

CRITICAL SUCCESS FACTORS FOR SOUTH AFRICAN FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA

Murray Sanderson

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ABSTRACT

South African corporations, post the first democratic elections in 1994, had excess capital which had been accumulated during the Apartheid years. In a global context, these companies were relatively weak, but in Africa they found a region in which they enjoyed comparative advantage. Almost every sector of the South African economy is currently represented in other African countries (Daniel et al. 2003).

The purpose of this study was to explore the factors which South African corporations consider to be critical for successful Foreign Direct Investment (FDI) in Sub-Saharan Africa (SSA). In the process other less critical, but important factors were highlighted.

In depth interviews were conducted with six executives who had extensive experience in the field of FDI in SSA. Each of these interviews can be regarded as a mini case study. The respondents were sourced from companies in six industries, namely Beverages, Packaging, Financial Services, Construction, Tourism and Telecommunications.

The methodological paradigm of this research was primarily qualitative, as the research was of an exploratory nature. The rationale for adopting this approach was that the nature of the research was to explore and understand the factors which South African corporations considered to be critical for successful FDI, rather than to confirm pre-determined factors. In this way, attention was focussed on the experiences and perceptions of participants. The methodology was grounded in the assumption that people make sense of their experiences and create their own realities in the process (Locke et al.1993).

The Critical Success Factor (CSF) interview technique was used to extract factors considered to be critical for successful FDI. The executives focussed on listing those factors considered to be most important for the attainment of FDI goals.

The research into these CSFs was structured into three main categories, namely: Selection Criteria, Establishment and On-Going Management.

The CSFs identified for each on these categories are listed below:

Selection Criteria for FDI

Ease of communication; Availability of skilled labour and raw materials; Prior country experience; Political stability; Employee safety; Regulatory certainty; Sensitivity to local cultures, customs and practises; Adequacy of infrastructure; Size of the local market and potential for future growth; Presence of an existing customer in the market; Timing of entry into the market; Market segmentation and research; Degree of product customisation; Brand awareness; Climatic conditions; Risk / Return trade off; Financing structure; Working Capital investment and Pricing structure.

Establishment of FDI

Greenfield versus Merger / Acquisition; Ownership structure; Local equity partner selection; South African Reserve Bank approval; Location of the operation; Local partner assistance and mix of staff – local versus expatriate.

On-Going Management of FDI

Regular risk reviews; Insurance; Back-up systems; Financial Controls; Support from the South African parent company; Mix of local and expatriate employees; Positive attitude; Communication of key performance indicators and provision of incentives.

The research concluded with recommended actions in the form of a checklist for successful FDI (refer to section 6.2). Therefore, this report can be used both in the context of future research, and as a practical guide to ensure the success of FDI in SSA by South African companies.

DECLARATION

I, Murray Saunderson, 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.

Murray Saunderson

Signed at

On the day of 2009

DEDICATION

I dedicate this work to my wife Fiona, my daughter Tara and to my son Garth.

ACKNOWLEDGEMENTS

I thank Andrew Maggs whose input and guidance helped me to devise the structure of the research, and identify suitable interview candidates.

I thank the six corporate executives who gave generously of their time, and provided valuable insights without which the research would not have been possible.

I thank my supervisor, Mark Peters, for his assistance and guidance throughout the process.

I thank my father, Derek, for his assistance with final review and document preparation.

Finally, and most importantly, I thank my wife Fiona for her constant support.

TABLE OF CONTENTS

ABSTRACT	II
DECLARATION.....	IV
DEDICATION	V
ACKNOWLEDGEMENTS.....	VI
LIST OF TABLES.....	4
LIST OF FIGURES	5
CHAPTER 1: INTRODUCTION	6
1.1 PURPOSE OF THE STUDY	7
1.2 CONTEXT OF THE STUDY.....	7
1.3 PROBLEM STATEMENT	8
1.3.1 MAIN PROBLEM	8
1.3.2 SUB-PROBLEMS	8
1.4 SIGNIFICANCE OF THE STUDY	8
1.5 DELIMITATIONS AND LIMITATIONS.....	9
1.5.1 DELIMITATIONS	9
1.5.2 LIMITATIONS.....	10
1.6 ABBREVIATIONS AND DEFINITIONS	10
1.6.1 ABBREVIATIONS	10
1.6.2 DEFINITIONS	11
1.7 ASSUMPTIONS	14
CHAPTER 2: LITERATURE REVIEW	15
2.1 INTRODUCTION	15
2.2 TOPIC BACKGROUND.....	15
2.3 FIRST SUB- PROBLEM: FDI SELECTION CRITERIA	20
2.3.1 COUNTRY SELECTION CRITERIA.....	25
2.3.2 MARKET SELECTION CRITERIA.....	26
2.3.3 PRODUCT SELECTION CRITERIA.....	27
2.3.4 CALCULATION AND ASSESSMENT OF THE FINANCIAL RETURNS FOR FDI	28
2.3.5 CONCLUSION OF THE FIRST SUB-PROBLEM LITERATURE REVIEW.....	28
2.4 SECOND SUB-PROBLEM: FDI ESTABLISHMENT.....	29
2.4.1 TYPES OF ENTRY MODES	32

2.4.2	CULTURAL ISSUES	33
2.4.3	CONCLUSION OF THE SECOND SUB-PROBLEM LITERATURE REVIEW	34
2.5	THIRD SUB-PROBLEM: MANAGEMENT OF FDI.....	35
2.5.1	RISK MITIGATION.....	36
2.5.2	MANAGEMENT PRACTICES	37
2.5.3	LOCAL PARTNERSHIPS	38
2.5.4	CONCLUSION OF THE THIRD SUB-PROBLEM LITERATURE REVIEW	38
2.6	CONCLUSION OF LITERATURE REVIEW	39
2.7	RESEARCH QUESTIONS	40
2.7.1	RESEARCH QUESTION 1: WHAT FACTORS DO SOUTH AFRICAN COMPANIES CONSIDER CRITICAL IN THE PROCESS TO SELECT FDI?	40
2.7.2	RESEARCH QUESTION 2: WHAT FACTORS DO SOUTH AFRICAN COMPANIES CONSIDER CRITICAL FOR THE ESTABLISHMENT OF THE FDI IN THE HOST COUNTRY?	40
2.7.3	RESEARCH QUESTION 3: WHAT FACTORS DO SOUTH AFRICAN COMPANIES CONSIDER CRITICAL FOR THE ON-GOING MANAGEMENT OF THE FDI?	40

CHAPTER 3: RESEARCH METHODOLOGY 41

3.1	RESEARCH METHODOLOGY /PARADIGM	41
3.2	RESEARCH DESIGN	42
3.3	POPULATION AND SAMPLE.....	45
3.3.1	POPULATION	45
3.3.2	SAMPLE AND SAMPLING METHOD	46
3.4	PROCEDURE FOR DATA COLLECTION	47
3.5	DATA ANALYSIS AND INTERPRETATION	47
3.6	VALIDITY AND RELIABILITY	47
3.6.1	VALIDITY	47
3.6.2	RELIABILITY	48

CHAPTER 4: PRESENTATION OF RESULTS 49

4.1	INTRODUCTION	49
4.2	DEMOGRAPHIC PROFILE OF RESPONDENTS	49
4.3	RESULTS PERTAINING TO RESEARCH QUESTION 1 – CSFs FOR FDI SELECTION CRITERIA	51
4.3.1	HOST COUNTRY	51
4.3.2	MARKET.....	56
4.3.3	PRODUCT	60
4.3.4	FINANCIAL RETURNS.....	63
4.4	RESULTS PERTAINING TO RESEARCH QUESTION 2 – CSFs FOR THE ESTABLISHMENT FDI	67
4.4.1	SUMMARY OF MODES OF ENTRY USED BY RESPONDENTS.....	67
4.4.2	CSFs FOR THE SELECTION OF THE MODE OF ENTRY FOR FDI	69
4.4.3	OTHER CSFs FOR FDI ESTABLISHMENT	72
4.5	RESULTS PERTAINING TO RESEARCH QUESTION 3 – CSFs FOR THE ON-GOING MANAGEMENT OF FDI.....	75
4.5.1	RISK MITIGATION.....	75
4.5.2	ON-GOING MANAGEMENT	79
4.6	OTHER CSFs FOR FDI.....	83
4.7	SUMMARY OF THE RESULTS	85

CHAPTER 5: DISCUSSION OF THE RESULTS.....97

5.1	INTRODUCTION	97
5.2	DEMOGRAPHIC PROFILE OF RESPONDENTS	97
5.3	CRITICAL SUCCESS FACTORS - HOST COUNTRY.....	98
5.4	CRITICAL SUCCESS FACTORS – MARKET	101
5.5	CRITICAL SUCCESS FACTORS - PRODUCT	102
5.6	CRITICAL SUCCESS FACTORS – FINANCIAL RETURNS	104
5.7	CRITICAL SUCCESS FACTORS – MODE OF ENTRY	106
5.8	CRITICAL SUCCESS FACTORS – FDI ESTABLISHMENT	108
5.9	CRITICAL SUCCESS FACTORS – RISK MITIGATION.....	110
5.10	CRITICAL SUCCESS FACTORS – ON-GOING MANAGEMENT	111

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS.....114

6.1	INTRODUCTION	114
6.2	CHECKLIST FOR SUCCESSFUL FDI.....	114
6.3	SUGGESTIONS FOR FURTHER RESEARCH	128

REFERENCES 129

APPENDIX A: RESEARCH APPROVAL LETTER 133

APPENDIX B: QUESTIONNAIRE 134

APPENDIX C: CONSISTENCY MATRIX.....140

LIST OF TABLES

Table 1: Measures of determination, relevance and adequacy for location factors	22
Table 2: Measures of determination, relevance and adequacy for ownership factors	23
Table 3: Measures of determination, relevance and adequacy of internalization factors	24
Table 4: List of Proposed Respondent Companies	46

LIST OF FIGURES

Figure 1: Proportion of companies with FDI in different regions, 2006.....	16
Figure 2: Investment preferences by host region, 2006 and 2007 – 2009	17
Figure 3: Most attractive economies for the location of FDI, 2007 - 2009	18
Figure 4: Factors attracting FDI in SSA, 2007 - 2009.....	19
Figure 5: Demand for FDI information on Sub-Saharan Africa, by Region.....	20
Figure 6: Model of determinant factors in the key decisions of the internationalization process.....	21
Figure 7: Anshoff's Product-Market Expansion grid	27
Figure 8: Key characteristics of modal alternatives	31
Figure 9: Types of Entry Modes	32
Figure 10: AT Kearney FDI Index (2005)	37
Figure 11: Proposed Research Process	43
Figure 12: Countries and Operations surveyed.....	51
Figure 13: Greenfield versus M&A	67
Figure 14: Ownership Structure	67
Figure 15: Joint Venture Type	68
Figure 16: Level of equity held by SA Parent	68

CHAPTER 1: INTRODUCTION

According to the Multilateral Insurance Guarantee Agency (MIGA - a member of the World Bank Group) 2007 annual report, whilst SSA accounts for 10 percent of global population, it is home to 30 percent of the World's poor. The same report also emphasizes strong growth and improved macro-economic performance as evidenced by Gross Domestic Product (GDP) growth of 5.6 percent in 2006 for the region as a whole, which has surpassed the 5 percent target for the third consecutive year in a row. The improvement in GDP has been accompanied by increased levels of Foreign Direct Investment (FDI) from \$13.8 billion in 2005 to \$18.5 billion in 2006. South Africa has been a leading investor country in the region for many years, and there is potential for additional intra-regional investment. MIGA have tempered these findings with the following statement: "When it comes to increasing FDI, sub-Saharan Africa continues to be perceived as a high-risk, high-cost place to do business. For investors, the need to mitigate political risks, real and perceived is great" (MIGA 2007).

Based on a survey published in the Financial Times, Fortune and Forbes, the Financial Mail reported that the most successful South African global companies were those that had made FDI in emerging markets [for example SSA], where they have used experience gained in South Africa to good effect. MTN, SABMiller and Sasol were cited as outstanding examples (Lünsche 2007).

Recent examples of FDI into SSA by South African corporations are Nampak and Barloworld. Nampak have committed R600million to build a beverage can manufacturing facility in Angola. Nampak CE, John Bortolan motivated this decision as being part of the company's African strategy to invest in high growth areas and partner customers in new territories. The investment will also free up capacity in South Africa which can be used to meet growing local demand (Mokopanele 2007). Barloworld CE, Clive Thomson, announced that the group was set to commit R250million in various African countries over the next two years in order to optimise on robust growth (Roux 2007).

According to Beckett and Sudarkasa: “Africa is arguably the last continent where first mover advantages in terms of building brand recognition, introducing technological innovations, and creating market leading standards still exist” (Beckett and Sudarkasa 2000).

From the above it is evident that FDI into SSA represents a source of future growth for South African corporations, but this needs to be achieved by carefully formulated strategies in order to ensure successful implementation and mitigate the inherently high risks.

1.1 Purpose of the study

The purpose of this study is to explore the factors which South African corporations consider to be critical for successful FDI in SSA. In the process other less critical, but important factors will also be highlighted.

1.2 Context of the study

South African corporations, post the first democratic elections in 1994, had excess capital which had been accumulated during the Apartheid years. In a global context, these companies were relatively weak, but in Africa they found a region in which they enjoyed comparative advantage. Almost every sector of the South African economy is currently represented in other African countries (Daniel et al. 2003). This research will focus on the South African FDI in SSA from 1994 to date, and builds on previous research on the topic at the University of the Witwatersrand (Mwangi 1995; Arnold 1998; Bosa 2002; Charalambous 2006).

The research will be performed from the perspective of South African corporations which have previously embarked on FDI into SSA, and hence tap into their experiences.

1.3 Problem statement

1.3.1 *Main problem*

This research will explore the factors which South African corporations consider to be critical for successful FDI in SSA. This includes identifying the criteria used to select the investment and the establishment of the foreign operation. Management competencies, and risk mitigation strategies, to ensure the sustained success of the investment will also be examined.

1.3.2 *Sub-problems*

1. Identify the critical success factors for selection of the investment.
2. Identify the critical success factors for the establishment of the operation in the host country.
3. Examine the critical management competencies and risk mitigation strategies required to ensure the sustained success of the investment.

1.4 Significance of the study

This research is intended to provide a checklist for success against which potential future FDI into SSA by South African corporations can be evaluated. This will be achieved by updating and building upon prior research undertaken at the University of the Witwatersrand. Prior research reports on this topic have focussed mainly upon the motivating factors for FDI in SSA, whereas this research will also examine management competencies required to ensure enduring success.

The results of this study may be used as material for further research on the topic. As six industries will be surveyed, CSFs will be provided in the context of each industry, and CSFs considered to be generally applicable will be summarised. Therefore, this study may facilitate further research into each of the six industries or in general.

The checklist can be used as a practical guide by managers involved in the following stages of the FDI process:

1. As part of the process of due diligence to assess viability and make the investment decision;
2. In the establishment phase in order to set up the foreign operation and select an appropriate mode of entry; and
3. In order to successfully manage the FDI post establishment and mitigate risks.

1.5 Delimitations and limitations

1.5.1 *Delimitations*

South African corporations, for the purposes of this research, are considered to be companies originally registered and founded in the Republic of South Africa. Multinational companies (MNC's) which have branches or subsidiaries in South Africa, but which were not originally founded in South Africa, are excluded from scope. The reason for this is to isolate cultural and managerial operating factors unique to South African corporations, which provide potential comparative advantages over their MNC counterparts.

The research is intended to have general applicability to a wide range of South African companies, but in order to create some homogeneity the population will be restricted to companies that embark on FDI in order to supply goods and services to markets located in SSA. Therefore, this will exclude companies that embark on the FDI for purposes of extracting natural resources to be primarily supplied outside of SSA (such as mining companies and oil and gas companies). This research aims to develop the understanding of South African companies operating in SSA markets, which is the main reason why companies which do not supply goods and services into SSA have been excluded from the scope of the research. Furthermore, the operating challenges faced by mining, oil and gas companies are distinctly different to other companies. For example,

special mineral rights are required and the investment is exposed to the risk of international commodity price fluctuation.

Only FDI in host countries based in SSA will be considered, as these countries have traditionally been targeted by South African corporations and hence there is much data available for analysis. North African countries tend to present different challenges and FDI has been dominated by European countries with cultural links and the added advantage of geographical proximity.

1.5.2 Limitations

The methodological paradigm of this research is primarily qualitative, as the research is of an exploratory nature. The research will be based on a series of semi-structured interviews with key decision makers in South African companies which have previously embarked on FDI in SSA. This approach is supported by Cresswell who advocates that a qualitative approach is one in which “The researcher collects open-ended, emerging data with the primary intent of developing themes from the data” (Cresswell 2003).

It is acknowledged that the paradigm exposes the research to elements of subjectivity, but it will allow for innovation and researcher designed frameworks (Cresswell 2003).

Statistical inference will not be possible based on the results of this research.

1.6 Abbreviations and Definitions

1.6.1 Abbreviations

ANC	African National Congress
BO	Branch Operations
CSF	Critical Success Factor
FDI	Foreign Direct Investment

J V	Joint Venture
LP	Local Equity Partner
MIGA	Multilateral Investment Guarantee Agency
MNC	Multi-National Corporation
OLI	Ownership, Location and Internalisation factors
SA	South Africa
SSA	Sub-Saharan Africa
TNC	Trans-National Corporation
TMT	Top Management Team
UNCTAD	United Nations Conference on Trade and Development
WACC	Weighted Average Cost of Capital
WOS	Wholly owned subsidiary

1.6.2 Definitions

Branch Operations (BO)

BO's are an extension of the South African parent company's operations in SSA, without the formation of a separate company in the host country. The BO must be an arm of the operations of the parent company and not just an administrative or sales office.

Critical Success Factors (CSF)

Rockart and Bullen (1981) used the CSF interview technique to determine management information requirements in consulting assignments.

Rockart and Bullen defined CSFs as:

The limited number of areas in which satisfactory results will ensure successful competitive performance for the individual, department or organization. CSFs are the few key areas where “things must go right” for the business to flourish and for the manager’s goals to be attained.

The CSF method, according to Rockart and Bullen, can be used in the context of interviews with management to assist them to “explicitly focus attention on what is really important”.

CSFs, for the purposes of this research are defined as the set of conditions, tasks and attributes which are critical to the attainment of the organisation’s FDI goals. CSFs will be explored under three sections:

1. The initial decision to embark on FDI;
2. The establishment of the operation in the host country; and
3. The on-going management of the operation.

Foreign Direct Investment (FDI)

“FDI occurs when a firm invests directly in facilities to produce and/or market a product in another country” (Hill 2003b). For purposes of this research FDI will include the establishment of a new operation in a foreign country (referred to as a Greenfield investment) or the acquisition of, or merger with, an existing firm in the host country. Joint ventures are included in the definition, but equity investments of less than ten percent or licensing agreements are excluded. Branch Operations (BO) are regarded as FDI, where these are an extension of the investor company’s operations and not merely administrative or sales offices.

Host Country

The country into which the South African parent company has invested will be referred to as the host country.

Joint Ventures (JV)

JV's are SSA companies in which the South African parent company holds less than 100% , but more than 10%, of the equity / ordinary voting share capital of the FDI. Other investors in the equity of the FDI may be MNC's, other companies registered in the host country, host country citizens or a combination of these.

Local Equity Partner

Either a host country registered company or a host country citizen who holds an interest in the equity / ordinary voting share capital of the FDI.

Mode of Entry

Two main modes of entry for FDI will be considered for the purposes of this research, namely merger with/ acquisition of a company or the establishment of a new company (Greenfield Investment). The FDI can be further classified into Wholly Owned Subsidiaries (WOS), Joint Ventures (JV) or Branch Operations (BO).

Sub-Saharan Africa (SSA)

The following 48 countries are included in the definition of SSA:

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo (Democratic Republic), Côte d'Ivoire (Ivory Coast), Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe (WorldBank 2007a).

Wholly Owned Subsidiaries (WOS)

WOS's are SSA companies in which the South African parent company holds 100% of the equity / ordinary voting share capital of the FDI.

1.7 Assumptions

This research is premised upon the following key assumptions:

- Economic growth in SSA is likely to continue for the foreseeable future, despite the current economic crisis.
- South African companies will continue to regard SSA as a suitable avenue for FDI.
- The investment selection criteria, establishment of the operation in the host country and on-going management are critical for successful FDI.
- Past experiences of South African companies in FDI in SSA can be used for the benefit of future investments.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The purpose of this literature review is to identify documented potential critical success factors for FDI in SSA, which can then be corroborated and combined with factors identified during semi-structured interviews with South African corporations. This process will provide a checklist of critical success factors and other important considerations, which can be used as a reference source for potential future FDI and research.

Academic journals, previous research reports, text books, websites, magazines and newspapers will be reviewed in order to gain a broad, and up to date, perspective on the issues.

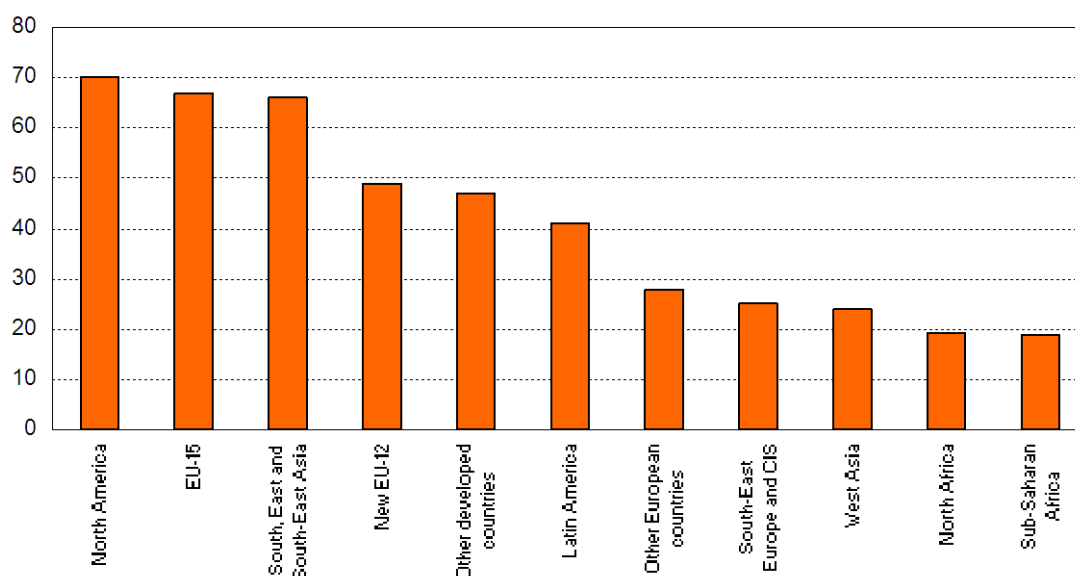
Common trends and themes will be identified and these will be used to formulate a questionnaire for the interview process.

2.2 Topic Background

The UNCTAD (United Nations Conference on Trade and Development) “World Investment Prospects Survey 2007 – 2009” revealed that the focus for most Trans-National Corporations (TNC’s) for FDI is likely to be South, East and South East Asia and the new EU 12 countries. West Asia and Africa were given the lowest preference ratings (UNCTAD 2007).

The UNCTAD survey, which examines future trends in FDI, is based on the responses of 191 TNC’s. The survey validity was subjected to review by 14 location experts (consultants, academics and members of investment promotion agencies), and was found to be statistically representative (UNCTAD 2007).

The preference in regional FDI for 2006 is depicted in Figure 1 below.



Source: UNCTAD "World Investment Prospects Survey 2007 – 2009"

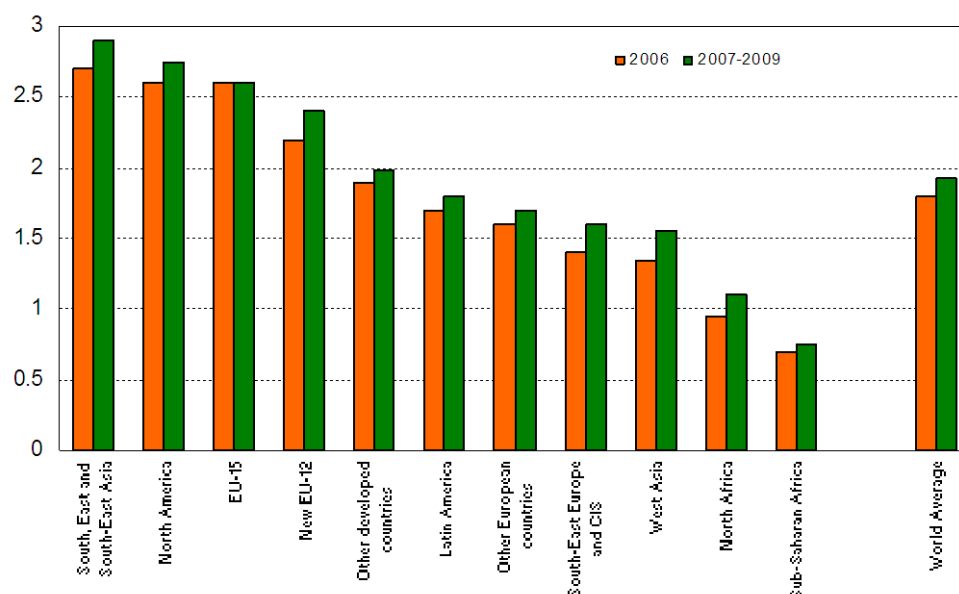
Note: this graph depicts the percentage of respondents with FDI in the various regions

Figure 1: Proportion of companies with FDI in different regions, 2006

Based on the percentage of respondents with FDI in the different regions, SSA is forecast to be at the bottom of the list for the 2007 to 2009 period. This is perhaps a reflection of continued risk aversion by international investors in the region.

This report also makes the point that there is a high concentration of TNC's in their home region. This would be the result of cross border investment (Canada and the United states are an example of this). Whilst not specifically mentioned in the report, the same principle could be extended to South African FDI in SSA.

Figure 2 below shows that while SSA will still remain at the bottom of the list for FDI, the level of interest is forecast to increase.



Source: UNCTAD "World Investment Prospects Survey 2007 – 2009"

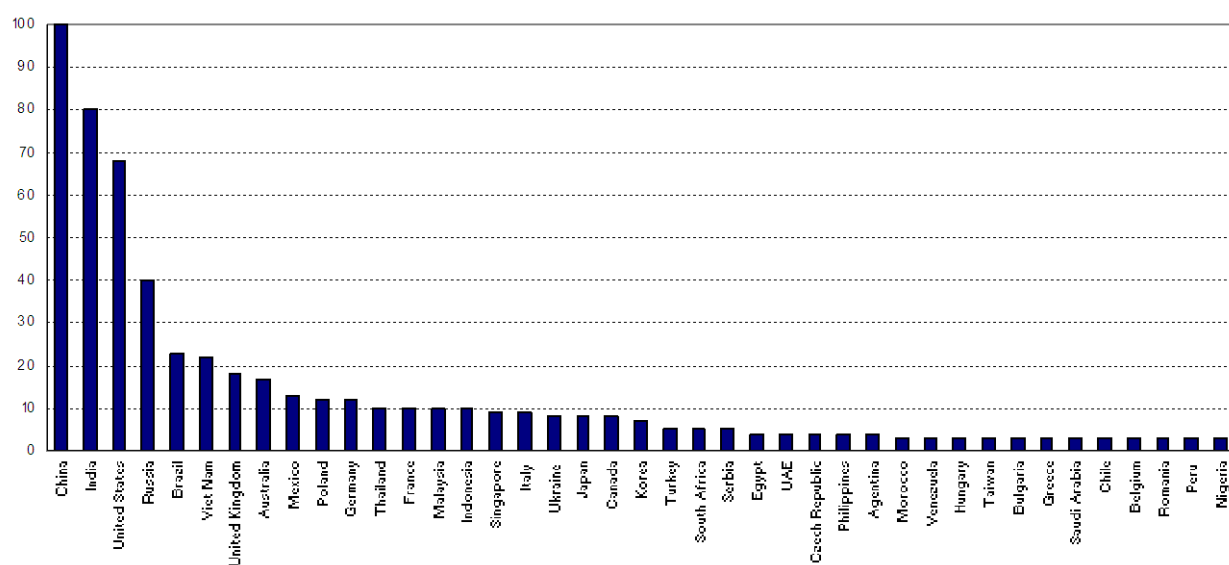
Note: 0=Not at all important, 3 = Very important

Figure 2: Investment preferences by host region, 2006 and 2007 – 2009

The report describes SSA as potentially “remaining marginal” in terms of FDI inflows, further emphasizing the high perceived level of risk in the region.

China and India are predicted to be the two leading recipient countries, attracting two thirds of the total worldwide FDI.

Other than South Africa, the only SSA country which attracted any significant interest was Nigeria (refer to Figure 3 below). This is possibly due to high to the high value of natural resource deposits in the two countries (oil in the case of Nigeria, and precious metals in the case of SA).

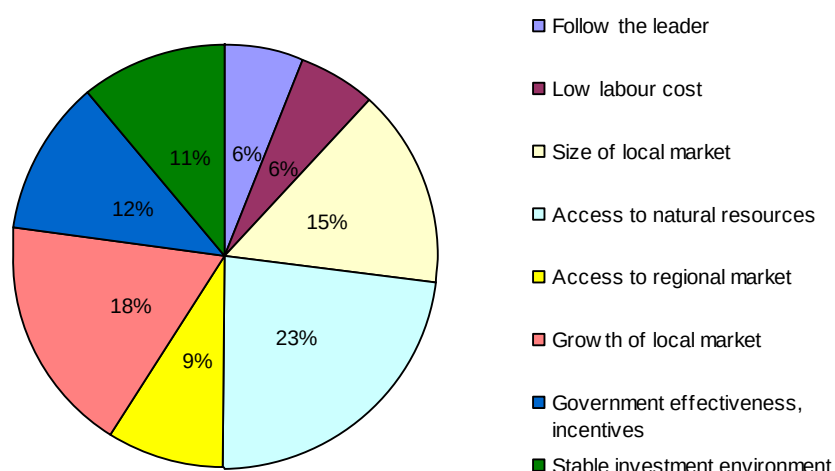


Source: UNCTAD" World Investment Prospects Survey 2007 – 2009"

Note: based on number of respondents

Figure 3: Most attractive economies for the location of FDI, 2007 - 2009

Factors attracting investment into SSA in 2007 – 2009 are depicted in Figure 4 below:



Source UNCTAD” World Investment Prospects Survey 2007 – 2009”

Note: Percentage of total respondents

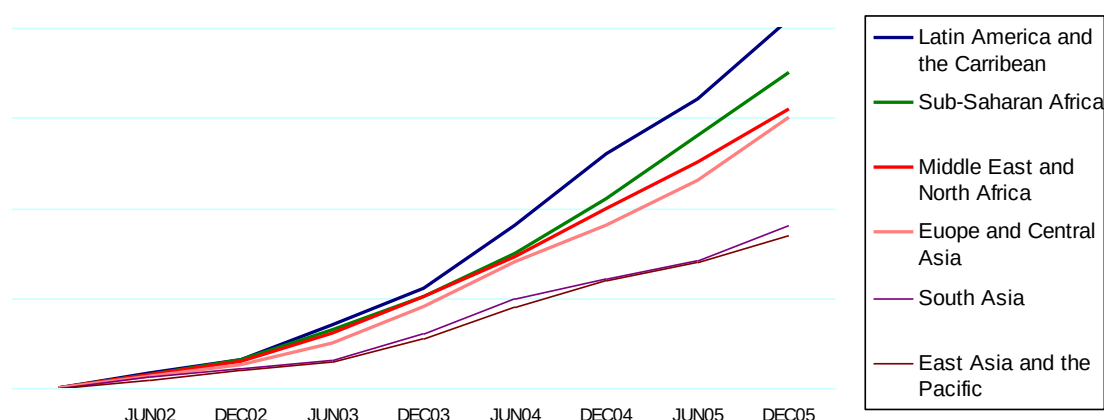
Figure 4: Factors attracting FDI in SSA, 2007 - 2009

Access to natural resources, growth of local market, size of local market and government effectiveness comprised 68% of the factors which are influential of the selection on an SSA country for FDI.

The evidence presented in the UNCTAD report points to on-going under prioritisation of SSA as a destination for FDI. This will continue to pave the way for South African companies to make FDI into SSA. The policy of non-hegemonic relationships with SSA countries by the ANC (African National Congress) government supports this development. However, like business anywhere, the South African business sector is driven by typical corporate interests such as profits and market share (Daniel et al. 2003).

The sentiment of the UNCTAD survey is in contrast to the MIGA (Multilateral Investment Guarantee Agency) 2007 annual report which alludes to strong growth in the SSA region as a whole, and “a shift in the risk horizon as democratic elections, economic stability, and regulatory reforms have begun to gain traction” (MIGA 2007).

The MIGA 2007 annual report reflects an increase in demand for information as reflected in figure 5 below:



Source: MIGA Annual Report 2007 Development Impact

Figure 5: Demand for FDI information on Sub-Saharan Africa, by Region

It is interesting to note the increasing demand by SSA for FDI information in its own region, which is possibly a reflection of increasing South African interest in the region.

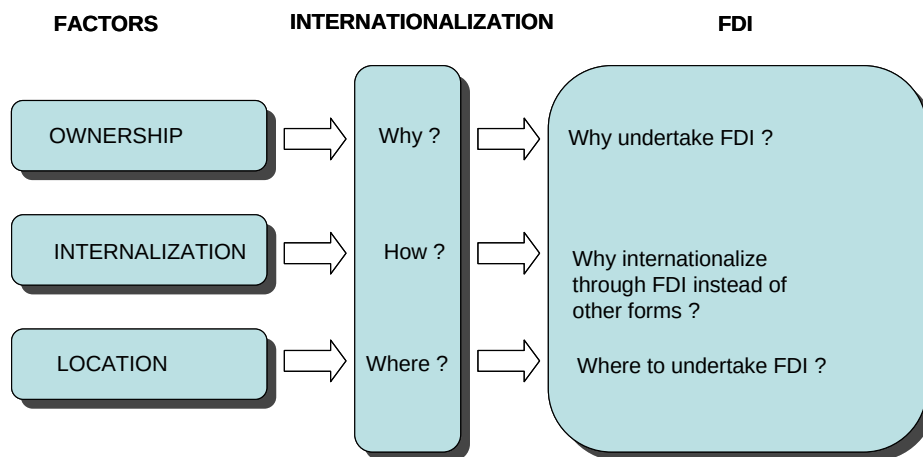
2.3 First sub- problem: FDI selection criteria

This research problem is premised on the assumption that a rigorous selection process will contribute to the ultimate success of the FDI.

Prior research into the determinants of FDI from the perspective of an individual firm is extensive. Dunning (1980) synthesised previously defined factors into a single conceptual framework in his paper entitled: "Toward an eclectic theory of international production: some empirical tests". The eclectic theory groups the determinants of FDI into three categories. The first category, Ownership (O), relates to the extent to which the firm possesses (or can acquire on more favourable terms) assets which its competitors do not possess. The second category, Internalization (I), defines determinants which increase the propensity for the firm to use its Ownership assets (or "Internalize" them) as opposed to selling [exporting] or leasing [licensing].

The third category, Location (L), refers to the extent to which it is profitable to exploit the Ownership assets in a foreign country in conjunction with the resources in that country. The eclectic theory is also referred to as the OLI paradigm in subsequent literature.

Galán and González-Benito (2001) developed the work of Dunning further by linking the OLI paradigm to three fundamental questions regarding FDI. This linkage is depicted in figure 6 below.



Source: *European Business Review* 2001 (vol. 13, no.5, page 271)

Figure 6: Model of determinant factors in the key decisions of the internationalization process

The Galan study researched the eclectic paradigm in the context of 103 Spanish companies which had conducted FDI. Locations for FDI by the companies favoured other European or Latin American countries. The authors concluded that this was due to geographical proximity [in the case of European countries] and cultural proximity [Latin American countries].

The Location factors surveyed, measures of determination, relevance and adequacy are presented in table 1 below:

Table 1: Measures of determination, relevance and adequacy for location factors

Location factors	Determination ^a	Relevance ^b	Adequacy ^c
Low labor costs (workforce)	2.91	3.59	65.0
Low transportation/logistics costs (supply and distribution)	3.88	3.09	65.0
Low cost of raw materials, energy and water	0.00	2.56	59.2
Availability and low costs of land	0.97	2.62	57.3
Large size of host market	20.39	7.13	90.3
Growing demand in host markets (potential growth)	44.66	7.53	88.3
Low level of competition in host markets	6.80	5.57	86.4
Good infrastructures	2.91	4.21	71.8
High industrial concentration (industrial parks, technological networks,...)	2.91	3.36	70.9
Availability and high quality workforce	1.94	4.39	77.7
Access to reliable and co-operative suppliers	2.91	3.73	67.0
Political stability	0.00	4.93	78.6
Standard of living and public services	0.00	3.46	68.9
Attitude of the community towards the firm	0.97	3.81	69.9
Tax reduction incentives in host markets	0.00	2.85	61.2
Grants and tax reductions in the matrix country	0.97	2.78	61.2
Less strict environmental laws	0.00	1.65	48.5
Cultural affinity	3.88	4.08	73.8
International trade agreements	1.94	3.01	61.2
Technologically advanced country (learning opportunities)	1.94	3.18	65.0

Notes: ^aPercentage of firms which chose the factor as determinant. ^bAverage score given to the factor (based on 10).

^cPercentage of firms that scored the factor.

Source: European Business Review 2001 (vol. 13, no.5, page 276)

Two interconnected factors, the size of the host market and potential for future growth were the most dominant factors identified by the survey. The level of competition in the host market was also a factor. From this, the authors conclude that market attractiveness and low levels of competition dominate the location decision.

Ownership factors surveyed, measures of determination, relevance and adequacy are presented in table 2 below:

Table 2: Measures of determination, relevance and adequacy for ownership factors

Ownership factors	Determination ^a	Relevance ^b	Adequacy ^c
Technological and innovative capabilities	20.39	6.72	88.35
Reputation and public image	4.85	6.27	88.35
Human potential	2.91	6.10	88.35
Experience in the national market	22.33	7.59	92.23
Products superior to the competition	7.77	6.17	89.32
Low costs of production for large volumes (scale economies)	6.80	5.15	83.50
Government grants and trade agreements with other countries	2.91	2.68	58.25
Agreements with foreign companies	1.94	2.50	44.66
International vocation of top managers	15.53	6.68	93.20
Prosperous financial structure	1.94	6.29	90.29
Existence of advantageous (synergies) derived from the joint management of diverse resources	12.62	5.81	83.50

Notes: ^aPercentage of firms which chose the factor as determinant. ^bAverage score given to the factor (based on 10).

^cPercentage of firms that scored the factor.

Source: European Business Review 2001 (vol. 13, no.5, page 274)

The authors of this research concluded that the decision to enter foreign markets is especially prompted by experience accumulated in those markets, technological and innovative capabilities, international vocation of top management and the existence of synergies derived from joint management of diverse resources.

Internalization factors surveyed, measures of determination, relevance and adequacy are presented in table 3 below:

Table 3: Measures of determination, relevance and adequacy of internalization factors

Internalization factors	Determination ^a	Relevance ^b	Adequacy ^c
Experience in foreign markets (previous exportations)	27.18	6.37	81.55
Need to follow traditional customers	7.77	4.47	74.76
High transportation/logistics costs	2.91	3.40	66.02
Need to manufacture close to the customers	21.36	5.11	71.84
To operate and control strategic resources internally (technology, know-how, image, ...)	24.27	5.84	79.61
To avoid currency fluctuations	0.00	2.35	56.31
To follow competitors	2.91	3.13	66.02
To avoid tariffs against foreign goods in the new markets	2.91	3.40	66.99
To minimize the risk of concentrating production	0.97	2.97	58.25
To avoid the negotiation and supervision costs of exporting and licensing	7.77	3.92	66.02
	0.00	2.12	51.46
To avoid costs of contract breaking with distributors, franchisees or licensees	0.97	2.08	44.66
To avoid the costs of searching for and selecting partners in foreign markets	0.97	2.85	57.28

Notes: ^aPercentage of firms which chose the factor as determinant. ^bAverage score given to the factor (based on 10).

^cPercentage of firms that scored the factor.

Source: European Business Review 2001 (vol. 13, no.5, page 275)

This section of the study, according to the authors, was devoted to defining the factors which motivated the selection of FDI over other forms of internationalization, such as exporting or licensing. Three dominant factors emerged: previous experience in the host market through exporting, the need to directly operate strategic resources (such as technology, knowledge or image) and the need to produce in proximity to the customer.

This research will also use the eclectic paradigm as a framework to assess FDI determination factors, but in order to make the meaning more intuitive for survey respondents, selection criteria have been divided into three sections, namely country, product and market. Broadly, ownership factors will be covered under the heading of “Product selection criteria”, Internalisation factors will be covered under “Market selection criteria” and Location factors will be covered under “Country selection criteria”.

2.3.1 Country selection criteria

The 2007 World Investment Prospects Survey, undertaken by UNCTAD, highlights the following key country attributes in order to attract FDI (UNCTAD 2007): Skilled labour; Low cost labour; Access to capital markets; Access to natural resources; Government effectiveness and incentives; and Stable investment environment.

The World Bank's "Doing Business 2008" report ranks countries according to the ease of doing business (WorldBank 2007b), and the following indicators on business regulation and property rights have been defined: Starting a business; Dealing with licences; Employing workers; Registering property; Getting credit; Protecting Investors; Paying taxes; Trading across borders; Enforcing contracts; and Closing a business.

A survey of the Determinants of U.S Manufacturing Investments in Africa revealed that the expected rate of return, gross domestic product, gross domestic product per capita, population size, the presence of necessary raw materials, political stability, primary infrastructure and development planning were significantly related to the level of investment. Lower wages in host countries, tax concessions and tariff protection offered by host governments were not significantly related (Agodo 1978).

FDI determinants have been analysed by using co-integration techniques (19 countries were studied) to understand TNC's most dominant long-run determinants. For convenience the factors were grouped into the following broad categories: real wage rates, interest rates, foreign exchange rates, openness, FDI liberalisation, current market size, market growth (future market potential), human capital and export development strategy. Export-orientation policy and FDI liberalisation were found to be the most dominant country factors. Exchange rates followed in degree of influence. Findings for real wage rates and human capital were inconclusive (Bende-Nabende 2002).

Charalambous (2006) identified 9 factors which influenced the selection of a SSA country for FDI by a South African Financial Services firm. The most important (critical) factors were: Country governance and political risk;

Infrastructure Considerations; and Economic Environment / Macro-economic Performance. Other important, but not critical factors were: Labour Considerations; Cultural Considerations; and Exchange Rate Considerations. The least important factors were: Economic Agglomeration; Trade Incentives, Barriers and Agreements; and Geographic Proximity.

Bosa (2002) identified the following country factors as being vital for successful FDI in SSA: Positive business environment; Government policies favourable for investors; A skilled labour force; and A convertible currency.

2.3.2 Market selection criteria

According to Kotler and Keller (2006a) companies prefer to enter countries when:

1. Market attractiveness is high;
2. Market risk is low; and
3. The company possesses a competitive advantage.

Generally companies prefer markets where they feel more comfortable with language, laws and culture. However, the dangers of this are that potentially better markets may be overlooked and there may be a superficial analysis of differences between the countries (Kotler and Keller 2006a).

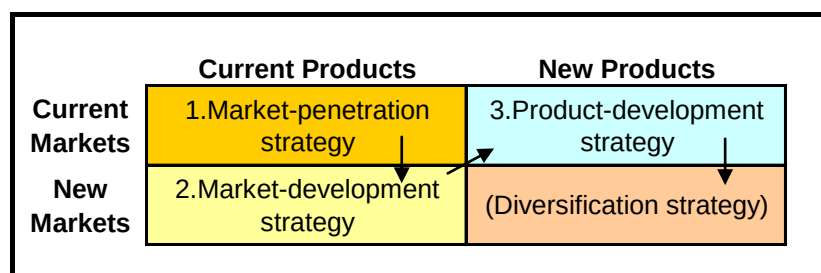
Companies' entry strategies into foreign markets can be divided into a "waterfall approach" or a sprinkler approach. Under the waterfall approach, countries are gradually entered sequentially, whereas under the sprinkler approach several countries are entered simultaneously during a limited time frame. Generally speaking, companies prefer the waterfall approach as this gives them time to plan expansion carefully. When first mover advantage is crucial, companies may prefer the "sprinkler" approach (Kotler and Keller 2006a).

Charalambous (2006) identified that Market Size and Demand Conditions were among the most important [critical] factors for Financial Firms to consider when deciding to invest in SSA.

Bende-Nabende (2002) found that Market Growth (future market potential) was one of the most dominant factors in TNCs' FDI decision making process . Market size was also a dominant factor, but to a lesser degree.

2.3.3 Product selection criteria

Kotler and Keller (2006b) discuss the use of Anshoff's Product-Market Expansion Grid (refer to figure 7 below) to analyse how a company should prioritise the combination of new products and new markets. Market-penetration is the first strategy pursued, whereby the company attempts to increase its existing market share with its existing product range. In the next stage (Market development), the company considers whether it can develop its existing product range for new markets. The third stage (Product development) involves the company developing new products for its existing market. In the final stage (Diversification) new products are developed for new markets.



Source: Marketing Management, Kotler and Keller, 12th Edition

Figure 7: Anshoff's Product-Market Expansion grid

Companies embarking on FDI will either be pursuing a market development strategy or a diversification strategy.

Slywotsky et al (2006) argue that companies which globalize need to have strong segmenting capabilities in order to get the balance between the introduction of products to new markets which are common to their domestic markets, and customised products for the target segments in the new markets. For example, Capitec has been highly successful in South Africa by introducing a consumer banking model that meets the needs of the lower socio-economic

sector. Too little customisation may make products unattractive in the foreign market, and too much customisation will be too costly.

2.3.4 Calculation and assessment of the financial returns for FDI

Agodo (1978) found that the expected rate of return was a determinant for investment by US manufacturing firms in Africa. Based on this, it is proposed that the assessment and calculation of financial returns is critical for South African corporations to perform prior to embarking on FDI.

2.3.5 Conclusion of the first sub-problem literature review

The first research question will be to determine the critical success factors in the selection process for FDI. This will be divided into three sections:

1. Country selection

Common factors which emerged were: Access to raw materials; Ease of doing business; Political Stability; Macro-economic stability (including exchange rates and interest rates); tax concessions and tariff protection; labour skills; wage rates, infrastructure, cultural affinity, prior management experience in the country / similar country.

2. Market selection

Common factors identified: Market size; Potential for future market growth; timing of entry ("first mover advantage"); prior experience in the market (e.g. exporting or, licensing), low levels of competition, need to follow competitors, need to follow customers.

3. Product selection

Common factors identified: Technological and innovative capabilities (relative to host market); ability to customise the product for the host country market, scale economies (ability to manufacture in high volume at low cost).

4. Financial Returns

The expected rate of return is potentially critical to assess prior to embarking on FDI. The research will explore factors considered to be critical in the process of making this assessment.

2.4 Second sub-problem: FDI Establishment

There are two main types of entry modes which a company can use to undertake FDI, namely a green-field investment whereby a wholly new operation is established or a merger / acquisition with an existing firm in the foreign country. Acquisitions can be a minority share in the equity of the foreign operation (10% to 49%) or a majority share (greater than 50%). The motivation for firms to embark on FDI is to either produce or market products in foreign countries (Hill 2003b).

Research undertaken by the World Bank (Mattoo et al. 2001) indicates that where a firm faces high costs of technology transfer it will prefer the direct entry [green field investment method] to acquisition.

Charalambous (2006) investigated the preferred mode of entry for financial services firms using the following classifications: Merger and Acquisition; Joint Venture - Majority Stakeholder; Joint Venture – Minority Stakeholder (< 50%); Alliance; New Investment (“Greenfield”); Other: e.g. Piecemeal / once off etc. Joint Venture – Majority Stakeholder and Greenfield were found to be equally popular methods. Generally, financial service firms prefer majority joint ventures where a market for the financial service already exists as this gives them access to a developed network of relationships.

Osland et al (2001) concluded that a well chosen mode of entry can enable a firm to obtain a competitive advantage, whilst inappropriate modal decisions can lead to “sinking the boat” or “missing the boat”. The authors contrast a trade off between the risks of losing core technology inherent in co-operative modes [i.e. high degree of co-operation with local partners] against not taking full advantage of large market growth due to the limitations of some contractual

modes. Careful assessment of these types of trade-offs is required in order to select the most appropriate mode of entry. Two main classifications of modes of entry for FDI are discussed, namely joint ventures and wholly owned subsidiaries:

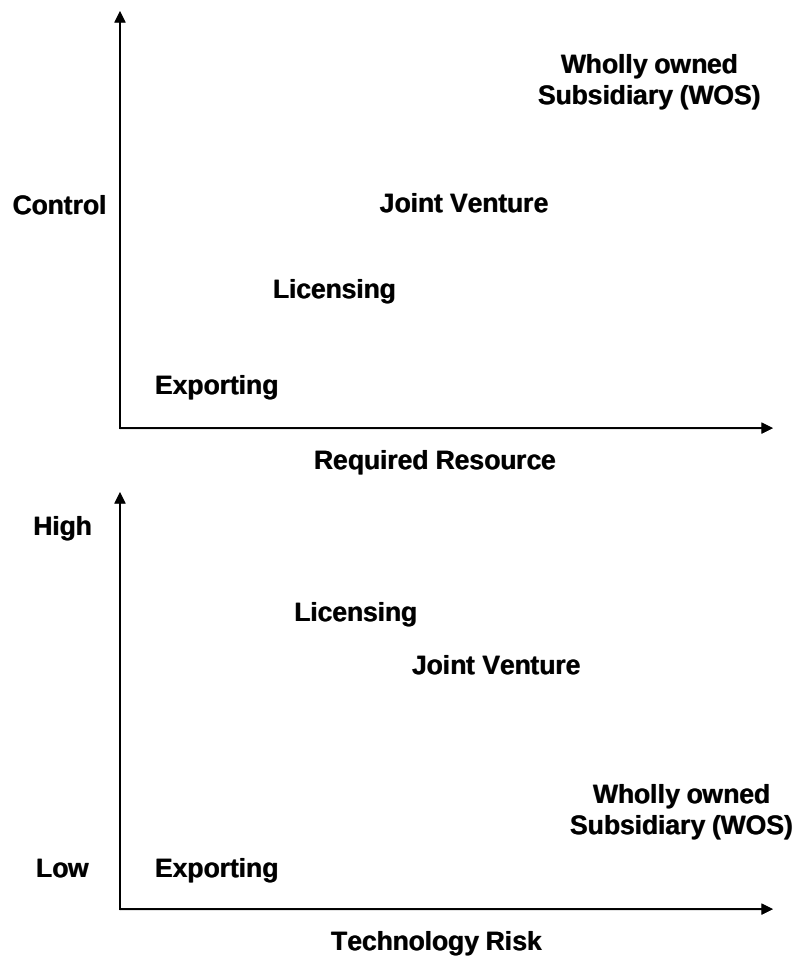
Joint ventures involve two or more organisations that share the ownership, management, risks and rewards of the newly formed entity. Each partner contributes equity that may take the form of money, plant and equipment and / or technology.

Wholly owned operations are subsidiaries in another nation in which the parent company has full ownership and sole responsibility for the management of the operation.

Entry modes can be differentiated according to three characteristics:

1. quantity of resource commitment required;
2. amount of control; and
3. The level of technology risk.

Figure 8 below illustrates the relationship between these three characteristics and the entry modes. Resource commitments are dedicated assets (tangible and intangible) which cannot be employed for other uses, without incurring costs (e.g. managerial skills, machinery and money). Control is defined as: “the ability and willingness of a firm to influence decisions, systems and methods in foreign markets”. Technology risk is defined as: “the potential that a firm’s applied knowledge (tangible and/or intangible) will be unintentionally transferred to a local firm (Osland et al. 2001).



Source: *Marketing Intelligence & Planning* 19/3 [2001] page 158

Figure 8: Key characteristics of modal alternatives

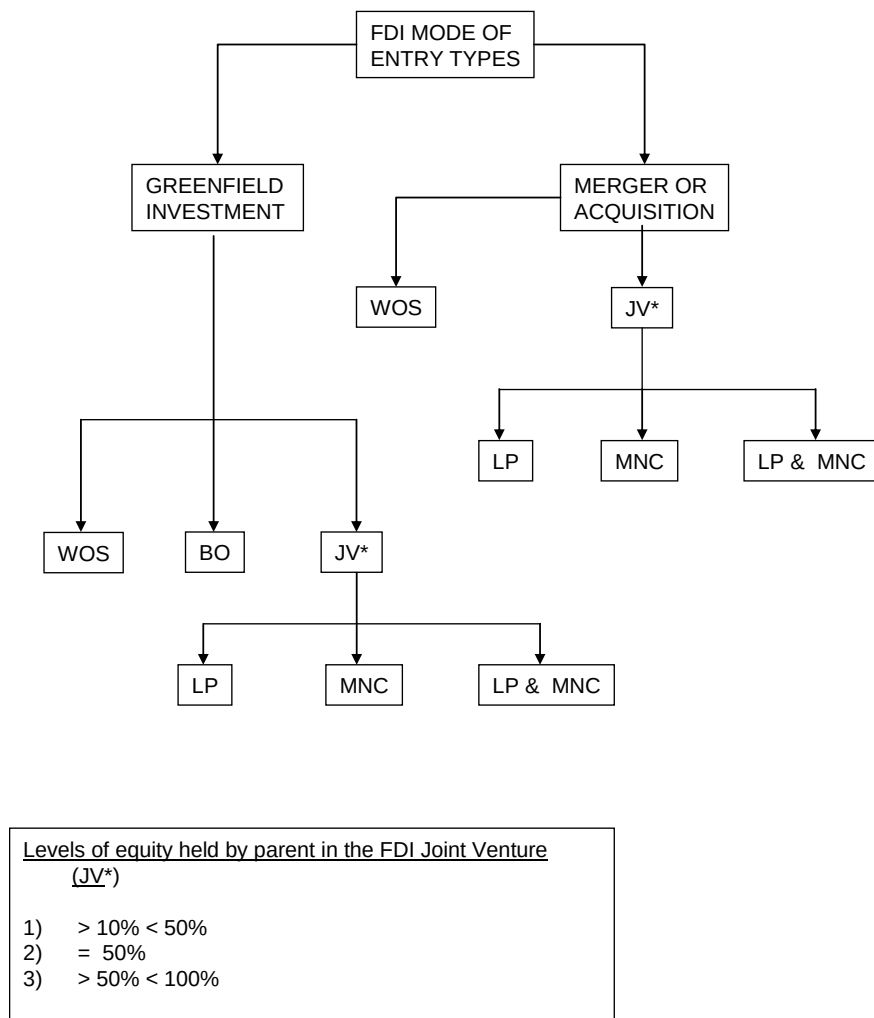
The trade off between control and required resources illustrates that WOS offer more control to parent companies than joint ventures, but also require greater levels of resource commitment. In terms of exposure to technology risk, WOS provides greater protection than joint ventures (Osland et al. 2001).

Host country governments often place pressure [in the form of regulations or incentives] on MNC's to form joint ventures with the objective technology transfer to local firms (Osland et al. 2001).

The survey revealed that US firms are more likely to engage in technology in FDI via joint ventures when the technology is not of a type that must be protected. Japanese firms tended to favour WOS over joint ventures as they were often unable to find suitably qualified local partners. Furthermore, a higher degree of control was possible with WOS due the ability of the firm to make decisions more readily (Osland et al. 2001).

2.4.1 Types of entry modes

Figure 9 below, which was developed for the purposes of this research, presents the classification which will be used to analyse FDI entry modes.



Source: *Devised for the purposes of this research (2008)*

Figure 9: Types of Entry Modes

Greenfield investments are formed by the South Africa parent company to establish the FDI in the host country. These may be in the form of wholly owned subsidiaries (WOS), branch operations (BO) or joint ventures (JV). JV's may be with local equity partners (LP), multi-national company equity partners (MNC) or a combination of MNC and LP.

The FDI can also be established by merger with or acquisition of an existing company. This could result in a WOS or JV. The classification of JV's is the same as for Greenfield investments above.

The level of equity held by the South African parent in JV FDI is classified into the following levels:

1. Minority interest > 10% < 50%
2. Joint Control = 50%
3. Majority interest > 50% < 100%

2.4.2 Cultural issues

According to Cartwright et al (1995):

Managers prefer international partnerships with countries whom they perceive to be the most compatible in terms of their management style. On the basis of the evidence, these preferences may be influential in determining activity patterns. This suggests that the concept of compatibility and cultural distance is an important issue in partner selection.

Barkema et al (1996) referred to "double layered acculturation" to describe the cultural barriers faced by companies embarking on FDI via mergers and acquisition. In these situations, companies have to contend with overcoming both country and firm cultural differences. The authors also found that firms that had previously engaged in double layered acculturation were able to exploit their previous experience in new expansion projects in the same country or block of countries.

Barkema and Vermeulen (1997) outlined several advantages of JV's (Joint Ventures) over WOS's (Wholly Owned Subsidiaries):

The JV allows the firm to share the costs and risks of the foreign entry and to use the local partner's knowledge about the local institutional framework, local consumer tastes, and business practices. However, JV's also entail unique risks, owing to the potential problems of cooperating with a partner from a different culture.

Smarzynska and Wei (1999), studied the impact of corruption in a host country on a foreign investors preference for a JV versus a WOS. The findings of this research indicated that whilst JV's were generally favoured in corruption prone host countries (due to the access to a local partner's knowledge), this may not be the case for investors with a need to protect intangible assets [such as intellectual property and technology know how].

The research will also examine other factors critical to successful FDI establishment (for example the physical location of the operation).

2.4.3 Conclusion of the second sub-problem literature review

The second research question will be to determine factors critical for successful FDI establishment. This will include a study of modes of entry, and the factors which influence their selection. Modes of entry can be broadly classified into Greenfield Investments and Mergers / Acquisitions.

Greenfield investments are formed by the South Africa parent company to establish the FDI in the host country. These may be in the form of wholly owned subsidiaries (WOS), branch operations (BO) or joint ventures (JV). JV's may be with local equity partners (LP), multi-national company equity partners (MNC) or a combination of MNC and LP.

The FDI can also be established by merger with or acquisition of an existing company. This could result in a WOS or JV. The classification of JV's is the same as for Greenfield investments above.

The level of equity held by the South African parent in JV FDI is classified into the following levels:

- Minority interest $> 10\% < 50\%$
- Joint Control $= 50\%$
- Majority interest $> 50\% < 100\%$

The following factors influence the selection of the mode of entry of FDI:

1. The need to protect technology and intellectual property;
2. Government regulations or incentives which require / encourage joint ventures with local partners;
3. Potential synergies with local partners (access to local knowledge and markets);
4. The need to make decisions with speed;
5. Previous joint venture experience;
6. Cultural compatibility; and
7. The level of corruption in the host country.

2.5 Third sub-problem: Management of FDI

This problem is concerned with strategies to ensure the on-going success of FDI. The section on risk mitigation highlights actual and perceived risk so that the strategies to mitigate these can be investigated. Management practices, to ensure successful operations, are then reviewed. Finally, the impact of local partnerships (shareholders, suppliers etc.) will be reviewed.

2.5.1 Risk Mitigation

According to the A.T. Kearney FDI index (2005), the most critical risks which firms perceived in 2003 to 2005 were: Government regulation/ legal decisions; Currency / interest rate volatility; Country financial risk; Political and social disturbances. Second-tier risks, gaining in importance, were: Disruption of key supplier/customer/partner; Corporate governance issues; IT disruption; Theft of intellectual property; Product quality/safety problems; Natural disasters; Employee fraud/sabotage; Activist attacks on global/corporate brands.

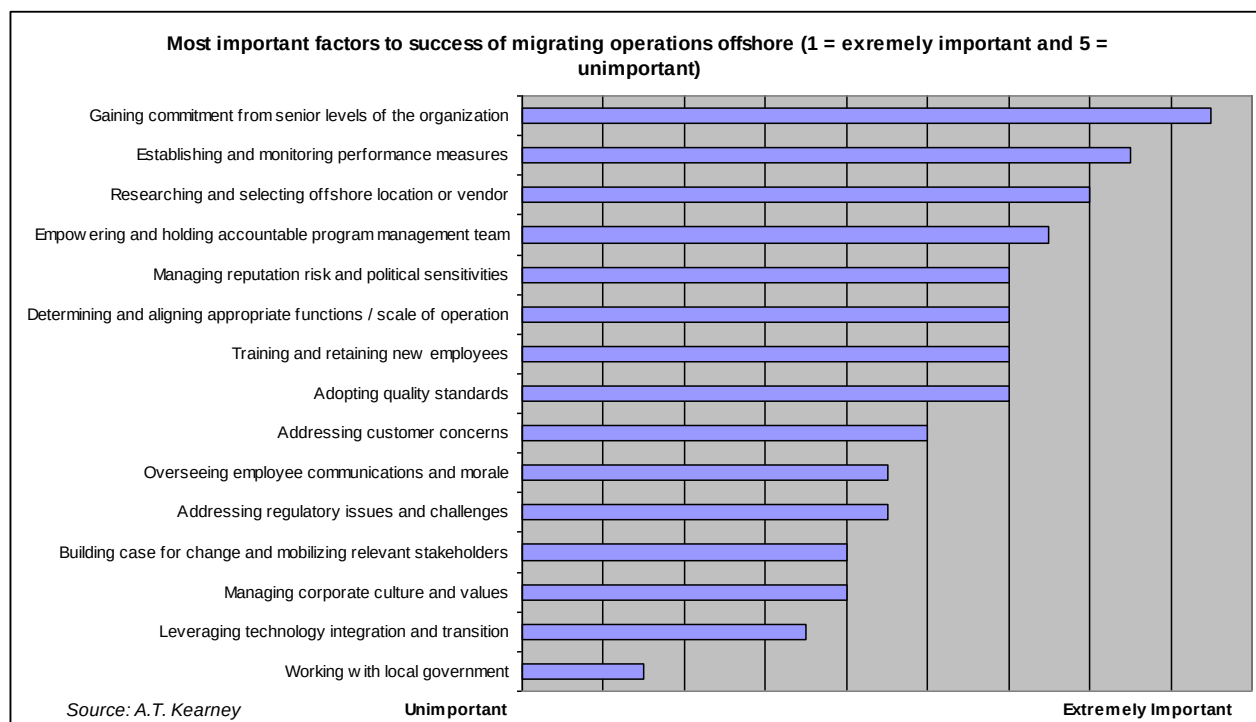
Kyereboah-Coleman and F Agyire-Tettey (2008) studied the impact of exchange rate volatility on FDI in SSA by using Ghana as a case study. The findings of other studies were confirmed in that real exchange rate volatility (risk) tends to reduce FDI inflows into any country.

Bosa (2002) categorised risks for FDI in SSA as follows: Poor Infrastructure; Payment risk; Inadequate legal and regulatory frameworks; Political risks (war, civil unrest, expropriation); Mobilising of local finance; Corruption; Debt burden.

A key feature of South Africa's expansion into Africa has been the role played by the state via the Industrial Development Corporation (IDC). The IDC have provided funding for projects, and in some cases has shared in the risk, by taking a direct share in the projects (Daniel et al. 2003).

2.5.2 Management Practices

The A.T. Kearney FDI index (2005) identified the following critical actions for successful offshore business functions:



Source: AT Kearney FDI Confidence Index, The Global Policy Council (2005)

Figure 10: AT Kearney FDI Index (2005)

The level of International experience of the Top Management Team (TMT) is particularly relevant for firms with a substantial FDI. Based on this, these companies need to integrate their international human resource function with their global strategy (Sambharya 1996) .

Three types of staffing policies have been identified in the research of international businesses. An ethnocentric policy is one in which the TMT is comprised of parent company nationals. This may be appropriate for less developed countries where there is a skills shortage, but a disadvantage will be that the parent company nationals may not understand host country cultural differences that require different approaches to marketing and management. A

polycentric approach implies that the TMT should be selected from host country nationals. This approach enables TMT to respond most effectively to country cultural issues, but may limit the career mobility for the host national TMT and isolate them from headquarters. A Geocentric policy aims to achieve the best mix of expatriate parent company managers and host country managers on the TMT, the disadvantages are that immigration policies may limit the implementation and it can be expensive (Hill 2003a).

Goby et al (2002) studied the determinants of Singaporean expatriate success in the Peoples Republic of China. One of the significant findings from this was the existence of a gap between success factors as perceived by the expatriates and the human resources management of the MNC's. The study argues that in addition to the knowledge of what constitutes success in overseas ventures, it is important to achieve consensus on what constitutes success.

2.5.3 Local Partnerships

In the Bosa (2002) research report the majority of respondents embarked on FDI by forming JV's with local partners. These respondents reported that local partners were "invaluable in handling a wide range of local issues". For the purposes of this section of the research, local partners include suppliers, consultants and equity partners.

2.5.4 Conclusion of the third sub-problem literature review

The third research question will be to determine the critical success factors for the on-going management of the FDI. The problem will be addressed in two sections: risk identification and mitigation, and on-going management (including local partnerships):

1. Risk identification and mitigation

Inadequate Government regulations / legal decisions; Currency / interest rate volatility; Country financial risk; Political and social disturbances; Disruption of key supplier/customer/partner; Corporate governance issues

(corruption); Poor Infrastructure (incl. IT disruption); Theft of intellectual property; Product quality/safety problems and; Natural disasters.

2. On-going management

The critical success factors as per the A.T. Kearney FDI index; the level of international experience of the TMT; Mix of parent (expatriate) and host country nationals on the TMT; relationships with local partners (equity, suppliers and consultants).

2.6 Conclusion of Literature Review

CSFs, for the purposes of this research, have been defined as the set of conditions, tasks and attributes which are critical to the attainment of the organisation's FDI goals.

The main purpose of this research is to explore factors considered to be critical for FDI success by South African (SA) corporations. The research will be structured into three main sections.

The first section will examine CSF's for the selection of FDI. This will include an examination of factors pertaining to the host country, the market within the host country and the product to be introduced by the SA corporation. CSFs for the calculation and assessment of the proposed FDI will also be examined under this section.

The second section will examine CSFs for the establishment of FDI. This will include an examination of the mode of entry, or legal entity structure, used by the SA corporation to facilitate the FDI. Other establishment factors, such as the location of the operation, will also be examined under this section.

The third section will examine CSFs for on-going FDI management, post establishment. This will include strategies to mitigate the inherently high risks of FDI in SSA, critical management practices and how external partners can be used for successful management.

These sections are posed as three broad research questions, listed in section 2.7 below. A questionnaire, to gather data from respondents, will be designed with more detailed questions which relate to each of these main questions.

2.7 Research Questions

2.7.1 *Research Question 1: What factors do South African companies consider critical in the process to select FDI?*

2.7.2 *Research Question 2: What factors do South African companies consider critical for the establishment of the FDI in the host country?*

2.7.3 *Research Question 3: What factors do South African companies consider critical for the on-going management of the FDI?*

CHAPTER 3: RESEARCH METHODOLOGY

The methodology followed was similar to the approach taken by previous researchers at the University of the Witwatersrand (Mwangi 1995; Arnold 1998; Bosa 2002; Charalambous 2006) which was based on Leedy's (1993) "descriptive survey method".

3.1 Research methodology /paradigm

The methodological paradigm of this research was primarily qualitative, as the research was of an exploratory nature. This approach is supported by Cresswell (2003) who advocates that a qualitative approach is one in which "The researcher collects open-ended, emerging data with the primary intent of developing themes from the data".

Qualitative research focuses attention on the experiences and perceptions of participants. The methodology is grounded in the assumption that people make sense of their experiences and create their own realities in the process. Data collected are most commonly in the form of descriptive text and it is the task of the researcher to discern and articulate the regularities in these data. Researchers should try to avoid imposing presumptions and preconceived structures, rather the emphasis should be on trying to record how participants understand their setting (Locke et al. 1993).

The rationale for adopting the qualitative approach was that the nature of this research was to explore and understand the factors which South African corporations consider to be critical for successful FDI, rather than to confirm and/or quantify pre-determined factors. According to Warren (2001), the epistemology of qualitative research tends to be more constructionist than positivist and interview participants can be regarded as meaning makers.

3.2 Research Design

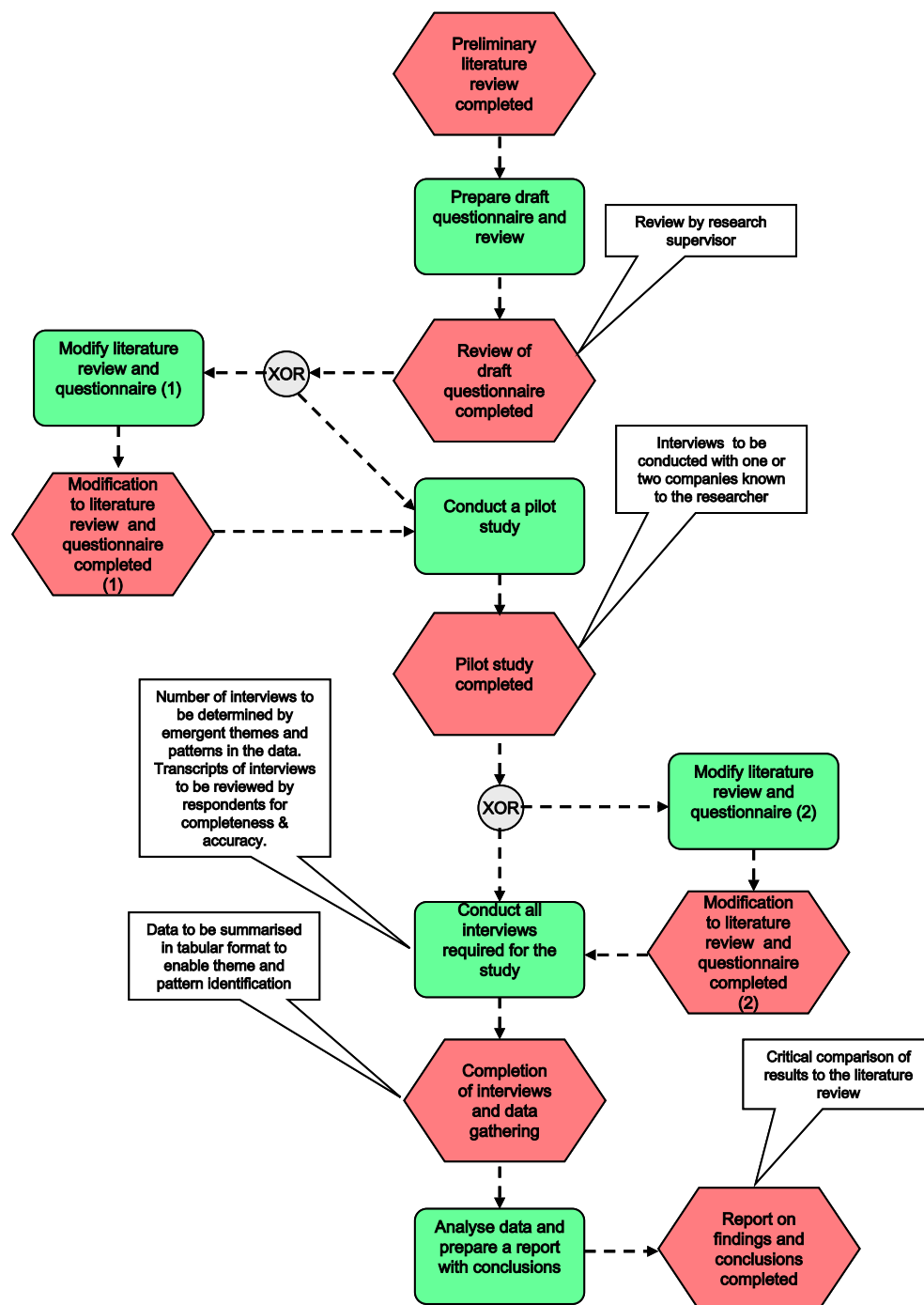
The research was based on a series of semi-structured interviews with key decision makers in South African companies which had previously embarked on FDI in SSA.

Cresswell (2003) acknowledged that whilst this paradigm exposes the research to elements of subjectivity and selection bias, it allows for innovation and researcher designed frameworks.

Warren (2001) noted that for qualitative research the literature review is used to generate the research questions (generally 10 to 12 in number). The questions are normally accompanied by a covering sheet to gather demographic data. The researcher should adopt a flexible approach during the interview process, as it is possible for new meanings to emerge which may render some questions irrelevant in light of the changing context of meaning. Locke et al (1993) outline an iterative process whereby the researcher moves back and forth between data sources during the course of data collection, in this way initial questions may be narrowed or shifted entirely.

Locke et al (1993) suggest that careful piloting of method and analysis is the best strategy to overcome research problems typically encountered using a qualitative approach.

Figure 11 below, developed for the purposes of this research, summarises the process which was followed.



Source: Devise for the purposes of this research (2008)

Figure 11: Proposed Research Process

Warren (2001) found that “seemingly commonplace terms may vary surprisingly in meaning in the context of particular life worlds.” To this end, several technical terms used were defined in the questionnaire so that respondents could understand their context.

The questionnaire (refer to Appendix B), together with a research approval letter (refer to Appendix A) from the University of the Witwatersrand was sent to respondents prior to interviews to enable the respondents to prepare and identify any questions or terms which required clarification.

Two levels of review of the research questionnaire were performed:

1. The draft questionnaire was reviewed by the research supervisor.
2. A pilot study was conducted with one company to ensure that any remaining inconsistencies and ambiguities were identified.

The CSF interview method, as developed by Rockart and Bullen (1981), was used to provide a structured technique to assist manager's, in charge of their organization's FDI, to identify those factors considered to be critical to the attainment for their organization's FDI goals. The technique was originally intended to assist with the identification of management's information requirements, but has subsequently been used extensively for other management and consulting applications. For example, Wigley et al (2005) used the technique in a study entitled: “Product and brand: Critical success factors in the internationalisation of a fashion retailer”. This research was a case study of two international retailers, whereby data was gathered by structured interviews with management to: “explore their knowledge and experience”.

Rockart and Bullen (1981) stress the importance of thorough planning on the part of the interviewer prior to the interview. This planning includes:

- Review literature on CSFs to become familiar with the technique. A good starting point is a Harvard Business Review article by Rockart (1979), entitled: “Chief executives define their own data needs”.

- Gain a thorough understanding of the industry in which the organisation operates. This includes competitive forces, trends, and the environment.
- Study the company to be interviewed. This would include the use of publically available information such as annual reports, business journals and newspapers.
- List all probable CSFs based on all acquired knowledge of the company and the industry. This assists to “get the interviewer’s thinking on the right track”, but care should also be taken to avoid the imposition of the interviewer’s own CSFs.
- Brush up on interviewing skills. Warren (2001) provides useful guidelines in a chapter entitled “Qualitative Interviewing” in the book “Interview Research”, edited by Gubrium and Holstein.

All interviews conducted were recorded using a digital voice recorder, and respondents were asked to consent to this prior to the interview. Warren (2001) observed that for several decades conventional wisdom has been that qualitative interviews should be audio-taped.

Once the interviews were completed the responses were transcribed into a document which was then forwarded to the respondents to review for completeness and accuracy. The interview was then summarised in tabular format (key phrases and comments extracted) so that the results could be compared with other interviews. In this way, common patterns and themes were identified.

3.3 Population and sample

3.3.1 *Population*

The population from which the sample was drawn from companies originally founded in South Africa, which had embarked upon FDI in SSA. Other companies, which were South African registered, but not founded, were

excluded. Thus non-South African MNC's were excluded. Companies from the primary sector (e.g. mining companies) were also excluded.

3.3.2 Sample and sampling method

The research used “non-probability purposive sampling” as defined by Leedy (1993). In order to ensure coverage of a number of industries, the population was stratified into the following sectors (as defined by Daniel (2003)): retail; construction; manufacturing; financial services; telecommunications; tourism/leisure. Two companies from each sector were targeted to be approached.

Table 4: List of Proposed Respondent Companies

Name of Company	Sector
Nampak	Manufacturing
South African Breweries	Manufacturing
Group Five	Construction
Murray and Roberts	Construction
Liberty Life	Financial Services
Standard Bank	Financial Services
MTN	Telecommunications
Vodacom	Telecommunications
Shoprite Checkers	Retail
SPAR	Retail
Nando's	Leisure
Southern Sun	Leisure

The selection of the sample, whilst being a subjective process, was not without theoretical support. Warren (2001) described this method as a “theoretical

sampling strategy” whereby the interviewer seeks out respondents who seem likely to epitomise the criteria of interest.

3.4 Procedure for data collection

The data was gathered by means of a questionnaire (refer to Appendix B). The questionnaire contained explanations and definitions of terms used to clarify the purpose of the research, and avoid ambiguities. The first section of the questionnaire gathered demographic data regarding the respondent and the organisation represented. The second section contained a series of open ended questions, which were grouped according to the three main research questions.

3.5 Data analysis and interpretation

The data collected from the questionnaires was largely in text format. In order to compare data, it was summarised in columnar format with key words and phrases extracted from the transcripts of the interviews (refer to section 4.7). This allowed for the identification of common themes or patterns which emerged.

The columnar summary of results was also compared with the literature review in order to identify commonality.

The data gathered on modes of entry was summarised graphically (refer to section 4.4). This data was then compared with text data gathered from the questionnaires to determine if any meaningful relationships could be inferred.

3.6 Validity and reliability

3.6.1 *Validity*

A broad definition of validity is that “It tells us whether an item or instrument measures or describes what it is supposed to describe” (Bell 2005). For this research, the findings gathered were compared with the literature review to

validate. Respondents were also be given the opportunity to review the transcription of the interviews.

3.6.2 Reliability

Bell (2005) defines reliability as follows: “Reliability is the extent to which a test or procedure produces similar results under constant conditions and on all occasions”. As this research was of a qualitative nature the terms used may have been open to interpretation. Two methods were used to overcome this problem. Firstly, the questionnaire was reviewed by the research supervisor. Secondly, a pilot study was performed whereby the questionnaire was presented to a single company and feedback was elicited regarding the adequacy of the design of the questionnaire in the context of the purpose of the research.

Based on feedback from the research supervisor, questions were posed in the past tense, in order to reflect that data provided by respondents should be based on their experiences as opposed to their perceptions. A final question was also introduced at the end of the questionnaire to cater for any other CSFs not covered.

The “mode of entry” section of the research was changed to “establishment”, as it became evident in the pilot study that there were other CSF’s in setting up the FDI other than the mode of entry.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

The methodological paradigm of this research was primarily qualitative. Data was collected by means of semi-structured interviews with corporate executives using a questionnaire with mainly open ended questions. The interviews were recorded and the responses were summarised in tabular format for each question. The Critical Success Factor (CSF) interview technique was used to extract factors considered to be critical for successful FDI. In this way, the executives focussed on listing those factors considered to be most important for the attainment of their FDI goals. Other important, but less critical factors were also identified. Executives from six separate companies, each sourced from a different industry were interviewed. The results of these six interviews are presented below for each research question, grouped by each industry represented.

Critical Success Factors identified in response to each research question are listed. Other important factors are listed separately below the CSFs.

The classification the modes of entry used for FDI has been presented graphically for an aggregation of the data collected from all six respondents.

CSFs which were considered to be common have been presented under the summary of results at the end of chapter four.

Comparisons to the literature review, meanings and implications of the results are discussed under chapter five.

4.2 Demographic profile of respondents

Twelve companies were identified (refer to table 4 above) as potential respondents. The objective was to gather data from a range of different business sectors. Data was gathered from six companies, sourced from the following business sectors/industries:

- Beverage manufacture, distribution and sale of beverages (referred to hereafter as “Beverages”);
- Packaging manufacture (referred to hereafter as “Packaging”);
- Insurance and Investment products (referred to hereafter as “Financial Services”);
- Building, Infrastructure and Engineering solutions (referred to hereafter as “Construction”);
- Manufacture and supply of prepaid vouchers and SIM cards to the telecommunications industry (referred to hereafter as “Telecommunications”); and
- Travel agency (referred to hereafter as “Tourism”).

All of the executives interviewed had extensive first-hand experience with the establishment and subsequent operation of FDI, and held senior decision making roles within their respective companies.

Operations controlled by the six companies in this research were located in 19 different countries in SSA (out of a total of 48 countries).

The companies collectively held operations in all of South Africa’s immediate neighbouring countries (i.e. Botswana, Lesotho, Namibia, Swaziland, Zimbabwe and Mozambique).

The distribution of operations across the 19 countries is depicted in figure 12 below.

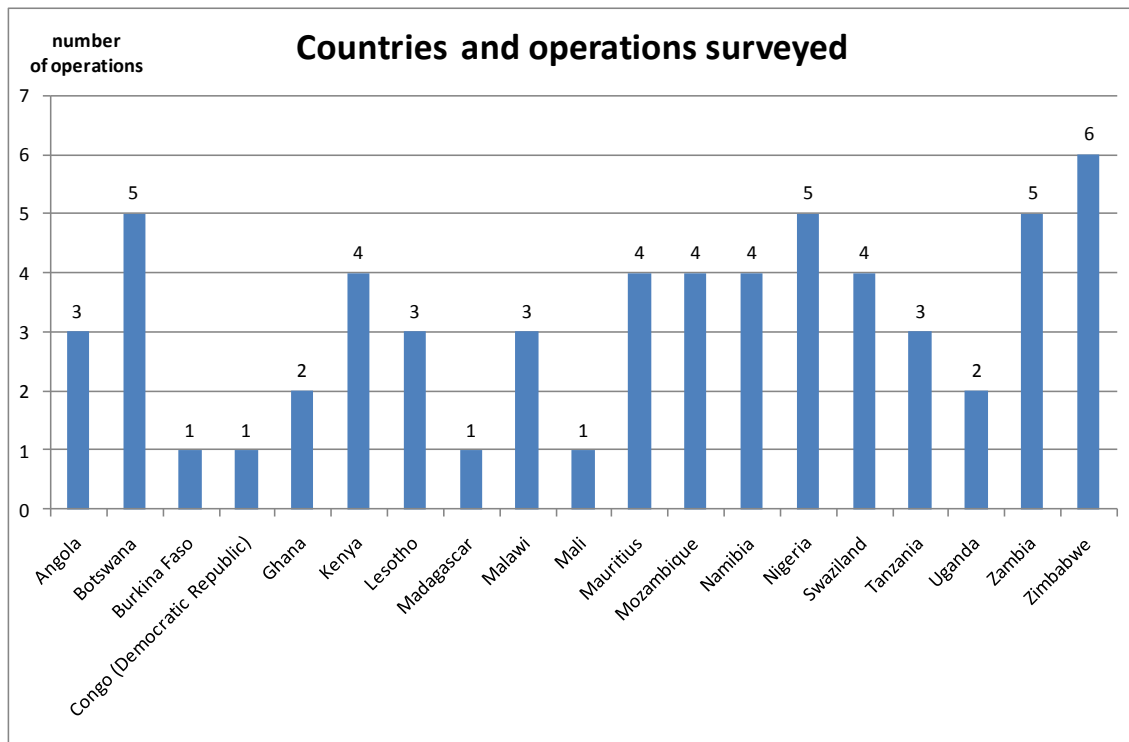


Figure 12: Countries and Operations surveyed

4.3 Results pertaining to Research Question 1 – CSFs for FDI selection criteria

4.3.1 *Host Country*

In this section, respondents were asked to identify CSFs for the selection of the host country for FDI. The market for the respondent company's products was specifically excluded as this was covered in the second question.

Tourism

Critical Success Factors

- Ability to repatriate funds from the host country.
- Ease of communication (i.e. English speaking).

- Availability of skills and infrastructure to set up a high quality IT communication and booking platform. This is a CSF for a tourism business.

Other Important Factors

- Ability to overcome cultural differences (e.g. reluctance to do business with females).

Construction

Critical Success factors

- Competitive advantage (for example superior construction techniques compared with competitors for specific project types).
- Prior country experience.
- Country risk assessment performed (HQ department dedicated). External sources are also used to assist in country risk assessment (e.g. websites and consultants).
- Political certainty / stability.
- Health and safety conditions for employees are paramount.
- Language competence (e.g. tend to stick to English & Portuguese speaking countries).
- Certainty required in tax and foreign exchange regulations. Need to understand tax regime, including double tax agreements and withholding taxes.
- Ability to repatriate plant, equipment and cash.
- Low level of government corruption.
- Require certainty regarding ownership (e.g. land title).

- Raw material availability (e.g. cement and rock).
- Access to labour skills (especially for engineering projects).
- Management of work permits for employees.

Other Important Factors

- In-country intelligence to understand politicians' requirements.
- Work with local chambers of commerce to provide guidance in political and regulatory issues.

Financial Services

Critical Success factors

- Extensive country research is undertaken prior to embarking on FDI.
- A stable legislative and regulatory environment needs to be in place.
- The regulatory environment must be favourable for FDI. For example exchange control regulations must allow for the repatriation of funds.
- Skilled labour is a critical consideration, but where this is not available expatriates are deployed with the direction to transfer skills to local resident employees. Local employees are empowered where possible. Wage rates are generally lower compared to SA, which also makes local resident employment more viable.
- Infrastructure needs to be reliable enough to run front office systems. Back office systems and processing happen in South Africa via satellite link.
- Population size and growth.
- Income per capita.

- GDP growth (countries where value is being created are preferred). In Africa, this is often countries rich in natural resources (e.g. minerals, oil, gas etc.)
- Inflation control policies.
- Level of penetration of financial services. Lower level is preferable.
- Understanding the dynamics of the culture in the host country is critical. In some countries, South African companies have acquired a reputation for arrogance which may need to be overcome.

Relationship with holding company (presence in 18 African countries) is critical.
Benefits from this relationship:

- Knowledge gained from prior operating experience;
- Opportunities to share certain administrative costs (e.g. HR and IT); and
- The possibility to leverage off existing distribution channels.

There are currently operations in six SSA countries: Botswana, Namibia, Lesotho, Swaziland, Kenya and Uganda. Experience gained in these countries positions the company to take advantage of any opportunities which may arise.

Other Important Factors

- The tax regime should also be favourable to FDI.

Packaging

Critical Success factors

- Ability to borrow locally as this hedges exposure to local economic factors (e.g. exchange fluctuations).
- Need to be able to repatriate funds via both dividends and technical fees.
- A thorough understanding of the infrastructural (power supply, water and roads) and logistical (e.g. import processes) challenges unique to the country is required.

- Availability of skills to run the operation which can be sourced in the host country.
- Language. Operations have generally been set up in English speaking countries. The recent Angolan investment is an exception.
- Land acquisition. Facilities cannot be established without security of tenure. This can be a real challenge in many African countries.

Other Important Factors

- Tax breaks (e.g. Nigeria and Angola) improve the likelihood of acceptable returns.
- The level of bureaucracy / “red tape” is an important consideration. Some countries are particularly onerous

Telecommunications

Critical Success factors

- Political stability.
- Economic policies in terms of ability to repatriate funds, and the ability to import the required raw materials and other factors of production.
- Infrastructure must be available or can be constructed to support the operation (e.g. generators for electrical power).
- The ability to source local funding (debt and equity) in order to reduce the level of risk undertaken by the parent.
- The availability of labour skills (especially technical and financial), must be assessed to determine the amount of expatriate work permits which will be required for the operation.

Other Important Factors

- Tax incentives (e.g. tax pioneer status for 3 years in Nigeria) are an incentive to invest, but not critical.

Beverages

Critical Success factors

- Avoid unsafe and politically unstable countries. Some countries are safe and viable in certain areas (e.g. Southern Sudan).
- Cultural considerations. For example, religion prohibits alcohol consumption in some African countries.
- Import restrictions can sometimes prevent production (e.g. hops importation was banned in Nigeria for many years).
- The Mergers and Acquisition department consider specific country risks as part of the due diligence process for the FDI.
- The ability to get raw materials, equipment and spares into the country.
- Countries where funds cannot be repatriated will be avoided.
- Some African countries cannot be operated in due to a strategic alliance with a competitor.

Other Important Factors

- Quality of infrastructure is a consideration, but generally challenges can be overcome. For example, in Sudan the project team are sleeping in tents while the brewery is being constructed.
- With some countries (e.g. Zimbabwe) a long term view is taken in spite of political instability due future potential.

4.3.2 Market

In this section, respondents were asked to identify CSF's in the selection of a target market for their products in the host country.

Tourism

Critical Success Factors

- A hub strategy is adopted so that a particular country (e.g. Nigeria) would be selected as the hub for business in a particular region (e.g. West Africa).

The country in which the regional hub is based needs to have substantial travel volume in and outbound to justify the operation.

- Hub operation would then support franchise operations.
- Large population, number of international airlines and level of business activity (e.g. Oil and gas and mobile telephony).
- Fare yield is critical to compensate for risk.
- Followed major South Africa customers, and initial business could be based on business with those customers.

Other Important Factors

- Relationship between the South African market and Nigeria (having a presence in Nigeria increased outbound business from South Africa).

Construction

Critical Success factors

- Will follow a good customer in almost any market.
- Tend to avoid Public sector contracts (payment risk).
- Generally require a large existing market (i.e. do not enter country in the hope of future growth).
- A large market may result in a permanent presence (e.g. Zambia, Ghana, Angola and the DRC).

Other Important Factors

- Parachute (temporary country presence) approach for smaller markets (e.g. Angola, Mozambique, Malawi, Mali, and Burkina Faso).

Financial Services

Critical Success factors

- Early entry into the market is advantageous when the level of penetration of financial services is low. Timing of entry into the market is critical – too early may carry too much risk, but the cost of entry may be prohibitive if too late.

- Market segmentation is performed using the same methodologies as developed in the Head Office in South Africa. Products are tailored to meet the requirements of different socio-economic groups. Different economic segments have different challenges. For example, in lower economic segments premium collection normally needs to be administered via payroll deductions. Thus, the market segmentation process is critical for the successful development of a business model.
- Both current market size and future growth potential are considered. For example, there may be people without access to bank accounts who still have a requirement for retirement savings (their needs could be addressed in collaboration with an NGO or a social organisation such as church).
- The company would consider following a major customer into a country / market in which they do not currently operate.

Other Important Factors

None specified

Packaging

Critical Success factors

- The size of the target market for packaging is the primary driver. For this reason the company tends to have operations in countries with large populations.
- The market size is driven by the size of customer markets (for example, the market for beer determines demand for packaging).
- Future growth in GDP (and the impact on packaging consumption) is also an important consideration. Angola is a good current example.
- Where possible, customer commitment is obtained in terms of contractual supply volumes.
- First mover advantage is a key consideration. So FDI is less likely where a large competitor already operates. Sometimes the strategy will be to acquire

the large local operator rather than trying to set up a Greenfield operation in competition.

- A hub strategy for is adopted. In this way, an operation may initially only supply a single type of packaging, but once established economies of scale may be attained to support other forms of packaging.

Other Important Factors

- None specified.

Telecommunications

Critical Success factors

- The current and potential size of the market for the product is the most critical factor.
- Need to ensure that the pricing model is based on a sensitivity analysis which incorporates volume and input cost variables. Pricing should also be linked to first world currencies, so that should the local currency depreciate the impact of this can be passed on to the customer.

Other Important Factors

- A market where the product is not locally produced is preferable as first mover advantages can be obtained

Beverages

Critical Success factors

- Existing levels of competition and brand strength are important considerations (e.g. a South African brand may not succeed in another African country due to brand loyalty).
- Market size for beer consumption, both current and potential is the primary driving factor.

- The company generally aims to have the highest market share (this provides economies of scale and the ability to lead on price) Therefore, first mover advantage is often critical.
- Extensive market research is undertaken prior to investment. Economic drivers such as resource deposits and agricultural potential are considered.

Other Important Factors

- Access to distribution channels.

4.3.3 Product

In this section, respondents were asked to identify CSFs in the selection of products (goods and services) to be introduced to the host country.

Tourism

Critical Success Factors

- Product offering was tailored for the local market (e.g. VISA and transfer services were added).
- Brand is very powerful in Africa. The brand to operate under may not be the same as the South African parent.
- Pricing needs to be innovative (e.g. volume rebate structures).

Other Important Factors

- None specified.

Construction

Critical Success factors

- Product may be tailored for unique country requirements (e.g. toll roads and system houses).
- Ability to source locally and / or import cement.
- Ability to acquire quarry sites or empower locals to do so.

- Product supply is dependent on how well raw material supply chain can be controlled (varies from country to country).

Other Important Factors

- Product may be part of a package (e.g. mine plus roads plus housing).

Financial Services

Critical Success factors

- A “product-pull” as opposed to a “product-push” strategy is adopted in Africa. Products are bought, not sold. This means that products are modified from the vanilla SA specifications to meet the unique requirements of other African countries.
- Saving for education is a critical requirement in many African countries; therefore the company has developed products to meet this requirement. In this way the group aims to be socially relevant (without being philanthropic). A long term view is also taken, so by enabling education the group is harvesting a future generation of better educated customers with more sophisticated financial requirements.
- Generally, Africa does not have a culture of savings and investment so the challenge for the company is to provide products and services that will facilitate this in future.

Other Important Factors

None specified.

Packaging

Critical Success factors

- Brand consciousness is critical factor to understand in African countries. Generally brand loyalty is high and any changes may be negatively

perceived. For example, a South African beer brand failed in Kenya due to loyalty to local brands.

- The packaging solution often has to be tailored for the unique requirements of the market. For example, in Angola beverages are commonly distributed in bags of ice for which cans are most suitable.
- Thorough market research should precede the introduction of new forms of packaging as these are often regarded with suspicion.

Other Important Factors

- Traditions in African countries do not change easily and the product must be designed with traditions in mind, as these can be influential in consumption patterns. For example, the 600ml glass beer bottle is the standard packaging for beer in most African countries. The traditions are also influenced by economic factors, so often the most cost effective solution is appropriate.

Telecommunications

Critical Success factors

- Climatic conditions can be critical, for example some materials are not suitable for recharge card production in the Nigerian climate.
- Special security features were required for the Nigerian recharge cards due to the high risk of fraudulent duplication.

Other Important Factors

- The ability to source raw materials, both in terms of the logistics and the duty cost influence the design of the final product.

Beverages

Critical Success factors

- The choice of packaging is critical. Generally, products aimed at the mass market need to be cost effective (e.g. returnable glass bottles).

- One way glass and cans are normally used for premium brands which are aimed at the upper end of the market.
- When a long shelf life is required, cans are most appropriate. Cans are also appropriate when the product has to be transported long distances.
- The choice of packaging is therefore determined by a combination of economic and logistical considerations.
- The market study will also determine the most appropriate form of packaging.

Other Important Factors

None specified.

4.3.4 *Financial returns*

In this section, respondents were asked to identify CSF's in the calculation and assessment of financial returns for the proposed FDI.

Tourism

Critical Success Factors

- Return on investment was justified on “guaranteed” existing SA corporate business. Acceptable returns were calculated on worst case travel volumes.
- Need to get the cost of expatriate employee's right in the financial model. This is often under-estimated.
- Level of working capital (large debtor book) can be easily under-estimated. In many African countries credit card transactions are not accepted.
- Cost of communication and the IT platform needs to be properly budgeted for.
- Time frame to establish the operation needs to be reasonable (will take 3 to 4 times longer than in South Africa).

Other Important Factors

- Need to factor in travel costs of South African executives to establish the operation.
- Funds required for ticket guarantee need to be budgeted for.

Construction

Critical Success factors

- Financial returns need to be commensurate with risk. Rule of thumb is double the required rate in South Africa.
- Mitigate currency risk by requiring contracts to be USD denominated.
- Extensive models have been developed to quantify risks in the calculation of returns.

Other Important Factors

None specified.

Financial Services

Critical Success factors

- Normally a hurdle rate is required to justify the operation (and take cognisance of the level of investment risk).

Other Important Factors

- Sometimes the investment may still be made at rates lower than the hurdle rate. This will occur when the group makes the investment for strategic reasons.

Packaging

Critical Success factors

- The company generally requires a premium return for African operations. For example, if South African Weighted Average Cost of Capital is 13% then the African equivalent would be between 18% and 25%. This is a broad guideline, and the company may accept lower returns where the customer shares some of the risk (for example by guarantee of minimum volumes).
- Where possible, the investment is hedged by local borrowings but the downside of this is that interest rates are generally very high in Africa.
- Raw material prices are subject to fluctuation due to exchange rate and commodity price changes. For this reason, contracts are normally structured so that these changes can be passed on to the customer.

Other Important Factors

None specified.

Telecommunications

Critical Success factors

- An internal rate of return in excess of 30% (compared with a South African requirement of 18% to 20%) with a 2 year payback period was required to compensate for the risk of doing business in Nigeria.
- The investment was geared via a combination of shareholder and bank loans. Therefore, the cost of borrowing was factored into the calculation of the return.
- Local bank borrowings were obtained without parent company guarantees. Equipment and accounts receivable of the operation were used as security.
- A sensitivity analysis on returns was performed to determine the impact of cost and volume changes. In this way, best, worst and expected cases were developed. The sensitivity analysis also helped to identify which variables were most influential on financial returns. In the case of the recharge card plant in Nigeria, returns were most sensitive to production volume changes.

Knowing this enabled management to focus on ensuring production targets were met (even at the cost of other variables, such as overhead costs)

Other Important Factors

- None specified.

Beverages

Critical Success factors

- WACC is determined for each country, taking into account the risks that pertain to that country.

Other Important Factors

- Generally, local borrowing is not possible in the initial stages of the investment so most financing is via equity.

4.4 Results pertaining to Research Question 2 – CSFs for the establishment FDI

In this section, respondents were required to classify their FDI in tabular format (refer to Appendix B). The results of this are presented graphically below.

4.4.1 Summary of modes of entry used by respondents

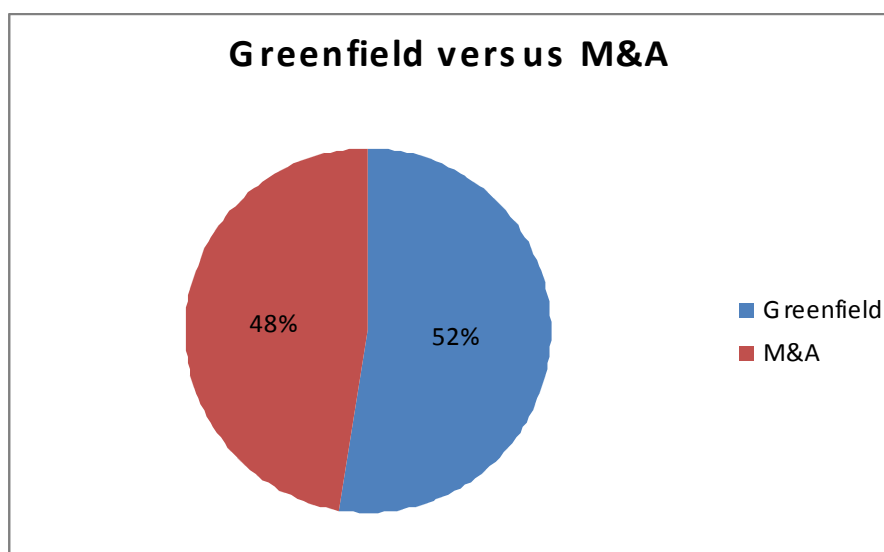


Figure 13: Greenfield versus M&A

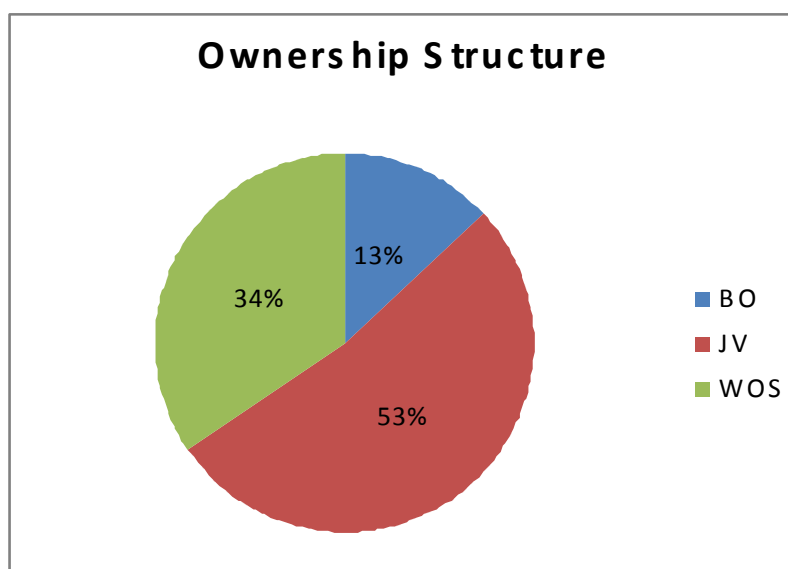


Figure 14: Ownership Structure

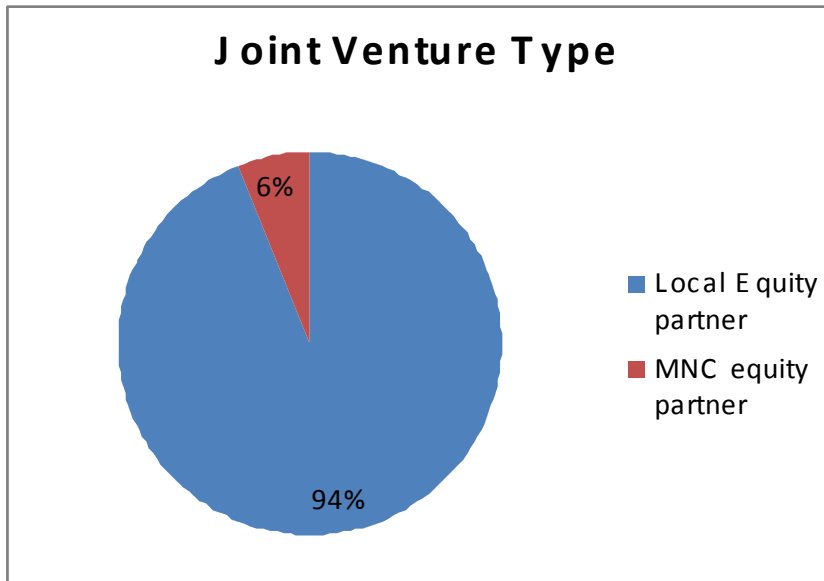


Figure 15: Joint Venture Type

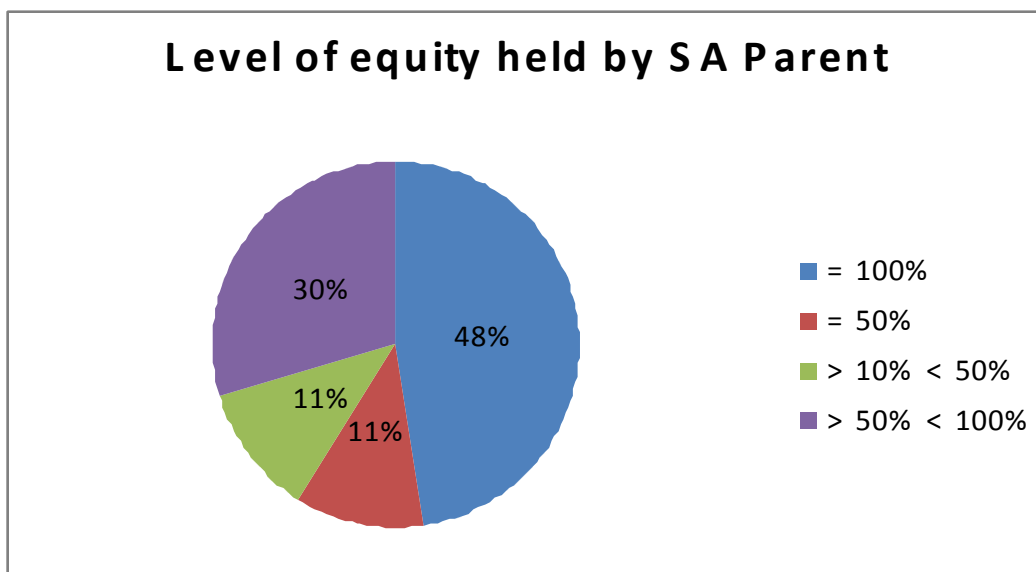


Figure 16: Level of equity held by SA Parent

Note: For purposes of figure 16 above, branch operations were classified as 100% owned.

4.4.2 CSFs for the selection of the mode of entry for FDI

In this section, respondents were asked to identify CSFs for the selection of the mode of entry for FDI into the host country.

Tourism

Critical Success Factors

- Local partner selection (assist with many business and admin challenges).
- Forming a JV with a local partner gave access to an immediate revenue stream.
- Key staff taken over from partner.
- Partner selection key to initial set up challenges (e.g. location).
- Merging with an established business less risky than starting from scratch.

Other Important Factors

- Restraint of trade with local partner needs to have right scope to be enforceable.
- Ideally partner should be selected on short term and long term requirements. Therefore, need a clear long term strategy for the business from the onset.

Construction

Critical Success factors

- Normally required to register a local entity, and employ a proportion of local employees. Governments generally want to see evidence of in-country expenditure.
- Typically the company has a local equity partner. The objectives are:
 - The local partner should add value to the company;
 - The partner should introduce the company to key contacts; and
 - The partner should be able to provide logistical and administrative assistance.

- The structure of the local entity should ensure access to key assets (e.g. land).

Other Important Factors

- Local entity may also be more efficient for tax, foreign exchange and import/export issues.

Financial Services

Critical Success factors

Local equity partners in African operations are desirable for the following reasons:

- They help to integrate the company into the culture of the community and
- They help to make the company socially relevant.

The company normally wants at least 51% of the equity in the foreign operation, although 75% to 80% is even more desirable.

Local equity partners are selected based on:

- Similar values to the company;
- Agreement with the group's strategic intent;
- Value to be extracted (e.g. knowledge of local market); and
- Ability to contribute capital for the equity share.

Other Important Factors

None specified.

Packaging

Critical Success factors

- The company generally attempts to own 100% of the equity of its foreign operations. Outside shareholders can create management issues, and wholly owned operations are easier to control.
- Factors which drive joint ventures:
 - Customer requirement.
 - Listing is required in terms of local regulations.
- Local partner knowledge is essential to do business in some countries.

Other Important Factors

None specified.

Telecommunications

Critical Success factors

- Two Nigerian partners acquired a combined stake of 25% of the equity. This was critical for the following reasons:
 1. Local partners paid cash for their interests which reduced the risk to the parent company.
 2. The partners had a well established network of political and business connections, and assisted with issues as these arose.
 3. Helped to get tax pioneer status (tax exemption for 3 years) for the operation.
 4. Helped to introduce the company to other customers.
 5. The partners assisted the company to identify the most appropriate location for its operations.

Other Important Factors

- Whilst not specifically required, economic advancement of locals was positively perceived by the local authorities.

Beverages

Critical Success factors

- Acquisition of existing breweries has been the preferred mode of entry, as normally less risky.
- Local partners are used to share risk, assist with government and local issues. If the company were to enter the Nigerian market, they would look for an equity partner.

Other Important Factors

- In some countries, such as Angola, an equity partner is required by law.

4.4.3 *Other CSFs for FDI establishment*

In this section, respondents were asked to identify any other CSFs in the establishment phase of FDI.

Tourism

Critical Success Factors

- Key functions (e.g. Financial Director) were filled by South African expatriates.
- Expatriate staff is complemented with skilled local staff.
- Finding office space in the right area for a fair price. Need to negotiate lease agreement with renewal and escalation clauses.
- Getting IATA (International Air Transportation Association) license: a small company was acquired for this.

Other Important Factors

- Finding suitable accommodation for the expatriate staff.

Construction

Critical Success factors

- Thorough understanding:
 - Taxation laws;
 - Legal system;
 - Financial market; and
 - Client requirements.
- Payment certainty upfront (where is the money coming from?).
- Level of complexity of the project determines level of project management competence required.
- Local partner selection is critical in the establishment phase.

Other Important Factors

None specified.

Financial Services

Critical Success factors

- The company performs a brand study to establish link with their own brand and comparative strength of the company being acquired. The existing brand may be retained, depending on this assessment.
- Location of the operation is carefully considered. Sometimes a new location is preferable.
- Integration of cultures of the organisation being merged with or acquired, and the company's own culture.
- The company normally attempts to control the key positions in the organisation, and ensure that the values of these individuals are congruent with those of the company.

- The structure of the organisation in the context of the company's own matrix structure. In this process overlaps and gaps may be identified.

Other Important Factors

- Once the new structures are put in place, the operation will go through a consolidation phase. A post acquisition review is also performed to determine if acquisition targets and assumptions are being achieved.

Packaging

Critical Success factors

- For Greenfield operations, the ease of acquisition of land and buildings is critical. For this reason, Greenfield operations are often a second choice as it may be easier to acquire a company with secured land and building rights.
- Supply of utilities, such as water and power.
- The location of the facility in terms of its proximity to the customer.

Other Important Factors

Condition of roads as the product may have to be transported to the customer.

Telecommunications

Critical Success factors

- Location in proximity to the customer was critical (e.g. establishment of the facility in Lagos, as this was where the main customer and its market were located).
- Detailed project planning and regular status review supported the establishment of the facility. There were also regular visits from parent company executives to Lagos to support the locally based management team.
- The assistance of the local partners to secure a suitable site proved to be critical.

- A limited number of expatriate employees were used in key roles (e.g. General Manager, Financial Director and Operations Director).

Other Important Factors

- Sufficient allowance was made in the project plan for the training of local employees.

Beverages

Critical Success factors

- Location of the brewery is critical. Needs to be near to reliable water supply, and close to the target market.
- Rights to water supply need to be secured.
- Other raw materials may need to be imported, so the regulatory procedures must be fully understood.
- A project management team of 15 people in the hub office in Johannesburg is used to support the establishment of the new facility.

Other Important Factors

- Where possible, components of the brewery are pre-fabricated in South Africa to simplify the construction on site.

4.5 Results pertaining to Research Question 3 – CSFs for the on-going management of FDI

4.5.1 *Risk Mitigation*

In this section, respondents were asked to identify the critical risks which need to be addressed / mitigated to ensure the enduring success of FDI.

Tourism

Critical Success Factors

- Turnover of expatriate staff. Therefore, it is critical to keep the local expatriate staff satisfied and motivated. Regular contact and visits required from parent company executives supported this.
- Backup Information Technology systems (e.g. run on two networks and have a generator which can be used for alternative power supply).
- Product quality / service delivery must be monitored and maintained to avoid brand damage.
- Need to have sound financial internal controls in place with a strong Financial Director to enforce.
- As most transactions are on terms, management of cash flow and outstanding accounts is critical.

Other Important Factors

None specified.

Construction

Critical Success factors

- Adequate insurance cover must be in place for the operation.
- Appoint joint venture equity partners to share in the risk.
- Understand country weather patterns.
- Minimize the amount of cash held in country (need to get the timing of the cash flows right).
- Public sector contracts normally create a payment risk (use letters of credit to mitigate this risk).
- Local agents can provide commercial and political support.
- Need an intelligence network to monitor potential country changes.
- Understanding the cultural practises in order to mitigate risk of causing offence to the local community.

- The company is clear to define its governance standards upfront (no bribery, full and complete invoicing etc.) in dealing with local partners, agents and suppliers.

Other Important Factors

- Company staff prefer to live along side locals (as opposed to living in an expatriate compound) to avoid being perceived as elitist.

Financial Services

Critical Success factors

- The risk management process is critical for on-going operations. For this purpose, all business units have risk managers and compliance managers. The risk profile of the operation is reviewed on a monthly basis. Risks are ranked according to severity and likelihood (exposure and probability). Controls to mitigate the risks are then factored in, and the residual risks can then be assessed. There are basically two options with respect to the residual risks:
 - i. Live with the risk; or
 - ii. Transfer the risk (via hedging or insurance).

Other Important Factors

None specified.

Packaging

Critical Success factors

- Building relationships with local bankers and lawyers can be critical to manage financial and legislative issues that arise.
- Often best to seek out advice from customers who may already have experience in dealing with certain issues.

- Building good relationships with government (both at a local level and with the SA embassy) can prove to be important.
- Keeping up to date with the local tax legislation.
- The company has a policy of absolute avoidance of bribes in any form, and will avoid using agents with dubious ethics, even if this may mean delays in the establishment of the operation.
- In some countries changes in climatic conditions must be anticipated, and production should be scheduled accordingly.

Other Important Factors

None specified.

Telecommunications

Critical Success factors

- There were regular visits by government officials to the operation so it was critical to ensure that stipulated targets (e.g. number of local employees) were met.
- Reliable local suppliers must be used. In some instances, suppliers changed their materials to inferior quality which resulted in loss of production.
- Avoid all bribery approaches.

Other Important Factors

- Understudies were groomed for the expatriate roles. For example, the Financial Director role was eventually assumed by a Nigerian. In this way, the sustainability of the operation is ensured as expatriate work permits are time bound.

Beverages

Critical Success factors

- A risk register, which categorises risks according to a matrix of severity and probability, is maintained (and regularly updated) for each country. The risk

register is regularly submitted to the Africa hub office in Johannesburg for review.

- The group policy is absolute avoidance of any bribery and corruption within the countries in which it operates. Each operation's Managing Director and Financial Director are required to sign letters to the effect that none of these activities has been undertaken.
- Climatic conditions are important to be monitored for each country as these can influence both production and demand of beer.
- Pricing of raw materials (e.g. hops and barley) is critical, so the company attempts to secure pricing by entering into forward contracts (e.g. barley futures).

Other Important Factors

None specified.

4.5.2 *On-going management*

In this section, respondents were asked to identify CSFs for the on-going management of FDI.

Tourism

Critical Success Factors

Actively manage the partner relationship with regular visits and communications. Requires on-going management time and cost commitment.

Other Important Factors

- Creative pricing structures (e.g. free tickets and volume rebates)

Construction

Critical Success factors

- Management of the logistical supply chain & regulatory hurdles (e.g. import permits).
- Empowerment and training for local community is critical in order to build long term relationships of trust.
- Parent company office provides support to project teams (via regular site visits). This ensures adherence to group policies in the following areas:
 - Finance;
 - Tax;
 - Communications;
 - Human Relations;
 - Legal;
 - IT infrastructure;
 - Customer relationships; and
 - Corporate governance.
- The company aims to optimise the balance between allowing autonomy of decision making on site and compliance to company policies.
- Provision of financial incentives to staff for the attainment of performance & compliance objectives (health and safety, financial targets, on-time and quality project deliverables).

Other Important Factors

- Communicate performance graphically where possible.
- Top Management Team normally comprises expatriate staff.
- Often senior and middle management are sourced locally (The company attempts to build a trust relationship with the local community).

Financial Services

Critical Success factors

- The attitude of the expatriates based in the foreign operation is critical. They should have:
 - Passion;
 - Dedication;
 - Commitment to the group's vision; and
 - A sense of adventure / fun.
- Reporting mechanisms need to be established to track delivery of value in the following areas:
 - Achievement of desired economies of scale;
 - Synergies and cost savings are achieved; and
 - Shared service centres are run efficiently.
- The Top Management Team (TMT) of the foreign operation is developed as follows:
 - There is an initial three month training and induction process at the company's head office in South Africa. This is so that the TMT understands the company's values and makes contact with head office staff that they will subsequently have to deal with. This process is aimed at creating a sense of belonging.
 - Once the TMT is in place at the operation in the host country, there are monthly video conference meetings at which key performance measures are reviewed.
 - The foreign operation is also visited on a bi-annual basis by a team from head office in order to provide regular on site guidance. The TMT are

also given the opportunity to present performance and strategy at these sessions.

- The company tries to encourage local resident participation on the TMT, but sometimes this needs to be complemented with expatriate staff.

Other Important Factors

None specified.

Packaging

Critical Success factors

- Expatriates are used as little as possible due to very high cost and resistance from local authorities. About half of the African operations are run by locals.
- The top management team of newer operations tends to be expatriates due to lack of technical, management and financial skills locally. With time, in the more mature operations, these skills are transferred to local employees. The handover process generally takes a long time.
- Financial departments of African operations undergo more frequent internal audits than SA operations.
- Under-performers should not be sent to African countries where challenges will be more intensive.

Other Important Factors

None specified.

Telecommunications

Critical Success factors

- The General Manager role for the operation proved to be critical. The GM needed to have passion, drive and commitment to the success of the operation.

- The expatriate team was provided with financial incentives to meet and exceed production and profitability targets. The incentive scheme was funded from profits generated by the operation.
- The General Manager, and the expatriate team, needs to have the right attitude to put up with difficult living conditions.
- Succession planning, accompanied by training of local employees is critical.

Other Important Factors

None specified.

Beverages

Critical Success factors

- Due to their high cost, use of expatriate employees is minimised. However, in Africa as a result of skills shortages operations almost always require expatriate support (especially technical and financial roles).
- The top management team in the company's African operations tends to be expatriates.

Other Important Factors

Although every effort is made to localise skills as much as possible there is often resistance to the appointment of locals to top management from within their own ranks, as expatriates are perceived to be more skilled. This perception needs to be carefully managed.

4.6 Other CSFs for FDI

In this section, respondents were asked if, in their experience, there were any other CSF's for FDI not covered in the preceding questions.

Tourism

- South African Reserve Bank (SARB) approval is required for the establishment of the FDI. A strategy and process are required to deal with this.
- An airline guarantee is required in order to trade locally. A process was followed to implement this. Local partner assisted to provide collateral.

Construction

- The company studies world trends to position their products into the right markets in the right countries. Current focus areas:
 - Oil and gas;
 - Commodities; and
 - Housing & accommodation.
- Long term relationship building with MNC's is key to strategy and hence FDI decisions.
- The company focuses on their core competencies, for example:
 - Mining; and
 - Project Management.
- The company has diversified vertically in the construction industry. This creates the ability to offer more cost effective package solutions.
- The solution should:
 1. Identify client needs.
 2. Address client needs.

Financial Services

None specified.

Packaging

- The African operation should receive as much technical and financial support from the holding company. The company's Zimbabwean operations are a good example of this.

- A positive attitude is critical for local and head office management, given the challenges posed by African investments.
- The ability to ride through tough times and maintain a positive long term outlook (e.g. Zimbabwe).
- The African operations must be able to trade at arm's length with the local customers, without guarantees from the parent company.

Telecommunications

- Having a well thought out exit strategy could be critical in order to mitigate losses in the event of disaster (e.g. civil war).

Beverages

- The company has a “Pioneering Spirit” when it comes to investment in Africa and is not afraid to act boldly when an opportunity is identified. Employees that embrace this attitude are employed in the African operations.

4.7 Summary of the results

The table below summarises the data gathered above by extraction of key words and phrases linked to each response. Critical and important factors have been highlighted. This table, together with the graphical data prepared for modes of entry (section 4.4.1 above) have been used as the basis for the discussion of results in chapter 5.

4.3.1 HOST COUNTRY		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	Repatriation of funds Ease of communication Skills availability Infrastructure (esp. IT)	Ability to overcome cultural differences
Construction	Competitive advantage Prior country experience Country risk assessment Political stability Employee safety Ease of communication Certainty – tax & forex. Repatriation: cash & equipment Low level corruption Certainty – title to land Raw material availability Labour skills Work permits	In-country intelligence: management of political issues Relationships with local chambers of commerce.
Financial Services	Country research Stable legislation Repatriation of funds Skilled labour Local empowerment Infrastructure (esp. IT) Population size & growth Income per capita GDP growth Inflation control policies Penetration of financial services Understanding of cultural issues Holding company synergies Prior country experience	Favourable tax regime for FDI

BUSINESS SECTOR	CSF	IMPORTANT
Packaging	Ability to borrow locally Repatriation of funds Infrastructural challenges Skills availability Ease of communication Certainty – title to land	Favourable tax regime for FDI Level of bureaucracy
Telecommunications	Political stability Repatriation of funds Infrastructure availability Ability to source local funding (debt & equity) Skills availability	Tax incentives
Beverages	Safety of employees Political stability Cultural issues Import restrictions Country risk assessment Ability to import equipment & materials Repatriation of funds Strategic alliances	Quality of infrastructure Long term strategic view
4.3.2 MARKET		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	Hub strategy – select country with highest travel volume Size of local market Fare yield Follow major SA customers	Relationship between host market and SA market
Construction	Follow good customers Avoid markets with payment risk (e.g. public sector) Large market – results in permanent presence	Temporary approach for smaller markets

BUSINESS SECTOR	CSF	IMPORTANT
Financial Services	Timing of market entry Market segmentation Market size Future market growth Follow major customer	None specified
Packaging	Size of local market Size of customer's market Future growth in GDP Customer commitment First Mover Advantage Hub strategy	None specified
Telecommunications	Market size Future market growth Pricing model – sensitivity analysis Link pricing to first world currencies	First Mover Advantage is preferable
Beverages	Existing levels of competition and brand strength Market size Future market growth First Mover Advantage Market research	Access to distribution channels

4.3.3 PRODUCT

BUSINESS SECTOR	CSF	IMPORTANT
Tourism	Tailor product for local market Brand Power Innovative pricing	None specified
Construction	Tailor product for local market Availability of raw materials Control over the supply chain	Package approach to supply of products (e.g. mine, plus roads and housing)

BUSINESS SECTOR	CSF	IMPORTANT
Financial Services	Tailor product for local market Long term view for product evolution	None specified
Packaging	Brand consciousness Tailor product for local market Market research	Local customs and traditions
Telecommunications	Climatic conditions Special product security features	Ability to source raw materials
Beverages	Tailor product for local market Market study / research – suitable product	None specified
4.3.4 FINANCIAL RETURNS		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	ROI based on guaranteed volumes Cost of expatriates Working capital investment Infrastructure costs Timeframe to establish	Travel costs of SA executives Ticket guarantee funds
Construction	Returns commensurate with risk Mitigate currency risk by denomination of contracts in USD Financial modelling: risk / return trade off	None specified
Financial Services	Hurdle rate for returns to compensate for risk	May be strategic reasons for the investment
Packaging	Premium return to compensate for risk Hedge by local borrowings Pass raw material price changes to customer – contractually	None specified

BUSINESS SECTOR	CSF	IMPORTANT
Telecommunications	Premium return to compensate for risk Mitigate risk by local financing (debt & equity) No parent guarantee support Financial modelling: risk / return trade off	None specified
Beverages	Premium return to compensate for risk (country specific)	Initial financing tends to be via equity, as local borrowing often not possible
4.4.2 MODE OF ENTRY		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	Local partner selection Merger less risky	Consider restraint of trade with local partner Partner selection based on short & long term strategy.
Construction	Local country legal entity requirement Local equity partner (add value, key contacts & logistical assistance) Structure of the local entity should ensure access to key assets (e.g. land)	Local entity more efficient for tax, foreign exchange and import / export issues
Financial Services	Local equity partners are desirable (cultural integration and social relevance) Process of selection of LEP	None specified
Packaging	Aim for 100% of the equity JV – customer / listing Sometimes LEP knowledge essential	None specified

BUSINESS SECTOR	CSF	IMPORTANT
Telecommunications	LEP critical (cash, business network, tax exemption, customer access, location)	Economic advancement of locals positively perceived by local authorities
Beverages	Acquisition less risky LEP – share risk and help with regulatory issues	In some countries, a LEP is required by law
4.4.3 OTHER CSFS FOR FDI ESTABLISHMENT		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	Key functions filled by expatriate staff – complement with locals Location of operation IATA license	Expatriate accommodation
Construction	Upfront knowledge – Tax, legal system, financial market, client requirements Payment certainty Project management LEP critical in establishment phase	None specified
Financial Services	Brand study Location of operation Cultural integration Control key positions Organisational structure	Post acquisition review
Packaging	Acquisition favoured – title to land & buildings Supply of utilities Location of the facility	Condition of roads – transport of product to customer

BUSINESS SECTOR	CSF	IMPORTANT
Telecommunications	Location of the facility Detailed project planning LEP assistance (especially location) Expatriate employees fill key roles	Allowance in the project plan for training of local employees
Beverages	Location of the facility Rights to water supply Importation permits Project management – support ex head office	Pre-fabrication of facility in South Africa
4.5.1 RISK MITIGATION		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	Manage the turnover of expatriate staff – support and visits from parent company executives Back up IT and power supply systems Monitor product quality to protect brand Sound financial controls & strong FD Management of cash- flow and working capital	None specified

BUSINESS SECTOR	CSF	IMPORTANT
Construction	Adequate insurance cover for the operation LEP share in risk Climatic conditions need to be understood Cash-flow management Payment risks In country agent & intelligence network Understand cultural practices Clearly defined corporate governance standards (no bribes)	Expatriate staff live side by side with locals to integrate into the community
Financial Services	Regular structured risk reviews – risk managers. Consider insurance and hedging to mitigate	None specified
Packaging	Build relationships with local lawyers and bankers Seek customer advice Build good relationships with government and local SA embassy Keep up to date with local tax laws Avoid corrupt practices Climatic conditions	None specified
Telecommunications	Compliance with government targets (e.g. % local employees) Reliable local suppliers Avoid corrupt practices	Groom local employees to eventually fill the expatriate roles

BUSINESS SECTOR	CSF	IMPORTANT
Beverages	Structured approach to risk management via a risk register Avoid corrupt practices Climatic conditions Forward contracts for raw material prices	None specified
4.5.2 ON-GOING MANAGEMENT		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	On-going management of the LEP relationship	Creative pricing structures
Construction	Management of the supply chain. Training and empowerment of locals. Parent office support (Finance, tax, HR etc.) Balance autonomy with compliance. Provide financial incentives to meet targets	Communicate performance graphically. TMT normally expatriate staff. Senior and middle management often locals.
Financial Services	Expatriate staff attitude must be positive Reporting mechanisms to track targets TMT induction process at head office TMT mix of locals and expatriates.	None specified

BUSINESS SECTOR	CSF	IMPORTANT
Packaging	Limit use of expatriates due to high cost With time, expatriates are replaced with local employees Frequent internal audits of the financial departments Avoid use of under-performing expatriate staff	None specified
Telecommunications	GM role critical Financial incentives and targets for the expatriate team Attitude of expatriate team Succession planning and training for local employees	None specified
Beverages	Minimize use of expatriates – cost, required due to skills shortage. TMT tends to be expatriates.	Manage negative perception of locals towards members of TMT appointed from within their own ranks.

4.6 OTHER CSFS FOR FDI		
BUSINESS SECTOR	CSF	IMPORTANT
Tourism	SARB approval Airline guarantee	Not applicable.
Construction	Study current market trends to position right products in the right markets. Build long term relationships with MNC's. Focus on core competencies. Vertical diversification Solution must properly identify and address client needs.	Not applicable.
Financial Services	Nothing further specified	Not applicable.
Packaging	Financial and technical support from parent. Positive attitude – local and head office staff. Long term view (e.g. Zimbabwe) Foreign operation must be able to trade at arm's length.	Not applicable.
Telecommunications	Well thought out exit strategy.	Not applicable.
Beverages	Attitude of employees to African investment – pioneering spirit.	Not applicable.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

CSFs which have general applicability to FDI in SSA have been identified for each research question. These factors have been identified from the summary of results presented in chapter 4 above, using the following criteria:

- Consensus across two or more of the respondents;
- Linkage to factors identified in the literature review; and
- In some cases, factors which logically seem to have general applicability.

Other important factors considered to have general applicability identified are mentioned incidentally.

In some cases data generated from one research question had applicability to another question. Data were grouped according to the research question which had a dominance of similar responses. For example, a CSF raised under “Host Country” may be grouped with “Financial Returns”.

A brief discussion (in italics) has been recorded to elaborate on the meaning of each factor, the strength of representation and links to the literature review (where applicable). The CSFs identified have not been ranked, and are numbered merely for purposes of identification.

5.2 Demographic profile of respondents

In depth interviews were conducted with six executives who had extensive experience in the field of FDI in SSA. Each of these interviews can be regarded as a mini case study. The respondents were sourced from companies in six industries, namely Beverages, Packaging, Financial Services, Construction, Tourism and Telecommunications.

Twelve companies were initially targeted, from six industries (refer to Table 4 above). Four out of the 12 companies targeted were surveyed, and two other companies were included in the research so that data could be gathered from six industries.

The research was intended to provide a checklist of factors considered to be critical for successful FDI, thus coverage across a number of industries was desirable in order to generate common factors which would have general applicability.

Whilst the sample size is small, and will not allow for statistical inference, the research methodology allowed for the gathering of rich and detailed data from each of the respondents.

5.3 Critical Success Factors - Host Country

Critical Success Factors

1. The ease with which funds and equipment can be repatriated.

This was the single most dominant factor for Host Country, and was raised by all respondents. Bosa (2002) identified government policies favourable to investors as being vital for successful FDI. Countries with repatriation restrictions should be avoided as this makes the realisation of investment returns into cash difficult.

2. Ease of communication.

Kotller and Keller (2006b) state that companies prefer markets where they feel comfortable with language, laws and culture but caution that this may mean that more lucrative markets are ignored. The implication of this is that companies need to be aware of communication challenges related to FDI, particularly where the Host Country language is different to the parent company.

3. The availability of labour skills and raw materials.

Lack of labour skills and/or raw materials may not preclude FDI, but may make it more challenging as these would have to be imported which will have cost and time implications. Charalambous (2006) and Bosa (2002) identified labour skills as being important. Agodo (1978) defined the presence of raw materials as a determinant for FDI.

4. Prior country experience

Having prior country experience allows a company to tap into a knowledge base of the challenges it is likely to face in further FDI. The implication of this is that companies need to maintain documentation and databases of issues pertaining to FDI for specific countries to ensure that future FDI can benefit from previous lessons. Galán and González-Benito (2001) found that prior experience was the single most dominant factor for the determination of the location of FDI.

5. Political stability.

Charalambous (2006) identified country governance and political risk as being one of nine most important factors for FDI. This contradicts the work of Galán and González-Benito (2001) who found that political stability was not a determinant factor for FDI (refer table 1). The implication of this may be that companies are willing to consider FDI in politically unstable countries, provided that the associated risks can be managed.

6. Employee safety.

Employee safety was not specifically identified in the literature review, but two of the respondents surveyed raised this as critical. These companies are not prepared to place their profitability ahead of their employee's health and safety. It is submitted that most responsible South African companies would have a similar view. The implication is that a thorough health and safety audit of conditions in the host country should be undertaken as part of the FDI due diligence process.

7. Regulatory certainty – Taxation, Importation, Work permits and Title to land.

Bende-Nabende (2002) found that FDI liberalisation policies were a dominant country factor. Therefore, it is critical for companies to understand regulatory challenges that relate to taxation, importation, work permits, land title etc. which relate to the host country.

8. Sensitivity to local cultures, customs and practices.

Charalambous (2006) defined cultural considerations as an important factor. This was supported by two of the respondents who believe that an appreciation of local cultural issues is critical for the introduction of new products, and the way in which business is conducted.

9. Adequacy of Infrastructure (Roads, Utilities, IT platforms).

Four of the respondents rated this factor as critical, and one as important. In contrast, González-Benito (2001) found that the quality of infrastructure was not a determinant factor for location. This would suggest that infrastructural challenges can be overcome, but are critical to be addressed in order to ensure success of the investment.

Other Important Factors

- I. Establishment of an in-country intelligence network.
- II. Good relationships with local chambers of commerce
- III. Favourable tax regime for FDI.
- IV. Level of bureaucracy
- V. Developing a long-term strategic view.

5.4 Critical Success Factors – Market

1. Size of local market and potential for future growth.

This was the single most dominant factor, and was raised by all respondents. This is supported by Galán and González-Benito (2001), who found that market size and growth potential were the strongest determinant factors for the choice of location of FDI. Bende-Nabende (2002) identified the current market size and future growth potential as dominant long-run determinants for FDI. The implication of this is that companies need to be confident that the current market for their product is strong enough to justify the FDI or that there is sufficient future potential.

2. Follow a customer into the market.

This was identified by four of the six respondents as critical. The implication being that the success of FDI often depends on the success of the customer in the foreign market. Therefore, it is critical to understand the customers' assessment of the probability of success of its products in the host market. In contrast, (Galán and González-Benito 2001) found that only 7.77% of firm's surveyed rated the need to follow traditional customers as a determinant factor for FDI (refer to Table 3 above). In a South African context, there appears to be an extension of trading relationships between South African companies into SSA so that the propensity, and the probability for success, of a South African company embarking upon FDI in SSA is enhanced if an existing South African customer company already operates in the host market or has expansion plans. This would only be critical where the company does not supply directly to the general public.

3. Timing of entry into the market (first mover advantage)

Four of the six respondents rated this as critical. Three of the respondents felt that being first to market (first mover advantage) was critical, whilst the fourth respondent felt too early entry posed risk, whilst too late would mean missed opportunities. (Kotler and Keller 2006b) argue that where first mover advantage

is crucial speed of entry is important. It is submitted that generally companies favour FDI where they can enjoy first mover advantages (such as highest market share and the ability to lead on pricing), as this advantage may mitigate the inherently high risks associated with FDI.

4. Market segmentation and Market Research

Whilst only two of the respondents rated this as critical, there is support in the Literature. Slywotsky et al (2006) argue that companies which globalise need to have strong segmenting capabilities. By understanding the requirements of segments of the host market, a company can determine which products to position to which segments, and how its South African products should be tailored to meet the requirements of the host market segment.

Other Important Factors

- I. Current and future trade opportunities between the South African market and the SSA host country market.
- II. Access to distribution channels within the market for the company's goods and services.

5.5 Critical Success Factors - Product

1. Degree of product customisation

Four of the six respondents rated this as critical. The consensus opinion was that products and services which succeeded in the South African market could not necessarily be introduced into the Host Country market in an identical format, but often required customisation to be relevant and attractive for the host market. This was supported by Slywotsky et al (2006) who found that market segmentation was important for companies to be able to understand the degree to which product customisation is required. The implication is that companies need to understand the degree to which their products meet the requirements of the target market in the Host Country, and hence the degree to which these products will need to be modified.

2. Brand awareness

Respondents discussed this under both product and market, as it was considered a critical consideration in an African context, where consumers are highly brand aware. This applies to both the strength of existing product brands in the host country, and the strength of a new brand being introduced. An example was given of a new product failing in the host market, purely due to loyalty to the local brand. The implication is that companies should understand of how the brand of their product is likely to be perceived within the market in the host country, and make modifications where necessary.

3. Ability to source raw materials

This was raised under product and host country by respondents involved in manufacturing or similar processes (Construction, Packaging, Telecommunications and Beverages). The implication being that reliable raw material supply is a critical success factor for these industries, and should raw materials be unavailable in the country, then the processes and costs to import need to be factored into the supply chain.

4. Climatic conditions

Climatic conditions in the host country were regarded as critical by three of the respondents, both from the perspective of the manufacturing process of the product and demand for the product. Sometimes, raw materials which may be suitable for production in the relatively predictable and moderate South African climate will not be suitable in other African countries. The implication is that South African companies need to understand how the production process and demand for their products will be influenced by Host country climatic conditions.

Other Important Factors

- I. Products and services should not be considered in isolation when being introduced into the host country, but rather a package approach should be adopted as often it is the combination which is attractive rather than the individual goods and services.

- II. Local customs and traditions need to be respected when a new product or service is introduced.

5.6 Critical Success Factors – Financial Returns

1. Risk / Return trade-off

All of the respondents stated in one way or another that the financial returns from FDI needed to be commensurate with the inherently high levels of risk. Generally, companies expected to earn a premium on their weighted average cost of capital (WACC) on FDI. The expected rate of return was found to be a determinant factor for U.S manufacturing investments in Africa (Agodo 1978). The implication of this is that companies need to have financial modelling capabilities to understand the variables that drive returns (e.g. cost, volume, price etc.) and how these can be optimised to yield high returns on FDI.

2. Financing structure

The ability of the South African parent company to source local funding in the Host Country (debt and equity) was raised by respondents under this section and under the Host Country section as being critical in order to reduce the level of financial risk to the parent company. Debt denominated in local currency may also reduce the company's exposure to foreign exchange rate changes. One of the respondents remarked that on the downside, debt is often very expensive in African countries and difficult to source. Another respondent stated that sometimes a local equity partner is required in terms of legislation. Osland et al (2001) concluded that there is a trade off between the level of control that the parent company is willing to relinquish, the amount of resources it is willing to invest and the level of exposure to technology risk (risk of transfer of the company's applied knowledge to a local firm). Another respondent remarked that local equity partners were generally avoided as the management challenges associated with them (such as slower decision making) were often not worth the equity that could be introduced. The implications are that the selection of the financing structure for FDI is critical, but there are a number of variables to be considered within this decision such as the cost and availability

of debt, the amount of equity that may be introduced by local partners, the exposure of the company to potential loss of applied knowledge to a local company and the administrative complexity of introducing a local partner.

3. Working capital

The amount of time taken for a company to convert its business activities (goods or services) into cash will be directly proportional to the level of working capital investment required (amount of cash required to finance inventories and accounts receivable). In SSA (excluding South Africa), this time frame is often longer than would be the case for a similar business in South Africa. Whilst this point was only raised by one of the respondents it is submitted that the level of working capital investment required is critical for any company embarking on FDI in SSA to understand.

4. Pricing structure

Product pricing considerations were raised as critical by respondents under this section, and on-going management. These considerations included the ability of the company to pass on raw material price increases to its customers, linkage of pricing to exposure to first world currency volatility against local currency and creative pricing / rebate structures which may be expected in the host country market.

Other Important Factors

- I. The costs of South African executives travelling into the Host Country, particularly during the establishment phase of the foreign operation, needs to be factored into the assessment of the investment. These costs tend to be high, and are often under-estimated.
- II. Sometimes funds are required initially for licenses to operate, or as guarantees.

5.7 Critical Success Factors – Mode of Entry

1. Greenfield versus Merger / Acquisition

The data gathered in this research (refer figure 13 above) would suggest that SA companies marginally favour Greenfield investments (52%) versus Mergers with or acquisition of firms in the host country. It is submitted that this bias is probably due to the fact that often the goods and services being introduced are not available in the host market, which makes the Greenfield investment a necessity. Two respondents stated that mergers or acquisitions were preferred as acquisition of an existing business in SSA is less risky than starting a new business. Therefore, is critical that companies embarking on FDI should carefully consider the option of merger with or acquisition of an existing company in the host country before embarking on a Greenfield investment.

2. Ownership structure

The research data (refer figure 14 above) indicated that branch operations were generally not favoured (only 13% of operations surveyed were branch operations). This is probably due to host country legal requirements which require that permanent establishments incorporate. The largest proportion of operations was via joint ventures (53%). Joint ventures were dominated by Local Equity Partners (94%) compared with Multi National Corporations (6%), refer to figure 15 above. Five of the six respondents believed that Local Equity Partners were desirable and could add value to the FDI. One of the respondents indicated that generally Local Equity Partners were avoided where possible due to loss of control and management time required to maintain the relationship. Another respondent pointed out that sometimes local equity partners are required by legislation. Grouping wholly owned subsidiaries with branch operations, 48% of operations were 100% owned by their South African parents (refer to figure 16 above), whilst only 11% were less than 50% owned. Osland et al (2001) concluded that wholly owned subsidiaries offer a higher degree of control to the parent companies, but this requires more resource commitment. There is a greater technology risk (loss of technological knowhow)

with joint ventures as opposed to wholly owned subsidiaries. Therefore, critical factors to consider for the most optimal ownership structure are:

- Legal requirements in the host country;*
- The level of resources which the SA parent is willing to invest in the FDI;*
- The risk of technology transfer ;and*
- The degree of control over the operation which is required by the parent*

3. Local Equity Partner selection

As indicated above, the majority of respondents felt that local equity partners were desirable. Barkema and Vermeulen (1997) found that joint ventures allowed firms to share costs and risks with local partners, and to access their knowledge about local institutions, consumer tastes and business practices. Smarzynska and Wei (1999) found that joint ventures were favoured in countries which were prone to corruption due to access to the local partner's knowledge in this regard. It is submitted that where local partners are required / desirable, their selection process is critical to the ultimate success of the operation. Based on the respondent feedback, and the literature, the following are critical selection criteria:

- The ability to pay cash or introduce assets equivalent to their share of the equity in the operation;*
- Knowledge of how to do business in the host country (regulatory and customary);*
- Their ability to advise on how to handle difficult ethical decisions (such as corruption and bribery);*
- Knowledge of the industry in which the parent operates and access to key suppliers and customers within the host county market; and*
- Alignment of the cultural values of the local partner and the SA parent company.*

Other Important Factors

- I. Consider restraint of trade agreement with local equity partners.
- II. Partner selection should be based on short and long term strategy.
- III. Even if a local partner is not required by law, this may be positively perceived by local authorities.

5.8 Critical Success Factors – FDI Establishment

1. South African Reserve Bank exchange control approval

This was raised by only two of the respondents, but it is submitted that this is critical in a South African context as the South African parent company will be blocked from transferring funds to its African operations without exchange control permission from the South African Reserve Bank. Therefore, South African companies that plan to embark on FDI should ensure that processes are implemented to ensure that exchange control approval is received in time to make the investment.

2. Location of the operation

The physical location of the operation was considered critical by 5 of the 6 respondents. Companies need to consider the location of their operation in relation to proximity to customers and suppliers. Generally, it is desirable to be as close as possible to the main market in the host country for the company's good and services. Sometimes, where supply is throughout the country, the critical factor is proximity to main raw material supply. Access to infrastructure (roads and utilities) may also be critical.

3. Mix of staff – local versus expatriate

Hill (2003a) outlined a "Geocentric" policy whereby the operation attempts to achieve the best mix of expatriate parent company managers and host country managers. This approach aims to combine the skills of the expatriate managers with the cultural knowledge of the local managers. Three of the respondents in

this survey believed that the key management roles (e.g. CEO and CFO) should be filled by expatriate employees in the establishment phase. Therefore, in the establishment phase, companies should clearly define which roles will be earmarked for expatriate and local employees. Factors to consider are the cost of the expatriates, the ability of the operation to get work permits for the expatriates and the availability of the skills in the host country.

4. Local partner (equity or agents) assistance

In this context, local partners include equity partners, agents and suppliers. Two of the respondents considered that local partners could provide critical assistance in areas such as:

- *Location of the operation;*
- *Appointment of suppliers;*
- *Work permits for expatriate employees; and*
- *Logistical assistance with importation of raw materials and capital equipment.*

Other Important Factors

- I. Identification of suitable expatriate accommodation;
- II. Post acquisition review to determine if short term objectives have been achieved;
- III. Condition of roads for transportation of product to customers;
- IV. Allowance in the project plan for training of local employees; and
- V. Pre-fabrication of facilities in South Africa.

5.9 Critical Success Factors – Risk Mitigation

1. Regular risk reviews

Two of the respondents outlined a structured approach to risk management whereby risks pertaining to the foreign operation (operational, financial, health and safety etc.) are regularly reviewed and recorded in a risk register. Risks should be classified according to their impact (probability of occurrence multiplied by the severity). Given the high levels of risk in most African countries the respondents believed that it was critical for the local management to understand these risks and document the controls that had been implemented in mitigation.

2. Insurance

This could take the form of traditional operational insurance to transfer the financial impact of certain effects (e.g. natural disasters, theft, political unrest etc.) to a third party (typically an insurance company). Two of the respondents raised this type of insurance. Other respondents discussed forms of financial insurance such as:

- *Forward cover contracts (to hedge against foreign exchange fluctuation);*
- *Futures contracts (to hedge against changes in raw material prices); and*
- *Letters of credit (to hedge against customer non-payment).*

3. Corporate Governance Standards

The A.T Kearney FDI confidence index (2005) rated Corporate Governance issues as a critical risk area. This would include the risk of engaging in corrupt practices with local government (such as bribery). Four of the respondents stated that their companies had implemented clearly defined policy statements which identified these types of practices and stipulated avoidance.

4. Backup systems

Bosa (2002) identified poor infrastructure as a key risk area which needed to be addressed by management operating in SSA. Respondents to this research alluded to this risk area under this section and the section on host country. The respondents believed that it was critical for management to implement backup systems to ensure continuity of supply of goods and services. These systems would include electricity generators and alternative IT systems.

5. Financial controls

Given the level of poverty in most countries in SSA, fraud and theft are an inevitable risk. Employee fraud was identified as a critical risk in the A.T Kearney FDI confidence index (2005). This was supported by one respondent who believed that a sound system of internal control with a strong Financial Director were critical to mitigate this risk. Generally, respondents believed that the Financial Director role should be occupied by an expatriate, at least until a competent and trustworthy local employee could be identified.

Other Important Factors

- I. Expatriate staff should be accommodated in the local community so that they are integrated culturally and socially, and risk of victimisation is mitigated.
- II. Local employees should be groomed to fill TMT roles to ensure continuity and sustainability of the FDI.

5.10 Critical Success Factors – On-going Management

1. Support from Parent company management

According to the A.T. Kearney FDI index (2005), “Gaining commitment from senior levels of the organization” was the single most important success factor for foreign operations. Respondents in this survey raised this under this section, and under the final section on other critical success factors.

Types of support include:

- *Financial;*
- *Technical; and*
- *Regular visits by the parent company management, to assist the local management team.*

2. Mix of local and expatriate staff in the Top Management Team (TMT)

This was raised by respondents as critical in both the establishment phase, and under this section. As the operation matures, the number of local staff in the TMT team tends to increase because expatriate employees are expensive and they do not normally want to stay in the country for a long period. Also, work permits are generally granted to expatriate employees for a fixed duration. Therefore, it is critical that local employees are trained and empowered to take over TMT positions from the expatriates appointed in the establishment phase.

3. Key performance indicators and incentives

“Establishing and monitoring performance measures” was ranked as the second most important factor to ensure the success of offshore business in the A.T. Kearney FDI index (2005). This was supported by respondents, and one of the companies believed that these performance measures should also be regularly graphically communicated.

4. Positive attitude

This was raised by respondents under this section, and in the final section. Due to the sometimes extreme challenges of doing business in Africa it was believed that the maintenance of a positive attitude by parent company executives, expatriate and local employees is critical to the success of the operation. Therefore, the attitude of employees towards the challenges that they face should be regularly monitored

Other Important Factor

- I. Sometimes when local employees take over TMT roles from expatriates they become alienated from other local employees as they are perceived to be sell outs. It is important that this negative perception is managed and that the promotion is positively received by local employees.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This research was intended to provide a checklist to ensure the success of FDI by South African companies in SSA. Critical factors to ensure success have been identified. These are summarised in the checklist below using the same structure as the research questionnaire. This checklist is presented as a series of questions which relate to the critical success factors identified, with recommended actions. The recommendations were identified in the course of interviews and in the literature review. The questions have been numbered for reference purposes, and are not ranked in order of significance.

The checklist below can be practically applied to ensure the success of FDI in SSA by South African companies.

6.2 Checklist for successful FDI

Selection of the Investment

HOST COUNTRY

1. Repatriation of cash and equipment

How easily can the South African parent company repatriate cash and equipment?

- Generally countries which restrict repatriation should be avoided.
- The process to repatriate equipment and funds from the Host country to South Africa should be understood, and any associated taxes need to be factored into the assessment of financial returns.

2. Ease of communication

Have the communication challenges of doing business in the host country been considered?

- Bilingual employees will need to be appointed to manage operations where the host country language is different to the parent company.

3. Availability of skilled labour and raw materials

Are the raw materials and labour skills required available within the host country?

- Work permits may be required to enable expatriate employees to be appointed to certain key roles. These employees are normally very expensive, and this cost should be factored into the assessment of financial returns. Work permits are also for typically for a limited duration, so local employees may need to be trained.
- Raw materials not available in the host country will need to be imported. Again, this can make product cost high and this impact should be taken into account in pricing. Importation also presents logistical challenges such as clearance through customs, so it is often useful to employ experienced local agents to assist with this.

4. Prior country experience

Has the South African parent company had operating experience in the Host country?

- Employees within the company with prior experience should be consulted in order to understand the challenges which will be faced. This experience may also be within other companies in the group of companies where the parent is part of a large group. If there is no prior experience within the company, then external consultants may be useful.
- There may also be documentation relating to prior experience in the host, such as project plans, within the company which would be useful to review.

5. Political stability

How politically stable is the host country?

- Generally countries with a history of high political instability should be avoided, however this would probably rule out most of Africa so a careful assessment should be made of the current political landscape. Again, it may be useful to engage with external assistance for this.
- Regular repatriation of funds and employee evacuation plans may also help to mitigate risk of political upheaval.

6. Employee safety

What health and safety risks will be faced by employees based in the Host country?

- A thorough health and safety audit should be undertaken prior to making the decision to invest. This is best done in the host country in consultation with locals. Steps to mitigate risks include:
 - Prophylactic medication (e.g. to combat malaria);
 - Secure locations for employees to live and work; and
 - A detailed evacuation plan in the event of political upheaval.

7. Regulatory certainty

Are host country regulations and laws clearly defined?

- A detailed investigation of host country laws should be performed prior to making the investment, this should include:
 - Taxation (direct and indirect);
 - Importation of raw materials and capital equipment;
 - Work permits for expatriate employees; and

- Property acquisition \ right to use.

8. Sensitivity of local cultures, customs and practises

How will the products and services of the company be received in terms of existing culture and customary practises?

- Products and services may need to be modified to comply with local customary practises, therefore understanding if these prior to making the investment is advisable.

9. Adequacy of infrastructure

How adequate is the host country infrastructure (roads, water, electricity etc.) to cater for operational requirements?

- Additional costs to overcome poor infrastructure should be factored into the investment in order to understand the level of pricing required to achieve the desired financial returns.

MARKET

1. Size of the local market and potential for future growth

What is the current size of the market and what is the potential for future growth?

- A detailed market study should be undertaken to determine this. This should be linked to key economic assumptions which drive demand such as Gross Domestic Product, Disposable Income and Population Growth.

2. Presence of an existing customer in the market

Are current South African customers operating in the market in the host country?

- If this is the case, what would the benefits be of extending the supply relationship into the SSA country (e.g. access to new volumes, potentially higher margins etc)?

- If the South African customer is not currently in the SSA market then it may be worthwhile to enter into discussions to pursue a joint entry strategy.

3. Timing of entry into the market

Is the company first to market for its' products or services in the Host country?

- Generally being first to market is advantageous as this enables the company to gain a dominant market share and to lead on pricing.
- Where the company is not first to market, differentiation in terms of quality and / or pricing may be required to gain market share.

4. Market segmentation and research

Has market research been performed in the context of the company's products and services in the Host country market, and has the market been segmented to understand how different segments should be targeted?

- Market research and segmentation within the Host country may enable the company to optimally position its products and services.
- Sometimes products and services may need to be tailored to meet the requirements of the local market.
- Segmentation may also assist with pricing strategy.
- Market research data may be available from third parties, and this may be a more cost effective and expedient approach.

PRODUCT

1. Degree of product customisation

Have the products and services been customised to meet the requirements of the Host country market?

- Even if subtle changes are required, for example packaging and brand, these may be critical in context of the host market.

2. Brand awareness

Has the strength of the product brand been assessed, relative to the strength existing brands within the Host market?

- African consumers are highly brand aware, so a new brand may need to be aggressively marketed to overcome existing brands.
- The brand which is appropriate in a South African context may not be appropriate in another SSA country, so the product may need to be introduced under a different or modified brand.

3. Climatic conditions

Have climatic conditions in the Host country been understood in the context of the production process and demand for the product?

- Production volumes should be scheduled for product demand patterns which may be influenced by climatic or seasonal factors.
- Some raw materials may not be suitable for the Host country climate, so modification to these may be required.

FINANCIAL RETURNS

1. Risk / Return trade off

Will the FDI yield a rate of return at a premium to the company's weighted average cost of capital, which sufficiently compensates for the high risks associated with doing business in SSA?

- A financial model should be developed for the investment in order to understand how the variables which drive financial returns can be optimised.
- Variables include: fixed and working capital requirements, product pricing, input costs, volumes, overhead costs and taxation assumptions.

2. Financing structure

What combination of debt and equity will be used to finance the FDI, and will local equity partners be used?

- Locally sourced debt can shield the parent company from financial risk, provided that the financier does not require a parent company guarantee.
- Debt capital can be expensive and difficult to source in the Host country, but may also provide a hedge against foreign exchange fluctuation where revenue is denominated in local currency.
- Local equity partners can also reduce the parent company's financial exposure, but this should be weighed against the potential loss of applied knowledge and the administrative complexity of dealing with local partners.

3. Working Capital investment

Has the level of working capital investment required in the assessment of financial returns?

- Working capital investment is often much higher in another SSA country than it would be in South Africa, due to long lead times required to source raw materials and difficulties associated with the collection of accounts receivable.
- This additional investment should be understood and factored into the initial assessment of financial returns.
- Processes and controls should also be implemented to reduce the levels of investment in inventories and accounts receivable.

4. Pricing structure

Has the proposed product price been developed in the context of the Host country market?

Factors to consider:

- Contractual ability to pass on raw material price increases to customers.
- Impact of foreign exchange fluctuations on product cost, and the ability to pass this on to customers.
- Volume rebate structures which may make pricing more attractive to customers.

MODE OF ENTRY

1. Greenfield versus Merger / Acquisition

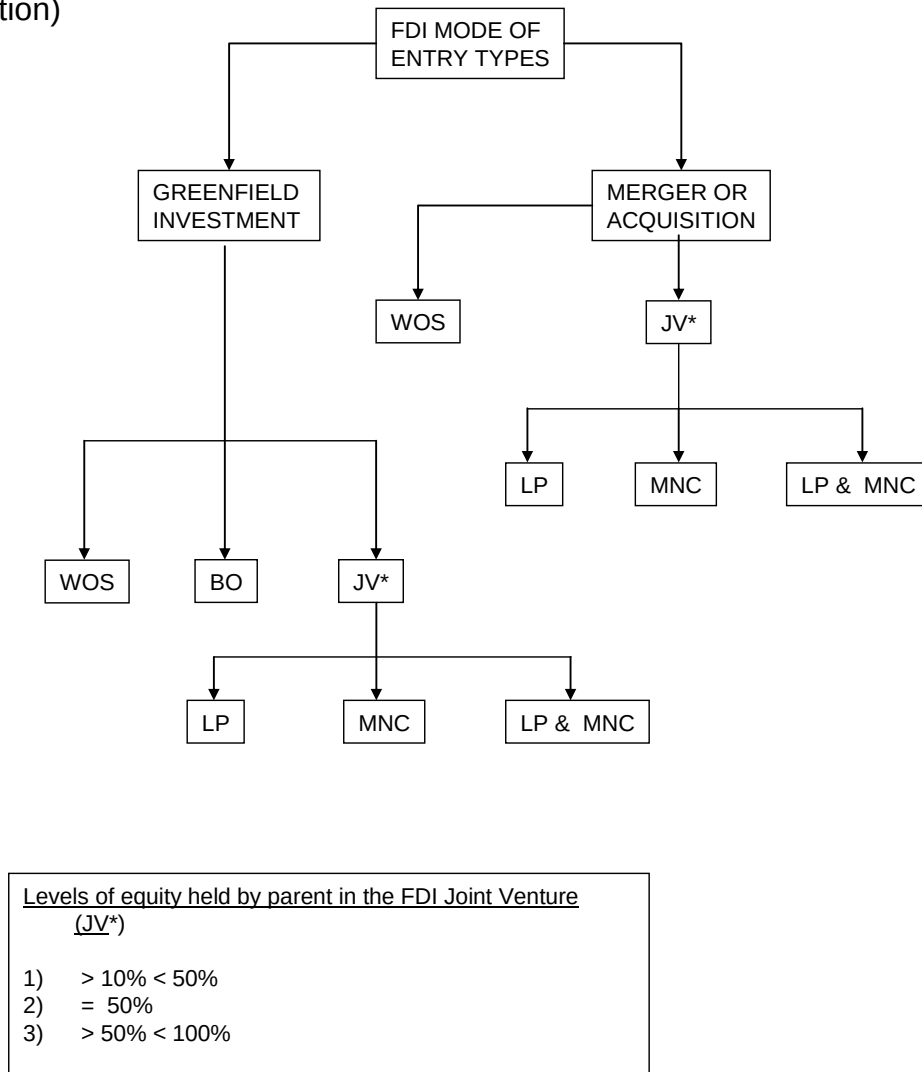
Will a new company be formed in the host country for the purposes of the FDI or will an existing company be acquired?

- Acquisition of an existing company is often more cost effective and expedient than establishing a new company.
- Acquisition of an interest in a company in the same or similar industry may also give immediate access to a customer base, and the skills and knowledge of local partners.

2. Ownership structure

What is the optimal ownership structure for the FDI?

The decisions required to answer this are depicted below (WOS = wholly owned subsidiary; JV = Joint Venture; LP = Local Equity Partner; MNC = Multi-National Corporation)



The factors to consider in this decision are:

- Legal requirements in the host country;
- The level of resources which the SA parent is willing to invest in the FDI;
- The risk of technology transfer ;and
- The degree of control over the operation which is required by the parent.

3. Local equity partner selection

If a local equity is required or desirable, what are the selection criteria?

- The ability to pay cash or introduce assets equivalent to their share of the equity in the operation;
- Knowledge of how to do business in the host country (regulatory and customary);
- Their ability to advise on how to handle difficult ethical decisions (such as corruption and bribery);
- Knowledge of the industry in which the parent operates and access to key suppliers and customers within the host country market; and
- Alignment of the cultural values of the local partner and the SA parent company.

FDI ESTABLISHMENT

1. South African Reserve Bank approval

Has South African Reserve Bank (SARB) approval been obtained for the South African parent company to embark on FDI in SSA?

- South African foreign exchange control regulations require permission for South African companies to invest funds offshore. This application can take several months and information requirements may be detailed, therefore it is critical that a process is implemented to gain SARB approval as soon as the decision to establish the FDI has been made.
- The assistance of a local South African commercial bank will be required in order to obtain the SARB, therefore a banker with good knowledge and a track record of successful approvals is desirable.

2. Location of the operation

Where will the operation be located in the Host Country?

Factors to consider are:

- Proximity to customers and main market;
- Proximity to suppliers;
- Access to essential infrastructure (roads, water and electricity) and
- Cost of land and building acquisition or lease.

3. Mix of staff – local versus expatriate

What is the optimal mix of staff (locals and expatriates) in the establishment phase of the FDI?

Factors to consider are:

- Availability of skills in the Host Country;
- Cost of expatriate employees; and
- The ability to get work permits for expatriate employees.

4. Local partner assistance

How can local partners (equity and other local agents) be used in the establishment phase of FDI?

Local partners can provide assistance in the following critical areas:

- Location of the operation;
- Appointment of suppliers;
- Work permits for expatriate employees; and

- Logistical assistance with importation of raw materials and capital equipment.

RISK MITIGATION

1. Regular risk reviews

Are all risks (operational, financial, environmental, political etc.) regularly reviewed?

- A structured process, whereby management regularly review and record risks in a register, is recommended given the high levels of risks of doing business in SSA;
- Risk should be ranked according to the product of the estimated financial impact and the probability of occurrence; and
- Residual risk (risk after the impact of controls) should be considered.

2. Insurance

Can residual risks be transferred to a third party?

Traditional insurance to cover risks such as natural disasters, political unrest and theft should be considered.

Other forms of financial insurance should also be considered:

- Forward cover contracts (to hedge against foreign exchange fluctuation);
- Futures contracts (to hedge against changes in raw material prices); and
- Letters of credit (to hedge against customer non-payment).

3. Backup systems

Are back-up systems available to ensure continuity of supply of goods and services?

- These systems would include electricity generators and alternative IT systems / platforms.

4. Financial controls

Has a sound system of financial controls been implemented to prevent theft and fraud?

- A trustworthy, competent and experienced Financial Director should be appointed to implement financial controls. Generally, in the establishment phase of the operation an expatriate employee would be preferred, until such time as a suitable local employee can be identified.

ON-GOING MANAGEMENT

1. Support from the South African parent company

Is the foreign operation supported by the South African parent company?

This support could take the following forms:

- Financial;
- Technical; and
- Management support in the form of regular visits.

2. Mix of local and expatriate employees

Post establishment, what proportion of the foreign operation staff are expatriate employees?

- Expatriate employees are expensive, and often require work permits. Therefore, with time local employees should be trained and empowered to take over roles occupied by expatriates.

3. Communication of key performance indicators and provision of incentives

Are incentives provided to employees for attainment of objectives, as measured by key performance indicators?

- Objectives for the foreign operation should be clearly and regularly defined and communicated. These should include financial, operational, health and safety objectives.
- Financial incentives should be provided for attainment of the objectives to both staff of the foreign operation, and staff of the parent company responsible for supporting the foreign operation.
- Key performance indicators which are linked to the objectives should be regularly measured and communicated. Graphical communication in the form of charts and presentations is very effective.

4. Positive attitude

Does staff of the foreign operation and the parent company project a positive attitude towards the operation?

- Due to the often severe challenges of doing business in SSA, it is critical that staff (parent and local operation) maintain a positive attitude both in fact and appearance. Top management should set the example in this regard.

6.3 Suggestions for further research

This research was broad in scope in that it covered six industries in the whole of SSA. Perhaps a case study approach for a single instance of FDI in a selected country would yield more rich data. Furthermore, there may be Critical Success Factors which are unique to a specific country. Nigeria would be a good country for this purpose, as this is a large and vibrant economy with many opportunities. The checklist developed in this research could be used as a basis for the research. In-depth interviews could be held with a number of executives within the organisation, including local, expatriate and parent company employees. Employees with different perspectives on the FDI process could be interviewed, for example Finance, Operations and Human Resources.

The preferred Mode of Entry for FDI could be quantitatively studied using factor analysis. Factors to determine the Mode of Entry could be generated from a combination of a literature review, and interviews. A Lickert scale questionnaire could then be developed and distributed to a larger sample. The decision tree in Figure 9 above could be used as the basis for the questionnaire.

The correlation between Financial Returns achieved by FDI and the selection criteria could be quantified using regression analysis. Data would need to be gathered after a fixed period of time (say three years), in order to calculate the financial returns actually attained by the FDI. The difference between actual and planned financial returns would then be correlated against the initial selection criteria.

The mix of local and expatriate employees in the foreign operation emerged as a critical success factor both within the literature review and in the interviews in this research. This mix was perceived to be critical in the establishment phase of the FDI and post establishment. Factors which determine the optimal mix of local and expatriate employees could be studied. Furthermore, the factors which determine the change in this mix over time could also be studied. A mixed methodology approach may be most appropriate for this research. Interview and literature review data could be supported by factor analysis

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APPENDIX A: RESEARCH APPROVAL LETTER

The Graduate School of Business Administration

2 St David's Place, Parktown, Johannesburg, 2193, South Africa
PO Box 98, WITS, 2050
Telephone: +27 11 717 3600, Facsimile: + 27 11 643 2336
Website: www.wbs.ac.za



To whom it may concern

Date 30 January 2008



Dear Sirs

RESEARCH PROJECT: "CRITICAL SUCCESS FACTORS FOR SOUTH AFRICAN FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA" by Murray Saunderson

This letter serves to confirm that the above research has been approved by a panel held at WBS on 30 January 2008. The research will be conducted by Mr. Murray Saunderson, under my supervision.

Your assistance to provide data for this research is greatly appreciated, and you will be entitled to a copy of the research findings should you so wish.

Other than being listed as a participant in the survey, specific details regarding you and your organisation will not be disclosed in the final report. Strategic information will be treated confidentially and will not be referred to in the context of your organisation.

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Mark J. Peters', written over a horizontal line.

Mark J Peters

Director: Corporate Education

APPENDIX B: QUESTIONNAIRE

“CRITICAL SUCCESS FACTORS FOR SOUTH AFRICAN FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA”

1 Personal Details

1.1 Name of respondent

1.2 Position held by respondent

2 Company Details

2.1 Registered name of South African Holding Company

3 Background and definitions

The definitions listed below refer to some of the terms which are used in the questions which follow.

Branch Operations (BO)

BO's are an extension of the South African parent company's operations in SSA, without the formation of a separate company in the host country. The BO must be an arm of the operations of the parent company and not just an administrative or sales office.

Critical Success Factors (CSF)

CSF's, for the purposes of this research are defined as the set of conditions, tasks and attributes which are critical to the attainment of the organisation's FDI goals. CSF's will be explored under three sections:

- The initial decision to embark on the FDI;

- The mode of entry into the host country and establishment of the FDI;
and
- The on-going management of the FDI.

Foreign Direct Investment (FDI)

For purposes of this research FDI will include the establishment of a new operation in a foreign country (referred to as a green-field investment) or the acquisition of, or merger with, an existing firm in the host country. Joint ventures are included in the definition, but equity investments of less than ten percent or licensing agreements are excluded. Branch Operations (BO) are regarded as FDI, where these are an extension of the investor company's operations and not merely administrative offices.

Host Country

The country into which the South African company has invested will be referred to as the host country.

Local Equity Partner

Either a host country registered company or a host country citizen who holds an interest in the equity / ordinary voting share capital of the FDI.

Joint Ventures (JV)

JV's are SSA companies in which the South African parent company holds less than 100% , but more than 10%, of the equity / ordinary voting share capital of the FDI. Other investors in the equity of the FDI may MNC's, other companies registered in the host county, host country citizens or a combination of these.

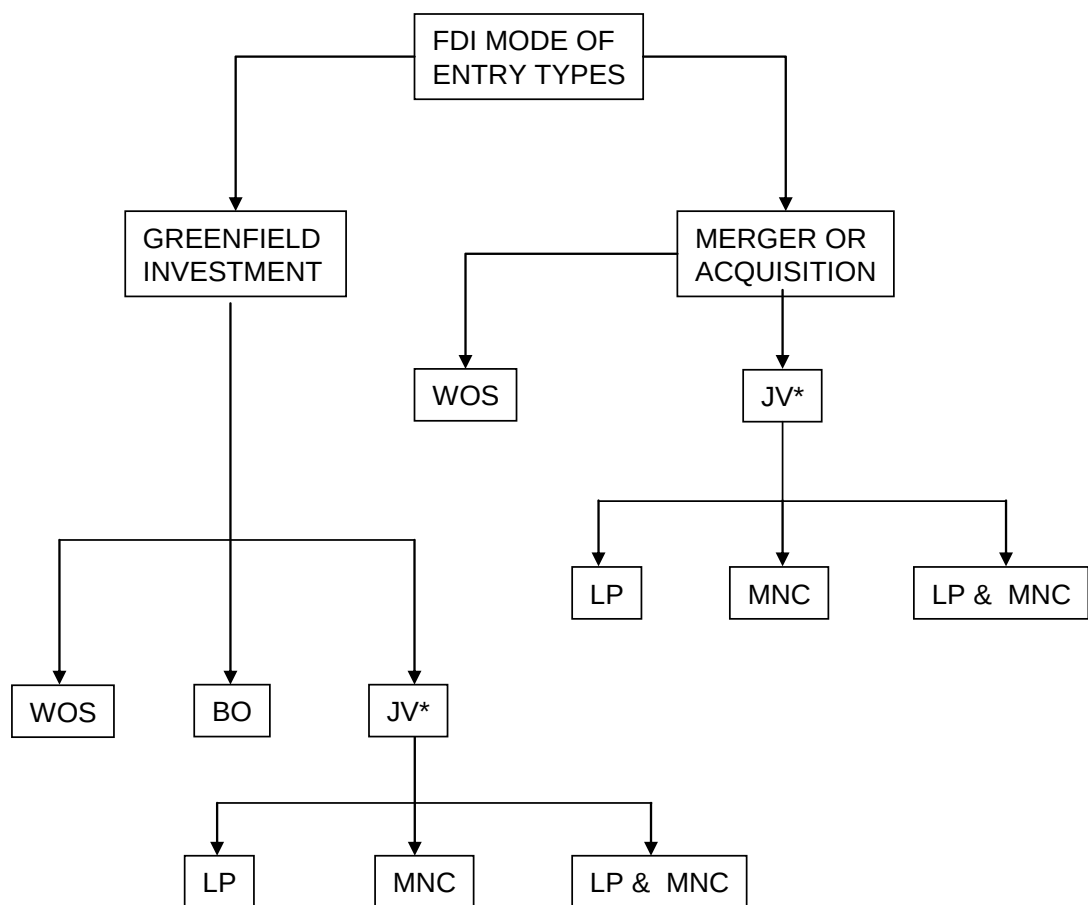
Mode of Entry

Two main modes of entry for FDI will be considered for the purposes of this research, namely merger with/ acquisition of a company or the establishment of a new company (Greenfield Investment). The FDI can be further classified into

Wholly Owned Subsidiaries (WOS), Joint Ventures (JV) or Branch Operations (BO).

Joint ventures may be formed with multi-national corporations (MNC's), local equity partners (LP) or a combination of both. The equity interest of the South African parent company may be a minority share ($> 10\% < 50\%$), joint control (50%) or a majority interest ($>50\% < 100\%$).

The figure below outlines the classification used for the purposes of this research.



Levels of equity held by parent in the FDI Joint Venture (JV*)

- 1) $> 10\% < 50\%$
- 2) $= 50\%$
- 3) $> 50\% < 100\%$

You will be required to complete a spreadsheet in order to classify the various FDI operations of your organization. The format of this spreadsheet is depicted in the example below:

NUMBER OF OPERATIONS	COUNTRY	GREENFIELD \ M&A	OWNERSHIP STRUCTURE	LEVEL OF EQUITY HELD BY PARENT	JOINT VENTURE TYPE
10	Zambia	Greenfield	WOS	= 100%	Not applicable
1	Tanzania	M&A	JV	> 50% < 100%	Local Equity partner
5	Nigeria	Greenfield	JV	> 50% < 100%	Local & MNC equity partners
10	Nigeria	Greenfield	WOS	= 100%	Not applicable
26					

In the above case, the company operates 26 FDI's in SSA, as classified in the table. Each different classification type results in a spreadsheet row. This is why there are two rows for Nigeria in the above example where a combination of JV and WOS FDI exists.

Sub-Saharan Africa (SSA)

The following 48 countries, excluding South Africa, are included in the definition of SSA:

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo (Democratic Republic), Côte d'Ivoire (Ivory Coast), Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe (WorldBank 2007a).

Wholly Owned Subsidiaries (WOS)

WOS's are SSA companies in which the South African parent company holds 100% of the equity / ordinary voting share capital of the FDI.

4 Research Problems

Please answer the following questions (citing examples where possible) based on the experience of your organisation with respect to FDI in SSA:

FDI selection criteria

1. What factors, excluding market, were critical for the successful selection of a **host country** for FDI?

Examples of factors: Access to raw materials; Ease of doing business; Political Stability; Macro-economic stability (including exchange rates and interest rates); tax concessions and tariff protection; labour skills; wage rates, infrastructure, cultural affinity, prior management experience in the country / similar country.

2. What were the CSF's in the selection of the **target market** for the FDI in the host country?

Examples of factors: Market size; Potential for future market growth; timing of entry ("first mover advantage"); prior experience in the market (e.g. exporting or, licensing), low levels of competition, need to follow competitors, need to follow customers.

3. What were the CSF's in the selection of the **products (goods and services)** which were introduced into the host country?

Examples of factors: Technological and innovative capabilities (relative to host market); ability to customise the product for the host country market, scale economies (ability to manufacture in high volume at low cost).

4. What were the CSF's in the calculation and assessment of the **financial returns** for the proposed FDI?

Mode of Entry and Establishment of the FDI

5. Please complete the attached spreadsheet to **classify the modes of entry** used by your company for its' FDI interests.

6. What factors were critical to the **selection of the mode of entry** for FDI into the host country?

Examples of factors: The need to protect technology and intellectual property; Government regulations or incentives which require / encourage joint ventures with local partners; Potential synergies with local partners (access to local knowledge and markets); The need to make decisions with speed; Previous joint venture experience; Cultural compatibility; Level of corruption in the host country.

7. What were the other CSF's in the **establishment phase** of the FDI?

On-going management of FDI

8. What are the **critical risks** which need to be addressed / mitigated to ensure the enduring success of the FDI?

Examples of risks: Inadequate Government regulations / legal decisions; Currency / interest rate volatility; Country financial risk; Political and social disturbances; Disruption of key supplier/customer/partner; Corporate governance issues (corruption); Poor Infrastructure (incl. IT disruption); Theft of intellectual property; Product quality/safety problems; Natural disasters.

9. What are the CSF's for the **on-going management** of the FDI?

Examples of factors: Support from senior levels of the organisation for the FDI; Establishing and monitoring performance measures; Working with local government; the level of international experience of the top management team (TMT) of the FDI; Mix of parent (expatriate) and host country nationals on the TMT; relationships with local partners (equity, suppliers and consultants).

Other CSF's for FDI

10. In the experience of your organisation, are there any **other CSF's for FDI** in SSA which have not been covered in the sections above?

APPENDIX C: CONSISTENCY MATRIX

FDI – Selection Criteria					
Sub-problem	Source of theory (the literature used in your literature review)	Hypotheses or Propositions or Research questions	Source of data	Type of data	Analysis
Country selection criteria	(UNCTAD 2007) (WorldBank 2007b) (Agodo 1978) (Bende-Nabende 2002) (Charalambous 2006) (Bosa 2002) (Dunning 1980) (Galán and González-Benito 2001)	What factors do South African companies consider to be critical for the successful selection of host countries for FDI?	Questionnaire Interview	Qualitative Text	Columnar analysis of key words and phrases
Market selection criteria	(Kotler and Keller 2006a) (Charalambous 2006) (Bende-Nabende 2002) (Dunning 1980) (Galán and González-Benito 2001)	What factors do South African companies consider to be critical for the successful selection of markets for FDI?	Questionnaire Interview	Qualitative Text	Columnar analysis of key words and phrases

FDI – Selection Criteria					
Sub-problem	Source of theory (the literature used in your literature review)	Hypotheses or Propositions or Research questions	Source of data	Type of data	Analysis
Product selection criteria	(Kotler and Keller 2006b) (Slywotsky et al. 2006) (Dunning 1980) (Galán and González-Benito 2001)	What factors do South African companies consider to be critical for the successful selection of products for FDI?	Questionnaire Interview	Qualitative Text	Spreadsheet
Assessment of financial Returns	(Agodo 1978)	What factors do South African companies consider to be critical for successful assessment of financial returns on FDI?	Questionnaire Interview	Qualitative Text	Spreadsheet

FDI – Selection of Entry Modes					
Sub-problem	Source of theory (the literature used in your literature review)	Hypotheses or Propositions or Research questions	Source of data	Type of data	Analysis
FDI establish-ment	(Hill 2003b) (Mattoo et al. 2001) (Charalambous 2006) (Osland et al. 2001) (Smarzynska and Wei 1999)	What factors do South African companies consider to be critical for the successful establishment of FDI?	Questionnaire Interview Mode of entry classification sheet	Qualitative Text Quantitative Categorical	Spreadsheet Spreadsheet Descriptive summary statistics

FDI – Management					
Sub-problem	Source of theory (the literature used in your literature review)	Hypotheses or Propositions or Research questions	Source of data	Type of data	Analysis
Risk Mitigation	(Kearney 2005) (Bosa 2002) (Daniel et al. 2003) (Kyereboah-Coleman and Agyire-Tettey 2008)	What factors do South African companies consider to be critical for the successful management of FDI risks?	Questionnaire Interview	Qualitative Text	Columnar analysis of key words and phrases
Management Practices	(Kearney 2005) (Sambharya 1996) (Hill 2003a) (Goby et al. 2002)	What factors do South African companies consider to be critical for the successful on-going management of FDI?	Questionnaire Interview	Qualitative Text	Columnar analysis of key words and phrases