprise's choice of mode of entry when expanding into a new market.

6.5 RECOMMENDATIONS

The Organisational Model proposes that, depending on the conditions in a foreign market, different types of enterprise will follow different entry paths and modes to expand into a foreign market. However, based on the findings of this study, it was determined that these suggested entry paths and entry modes do not hold entirely true for MNEs entering high-risk markets in SSA. In particular it was determined that:

1. Enterprises entering high-risk markets in SSA prefer modes of entry that allow them greater control, such as wholly owned subsidiaries.
2. Although risk is considered when selecting a mode of entry, the enterprise's strategy plays a great part in the eventual entry mode selected.
3. Foreign market requirements and regulations such as local production and local ownership are increasing in importance when entering markets in SSA.

In particular, the research found that four of the six enterprises in this study (the mass-production and disaggregate-production enterprises) selected wholly owned subsidiaries (two acquisitions and two Greenfield investments), as this allowed them greater control of their operations. This is supported by UNCTAD (2015:34), which found that investments from MNEs into the African continent are increasingly done through mergers and acquisitions, as well as Greenfield investments. Greenfield investment projects in the African continent increased by 25% in the first quarter of 2016, when compared with the same period in 2015 (UNCTAD, 2015:35).

Though the two project-based enterprises used turnkey projects to expand into high-risk markets, this mode of entry by its nature offers these enterprises a great deal of control. One of the participants did, however, indicate that the long-term strategy of the enterprise was to establish a local business in the host country. This too highlights the need for greater control.

Control remains an important determining construct in international business, as it serves as a measurement for risk-return ratios upon entering foreign markets (Boyd, Dyhr & Hollensen (2012:13). Boyd *et al.* (2012:14), Erramilli (1991:482) and

Yarapovas, Huettinger and Ri kus (2016:36) state that in order to select a suitable entry mode, the enterprise should consider the amount of control it wishes to gain in the foreign market. Boyd *et al.* (2012:13, 21), Erramilli (1991:483); Gioeli and Hassan (2014:9) and Yarapovas *et al.* (2016:40, 41, 49) provide reasons for participants preferring higher-control entry modes, including:

- Increased experience by the enterprise within the SSA market
- Smaller psychic distance between similar markets (for example, South Africa, where all participating enterprises were established prior to entering SSA markets) and potential new foreign markets (other SSA countries)
- Enterprise size (larger enterprises are more likely to select higher-control entry modes)

However, upon selecting a high-control entry mode, enterprises might experience less flexibility within the foreign market to counter high risk. Enterprises selecting a high-control mode of entry correlate highly with enterprises committing a large number of resources and overheads into a foreign market (Boyd *et al.* 2012:13; Erramilli, 1991:483). Furthermore, Boyd *et al.* (2012:14), Erramilli (1991:483), and Gioeli and Hassan (2014:9) explain that MNEs select wholly owned subsidiaries when entering a market perceived as having high risk, since these markets provide high returns.

The second finding of this study is supported by Boyd *et al.* (2012:13); Kraus, Ambos, Eggers and Cesinger (2015:2) and Yarapovas *et al.* (2016:40), who found that enterprises take numerous factors such as resource commitment, profit, experience, and the enterprises size, control and cultural distance, into consideration when selecting an entry mode, and not only the foreign markets risk. These factors contribute to the overall strategic decision that the enterprise should make, considering conditions found in the industry, the institutional framework encountered by the enterprise and the enterprises capabilities (Boyd *et al.*, 2012:14; Chang, Kao, Kuo & Chiu, 2012:3).

In particular, though five out of six participants in this study indicated that risk influenced their chosen mode of entry, both disaggregate-production enterprises indicated that entry mode decisions are made according to an already established market entry strategy. B1 subject explained that %we build our own hotels, we own

those hotels, and we operate them, for our own account; while B2c subject stated, %We've always grown by acquisition.+ Thus, each participant followed a particular entry strategy influenced by more than only the perceived risk within the foreign market entered.

Lastly, four of the six enterprises in this study indicated that host country requirements and regulations greatly influenced their entry mode choice. Although a number of SSA countries relaxed regulations pertaining to MNEs entering their markets, UNCTAD (2011; 2012; 2014; 2015; 2016) has indicated that a number have increased their regulations, including the following:

- Nigeria has banned the importation of numerous food products, including meat, fish and staples (Treichel, Hoppe, Cadot, & Gourdon, 2012:1). In order to remain in the Nigerian market, MNEs previously exporting food products into the Nigerian market had to establish manufacturing subsidiaries within the market.
- According to UNCTAD (2014:113), the Patrons Act of 2012 stipulates that taxation and other incentives are available for enterprises investing in projects relating to the educational sector, social initiatives, health, science, sports, technological and cultural industries within Angola. This provides MNEs with the necessary incentive to invest in these industries within the Angolan market.
- During 2015/16 all enterprises in Guinea had to renegotiate new taxation and customs exemptions, while new investment protection laws were implemented (UNCTAD, 2016:92). These laws might force enterprises currently operating in the Guinea market to re-evaluate current enterprise strategies.
- UNCTAD (2015:104) stated that Côte d'Ivoire extended mining permit holdings from 7 years up to 10 years during 2014/15, with a possibility of another two-year extension. This provides mining MNEs with the necessary motivation to remain in Côte d'Ivoire as a long-term investment.
- During 2011/12 the DRC implemented restrictive measures on the agricultural sector, which is one of the most important sources of economic growth within the country. This entailed the ruling that land within the DRC may only be owned by enterprises with a majority holding by Congolese nationals or by Congolese citizens. Considering that MNEs are reluctant to relinquish control, this law might,

in effect, result in divestments in the agricultural sector in the DRC (UNCTAD, 2012:79).

- From 2014, all enterprises investing in the oil and gas sector in Mozambique need to partner with the Mozambican state (UNCTAD, 2016:97). This will result in MNEs proposing to enter the oil and gas sector in Mozambique possibly selecting joint ventures as an entry mode. This mode of entry, although equity-based, does not provide the foreign enterprise with full control over operations.
- Zimbabwe has a law stating that 51% of any public or private enterprise should be indigenously owned (Section 3(1)(a) of the Indigenisation and Economic Empowerment Act (14/2007)). Although a partnership with citizens within the foreign market might prove a feasible strategy, enterprises entering this market will do so by relinquishing full control. Since these enterprises will have to agree to a 51% indigenously owned partnership within Zimbabweans, costs will increase, as local partners need training in order to understand the enterprises policy and operational strategies. These additional costs will have to be compared with possible returns before market entry is finalised.
- The Seychelles adopted investment restrictions during 2014/15, stating that sales of state land to non-Seychelles citizens would be discontinued (UNCTAD, 2015:104). Therefore, MNEs wishing to enter the Seychelles market would have to consider alternative market entry strategies to wholly owned subsidiaries.

In conclusion, though there seems to be a need for greater control when entering high-risk markets in SSA, it is clear that no recipe exists for choosing a mode of entry when entering markets in the region. Apart from considering the risks within a particular market, MNEs will be guided by their existing strategy as well as the requirements and regulations of the host government.

6.6 LIMITATIONS OF THE STUDY

Even though typical cases were selected for this study, the fact that only six cases were used, and only two per enterprise type, could be considered to reduce the generalisability of the findings. Secondly, although the enterprises selected for inclusion in this study represented the three identified enterprise types: mass-production, disaggregate-production and project-based enterprises, each of these

enterprises participate in a different industry. During the data collection process, it became clear that different industries respond differently to country risk. Unfortunately, the impact that country risk has on different enterprises operating within different industries could not be measured during this study.

6.7 FUTURE RESEARCH

Future research examining entry mode selection when entering SSA could focus on the following:

- Testing the Organisational Model quantitatively, using a larger sample of each of the three enterprise types.
- Since this study focused only on high-risk countries in SSA, testing the Organisational Model for lower-risk countries in SSA.

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APPENDIX A: CASE STUDY PROTOCOL

ENTRY MODE SELECTION OF MULTINATIONAL ENTERPRISES ENTERING HIGH RISK COUNTRIES IN SUB-SAHARAN-AFRICA

Interview Protocol

- **Brief introduction about the purpose of the study:** With sub-Saharan Africa (SSA) increasingly being identified by MNEs as a region for possible expansion, coupled with persistent risk within the region, this study's focus is on determining which entry mode MNEs use when entering a perceived high-risk market in SSA. Three types of enterprises' choice in modal path will be analysed during this study. These enterprises include; mass-production enterprises, disaggregate-production enterprises and project-based enterprises.
- **Discuss and assure confidentiality:** Each interviewee will receive a letter discussing confidentiality before the interview begins. Before the interview begins the following questions will be asked of the interviewee:
 - ***For the record, are you willing to participate in this interview?***
 - ***Do you have any objections to this interview being recorded?***
 - ***You may return to any question during the interview should you wish to do so, and you are free to terminate the interview at any time.***
- The researcher will set up and test the recording device
- The interview will be timed.

Introduction

Good morning/afternoon Mr (surname) or Ms (surname). I am Sunel Combrinck, a Master's student from the Department of Business Management at the University of Pretoria. With sub-Saharan Africa (SSA) increasingly being identified by MNEs as a region for possible expansion, coupled with persistent risk within the region, this study's focus is on determining which entry modes MNEs use when entering a perceived high-risk market in SSA. Three types of enterprises' choice in modal path will be analysed in this study. These enterprises include; mass-production enterprises, disaggregate-production enterprises and project-based enterprises. The interview should take approximately 30. 45 minutes. Your participation in this study is greatly appreciated and entirely voluntary. Should you feel the need, you have the right to decline answering any question and you are free to terminate the interview at any stage should you wish to do so. I'd like to reassure you that your responses today will be treated as confidential and anonymous. For quality assurance I would like to ask your permission to record the interview so that I can transcribe and analyse the data. If you are comfortable with these terms, I would like to ask you to sign the informed consent form so that I can keep a record of your permission and consent.

Introductory Questions:

- Q1: What is your position within the enterprise?
- Q2: In which sub-Saharan Africa countries is your enterprise currently operating?
(Could you please tell me more about that?)
- Q3: How old is the enterprise?
- Q4: How many employees does the enterprise employ?

We normally distinguish between different types of enterprises on a continuum ranging from a mass production enterprise to a disaggregate production enterprise to a project based enterprise. Each of these main types can be defined as follows:

Mass-production enterprise: A mass-production enterprise produces products in bulk by using a standardised mechanised production process, indicating that these enterprises are highly capital intensive with little customer participation.

Disaggregate-production enterprise: A disaggregate-production enterprise uses a medium degree of customisation, thereby indicating that these enterprises are only moderately labour intensive. Each customer will only influence the final product to some extent, for example ordering a specific meal at a restaurant, while the manner, in which the meal is prepared and presented to the customer, is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (*Repeat the options if need be*)

Main body:

Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high-risk? (*High risk compared to the other markets that you have expanded into in SSA*)

Q7: Why was this country considered to be a high-risk country?

Q8: Why did you choose to still expand into this market even though you considered it to be high-risk? (*Would you explain that a bit more?*)

Q9: Which mode of entry was used to expand into this country?

- *Nonequity entry modes:*
 - *Exporting*
 - *Turnkey projects*
 - *Licensing*

- *Franchising*
- *Management contract*
- *Contract manufacturing*
- *Equity-based entry modes*
 - *Wholly owned subsidiaries*
 - *Joint ventures*

Q10: Was your choice of entry mode influenced by the perceived level of risk in this country?

Q11: Why did you choose this mode of entry?

(Ask this question if it was not discussed as part of the answer to question 10)

Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry?

Q12.1: If no, why would you change the chosen mode of entry?

Concluding Questions:

- We have come to the end of the interview, is there anything else you would like to share that you think might be relevant to this study?
- If I were to have any other follow-up questions would you mind if I mail them to you?

Thank you again for your time and willingness to share your insights with us.

APPENDIX B: CASE STUDY DATABASE

The following database comprises two sections: the case-study notes and follow-up questions asked. The case-study notes indicate each participant's answers regarding questions asked in the case-study protocol (Appendix A). During the data analyses, certain participants were asked additional questions. Answers received from each additional question are presented during the follow-up questions asked section.

CASE STUDY NOTES

<i>MNE</i>	A1
<i>Date</i>	2015/12/02
<i>Interview time</i>	0:17:33

Introductory Questions:

Q1: What is your position within the enterprise? *Financial Director of all of Africa*

Q2: In which sub-Saharan Africa countries is your enterprise currently operating? (Could you please tell me more about that?) *Nigeria, Ethiopia, Kenya, Tanzania, Malawi, Zimbabwe, Zambia, Angola, Mozambique and Botswana*

Q3: How old is the enterprise? *The company has come together over many, many years. So, there are parts of it that extends back into almost Noah's ark's time, almost over 20–30 years. But, our African interests, although old, have only been under our control, as I understand it, for about 15 years, because we bought them from a foreign entity who wanted to divest, to concentrate on their expansion in Europe and America, and they still have interests, but they have them in Francophone Africa, not in Anglophone Africa. So, we've had it, for I think 15–20 years roughly.*

Q4: How many employees does the enterprise employ? *Totality, about 7500–8000 throughout South Africa, and rest of Africa.*

Researcher: We normally distinguish between different types of enterprise on a continuum ranging from a mass production enterprise to a disaggregate production enterprise to a project based enterprise. Each of these main types can be defined as follows:

Mass-production enterprise: A mass-production enterprise produces products in bulk by using a standardised mechanised production process, indicating that these enterprises are highly capital intensive, with little customer participation.

Disaggregate-production enterprise: A disaggregate-production enterprise uses a medium degree of customisation, thereby indicating that these enterprises are only moderately labour intensive. Each customer will only influence the final product to some extent, for example ordering a specific meal at a restaurant, while the manner in which the meal is prepared and presented to the customer is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (Repeat the options if need be).

Probably tending more toward the mass-production scenario, with some elements touching on sort of the disaggregate scenario. So, I would say the majority would fall to the mass-production scenario.

Main body:

Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high risk? (High risk compared with the other markets that you have expanded into in SSA). *I think it's very important to point out that folks didn't think of the majority of countries in SSA as being high risk. It's only lately, within the last eighteen months, that the events to the problems with oil, that risk profiles have changes significant. So, while we acknowledge that it was a degree of risk in certain of the arenas, for varies reasons. For example, let's look at Nigeria. We knew about the insurgency, we knew, because we've operated*

there for so many years, we knew that the insurgency in the North would have an impact, okay. It's more than outweighed, or was outweighed, by the fact that your concentration of population, in terms of business protocol, is predominantly in the southern region of Nigeria. So, if you look at between Lagos and Ibadan, those are probably the two most populous cities, certainly in Nigeria, and possibly in the entire continent of Africa. So, if you look at those two, you are talking of a population strata of probably about 20 million people in those cities, which are 100km apart, and that's a massive risk mitigation thing. So, notwithstanding you have a lot of problems sort of central and north, your main market still remains predominantly southern. So, as a risk mitigation, it's fairly significant. If you look at a place like Angola, with a sectarian sort of government, the entire economy is controlled by the president –they've even passed laws to give him that power. So what's your risk there? We did a massive project in Angola, we've just done an additional extension to that project. What none of us understood at the time, is what would happen to the oil price. Anyone that knew about the oil price is probably a very rich man today. So, that's changed the landscape dramatically. If we were to do some of those projects again today, I'd question if we'd be as gung ho as we were back then. That said, we haven't stopped looking at doing the projects. So, it's a very fine balance as to trying to look at the risk profiling of those arenas and then making the decisions based on those risk profiles, because, at some stage those economies are going to adjust. They will go back to managing within their means, which they hadn't been doing, you know? When you're earning R110 an hour, all of a sudden you have to make R40 an hour, it's a big adjustment! Those economies will adjust to the R40 an hour at some point. It's just a question of when they are going adjust. Does that mean you don't carry on investing? No, I just think you're a little bit more careful about the investing, but you don't stop the investing.

- Would there be one specific country that stood out for you in terms of high-risk? *Where we wouldn't go to?*
- No, that you are currently in. That you maybe considered a lot more factors, before actually entering it? *No, not really. Nigeria would qualify under that as a scenario, where, you know, the whole insurgency from the north, the nature of*

the economy under Goodluck Jonathan. Because everybody knew that that was a bit of a Barnett government, they were, if it wasn't tied down, we'd be getting whipped. So, the fact of the matter is we classify it as being fairly risky, but the fundamental remains that you can do good business there, and until the shock of the oil price, you could still do relatively big extractions in terms of fund floods. So, it's a very mitigated risk environment, with a lot of counterbalances in it. It's just gone pear-shaped because of oil now.

Q7: Why was this country considered to be a high-risk country? *I think you need to understand the geography of Nigeria in order for me to answer the question properly. If you look at a map of Africa, you look at where Nigeria is located, and you look around Nigeria, Nigeria was bizarrely a transit country to many of the countries north of its borders, east of its borders and west of its borders. So, what was happening with the insurgency, with Boko Haram in the north, and tending down toward the centre, a lot of those transit lines, were being cut off, chopped off. That then raised risk trends significantly, because some of the product that we produce and create is actually destined for markets beyond Nigeria. So, those guys weren't getting product out of the country through those northern roots. Consequently, that backwardised onto us, where the demand for our product significantly slumped, and it's slowly rebuilding, but it went through a lot of trauma. So, when we then looked at buying the investment into the beverage facility, the debate was around the fact that, well, to what degree will that have an impact? My answer is, very little, because in that particular product line, a whole heap of the product is consumed in the southern part of the country. The southern part of the country has 20 million people, and generally speaking, the Muslims don't drink beer, so it didn't matter, and that's kind-off how the mitigation came into it.*

Q8: Why did you choose to still expand into this market even though you considered it to be high risk? (Would you explain that a bit more?) *Simple mitigation, 20 million people in the southern part of the country. Easy. Mostly Christian in that area, and consequently a higher proportion that is using our particular product, which are beverage cans, cigarettes, cigarette cartons, and that kind of thing. So, toothpaste cartons etc. etc. etc. As long as you have a market, then it's mitigated.*

Q9: Which mode of entry was used to expand into this country?

- **Non-equity entry modes:**
 - **Exporting**
 - **Turnkey projects**
 - **Licensing**
 - **Franchising**
 - **Management contract**
 - **Contract manufacturing**
- **Equity-based entry modes**
 - **Wholly owned subsidiaries**
 - **Joint ventures**

Let's go back instead and say that what you had was a scenario where we bought the interests of the Anglophone countries from an international entity. So, we had an operating base. Then one of the big concerns, worldwide concerns, is that the Nigerians got very clever. They banned the importation. Nigeria is very good at protecting its own interests, very good in that, and they said, that's it, no more importation of cigarette boxes, so overnight, the tobacco manufacturers had a problem, they couldn't import the stuff to pack. So, we expanded in that arena through a very specific contract. In terms of where we built a purposeful facility to service them, hence this crossover into a disaggregate environment. So it was quite a specific facility, dedicated to their production flow, and because we were sitting on a contract with a dedicated offtake, no brainer, the risk was just non-existent almost. The next higher expansion was through acquisition, and that was the one where, well, where's most of drinking public? Well, they are more in the south, okay so its risk mitigated. Easy to make the decision.

Q10: Was your choice of entry mode influenced by the perceived level of risk in this country? *No, not at all. If we'd had to, we would have built a Greenfield. It just so happened that we didn't have to, but we were more than willing to build a Greenfield facility, and we are still willing to build Greenfield facilities in a Nigerian circumstance.*

Q11: Why did you choose this mode of entry?

(Ask this question if it was not discussed as part of the answer to question 10). Because it's easier. It was simply a case of, in the one instance where we acquired it took eighteen months to two-year delay out of the equation in terms of getting into the market. So, you could immediately wrap-up and be in the market. Which is exactly what we did. So we were instantly selling product, whereas if we'd gone the Greenfield's route, we would probably only be coming on the line. So, we've already had a year and a bit benefit out of actually doing an acquisition, but that comes at a premium versus doing a Greenfield, so there is a bit of a weigh-up between those two scenarios.

Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry? *That is an impossible question to answer, simply from the perspective of it would depend on the nature of that risk. So, if the risk is geographic, then yes, you'd probably look at any and all of the scenarios of entering the country and the mode of entry in the country. If it was more economic, then you'd want the lowest risk possible so you probably wouldn't go in on an acquisitions strategy, because that is quite the expensive route into some of these markets and you'd want to mitigate limited, you'd probably look more at the Greenfield's-flowed-brownfields entry point than going on an acquisition. I think, but it's a difficult question to answer. The thing about Africa is each country is unique. Each country has its own little problems, its own little issues, and you have to, once you know what countries you are aiming at, do all the research in terms of risk mitigation, and then start making decisions.*

Q12.1: If no, why would you change the chosen mode of entry? *I'm not sure there are too many other modes out there, save for what we would look at is risk mitigation steps by using partners. So, limit our degree of investment by introducing partners: the thing whether they are local or foreign would be a debate, depending on product we are trying to penetrate. From there is the perspective, we'd probably be introducing partners to take a portion of the risk of off our outpost.*

Concluding Questions:

- We have come to the end of the interview; is there anything else you would like to share that you think might be relevant to this study? *No.*
- If I were to have any other follow-up questions would you mind if I mail them to you?

Thank you again for your time and willingness to share your insights with us.

MNE	A2
Date	2015/12/04
Interview time	0:13:47

Introductory Questions:

- Q1: What is your position within the enterprise?** *I am the managing director of A2 international, being all the operating divisions and exports throughout the borders of South Africa.*
- Q2: In which sub-Saharan Africa countries is your enterprise currently operating? (Could you please tell me more about that?)** *We've got factories in Gaborone in Botswana, in Okahandja in Namibia, Dar es Salaam in Tanzania, Luanda in Angola and Port Louis in Mauritius. But we are operating in the surrounding countries surrounding these countries as well, so that is Zambia, the DRC, the Lake Region of Lake Victoria which is Uganda, Burundi, Rwanda, and Kenya, as well. and a few other countries in the vicinity of our operating divisions.*
- Q3: How old is the enterprise?** *It was established in 2002. The shareholding is via an offshore Mauritian company called A2 International Limited. So, we established that as an investment platform, and that holds the various shares in the various entities in the different countries.*
- Q4: How many employees does the enterprise employ?** *We've a core employee structure within South Africa, which comprises of myself, the financial director and accountant. We utilise a management company in*

Mauritius to do all the statutory work and the audits from that perspective. [Company name] it's a management services company. Then within all the operating divisions, they've among them about 500 employees.

Researcher: We normally distinguish between different types of enterprises on a continuum ranging from a mass production enterprise to a disaggregate production enterprise to a project based enterprise. Each of these main types can be defined as follows:

Mass-production enterprise: A mass-production enterprise produces products in bulk by using a standardised mechanised production process, indicating that these enterprises are highly capital intensive with little customer participation.

Disaggregate-production enterprise: A disaggregate-production enterprise uses a medium degree of customisation, thereby indicating that these enterprises are only moderately labour intensive. Each customer will only influence the final product to some extent, for example ordering a specific meal at a restaurant, while the manner, in which the meal is prepared and presented to the customer, is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (Repeat the options if need be).

Mainly all the enterprises are mass-production, but with elements of disaggregate production, because we use some of the mass-produced product which we do, and we do some form of customisation through fabrication, which is more people intensive and less capital intensive, capital overheads as you mentioned. But, I would say 80% or 90% is mass-produced so.

Main body:

- Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high-risk? (High risk compared with the other markets that you have expanded into in SSA).** *The one that sticks out is Angola, that's for sure perceived to be a high-risk market and still are a high-risk environment, and as typically the case you command higher margins for the products you sell in these high-risk markets to compensate the eventualities where you may lose a business or take a serious knock. So yes that's the only that sticks out as extremely high-risk. In the tier of risk, the second one would be Tanzania, but it's not nearly as high.*
- Q7: Why was this country considered to be a high-risk country?** *Because of the difficulty of doing business. It's a Portuguese based system, because of fairly high corruption levels, and a fairly primitive legal system. Nominally based on the Portuguese system, which they customise and it's not very business friendly. There is an index, which is called the ease-of-doing-business index, which you may be familiar with, and this country ranks quite poorly on that list as one of the more difficult countries to do business in, and they look at a number of parameters by determining that. I know some is banking, legal, and how quickly can you register a company, and so on.*
- Q8: Why did you choose to still expand into this market even though you considered it to be high-risk? (Would you explain that a bit more?)** *Because it had a very high growth rate. There was a demand for our product, there weren't many competitors at that point in time, and we could as a result of all the above demand higher margins which since have diminished slightly, because more entrants came into the market, and also because Angola is a high-risk market, because it is single commodity based, it is an oil-based economy. The fall in the oil price, that hits the facets of the country very hard, and we do water-related projects, and depending on going expenditure that has taken a knock.*

Q9: Which mode of entry was used to expand into this country?

- **Non-equity entry modes:**
 - **Exporting**
 - **Turnkey projects**
 - **Licensing**
 - **Franchising**
 - **Management contract**
 - **Contract manufacturing**
- **Equity-based entry modes**
 - **Wholly owned subsidiaries**
 - **Joint ventures**

We bought an existing business, which we expanded upon. So, we bought it from an Angolan Portuguese gentleman who wanted to go on retirement in Portugal. It was established already, so all the registration of the company etc. was done. We didn't have to go through all the motions of establishing the company. It had existing bank accounts, so that was a mechanism we used. We asked him to stay on for a period of time to learn the ropes, and we did another thing. We got a Portuguese partnership in this business to overcome the hurdles of the language, and also with more knowledge about the Portuguese and Angolan legal system and accounting world. So, that's what we did there.

Q10: Was your choice of entry mode influenced by the perceived level of risk in this country? Yes, absolutely.

Q11: Why did you choose this mode of entry? (Ask this question if it was not discussed as part of the answer to question 10). Because the opportunity came to us, like many of these things happen in the business world, and we said that market on our own we wouldn't have entered, had it not been for this opportunity buying an existing business, and to partner with a person who is wise in that market.

Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry? It depends very much on a case-to-case basis, but yes, we would seriously consider this methodology of entry.

The other alternative to it, which we for instance think about now in markets very far away, which is Ethiopia, is that we will start very small, in other words, you will limit your capital exposure, and you will start small, just to cover costs, learn the ropes about how banking, legal, corruption in that country works. Once you are satisfied that you can expand, you start with a bigger investment. So, that is the two modes that we operate with in high-risk environments.

Concluding Questions:

- We have come to the end of the interview, is there anything else you would like to share that you think might be relevant to this study?

Yes, you've got to do an extremely good analysis and homework, before you enter any market. You have to obviously look at the market. How big the market is, the demand for your product. Whether you have the knowledge to operate in the market. Whether you have to customise your products to suite that market, and then you have to do a serious competitor analysis, what the competition is that you are going to face, and you've got to do the corruption index solution, the ease-of-doing-business. You have to investigate the channels. How do you invest? Can you get your money out of the country? That is extremely important, because if you invest in the country, at some point you're going to want to repatriate profits. How possible is it to repatriate profits? It is one of the main problems. What mechanism do you use? Does the law allow you to repatriate dividends, what are the withholding taxes on those dividends for instants? Tax is a huge consideration. You look at the ease of doing any kind of transfers of money, because more often than not all the materials are imported. In other words, through the banking systems: are there banks in place, which are reliable enough to do letters of credit with? You have to look at the law structures. You have to look at the labour environment – what risk do you face when you dismiss local employees? Because very often people don't foresee this pitfall, because you know there are structures in place in South Africa and elsewhere in the world whereby you follow disciplinary action and get rid of people, but in some markets and countries it's extremely difficult to get rid of people. On the contrary, in some easy countries it is easier than others are. These are the most important

things. The banking, the legal environment, the labour environment and then the Whole market, the ease of scope of the entire entry

- If I were to have any other follow-up questions would you mind if I mail them to you? *Yes, with pleasure.*

Thank you again for your time and willingness to share your insights with us.

MNE	B1
Date	2015/12/01
Interview time	0:21:18

Introductory Questions:

Q1: What is your position within the enterprise? *International business development manager.*

Q2: In which sub-Saharan Africa countries is your enterprise currently operating? (Could you please tell me more about that?). *Kenya, Botswana, South Africa.*

Q3: How old is the enterprise? Which one?

- **B1.** B1 was found in 1985

Q4: How many employees does the enterprise employ? Somewhere between 1100-1300

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moderately labour intensive. Each customer will only influence the final product to some extent, for example ordering a specific meal at a restaurant, while the manner, in which the meal is prepared and presented to the customer, is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (Repeat the options if need be).
Probably disaggregate-production enterprise.

Main body:

Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high-risk? (High risk compared with the other markets that you have expanded into in SSA). We don't expand into any market that is perceived a high-risk. What is the criteria for high-risk? Because we have our own criteria.

- *Okay, well, that depends on the type of country that you look at. You have different factors that you have to take into consideration, whereby it is political risks to take into consideration. Usually it could be a country that has been in a civil war for quite some time, and have come out of it, or they have strikes that go on in the country, or political instability in the sense of a new election that might be coming up, and people might be uncertain as to what's going to happen in the country. On the other side it could be economic risks, like a recession possibly going on in the country, or... **What about South Africa?***
- *South Africa at this stage in time, I think is actually, between emerging and high-risk. **So it's high-risk, medium-risk or low-risk?***
- *More toward high-risk than low-risk. Well, if you think that South Africa is high-risk, then yes, we, probably have entered some risky markets.*

Q7: Why was this country considered to be a high-risk country? For example Kenya, what are the risks?

- *Would you say that it is a high-risk country if you have... Well, if you describe it, high-risk, the way you did now, it is high risk in terms of the terror threat. Economically, their country's fiscal position is risky because of its external debt. So, when a country starts borrowing in foreign currency like dollars, euros, pounds or yen, then those countries, for example the US, just put up their interest rates, their currency strengthens, your local currency depreciates, but you still have to repay your foreign loans in US currency: that's a risk. So all these African countries have that risk at the moment. They've taken out foreign debt, US\$ based debt, they have to service those loans, but the tax income of the countries is in local currency, those currencies have depreciated substantially. Tanzania's case it's lost close to 100% of its value; started the year 6 kwacha to the dollar, its sitting at 12 kwacha to the dollar. Look at the rand. I don't know where we started the year, 13, 12 around there, now we're sitting at 14. Still got to service foreign loans, in US\$, which makes our debt more expensive, which puts strain on the fiscus, which threatens you with a sovereign debt downgrade, so for example in South Africa's case it's expected that we will be downgraded by one notch on the 4 December 2015, one more downgrade and we're junk status, which means a lot of countries can't hold our bonds, which means they sell those bonds, they sell rands, the currency depreciates, and we still have foreign debt obligations, which can [killing gesture/ slitting throat] us.*

Q8: Why did you choose to still expand into this market even though you considered it to be high risk? (Would you explain that a bit more?) *If you look at developed countries vs. emerging and frontier countries. Frontiers as in the Sudans, the Chads, the DRCs, all that, where there's very little infrastructure, small base economic base etc. vs. emerging, take the BRIC countries, take developed. Developed countries, it's called developed for a reason, it's developed. It's not easy to just go and build a hotel and make it full. Economic growth is slow, it's on a high base, it's developed. These developing countries are developing. So, what we've identified was fast economic growth, urbanisation, favourable demographics, large tracks of*

unexploited agricultural land, unexploited mineral resources, etc. Huge need for infrastructure, huge need for people to be educated, to join the work force etc.; but it comes with these risks, so if we look at Africa, where its growth started at 2011/10; now it's a different story. Things have changed, China's slowing down, so there isn't a need for all these commodities and resources. These economies have slowed down. Same with oil. America has started producing shale gas, a substitute for oil. With the slowdown of the Chinese economy, and other economies in the world, there's been a slowdown in the need for oil, which pushes the prices down. If the price of oil comes down, it means other sources of energy like gas is not going to be exploited, the infrastructure to get it is not going to be built, because the price is too low, which makes it unfeasible to develop these projects. So, however, I mean, the world population is at more than 7 billion today ... people are ... it's sceptical. So right now it's in a downward slowing phase; it will grow again. So, when we invest, we look at countries with a 20+ year view, so we invest through cycles. We're not private equity where we get in during year 0 and by year 3 we make a big profit. We're in it for the long term.

Q9: Which mode of entry was used to expand into this country?

- **Non-equity entry modes:**
 - **Exporting**
 - **Turnkey projects**
 - **Licensing**
 - **Franchising**
 - **Management contract**
 - **Contract manufacturing**
- **Equity-based entry modes**
 - **Wholly owned subsidiaries**
 - **Joint ventures**

How do I answer that?

- Well, I have examples for you of the different types of entry modes that there are. Non-equity entry modes are exporting, turnkey projects, licensing, management contracts, contract manufacturingō *Okay, I see where you're*

going. So, okay, let's talk about the business model first. Unlike other hotel companies [(names of hotel groups/ competitors), they sign management agreements and franchising agreements, so they are asset-light companies, they don't invest in the bricks and mortar, traditionally. We, on the other hand, are asset heavy. We don't enter into management agreements or franchising agreements with external parties. We build our own hotels, we own those hotels, and we operate them for our own account. So, if you talk about mode of entry, let's forget the (what do you call it these days?) the PESTLE analyses, macro-environment all that research. We source the land, we either buy the land, or lease the land or whatever the laws of those countries state. You have to follow in order, to build something on a piece of land. And then we raise the money, which is a whole other story, build a hotel, establish a local company and operate the hotel, and we typically start these hotels in the capital cities of the countries we have identified, so we don't go out to the small little towns, like the Oudtshoorns, Colesbergs or all that. We are in the Tswane, Jo'burg, Durban of all these countries. Once we are established there, then we will expand lower-tier hotel brands into the smaller towns. But for now our focus is on establishing a flagship brand, a B1 brand in the capital cities of the African countries we have identified. Does that answer the question? There's no franchising, no management agreements, there's no setting up of factories. Find the land, establish a company, build the building, put staff in place, operate.

Q10: Was your choice of entry mode influenced by the perceived level of risk in this country? *Yes, we do, of course you have to consider the risk; it's not just the risk you consider. Let's start with the macro. Let's start with the very macro environment. When you look at the world map, you say we have Australia, we have Africa, India, South-East Asia, South-America, America, Canada. What makes sense? Okay, Africa makes sense for us. Okay, now let's start, let's look at Africa. What is Africa? So, you have North Africa and you have sub-Saharan Africa. It's two different, same continent, you have Arabs and African's, so no, we are sub-Saharan Africa. Now let's look at SSA. Now in the whole of Africa I think there are 53 countries, so of the 40-whatever that's in SSA, how do we now choose where we expand to? What makes sense? Now, you've got certain tools, like, the World Bank has got*

indexes like the ease of doing business, ease of paying taxes. Then you've got the Mo Ibrahim Governance Index, you've got Competitiveness Index also by the WB, Economic Freedom Index, but all these, you go through all these lists and indexes and you say what is an absolute no for us, and what is a, "we will consider". So what will we consider? We look for countries where, and when I say good governance, I say relatively speaking. So if you rank the 53 countries, the ones that are top 15 in term of governance, how's this country governed, that must be a check. Law, which law systems do they use, and are we prepared to (deal with those?). What language are spoken? E.g., many central and West African countries speak French; we say, before we go there, let's go to the English-speaking countries. When you look at corruption perception index, you look at the ease of doing business, for example, Zimbabwe's bottom of the list. Would we build there? Yes, doesn't mean we're not going to. But you have to consider these things. Taxes, Congo, the DRC, taxes are mind-blowing. You look at terror threats. What is it going to cost me to build a hotel here? So now, for example, if you can see Angola and Namibia are neighbours it is almost five times as expensive to build in Angola than it is in Namibia. So you say, why don't I build five hotels in Namibia and I spread my risk in Walvisbaai, Swakopmund, Windhoek, as opposed to one in Luanda, where the whole economy is reliant on the oil price. Namibia has a more diverse economy. So, you look at those things. Then you go to the micro-environment: Who are the hotel players? What kind of occupancies are they doing? What room rates are they achieving? Is there over-supply, is there under-supply? What is in the pipeline? What are their challenges? In Nigeria they are mostly running on generators, so your fuel costs just blows your operating costs. And, you look at all those things and say, Do I want to be in or not? If you say right, I want to be there, now you start pounding the payments. Start walking, networking, where am I going to find land, speak with people. You've got to kiss a thousand frogs before you find a princess. So you go. Once you've found the land, now you've got to go through legal processes, agreements to buy down this land, establish, get build permits. It's a hell of a process.

Q11: Why did you choose this mode of entry? (Ask this question if it was not discussed as part of the answer to question 10). When you say mode of entry, do you refer to the research methodology or the business model?

- How you entered the market? How you established yourself in the market, why you chose that specific way . you said you buy land, you build your building. *Oh, why we have the building model that we have of asset-heavy?*
- Yes. *Simply because, we want to be fully in charge of control of the product. So let's say for example, you're a landlord, a real estate investor and I'm a hotel manager. You say you have a piece of land, I'm going to build a hotel, will you come and manage it? Happiness! And we say to you, every month 5% of your revenue you must keep in an account. It will be used to maintain this hotel. You hit tough times, you start dipping into this account, only there's no money to refurb the hotel. Now the products quality go down-down, or you don't have enough money to put staff in place. Whose reputation suffers? Yours, or mine? Mine, because my flag is on the hotel (gives examples of other hotels). So, we don't want that, we want to be in charge. So that's why we own the properties and we maintain it, we refurb it as and when it's necessary. We don't have to rely on somebody else.*

Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry? Yes, wait, when you say mode of entry, are you talking about the business model?

- **Yes.** Yes, for now we're saying that, yes.

Concluding Questions:

- We have come to the end of the interview, is there anything else you would like to share that you think might be relevant to this study? *No, just for your own info, be careful with seeing Africa as the rising continent. It's all going to depend on two things going forward: Governance. Look at these presidents, you've got to study that Mo Ibrahim governance, you've got to study it. See how important is governance to this country. Secondly, how do African economies diversify their economies. Like, you say in Nigeria, 90% of export earnings are from oil. What happens when the oil price goes from US\$140 to*

US\$40/ US\$20? What's going to happen? So, you have all your eggs in one basket.

- The entire economy is going to collapse. So, you have to look at how the entire economy. Three things: Are they diversifying? How does the wealth generated by the country filter down to the rest of the country? Is it equally spread? Is everybody benefitting, or is it only a few fat cats, and then the governance. Those three, watch those three, and you can identify the countries that are going to do well, and they are going to come out on top. Africa, is a big place. Not all the economies are going to do well. And there will be more wars, and there will be more terror, and there will be bad news coming out of Africa. Certain countries are going to thrive because of how they manage their countries. So don't look at Africa, as one country. It's like picking stocks, which one is the best.
- If I were to have any other follow-up questions would you be willing for me to mail them to you? Yes

Thank you again for your time and willingness to share your insights with us.

MNE	B2
Date	2015/12/07
Interview time	0:14:44

Introductory Questions:

Q1: What is your position within the enterprise? *I work for B2, and I am currently the Executive Director of Africa, looking after all of our business units in Africa, outside of South Africa. That includes all the sub-Saharan Africa businesses and cross-border operations for B2.*

Q2: In which sub-Saharan Africa countries is your enterprise currently operating? (Could you please tell me more about that?). *Namibia, Botswana, Zimbabwe, Zambia, Mozambique, Malawi and the DRC.*

Q3: How old is the enterprise? *39/ 38 years. So it's quite established.*

Q4: How many employees does the enterprise employ? 16000. You want an exact amount? So it's more or less 16000.

We normally distinguish between different types of enterprises on a continuum ranging from a mass production enterprise to a disaggregate production enterprise to a project based enterprise. Each of these main types can be defined as follows:

Mass-production enterprise: A mass-production enterprise produces products in bulk by using a standardised mechanised production process, indicating that these enterprises are highly capital intensive with little customer participation.

Disaggregate-production enterprise: A disaggregate-production enterprise uses a medium degree of customisation, thereby indicating that these enterprises are only moderately labour intensive. Each customer will only influence the final product to some extent, for example ordering a specific meal at a restaurant, while the manner, in which the meal is prepared and presented to the customer, is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (Repeat the options if need be).

Well, firstly, we don't manufacture, so we're not a production enterprise. We provide a service to customers that do manufacturing of logistics into Africa and within South Africa. So, we do transport, warehousing, rail, shipping, getting a product from point A to point B. In some cases it is capital intensive, where we delegate certain warehouses and vehicles to a customer. So then it's customised to a customer's needs, but once it is there, it is there for a long time. Secondly, we also service customers that might require might ad-hoc services. It's very customisable. So, we'll provide with a vehicle or warehouse so that you need a bit at a point in time, and customise your specific requirements. So, we also pretty much operate on the project-based with customers, for example, we have sent 200 blokes to a certain point in Africa, when we're done with it, we're done with it and we move on to another project.

So I'll say we are a disaggregate-production enterprise, as well as in the project-based enterprise, but not production as such, I mean the strict definition of production, it's more a service industry.

- Which one would you say would you lean more towards too? *A disaggregate-production enterprise.*

Main body:

Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high-risk? (High risk compared to the other markets that you have expanded into in SSA). *Zimbabwe, Mozambique and Zambia. Just purely of a political instability in those countries. Prior to that we have expanded into Namibia, Botswana, and also into Malawi which is less politically risky. So, Mozambique, Zimbabwe and Zambia.*

- Which one the three would you say stood out the most in terms of high risk? *Zimbabwe.*

Q7: Why was this country considered to be a high-risk country? *Purely of its political instability, and governments getting involved in businesses, and demanding a stake in businesses. So, they basically drove out the environment for private companies to get involved, and forced private companies to give away shares of their companies. And also, then getting your money out of the country, it's very risky and questionable at times.*

Q8: Why did you choose to still expand into this market even though you considered it to be high risk? (Would you explain that a bit more?). *It's a big growth environment, lots of opportunities. So, firstly it's just driven by the South African environment creating, or reaching a point of stableness where you can almost say the competitive environment was almost too much, and the growth rate year on year was really low, between 5% and 6%. For a company like B2, with quite a strong growth percent year on year, between 20–25%, we had to find growth elsewhere, and we had to weigh off the risk between countries like that. With growth opportunities, business potential risk on a political environment. We just decided that there are so much opportunities that we are willing to take the risk. But there are still countries*

that we are not going into because of that. So we provide a service into those countries, but we don't establish in those countries, and that is Angola and DRC. Purely because they are still very risky.

Q9: Which mode of entry was used to expand into this country?

- **Non-equity entry modes:**
 - **Exporting**
 - **Turnkey projects**
 - **Licensing**
 - **Franchising**
 - **Management contract**
 - **Contract manufacturing**
- **Equity-based entry modes**
 - **Wholly owned subsidiaries**
 - **Joint ventures**

Acquisition. We bought companies in those countries, and made them a part of our group and then took them and grew further. That is part of our strategy at B2. We don't go into Greenfield, [instead we] go into a country and establishing from scratch, brand new. Instead we identify a company that does more or less what we do, with a culture pretty much the same as B2. Good resources, good people and we buy them and make them part of the group and help them grow further. That's what we do. It's what's successful.

Q10: Was your choice of entry mode influenced by the perceived level of risk in this country?

Yes it was, because a lot of those case you have to look at the risk, and identify all of the aspects of risk, and then decide if you want to go into it or not. In this case where we actually buy companies or acquire companies within those countries, you're already getting a resource base who's got contacts on a political level, as well as on a business level, where you can also do very quiet research and interviews to understand exactly what the impact will be on your company. So all the acquisitions we made was, we had a lot of information available, a lot of diligence were made, a lot of research, and then we made a decision –to decide if it should be followed or not.

Q11: Why did you choose this mode of entry? (Ask this question if it was not discussed as part of the answer to question 10). *That is just one thing we've always done in the past, so it's been a proven track record of success for us. We've always grown by acquisition. Getting companies, buying them, making them a part of our company, growing them faster than they can grow themselves. That way we didn't have to establish from the ground up with new resources, getting new buildings, understanding the market. It's basically the history, the history of a successful track record, showing us that that is the best way for us to go, and that is why we continue doing it.*

Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry? *Yes, we would definitely. It is becoming more and more of a challenge nowadays. Especially in high-risk areas in sub-Saharan Africa, the Angolas, the DRCs, etc. Because we try to identify a company that is more or less the same as us. Doing, providing the same services as us, but on a smaller scale, so that we can buy them and grow them, but we are finding it more and more that we aren't getting the companies that do the same as us. You have to establish services going into those countries. So, we are going to reach a point where we are going to have to start Greenfields, and grow from the bottom up, but right now we're not yet, but in Angola and the DRC we definitely see that a challenge, we're not going to find a company to buy.*

Concluding Questions:

- We have come to the end of the interview, is there anything else you would like to share that you think might be relevant to this study? *If I look at your study, you are obviously looking at the opportunities in sub-Saharan Africa, and what is actually keeping companies from going there, or what is the way for them to obviously go there. All I can say really is that more and more companies from throughout South Africa are going into the African environment. That is where the growth is. It is always going to be risky, but if you can manage your risk, and if you can mitigate it by knowing exactly what you are getting into, doing enough research and also building relationships at senior level within those countries, especially with government, you can limit*

your risk and you can capture the markets there. So, most South African companies will go into Africa, and risk is a thing they are going to face, it's just it. You just have to know how to deal with it.

- If I were to have any other follow-up questions would you mind if I mail them to you? *Yes, sure.*

Thank you again for your time and willingness to share your insights with us.

MNE	C1
Date	2015/12/03
Interview time	0:10:55

Introductory Questions:

Q1: What is your position within the enterprise? *I'm the Head of Project Development.*

Q2: In which sub-Saharan Africa countries is your enterprise currently operating? (Could you please tell me more about that?) *We operate in all sub-Saharan African countries. Well, we currently don't operate, in actual fact, we have no reason not to operate, in any of those particular ones. Obviously, we have targets, and those targets then are target countries much reduced from the complete amount. There are a few that we do not operate in and that is Angola and Somalia.*

Q3: How old is the enterprise? *We're a public company since 1974, but C1 origin comes from the fact that it brought five construction companies together, and that's how it formed the name of C1. Those five companies that were formed has a very long history that dates back the 1930s. So, in essence as a public company we've operated since 1974, so I think it's about 41 years.*

Q4: How many employees does the enterprise employ? *At the moment, I think we're on 14 000. That includes the, obviously the labour elements that are on all the sites.*

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Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (Repeat the options if need be).
It would probably be project-based.

Main body:

Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high-risk? (High risk compared to the other markets that you have expanded into in SSA). *In the past ten years, we've been in probably 20-28 countries, I'm not sure of the timing on that. I guess that the countries who really were high risk, were DRC, Mali, for a short period we were there, and Liberia proved to be a challenge.*

Q7: Why was this country considered to be a high-risk country? *DRC. I think, one of the main issues is the regulatory, legal framework. I think that that, although regulations or tax laws friction exist, the application of the laws gets a bit confusing, and that, leaves you sometimes at risk handling that. In the*

case of Liberia, there was Ebola. So, that left us with quite a challenge. Mali I think just political instability. That was a concern for us when we went in there.

- Between these three, which one would stand out the most as high risk for you? *We would think the DRC*

Q8: Why did you choose to still expand into this market even though you considered it to be high risk? (Would you explain that a bit more?) *Well, I think that the game that we play basically in the whole of sub-Saharan Africa there are risks associated with all these countries. African countries by I think their nature, carry more risks than say European or American or Australia, and so it's a strategy from C1 to actually enter these markets based on the fact that we would hope that the margins or the profits are higher. Secondly, that the demand for infrastructure in Africa is exceptionally high. So, we believe that there is a big market there.*

Q9: Which mode of entry was used to expand into this country?

- **Non-equity entry modes:**
 - **Exporting**
 - **Turnkey projects**
 - **Licensing**
 - **Franchising**
 - **Management contract**
 - **Contract manufacturing**
- **Equity-based entry modes**
 - **Wholly owned subsidiaries**
 - **Joint ventures**

Project, well we always either identify one single project, through a tender or alternatively a unsolicited proposal to that particular client. What is common though in high-risk countries is that we follow existing clients. So, for example if we're working with the mines in South Africa, they might request that we might support them in a new mining one day.

Q10: Was your choice of entry mode influenced by the perceived level of risk in this country? Yes, for sure.

Q11: Why did you choose this mode of entry? (Ask this question if it was not discussed as part of the answer to question 10). *I think when you follow a client it's obviously a big advantage. One of the basic issues, one of the highest risks for us, is to be ensured that we're going to be paid. So, the mechanism of payment, if secured, is often attractive. For example if that mine says that they'll pay you in hard currency outside of the country, then in an actual fact we see that as very attractive.*

Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry? *Yes, I think we would, but we, in our strategy, we analyse all the countries, and then assess each project on its merit pertaining to that particular country, and if we believe that, that we can handle the risks, we're going to that country.*

Concluding Questions:

- We have come to the end of the interview, is there anything else you would like to share that you think might be relevant to this study? *Yes, look, from a C1 perspective, this is really very much what our strategy's about. So, in actual fact, assessing the risks in the countries is a big exercise for us, and we've done that on a number of occasions, in various studies, etc., and analysed the whole of sub-Saharan Africa, and see which countries, according to which factors, should be the targets. For example, we would look at the GDP growth, to that, okay, there's an economy growing, and therefore that is, and we would like to see repeat business in that country. So, it's more attractive for us to, like Kenya is a project, and then you know there are other projects to follow. So in actual fact although we become project based when we're going into these countries, the long-term theory would be that we actually establish in those countries as local businesses. So, that is the sort of long-term strategy.*
- If I were to have any other follow-up questions would you mind if I mail them to you? *No, not at all.*

Thank you again for your time and willingness to share your insights with us.

MNE	C2
Date	2015/12/03
Interview time	0:14:44

Introductory Questions:

- Q1: What is your position within the enterprise?** *I'm the MD for Africa, outside of Africa and the Middle East, but only for another 25 days. Then I'm moving to Singapore, then I'm becoming MD for Asia and Middle East.*
- Q2: In which sub-Saharan Africa countries is your enterprise currently operating? (Could you please tell me more about that?)** *Okay, we have two modes of operating. The one is offices and the one is just project offices. In terms of offices, we're in all the neighbouring countries, the NLS, Mozambique, Angola, Nigeria, Ghana, Malawi (not really anymore), Tanzania, Kenya and Uganda and Ethiopia, but over the past ten years we've worked over 42 countries on the continent. So, we work in a lot, but that's normally just the project-base.*
- Q3: How old is the enterprise?** *Eighty years, but there is nobody left here who is eighty years old. They've all retired.*
- Q4: How many employees does the enterprise employ?** *Worldwide we are about 7000 people. In Africa, we have approximately 2700, which only 400 outside of South Africa. So, the rest are all here in the office.*

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some extent, for example ordering a specific meal at a restaurant, while the manner, in which the meal is prepared and presented to the customer, is decided on beforehand.

Project-based enterprise: Each customer will have a significant influence on the finality of the project by providing the enterprise with step-by-step information on what the completed project should entail. Thus, high customer participation and a high degree of product customisation is found within these enterprises.

Q5: How would you classify your enterprise? (Repeat the options if need be).

I would say it is project-based. We don't sell anything per se, we sell ours, we sell services. We don't produce anything.

Main body:

Q6: Into which sub-Saharan Africa country have you expanded in the last 10 years that at the time was considered by the enterprise to be high risk? (High risk compared to the other markets that you have expanded into in SSA). Definitely, Angola and Nigeria, yes I think that's about it.

- Is there any one of the two that stands specifically out? *Angola and Libya over the past ten years, but obviously not any more.*

Q7: Why was this country considered to be a high-risk country? *Well, most of these places had, not Nigeria, but definitely Angola the civil war until 2002. So, that's the nature of the projects that we do, we go out into the field, and there are physical risks, there's risk in terms of the environment in which we work because it's isolated. You have to take whatever you have along to some places. You start to work in some places that is still military active or unstable, and you have to have armed escorts, and from a business perspective there's always the issue of can you get your money, can you get paid, when will you get paid, where will you get paid so forth. So, I will say there's a physical risk, there's a safety and security risk, and also a business type risk, business environment. Nowadays, it's becoming a more regulatory risk, in other words you have to have the right operating vehicles, you have to pay higher taxes and consider these risks. So, it's moved really from a physical risk to a commercial risk.*

Q8: Why did you choose to still expand into this market even though you considered it to be high-risk? (Would you explain that a bit more?)

Because high risk is high award, we made most of the money in places where there are high risks, and the fact that you go there, goes to clients and service them in the country even when things turn a bit tough, that counts in your favour.

Q9: Which mode of entry was used to expand into this country?

- **Non-equity entry modes:**
 - **Exporting**
 - **Turnkey projects**
 - **Licensing**
 - **Franchising**
 - **Management contract**
 - **Contract manufacturing**
- **Equity-based entry modes**
 - **Wholly owned subsidiaries**
 - **Joint ventures**

Normally it's non-equity, we don't manufacture per se, so I'd say it's probably exporting. We engage with a client, we sign a contract, start doing the work. Based on where the road is on, or water design or whatever.

- *Okay, so is it a project type thing that you do? Yes, it's a project-type thing that we do. Nowadays we have to set up companies as a requirement. It goes back to people. So, we have to set up a company. Countries want you to be registered locally, so you, you also need work permits for people, you can't work if you don't have work permits. We used to be able to do that, fly in and out, but not any more. We must pay our taxes, so we must understand the full tax regime, and you must own bank accounts. To open bank accounts you must have an entity and also you have to have local shareholding. So, that's normally a big issue.*

- Q10: Was your choice of entry mode influenced by the perceived level of risk in this country?** *Look, considering if you do projects then you just do them. It's not "mode of entry". Look, what we typically do, is when we win a project in a country, we go in, sign the contract, start doing it. Sometimes, it's necessary for us to put people in countries. Nowadays it's necessary for us to basically set up a company. So, we basically do what is required. If you say that that is a level of risk, yes you look at the operating risks, you have to set up a company, so let's see what we into, let's set up a company. We set up a minimum admin base, to be able to service that company from a financial and HR perspective, and especially from a tax perspective, and then we do the work, and then as time goes by we recruit more people, local people, so we build up a full project or country office. So typically our transition is from project to country office. We can't have lots of people sitting around doing nothing. So, it's totally work dependent. No work, no people.*
- Q11: Why did you choose this mode of entry? (Ask this question if it was not discussed as part of the answer to question 10).** *That's just because that's required. We try and work legally in these countries. If they say we must have a company, we set up a company. If they don't require that, we contract from outside, we do that. So, basically it's the client's requirements, it's the countries tactive requirements, that determines our mode of entry. But there are many place that we were, as I've said, we work in 42 countries, so we don't have 42 offices, so, our mode of entry is determined on the type of project. Sometimes you do work for certain economic councils like SADC, or the East-African community and so on, and that's on a regional basis. That type of jobs we can do without setting up an office.*
- Q12: If you were to expand into another high-risk country in the future, would you choose the same mode of entry?** *Yes, we would see what the requirements are. If you are talking about the mode of entry, I think in our case it's probably a bit more than this. The non-equity is normally exporting, equity based, that means we set up a company. To define a company structure, how do we set that up locally? Like in Zimbabwe, you have to have majority shareholding because of the indigenisation policies. So, your shareholding should be 51% Zimbabwean, but then your directors should be*

engineers. So, if you don't have a local shareholder who is an engineer, you have to figure out another road in that. So, we have a guy there who is our local shareholder, but then we engage through, we have guys like myself who are the Rolex of the company. That are technically qualified to do the work, but we're not citizens, so it's very complex. So, we have an entire matrix in terms of shareholding, directors, operating requirements and even the professional organisations, the engineering organisations, require us to register. Even the individuals that work there should register, so we have people who register as professional engineers within that country. It's very complex. It becomes more and more complex.

Concluding Questions:

- *We have come to the end of the interview, is there anything else you would like to share that you think might be relevant to this study? The topic being Africa, sub-Saharan Africa, I mean what we find nowadays is that there are, in our industry any case, the risks are becoming more than what they used to be. The biggest risk at the moment is really currency risk, major meltdown; the Mozambican metical fell from 44 to 60 in one week against the dollar. Which makes it cheap for South-Africans to go there on holiday but in terms of business it's a different case. If we have one day R1 mil bucks in the bank, suddenly we only have two-thirds of what we had left. Also getting your money out is an issue, in most countries like Angola, Nigeria and so on, because there's a statutory rate from the national banks. We pay tax on whatever you take out, and even if you repatriate your profits. So, you pay tax on whatever you take out, but there are also a limitation on the amount that you can take out. Sometimes there isn't availability on ill-currency. So you may have lots of kwanzas, kwachas, or naras or whatever, but you can't take it out. And that's becoming a major issue over the last two years. So, it seems, well of course there are other things such as payment risks, clients simply don't pay. The public sector in South Africa, they like to make you wait for six to seven months before they pay. Exposure is an issue, operating environment is becoming very difficult. So, it's becoming not such a fun place to be anymore. It's difficult to business in some places anymore. Rwanda, for example, has a very high rating in terms of ease of doing business, if you look*

at ratings by the UN and the WB and so on and the WTO, but it's a very small economy, about this size and there is nothing happening there. So, they have a telecoms industry going on but there is nothing else. They are user friendly. They want to be a financial capital for East Africa, but they don't have the economic support. Other places, however, are quite difficult to set up shop and it takes you forever to set up shop and get all your tax stuff in place. The tax environment is extremely complex, because as these countries become more sophisticated their tax regimes become more sophisticated as well, and it is just extremely difficult to do work.

- If I were to have any other follow-up questions would you mind if I mail them to you? *Yes with pleasure.*

Thank you again for your time and willingness to share your insights with us.

ADDITIONAL QUESTIONS ASKED AFTER SOME INTERVIEWS

MNE: A1

- Q. During the interview, you mentioned that you initially entered the Nigerian market through very specific contract to manufacture products in Nigeria for a client. Why did you select this mode of market entry? *At that stage, it is my understanding, given where Nigeria was in risk terms this was a totally risk-free way of entering that market.*

MNE: B1

- Q. Can you identify one country in particular within SSA that you perceive as high risk that you have expanded into over the last ten years in comparison to other markets within SSA? Although we did discuss this yesterday, I would like to find out what country stands out more as high risk than the others. *Like I said in the interview – it depends what your criteria for high risk is as well as what kind of risk you refer to. Is it geopolitical, economic, environmental or sovereign risk? If you compare all countries in SSA, we avoid the politically and economically “high-risk” countries where governance, competitiveness,*

fiscal management and ease of doing business is RELATIVELY poor. However, of the countries on our radar, Mozambique is probably the most high-risk country we have entered – not from a terror/disease/conflict/instability point of view, but more from an economic view, given how small/shallow the economy is, coupled with the reliance on export revenue from natural resources (coal, gas, etc.). For an idea of how the African countries are ranked according to political/conflict risk, please see below.

- Q. You referred a lot during our discussion to Africa in general, i.e. during the decision making process into Africa, or your business model (entry mode selection). Was this applicable to the entire African continent, or only in SSA?
Only SSA.