Preferred Mode of Entry of Multi-National Enterprises when Conducting Business in Sub-Saharan Africa Region

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2014

ABSTRACT

This study evaluates the preferred entry modes of Johannesburg Stock Exchange-listed multi-national enterprises that have ventured into the Sub-Saharan African region. A qualitative method involving an exploratory study was conducted with the aid of interviews of selected participants to ascertain entry modes their organisations have used when entering the Sub-Saharan African region, considering the institutional prohibitive business conditions that exist. Market knowledge was used as a primary explanatory variable to test if the Johannesburg Stock Exchange-listed multi-national enterprises that have ventured into Sub-Saharan African region responded as defined by scholars that have previously researched service firms. Using market knowledge, the preferred entry mode of these multi-national enterprises into Sub-Saharan African region was attained.

The researcher targeted eight multi-national enterprises across all business sectors, with a set of 18 mostly open ended questions. These were used to discover what the respondents considered were the most used entry modes into the various countries their firms had ventured into within Sub-Saharan Africa. The questions evolved around a theory that links firms expanding internationally and how firms respond to external business environment environments, including the circumstances under which certain modes of entry are used. A literature review was undertaken by the researcher covering cultural differences, labour considerations, strategy and institutional based views of international business, strategy in international business and firm location causal link, multi-national enterprises' regional strategies, innovation of multi-national enterprises as a response to changing external business environments and the different circumstances under which certain entry modes are used. Responses from participants were combined in the form of themes, which were then compared to the literature.

The main findings of the research were that 'wholly owned subsidiaries' was the preferred entry mode when firms were confronted with political instability. Regarding poor infrastructure, the hub was evident. Wholly owned subsidiaries,

acquisitions, portfolio and platform were used for purposes of ease of profit repatriation. A favourable entry mode to manage government bureaucracy, corruption, legal and religious concerns was to form alliances, collaborations or joint ventures with local entities.

The findings from an industry perspective of the research were that the preferred entry modes for the construction, telecommunication, financial and FMCG firms were drawn down to home base, wholly owned subsidiaries or acquisition, when analysed using market knowledge. All these entry modes suggested that the service firms investigated all preferred to *follow clients* into Sub-Saharan African region. In instances where a joint venture was utilised, it was ultimately for the purposes of an acquisition.

However, there was an underlining salient theme where the multi-national enterprises venture into Sub-Saharan African region to show the rest of Africa how business is done.

DECLARATION

I, Victor Kangwa Chimfwembe, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Victor Kangwa Chimfwembe

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2014

DEDICATION

I dedicate this research report to my mother, Annie Mwila, who has been there for me ever since I took my school journey in search of knowledge. In the same breath, I also extend this dedication to my 15 month old daughter, Chisopa Kayula Lorraine, for her support and understanding. I never neglected you. You will only make sense of what I mean when you grow up. Your mum, Daisy Nkuka is a star.

ACKNOWLEDGEMENTS

To my supervisor Dr. Thabo Mosala for your assistance and guidance;

To my family for your understanding, patience, support and comprises made throughout my MBA studies;

To all the respondents that accommodated me in their busy schedules, most of whom I didn't even know personally;

This report would not have been possible without all your support.

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1.1 Purpose of the study

The purpose of this research is to evaluate the preferred entry mode strategies in relation to challenges that investors encounter in conducting business in the Sub-Sahara African (SSA) region. The qualitative research will look at some successful investments made and the strategies employed by multi-national enterprises (MNE) for successful investments, considering the external business environmental obstacles inherently present for businesses in this region. The research will focus on all business sectors.

An analysis will be conducted on the link that will be generated from literature on the international business theories of companies expanding internationally and the responses of MNEs to the external business environment of the sample, to understand the similarities and differences of preferred entry mode strategies. Behavioural and non-behavioural determinants will be analysed.

1.2 Context of the study

Africa is a continent rich in natural resources, yet exploiting these resources has been a hurdle for most African states, mainly due to investors' lack of confidence in the business environment in most countries. Data supports the notion that the natural resources and market size influence investment decisions, and as such impact on foreign direct investments (FDI) to the SSA region (World Bank, 2004b). The report adds that Angola, Nigeria and South Africa were the largest recipients of FDI from 2000-2002, with these countries absorbing 65 per cent in FDI inflows to the SSA region. Some prohibitive conditions prevalent in SSA that pose challenges to investment have been highlighted by Asiedu (2006), and include poor infrastructure, corruption, available market size, government policies, country or regional political instability and the host country's institutional quality resulting in natural resources not being fully exploited. The author also indicated other factors that have been pointed out as inhibiting FDI with similar effect in the SSA region, including inflation, uneducated population, openness to FDI, and a reliable legal system. Poverty and famine are also problems prevalent in SSA, but the region has opportunities that still exist.

Agbloyor, Abor, Adjasi and Yawson (2013) suggested that advanced banking systems can positively lead to more FDI inflows, which can enhance the development of the domestic banking system for countries in the SSA region. Such developments lead to a nation being attractive to conduct business in, especially if government policies are deemed fair for MNEs that may want to move finances in and out of states where they conduct business. MNEs prefer such flexibility, with reasonable government control.

South Africa has come to be known as the gateway to Africa. Most MNEs wishing to invest in SSA form a base in South Africa so that they have a regional control centre which is near to the rest of SSA. South African firms that would qualify as MNEs have also ventured into SSA. This study will focus on South African Johannesburg Stock Exchange-listed firms that have ventured into SSA due to easier access to information. Some South African firms in the financial services sector have had different motives to expand into the rest of the SSA (Luiz & Charalambous, 2009). Among these are the economic and political stability of the host country, profitability and long term sustainability. These firms are also concerned with broadening revenue bases and improving profit margins, while staying close to local markets.

Although these studies (Asiedu, 2002, 2006; Luiz & Charalambous, 2009; Agbloyor *et al*., 2013) have different emphases based on the business sector that a firm wishes to invest in, as well as the chosen host country, similar obstacles (prohibitive business environment) are also expected to be encountered inherently in the SSA region.

Most firms that wish to exploit lucrative investment opportunities in the SSA region conduct desktop studies to understand the market conditions in these countries, some with limited available information, while others conduct detailed bankable feasibility studies before embarking on the implementation of investment. Once feasible, the MNE then formulates a strategy to be employed in the particular country, while being cognitive of the risks associated with each project and specific country. Asiedu (2006) stated that countries that have limited natural resources or market size tend to compensate for this deficiency and still attract FDI by having political stability, improved institutions and policy environment. Asiedu (2002) also suggested that policies that have been implemented successfully in other geographic areas may not necessarily be successful in SSA.

Companies that decide to expand to new geographic areas do so for growth purposes. Most growth strategies evolve around models that should be used for the expansion process. Typically, a MNE's strategy models will be used to justify their choices and mode of entry in other countries are the 'cost pressures, local responsiveness' and 'Aggregation, Adaptation & Arbitration (AAA)' models, which are comprised of home base, portfolio, platform, hub or mandate and various types of regional strategies. Some regional strategies utilised are licensing, franchising, joint venture, alliance, wholly owned or acquisition, or other entry mode (Murtha, 1993; Murtha & Lenway, 1994; Buckley & Casson, 1998). MNEs need to be cognisance of cultural differences besides the distance between their home base and international markets as they move into foreign regions. Culture-Administration-Geography-Economics (CAGE) is an analysis that aims to explain this difference, and must be conducted as part of due diligence.

Other scholars like Ichii, Hattori and Michael (2012) are warning MNEs off just targeting developed nations and the top of the pyramid consumers, due to the slow growth rate of developed economies in comparison to emerging economies. According to the authors, a forecast by Goldman Sachs projected that the average annual growth rate of developed economies will be 2% between 2011 and 2020, while the emerging economies' growth rate will be 7% during the same period. The authors therefore propose four challenges as to why the emerging markets are more lucrative than developed ones:

- Distaste for middle and low-income segments.

- Picking the right entry strategy, especially those MNEs averse to M&As.

- Lack of MNE commitment. MNEs need to have the will to go into emerging economies and get their customers, with all the untapped potential that exists in emerging economies.

- Lack of talent. MNEs need to get local expertise compensated competitively, and then have locals in key positions to further customise products to local conditions. This allows MNEs to quickly respond to changes in the market.

Africa, being the fastest growing continent in the world (The Economist, 2013), still remains a viable investment destination. Companies that expand internationally are those that typically reach maturity stage once base local markets have been exhausted. The SSA is still lucrative because with its population of approximately 910.4 million (World Bank, 2012), it still has scarce talent and an uneducated population which comes with cheaper labour, which would ultimately lead to higher profits for the MNEs. Besides using SSA's cheaper labour, its population also can be a target market for goods and services. Moreover, SSA still offers a huge untapped potential for markets that have been previously neglected, especially due to the advent of improved technology such as cell phone technology and the large market size of people owning and using cell phones, translating into rural areas being target markets. SSA's resources are abundant, with its major market being China in recent times. China's appetite for commodities has been on the rise in the past three decades or so, and does not appear to be on the decline in the near horizon. Alden, Large and De Oliveira (2008) asserted that China is preoccupied in a "scramble for Africa" - more so because of the belief that China is on the verge of a "new Chinese imperialism".

Some MNEs that have ventured into the SSA region include those in the mining sector; telecommunications sector; financial services/banking sector; Fast Moving Consumer Goods (FMCG); construction sector and breweries. In some countries their investments have been very positive, while in others the outcomes have not.

An analysis of strategies employed by these firms while expanding into the SSA region will highlight the obstacles and challenges met, and how these obstacles were overcome by choice of strategy or entry mode. This analysis based on theory linkage will show traits or themes in entry modes employed based on obstacles inherent in those SSA states, and whether these obstacles influenced their decision to venture into SSA.

Other firms looking at expanding into the SSA region will learn from this research as it will provide guidance on how to tackle prohibitive prevalent business conditions/environments and how to structure their strategies upon entry.

The business problem that has not been addressed in this field of study is the lack of readily available information for MNEs or local investors that can be used practically to address shortcomings (prohibitive prevalent business conditions) as they attempt to expand and conduct business in the SSA region, besides the generic conclusions and remedies that have been drawn about the region. It must be noted that these shortcomings cannot be the only ones affecting investment decisions as the scope of entry modes into foreign markets is large.

1.3 Problem statement

1.3.1 *Main problem*

Analyse the preferred entry mode strategies used by firms when conducting business in the SSA region. These strategies will address the hurdles encountered in each chosen country for analysis purposes. Behavioural and non-behavioural determinants will be analysed. The degree by which these obstacles affect entry mode or the business sector a firm falls into will also be analysed.

1.4 Significance of the study

This study fills a gap in that as much as there has been a fair amount of research addressing FDI and its impact on the SSA region (Muchie, 2000; Asiedu, 2002, 2006; Luiz & Charalambous, 2009; Adams, 2009; Reiter & Steensma, 2010; Agbloyor *et al*., 2013), there is a limited number of studies that address challenges that are prohibitive for conducive conducting of business considering the external business environment, in relation to preferred entry mode strategy. Investors in SSA face hurdles of varying magnitudes, as they formulate strategies and modes of entry to the region. Most studies conducted have assessed the impact of FDI in relation to host countries at a macro-economic level. This still leaves room for understanding the impact that the varying attributes (structural institutions) in each host country have on the investors, regarding decisions that involve entry mode strategy.

The study may provide guidance to decision makers, especially strategists in MNEs that wish to expand their operations into SSA as well as local investors wishing to invest in the region. Prohibitive business conditions will be gathered from the MNE in line with their experiences and each MNE's strategy employed when entering the SSA region noted, so that similarities and differences in entry strategy applicable for each country specific risk can be evaluated. Mitigation of attributed risk will be compared to entry strategy employed in each country the MNEs ventured into, a comparison that may be of interest to potential users of this study.

Academics and students of international business, strategy and investment finance will get substantial value and assistance from a study of this nature.

1.5 Delimitations of the study

This study will address at least eight MNEs, preferably across all business sectors, that have entered the SSA region. The analysis to be conducted will be exploratory based on the interviews, which capture a specific MNE and the countries it has entered, showing the entry mode strategy it used given the variation of attributes (risks). These attributes may be supplied by respondents as low, medium or high.

At the end of interviewing all eight companies' information will be analysed using a qualitative methodology. The eight companies will be analysed using Miles and Huberman's (1984; 1994) data management system, by generating a theme to identify differences and similarities of entry strategies used for countries the MNEs ventured into, while the country's attributes are a constant. It may reveal more about the business sector that the MNE enters the country with, that may dictate the entry mode, irrespective of attributes. Also, each company may just have a standard entry mode outside of its home base, irrespective of the attributes.

The MNEs' successes and failures for each country ventured into will also be noted for comparison of strategies used on entry.

1.6 Definition of terms

Strategy – A management action plan in the form of a tool for the running of a business and carrying out its operations (Thompson *et al*., 2012).

MNE – Multi-national enterprise. These are firms with business operations and functions in the home base, as well as other parts of the world.

FDI – Foreign Direct Investment. Investments made other than international capital markets.

SSA – Sub-Saharan Africa. A region within Africa containing 47 countries.

FMCG – Fast Moving Consumer Goods. These types of business are sometimes categorised as retail outlets because they sell fast moving consumable commodities to end users and not always at wholesale level. These comprise of commodities such as toothpaste, bread, milk, mealie-meal, vegetables and fruit, to mention a few.

Mining Sector – Comprises of mining houses (firms) that typically mine ore and process it into a purer form (typically to 90-99 per cent mineral content), so that specialised industries can use the mineral for different commercial uses. Other times mining firms sell processed ore as concentrates, which have mineral content as low as 40 per cent.

Institutions – Both formal and informal. Informal institutions are prohibitive prevalent business conditions. Formal institutions are government created institutions aimed at assisting businesses.

1.7 Assumptions

The following assumptions have been made regarding the study:

i. The sample will have the required information, and will be willing to share it, on entry mode strategy decisions based on the confidentiality that most organisations bind their employees with. This is compounded by secrecy around strategy as well as due to sensitivity associated with what a statement by a senior member in an organisation attracts, and impact on share price.

ii. If the respondent does not wish to disclose certain investment and strategy decision information, the interviewer will be informed that this is the case.

iii. Respondents may have a standard strategy entry mode for all its investments outside of its base country.

2. CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

Key themes relevant to the study will be contained in this section - the literature review. Identifying international business theories of firms expanding internationally will form the initial part of the literature review. The second part will focus on explaining how firms respond to the external business environment. Some foreign modes of entry and determinants will then be addressed. An overview of key findings linking the two parts will conclude the section.

2.2. Background discussion

Strategy is a very important component of every business to thrive in today's competitive world, and should be at the heart of every organisation if they are to remain relevant in the fast changing dynamics of business. Prof. Michael E. Porter has emerged as a respected scholar on the subject of strategy over the past three decades, especially after he defined strategy in terms of the "five forces that shape industry". Strategy may not have been sufficiently understood or well interpreted by corporate business and scholars thirty years or so prior, but has now been widely studied (Ackoff, 1974; Porter, 1979; Mintzberg, 1987; Bowman & Ambrosini, 2000; Porter, 2011) and better defined and understood. However, there is still room for more work to better understand strategy, especially in international business and foreign entry modes used.

Hutchinson (1996) suggested that the environmental policies in which a firm conducts its business directly impacts on the finances of the firm, and as such the business requires fundamental change in the way it conducts itself in order to establish new ways of thinking. The author went on to say that environmental policies need to be integrated with business strategy for the firm, environment and community to benefit. Peng, Wang, and Jiang (2008) argued that the institutional based view of international business (IB) strategy, coupled with industry and resource based views, enhance a firm's sustainability strategy tripod, and further drives the firm's strategy and performance. Bartlett and Ghoshal (1991), Ricart *et al.* (2004) and Peng and Delios (2006) suggested that IB and strategy are closely linked.

North (1990) emphasised the aspect of institutions being significantly different in the developed world to emerging economies. The author broke it down into formal and informal institutions, commonly referred to as "rules of the game", which has a significance on shaping the firm's strategy and performance domestically and internationally in emerging economies (Hoskissonet, Eden, Lau & Wright, 2000). Some scholars (Leung, Bhagat, Buchan, Erez & Gibson, 2005; Redding, 2005) argue that IB research must focus more on better defining institutions, even though the author falls short of addressing the drivers of the firm strategy and performance. Scott (1995: 33) defined institutions as being "regulative, normative and cognitive structures and activities that provide stability and meaning to social behavior". The author went on to define institutions as those that govern societal transactions in politics (e.g. corruption, transparency), law (e.g. economic liberisation, regulatory regime), and society (e.g. ethical norms, attitudes toward entrepreneurship). Butler and Joaquin (1998), in their political risk literature, emphasised the country's political environment. Nations have different political risks, which have a phenomenal impact on the stability of their markets (Simon, 1984).

Hoskisson *et al*. (2000), McMillan (2007) and Peng *et al*. (2008) explained that the institution-based view of IB is definitely applicable in economies that are developed, and as such redirecting research to emerging economies will be beneficial to future IB strategy. MNEs from developed economies have a fundamental challenge of whether their traditional "global strategy" (standardised products and services) can be implemented with minimal change in emerging economies. This research focuses on MNE's domicile in South Africa, and comparisons will be made during the analysis if they follow the same "global strategy" when expanding into SSA.

Bartlett and Ghoshal (1989) and Christmann, Day and Yip (2000) indicated how the “global strategy” business model is based on profiting and targeting from the top of the global economic pyramid, which is comprised of approximately one billion people.

SSA, with a population of 910.4 million according to the World Bank (2012), remains a region of potential business if clever business models are used. This concept has been reiterated by London and Hart (2004).

In as much as the SSA has huge potential for business, “weak or unstable institutions” makes conducting business in the region that much harder. The literature was limited in this specific area of challenges that MNEs encounter when conducting business in SSA and the strategies they have employed, considering the obstacles or weak and unstable institutions in the region. However, some key theoretical assertions can be applied from a review of the literature.

2.3 IB Theories of Firms Expanding Internationally

McDougall, Shane and Oviatt (1994) made a relevant point regarding the limits of theories from IB research. The authors examined the formation process of international new ventures (INV). They discovered that none of the existing theories from the IB field were able to explain the process formation, primarily due to the focus being on firm level analysis of large mature firms. The alternative formation process of INVs they propose is one that identifies specific characteristic of entrepreneurs and their social network of business alliances, which makes them suited for the international market.

According to Rialp, Rialp and Knight (2005), early internationalisation of newly established firms is needed (Zou & Stan, 1998; Coviello & McAuley, 1999; Fillis, 2001; Dimitratos & Jones, 2003). The authors investigated INVs, global start-ups and born-global firms, which are, by definition, international firms from their inception. This view is different from the traditional view that mature companies are suited to venturing into international markets. In as much as the authors do not find conclusive evidence of success between early internationalisation and mature firms internationalising, they have found some early internationalisation firms' (EIF) distinctive strategic features. These are:

a) Timing and pace of internationalisation – it is early and relatively rapid or accelerated.

b) Extent of international expansion trend or pattern – it is non-gradual and instantaneously worldwide.

c) Scope of international strategy – they opt for differentiation, focus on global niches in world lead markets, have flexible entry mode choices and develop international networks.

d) Sustainable competitive advantage abroad – higher international performance due largely to first mover advantages.

Companies that decide to expand to new geographic areas do so as a result of wanting to grow. Most growth strategies lie around models that should be used for the expansion process. Two problematic assumptions made by business leaders and academics with regards to global strategy are having the right balance between economies of scale and local responsiveness; and the more emphasis that is placed on economies of scale in their worldwide operations, the more global their strategies ought to be (Ghemawat, 2007). Typically, the MNEs' strategy models that will be used to justify their choices and mode of entry in other countries are the "cost pressures versus local responsiveness", which then dictate what portions of 'Aggregation, Adaptation & Arbitration (AAA)' model the firm will adopt. Most MNEs in the past decade have been driven by their global strategy, which is largely driven by arbitrage opportunities offshore. This is the exploitation of differences in labour costs globally, and as such MNEs have targeted countries such as China which have previously had low labour wages and thus low labour costs. The author suggested that no one company can use all three A's, and as such a balance is required. The author's findings are that when a firm spends more (as a ratio of sales) on advertising, then the adaptation course is what it needs to do in that market. If the firm spends on research and development (R&D) then aggregation, and if spend is on labour then arbitrage.

Ricart *et al*. (2004), Rugman and Verbeke (2006) and Ghemawat (2007) have researched extensively in the IB field. They explained that MNEs attempt to define their products or services, their market segments and the geographical area they wish to penetrate. This allows them to possess some form of competitive advantage and thus differentiate themselves in the market place they enter. Conventional wisdom dictates that expanding MNEs are consolidating the experience they acquire in their home base, and attempt to take this experience into new territories. This usually happens when firms reach maturity (and/or decline) in their life cycle, even though this is not true for high tech companies nowadays such as Facebook.

In the process of determining their entry mode strategy, MNEs should ideally understand the 'CAGE' theory Ghemawat (2001; 2003), which talks about Culture/Administration/ Geography/Economies of the location they wish to enter. These are very important to understand because what works in the home country (or home base) may not work in a foreign host country, and this is what differentiates the new entrant in a new environment. The main strategies below in figure 1 show four types typically used by MNE.

International strategy is the easiest to implement, because the MNE expanding to international markets just employs the same strategy they use at home to enter the new market. This is low "cost pressure" and low "local responsiveness".

Localisation strategy is when the MNE expanding to international markets adapts to local conditions in the new market. This is low "cost pressure" and high "local responsiveness".

Global strategy is when the MNE expanding to international markets standardise their product at home or in the new market. This allows the company to utilise economies of scale to sell to a large group (large target market and low market penetration). This is high "cost pressure" and low "local responsiveness".

Transnational strategy is when the MNE expanding to international markets conforms to a regional approach and is the most difficult to achieve. The company must modify its product to sell to a large group in the new market. This is high "cost pressure" and high "local responsiveness".

Figure 1 depicts the four types of international strategies that can be pursued by an organisation as it wishes to expand into foreign territories.

Types of International Strategies

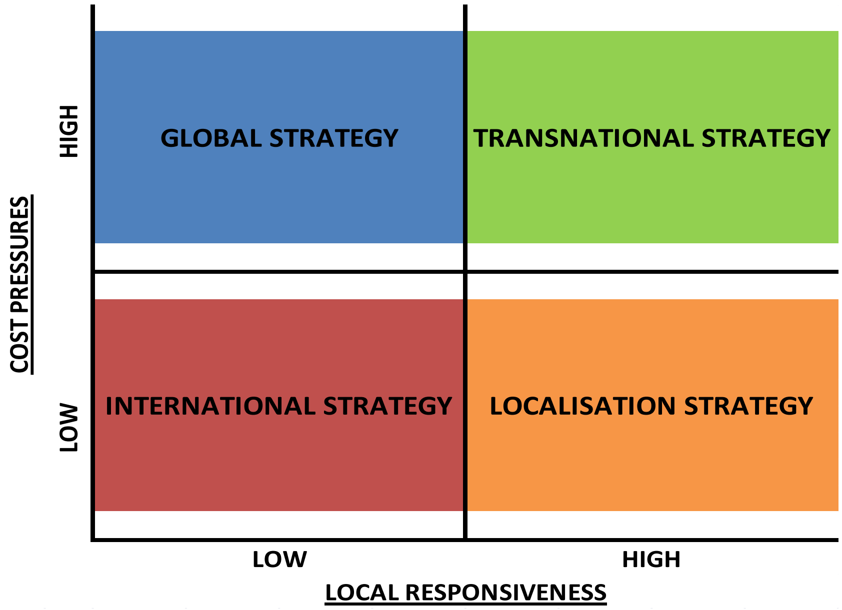


***Figure 1** – Types of International Strategies*

(Source: www.sciencedirect.com *)*

Other scholars (Ichii *et al*., 2012) argue that four keys other than just entry mode strategy exist for the success of doing business in emerging economies (including SSA), which are:

a) Picking the right entry strategy. This strategy requires a MNE concluding a successful merger and acquisition, such as the ICBC and Standard Bank deal (Financial Times, 2013).

b) Aim for organic growth. Success has been seen in the retail industry, e.g. Zara.

c) The need to get to customers. Huge potential exists in SSA among brand conscious consumers. Low incomes are prohibitive, but using clever strategies such as removing barriers to consumption, i.e. hire purchase, can yield positive results. In addition, a MNE working with informal retail channels like Coca-Cola did with its bicycle distribution, help sort out poor infrastructure problems.

d) Fill skills gap.

2.3.1 Cultural Differences

Some scholars believe and express a different view on the focus of future research for IB. Scholars like Ghemawat (2001; 2003) believe culture is the future of IB as opposed to the views expressed in the section above. This argument is valid because culture of different regional locations cannot be ignored. Known as CAGE by the author, it aims at bridging and explaining the distance (cultural) difference between home base and the foreign location a MNE ventures into. CAGE incorporates the “culture” of the local environment (religion, race, social norms, language), “administrative” challenges associated with the MNE being far from home base (political and economic relationships), which can have consequences on its capability to utilise its capacity and resources optimally. Also, CAGE addresses “geography” issues associated with the geographical location of region the MNE wishes to enter. “Economic” (wealth and income) is the other concept addressed by CAGE. Economics address issues of how products and services can be rendered economically, and whether economics of scale act as an advantage for conducting business in the region.

The literature suggests that the differences between the AAA model, the four types of international strategies and CAGE, are minimal. These concepts seem to be addressing similar issues from a different angle and appear to complement each other. While Scott (1995) defined institutions as “regulative, normative and cognitive” structures and activities that govern societal transactions in avenues of politics (e.g. corruption and transparency), law (e.g. economic liberalisation and regulatory regime), and society (e.g. ethical norms and attitudes toward entrepreneurship), CAGE aims to address similar challenges but with more emphasis on cultural differences. The researcher noted, however, that one can never underestimate the relevance that observing and considering (by way of mitigating) cultural differences contributes to successful entry when all factors are taken into consideration.

2.3.2 Labour Considerations

As globalisation becomes the norm of conducting business today, MNEs have taken advantage of cheap labour that exists around the world, especially in Indonesia, India, China and the Far East, even though SSA cannot be eliminated from sources of cheap labour (Ramaswamy, 2007). Cheap labour allows MNEs to produce products and services at a much cheaper cost than they may have previously done in their home base. As such, MNEs have outsourced different parts of the business to be performed in differently identified parts of the world, especially where they can get cheaper labour with a large workforce. The concept of exploiting cheap labour is known as arbitrage. Scholars (Ghemawat, 2007), trying to understand this phenomenon have defined IB in terms of AAA. The researcher observed that MNEs that adopt the AAA expansion model must do so with caution, because the model aims at exploiting differences in transport costs, trade barriers and government interference between home base and the foreign countries ventured into, which may not always be beneficial.

2.3.3 Strategy and Institutional based view of IB

Peng (2003) conducted substantial research in IB and defined how institutional transitions and strategic choices have been ignored, especially in the emerging economies. The author mentioned that the World Bank (2002) report which categorised the transition economies from emerging economies, classified transition as a subset of emerging economies, and included Africa as part of emerging economies. Hoskisson *et al.* (2000: 249) defined emerging economies as “low-income, rapid-growth countries using economic liberalisation as their primary engine of growth”.

Peng (2003) introduced some revealing insights about work done by previous scholars on the subject of institutional transitions, which include how the organisations respond to institutional transitions. He cited the work done by Oliver (1991) and Child (1997) as having focused on organisations' strategic choices in relatively stable institutional environments. The author also pointed out that studies conducted typically concentrated on changes in one industry, while the overall institutional framework of the country would remain unaltered. To further his argument, he alluded to Powell's (1996: 297) assertion that, "research must tackle harder and more interesting issues of how institutions matter, under what circumstances, to what extent, and in what ways". The integration mechanisms between institutional and resource-based theories is what is lacking, suggested Peng (2001). He (2003: 275) added that, "Unfortunately, little is known about how organisations make strategic choices when confronting such large-scale institutional transitions". This lack of understanding of how firms are likely to respond to changes of fundamental institutions leaves a gap for further research.

This report tackles the very essence of this, and the scene is set in SSA. This report is of a qualitative nature. The researcher acknowledges that quantitative research may have yielded more interpretive results due to it being more structured.

Peng (2003) concluded that firms should move away from a relationship-based, personalised transaction structure that calls for a network-centred strategy, to one that is a rule-based, impersonal exchange regime, which would be in line with a market-centred strategy. However, some assumptions made by the author may not stand institutional transitions such as political instability and tensions that arise. As such, a hybrid between network-centred and market-centred (based) strategies may spring up (Young, Peng, Ahlstrom & Bruton 2002).

Other scholars (Wright & Dana, 2003; Ricart *et al*., 2004) have different ideas about the focus of IB. They make a compelling argument that focus is directed to the management and organisation of MNEs and less on the underlying firms' strategies. The focus of their research placed emphasis on “how” MNEs do what they do, and not “what” they do and “why” they do it. The authors went on to say that management and organisation of MNEs has a link to the firms’ international strategy, which has come about as a result of MNE’s response to globalisation by arbitraging local advantages and exploiting local economies of scale. This strategy was derived from researching MNEs’ Head Quarters’ (HQ) points of view.

2.3.4 Strategy in IB and Firm Location Causal Link

Ricart *et al*. (2004) summed up different scholars’ works in understanding an ecology of firms and locations. The authors acknowledged that Ghemawat (2003a) has provided good evidence on the relationship between the location a MNE wishes to venture into, and cross-border countries’ bilateral, multilateral and indexical measures. He used the CAGE concept to define the differences between countries, paying particular attention to industry (or industries) under review, while offering cross-country perspectives rather than individually singled out countries. The author emphasised the ability of a MNE to gain competitive advantage, if it is located in a complete cross-border integrated globalisation segment, of output and input markets. This allows the international business strategy to be useable by MNEs because it can view the world as a “single” country. In contrast, due to cross-border complexities MNEs cannot treat the world as one single country, but as country by country and as such have a different strategy for each country.

Richart *et al*. (2004) also showed how different locations involve the configuration of local institutions, by highlighting what Khanna (2002) argues to be the institutional void left by absent specialised intermediaries that the firm customarily relies on. Lack of functionality of these specialised intermediaries means that key strategic decisions cannot be easily made, having a direct impact on the MNEs’ ability to conduct industry analysis, positioning and sustainability. Without these key fundamentals, a MNE cannot compete strategically. The different locations a firm ventures into need to be incorporated into the strategic consequences of institutional voids. This concept clearly supports the inter-relation of ecology of MNEs and their locations.

Ricart *et al*. (2004: 178) further defined the third concept as, "the need to integrate places into competitive strategy. In other words, it involves the use of the international dimension as a source of competitive advantage". To achieve this the MNE would be required to approach their international strategy in the form of an integration as Enright (2002a; b) proposed. The author suggested international business be analysed by integrating the different levels from supranational right through to firm level. Analysis of these levels would yield MNE location-based advantages being understood, thus corroborating the concept of firms and places.

The last concept to be discussed touches on using the location as an ingredient for competitive advantage. The notion that MNEs typically focus on serving the top of the pyramid, even in underdeveloped countries, because they want to market products and services that were successful in developed countries, leaves opportunities to serve the bottom of the pyramid. Hart and Milstein (1999) and Hart and Prahalad (2002) proposed that adapting to unknown waters (place), requires non-traditional thinking. Learning to serve the bottom of the pyramid can be a way to develop new untapped markets and a viable opportunity for disruptive innovation (Hart & Christensen, 2002).

2.3.5 MNEs' Regional Strategies

Ghemawat (2003) stipulated that companies should have regional strategies besides their global strategies for their worldwide business. He gave examples of Toyota, Wal-Mart and General Electric having established this concept of regional strategies well, besides their global strategies. MNEs that have embraced regional strategies have not just been cognitive of specific regional geographic requirements, but understand that the combination of global and regional strategies (initiatives) have significantly boosted a company's performance, especially in the constantly changing market and business environment.

The author identified regional strategies into five main types, each having distinct weaknesses and strengths. He further implied that MNEs with “home base, portfolio and platform” entry strategies are associated with “aggregate” opportunities and spend on R&D and manufacturing, while “hub” entry strategy is associated with adaptation and spend on advertising. “Mandate” strategy is associated with arbitrage opportunities and spend on labour. This concept thus explains the AAA entry mode models.

2.4 How Companies Respond to External Business Environmental Changes

Ramaswamy (2007) made a very compelling case study of LG Electronics and how it was able to respond to the external business environmental obstacles it encountered while conducting business in emerging economies, even if it had been founded from South Korea, an emerging economy itself to become a world class player. Fundamental to LG’s success was its product line foresight, careful strategic thinking and its ability to leverage off an array of advantages that Korea was building at home. With late mover disadvantage, LG’s strategic focus was on markets that few dared to enter (North, 1990; Ricart *et al*., 2004; Ichii *et al*., 2012). It compiled a mix of management principles and practices that could elevate it all the way to the top in the electronics and appliances business.

The authors further identified that during LG’s formative period, it focused on labour-intensive, low value added products, with minimal technological significance of foreign companies assuming decision making leadership roles, in its highly technologically sophisticated product line. The Korean government’s heavy investment in technology and their product being “back room shelved” in developed markets, prompted LG to value differentiated products, innovative designs and superior product quality. A very small and economically poor home market coupled with battered relationships with original equipment manufacturers (OEMs) meant LG was forced to venture globally.

With India's regulations insisting on local partnerships, LG had to navigate local regulations and market structures in order to significantly position itself in the country. When Brazil experienced an exodus of big brand companies like Sony and Philips due to high import tariffs, increased piracy of goods and local currency instability, LG capitalised on the void left (Khanna, 2002) and built a manufacturing hub in Brazil, exporting its products to South America and the US, and hence created an entry into the developed economies. This put LG in good standing with Brazilian locals and the government, who saw LG as sticking with the country in times of crisis. LG was benefiting from exporting in an unstable Brazilian currency time period by hedging against exchange rate fluctuations. It also took advantage of preferential property land rights offered to MNEs developing underdeveloped areas (Ichii *et al*., 2012) by government tax breaks. Brand awareness was achieved through sports events sponsorship, especially football which is immensely popular in Brazil.

LG also boosted its service levels by having a well rooted supply chain that involved local distribution chains to create fast response time and access to markets. With poverty associated with emerging economies other brands downscaled their offerings, while LG expanded its customisation to encompass a wider product and price range.

The author then summed up by adding that with lessons learnt in Brazil, LG was able to replicate its successes in India, China and Russia.

Wright and Dana (2003) have a rather different view of how firms respond to the changing external business environment. They believe changes in the global business environment have a direct impact on business managers, public policy makers and scholars. They suggested changes in the external business environmental levels force strategic changes to be made at a micro-economic levels. Globalisation is impacting greatly on firms' opportunities and challenges faced today. Countries are removing trade barriers in response to globalisation, and this is causing countries and businesses alike to work or function in regions. The authors suggested that two particular changes are revolutionising policies management and competitive strategies of firms big or small. The first is that the nation as the state is no longer the primary macro-economic player for businesses within a country. More so, the nation is no longer the centrepiece around which international economic activity is based or conducted. The other important change has been that firms no longer stand alone as primary players at micro-economic level or as the basic unit of competition. This is due to MNE's having global strategies, but they are also able to create regional and country strategies, where the region or country can perform autonomous functions with changes in their local environment. At a regional or country level, MNE's or small firms are able to form alliances and other collaborative pacts to remain competitive and relevant to the business.

2.4.1 Innovation of MNEs as a response

Other scholars expressed different views on the causes of innovation for MNE businesses operating in foreign countries. Bernauer, Engels, Kammerer & Seijas (2006) argued that government regulations help promote environmental innovation by dealing at firm and innovation field level within and across firms, industries and countries. The authors set the scene by concurring with Porter and Van der Linde's (1995a; 1995b: 98) notion that "....properly defined environmental standards can trigger innovation that may partially or more than offset the costs of complying with them". Some scholars have argued Porter's standpoint of a win-win claim as being an exception, and say that there are significant industry costs of compliance, competitive advantages of domestic firms operating in international markets, and opportunity costs of forced environmental activities (Palmer & Simpson, 1993; Jaffe, 1994). Therefore, innovation is deemed as a MNE response to government regulations which are part of the external business environment.

Murtha and Lenway (1994) argued that national institutional arrangements systematically contribute to state strategic capabilities, which in turn forms the basis of competitive advantage. The authors argued that MNEs' strategies interact with states' industrial strategies. The conditions under which these national institutional arrangements and capabilities, succeed or fail international strategies and organisation structures of home firms, incoming FDI, home firms' international customers, collaborators and competitors, are unpacked. Therefore, the states' (governments') capacity to implement credible commitments and industrial strategies which are non-reversible is key for success (Schelling, 1960; Spencer & Brander, 1983; Krugman, 1984; Brander & Spencer, 1985).

2.5 Under What Circumstances are certain Modes of Entry Used

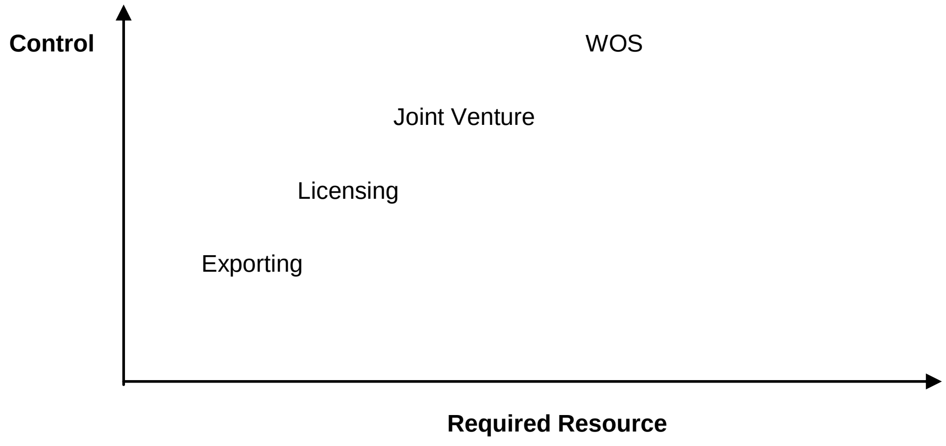
Research by scholars on modes of entry in foreign markets has lacked somewhat as attested by (Erramilli & Rao, 1990). Most work on modes of entry has focused on firms in the manufacturing sector. The work of (Erramilli & Rao, 1990) focuses on service firms which are the ones offering a service other than manufacturing goods for consumption. This empirically tested work by these scholars will be further elaborated towards the end of this section and how it fits well with this research paper.

Fundamentals

Osland, Taylor, and Zou (2001) in their literature summarises the foreign modes of entry into a fair generalized form, which can be built on to further understanding this complex topic of foreign modes of entry that has too many variables. Even with the well researched work, these scholars concede that the dynamics of entry choice cannot be reduced to simplistic building blocks (characteristics), as they put it – Quantity of resource commitment required, amount of control and level of technology risk (Woodcock, Beamish, & Makino, 1994; Maignan & Lukas, 1997). But these characteristic are very much present in any form of entry that a firm may deploy from exporting, licensing, joint venture or wholly owned (Root, 1998). The scholars (Osland *et al*., 2001) also emphasises that selecting a mode of entry or expanding into a foreign market, is one of the most crucial strategic decisions that a firm wishing to expand internationally will have to make, as a well chosen mode can enable a firm gain competitive advantage. Making the wrong entry mode choice is very difficult to change because in most cases long term contracts and large resource commitments are made. Osland *et al*. (2001) asserts that a firm's core technology can be unwillingly lost to competitors in some forms of cooperative modes (such as joint venture). While contractual (licensing and franchising) modes may sound favourable as compared to joint ventures due to the fear of losing technology to competition, some forms of contracts prevents a company from taking full advantage of a large market penetration. A carefully assessed trade-off between quantity of resource commitment required, amount of control and level of technology risk, is required to choose mode of entry.

Scholars (Osland *et al*., 2001) further indicate that besides quantity of resource commitment required, amount of control and level of technology risk, major global players surveyed showed that other factors that were taken into consideration was company and market factors. The company factors were identified as strategy or managers international experience, ability to respond promptly to competition or synergies among global operations. While, target market factors were those such as host governments policies, political risk, industry competition in the host country, hyperinflation or some form of economic crisis – investment risk or availability of qualified partners in host country, etc.

A relationship between quantity of resource commitment required, amount of control and level of technology risk and entry modes is defined by the authors as shown in the figure 2 below.



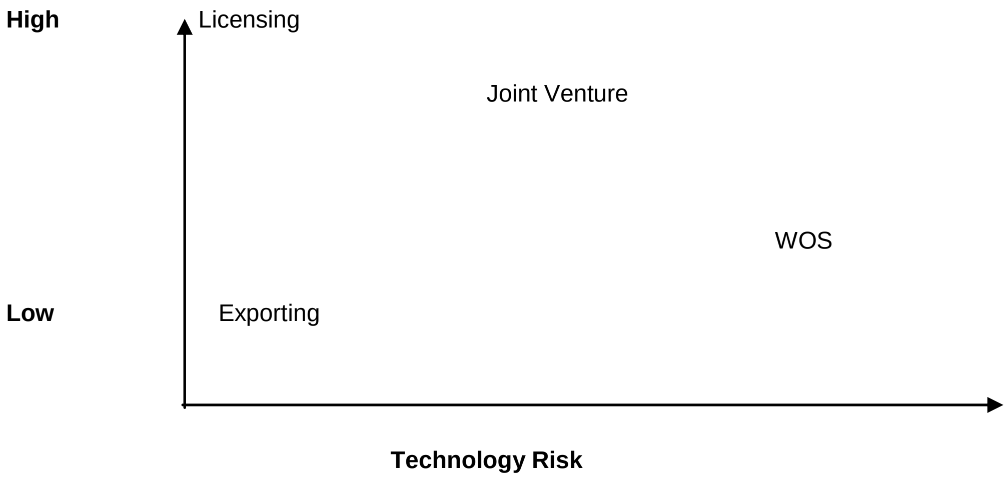


Figure 2 *- Key characteristics of modal alternatives*

Source: Osland *et al*. (2001)

Resource commitments refer to assets that are committed to the entry mode move, which cannot be employed to other uses without costs being incurred. Resources may be in the form of tangible, such as cash or equipment, or intangible, such as management experience or expertise or brand value.

The amount of resources committed vary drastically with entry mode employed from almost nothing in indirect exporting, to minimum costs associated with training in the event of licensing, right through to huge investments in buildings, equipment and human resources in wholly owned subsidiaries.

Control is the ability and willingness to influence decisions, systems and methods in foreign markets of a firm. Wholly owned subsidiaries appear to be the most attractive to most MNE's, because this form of entry, allows the MNE to possess the most control regarding decision making.

The technology risk and decision making (control) concept, can be defined as the potential that a firms intellectual knowledge could be unintentionally transferred to the local firm (Osland *et al*., 2001). This technology risk is highest in licensing, especially where the host country's laws are weak against intellectual and property rights. The licensee could end up reproducing the technology at the end of the license lease period, or at some point in the future. Technology risk is lowest in wholly owned subsidiaries, even though this increased control requires increased resource commitment. Woodcock *et al*. (1994) stipulate that resource commitment, control and technology risk are highly correlated. The scholars also suggest that the entry mode decision consists mainly of the determination of acceptance levels of resource commitment, control and technology risk that the MNE desires on entry. The entry mode decision, in practise, is a very complex process with no single fast rule.

In a study of US manufacturing firms by (Osland et al., 2001), they showed that exporting was the most used mode of entry into a foreign market. However, combining joint ventures and wholly owned subsidiaries showed that it (the combination) was more frequently used as a mode of entry than exporting. Licensing was the least frequently chosen mode.

Theories and conceptual frameworks of entry mode reviewed

Scholar (Andersen, 1997), conducted a good review of the theories and conceptual frameworks of entry modes. He was able to review the conceptual framework of entry modes, by unpacking entry mode as a chain of establishment, the transactional cost approach, the eclectic frame work and the organisational capability framework. He also elaborates on the theoretical and methodological strengths and weaknesses of each conceptual framework. The author shows how the different frameworks identify different constructs that influence the entry mode decision that have been developed and empirically tested.

Since consensus has not been reached on existing literature, regarding the conceptual framework and constructs that should be used to explain a firms foreign market entry mode, (Andersen, 1997) attempts to do so. Hill, Hwang, and Kim (1990) equally emphasized the need for a unifying conceptual framework within which different factors can be placed and have the relationship between them analysed.

Table 1 below shows some conceptual frameworks that have been presented in the past concerning the entry mode decision, recognising that not all frameworks can be included, but choosing the ones that the author perceived as having the most important contributions to explain entry modes.

	Entry mode as a chain of establishisment	**Transaction cost approach**	**The Eclectic framework**	**The organisational capability perspective**
Basic theory	Resource- based theory	Transactional cost theory	Transactional cost theory, international trade theory, resource- based theory	Resource- based theory
Unit of analysis	Firm	Transaction	Firm	Firm
Explanatory variables	Firms's knowledge (i.e., experential knowledge)	Transaction characteristics (e.g., asset specificity, uncertanty)	Ownership, locational, and internalisation adavantages	Firms's capabilities (in particular, know-how)
Behavioral assumptions	Bounded rationality	Bounded rationality and opportunism	Bounded rationality (and opportunism)	Bounded rationality
Decision criteria	Trade-offs between growth and risk	Transactional cost minimisation	Trade-offs between return, risk, control and resources	Trade-offs between value and cost
Modes of entry	Entry mode according to an establishment chain: a) Export, b) Export via independent representative, c) Sales subsidiary, d) Manufacturing abroad	Several clasifications: e.g., Contractual transfer, Joint Venture, Wholly owned operation	Several clasifications: e.g., Independent mode, Co-operative mode, Integrated mode	Internalisation vs. Collaboration

Table 1: *Comparison of Different Frameworks for Studying Foreign Entry Mode.*

Source: Andersen (1997)

Entry Mode as a Chain of establishment

Being one of the earliest school of thoughts, (Andersen, 1997) suggested that this framework allows the firm to expand its operations in sequence of events from (a) no export, through the intermediaries (b) and (c) until (d) manufacturing abroad, as shown in table 1 above. This concept arises from increased market knowledge leading to increased market commitment and vice versa. As such the firm creates internal assets such as skills and experiential knowledge. Andersen further implies that this tacit knowledge creates competitive advantage, which in turn, can predict the entry mode. This, he summarises as a time dependant process of entry mode. The weakness of this predictor is that it does not include co-operative (joint ventures) modes of entry. This entry mode predictor was also seen as being untrue for services industry. The use of only one explanatory variable (experiential knowledge), cannot be seen as a sufficient explanation for a firm's choice of entry mode.

Entry Mode and the Transaction Cost Approach (TCA)

Andersen (1997) and others indicate the TCA approach has been able to be used in entry mode investigations. It appears to effectively explain vertical integration decisions, and been used for the predictions of manufacturing and service industry entry modes. This mode also has weaknesses, in that it does not include hybrid modes, such as interfirm co-operation and vertical co-ordination. Due to this weakness and the inability to account for all costs with certainty, the author has shown how this framework has been modified to include non-transactional costs benefits flowing from increased control or integration. The modified TCA has shown to predict a positive relationship between asset specificity and propensity for high-control entry modes. With these modifications to the TCA, the assumption of original transaction cost minimization is abandoned.

Entry Mode and the Eclectic framework

Ownership advantages, locational advantages and internalisation advantages are factors in this framework which will influence a firm's choice of entry (Andersen, 1997) and other scholars have shown. Assets and skills are attributed to the firm and form the ownership advantage. A firm’s size reflects the assets as well as its multinational experience, while the skills are reflected by the firm’s ability to develop differentiated products, the author summarises. The ownership advantages need to be both unique and sustainable in order to provide the competitive advantage the firm requires for entry mode selection. Locational advantages are those that show how attractive the host country is, and this attractiveness is a function of market potential and risk associated to investment. Location advantages also include similarity in culture, market infrastructures and availability of lower production costs (such as cheaper labour costs - arbitration). Internalisation advantages are those advantages concerning the costs of choosing a hierarchical (transaction costs) mode of operation over an external mode. Andersen (1997) summarises that a trade-off between risks, returns, control and resource availability should be conducted to choose the foreign market entry mode. This framework has been further developed by other scholars (Hill *et al*., 1990; Woodcock *et al*., 1994), to include strategic variables as well as where the choice of entry mode is based on the contingency characteristics of resource requirements and organisational control factors. The eclectic theory has also been applied to analyse entry mode for small and medium-sized enterprises and in the service sector.

The eclectic framework represents a multi-theoretical approach for studying the choice of entry mode. The basic theories used in the eclectic framework are International trade theory, resource-based theory and transaction cost theory. The eclectic paradigm permits researchers to create new determinants in order to predict entry mode. The weakness of this framework is that it creates certain over-laps and has rather complex explanations of interrelationships among the determinant factors.

Entry Mode and the Organisational Capability (OC) Perspective

The OC perspective is based on notions of bounded rationality while rooted in the resource-based theory and sharing emphasis on experiential knowledge summarises (Andersen, 1997).

The author shows how intangible resources such as skills and competencies (i.e. know how) can be viewed so that it is composed of an embedded and a generic (i.e. non-embedded) component. Andersen refers to how (Madhok, 1997:46) first proposition that “firms with a high embedded-to-generic know-how ratio tend to have greater preference for internalisation”. This is seen in accordance with the ownership advantage effect as assumed in the eclectic framework. As in the case of firm know-how, market knowledge has general (or generic) and more specific (or embedded) components (Johanson & Vahlne, 1977, 1990). “When the embedded-to-generic ratio of market knowledge is high, firms will,” according to (Madhok, 1997:48) second proposition, “have greater preference for collaboration”. These collaborations being in some form of joint ventures. While (Dunning, 1988) emphasized the advantage that a particular or target foreign location could have, (Madhok, 1997) treats the locational effect in terms of difficulties of exploiting the firm's existing know-how due to differences between home and host country. Madhok (1997:49) third proposition (3a) was that “in the exploitation of an advantage that already exists, where the potential for erosion in the value of a firm's know-how due to the ownership effect is greater than that due to the locational effect, there will be a greater preference for internalization”. “Conversely, if the potential for erosion in the value of a firm's know-how due to the locational effect is greater than that due to the ownership effect, there will be a greater preference for collaboration - joint ventures” proposition (3b).

A firm needs to find a balance between exploitation and development of its capabilities. Madhok (1997) suggests that exploration or development would tend to be a larger and more critical component of firm activities in environments that are dynamic than in more stable ones. Madhok (1997: 51) therefore makes proposition four: “Where the development/exploitation ratio is high, operations where the underlying motivation is capability development for the generation and realization of future value will result in a greater preference for collaborations than operations motivated by economizing on transaction costs”.

While the key consideration of the TCA theory in selecting foreign market entry mode is minimizing costs, the OC perspective pays particular attention on the value of the firm's capabilities. The difference in cost to value orientation could change the stance toward a collaborative activity. Madhok (1997: 53) makes a fifth proposition that “an operation motivated by value-based considerations will result in a greater proclivity towards collaborating as well as a more positive stance towards collaborations than one motivated by TCA economizing consideration”.

Andersen (1997) also shows how the OC perspective could, also be applied in the explanation of export modes of entry, which according to the establishment chain perspective are most frequently used in the early stage of the internationalisation process. The author also demonstrates that a large number of empirical studies have used firms' resources to explain differences between exporters and non-exporters. The OC theory should have the potential to predict what type of co-operative mode (e.g. joint venture, licensing) that a firm will select, by further discussing different types of capabilities.

While encompassing all the factors that could influence foreign market entry and thereby to increase the explanatory power, the eclectic framework is likely to be preferred (Andersen, 1997) concludes.

Market Entry Modes by Service Firms

Erramilli and Rao (1990) make a compelling argument for the choice of foreign market entry mode by service firms. The role of market knowledge of firms is the main parameter used for their research. Because there is more data on manufacturing firms, and very little on service firms which the authors define as (a) Soft-service, which market services for which it is extremely difficult to eliminate the interrelationship between production and consumption. These soft-service firms are those such as car rentals, restaurants and health care, or (b) Hard-service firms, which market services for which it is eminently feasible to separate between production and consumption. These hard service firms are those such as architectural firms, engineering designers, consultants and software firms. The exploratory work by (Erramilli & Rao, 1990) focused on how foreign market entry decisions in service firms could be analysed and understood, to explain the outcomes of these decisions, principally by the use of the behavioural theory approach. This approach then highlighted the impact of market knowledge on international business decisions.

Erramilli & Rao (1990) summarises work from other scholars regarding some identified large number of diverse factors, which are broken down into three main determinants.

a) Product characteristics - such as degree of differentiation, importance, age, and technological content.
b) Firm characteristics - such as size and resources, degree of diversification, and corporate policies.
c) External environmental factors – such as host country trade and investment restrictions, host country market size, host country geographic and cultural distance, and exchange rate fluctuations

The authors refer to the product, firm, and environmental variables collectively as "non-behavioural" determinants.

Work by (Johanson & Vahlne, 1977; Erramilli & Rao, 1990) and other scholars point out some emerging literature that highlight the role "behavioural" factors play in a wide range of international marketing decisions, such as:

a) Initial involvement in foreign markets,
b) Choice of country markets, and
c) Foreign market entry modes choice.

Erramilli and Rao (1990) work then focuses on literature that could be called the behavioural theory approach. This approach dwells on the decision-maker's (or the decision-making unit's) knowledge of foreign markets, including the perceptions, opinions, beliefs and attitudes born out of this knowledge (or lack of it). Market knowledge can be defined as the knowledge that relates to the market and the market-influencing factors (Johanson & Vahlne, 1977).

Scholars that advocate for the behavioural approach, suggest a somewhat positive relationship between the experiential knowledge of decision makers regarding foreign markets to the level and pace of the firm's resource commitments towards these foreign markets (Erramilli & Rao, 1990). Between market knowledge and market commitment lays a direct relationship (Johanson & Vahlne, 1977), and can be explained through variables of uncertainty and perceived risk. This market commitment is in the form were a firm commits resources to a foreign market. Erramilli and Rao (1990) and others argue that increased experiential market knowledge in a firm increases the firm's foreign market resource commitment, and vice versa the lack of this knowledge will cause a firm to acquire this knowledge by teaming up with individuals who have experiential knowledge or other firms who have the knowledge. Knowledge deficient firms will show a greater tendency for collaborations because they will employ entry modes such as licensing, franchising, agent exports and joint ventures.

A study by (Kogut & Singh, 1988) found that the cultural distance (between home base and host country) increased the probability of a firm entering the foreign country to utilise a joint venture over an acquisition or a green field wholly owned subsidiary. An empirical study by (Davidson, 1982), demonstrated how market uncertainty, caused by deficient market knowledge, can influence entry mode choice. In markets highly similar to the US, such as the ones US firms are knowledgeable about, MNE's preferred wholly owned subsidiaries, and more of licensing and joint ventures in host countries with less familiarity. The author also found licensing and joint ventures to be more strongly associated with firms that were inexperienced in a particular foreign market. These are firms with little or no experiential market knowledge, when compared to more experienced firms.

Conceptual framework

When analyzing entry mode choice of firms, (Erramilli & Rao, 1990) developed a level of involvement scale to measure the participation of a firm in a foreign market.

The authors further attribute a firm's level of involvement in a foreign market as that which will depend upon (a) the amount of managerial and financial resources committed to that market, and (b) the degree to which this resource commitment is specific to that particular market (similar to the definition of "market commitment" as demonstrated by (Johanson & Vahlne, 1977)).

Table 2 below describes the various entry methods placed on the level of involvement scale. The scale is self-explanatory, and is composed of entry modes ranked according to the extent and market-specificity of the associated resource commitment.

Foreign Market Entry Mode	Resources reqd. for Commitment	Market Specificity of Commitment	Level of Involvement
1. Wholly Owned Subsidiary/Branch Started from Scratch	Very high	High	9 (Highest)
2. Wholly Owned Subsidiary Acquired	High	High	8
3. Majority Joint Venture	Moderate to High	High	7
4. 50-50 Joint Venture	Moderate	High	6
5. Minority Joint Venture	Moderate	High	5
6. Export Subsidiary	Moderate	Moderate	4
7. Direct to Customer Exports	Low to Moderate	Low	3

8. Agent/Distributor Exports	**Low**	**Low**	**2**
9. Licensing/Franchising	**Very Low**	**Very Low**	**1 (Lowest)**

Table 2: *The level of Foreign market Involvement Scale*

Source: Erramilli and Rao (1990)

Soft service firms cannot export by virtue of the services they render, i.e. exporting requires the separation (decoupling) of the producer and consumer. Therefore, this means soft service firms rely on contracting entry modes (licensing or franchising) or FDI (joint ventures or wholly owned subsidiaries) to enter a foreign market.

An important phenomenon characteristic raised by (Terpstra & Yu, 1988; Erramilli & Rao, 1990) that service firms possess, different from manufacturing firms is that service firms enter a foreign market primarily to service the foreign subsidiaries of their domestic clients. An example given of many American banks and advertising agencies, is that they follow their U.S. clients to foreign markets. This *client following* phenomenon is a unique characteristic of service firms due to its occurrence and importance. This does not necessarily mean manufacturing firms don't *client follow*.

In the work of (Erramilli & Rao, 1990), they defined two general types of foreign market entry of services firms. One is the *client following entry,* while the other is *market seeking entry. Market seeking entry* refers to service firms that enter a foreign market primarily to service foreign customers. This mode encompasses all *non-client following entries.* Table 3 below shows the classification scheme just described.

Motives for Entry	**Type of Service Firm**	
	Soft-Service Firms	Hard-Service Firms
Client Following	An advertising agency sets up office abroad to serve a domestic client’s foreign subsidiary	A software company provides software support to a foreign subsidiary of a domestic client
Market Seeking	A fast-food chain appoints a franchisee in a foreign market to serve the local customers there	An architectural design firm sells blue prints to foreign customers

Table 3: *Examples of client following and market seeking entries Associated with the two Types of Service Firms.*

Source: Erramilli & Rao (1990)

Previous work by (Weinstein, 1974, 1977) was better explained by scholars (Erramilli & Rao, 1990). They summarised his work by identifying early entrants as being largely *client followers* and preferred wholly owned subsidiaries, while later entrants were seen as largely market seekers and preferred joint ventures. Weinstein’s work showed basis why *client followers’ entries* tend to be associated with more aggressive entry behaviour.

From empirical testing, (Erramilli & Rao, 1990) were able to show that some types of service firms can, and often do export their products, contrary to what (Carman & Langeard, 1980; Root Franklin, 1987) asserted, saying export entry modes are not viable options for service firms. Their analysis showed that service firms exhibit a significantly greater aggressiveness in choosing entry modes when client following existing customers, than when serving new customers. This aggressiveness comes out in their choice of higher involvement levels and in their willingness to enter foreign markets without teaming up with outsiders – collaborations, such as joint ventures. This finding was consistent across a variety of firm types in the service industry, and foreign market entry situations, with an exception appearing in export entry modes. This exception according to Erramilli and Rao, could be attributed to behavioural factors (market knowledge, uncertainty) which produce differences in involvement only past a certain limit of resource commitment levels, and the required commitment for export entry falls short of such a level. Another explanation for this exception could be due to the measures and scales used in their work, may have not been sensitive enough to detect the more subtle differences in the firms' export involvement.

Erramilli and Rao (1990) also conclude that variations among *client followers* and *market seekers* could be attributed to the differences in market knowledge, with sufficient confidence and certainty. Their results show that it is reasonable to identify *market knowledge* as the primary explanatory variable.

Entry Mode in Government Corrupt Host Nations

Based on a framework developed for understanding corruption, (Rodriguez, Uhlenbruck, & Eden, 2005) contribute to the entry mode literature, which highlights government corruption as an important and complex external issue affecting entry mode decisions.

The findings of (Rodriguez *et al*., 2005) are that a MNE subsidiary is more likely to engage in corruption where pervasiveness is high, although doing so may threaten internal legitimacy if the firm has established strong ethical or anticorruption norms. These same internal norms, which give legitimacy on subsidiaries, significantly influence the decision to enter via equity versus arm's-length modes. The authors point out that, the nature of local corruption matters greatly in and of itself. Highly arbitrary corruption increases the likelihood that MNEs entering via FDI will choose a local partner, because local partners increase external legitimacy. The authors research showed that pervasiveness creates opposite incentives for partnering that increase the likelihood of entry via a wholly owned subsidiary. Corruption occurs everywhere, but it is more widespread in transition and less developed economies (Hellman, Jones, & Kaufmann, 2000), which MNEs have increasingly targeted for entry. These countries' developmental needs and commercial possibilities cannot be fully realized without the capabilities and resources of MNEs, whose entry is dependent on the expectation of profitable operations.

Past empirical investigations of corruption and firm behaviour support scholars (Rodriguez *et al*., 2005) theory. For example, (Smarzynska & Wei, 2000) found that the likelihood of entry with a local partner increases with the level of corruption in the transition economies of Eastern Europe and Central Asia. However, because corruption tends to be highly arbitrary in these same countries, it is not clear that these results can be generalized to other countries where pervasiveness is similarly high but arbitrariness low. (Rodriguez *et al*., 2005) analysis suggests that such results cannot be generalised and warns against any suggestion.

2.6 Conclusion of Literature Review

From the literature one can see a link between IB theories of internationally expanding MNEs and how companies respond to external business environment environments, when employing foreign market entry mode decisons. The literature reveals that with globalisation forever evolving, MNEs with their standard global strategies need to carefully select their entry mode strategy as they expand into other regions of the world, paying particular attention to local conditions and differences in culture.

The literature also reveals that institutions (formal or informal), commonly referred to as “rules of the game”, significantly shape firm and industry strategy, as well as performance domestically and internationally in emerging economies (including SSA). Institutions are those that govern societal transactions in avenues of politics, law and society. MNEs from developed economies have a fundamental challenge of whether their traditional “global strategy” (standardised products and services) can be implemented with minimal changes in lucrative emerging economies. South African MNEs (from an emerging economy) are yet to be understood if they follow the “global strategy” as they expand from South Africa into SSA. The literature also reveals that governments in SSA must be seen as playing a fundamental function by laying out laws that promote a predictable, stable and conducive business environment, in order to support MNEs that bring in much needed FDI.

Entry mode strategies identified that MNEs use when expanding into foreign countries are thus the main five, which are home base, portfolio, platform, hub or mandate. However for this dissertation, the researcher will also use regional strategies utilised by MNEs, which are licensing, franchising, joint venture, alliance, wholly owned or acquisition as an entry mode.

Literature by some scholars reveals characteristic which are very important to decisions regarding entry mode in foreign markets choice, are quantity of resource commitment required, amount of control and level of technology risk.

Other scholars have shown that a number of diverse factors, which can be broken down into three main determinants are product characteristics - such as degree of differentiation, importance, age, and technological content; firm characteristics - such as size and resources, degree of diversification, and corporate policies; external environmental factors – such as host country trade and investment restrictions, host country market size, host country geographic and cultural distance, and exchange rate fluctuations. These three variables collectively being classified as "non-behavioural" determinants.

Literature also reveals that a firm can generally be expected to be more knowledgeable regarding its market when it goes abroad to serve its current domestic clients (client following entry), than when it enters a foreign market to serve foreign customers (market seeking entry). This means firms in market seeking entries can be expected to perceive relatively higher levels of uncertainty and risk. Therefore, relative to firms in client following entries they would be more inclined to hold back their resource commitment, and thus exhibit a greater willingness to team up with external entities during foreign market entry. This explains why firms in client following entries could be expected to be more aggressive in their choice of entry modes when entering foreign markets. Hence on average, compared to market seeking entries, client following entries are likely to be associated with higher levels of involvement, as shown in level of commitment.

This is a reasonable expectation, based on earlier discussion. Since firms in market seeking entries are likely to be less knowledgeable, they experience higher uncertainty, and perceive higher risk. As a result they will tend to be more cautious in their foreign market involvement, hence less commitment.

Also, compared to client following entries, there will be a greater tendency for market seeking entries to be associated with entry modes that involve the participation of entities external to the firm. Firms are more willing to team up with external entities, especially in the foreign market, in order to compensate for their market knowledge deficiency. Since firms in market seeking entries are likely to be characterized by lower market knowledge, they can be expected to be more willing (relative to firms in client following entries) to employ entry modes that involve entities outside the firm, i.e. agent exports, contractual methods, and joint ventures.

Literature has also revealed some conceptual frameworks of entry modes into foreign markets, by unpacking entry mode as a chain of establishment, the transactional cost approach, the eclectic framework and the organisational capability framework. The eclectic framework being deemed the most appropriate.

2.6.1 Research Question 1:

Of the JSE-listed MNEs that have ventured into SSA, what has the preferred mode of entry strategy been?

3. CHAPTER 3: RESEARCH METHODOLOGY

This section outlines the methodology used to conduct this research. Initially the literature around qualitative research will be discussed, followed by a review of the research design and research instrument to be used. Data collection issues and study related analysis will be provided. A discussion on the study validity and reliability will then be tackled last.

3.1 Research methodology

This study used a qualitative methodology to facilitate the collection of relevant data in response to the research questions. Filstead (1979), Sanders (1982), Das (1983) and Creswell (2013) suggested that qualitative methodology is the most appropriate method of research when a researcher is testing theory by utilising exploratory research methods and data collection in support or against the research questions, which are compiled in narrative form. Due to the emancipator assumptions knowledge claim nature of the subject area of this research, open-ended questions, interviewing, emerging approaches and text or image data is employed, to test identified variables. This collection of participants' meaning approach, allows for interpretations of the data. An instrument that participatory knowledge claims and open-ended interviewing was used to collect data, followed by information analysis, with the intent of developing themes from known theories. Qualitative approach was best suited to this endeavour.

Creswell (2013) further indicates that other methodologies of data collection and analysis available when conducting research are quantitative and mixed methods. Quantitative methods are used when variables being measured are known, and such research work is more interpretive/experimental and takes the form of being more structured. A quantitative approach could have been used for this research, but achieving the required sample size may have been a challenge, and such a route would require more time to complete. Mixed methods are used when some variables are known and some are not. This causes the researcher to use qualitative methods until the research can be reduced to some variables, and then a quantitative method can be employed. A notable disadvantage of interviews is that they are time consuming and expensive, both in terms of organising and travelling to the interviews, and the interview length itself (Burns & Grove, 1987; Cormack, 1991; Polit & Hungler, 1991; Appleton, 1995).

Primary collection of data was from a series of interviews, with a respondent from each company in the sample. These interviews lasted approximately 60 minutes. Where respondents proved difficult to interview in person, a secondary source of data was used. This secondary source was collected from available literature, because the companies being sampled were Johannesburg Stock Exchange-listed companies. Walker (1985) proposed that the experiences and attitudes of informants can be relayed to the researcher in their own words during a face-to-face interview. The questions to be used in the interviews were open ended because there is no single answer or reason that definitively affects entry mode choices, even though the interviews were semi-structured, to ensure relevant data was captured (Creswell, 2013). Because of available literature (or the limited availability), the semi-structured interviews also raise questions that are not captured in literature review but are very important. Moreover, the semi-structured interview schedule was utilised to facilitate in-depth exploration of the decision-maker's (or the decision-making unit's) knowledge of foreign markets, including the perceptions, opinions, beliefs and attitudes born out of this knowledge (or lack of it). The perceptions of risk and uncertainty in foreign markets entered and how knowledgeable (due to levels of commitment) the firms were to these foreign markets prior to entry. The effects of external business environment were also dwelled upon.

Since this research analysed the different entry strategies utilised by MNEs, a theme was generated of entry strategies followed by an analysis.

The researcher was cognitive of potential limitations that arose from this qualitative research approach. These were when the MNEs’ employees interviewed did not disclose in full, or if the MNEs had a standard global strategy wherever they venture, meaning there could be no theme to develop, thereby not being able to generate any relationship between countries in SSA ventured into and entry modes of MNEs.

The assumption of honesty and candour from the respondents was taken within this study. However, since some data were collected from available literature, and since the companies analysed were Johannesburg Stock Exchange-listed, the contained data was assumed correct.

3.2 Research Design

The research design took the form of an exploratory comparative study. Hurmerinta-Peltomäki and Nummela (2006) emphasised the use of mixed methods for IB research, however for this research a qualitative approach was used because some definitive business prohibitive factors (institutions) were identified and used as variables. Also, the literature revealed what possible entry strategies are available for MNEs to use in conjunction with the firms' international strategies. For example the "mandate" entry strategy is associated with arbitrage opportunities. Also, foreign market knowledge of MNE's leads to firms having an aggressive entry mode approach. The researcher was looking for consistencies when developing themes. Hurmerinta-Peltomäki and Nummela (2006) further stressed the use of exploratory methods when conducting IB research because IB resonates across multi-faceted areas of research, while crossing national, cultural, organisational and personal boundaries, and asks rather complicated questions.

Weick (1979) and Hurmerinta-Peltomäki and Nummela (2006) all suggested that using an exploratory methodological approach in a complex context does not leave much room for capturing the true value of the study, especially as IB is a relatively new field of research, still offering several avenues of exploration, for which theoretical roadmaps are not yet grounded or are inadequate. This is definitely a disadvantage for the use of single methodology. Methodological approaches such as mixed methods that cross cultural boundaries are faced with various difficulties and resistance in getting published (Birkinshaw, 2004; Welch & Welch, 2004). Other notable disadvantages are that the researcher may become prejudiced, and there is also the danger of misinterpretation of questions and answers by both the researcher and respondents.

3.3 Population and sample

3.3.1 Population

The population was South African JSE- listed MNEs that have ventured into SSA from all business sectors.

3.3.2 Sample and sampling method

Senior members of management (senior managers or directors) were selected from each firm to sample. These employees were in the business development, strategy or mergers and acquisitions (M & A) sector/department for the firm.

Interviews were requested by telephone or email to the respondents selected. If selected individuals were unavailable during the period of conducting interviews, a suitably experienced and senior alternative respondent was sought. The target number of respondents was eight, equivalent to the number of companies targeted. This number was appropriate because the research is a qualitative study and each MNE chosen had entered into several foreign countries.

3.4 The research instrument

Attached is Appendix B which contains the semi-structured guide of the interview schedule. The questions were derived from the literature review conclusion, which contains a summary of IB theories and its link to external business environment effect of how MNE's respond to change, including perceived risk and associated levels of uncertainty (market knowledge) in foreign markets. With the researcher equipped with this background information on the subject, it offered the respondents an opportunity to openly discuss and share experiences confronted within SSA. A semi-structured interview allows for an open, captivating, but adaptive exchange of information between respondent and researcher, but is also suitable for an exploratory mind to capture new exciting insights that arose during the interview. Strategy and discussions around it are by nature not openly discussed and are considered sensitive to any size firm, therefore it posed the risk of non-disclosure, fully or partially, by the respondents.

3.5 Procedure for data collection

Interviews were pre-arranged with the senior strategy, business development or M&A management members of the selected firms. These interviews were conducted in Johannesburg or within the Gauteng province of South Africa, because most South African MNEs have senior employees' offices located within Gauteng and mainly Johannesburg, even though the main FMCG's firm Head offices are located in Cape Town. The interviews took place at the respective firms' corporate office, unless the respondent insisted meeting at a coffee shop. Meeting at the corporate office assisted in maintaining a formal business environment, as well as the language of business, even though a coffee shop still gave that professionalism. The corporate office meeting venue afforded the chance for the researcher to observe the working environment of the respondent. Permission was sought from respondents to have the interview recorded when possible, and hand written notes were taken. The office ambience was observed and taken note of, and interactions with other employees noted. The body language of the respondents was also noted.

3.6 Data analysis and interpretation

Miles and Huberman (1984; 1994) defined a data management system, which was followed in the data analysis procedure, as being comprised of three sub-processes which are linked. These are data reduction, data display, conclusion drawing and verification. After collecting the data, transcribed recordings from the interviews were condensed into summarised data for analysis. Neuendorf (2002) prescribed a code book and colour coding to be used in the identification of key terminology and themes as captured across the interviews, and documented. The researcher captured inconsistencies and any particular differences during this phase. The author further prescribed a descriptive content analysis to be applied in order to extract themes and contradictions within the data. This reduced data set was displayed by the use of text based matrices in order to facilitate interpretation (Miles & Huberman, 1994). The conclusion drawing meaning from the data involved an analysis that compared and contrasted, as well as taking note of patterns and trends. Verification of these conclusions was sought by the researcher from a selected handful of initial respondents. The authors further stipulated that verification of findings can be conducted by triangulation. This involved collecting data from alternative sources such as that in the public domain since the MNEs were JSE- listed, including Annual Financial Statements (AFS), further interviews, press articles, checking the meaning of outliers using extreme cases, etc.

3.7 Limitations of the study

The study relied on sampling senior executives of organisations who could postpone or cancel appointments since they are busy people, even if agreement to participate may have been reached. When this happened, fresh appointments were made with the same executives or an alternative executive, which impacted on the time to start analysing data.

Not much work has been done on Service firms in the past. Most research work done has concentrated on manufacturing firms. Moreover, the work that has been done in the Service firms have been in isolated sectors, i.e. Advertising firms alone, as such creating a void for empirically tested data in all firms across Service firms.

The lack of quantitative study findings is a limitation for those (academic or business community) who wish to understand or assess the utilised entry mode strategy from a numerical framework.

3.8 Validity and reliability

Appleton (1995: 995) emphasised and defined reliability and validity in terms of work by other scholars that defined it as “when applying rigor to research studies, qualitative researchers traditionally use terms such as establishing ‘truth value’, ‘applicability’, ‘consistency’ and ‘neutrality (Guba & Lincoln, 1981; Sandelowski, 1986; Marshall & Rossman, 1989, 2010)”. The authors further stipulated that a qualitative study is deemed credible if it can reveal accurate descriptions of individuals’ experiences and that the people affected or having that experience would appreciate and recognise the findings and interpretations as their own (Sandelowski, 1986).

3.8.1 External validity

Appleton (1995) concurred with what Sandelowski (1986) stated that a research instrument is valid when there is confidence that it measures what it was intended to measure.

In asking the question, “Are we able to meet expectations that we set out to do, and does this study meet the validity condition?”, Neuendorf (2002) defined external validity as that which relates to generalisation of learnings of groups rather than the population researched. This study looks at South African JSE-listed MNEs’ entry strategy into SSA, and should it prove insightful, other MNEs from emerging economies considering venturing into SSA will derive value from this study. In fact, even other MNEs from anywhere in the world considering entry into SSA will derive value.

3.8.2 Internal validity

Internal validity ensures that the process of data collection is uniform. Internal validity was achieved for this study by ensuring that all interviews are structured the same way. Since the study methodology was exploratory and adaptive in nature, invited open answers, and generated differing questions as the interviews progressed, it was the duty of the researcher to ensure that consistency and credibility was maintained and that internal validity was not flouted. Triangulation enhanced internal validity of this study, which involved collecting data from alternative sources such as that in the public domain since the MNE’s were JSE listed, annual financial statements (AFS), further interviews, press articles, checking the meaning of outliers using extreme cases.

3.8.3 Reliability

Reliability is the repeatability and consistency of results. Polit and Hungler (1991) and Neuendorf (2002) defined reliability as the degree of consistency or dependability with which an instrument measures the attribute it is designed to measure.

In qualitative terms this refers to the consistency, repeatability, replicability or stability of a study due to the clarity and accuracy that is achieved of the final research report (Lincoln & Guba, 1985; Louise, Barriball & While, 1994; Powers, Knapp & Knapp, 2010). As a departure point to quantitative research which aims for repeatability of measures and consistency in the responses, qualitative research emphasises the uniqueness of human situations and the importance of experiences that are not necessarily accessible to validation through the sense (Sandelowski, 1986). Guba and Lincoln (1981) proposed that the 'concept of auditability' be the measure of consistency in qualitative research studies.

A pilot interview with a respondent, not in the main sample, was conducted before the commencement of interviewees with actual respondents. During and after the pilot study, suggestions were sought and adjustments made for a refined research instrument tool, in order to extract relevant and appropriate data from the respondents selected.

4 CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

The presentation of the findings obtained from data collection will be dealt with in this chapter. The chapter will only describe the results without any explanations of the findings. On completion of conducting the interviews, the data was transcribed. Out of the initial minimum target of eight MNEs, seven interviews could be secured. This means that the analysis will be dependent on feedback from the seven MNEs (respondents) which took part in the interview sessions. Based on questions posed to each respondent, the researcher will review each question which will be followed by combining responses that have similar meanings, ideas or themes.

4.2 Analysis of Data

A matrix was compiled by the researcher based on answers gathered from the respondents. The responses to each question of the interviews were grouped. Based on the answers from the respondents, answers with similar meanings or which had a common theme were generated. The themes compiled were then checked against the original question to analyse consistency of the answers and themes generated. The themes were colour coded. Analysis of data then proceeded, which was compared to the initial literature review to validate the consistency of the literature (contained in chapter 5). Based on the theme, the researcher then referred to the research question to check how much of the question was answered by the analysis. The researcher then proceeded with the presentation and discussion of the results. The summarised matrix generated is contained as Appendix C.

4.3 Demographic profile of respondents

The sample interviewed comprised of seven MNEs across mixed industries of the business sector. The industries analysed were two from telecommunications, two from construction, two from financial institutions and one from FMCG. These firms were identified as those offering a service than manufacturing. The MNEs targeted were firms that had a presence in the SSA region and were JSE-listed. The main criteria for respondents were that they needed to be someone senior in the organisation that held the portfolio in business development, strategy, firms' operations, the Managing Director (MD) or the Chief Executive Officer (CEO).

The researcher's aim was to gather information across mixed industries of business until a common theme was eminent or consistent. Also, the literature from past scholars outlined in the literature review conclusions is tested. The researcher did not assume responses would be similar or dissimilar from sector to sector. It must be noted that by interviewing a wide variety of respondents, even though senior in the organisation, potentially dissimilar results would have yielded, even if two different respondents were chosen from the same firm. This shows the prejudice each respondent had when being questioned, and how the individual felt about the questions posed. Because the questions were touching on a sensitive subject, respondents could have been withholding some information.

4.4 Results pertaining to Research Question 1

The researcher presents themes generated from the respondents in this section. The responses were summarised for ease of reading and are contained in Appendix C. The names of the respondents as well as the names of the companies interviewed will not be revealed due to the sensitivity of the subject matter. The companies will just be identified as company *x* in the FMCG industry, for example.

4.5 Themes generated from results

4.5.1 Infrastructure concerns

The FMCGs, construction and telecommunications firms highlighted major concerns regarding poor roads in most SSA countries, which means they cannot easily transport goods to their shops, machinery to construction sites or locations, and poles/logs and cellular masts to required locations. Poor roads are seen to create a poor logistical support system which is prohibitive to doing business. Electricity supply inconsistencies were also a concern due to insufficient power generation and obsolete power infrastructure in the SSA region.

The construction and telecommunications firms do base their entry mode based on obstacles, such that telecommunications firm y, has four regional hubs across SSA to assist in dealing with these obstacles faster and to be closer to the regional countries. Telecommunications firm x has a presence in five SSA countries, all of which are close to South Africa, meaning South Africa can be the head office as well as act as a hub. Moreover, telecommunication firm x insists on early localisation so that the locals can be sub-contracted and outsourced for certain activities, where the firm foresees infrastructure challenges.

The construction firms utilise a ‘purpose vehicle’ as they enter SSA. These ‘purpose vehicles’ are meant to give them controlling stakes in any JVs they venture into. If the entry used is wholly owned or an acquisition, then the MNEs’ ‘purpose vehicles’ work even better. However, because construction has a finite end of construction period, these ‘purpose vehicles’ can be exited upon completion of the works.

A financial institution went out and bought all government-run banks around Africa. In South Africa they used their home base, while using the portfolio for the rest of Africa. They then utilised the platform for countries based in the Common Monetary Area (CMA), however they utilise the hub for countries in common markets, which acts as regional headquarters. A mandate was utilised for all other regions, including Mauritius. Therefore for SSA, which is mainly the portfolio, it allows operations to be conducted in the country entered, even though they report to home base. Initially external expertise is used, but they quickly localise. By localising the firms adapt.

FMCG firms ended up holding more stock than they normally would to overcome infrastructure and logistical concerns. This implied that cash was held up in stock.

4.5.2 Ease of profit repatriation – government policies

All firms interviewed expressed concern over SSA countries' governments not being very keen on externalisation (repatriation) of funds made by MNEs in most SSA countries.

With most firms venturing into SSA having a controlling stake, this allows the head office to appoint senior management, especially the MD or Chief Financial Officer (CFO) of the entities formed in the different countries. Typically this means that these local firms are given a limited mandate and ultimately report to head office on key decisions to be made regarding the operations and finances of the entity. By having control over senior management appointments, external head office expertise can be utilised for the setting up and initial running of the local entity. Accounting practices will also be implemented that are favourable with the MNE. By doing this, even when locals start getting appointed to key senior management roles, the locals will then get trained to account as the set up has been done already.

With most MNEs having the wholly owned, acquisition or home base set up in SSA, they can dictate to the local entities when to transfer certain profits out of the country. Government becomes the main obstacle releasing the funds through exchange controls, even though it is no secret that, with clever accounting practices, the profits can be repatriated out of the country. As mentioned earlier, telecommunication firm y allows its hubs to control the financial functions of the region, while technical functions can be controlled by the individual countries.

4.5.3 Corruption

Corruption was a huge concern regarding most, if not all, SSA countries. In some SSA countries, corruption was seen as so high that conducting business in them was seen as a non-starter.

The most important concept around corruption is that listed companies cannot be seen to condone it, because investor confidence is eroded and investors usually sell their shares in the firms associated with such practices and share prices ultimately suffer.

All firms interviewed saw corruption as a huge impediment to conducting business in SSA. Countries singled out for high corruption were Nigeria, Angola, Chad, Kenya, DRC, Congo Brazzaville and Zimbabwe. Corruption affects the MNEs in several ways, from acquiring work permits for its staff, to permits to get goods and machinery into the country and getting banking and telecommunications licences. For government officials to 'expedite' a process, grant a licence or even release goods through borders, they expect to be thanked, i.e. bribed. This is corruption and cannot be entertained. To mitigate corruption, the MNEs localise quickly, and in some cases appoint local protocol officers, to deal with government processes. This way corruption may still exist but will be among the locals themselves, which can be refuted by the MNE if the local employee is caught bribing a government official. In other instances, the appointment of locals reduces corruption, because the government officials and local protocol officers 'talk the same language'. By localising the firms adapt.

4.5.4 Government Bureaucracy

All firms showed concern for government bureaucracy one way or the other. The telecommunication and financial institutions were concerned about the time it takes to issue licenses because they are in a regulated industry.

The FMCG firms initially had to run their shops from their head office in SSA due to local incapacity to buy the franchises as well as to technically run them in the countries ventured. This caused them to have to ensure local government employment conditions were met, i.e. pensions, insurances, etc. Once locals were trained and could raise finance, this burden was removed.

The construction firms' concern was only when they dealt directly with government issued tenders, when they were subjected to government bureaucracy, especially the time to get contracts signed. However, when they followed a client into SSA, the client would deal with government for issuance of mining permits, construction permits, etc.

To overcome government bureaucracy, all firms aim to localise as fast as possible. In fact, telecommunications firm y would not enter a SSA country if they could not find suitable local partners. By localising, the firms appoint locals who can then deal with government institutions. By localising the firms adapt.

4.5.5 Political concerns

Political instability is a factor that was of concern and identified by all firms. Examples are change of government due to a coup. This affects all MNEs that wish to venture into a country within SSA. When governments change the MNEs which have invested heavily in those nations have the most to lose, because the new governments may just nationalise the MNE operations in these countries, sometimes without compensation or little gained for capital invested.

To mitigate political risk, MNEs usually enter those nations as a wholly owned company or an acquisition. A wholly owned set up has its risks because it takes a while to get up and running, while acquisitions are faster setting up because a MNE buys already existing infrastructure and employees, even though huge capital is required initially.

To mitigate political risk, the MNEs ensure profits are repatriated as fast as possible, such that capital invested is recovered quickly. This way, should a coup take place, the MNE would like to be at a point where they have recovered the capital invested and are just making profits. Countries with political risk usually have higher returns, hence the MNEs conduct feasibility studies and country risk audits before entry. Timing of entry is also key.

4.5.6 Religious and legal concerns

Religious and legal concerns were key factors identified, especially for financial institutions entering Muslim states within SSA as Muslims do not believe in getting interest bearing loans. This forces a financial instruction to change its business model from one that mainly issues loans to one that is used for facilitating transactions and being paid a commission. Muslim legal systems are closely linked to religion and with religion comes culture. Meetings or appointments cannot be fixed at certain times, for example, when the moon is spotted there is the Eid holiday the next day, and with or without an appointment no business will be transacted. Not observing an important day such as Eid could find a MNE with legal problems to answer to, or even worse imprisonment of senior management.

To mitigate religious and legal issues, the MNEs are forced to follow and observe the Muslim calendar. There is no particular entry preference in relation to religious and legal issues, but the MNEs localise human resource and legal departments very quickly. By localising the firms adapt.

4.5.7 Market Knowledge

A theme that emerges as the entry mode into foreign markets is being investigated, is the influence that market knowledge impacts on the MNE's decision to enter a particular foreign market. All firms indicated that having done business in SSA for a while had taught them valuable lessons. This knowledge gained is seen as experiential knowledge, one that cannot be taught but only experienced. Armed with this experiential knowledge allows firms to understand the market they want to enter and as such make informed decisions about the particular country and entry mode choice. This allows these firms with more knowledge to have an aggressive entry mode, such as acquisitions – wholly owned subsidiaries.

Construction and telecommunications firms appear to have a higher perceived risk and uncertainty when entering SSA compared to FMCG and financial institutions.

Intellectual property generally is not at risk from the surveyed companies, and as such technology risk is rather non-salient. The firms surveyed rather tend to conduct country specific risk assessments to strike a balance between resource commitment and control. They like leveraging on the local partners resources. The firms commit fewer resources as opposed to risk assessed, but are willing to form JV's with capable local partners. Initially the MNE's prefer to have the control, even though later local management is appointed, but not in share-holding of the new entity.

4.5.8 Market Seeking

Another theme that emerged while investigating the entry modes into foreign countries was the aspect of MNE's going out to get new customers in SSA. This is the need to get to customers. The MNE expands out of South Africa, such that they start looking for new clients in SSA.

All firms interviewed have an aspect of market seeking for new clients in SSA. This is because new clients are also attracted to these MNE's because they usually have a strong brand image.

It was quite evident in most market seeking MNE's due to the resource commitment they show as they enter new markets. In most cases, these MNE's tend to invest and commit fewer resources in new markets, such as contracting (licensing or franchising) and collaborations (JV's).

4.5.9 Client Following

A client following theme was also evident from the MNE’s surveyed. This is where a MNE develops a good relationship with its clients in South Africa, such that when its clients expands into Africa, the MNE follows this client and usually end up servicing this client at home and in SSA.

Construction and telecommunications firms follow clients into SSA, but they are also attracted to, by new markets because they have a brand image. The FMCG’s franchising firm surveyed follows it's South African developer, and does not pay much attention to developing its new markets because its in the franchising business. However, once in a particular country they look for new opportunities within that country. The financial institutions mainly follow their clients. One financial institution boosted of having created such a huge brand over so many years and said, "We have been in SSA for a very long time, so in most cases the business from South Africa follows us." This trait is typical of early entrants, as indicated in the literature review, synonymous with client following tendencies.

These client following MNE’s take advantage of the new market they enter by looking for new business as market seekers as they enter.

It was evident in most client following MNE’s due to the resource commitment they showed as they enter new markets, in comparison to market seekers. In most cases, these MNE’s tend to invest and commit more resources in new markets, such as making acquisitions, which leads to wholly owned subsidiaries being formed.

4.5.10 Industry led entry

While investigating the entry modes and themes generated above, there appears to be another force leading and driving MNE entry into SSA. A theme emerging from this question is that, with the exception of the FMCG firm who's model was to franchise and get local buyers paying royalties, the underlining theme was that all firms, excerpt construction firm y, want to retain controlling stakes as they enter

SSA while adopting the home base model, with acquisitions in most cases, while accommodating local conditions and requirements. In other words, all firms interviewed seem to venture into SSA with the thinking "Let us go and show them how it (business) is done". The researcher observed during the interviews that having a controlling stake is justified because these MNEs invest a lot of resources and finances to venture into SSA.

4.6 Summary of the results

As rampant as prohibitive business conditions are, SSA remains lucrative and attractive, such that sustained growth potential, expansion opportunities and profit remain the driving force for MNEs to venture into the SSA region. This is evident because of the number of countries entered by each MNE interviewed, the countries varying from four to twenty two. If the SSA region were not lucrative, the MNEs would remain in South Africa only.

Poor infrastructure was biggest concern for the FMCGs, construction and telecommunication firms. Poor infrastructure, such as weak communication and bad roads for example, have a spiral effect which leads to challenges of logistics to creep in, which is prohibitive to conducting business efficiently. Electricity supply inconsistency was also a concern for all firms. Mitigating the bad roads challenge caused MNEs to quickly localise, so that transporting challenges are passed onto locals who are used to those conditions. Electricity supply inconsistence is mitigated by MNEs installing gensets, which is a very expensive means of electricity generation.

There was no single mode of entry that could be associated with poor infrastructure, but that entry mode was affected by other factors as well. However localising and adapting made the challenges bearable.

All firms felt that ease of repatriation of profits was a concern because host governments are not keen on MNEs repatriating profits. However, by implementing clever accounting systems, the MNEs are able to repatriate profits, especially because the appointment of senior management is the prerogative of head office, which would then ensure the CFO and MD can be controlled, whether they are local or from head office.

Wholly owned, acquisition, home base, or controlling JV shareholding structures cannot be directly linked to ease of profit repatriation. However, having a controlling stake allows head office to dictate to the CFO or MD what to do with profits.

Corruption, which is a huge concern for all firms that venture into SSA, is a huge impediment to a conducive business environment. Off course, the degree of corruption differs from country to country.

There is no entry mode which came out from respondents as countering corruption. However, when the MNEs quickly localise, the local partners or senior local employees are able to deal with local government employees, making the corruption aspect more manageable.

Government bureaucracy causes business not to function at the desired pace. This was evident from all MNEs' responses. To mitigate government bureaucracy, all firms aim to localise as quickly as possible. By localising, the firms appoint locals who can then deal with government institutions. There was no preferred entry mode that could be linked to dealing with government bureaucracy.

Political stability is a concern for all firms venturing into SSA. This concern is heightened in the event of a coup occurring and governments changing in a particular host country before the payback period is attained.

The preferred entry modes in countries which have a high political risk appears to be that of wholly owned, acquisition or home base, so that profits can be repatriated in the shortest space of time.

Religious and legal systems are of particular concern to MNEs that venture into Muslim states. South Africa, which follows Roman Dutch Law, needs to be wary when venturing into Muslim states, because the Muslim religion is closely linked to their legal system.

There is no particular entry mode preference in relation to religious and legal issues, but the MNEs localise human resource and legal departments very quickly.

Having looked at themes generated, the researcher can conclude that all firms use the localisation strategy. However, in combination with the localisation strategy, some firms use a global strategy while others use the international strategy.

With the exception of the FMCG firm whose model is to franchise and be paid royalties, the underlining theme of preferred entry modes was that all firms want to retain controlling stakes as they enter SSA, while adopting the ‘home base related model’ with acquisitions or wholly owned in most cases. In other words, all firms interviewed seem to venture into SSA with the thinking of, "Let us go and show them how business is done".

A follow up on the reasoning behind the choice of the particular entry mode chosen shows that the theme that emerges from the respondents is that each industry has specific needs and requirements. However, all MNEs are affected by the regulatory requirements stipulated by a particular SSA country.

An important angle explored to help understand choice of foreign market entry of service firms by the researcher was market knowledge. Market knowledge did certainly assist explaining some of the factors that inform the foreign market entry decision choices of firms in the service industries. The researcher acknowledges that market knowledge alone cannot be used to explain entry mode decisions in service firms. What was evident though, was that firms the committed huge resources to a country to be entered, did so because they had experiential knowledge about that country. The level of knowledge a firm had can be characterised by the level of aggression shown in the entry choice made, with wholly owned acquisition being the most aggressive to licensing being the least. This level of resource commitment could also be linked to MNE’s that client follow and those that market seek as an entry mode. The distinguishing factor was that client following firms would make acquisitions because they were sure who they would be servicing in that country, while market seeking firms would be ready to form collaborations due to uncertainty of potentially new host countries – lack of market knowledge. These collaborations would be in form of licensing or some form of JV. An important factor which will be important to understand in the next chapter using literature, will be the differentiation between soft and hard service companies, because some firms preferred wholly owned subsidiaries but did not want to spend and commit the resources.

5 CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

This section focuses on interpreting the findings obtained. The themes derived from the respondents based on questions will be discussed to get a clearer picture of the themes arising, because most of the questions were open ended, even though the same set of questions was asked to the different respondents. This is because the interviews were semi-structured and some respondents, after hearing the researcher's topic, started to explain in detail before the actual questions were asked. The researcher still did take notes throughout the interviews and would later apportion responses to the correct questions, by highlighting to the respondents what they had indicated earlier.

The initial part of this section will discuss the demographic profile of respondents, aiming to compare what the researcher initially planned to accomplish, to what was actually obtained. Differences and impact due to change of demographics on research will be discussed. This section will then deal with the descriptive discussion analysis of results obtained with respect to what the literature review had suggested. The results will be explained showing similarities, differences and/or alternatives between the researcher's findings and other scholars. Possible or plausible explanations will be discussed for the researcher's findings, and a logical argument will be presented when deemed fit or appropriate.

5.2 Demographic profile of respondents

The participants were initially chosen due to seniority in their organisation. Initially, the researcher mainly targeted senior employees in business development, strategy, firms' operations, the MD or the CEO. The reason for targeting senior employees was because they would be able to answer questions relating to preferred entry mode into SSA when expanding from a behavioural and non-behavioural point of view. Each of the divisions stipulated above had advantages and disadvantages, however senior management in business development, strategy, firms' operations or firm founders proved to have more information pertaining to the finer detail the researcher was engaging the respondents in. These senior employees were particularly more helpful and informative if they belonged specifically to the Africa division/ operation of their firm.

Of the seven MNEs, two firms - a financial institution and a telecommunications firm - were not headquartered in South Africa, but have utilised South Africa as a hub/base to venture into SSA. The researcher is of the opinion that their responses would not distort the results because they have had a presence in SSA for a very long time, even though they do not operate as a South African born company.

The FMCG firm interviewed is no longer listed on the JSE but is South African born, and the respondent according to the researcher had no ulterior motive to distort the data being collected. The researcher recorded the interview and observed the respondent's gestures when responding to questions.

The researcher would have preferred to interview more FMCG firms but the appropriate respondents were based in Cape Town, while the researcher is based in Johannesburg, such that setting up face-to-face interviews would have proven to be a challenge.

The main challenge why some MNEs would not be interviewed was the fear of being 'quoted' or 'mis-quoted', combined with bureaucracy the company had in place to obtain permission to carry out the interview with a subject of strategy.

5.3 Discussion pertaining to Research Question 1

The researcher will analyse and discuss results (themes) from data collection process in this section. Similarities and differences between the literature and respondents were identified, and common themes that emerged were explored by the researcher. The themes that emerged will be analysed under separate sub-headings.

The researcher's purpose was to identify what the preferred entry mode of MNEs into SSA is.

5.3.1 Poor Infrastructure

The common theme of infrastructure concerns is supported by literature, which suggests prohibitive business conditions can lead to natural resources not being fully exploited (Asiedu, 2006). The author further illustrated that the lack of some formal institutions such as poor infrastructure can be compensated by the affected SSA country having political stability, improved institutions and policy environment.

The literature does suggest that MNEs need to be more innovative as they encounter obstacles in the SSA region. Porter and van der Linde (1995a; 1995b) and Bernauer *et al*. (2006) suggested that firms should deal with set environmental standards in an innovative way, and get ahead of the competition. Environmental standards set by SSA governments will not be similar or the same as the ones set in the home base country, and as such, MNEs should learn how to deal with them. The researcher observes that poor infrastructure can be likened to formal institutions –set environmental standard. Formal institutions can be better handled by MNEs by being innovative, as shown by most firms which localise quickly as part of their entry mode, by getting locals to transport goods when faced with bad roads. This worked well when Coca Cola utilised informal retail channels such as Coke's bicycle distributors where infrastructure was poor in Africa. The challenge with finding reliable and dependable local suppliers or contractors still remains a concern in most SSA countries.

Telecommunications firm y even noted that governments are encouraging investments in infrastructure. The firm asserted that a "10 per cent increase in telecommunications penetration translates into 1 per cent increase in GDP of a country".

The researcher could not conclusively attribute a particular entry mode to aspects of poor infrastructure, even though the hub was utilised by telecommunication firms to assist in regional infrastructure and logistics support.

The financial institution used portfolio for the rest of Africa and platform for countries in CMA, meaning they were cognisant (market knowledge) of obstacles they may have to encounter. The entry mode was more industry specific. Studies by Asiedu (2002; 2006), Luiz and Charalambous (2009) and Agbloyor *et al*. (2013), which placed emphasis on entry mode differing based on the business sector that the firm wishes to invest in, are also supported by the researcher's findings.

Available data in the public domain is also supported why a financial institution went out into Africa and bought banks as an entry mode. The financial institution did so because it was client following and client following MNE's show aggressiveness to their entry mode choice, by making acquisitions. Erramilli and Rao (1990) agree to this primary explanatory variable (Andersen, 1997; Madhok, 1997; Osland *et al*., 2001). The authors go on to elaborate that this aggressiveness comes out in their choice of higher involvement levels and in their willingness to enter foreign markets without teaming up with outsiders.

5.3.2 Ease of profit repatriation – government policies

Literature suggests ease of movement of cash in and out of host SSA countries (Agbloyor *et al*., 2013) needs to be addressed by regional integration treaties, starting at government level. Asiedu (2002; 2006), Luiz and Charalambous (2009) and Agbloyor *et al*. (2013) agreed with the MNEs that indicated they would like to see easing of profit repatriation in SSA countries, but all MNEs seem to have industry specific requirements.

Bernauer *et al*. (2006) argued that government policies and regulations help promote environmental innovation, by dealing at firm and innovation field level within and across firms, industries and countries. Perhaps MNEs should capitalise on this innovation requirement when dealing with accounting practices.

Murtha and Lenway (1994) argued that national institutional arrangements systematically contribute to state strategic capabilities, which in turn form the basis of competitive advantage. The authors argued that MNEs' strategies interact with states' industrial strategies. The conditions under which these national institutional arrangements and capabilities, succeed or fail international strategies and organisation structures of home firms, incoming FDI, home firms' international customers, collaborators and competitors, are unpacked. Therefore, the states' (governments') capacity to implement credible commitments and industrial strategies, if non-reversible, is the key for success (Schelling, 1960; Spencer & Brander, 1983; Krugman, 1984; Brander & Spencer, 1985).

From the literature, it is also evident that regional integration is key for globalisation to be effective and business to thrive. As Wright and Dana (2003) put it, globalisation is impacting greatly on firms' opportunities and challenges faced today. Ease of profit repatriation can be seen in the same light as a trade barrier. Countries are removing trade barriers in response to globalisation, and this is causing countries and businesses alike to work or function in regions. The researcher observed that from the theme generated, SSA is making progress towards removing trade barriers, even though much more needs to be done when compared to the removal of trade barriers in the European Union (EU). From the firms analysed, those that move goods and machinery across borders are the ones benefiting at the moment in SSA. This integration needs to be extended to other industries, especially the financial sector. The regional treaties within SSA such as SADC, COMESA, ECOWAS, etc need to start integrating also, so that SSA starts to move towards a 'single country', in line with globalisation which is a world trend for business today.

Construction firms benefit from trade, tax and regulation protection that the South African government offers by being a member of regional treaties. Regional integration alone does not affect all respondents' decisions when considering entry into SSA.

As stated earlier, there is no direct correlation between entry mode and ease of profit repatriation. However, having a controlling stake such as wholly owned, acquisitions, platform or portfolio, allows MNEs to have more control and dictate on profits that can be repatriated.

5.3.3 Corruption

Corruption tends to serve only the 'haves', neglecting the 'have-nots'. Ricart *et al.* (2004) made an observation that MNEs typically focus on serving the top of the pyramid, even in underdeveloped countries, because they want to market products and services that were successful in developed countries, leaving opportunities to serve the bottom of the pyramid. Hart and Milstein (1999) and Hart and Prahalad (2002) proposed that adapting to unknown waters (new place), requires non-traditional thinking about conducting business. Learning to serve the bottom of the pyramid can be a way to develop new untapped markets and a viable opportunity for disruptive innovation (Hart & Christensen, 2002). SSA, being a region with some undeveloped countries and some emerging, gives it a large number of potential customers for MNEs.

The situation of high corruption nations can be likened to what Scott (1995) defined as an institution having regulative, normative and cognitive structures and activities providing stability and meaning to social behavior. The author went on to define institutions as those that govern societal transactions in avenues of politics (e.g. corruption and transparency), law (e.g. economic liberalisation and regulatory regime), and society (e.g. ethical norms and attitudes toward entrepreneurship). Based on what the author has said, high corruption nations have aspects where their societal ethical norms can be questioned. A construction firm even referred to the corruption situation in Nigeria as being parasitic. The high corruption cited in Nigeria, Angola, Chad, Kenya, DRC, Congo Brazzaville and Zimbabwe do damage business confidence, and become a deterrent for new entrants. North (1990) referred to the formal and informal institutions that exist as "rules of the game" that shape a firm's strategy and performance domestically and internationally in emerging economies (Hoskisson *et al*., 2000).

Another school of thought to deter corruption was defined by Peng (2003), who concluded that firms should move away from a relationship-based, personalised transaction structure that calls for a network-centred strategy, to a rule-based, impersonal exchange regime, which concurs with a market-centred strategy. However, some assumptions made by the author may not stand institutional transitions such as political instability and the tensions that arise from that. As such, a hybrid between network-centred and market-centred (based) strategies may spring up (Young *et al*., 2002). However, for the case of Zimbabwe, neither a network-centred nor a market-centred strategy would work, due to the nature of political misalignment achieved over the years.

The researcher could not conclusively attribute a particular entry mode into SSA to aspects of corruption, except that MNEs quickly localise and then employ locals to deal with government employees and processes.

However, the findings of (Rodriguez *et al*., 2005) are that a MNE subsidiary is more likely to engage in corruption where pervasiveness is high, although doing so may threaten internal legitimacy if the firm has established strong ethical or anticorruption norms. These same internal norms, which give legitimacy on subsidiaries, significantly influence the decision to enter via equity versus arm's-length modes. Highly arbitrary corruption increases the likelihood that MNEs entering via FDI will choose a local partner, because local partners increase external legitimacy. The authors research showed that pervasiveness creates opposite incentives for partnering that increase the likelihood of entry via a wholly owned subsidiary. Corruption occurs everywhere, but it is more widespread in transition and less developed economies (Hellman *et al.,* 2000), which MNEs have increasingly targeted for entry. These countries' developmental needs and commercial possibilities cannot be fully realized without the capabilities and resources of MNEs, whose entry is dependent on the expectation of profitable operations.

Past empirical investigations of corruption and firm behaviour support scholars (Rodriguez *et al*., 2005) theory. For example, (Smarzynska & Wei, 2000) found that the likelihood of entry with a local partner increases with the level of corruption in the transition economies of Eastern Europe and Central Asia. The researcher could not ascertain the level of involvement of corruption of South African MNE's as they enter SSA because no firm can admit to such practices.

5.3.4 Government Bureaucracy

The South African government's policies could be the reason the economy is not growing as fast as the rest of Africa, hence MNEs are looking elsewhere within SSA and beyond for growth opportunities. The literature that suggests Africa is the fastest growing continent in the world (The Economist, 2013) still remains a viable investment destination. Also, according to Ichii *et al*. (2012), a forecast by Goldman Sachs projected that developed economies' average annual growth rate will be 2 per cent between 2011 and 2020, while emerging economies will grow at 7 per cent during the same period. South Africa is currently growing at 2 to 3 per cent.

Besides MNEs complaining about South African policies, they should also use their initiative and go out into SSA and get business (market seeking). All the MNEs interviewed had a presence in less than 50 per cent of the countries in SSA. This means that scope for expansion of these MNEs is still available. This is in line with Ichii *et al*.'s (2012) assertion of MNEs' distaste for middle and low income segments; their inability to pick the right entry strategy, especially for the MNEs which are averse to mergers and acquisitions; and the lack of MNE commitment to go and get their customers with a potential population of approximately 910.4 million (London & Hart, 2004; World Bank, 2012). Even though SSA still has scarce talent and an uneducated population, opportunities are still present.

Wright and Dana (2003) suggested that firms need to have a rather different view in response to changing external business environments. The authors believe changes in the global business environment have a direct impact on business managers, public policy makers and scholars. They suggested changes at the macro-economic level force strategic changes to be made at the micro-economic level. Globalisation is impacting greatly on firms' opportunities and challenges faced today. Countries are removing trade barriers in response to globalisation, and this is causing countries and businesses alike to work or function in regions. Wright and Dana (2003) suggests two particular changes revolutionising policies management and competitive strategies, one of which is that the nation as the state is no longer the primary macro-economic player for businesses within a country. More so, the nation is no longer the centrepiece around which international economic activity is based or conducted. The other important change has been that firms no longer stand alone as primary players at the micro-economic level or as the basic unit of competition, and as such MNEs should form alliances or other collaborative pacts to remain competitive and relevant to the business.

Based on the theme generated around government bureaucracy, MNEs should focus and strategise more around globalisation such as alliances or other collaborative pacts than wait for the SSA countries to change and accommodate them fully.

There was no direct relationship between government bureaucracy and the entry mode MNEs used. However a logical explanation would be that one way for MNEs to mitigate government bureaucracy would be to form alliances, collaborations or JVs as they enter SSA. From a market knowledge point of view, collaborations do make sense, and the MNE’s can utilise the market seeking concept. The telecommunications and construction companies made good collaborations as they entered SSA, even though this was not always translated at shareholding level.

5.3.5 Political concerns

Political instability can be looked at in its extreme form of a coup leading to change in government, however policies implemented by government can also constitute political instability. Simon (1984) and Butler and Joaquin (1998) observed that nations have different political risk. This difference in political risk has a huge impact on market stability. This is evident in the complex web of differing political climates across SSA. Each country is unique in SSA, and each comes with its own set of institutional challenges that MNEs have to deal with.

Political stability speaks to government policy implementations, thus regulatory compliance in the country to be entered appeared paramount for all respondents. However each firm had its own considerations and special needs. The construction firms utilise a purpose vehicle while meeting the local countries' regulatory requirements. The FMCG firm follows a property developer, which is queuing – client following. The telecommunication firms aim to localise as much as possible. Of the two financial institutions interviewed, financial institution x first tests the local area with representatives gathering intelligence prior to entry as well as checking its political climate, while financial institution y considers more political stability and the local countries market cap for the sector, as drivers of entry mode.

Financial institutions and telecommunication firms aim at getting local management in place after being trained by Head office expertise, especially because the local senior employees can sometimes have powerful political connections which assist with the seamless running of the business.

Construction firms benefit from trade, tax and regulation protection that the South African government offers by being a member of regional treaties. This protection does not seem to extend to all industries, however there is a treaty currently in development that will be finance specific within the SADC region, called Sustainable Investment Research Institute (SIRIS).

The preferred entry mode for countries that have high political risk is either wholly owned and acquisition, depending on the payback period to be factored in. This risk analysis needs to ensure the capital invested is recovered by the time possible disruptions may begin in an identified politically unstable country. This observation is in line with market knowledge and foreign market entry choices as attested by (Erramilli & Rao 1990; Andersen, 1997; Madhok, 1997; Osland *et al*. 2001), especially when client following.

5.3.6 Religious and legal concerns

Literature supports the researcher's findings on importance of culture fit, as defined by Ghemawat (2001; 2003). The author also believes culture is the future of international business. Defined by the author as CAGE, it aims at bridging and explaining the distance (cultural difference) between home base and the foreign location a MNE ventures into. CAGE incorporates the "culture" of the local environment in relation to religion, race, social norms and language. It also addresses "administrative" challenges associated with the MNE being far from home base, which encompasses issues of political and economic relationships, which can have consequences on its capability to utilise its capacity and resources optimally. Also, CAGE addresses "geography" issues associated with geographical location of region the MNE wishes to enter. "Economic" refers to wealth and income, and addresses issues of how products and services can be rendered economically, and whether economics of scale act as an advantage for conducting business in the region.

There was no direct relationship between religious and legal concerns and the entry mode MNEs use. However, for US companies that were surveyed by (Davidson, 1982; Kogut & Singh, 1988) regarding cultural differences found that US companies opted for wholly owned when difference in culture was minimal or similar, while opting for collaborative (contracting and JV's) when the cultural difference was large (market knowledge deficiency).

Davidson (1982) also found licensing and joint ventures to be more strongly associated with firms that were inexperienced in a particular foreign market. These are firms with little or no experiential market knowledge, when compared to more experienced firms.

5.3.7 Client Following and Market Knowledge

The financial institutions, FMCGs, telecommunications and construction firms have unique requirements because they sometimes follow key private clients, and unless they are dealing with governments (public sector) directly, they risk audit the country to be entered.

The FMCG firm indicated that they would typically client follow (queuing) a property developer's "platform" where the developer developed malls/property, even though this was limited in other countries. The firm also stated that head office initially "wholly owned" stores until locals had capacity (financial and training) to take over, since their business model was primarily of a "franchise" nature. Head office also did some "acquisitions" in South Africa and Namibia.

Construction firm x mainly enters using home base, and regionally uses JV, wholly owned or acquisition models. This is to ensure the group has a controlling stake, where risks are deemed high as can be expected from construction related projects. The primary idea behind this is to have a "purpose vehicle", and once the project is completed, the firm exits the country. Regulatory requirements are also fulfilled which differ country by country. On the other hand, construction firm y utilises all entry strategies. Determinants range from location, project type, other activities going on in the region, etc. The firm is not particular about having a controlling stake in its new ventures as they enter SSA. Market knowledge as the primary explanatory variable can be used to try to explain why entry choice for construction firms is JV's, wholly owned subsidiaries or acquisitions. These firms are highly knowledgeable about their market, hence tend to use aggressive entry modes which don't always require collaborations. The major observation made by the researcher is that these firms don't invest resources as would be expected. This would be because, they usually exit a country upon completion of a project, because the entity formed in new markets is primarily a "purpose vehicle". The construction firms also form part of hard-service, as opposed to soft. These firms are considered hard-service because they serve a market for which it is eminently feasible to separate between production and consumption (Weinstein, 1974, 1977; Erramilli & Rao, 1990).

Telecommunications firm x cites language barriers in some cases as a cause for collaboration to be used usually as the best entry form that the firm uses to enter SSA. Market knowledge as the primary explanatory variable can be used to try to explain why entry choice for telecommunication firm in part is JV's. This said, there could be other secondary explanatory variable (s) that could be used to explain other forms of entry modes the telecommunication firm use, which was not part of this research. Momentum is gained faster with collaboration. The firm employs local distributers and encourages local shareholding, especially the ones who understand how business operates. Telecommunications firm y has four hubs in SSA, which have proved to be more efficient. With hubs they can centralise some functions to them, for example Nigeria is a hub where finance is handled, while engineering is done in all countries where there is a presence. The firm has a home base model, but they also do licensing, wholly owned and acquisitions. They have a joint venture (JV) in Zimbabwe only. Market knowledge can be used to explain the variety of entry choices made by telecommunication firm y, from the most resource committing wholly owned subsidiaries to minimum resource commitment in licensing.

Financial institution x enter with a home base with minor modifications to suit local conditions. Even the look and feel is the same in South Africa as in other SSA countries, except where cost saving is needed, for example in South Africa crime is high therefore security features are costly in South African operations, whereas in most SSA countries security features are not complex and expensive. The local MD has limited autonomy because they report to regional MDs, who then report to head office in South Africa. The local MDs have limited mandate limits. From a regional perspective, the bank utilises wholly owned models (platform, portfolio or hub), and even when acquisitions happen, the bank retains a controlling stake. JV has been utilised in South Africa only. On the other hand, financial institution y mainly employs the 'wholly owned' model. Where the firm has a banking licence and already existing infrastructure and another bank does not, they form an 'agency'. In other cases where the financial institution does not have a licence and infrastructure they utilise 'partnering', usually targeting a local big bank, with the aim of potentially buying the partner out. In both cases of financial institutions x and y, market knowledge suggests that utilising the wholly owned mode of entry in SSA, is in line with an entry mode that is aggressive, which is seen mainly in client following foreign market entry modes (Erramilli & Rao, 1990). This is because MNE's feel comfortable to enter foreign markets as wholly owned subsidiaries through green field or acquisitions, without collaborations, unless host nation governments dictate so.

5.3.8 Market Seeking and Market Knowledge

In line with client following, most of the service firms (the financial institutions, FMCGs, telecommunications and construction firms) that were surveyed have unique requirements because they sometimes enter foreign markets to service non-client following customers. Almost all firms surveyed showed signs of market seeking upon entry to expand beyond servicing the clients they follow into SSA. This can be defined as a spin off effect once the firms have been established in the host countries. The market seeking MNE's still risk audit the country to be entered.

An ideal market seeking firm entry mode choice can be seen and explained with the market knowledge variable (Erramilli & Rao, 1990). In as much that the service firms analysed so far mainly enter foreign markets while following their SA clients, as they study the SSA market due to proximity of other neighbouring nations, they tend to enter nearby countries utilising the market seeking entry mode. With these new territories, these firms would have market knowledge deficiency with these other markets and will initially commit minimal resources.

From the literature, Ghemawat (2003) proposed that MNEs with "home base, portfolio and platform" entry strategies are associated with aggregate opportunities and spend on R&D and manufacturing, while a "hub" entry strategy is associated with adaptation and spend on advertising. "Mandate" strategy is associated with arbitrage opportunities and spend on labour. Based on what the author said, the researcher observed that the FMCG firm utilises the platform and home base entry, which is associated with aggregate opportunities. The construction firm x is more inclined to aggregate opportunities, while construction firm y is inclined to aggregate, adaptation and arbitrage. Telecommunications firm x, which has collaborative mechanisms but utilise home base synergies of the group, will be more inclined to aggregate opportunities, while telecommunications firm y will be more inclined to aggregate and adaptation opportunities. Financial institution x, which has home base with minor modifications (still preferring mainly wholly owned subsidiaries), will have a home base structure which has aggregate opportunities, while financial institution y, which mainly opts for wholly owned subsidiaries has home base entry, which also has aggregate opportunities.

5.3.9 Industry Led Entry into SSA

By analysing consistency in line with Ghemawat’s (2003) assertions, the FMCG’s ‘natural expansion’ of South African operations is in line with the home base and platform entry modes. Construction firm x and y show tendencies of queuing – client following. The telecommunications firm x has a "build it once, and use it many times" strategy, which is consistent with home base entry, while telecommunications firm y having a controlling stake cannot be conclusively asserted, excerpt if a huge investment is to be made. Financial institutions being more interested in having a controlling stake had no conclusive links, even though the underlying concept of having a wholly owned institution which they could control pointed to home base characteristics.

Using Ghemawat’s (2003; 2007) observation in relation to the direct question asked to all correspondents, all responses were in line with the initial observation by the researcher. The construction firms’ ‘purpose vehicle’ is a way of entering a foreign country with a view of home base mentality. The regional form may be JV, acquisition or wholly owned, etc, but the controlling stake is evident by the MNE entering in this manner. Telecommunications firm x localises as much as possible, but the statement, ‘the "how" changes country by country, even though "what" is consistent’, suggests to the researcher that home base is still dominant in the entry form. Telecommunications firm y and the two financial institutions’ response during the interview, indicated they are consistent with wholly owned, which was likened to home base.

Looking at entry mode consistency, an analysis can be deduced that the FMCG firm uses home base, which is consistent with their international strategy. This deduction is logical for a FMCGs firm, which would then spend on R&D and manufacturing. However by attempting to localise their product they need to adapt, which would mean they spend on advertising as well.

The construction firms, on the other hand, typically have a global strategy coupled with a regional strategy, where they localise by adapting. Ultimately they aim to use a transnational strategy. Such firms will need to adapt to local conditions and as such spend on advertising. Ghemawat (2003) went on to stipulate that companies should have regional strategies besides the global strategies for their worldwide business. MNEs that have embraced regional strategies have not just been cognitive of specific regional geographic requirements, but the combination of global and regional strategies (initiatives) have significantly boosted a company's performance, especially in the constantly changing market and business environment.

The telecommunication firms utilised the global and localisation strategy. Such firms require aggregation and adaptation opportunities and spend on manufacturing and R&D as well as advertising. Aggregation and adaptation is consistent with the responses the researcher got from the respondents from the above four questions. This finding agrees with Ghemawat's (2003; 2007) assertions of how firms spend in relation to their opportunities.

The financial institutions are mainly interested in having a controlling stake, however they too have a global strategy followed by a localisation strategy for the region. In most cases the firms will utilise home base, wholly owned or JV with the aim of an acquisition. Since financial institutions are logically bound to spend more on advertising, their inclination would be adaptation, which is a localisation strategy.

The preferred entry mode can be split into industry specific. The construction and telecommunication firms have aggregate and adaptation opportunities to exploit, while the financial institutions are more inclined to adaptation opportunities. The main entry modes for the construction, telecommunication and financial firms are home base, wholly owned or acquisition. Where a JV is utilised is for purposes of an acquisition ultimately. The FMCG firm also has a home base entry mode, but because it was the only one interviewed it may be seen as inconclusive. Some level of 'queuing' – client following is also observed to being utilised by the FMCG, telecommunications, financial and construction firms.

To understand these traits and general strategies introduced using market knowledge as the primary explanatory variable, the researcher observes that in most cases the MNE's aim at attaining control. Depending on the amount of resource commitment made differentiates the firms from soft-service to hard-service as described earlier. The control that the firms aim to achieve, speaks to the ability that they want to have decision making power in the new entity/country so that with the power/control, they can push their agenda in showing the rest of SSA how to conduct business. Hence, the findings show that main entry modes for the construction, telecommunication, financial and FMCG's firms are home base, wholly owned subsidiary or acquisition.

5.4 Conclusion

In conclusion, three issues are prominent:

a) There appears to be a preferred entry mode for most of the themes that have been analysed, in view of prohibitive business conditions identified.

b) Market knowledge and uncertainty seems to have a primary explanation, for the decision made regarding foreign entry mode choice of service firms. Market knowledge then explains:

    (i) Client following firms – MNE's following existing SA clients into SSA to service their clients.

(ii) Market Seeking firms – MNE’s entering SSA to get new customers, ideally all non-client following.

c) There seems to be an industry driven preferred entry mode, irrespective of prohibitive business conditions present or encountered in SSA.

Poor infrastructure

Based on the themes generated, the researcher could not conclusively attribute a particular entry mode to aspects of poor infrastructure, even though hubs were utilised by telecommunication firms to assist in infrastructure and logistics support. The financial institution used portfolio for the rest of Africa and platform for countries in the CMA region, meaning they were cognisant of obstacles they may have encountered. The entry mode was more industry specific. However, all these entry modes can be categorised against market knowledge as the primary expalanatory variable, leading to market involvement and resource commitment of MNE’s. The MNE’s could then be categorised as market seeking or client following based on aggressiveness of the entry mode chosen.

Ease of profit repatriation – government policies

There is no direct correlation between entry mode and ease of profit repatriation that the researcher could conclusively ascertain. However having a controlling stake, such as wholly owned, acquisitions, platform allows MNEs to have more control and dictate on profits that can be repatriated. Control of the new entity in foreign market could be explained in terms of market knowledge.

Corruption

The researcher could not conclusively attribute a particular entry mode to aspects of corruption, except that MNEs quickly localise and then employ locals to deal with government employees and processes. However, empirical work in the past by scholars show that the likelihood of entry with a local partner increases with the level of corruption in the transition economies.

Government Bureaucracy

There was no direct relationship between government bureaucracy and the foreign market entry mode MNEs use. However, a logical explanation would be that one way for MNEs to mitigate government bureaucracy would be to form alliances, collaborations or JVs as they enter SSA. The telecommunications and the construction companies made good collaborations as they entered SSA, even though this was not translated at shareholding level. This concept is also supported and explained by market knowledge and uncertainty as the primary explanatory variable.

Political concerns

The preferred entry mode for countries that have high political risk is either wholly owned subsidiary or acquisition, depending on the payback period to be factored in. Timing of investment is crucial. Market knowledge was able to explain the wholly owned subsidiary phenomenon, of being the preferred entry mode.

Religious and legal concerns

There was no direct relationship between religious and legal concerns and the foreign market entry mode MNEs used. However, this sector deals with cultural differences of host countries and MNE's. Market knowledge was able to explain the link between religious and legal concerns to the preferred entry mode. The further the cultures are apart between MNE's and host countries, the more collaborations are entered into as an entry mode.

Client Following and Market Knowledge

Client following is a unique characteristic MNE's do to follow domestic clients into foreign markets to service their clients there. Market knowledge suggests that utilising the wholly owned mode of entry in SSA, is in line with an entry mode that is aggressive, which is seen mainly in client following foreign market entry modes (Erramilli & Rao, 1990). This is because MNE's feel comfortable to enter foreign markets as wholly owned subsidiaries through green field or acquisitions, without collaborations, unless host nation governments dictate so.

Market Seeking and Market Knowledge

In line with client following, most of the service firms (the financial institutions, FMCGs, telecommunications and construction firms) that were surveyed have unique requirements because they sometimes enter foreign markets to service non-client following customers. In as much that the service firms analysed so far mainly enter foreign markets while following their SA clients, these MNE's study the SSA market due to proximity of other neighbouring countries and as such tend to enter nearby countries utilising the market seeking entry mode. With these new markets entered, these firms would have market knowledge deficiency with these other countries and will initially commit minimal resources, and opt for less aggressive entry modes such as contracting (licensing and franchising) or JV's.

Industry led entry into SSA

Based on consistency of answers from respondents in relation to the literature, the preferred entry modes are industry specific. The construction and telecommunication firms have aggregate and adaptation opportunities to exploit, while the financial institutions are more inclined to adaptation opportunities. The main entry modes for the construction, telecommunication and financial firms being home base, wholly owned subsidiary or acquisition. Where a JV is utilised, it is for the purposes of ultimately an acquisition. The FMCG firm also has a home base entry mode, but because it was the only one interviewed it may be seen as inconclusive. All these forms of entry mode, strengthen the argument that the MNE's want to have control and power making decisions in the new entities as they enter foreign markets. Market knowledge suggests control is directly correlated to wholly owned subsidiary or acquisition.

Even though the firms try to formalise entry mode, the ‘unspoken vibe’ is more of MNEs in South Africa having an appetite of going out into SSA to go and show them how business is done.

6 CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This section focuses on concluding the findings obtained. The initial part will summarise what the researcher intended to do compared to what actually transpired. The second part will summarise the findings. This part will also address the consistency of the literature review with the research findings.

6.2 Conclusions of the study

The researcher had initially intended on listing all the countries the MNEs had entered into in SSA and what the entry mode had been, however this information could not easily be acquired from the respondents, and a general outlook was taken note of based on the answers from respondents. This information gathering problem was compounded because after years of presence in certain countries, the shareholding structure has changed and tracing how the MNE initially entered was problematic. However the researcher is of the opinion that even though the information may appear generalised, the analysis used in relation to asking the respondents different questions were the answer needed to be consistent was sufficient and credible.

Clustering the MNE's surveyed into service firms aided in having an explanation why the MNE's entry mode was chosen in terms of how knowledgeable they were with the foreign markets in SSA they ventured into. Experiential knowledge allowed the MNE's to enter a foreign market with a certain degree of involvement, hence resource commitment. The majority of firms surveyed showed signs of preference to enter SSA with *client folliwing* mode of entry. With client following, the MNE's showed signs of aggressive entry mode choice which led to the firm making acquisitions or opting for green fields wholly owned subsidiaries. The researcher is able to conclude that for MNEs entering SSA which are faced with political risk, the preferred entry mode is wholly owned. Acquisitions can also be used, except it requires huge capital injections. Green fields wholly owned subsidiaries is used because of ease of recovery of capital injected.

In the event of poor infrastructure being the obstacle, the researcher is of the opinion that a hub (especially for telecommunication and construction firms) must be utilised. This mode allows regional headquarters (hubs) to respond faster to the needs of countries in the region. Acquisitions made by a financial institution also worked well, especially because they were following their clients.

For instances of ease of profit repatriation, the researcher identified that the MNE having a controlling stake, such as wholly owned subsidiaries, acquisitions, platform and portfolio, allows MNEs to have more control and dictate on profits that can be repatriated. This finding is justified from a market know point of view, because MNE's that wish to have a controlling stake, utilise wholly owned subsidiaries of a sort. From literature, we know that wholly owned subsidiaries are associated with aggressive entry mode that is typical of MNE's that client follow.

For corruption, religious and legal concerns, the researcher could not conclusively attribute a particular entry mode, except that MNEs need to quickly localise and then employ locals to deal with government employees and processes. However, literature show that the likelihood of entry with a local partner increases with the level of corruption in the transition economies. The further the distance between cultures between MNE's and host countries, the more collaborations are entered into as an entry mode. These collaborations being in form of contractual mode, such as licensing, franchising and JV's.

A favourable entry mode to manage government bureaucracy would be to form alliances, collaborations or JVs with local entities as the MNEs enter SSA. This was supported by market knowledge, because MNE's that were surveyed indicated that they limited there resource commitment in host nations that were hostile and non-conducive to conducting business fairly. When MNE's limit there resource commitment, collaborative modes of entry are deployed.

For industry led entry modes, Ghemawat (2003) asserted that companies should have regional strategies besides their global strategies for their worldwide business, which the researcher also observed as being true. However, in line with consistency over the interview sessions, the researcher identified that in relation to literature and the MNEs' global strategies, the preferred entry mode can be split amongst industries. The construction and telecommunication firms have aggregate and adaptation opportunities to exploit, while the financial institutions are more inclined to adaptation opportunities. The main entry modes for the construction, telecommunication and financial firms are home base, wholly owned or acquisition. Where a JV has been utilised, it was for ultimately for an acquisition. The FMCG firm also has a home base entry mode, but because it was the only one interviewed it may be seen as inconclusive. Another type of entry mode emerging was 'queuing', which was evident from the FMCG, financial institutions, construction and telecommunication firms. Market knowledge supports this concept of queuing (client following), because MNE's the client follow show aggressive signs of entry mode, such as wholly owned subsidiaries.

In line with the formal entry modes identified, there appears to be an informal 'unspoken vibe' entry mode by the MNEs of, "Let's go and show them how business is done".

Based on market knowledge, MNE's tend to utilise market seeking or client following strategies as they enter SSA. Market seeking is when MNE's venture into SSA and look for new clients. This mode of entry was not very prominent among South African MNE's surveyed. Ideally becasue the market seeking entry is associated with uncertanty of the new market to be entered. The market seeking strategy called for MNE's to form collaborations as they entered SSA. Client following is when MNE's venture into SSA to service their domestic (SA) clients there. Relationships will have been built already with their clients and as such makes it easier to work with them outside of SA. This mode of entry was very prominent among South African MNE's surveyed. This is becasue client following is associated with having experiential knowledge of the foreign market, and certainty of business in the new market to be entered. The client following strategy called for MNE's to enter these foreign market rather aggressively, by utilising mainly wholly owned subsidiaries, excerpt when host governments dictated otherwise.

6.3 Recommendations

This research will provide guidance to decision makers, especially strategists in MNEs who wish to expand their operations into SSA, because they will know what entry modes have been used successfully by other MNEs and how they have analysed obstacles (formal and informal institutions) based on the industry they fall into. The strategists should just be aware of unique 'legal' requirements that may be required by each SSA country in terms of composition of shareholding. This would be in the form of BEE in South Africa or Citizenship Economic Empowerment (CEE) in Zambia, etc.

Local investors (locals of a SSA country) wishing to invest in their own country will also know and understand what the norm has been for firms that are expanding into the SSA region. They will know that if a MNE is investing in their country, they will need to be gauged and issued shareholding based on what they bring to the table, especially that the research found that MNE invest a lot of finances and resources and expect this to be evident in the shareholding structure as well as having a controlling stake. The MNE's also expect a return for their investment, preferably higher than what they achieve in South Africa.

Academics and students of international business, strategy and investment finance will be able to understand complexities that entry mode requires, and know that it may not be as straightforward as just picking one form of entry, but to conduct a detailed country risk audit. Academics need to research strategy in relation with international business more and release more papers on the subject. A shortfall encountered was that some senior employees did not fully understand some of the terminologies used and the researcher had to constantly expand on some definitions such as mandate, portfolio, etc. Consumers of this report must also be aware that the South African MNE’s surveyed in this report were service firms and the key primary explanatory variable used was market knowledge. There may be other explanatory variables available as a tool.

6.4 Suggestions for further research

There is a need to further enhance a study of this nature by conducting a quantitative analysis, because it would be more interpretive/experimental and takes the form of being more structured.

More research would also be required where academics would tackle industry specific modes of entry of a foreign market and get an in-depth understanding of how a particular industry chooses its entry modes as a standard framework.

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APPENDIX A

CONSISTENCY MATRIX

Table 4: Consistency matrix

Research problem: Analyse the entry mode strategies used by firms when conducting business in SSA region.					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
Identifying the MNE entry strategy that was utilised based on the attributes and degree of attributes (i.e. level/degree of corruption) associated with that country in the SSA region.	Porter (1979, 2011) Erramilli & Rao (1990) Porter and van der Linde (1995a; 1995b) Andersen (1997) Jones & Dimitratos, 2003; Zou & Stan (1998) Coviello & McAuley, 1999; Hoskissons *et al*., (2000) Fillis, (2001) Osland et al., (2001) Ghemawat (2001; 2003; 2007) Peng (2001; 2003) Ricart *et al*., (2004) Rialp *et al.,* (2005), Ichii, Hattori and Michael (2012)	Of the South African MNE's that have ventured into SSA, what is the preferred mode of entry strategy been?	Actual semi-structured interview and company documents such as from stock exchange, AFS, press articles	Categorical data and research is a qualitative	Data Reduction Data Display Conclusion drawing/verification

APPENDIX B

Letter to Respondents and Interview Questions

Dear Respondent,

I am completing an MBA at The University of Witwatersrand, Johannesburg (Wits). My MBA thesis is on the preferred entry mode strategies used by firms when conducting business in Sub-Sahara Africa region. Towards gathering data on this subject, I would be grateful if I could arrange a 1 hour (or less) interview with you (or other person you may feel is more appropriate to the subject) to understand how prohibitive business conditions in Sub-Sahara Africa influence strategic entry mode decisions made by [respondent's company]. I understand you are extremely busy and your agreement to contribute to my research is greatly appreciated.

The interview will not involve questions on your detailed strategic plans for the future, focusing more on the general manner in which strategy is conducted in the company.
Confidentiality will be observed throughout the thesis process and the final report will be for academic purposes only.

I will be available to meet with you at a location and time of your convenience.

Thank you for your kind assistance.
Yours sincerely,

Victor Chimfwembe
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NB: I would appreciate if you could suggest someone in your organisation who you may feel has the information I may require. The person needs to be

someone very senior in Business Development, Strategy, the MD or the CEO. I will be asking questions regarding all countries in sub Saharan-African region that your organisation has a footprint in.

Actual Research Instrument

Interview Questions

Sub-Sahara Africa region is marred by a lot of prohibitive business conditions such as poor infrastructure, limited skills, corruption, poverty, war, inflation, poor legal systems, etc yet it is still lucrative, hence businesses continue to venture into SSA.

1. What event (s) led to [respondent's company] to consider venturing into Sub-Sahara Africa?
2. From literature, I have taken note that [respondent's company] has ventured into [*x* number of countries within SSA]. Please confirm number?
3. How difficult was it to get [respondent's company] set up in Sub-Sahara region generally?
4. Which country was the most difficult to enter and what were the obstacles? How rampant are these obstacles and how did they affect [respondent's company] financial performance in the early days? How did you deal with these obstacles? Do you base your entry strategy based on these obstacles?
5. How do these obstacles affect [respondent's company] nowadays after having been there for (x years)?
6. From literature I know that MNE's have several entry mode options to consider when entering a foreign country (main five being home base, portfolio, platform, hub or mandate. However we also know of regional strategies utilized by MNE's which are licensing, franchising, joint venture, alliance, wholly owned or acquisition), what strategies has [respondent's company] used when entering SSA? You can give me country-by-country or do you have documents that I can go through at my own time?
7. [Depending on answer to 6] Literature shows (for example "mandate" is

associated with arbitrage) is there any reason why [respondent's company] used [answer to question 6] to enter [country x]

8. Of the four types of international strategies, which one would you associate your firm with? If not one, which combination? These are international strategy, localisation strategy, global strategy or transnational strategy.
9. Does [respondent's company] have a standard entry mode when venturing into SSA or [respondent's company] considers country-by-country how to enter?
10. How does [respondent's company] deal with differing cultural differences in SSA? And how much does [respondent's company] deal with local conditions requirements (local conditions ranging from product/service offered and local management requirements)?
11. How helpful are the governments and the structures set up in SSA? Is [respondent's company] experience that SSA governments have put substantial policy to aid MNE's conduct business in a predictable, stable and conducive? What draw backs can you sight?
12. How does regional integration of countries (such as SADC, ECOWAS, etc) affect [respondent's company] decision when considering the entry strategy?
13. What would you like to see governments in SSA do for future business improvements, especially for new entrants into their countries?
14. How do you strike a balance between control, resource commitment and technology risk when you make an entry decision in foreign markets (SSA)? By control, I mean the control you want to achieve in the entity in the new market (to give you decision making powers). Resource commitment is the managerial and financial resources you put towards the country you want to venture into. Technology risk is the fear of losing intellectual technology/property to competition or to companies you collaborate with in SSA.
15. Please explain the degree to which this resource commitment is specific to that particular market (SSA region)? You can use high, medium or low.
16. What is your view of the perceived risk and uncertainty your firm has of

SSA countries before entering them?

17. How knowledgeable (especially experiential knowledge) are you about the markets that you enter in SSA?
18. Do you follow your local domestic (SA) clients into SSA to service their clients there or you create new markets when expanding into SSA?

APPENDIX C

SUMMARISED RESPONSES FROM RESPONDENTS

Question 1 results

- ✓ What event (s) led to [respondent's company] to consider venturing into Sub-Sahara Africa?

All firms indicated that venturing into SSA region was for sustained growth potential, expansion and commercial reasons. Opportunities are present in SSA.

Question 2 results

- ✓ From literature, I have taken note that [respondent's company] has ventured into [x number of countries within SSA]. Please confirm number?

This question was designed to show how many countries within SSA the MNE has ventured into. This information could also be verified against publicly available data, such as using McGregor BFA.

Question 3 results

- ✓ How difficult was it to get [respondent's company] set up in Sub-Sahara region generally?

All respondents except the financial institutions indicated that poor infrastructure was their biggest concern. The FMCG, construction and telecommunications firms indicated that logistics was their concern also besides poor infrastructure, sighting bad roads. The financial institutions and telecommunications firms indicated that regulatory requirements are also a challenge due to the type of industry they are involved with, which is a regulated industry. This is marred by red tape as the MNE's make an effort to comply with country specific regulations. Corruption, ignorance, political instability and lack of trust worthiness by the locals, were evident from respondents.

Question 4 results

- ✓ Which country was the most difficult to enter and what were the obstacles? How rampant are these obstacles and how did they affect [respondent's company] financial performance in the early days? How did you deal with these obstacles? Do you base your entry strategy based on these obstacles?

The telecommunications firms interviewed indicated that DRC was the most difficult of the countries entered. This was sighted as being due to poor infrastructure, especially roads and electricity supply inconsistency. The FMCG's firm indicated Zimbabwe as the most difficult based on what was seen as political misalignment and poor logistical support coupled with financial restriction on profit repatriation. Construction firm x and both financial institutions indicated that they could not single any particular country as being particularly difficult to enter, even though construction firm y, sited Angola as having high corruption. Chad and Kenya were also seen as high corruption by same construction firm. Nigeria was also cited by the telecommunications firms and construction firm y as high corruption, such that a telecommunications firm x has decided not to venture into Nigeria. The other telecommunications firm y has entered due to the higher returns compared to the high risk associated with it. Construction firm y, referred to Nigeria's corruption as being more 'parasitic', which was alluded to high population by the respondent. The telecommunications and construction companies seem to base their entry strategy based on obstacles encountered, while the effect was not the same for FMCG and financial institutions. The construction firms have unique requirements because they usually follow key private clients into SSA, and unless they are dealing with governments (public) directly, do they risk audit the country to be entered.

Question 5 results

- ✓ How do these obstacles affect [respondent's company] nowadays after having been there for (x years)?

All firms interviewed learnt how to deal with obstacles with time. However, the FMCG's firm was more concerned about brand erosion.

Question 6 results

- ✓ From literature I know that MNE's have several entry mode options to consider when entering a foreign country (main five being home base, portfolio, platform, hub or mandate. However we also know of regional strategies utilized by MNE's which are licensing, franchising, joint venture, alliance, wholly owned or acquisition), what strategies has [respondent's company] used when entering SSA? You can give me country-by-country or do you have documents that I can go through at my own time?

With the exception of a FMCG's firm whose model was to franchise and get local buyers paying royalties, the underlining theme was that all firms want to retain controlling stakes as they enter SSA while adopting the home base model, with acquisitions in most cases or what was referred to as a 'purpose vehicle'. A construction firm y indicated that it is not particular about having controlling stake in the new entity formed in that particular SSA country. In unspoken words all firms interviewed seem to venture into SSA with the thinking that, "Let us go and show them how business is done." The researcher observed during the interviews, that having a controlling stake is justified because these MNE’s invest a lot of resources and finances to venture into SSA.

Question 7 results

- ✓ [Depending on the last answer] Literature shows (for example “mandate” is associated with arbitrage). Is there any reason why [respondent’s company] used [answer to last question] to enter [country x]?

The theme that emerges from the respondents is that each industry has specific needs and requirements and all MNE's have a specific need to meet their unique requirements. Construction firm x used arbitrage where they could, while the second construction firm y, utilised all forms of entry modes depending on situation. The FMCG firm utilised a mixture of the international (home base) and localisation (adaptation) strategy. The financial and telecommunications industry being in a sector that is a highly regulated industry and offering more of an intangible service as opposed to product, are more concerned about control and quality. They concentrate on showing locals how business is done and initially utilise external expertise, until locals can be trained to take over.

Question 8 results

- ✓ Of the four types of international strategies, which one would you associate your firm with? If not one, what combination? These are international strategy, localisation strategy, global strategy or transnational strategy.

Based on the response to this question and other questions during the interview process, the theme emerging is that all firms use the localisation strategy. However, in combination to the localisation strategy, some firms use the global strategy while others use the international strategy.

Question 9 results

- ✓ Does [respondent's company] have a standard entry mode when venturing into SSA or [respondent's company] considers country-by-country how to enter?

Regulatory compliance in country to be entered appeared paramount from all respondents. However each firm had its own considerations. The construction firms utilises a purpose vehicle, while complying with the local countries requirements. The FMCG firm follows a property developer. A telecommunications firm x aims to localise as much as possible and forming collaborations, while another telecommunications firm y, just considers country by country. Of the two financial institutions interviewed, financial institution x first tests the local area with representatives gathering intelligence prior to entry, while financial institution y considers more political stability and the local countries market cap for the sector as drivers of entry mode.

Question 10 results

- ✓ How does [respondent's company] deal with differing cultural differences in SSA? And how much does [respondent's company] deal with local conditions requirements (local conditions ranging from product/service offered and local management requirements)?

All respondents pay particular attention to local culture. A construction firm y indicated they go the extra mile to satisfy indigenous requirements by virtue of the type of business they are in, construction. Financial institutions and telecommunications firms aim at getting local management in place after being trained by head office expertise, especially because the local senior employees can sometimes have powerful political connections which is seen to assist with the seamless running of the businesses. FMCG, Financial institutions and telecommunications firms aim to localise their product or service offering.

Question 11 results

- ✓ How helpful are the governments and the structures set up in SSA? Is [respondent's company] experience that SSA governments have put substantial policy to aid MNE's conduct business in a predictable, stable and conducive? What draw backs can you sight?

Governments are attempting to do right and helping MNE's, but their efforts are not being felt as sufficient by MNE's. The governments are seeing the tax benefits they get from MNE's, which can be used to foster development in other areas, and the MNE's get the profits for expansion. Due to unsophisticated banking and telecommunications systems, SSA countries struggle to get local systems to suit South Africans standards, and this acts as an impediment to effective running of MNE's in SSA. A construction firm y, had a bad experience in Angola while dealing with government, while the financial institutions and the FMCG's feel the red tape is still evident coupled with government bureaucracy especially were the issuing of licences is concerned. Substantial policy has not been achieved by majority of SSA countries for the MNE's to conduct business in a predictable, stable and conducive environment.

Question 12 results

- ✓ How does regional integration of countries (such as SADC, ECOWAS, etc) affect [respondent's company] decision when considering the entry strategy?

There appears to be a mutual benefit between MNE's and Governments. Although the MNE's that mainly benefit are the ones who move goods across borders, even though some challenges are still present even with treaties in place. Only the financial institutions did not have direct benefits from regional integration/treaties, and as such specific financial treaties for SADC are required for financial institutions to feel the benefit. This industry specific treaty is about to be implemented. There seems to be a "logistical advantage" for telecommunications MNE’s to consider due to the regional treaties. Retention of profits made by MNE within SSA is still a concern for MNE's because governments are not very keen on externalisation (repatriation) of funds made in most SSA countries. Construction firms benefit from trade, tax and regulation protection that South Africa government offers by being a member of regional treaties. Regional integration alone does not affect all respondents decision when considering entry into SSA.

Question 13 results

- ✓ What would you like to see governments in SSA do for future business improvements, especially for new entrants into their countries?

MNE's indicate a substantial level of frustration due to SSA government’s red tape, and don't feel governments incentivise substantially the MNE's conducting business in the host countries. Corruption has also been seen as a major structural problem governments should tackle. Red tape and corruption seem related. Ease of movement of cash in and out of host SSA countries needs to be addressed. Generally, some MNE's indicated similar improvements they would like to see in SSA countries, but all MNE's seem to have industry specific requests that would ease their operations in SSA countries.

Additional questions asked:

Question 14 results

- ✓ How do you strike a balance between control, resource commitment and technology risk when you make an entry decision in foreign markets (SSA)? By control, I mean the control you want to achieve in the entity in the new market (to give you decision making powers). Resource commitment is the managerial and financial resources you put towards the country you want to venture into. Technology risk is the fear of losing intellectual technology/property to competition or to companies you collaborate with in SSA.

IP generally is not at risk from the surveyed companies, and as such technology risk is rather non-salient. The firms surveyed rather tend to conduct country specific risk assessments to strike a balance between resource commitment and control. They like leveraging on the local partners resources. Commit fewer resources as opposed to risk assessed, but are willing to form JV's with capable local partners. Initially prefer to have the control, even though later local management is appointed, but not in share-holding of the new entity.

Question 15 results

- ✓ Please explain the degree to which this resource commitment is specific to that particular market (SSA region)? You can use high, medium or low.

Many factors are involved in influencing the degree to which resource commitment is applied to a particular country in SSA. Each country has unique requirements. Language, law, currency, human resource, social issues and logistics are always unique.

Question 16 results

- ✓ What is your view of the perceived risk and uncertainty your firm has of SSA countries before entering them?

Construction and telecommunications firms have a higher perceived risk and uncertainty when entering SSA compared to FMCG and financial institutions.

Question 17 results

- ✓ How knowledgeable (especially experiential knowledge) are you about the markets that you enter in SSA?

All firms surveyed showed they had gained experiential knowledge through having dealt with SSA for a while. They cited in-house resources which have valuable insights into the operation of those SSA countries.

Question 18 results

- ✓ Do you follow your local domestic (SA) clients into SSA to service their clients there or you create new markets when expanding into SSA?

Construction and telecommunications firms follow clients into SSA, but they are also attracted to by new markets because they have a brand image. FMCG follows it's known developer, and does not pay much attention to developing its new markets because its in the franchising business. The financial institutions follow their clients. One financial institution boosted of having created a huge brand over so many years, and said, "We have been in SSA for a very long time, so in most cases the business from South Africa follows us."