Modes of market entry and strategies for selected South African companies doing business in the Democratic Republic of the Congo

Makhabu Gxoyiya

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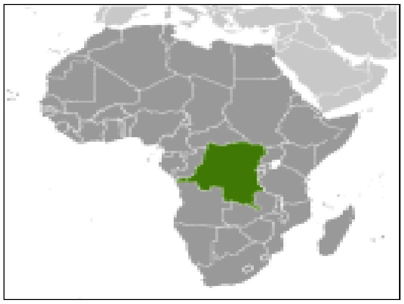

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Supervisor: Dr HM Lotz

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Abstract

This research identifies modes of market entry as well as strategies embarked on by South African companies that are currently doing business in the DRC. Data collection was performed through one-on-one interviews with executives of the South African companies that are in the different sectors of business in the DRC. Research has found that the mode adopted for entry was related to the degree to which the company has committed its resources, across all sectors involved. The DRC is potentially one of the richest countries in Africa, with rich mineral resources, timber (75% of the country is forested) and extensive energy resources, however it is one of the poorest, with real GDP per capita falling from $380 in 1960 to $167 by 2010.

The top-ranked countries in Africa are South Africa (29), Mauritius (32), and Namibia (42). Guinea-Bissau (173) and the Democratic Republic of Congo (175) rank lowest in the region. The Democratic Republic of Congo also ranks lowest in the world. Doing business in Africa became easier in 2005-2006 because reformers simplified business regulations, strengthened property rights, eased tax burdens, increased access to credit, and reduced the cost of exporting and importing. “Such progress is sorely needed. African countries would greatly benefit from new enterprises and jobs, which can come with more business-friendly regulations,” said Michael Klein, World Bank-IFC vice president for finance and private sector development and IFC chief economist. “Big improvements are possible. If an African country adopts the region’s best practices in the 10 areas covered by Doing Business, it would rank eleventh globally.”

Operational challenges in the DRC were found to be the same as what all emerging countries are experiencing in the continent, such as: lack of skills, corruption and lack of law enforcement, poor infrastructure, exchange rate volatility, successful informal sector, and crime and anti-South Africa sentiments. These challenges lead to higher costs of doing business in the DRC for South African companies. This research further gives a proposal for a model that South African companies can consider as part of their strategic planning process when internationalising their business into the DRC.

Key terms: DRC, Democratic Republic of Congo, challenges in Africa, business in DRC, internationalising, Africanising.

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List of Abbreviations

ANAPI	National Investment Promotion agency
BRIC	Brazil, Russia, India and China
CGIC	Credit Guarantee Insurance Corporation of Africa Ltd
CU	Customs Union
CWN	Congolese Wireless Network
DBSA	Development Bank of Southern Africa
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
ECIC	Export Credit Insurance Corporation of South Africa Ltd
ECCAC	Economic Community of Central African States
EME	Emerging Market Economy
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
GDRC	Global Development Research Centre
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
MNC	Multi National Corporation
IOC	Indian Ocean Commission
MU	Monetary Union
SAA	South African Airways
SACOIL	South Africa Congo Oil Company
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAIIA	South African Institute of International Affairs
SOE	State-owned enterprise
SAPP	South African Power Pool
UN	United Nations
WESTCOR	Western Power Corridor Company

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Africa is rich in natural resources and efforts are increasingly being made to ensure that these resources play a positive role in the development and growth of Africa as a whole. The economic performance of the African continent has improved over the past decade, averaging about 2.6% in the 1990s but improved after 2000. From 2003 to 2008, the average growth rate was above 5%, reaching 5.7% in 2008 (ADB, 2009). Africa is, however challenging for businesses: a company must deal with the usual risks associated with entering a new market, as well as new challenges such as an unknown political environment, different security and leadership dynamics, a lack of transparency and, even more important, a lack of available information. But, despite the drawbacks, the continent offers high-reward investment opportunities, provided that the risks are rigorously assessed upfront and proactively managed afterwards. South Africa has a vested interest in the development of the rest of Africa and has become Africa's economic powerhouse and a major player in the continent's economy. The result is that the country's destiny is tied up with that of the rest of the African continent (Jonah, 2006).

Between 1994 and 2006, South African exports to African countries grew by 659%, from $1,3 billion to $7,6 billion, while imports increased from a low base of $0,4 billion to $4,2 billion (Grobbelaar & Besada, 2008). The South African economy is also experiencing the process of accelerated globalisation, with a gross domestic product (GDP) of $283,1 billion; South Africa has the biggest economy in Africa (World Economic Forum, 2009). The size of SA's economy and the globalisation ambitions of its private sector have been significant factors in the improved fortunes of the continent. It is believed that, from 2000, South Africa has been the biggest new investor on the continent outside the oil and gas sector. The South African

Government has indirectly supported business by signing bilateral agreements covering trade, double taxation, investment protection and other areas of importance. The Department of Trade and Industry (DTI) has deployed trade and investment staff in countries such as Nigeria, Angola and the DRC. The Government has also assisted foreign governments seeking South African investors by hosting investment forums and delegations, as a base for communication between SA and the rest of the continent. The high cost of doing business in the rest of Africa is an important barrier to entry for potential investors. Other significant challenges include: poor or non-existent infrastructure; regulatory and tax uncertainty, which creates planning problems and unexpected costs; difficult and costly logistics (linked extensively, but not exclusively, to infrastructure deficiencies); a surfeit of bureaucracy, which creates bottlenecks and inefficiencies; the absence of effective legal frameworks; corruption; skills shortages; and currency fluctuations (Games, 2011).

In the DRC, political risk is a great challenge, as the Mobutu regime created a culture of corruption in the DRC during the more than 30 years of its rule. The corruption culture permeated the private, public, administrative, and business environments and has become deeply entrenched in the business system. Political risk/corruption includes the solicitation of bribes; officials maintaining personal business interests, which can skew the playing field for competitors or result in unfair regulatory changes; and political battles that can affect investor agreements. The power vested in individuals, particularly ministers, is a particular problem as a new appointee can scupper deals made with a predecessor (Games, 2011). The DRC was rated as the tenth most corrupt country out of 180 nations on Transparency International's 2008 Corruption Perception Index.

South Africans also face secondary risks on the continent. These include the following:

- Different language and business cultures;
- The choice of local partners;
- A weak local private sector;
- A lack of market information;
- Weak Government institutions;

- Problems with work permits;
- Non-payment of contracts;
- Dealing with issues of local content and empowerment;
- Onerous requirements for operating licences;
- The cost of tendering for contracts;
- The security of people and assets (Games, 2011).

South Africa remains a major player on the continent of Africa, despite the emergence of new players from the BRIC countries (Brazil, Russia, India and China), and the continued presence of companies from the traditional investor, with SA investing across all sectors, including those unexplored by other foreign investors. Foreign investors and funders consider the DRC to be one of the highest-risk places for business on the continent, mainly due to the country suffering bouts of civil unrest and conflict for many years, which led to loss of productive capacity. As much as the DRC has a long history of political instability, its valuable natural resources make it an attractive destination for investors willing to look at high-risk, high-return scenarios. South Africans have the benefit of proximity to the DRC, a familiarity with the country, skills and products that are well suited to the DRC market as well as an appetite for risk that has countered negative perceptions about the state of the continent. South African investors therefore need to take advantage of capturing opportunities in the DRC, by doing proper research, analysis as well as thorough risk assessment. South African investors need to remain cognisant of the fact that products and investment approaches have to be changed entirely when operating in Africa, as every opportunity presents a different challenge with its own unique solution. The most crucial difference is that businesses in Africa are built around relationships, therefore choosing the right local partner with the right contacts and access, is crucial to the success of any investment in the DRC.

Local companies have invested R200 billion in operations in the rest of Africa since 1994, making South Africa one of the five largest global investors on the continent. South Africans started to invest in other African countries just when those economies entered an era of reform, economic liberalisation and privatisation (Mushuku, 2006). In the early days of expansion into Africa, there was a view that Greenfield entry was necessary because of the weak private sector in African markets. Companies were concerned about their brand, corporate governance, profits, skills, company ethics and the like. In addition, there were limited acquisition targets beyond privatisation (Games, 2011). The early investors did not understand the emerging markets well and there was a general belief that their skills and knowledge, and being African, would be enough for them to succeed. These companies were soon hit with the reality that local consumers were not enthused by their presence, and that locals were not about to be evolving towards their practices. Greater experience and understanding of African markets has led companies to assess countries and risk on a case-by-case basis rather than seeing the rest of the continent as homogeneous, and this has assisted the companies to develop strategies that are more in line with local business conditions. South African companies that are currently operating in the DRC have therefore based investment decisions on the merits of each individual opportunity and the desire for the DRC to attract foreign direct investment into the country.

The DRC has been attracting South African investors as it has shown a desire to attract foreign direct investment by seeking to promote regional integration and trade; and currently serves as a member of SADC; COMESA; ECCAC; and CEP. With more international assistance, the Government continues to work to implement the various technical and legislative reforms to facilitate the movement of goods. The DRC's rich endowment of natural resources, large population size and generally open trading system, provide significant potential opportunities for South African investors. There are no formal limits or screening mechanisms imposed upon foreign ownership of businesses in the DRC; the DRC's macroeconomic situation has stabilized and the economy has begun to recover. The DRC adopted a freely floating exchange policy in 2001 as part of the implementation of broader economic reforms, and has also lifted restrictions on business transactions nationwide. Pro-business incentives range from tax breaks to duty exemptions granted for three to five years, and are dependent upon the location and type of enterprise, the number of jobs created, the extent of training and promotion of local staff, and the export-producing potential of the operation. There is no requirement that investors purchase from local sources or export a certain percentage of produced goods. Foreign investors are allowed to bid on Government contracts just as domestic investors, with no discriminatory terms. The DRC's Constitution (chapter 2, articles 34-40) protects private ownership without discrimination between foreign and domestic investors. The IMF and the World Bank are also working with the GDRC to bring the country into compliance with international business norms for accounting, legal, and regulatory systems. In 2008, the DRC became a candidate country for the Extractive Industries Transparency Initiative (EITI), a multi-stakeholder effort to increase transparency in transactions between Governments and companies in the extractive industries. The commercial banking system has undergone a full reorganization and continues to expand, even though the commercial banking sector is very small. There has been great awareness created about Corporate Social Responsibility (CSR), and many of the large, multinational investors in the DRC have formal CSR programs.

The Inga project is the biggest planned infrastructure project on the continent. Its potential political risk is high and rests heavily on the goodwill of the Government in Kinshasa, a big potential problem given the size and timetable of the project. South Africa’s Eskom is involved through its membership of Western Power Corridor Company (Westcor), established in 2003 by five members of the SAPP, to explore renewable energy options in the SADC region (Games, 2011).

Anglogold Ashanti (2009) is one of the biggest South African investors in the DRC. It invested in 1996 with a licence to explore a gold deposit in Ituri District in the North-Eastern Congo. The company’s operations in the DRC highlight one of the prime risks of doing business in conflict areas – the ethical compromises necessary to ensure smooth operations and the safety of staff (Games, 2011). A consortium, Divine Inspiration Group, was set up, headed by politically connected businessman Tiego Moseneke and the South Africa Congo Oil Company (Sacoil), of which the Moseneke family’s Encha Group, is the main shareholder. The consortium was given the rights to the concession although it was held by Canada’s Tullow Oil, which also held the rights to an adjoining concession in Ugandan waters. The Sacoil consortium was backed by the state oil company, PetroSA, and the South African Government, which used their relationship with the DRC Government to secure the deal (Sunday Times, 2008). Vodacom has had some success in the DRC since it invested $94 million in partnership with a Congolese operator Congolese Wireless

Networks (49%) in 2002. By December 2008, the company had a 38% market share and a subscriber base of nearly four million people. Shoprite invested about $80m to build two supermarkets – one in Lubumbashi and one in Kinshasa. Although the first supermarket was due to open in 2009, Chief Executive Basson says that they are looking at starting trading early in 2011 (Reuters, 2009b). Various mining companies also invest in the DRC, such as Mvelaphanda Holdings, Afriminerals Holdings Group and Metorex.

1.2 PROBLEM STATEMENT

The experience in the rest of Africa has been a steep learning curve for South African business. South Africans believed doing business on the continent would be similar to operating in South Africa, when they first entered the markets. Many also believed that they were superior because of their sophisticated economy; that other Africans were unskilled and uneducated; and that governments would be grateful to have them. But dealing with the realities has led to changed attitudes and entry modes, while strategies have been redrawn. Where South African companies once preferred to do it alone, the norm is now to seek local equity and technical partners.

Foreign Direct investment is still a foreign concept in the African continent, and very little data is available on FDI as well as modes of entry used by South African companies doing business in the DRC. Companies in South Africa are therefore still poorly positioned to make a significant impact in the African continent, with the few exceptions like; Anglo Ashanti, Vodacom, Petro SA and Eskom, who were first movers. Many South African companies still do not have strategies as well as modes of market entry into emerging markets. Companies that have been successful in the emerging markets are those that have been able to adapt and modify their strategies to suit the respective country markets, without necessarily compromising their own values in the process.

This research seeks to identify strategies as well as modes of entry adopted by the South African companies doing business in the DRC. The research seeks to answer the questions such as: How did the companies formulate their modes of entry and strategies for doing business in the DRC? What have been the greatest challenges faced by the SA companies when seeking to enter the DRC market?

1.3 OBJECTIVES OF THE STUDY

One primary objective and one secondary objective have been identified for this research study.

1.3.1 Primary objective

The primary objective of this study is to conduct an analysis of the modes of market entry and strategies that South African companies operating in the DRC have embarked on. This approach seeks to provide help in building theoretical frameworks for prospective South African investors seeking to enter the DRC.

1.3.2 Secondary objectives

The secondary objective of this study is to investigate the operational challenges experienced by the companies operating in the DRC, and how these were overcome.

1.4 SCOPE OF THE STUDY

The study will focus on senior executives of South African companies doing business in the DRC. Sectors focused on will be the media, manufacturing, export, financial services, property as well as, mining for collection of data for this research study.

1.5 RESEARCH METHODOLOGY

It is felt that a qualitative research methodology will be best suited to address the research problem, as it is more open minded and may lead the researcher to unforeseen areas of discovery. Welman and Kruger (2001) stated that qualitative research methods did not allow the researcher to identify cause-and effect relationships, but rather described actions with a specific setting.

The methodology used will be based primarily on one-on-one semi-structured interviews and discussions with executives from South African companies doing business in the DRC. Some companies have been on the continent for many years and, while not having particular entry strategies, survived through learning from experience. The information-gathering process will also include challenging events related to business in the DRC and risk management.

1.5.1 Literature study

Over the past decades, companies have been embarking on international strategies, mainly focusing on developed countries. Literature on emerging countries, has however, also grown, although still limited as compared to the theoretical stream to countries in the developed world. A study of the relevant research sources has been undertaken and these sources have been studied, evaluated and compared.

Other sources used, are the research reports that were completed by international and national institutions, such as the World Bank, the International Monetary Fund (IMF), the Industrial Development Corporation (IDC), and the Development Bank of Southern Africa (DBSA).

Secondary data sources are from many other institutions that publish official documents in the original or an altered form, which are designed to facilitate investigation, interpretation and analysis.

1.5.2 Empirical study

Based on the overview of internationalisation models and different modes of market entry for internationalisation of companies in Chapter two and the research propositions in Chapter three, some important information and supporting data are gathered for an investigation into modes of market entry and strategies that South African companies operating in the DRC have embarked on in Chapter five. Practical models and strategies for modes of market entry and strategies that South African companies operating in the DRC are applying, are introduced in Chapter two.

1.6 LIMITATIONS OF THE STUDY

This study will focus on the South African companies operating in the DRC, placing emphasis on their strategies and modes of entry into the DRC. Therefore, the study will not include other emerging market countries where the mentioned companies are operating, and what strategies and modes of entry were applied in other African countries.

1.7 LAYOUT OF THE STUDY

The main part of the study will be divided into five chapters, which are summarised below:

The first chapter will focus on the background and scope of the study. It will highlight the problem statement, research objectives and limitations of the study. The research methodology and the outline of each chapter will also be explained briefly.

Chapter two comprises the literature study, which includes the different internationalisation models as well as different modes of entry for doing business in the DRC. General modes of market entry for internationalisation of businesses are also studied, as well as operational challenges faced by companies doing business in the DRC. In the discussion on South African companies operating in the DRC, questions are raised on topics such as what an emerging market is and whether the DRC is an emerging market.

In Chapter three several research propositions are reviewed to provide insight that relates to the modes of market entry and strategies that South African companies have to consider when doing business in the DRC. Propositions to be explored include: Mode of market entry; Adapting marketing and sales; Human resource requirements; establishing the right local partners; Operational challenges and Advantages of the DRC. Chapter three will also focus on the research methodology used, focusing on the population of relevance, size and nature of the sample as well as the research method used. The interview guide is applied as well as the process of interviewing. Data is gathered and analysed for the purpose of this study.

Chapter four presents the responses received from the interviews conducted, providing further insight into research propositions introduced in chapter three. Modes of market entry are analysed per sector and operational challenges are dissected further for better understanding. The chapter also provides the summary of the research. In this chapter, a general summary will be made of the modes of market entry and strategies that South African companies operating in the DRC have applied. Some recommendations will be introduced on how South African companies can enter and be successful in the DRC market. The chapter then concludes and gives a summary of recommendations with regards to the research propositions presented.

CHAPTER 2

LITERATURE REVIEW

2.1 EXISTING INTERNATIONALISATION MODELS

Because of today's globalisation, the meaning of gaining a competitive advantage gets more important to raise advantages in comparison to your competitors. Factors that are found to affect the FDI inflows to a different extend can be summarized as market size, distance/transportation costs, agglomeration effects, factor costs, fiscal incentives, investment climate, trade barriers/openness, economic integration as well as institutional and political stability. Typically, most of the factors are valid for all types of FDI. In some cases, however, certain factors may affect one type of FDI more than the other (Lim, 2001).

With corporations gaining increasing experience in expanding their operations in foreign markets, most multinational corporations' investments have been targeted at developed countries (Arnold and Quelch, 1998; Sachs, 1998); these countries are also the context for most Internationalisation research. Most of the research on subsidiary entrepreneurship has focused on developed countries in North America and Europe (Birkinshaw, 1997; Frost, 2001), limiting the generalization of the theoretical stream to countries at the same stage of economic development and having the same cultural orientation, thus limiting the knowledge on emerging economies.

2.1.1 Own, Localise and Internalise (OLI) Model

An alternative approach to look at the FDI determinants is to consider the ownership-location-internalization (OLI) model. The model, also known as an eclectic paradigm theory, was published in 1980 by Dunning. The OLI "model", which has become the centrepiece of the literature on multinational corporations (MNCs), suggests that it is optimal for a firm to be a MNC, and thereby locate some of its production centres outside its home country if three different conditions are satisfied (Ethier, 1986).

Firstly, the firm has to own knowledge about products and processes that endow it with an advantage over competitors within its industry. Secondly, location in the host country should provide the firm with some advantage like elimination of tariff costs that induces the firm to locate (part of) its operations in the host country. Thirdly, the endeavour of the firm to produce the relevant goods in the host country, thereby internalising the process of catering to the demand in that country, should be more beneficial than arms-length transactions as licensing.

The theory allows the analysis of market advantages, both at the level of firm's needs and from the perspective of the international environment. Also, with the use of OLI theory one can make a prediction of the areas (countries or regions) where the probability for firms to invest is the highest (Dunning, 1993). Unlike a firm that activates in the home market, the one present at international level is confronted with additional costs due to the differences in the legislative environment, the knowledge regarding the external market, the communication costs and the operation at larger distances. Thus, to reduce these costs there must be another advantage for the internationalized firm as opposed to the local firms.

Buckley and Casson (2003) provided a theory of the MNCs' sufficiently powerful to afford long term projections of the future growth and structure of the firm. They focused on the existence of market imperfections which generate benefits of internalisation and recognized four sets of parameters relevant to the internalisation decision:

- Industry specific factors, related to the nature of the product and the structure of the external market;
- Region specific factors;
- Nation specific factors, including government policies;
- Firm specific factors with a focus on the ability of the management to organize an internal market.

According to Brouthers and Brouthers (2003), ownership advantages need to be both unique and sustainable in order to provide a firm with a competitive advantage in the selection of the entry mode. The advantages occur when companies of one nationality possess competitive advantages over the companies of another nationality in supplying certain markets. These advantages are usually happening due to the fact that the MNEs are equipped with certain assets that provide in a shortage to the domestically owned companies. Competitive advantage can occur also, as a result of better management skills, enhanced cross border activities coordination or economies of scale.

The advantages that derive from location are in fact accessible to everyone. Natural resources, the workforce, the capital, the technology, or the organisational and information systems are available to all competitors. Location specific advantages are generated by economic factors (the quality and quantity of the production factor, telecommunications and infrastructure costs, special tax regimes or tariffs, objectives and size of the market), political factors (incentives for foreign direct investments), social and cultural factors (language spoken, cultural diversity, and attitude towards foreign investors). They are exploited and transformed into competitive advantage if their use generates profit and superiority in competing.

Advantages of internationalization appear when the export costs are much higher than the costs generated by the establishment of a subsidiary, and when elimination of tariff costs provides competitive advantage to the firm. The internationalization is generated by the perception a company has, both internally and externally, regarding the comparison of benefits resulted from the internationalization in relation to the costs it implies.

The OLI paradigm, however, does not provide any rationale as to how a MNC should enter a new market, which is an important factor in determining whether the MNC will succeed or fail in the developing foreign country. The model can be used as a guide that correctly classifies the FDI determinants in one single place. Itaki (1991) argues that there is no need to stress ownership advantages to explain international activities of multinational corporations as they are already captured in the internalisation theory. Another critique to the theory is the lack of causality between variables described in it. Williams argues that it is incorrect to assume that companies need ownership advantage compared to local companies already in the host country. Williams suggests that internalisation alone is enough to cover ownership advantages and further argues that based on the eclectic theory it is not possible to set up testable hypotheses (Williams, 1997).

2.1.2 The Transaction Cost Theory

The theory, developed by Ronald Coase in 1937 and afterwards by McManus in 1972, Buckley and Casson in 1976, Brown in 1976 and Hennart in 1977 brought into discussion the differences between the transactions within the company and those outside the company. Coase argues that although the transactions outside the company cannot be necessarily controlled by the company, those within the company are performed according to company's interest. By extrapolating this behaviour of the firm, the development of the transnational companies allows the manipulation of the transactions within the company, so as to lower losses. Thus, the concept of the internalisation of the international trade associated with the transnational companies and the way they utilize transfer prices between subsidiaries to maximize profits emerged.

Firm specific (or ownership specific) advantages (FSAs') include both proprietary know-how (unique assets) and transactional advantages. The transactional advantages reflect the MNC capabilities of economising on transaction costs as a result of the multinational coordination and control of assets (Dunning, 1988). Country specific (or locational) advantages (CSAs') are benefits associated with locating certain activities in particular countries. According to Rugman and Verbeke (1992), these benefits may arise from structural market imperfections such as government regulations and the potential to economise on transaction costs by reducing risks and to benefit from local opportunities.

2.2 MODES OF MARKET ENTRY FOR INTERNATIONALISATION OF BUSINESS

Entry mode has been defined as an institutional arrangement for organising and conducting international business transactions, such as contractual transfers, joint-ventures and wholly owned operations (Anderson, 1997). Among many factors that influence foreign direct investment operations, the mode of entry into a foreign country has been found to have a significant effect on the performance of multinational corporations (Cui, and Lui, 2005). Although some studies have found the main effect of pioneering in market share and profitability is, first movers achieve superior performance to their later counterparts (Luo, 1997), others have discovered that the effect of first mover advantages may be conditional on other factors such as entry mode and resource commitment (Isobe, Makino, and Montgomery, 2000).

The mode of entry of a MNC may determine its willingness to transfer technology to its affiliate, both because a low level of control would lead to a relatively low share of the benefits arising from the transfer of the technology, as well as because a low level of control would reduce its ability to prevent the diffusion of the technology among competitors in the host country without adequate compensating payment. This reluctance on the part of the MNC to transfer technology to its affiliate may in turn, affect the extent of technology spill-overs on account of foreign direct investment (FDI). Since such spill-overs are important for the process of economic development in a developing country, an examination of the determinants of a MNC's mode of entry in a developing economy assumes significant importance (Ngowi, 2002).

Examples of modes of entry for internationalisation of businesses are listed below, with advantages and disadvantages of each mode of entry:

- Franchising is a specialized form of licensing in which the franchisor not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how to do business. The advantage is that franchising reduces costs and risk of establishing and enterprise. Disadvantages are that this mode of market entry may prohibit movement of profits from one country to support operations in another country while there is very little quality control in operations sometimes.

- Licensing is an agreement where the licensor grants rights to a firm (licensee) in the host country to produce or sell a product for a specific period of time and receives royalty. Advantages of licensing are that it reduces development costs and risks of establishing a foreign enterprise; there is no need of capital for venture; it is advisable to use in an unfamiliar or politically volatile market; it helps a company to overcome restrictive investment barriers in a foreign country; companies can develop business applications of intangible property, to capitalize on market opportunities. Disadvantages of this mode of entry are: No tight control over manufacturing, marketing, and strategy that is required for experience; licensing limits a firm's ability to coordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another; there is the potential for loss of proprietary (or intangible) technology or property.

- Joint-venture is where two or more partners own or control a business. Advantages include: Improvement of efficiency; economies of scale; spreading risk and cost of operating; easier access to knowledge; political factors are easier dealt with; local partners can manage political risk better; it allows the company to partner with competitors and thereby face competition effectively. The disadvantages are that there is great risk giving control of technology to a foreign partner; the MNC may not fully realize the experience curve and more often than not, shared ownership can lead to conflict.

- In a wholly owned subsidiary, the firm owns 100 percent of the stock. Advantages of this mode of entry are that there is no risk of losing technical competence to a competitor; there is tight control of operations and the MNC is able to realize the learning curve and location economies. The disadvantage, however, is that the MNC will have to bear full cost and risk.

- Mergers and acquisitions occur where there is an outright purchase of a running company abroad or an amalgamation with a running foreign company. Advantages include the fact that the firm is quick to execute instant presence in a foreign market; the MNC can pre-empt the behaviour of competitors; this form of market entry is less risky than green-field ventures. The disadvantage is that there can be a clash of interests with the firms.

- Firms can establish a wholly owned subsidiary in a country, by: using a Greenfield strategy (building a subsidiary from the ground up) or using an acquisition strategy.

2.2.1 What determines an MNC’s choice of mode of entry into a new market?

There are no means of entrance best suited to international low income markets because so much depends on the type of product, opportunities, local market conditions and the firm’s degree of internationalization. It is more important that the firm has a deep knowledge of the local market, through an investment partner or local executives working in commercial subsidiaries, or through acquisitions or joint-ventures. Moreover, because in low income markets data are incomplete and information is not easily available, partnerships that enable access to market information are important for the success of firms. It is worth emphasizing that in the case of Congolese firms, this trend is also relevant to their performance in traditional markets. The MNC has to balance agency costs associated with a tie-up with a local firm with the transaction costs associated with entry on its own (Gomes-Cassers, 1989). Hennart (1991) argues that transaction costs associated with acquiring resources and doing business in a country can be reduced considerably if the MNC ties-up with a local firm. Local competition is very strong; the best means of entrance is through a local production operation, which must be carefully assessed by the firms, because these markets represent large risks.

Partnership with a local firm in a host country enables an MNC to minimize the costs associated with an imperfect knowledge about the local policy and business environment as well as product and factor markets. It follows that an MNC will desire more control - the extreme form of which is a wholly owned subsidiary if its products and processes are R&D intensive (Caves, 1996; Smarzynska, 2000) and if the MNC has made significant investment in its proprietary technology (Gleason, Lee and Mathur, 2002).

According to Mushuku Tawanda (2006) MNC’s choice of entry is determined mainly by the following factors:

- Risk associated with the policy and business environments of the host country and market potential of the host country (Kogut and Singh, 1998b; Barbosa and Louri, 2002);
- Cultural distance between the host country and the country of origin of the MNC (Kim and Hwang, 1992);
- The expected size of the operation in the host country (Gatignon and Anderson, 1998).

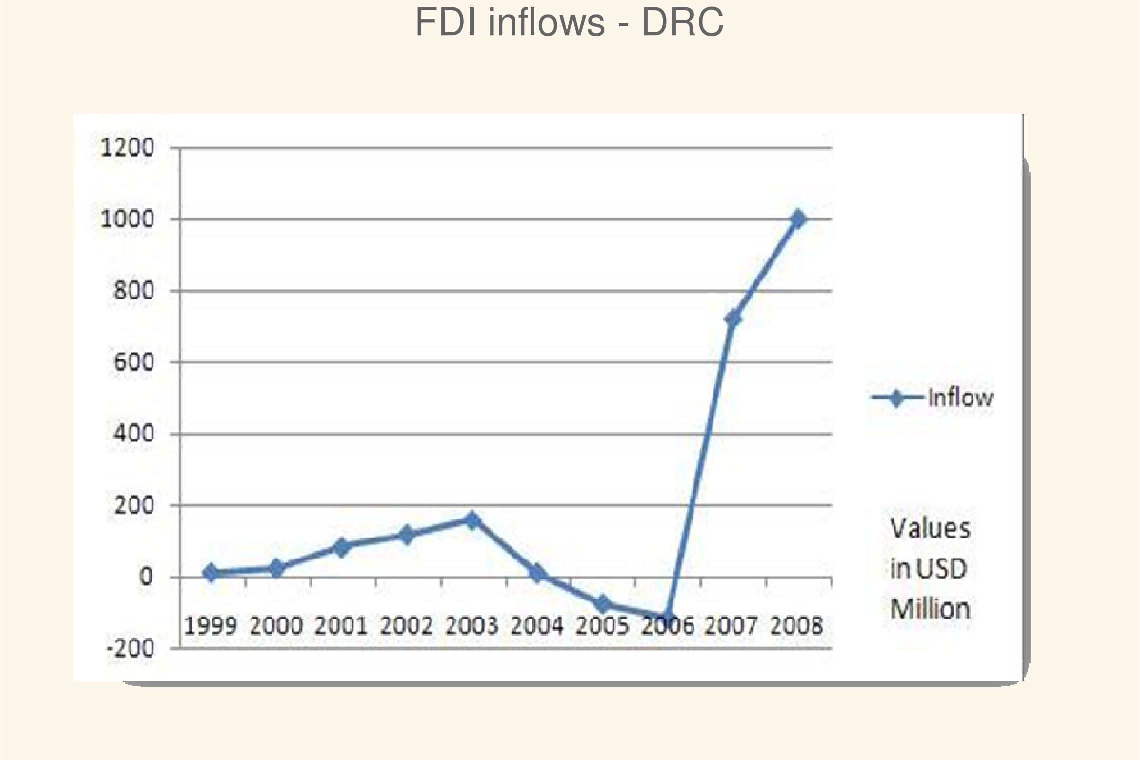
Multinational corporations can choose between a Greenfield project and acquisition of an existing firm in the host country as a mode of entry (Gorg, 2000). Greenfield entry is when an MNC decides to build a company from the ground up in a host country on its own. The MNC opts to incur the cost of putting together the resources that are required to build a company and the business networks required for the company to function profitably. The MNC can also opt for acquisition of an existing company, through either a merger or acquisition. In this case, the MNC has to incur the cost of adapting the host company's total operations to suit its own requirements.

Transaction costs associated with the two modes of entry mentioned above, will ultimately be the deciding factor on which mode of entry to embark on.

2.3 MODES OF ENTRY FOR DOING BUSINESS IN THE DRC

There is currently no reliable statistical data on aggregate FDI in the DRC, due to lack of a reliable statistical institution in the DRC. The safe assumption is that there has been relatively high foreign investment due to the more enabling investment climate created. The contributions of FDI to the DRC has included employment opportunities, increased government revenues, transfer of technology, capital formation and introduction of advanced managerial and organizational skills. Dunning (1994) states that the contributions stated above are dependent on the FDI entry modes. The recorded largest investors in the DRC are Chevron Oil, Citibank, Telecel, Mobil, UNIBRA, BAT Congo, PLC and Hasson Group, to name a few. Below are the FDI inflows recorded (not a true reflection, real figures are said to be higher) from 1999 to 2008.

Figure 2.1: FDI Inflows to (DRC 1999 – 2008)



Source: African Outlook Report (2008)

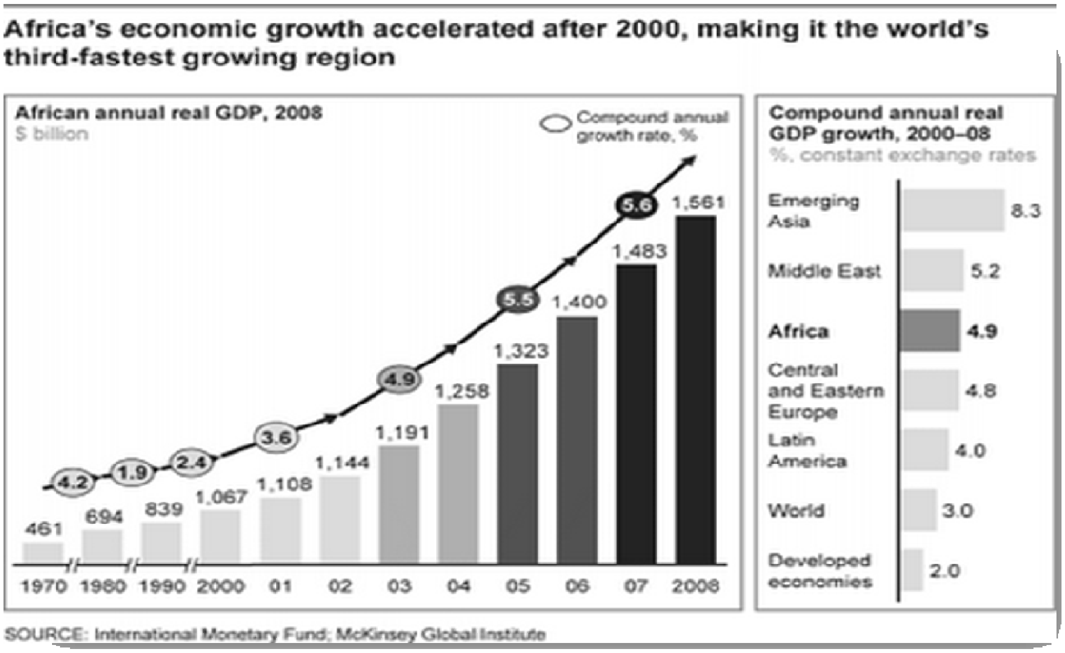
According to the African Outlook Report of 2008, foreign direct investment (FDI) in the DRC is mainly directed towards the mining industry. This trend stems in part from the growth of world demand for minerals.

The main channels of entry for FDI have included greenfield investments, mainly due to prospecting for reserves of base metals and oil. There has been a share of foreign acquisitions in FDI inflows as well as joint-ventures indicating willingness of potential investors to form partnerships with local private investors. Merger and acquisition entry mode has been dominant in import substituting or manufacturing goods.

2.4 THE SADC COMMUNITY

Africa is a continent that is full of potential and opportunities – from being the forgotten continent to being on the world's centre stage, renowned as the third fastest growing economy (2000-2008). Africa's GDP was $1.6 trillion (2008) which was similar to Russia and Brazil with the potential to grow GDP to $2.6 trillion by 2020. Africa's estimated GDP growth in 2011 is estimated at 4.75% compared to the global average of 4.2%, and the continent has been able to rise above the recession compared to the developed continents – Africa's GDP grew 2% while USA, South America and EU dropped 4%, 2.8% and 1.5% respectively.

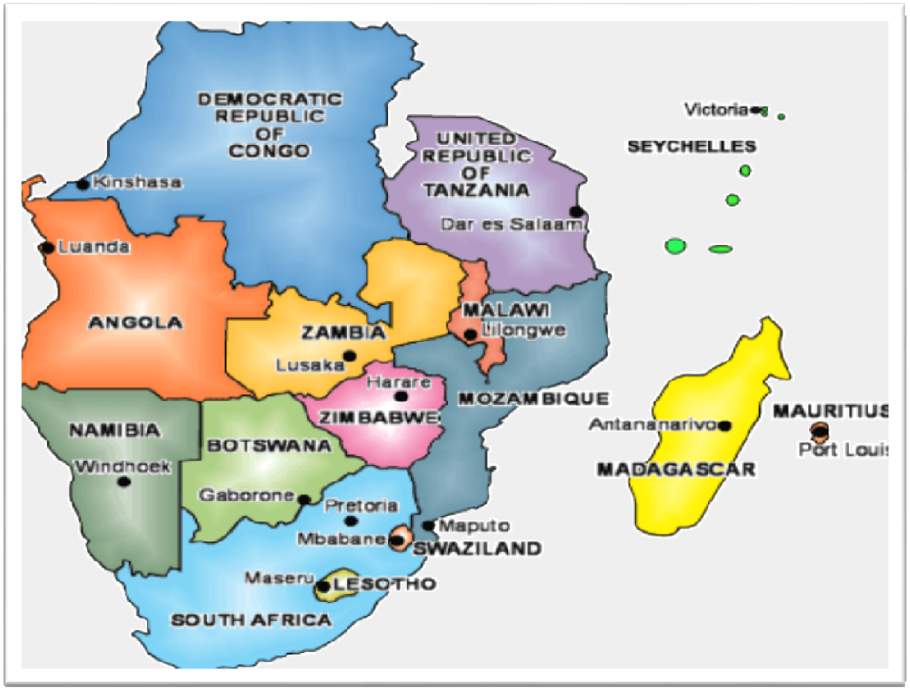
Figure 2.2: Africa's Annual GDP (1970 – 2008)



Source: IMF (2010)

To date Africa has regional integration schemes of varying design, scope and objectives, with seven dominating the integration landscape. The Common Market for Eastern and Southern Africa (COMESA) has 20 members, East African Community (EAC), three members, two belonging to COMESA and one to SADC, SADC has 14 members, Indian Ocean Commission (IOC) with five members, four belonging to COMESA and one to the SADC, and the Southern African Customs Union (SACU), with five members, all which belong to SADC and two to COMESA (Nyirabu, 2004). An important economic reality in Africa is that there is substantial trade in the informal sector not recorded in official records. Regional integration will need to go beyond the formal sector and capture the dynamics of the informal sector (Grobbelaar, 2004).

Figure 2.3: Member Countries of SADC


DEMOCRATIC REPUBLIC OF CONGO
Kinshasa
UNITED REPUBLIC OF TANZANIA
Dar es Salaam
Victoria
SEYCHELLES
Luanda
ANGOLA
ZAMBIA
Lusaka
MALAWI
Lilongwe
Harare
MOZAMBIQUE
ZIMBABWE
MAURITIUS
Port Louis
Antananarivo
MADAGASCAR
NAMIBIA
BOTSWANA
Windhoek
Gaborone
Pretoria
Mbabane
Maputo
SWAZILAND
Maseru
LESOTHO
SOUTH AFRICA

Source: Google Maps (2011)

SADC has remained the investment destination of choice for South African companies due to its proximity, its established transport routes, similarity of business culture, historical ties as well as an understanding of the markets. By 2009, Angola, Nigeria, Ghana, Zambia and the DRC were top investment destinations for South African companies.

The DRC is a member of the Southern Africa Development Community (SADC), together with 14 other countries such as; Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The total population of the community is about 257.7 million, with a GDP of US$ 471.1 Billion.

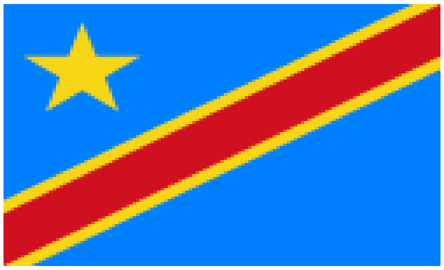
The main aim of SADC has been to introduce free trade by 2008. SADC was established under article 2 of SADC treaty by the SADC member states. The common agenda of SADC includes:

- Promotion of sustainable and equitable economic growth;
- Promotion of political values, system and shared values;
- Consolidation and maintenance of democracy, peace and security;
- Milestone to facilitate attainment of SADC Free Trade Area (FTA) by 2008, Customs Union (CU) by 2010, Common Market by 2015, Monetary Union (MU) by 2016, single currency by 2018.

2.4.1 Country assessment of the DRC

The national flag of the DRC is shown in the figure below.

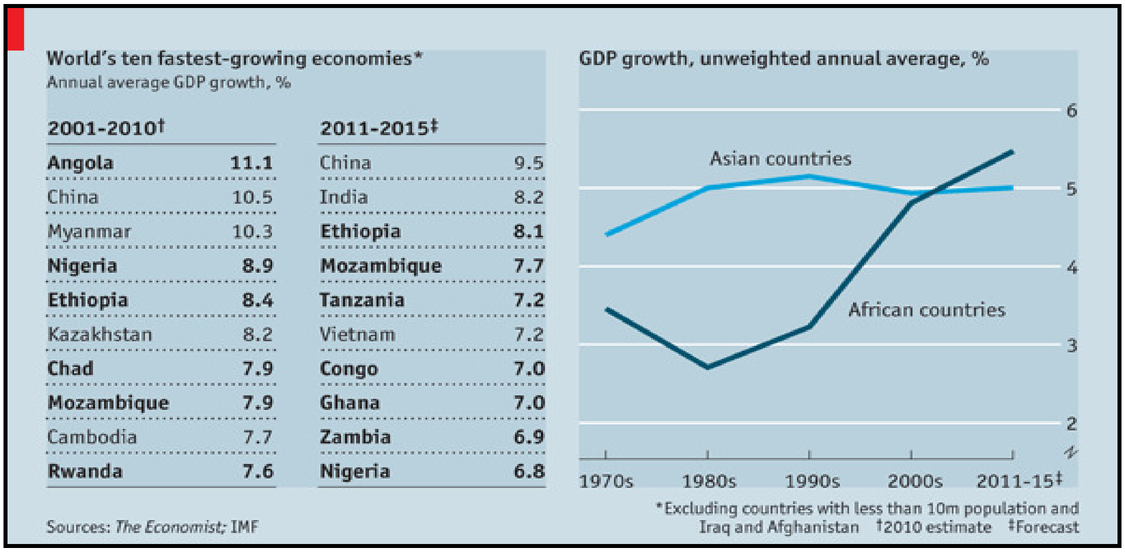
Figure 2.4: Country Flag of the DRC



The Democratic Republic of Congo (DRC) lies on the equator and has borders with 9 African countries – Congo (Brazzaville), the Central African Republic, Sudan, Uganda, Rwanda, Burundi, Tanzania, Zambia and Angola.

The DRC covers an area of 2,345,410 sq km, with a population of 62 million people (estimated). It has a small coastline on the Atlantic ocean. There are over 250 African ethnic groups of which the majority are Bantu; the 4 largest tribes – Mongo, Luba, Kongo, and the Mangbtu-Azande make up about 45% of the population. Kinshasa is the capital city of the DRC, with a population of approximately 8 million people. The country has an abundance of natural resources such as; diamonds (25% of world reserves), gold, oil, gas, cobalt (half of world reserves). The central region has an equatorial climate with high temperatures and heavy rainfall, with different climatic cycles in the northern and southern regions. The Congo River provides the DRC with Africa's most extensive network of navigable waterways as well as vast hydroelectric potential. Adult literacy rate was estimated at 77.3% in 1995, with a life expectancy estimated at 49.44 in 1995, mainly due to infectious and parasitic diseases caused by lack of access to safe water and malnutrition in the country.

Figure 2.5: World's Fastest Growing Economies



World's ten fastest-growing economies*
Annual average GDP growth, %

2001-2010†		2011-2015‡	
Angola	**11.1**	China	9.5
China	10.5	India	8.2
Myanmar	10.3	**Ethiopia**	**8.1**
Nigeria	**8.9**	**Mozambique**	**7.7**
Ethiopia	**8.4**	**Tanzania**	**7.2**
Kazakhstan	8.2	Vietnam	7.2
Chad	**7.9**	**Congo**	**7.0**
Mozambique	**7.9**	**Ghana**	**7.0**
Cambodia	7.7	**Zambia**	**6.9**
Rwanda	**7.6**	**Nigeria**	**6.8**

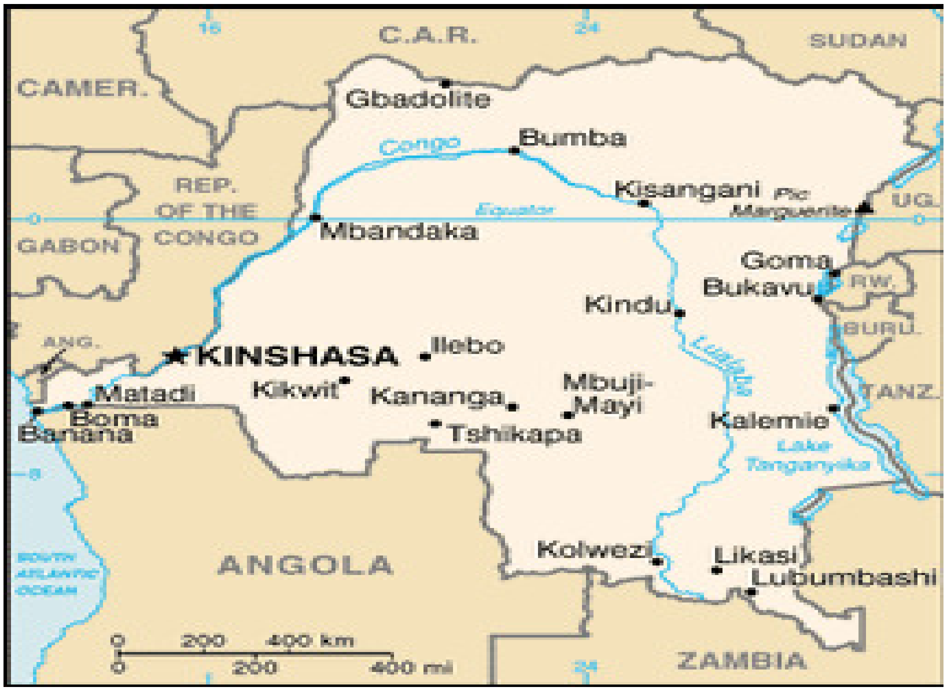
Sources: *The Economist*; IMF

*Excluding countries with less than 10m population and Iraq and Afghanistan †2010 estimate ‡Forecast

Source: IMF(2010)

The Economist report shows that the DRC is amongst the fastest growing economies in the world, with a projected GDP growth of 7% between 2011 and 2015. The country presents a strong opportunity for investments, even though it has a badly damaged infrastructure due to civil war, which is slowly being rebuilt – road and rail connectivity. There is underutilized arable land for agriculture and an abundance of water resource. The country is improving in its political stability, even though it still lacks basics such as public institutions and agricultural development, presenting a great opportunity to rebuild the country, similar to what happened to Mozambique since 1992. Resource deals are accompanied by infrastructure (packaged- e.g. U$2,9 bn Copper and Cobalt by China Railway including a 3,2k km railway, 31 hospitals, 145 healthcare centre, 2 universities). The most lucrative sectors to look into are; Mining and Resources, Diamond, Oil, Copper, Cobalt, Gold, Power transmission and distribution infrastructure, Inga III, Infrastructure, Roads, Rail, Property (Tourism and retail) and Agriculture.

Figure 2.6: Country Map of Democratic Republic of Congo


16
24
C.A.R.
SUDAN
CAMER.
Gbadolite
Congo
Bumba
REP. OF THE CONGO
Kisangani
Pic Marguerite
UG.
0
GABON
Equator
Mbandaka
Goma
Bukavu
RW.
Kindu
BURU.
ANG.
KINSHASA
Ilebo
Lualaba
TANZ.
Matadi
Kikwit
Kananga
Mbuji-Mayi
Boma
Banana
Kalemie
Tshikapa
Lake Tanganyika
8
SOUTH ATLANTIC OCEAN
ANGOLA
Kolwezi
Likasi
Lubumbashi
0 200 400 km
0 200 400 mi
24
ZAMBIA

Source: Google Maps (2011)

2.4.2 Country assessment of DRC- PESTLE framework

- **Political:** The DRC (formerly Zaire) gained independence from Belgium in June 1960. Following a period of political instability, together with the assassination of President Kabila, his son, Joseph Kabila, took over as the new head of State on 26 January 2001. The first democratic elections for over 40 years took place in July and October 2006. Joseph Kabila was elected President with 58.05% of the votes in the second round, serves a five year term ending in 2011. The DRC's relations with its other neighbours, particularly Angola, are generally cordial. The tense political situation, corruption and smuggling, as highlighted by the UN Panel on the Illegal

Exploitation of Mineral Resources of October 2003, have resulted in a shortage of development capital that has stifled the development of the mining and other sectors.

The DRC also continues to be affected by violence and insecurity, especially in the east where the insurgency of rebel General Nkunda, and the continued presence of Rwandan rebels, have displaced hundreds of thousands and created an on-going humanitarian disaster.

- **Socio-Economic:** The DRC's economy is dominated by the mining sector – copper, cobalt and diamonds. But decades of mismanagement and corruption, together with the war, caused virtually an economic collapse. The DRC ranks 167 out of 177 countries on the UN Human Development Report 2007. Most Congolese are desperately poor, living in extreme poverty on less than $1 a day. The DRC is potentially one of the richest countries in Africa, with rich mineral resources, timber (75% of the country is forested) and extensive energy resources in HEP. It is however one of the poorest. Real GDP per capita fell from $380 in 1960 to $115 by 2004.In January 2001, the Government announced a comprehensive change to economic policy, freeing up the currency, lifting foreign exchange restrictions, liberalising the economy, ending the monopoly on diamond export sales, reducing domestic tax rates, structural reforms in justice and civil service sectors as well as the cooperation revival with international financial institutions.

  After recording a number of poor performances from 1990 to 2001, the Congolese economy undertook to grow with a growth rate of 7% in 2006 versus 5.8% in 2003. The DRC signed up to the Extractive Industries Transparency Initiative (EITI) in 2005 and is a member of the Kimberley Process, thereby attracting foreign direct investment, reflecting its efforts to conform to the new global market situation that is being pursued internationally. The DRC maintains an open floating-rate system in which exchange rates are determined only by market forces.

The DRC is unlikely to achieve most of the Millennium Development Goals by 2015, without a strong and sustainable economic growth, and it is estimated that if the country grows at the average rate of 5.3% (rate for 2002-2006) the 1960 per capita GDP will be achieved only in 2060.

- **Technological:** The lack of infrastructure is a major constraint on the development in many of the DRC areas because of the extremely high costs of doing business. Despite the great hydro-electric potential, the electrification rate is also the lowest on the continent.

- **Legislative:** The Bank of Congo is responsible for regulating foreign trade and payments. Export proceeds must be surrendered to the Bank of Congo, and importers are only required to make an import declaration at their commercial bank. The DRC's business climate is beginning to improve, since its move to provide rudimentary institutions of law and order, and a change in government policies as a whole.

- **Environmental:** A new package of incentives contained in the new Investment Code, promulgated under Act no 004/2002 of February 21st, 2002, constitutes a break from previous systems in the sense that they aim particularly at investments in certain fields, setting the stage for a new business climate. Continuous evaluation and monitoring of the investment projects, and particularly the promoter's regard for his commitments in terms completion dates, the recruitment and training of the work force, and the added value contributed, is assessed by the National Investment Promotion Agency. Failure to perform as required by the standards set will result in projects taken away from investors. This assures funders and investors that the environment is more conducive to high standards of performance. Investors desiring the benefits afforded by Congo's Investment Code, must apply to the Investment Committee, which is a part of the Ministry of Planning. Foreign-owned companies are subject to the same taxes and labour laws as domestic companies. Government regulations now allow for the transfer of dividends and other funds related to investments, with no restrictions on reinvestment, acquisitions or takeovers.

2.5 IS THE DRC AN EMERGING MARKET?

What defines an emerging market economy (EME) comes down to the amount of average income made by the citizens of the country that claims the economy, which are currently countries with per capita incomes of less than $9000. Emerging market economies are typically thought of as those with a low income per capita, although some definitions give leeway for a middle income per capita. Of the nations around the world, 156 nations fit this definition, encompassing 84% of the world's population and 75% of sovereign states.

Emerging market economies tend to be notorious for corruption in governments. What makes an economy emerging is the turnaround it is experiencing with regards to its stability and vitality. EMEs experience rapid development and willingness towards inclusion in to the greater global economy. Furthermore, these markets have high rates of inflation, foreign trade deficits, high costs of capital, but low labour costs (Batra, 1997).

One of the hallmarks of an emerging market economy is accelerated growth as a by-product of its on-going transition. Emerging economies have typically risen from the ashes of what was previously a closed economy. Moving from closed to open as they did, EMEs voluntarily engage in trading with other countries. This leads to an upturn in the emerging economy as they have usually moved away from the severe regulations inherent in forms of government such as communism and socialism. Emerging market economies will usually take drastic measures to reform their systems of currency exchange as well as how they oversee the handling of their currency. Doing that helps to persuade local investors to pour their money into the country's economy, whilst, at the same time, luring overseas investors. This is one reason why emerging market economies are viewed as an investment opportunity by many traders around the world.

As Mushuku put it in his dissertation, emerging markets are unique, but some common characteristics could be summarized in the following way (Miller, 1998):

- Physical characteristics in terms of inadequate commercial infrastructure as well as inadequacy of all other aspects of physical infrastructure (communication, transport, power generation);
- Socio-political characteristics which include political instability, inadequate legal framework, weak social discipline and reduced technological levels and unique cultural behaviours;
- Economic characteristics in terms of limited personal income, centrally controlled currencies with an influential role of Government in economic life expressed beside other, in managing the process of transition to market economy.

In light of the above definitions, the DRC is an emerging market.

CHAPTER 3

RESEARCH PROPOSITIONS AND METHODOLOGY

3.1 RESEARCH PROPOSITIONS

There are no “right” decisions on foreign market entry, especially in emerging markets, just decisions that are associated with different levels of risk and reward. The mode of market entry into the DRC market is an important strategy for risk management. The modes of market entry and strategies for South African companies doing business in the DRC discussed in the previous chapter will thus be evaluated. The evaluation will be performed by gathering data around insights and experiences of South African companies that are already doing business in the DRC.

The different sectors of industry used in the assessment include media, manufacturing, export, financial services, property and mining, where the mode of market entry and strategies for each of the chosen companies will be combined and contrasted.

This chapter will lay out the six propositions that will be tested in this paper, which will provide insights on modes of market entry and strategies that South African companies should consider when entering the DRC market.

- **Research Proposition 1: Mode of Market Entry**
  South African companies embarking on doing business in the DRC have different modes of market entry to choose from, and the optimal entry mode depends to some degree on the nature of a firm’s core competencies, such as; technological know-how, management know-how and technical know-how.

- **Research Proposition 2: Establishing relationships with a local partner**
  Finding a business partner is probably the single most important factor in successful commercial dealings in the DRC, as many local businesses prefer to purchase from long-time vendors due to trust issues. The issue of finding the correct business partner requires a lot of time and effort, and normally the local commercial environment encourages intimate long-term relationships, fierce competition, and mainly efforts to make once-off high-profit deals. Having the right local partner with contacts and access is crucial to the success of doing business in the DRC. With the help of the local partner, adapting to cultural differences and business practices is made easier. South African companies need to invest the resources required to gain better understanding of the requirements of customers in the DRC.

- **Research Proposition 3: Adapting Marketing and Sales**
  Market knowledge becomes solely the responsibility of the said local partner, and if the partner does not adhere to corporate governance laws, then the whole marketing will become disastrous, and this could permanently ruin the reputation of the company before it even takes off in the market. To do business in the DRC, South African companies have to consider their approach to marketing and sales carefully.

- **Research Proposition 4: Human Resources**
  The DRC has no recruitment firms and skilled industrial labour is often in short supply and must often be trained by the investor companies. Companies are therefore often faced with the expensive exercise of bringing in their own pool of skilled personnel, either on secondments or expatriate assignments. Successful companies identify employees with the best talent and develop it. Strategies for the South African companies in the DRC must include providing additional training to the less skilled local employees.

- **Research Proposition 5: FDI Incentives in the DRC**
  South African companies have to assess the desire for the DRC to attract foreign direct investment. This assures funders and investors that the environment is more conducive to high standards of performance.

- **Research Proposition 6: Operational Challenges in the DRC**
  There are key operational challenges that South African companies, irrespective of the sector of the industry, need to be aware of and subsequently overcome to succeed in the DRC.

The research propositions mentioned in the previous chapter will be tested in this research report. The propositions focus on the modes of market entry and strategies for South African companies doing business in the DRC. This chapter will explain the methodology that will be used to test the propositions outlined in chapter three.

The methodology used will be based primarily on semi-structured interviews and discussions with executives from South African companies doing business in the DRC. Some companies have been on the continent for many years and, while not having particular entry strategies, survived through learning from experience. The information-gathering process will also include challenging events related to business in the DRC and risk management.

3.2 RESEARCH OBJECTIVE

The primary objective of this study is to conduct an analysis of the modes of market entry and strategies that South African companies operating in the DRC have embarked on. This approach seeks to provide help in building theoretical frameworks for prospective South African investors seeking to enter the DRC.

The secondary objective of this study is to investigate the operational challenges experienced by the companies operating in the DRC, and how these were overcome.

3.3 RESEARCH METHODOLOGY

3.3.1 Rationale for methodology

This study used a qualitative research methodology, as it was felt that the methodology was best suited to address the research problem. Formulating propositions derived from the theory base, followed by testing and modifying those propositions through semi-structured interviews, content and comparative analysis, were then used to draw conclusions. Qualitative research is recommended when a researcher aims to interpret a phenomenon in a specific context rather than simply establishing a link between two variables (Leedy and Ormrod, 2001). Qualitative research rather than traditional quantitative empirical tools was particularly useful for exploring implicit assumptions, examining new relationships, abstract concepts and operational definitions (London and Hart, 2004). Exploratory and qualitative research are also appropriate when not enough is known about a phenomenon for standardised instruments to have been developed (Patton, 2002), and when an ambiguous problem needs to be clarified (Zikmund, 2003).

As stated by Mushuku, Leedy and Ormond (2001) also stated that qualitative research studies served one or more of the following purposes:

- A description to reveal the nature of situations, settings, relationships and others;
- Interpretation to enable the researcher to gain insights about the nature of a phenomenon, to develop new concepts or theoretical perspectives about the phenomenon, or to discover problems that exist within the phenomenon;
- Allowed for the verification of a researcher’s assumptions, claims, theories or generalisations within the real world contexts; and
- Provided a means through which a researcher was able to judge the effectiveness of particular policies, practices or innovations.

Some qualitative researchers advocate a purely inductive approach to qualitative research, allowing for the emergence of new meanings and gestalts, without the interference of prior theory and propositions (Saunders, Lewis and Thornhill, 2009).

It is important to note that while qualitative findings can be replicated, and sometimes generalised to theory (Yin, 2003), they cannot be inferred across the entire population given the small sample size. This study aimed to formulate theoretical conclusions which could later be tested. Perry (2001) suggested the use of an interview guide where "probe questions formed the major part".

3.3.2 Research process

The research project took the form of a qualitative study, where a thorough review of the literature surfaced propositions which were tested. Semi-structured interviews were conducted, which offered a versatile way of collecting data as this allowed the researcher to use probes to clear up vague responses and the researcher always asked for elaboration of incomplete answers (Welman and Kruger, 2001).

The research involved a detailed review of the literature to surface the different modes of market entry as well as strategies for internationalisation of companies into emerging markets. These initial propositions were tested through semi-structured interviews - a series of semi-structured interviews with nine respondents from seven different South African companies that have been operating in the DRC. The semi-structured interview is useful when several respondents are interviewed, because it provides some standardisation, allowing for comparative analysis, whilst leaving room for some spontaneity as well as interviewer probes for clarification or elaboration purposes (Welman & Kruger, 2001). It allows for the hybrid deductive/inductive approach that is suited to case studies (Perry, 2003), but involves one source of data – the interview – rather than multiple sources.

3.4 POPULATION OF RELEVANCE

The population of relevance for the study was the executive at a South African company conducting business in the DRC. The unit of analysis was the perspective of the individual executives on the modes of market entry and strategies for entering the DRC market. Eleven executives of nine South African companies operating in media, manufacturing, export, financial services, property and mining sectors, were interviewed for collection of data for this research study.

3.5 SIZE AND NATURE OF THE SAMPLE

According to Welman and Kruger (2001), the probability that any element (unit of analysis) will be included in a non-probability sample, cannot be specified. However, the advantage of nonprobability samples is that they are less complicated and more economical in terms of time and financial expenses, than probability samples. Furthermore, non-probability samples may be especially useful in studies in which a preliminary questionnaire has to be tested (Welman and Kruger 2001). Qualitative samples tend to be purposive, or snowball, rather than random, with preference often given to key informants who have more information or are richer experience on account of their position (Welman & Kruger, 2001). No sampling frame existed for this study and, therefore, respondents were identified through research via the internet and the researcher's networks in the DRC.

Senior, well-informed executives were selected. They were purposively sampled based on accessibility and with preference given according to the extent of the company's engagement with the DRC market. All companies interviewed operate in the DRC market, and the majority of companies interviewed are South African, with some being multinationals with South African operations. The data was gathered through semi-structured interviews and discussions with executives of South African companies doing business in the telecommunication, manufacturing, retail, financial services and banking sectors.

Due to the sensitive nature of doing business in the DRC, all companies interviewed requested the author to keep their names confidential. The companies will, therefore be referred to as Company A, Company B, etc.

3.6 DATA COLLECTION AND ANALYSIS

3.6.1 Interview Guide

Qualitative research is an iterative process, with data collection, analysis and refinement of propositions, an interrelated and interactive set of processes (Kvale, 2007). While comparative analysis as advocated by Yin (2003) is usually applied to cases, semi-structured interviews were used for this study, given time and resource constraints and the range of companies the researcher wishes to interview.

An interview guide, Appendix I, was used in the semi-structured interviews. The Interview Guide was constructed, based on the propositions that emerge from the previous chapter. A minimal response technique was used, along with some paraphrasing, summarising and clarifying techniques to allow the researcher to test her own understanding and to sharpen the focus of vague comments.

Interviews and discussions were held with executives of South African companies doing business in the DRC. The data was collected through e-mailed interviews to the executives, and where possible, through one-on-one interviews with the executives in their places of work.

Setting up all interviews involved the following steps:

- The researcher searched for the company’s contact details via a list supplied by the South African Embassy in the DRC;
- The researcher then contacted the respective companies, and justified the need to interview the senior company executive, until interview times and dates were scheduled;
- Interview questions were sent in advance, in order to reduce interview times;
- The interviews lasted 30 minutes on average and were conducted in English, while the researcher took notes;
- The interviews ended with a thank you gesture from the researcher, and mostly with a request from the managers interviewed for a copy of the research document.

3.6.2 Data Analysis

The study used a combination of content, comparative and narrative analysis, and each interview was analysed using a content and narrative analysis, and a final comparative analysis was conducted to compare results across units of analysis and across variables using a meta-matrix (Miles & Huberman, 1994).

Content analysis can be used with semi-structured interviews to make qualitative analysis of the essence of the contents of such interviews. Content analysis is a way of systematically analysing unstructured interviews, identifying the incidence of themes, and the way in which themes are portrayed (Welman and Kruger, 2001), while narrative analysis retains the richness of the data, and allows patterns to develop. For this study, content analysis was done which involved the contents of interviews being examined systematically to record the frequencies of responses to the interview guide questions and the ways in which the themes were portrayed.

3.7 POTENTIAL LIMITATIONS

Qualitative research is generally interested in exploring a phenomenon in a specific and current context, and therefore is not approached with the same understanding of reliability and validity as quantitative research (Saunders *et al.*, 2009; Miles and Huberman, 1994). Qualitative research does not use standardised methods, and is therefore not necessarily intended to be repeatable (Saunders *et al.*, 2009).

The limitations with regards to the research at hand have been identified as:

- South African companies currently operating in the DRC are not very forthcoming with the internationalisation strategies, due to the confidential nature of the individual company strategies;

- South African companies currently operating in the DRC each have their own different challenges, so a generic interview guide was not ideal, as it did not really allow for flexibility.

CHAPTER 4

RESULTS, CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

This chapter presents a summary of responses from the interviews conducted with eleven executive managers working at nine different South African companies doing business in the DRC, as well as an analysis of these results. Conclusions as well as recommendations will also be made in this chapter.

The data collected consisted of opinions as well as operational experiences (negative and positive) of South African companies operating in the DRC, based on the research propositions presented in Chapter 3. The analysis is geared at providing the answers to the propositions presented.

A list of companies interviewed is given in Table 4.1. All companies interviewed insisted on remaining anonymous and thus names will be omitted, and replaced with other names to respect the privacy requested.

Table 4.1: Companies Interviewed

Company Name	Industry	Interviewees
Media A	Media	2
Media B	Media	1
Manufacturing A	Manufacturing	1
Export A	Export	1
Financial Services A	Financial Services	1
Property A	Property	1
Mining A	Mining	1
Mining B	Mining	1
Mining C	Mining	1
Mining D	Mining	1

For all the South African companies that were interviewed in this research, doing business in the DRC was motivated by market seeking related to their expansion strategies into foreign markets, leading to opportunity for new growth. There is also the advantage of an Export Credit Insurance Corporation that has a mandate to underwrite bank loans and investments made by South African companies outside the country on capital projects. Some companies were also motivated by the threat that their existing markets are maturing, and the manufacturing company was also motivated by the emergence of new political rules, which have left them in a negative space in South Africa.

The Table below lists the drivers cited for entering the DRC, and shows how many interviews from how many companies cited each.

Table 4.2: Drivers for market entry

Driver	No. of companies	No. of interviewees
New market opportunity	9	11
Change in political climate	1	2
Export Credit Insurance Corporation	5	5
Threat of maturing existing markets	3	4

Insights and analysis gained from the interview on South African companies doing business in the DRC are summarised below.

4.3 RESULTS

4.2.1 Research Proposition 1: Mode of market entry

4.2.1.1 Introduction

There is no mode of market entry best suited to international low income markets, because so much depends on the type of product, opportunities, local market conditions and the firm’s degree of internationalization. South African companies embarking on doing business in the DRC have different modes of market entry to choose from, and the optimal entry mode depends to some degree on the nature of a firm’s core competencies, such as; technological know-how, and management know-how.

The study conducted revealed that for the South African companies doing business in the DRC, the modes of entry have always been industry specific as the drivers are different across different industries.

4.2.1.2 Results

The mode of market entry versus the type of the industry sector is presented in Table 4.3 below.

Table 4.3: Mode of market entry versus type of industry

Industry Sector	Greenfield	Privatisation Partner	Joint-venture	Acquisition	Export
Media	🟩		🟦		
Manufacturing			🟦		
Export					🟥
Financial Services				🟪	
Property			🟦		
Mining		🟨	🟦	🟪	

South African companies established their presence in the DRC by market seeking through a mix of entry modes which included acquisitions, Greenfield entry, privatisation partnership with the Government of the DRC and joint-ventures. The different types of entry modes have proven to also require different levels of commitment and attract different levels of risk, as presented in Table 4.4.

Table 4.4: Mode of Market Entry versus Degree of Commitment

Degree of Market Commitment	Mode of market entry	Risk
High	Greenfield	High
Medium - High	Privatisation Partner	Medium - High
Low	Export	Low
Low	Joint-venture	Low
Low - Medium	Acquisition	Low - Medium

In Table 4.4 is presented an analysis model of the mode of market entry versus the degree of market commitment. Commitment to a market is closely linked to the desired control as substantial financial and management commitment will increase the degree of market commitment, which in turn increases the risk involved. Greenfield entry is a high-risk and a high-degree of market commitment mode of market entry, where rewards are normally enjoyed over a longer period of time.

Acquisitions and joint-venture modes of entry minimise business risk as they generally assist in reducing cultural barriers with the locals and increase the company's acceptance in a particular market environment (Kogut and Singh, 1998b).

- **Acquisitions**

  Acquisitions of previously state owned enterprises to support the privatisation initiative by the Government of the DRC were prominent in the mining sector and financial services sector. Mining B and Financial Services A used acquisition as a mode of market entry, which allowed them immediate access to a local network of suppliers, clients and therefore an added advantage. This, in turn, made it possible to enter rapidly into the local market, by acquiring existing assets which are familiar to the DRC consumers.

- **Greenfield**

  Media A, in the media sector, entered the DRC as a Greenfield investment. This mode of entry was deemed to be appropriate as the formal media sector was a new concept in the DRC and was not very well developed. The major driving force behind this choice for market entry was the new market opportunity that created vast opportunities in the DRC.

- **Joint-Ventures**

  Joint-venture partnerships with local companies have proven to be the most popular choice of market entry, not only as a risk management issue, but also to facilitate skills and technology transfer to the DRC. Acquisitions and joint-venture modes of entry minimise business risk as they generally assist in reducing cultural barriers with the locals and increase the company's acceptance in a particular market environment (Kogut and Singh, 1998b).

  Media B, Manufacturing A, Property A, Mining B and Mining D have chosen this mode of market entry into the DRC. Evidence shows that the partnership between foreign investors and local operators often results in higher productivity by domestic companies, whereas fully owned foreign affiliates may have a negative effect on domestic partners, and that the risk is lower.

Mining D is involved in a project which is a joint-venture between Mining D and another company, which together hold an effective 90% stake, with the remaining 10% held by a state-owned gold company of the DRC. The project has the potential to become one of the world's largest gold mines.

Property A's executive recently commented on doing business in the DRC: "It is a difficult regulatory environment to operate in. There are immense amounts of bureaucracy, which need to be dealt with. Unless you have credible partners who understand the legislative environment . . . it is something of a minefield."

- **Exporting**

  Export A used an exporting model as a mode of market entry, which is a low market commitment and low risk mode of market entry. This mode of market entry was chosen as a market test approach where a company representative jointly works with an appointed distributor to understand the dynamics of the market and to identify the major players in the market. Contracting the local distributor requires no investment in the country; therefore Export A is getting the benefits of market penetration at minimal investment. This low risk mode of market entry and degree of market commitment minimises control as it takes time for the company to get accurate market information such as customer behaviour, market share and pricing controls (Douglas and Craig, 1997).

- **Privatisation Partnership**

  Mining C used this mode of entry into the DRC. Privatisation of state owned enterprises in partnership with the Government, indicates a relatively high degree of market commitment and a relatively high-risk mode of market entry. Privatisation partnerships with Government has its initial advantages of being closer to pulse of policy and understanding the long term outlook; but it is high-risk, given the political instability and changes in Government policies in the DRC.

4.2.2 Research Proposition 2: Establishing relationships with a local partner

4.2.2.1 Introduction

Finding a business partner is probably the single most important factor in successful commercial dealings in the DRC, as many local businesses prefer to purchase from long-time vendors due to trust issues. The issue of finding the correct business partner requires a lot of time and effort, and normally the local commercial environment encourages intimate long-term relationships, fierce competition, and mainly efforts to make once-off high-profit deals. Having the right local partner with contacts and access is crucial to the success of doing business in the DRC. With the help of the local partner, adapting to cultural differences and business practices is made easier. South African companies need to invest the resources required to gain better understanding of the requirements of customers in the DRC. Financial risk is usually the major consideration at the point of market entry and the risk can be minimised by low intensity modes of market participation, via strong partnerships formed at the beginning stages.

4.2.2.2 Results

The study revealed that the Government of the DRC has set up structured forums for engagement with the private sector, with smart partnerships having a long term economic outlook. It is also important to note that business in the DRC thrives on relationships with the “right” people, who can facilitate the understanding of the market and customer base. Relationships, networks, connections and speaking a little bit of French, facilitated getting the job done in the DRC. Working with influential Government leaders and regulatory authorities, was critical as more opportunities, which would have otherwise gone to others or remained unknown, would be obtained sooner.

Mining D has engaged stakeholders at all levels, from local communities to provincial and state entities, in order to ensure sustainable development in the area, as well as ensuring that trust and relationships are built. The company has also made a pledge to support the community towards community responsibility programs, which have erased any insecurity that the locals might have had about its motives in the DRC. The partnership and relationships with the “right” local people assisted in faster customs clearances, as well as faster processing of any other required documentation required to operate in the DRC. Senior managers of Media A & B devoted considerable time and effort to cultivate and maintain a network of appropriate relationships with Government and other officials at the national, regional and local levels, thereby assuring them that they are 100% committed to their mission in the DRC.

Mining B appointed a country manager to establish relationships in order to know the market and to facilitate the ease with which important issues are dealt with. Export A decided to appoint a distributor with a lot of connections with Government officials as well as prominent business people. This has enabled Export A to penetrate the market quicker and has opened up the possibility of also trading their niche market products to the influential people of the DRC. Other mining companies have established strong relationships with local chiefs in the rural settlements, as these are the ultimate decision-makers. Manufacturing A has also partnered with the local chieftaincy, to guarantee the locals of employment opportunities once the plant is up and running. This has sealed the company’s security in executing their plans of starting operations in 2013.

4.2.3 Research Proposition 3: Adapting Marketing and Sales

4.2.3.1 Introduction

Market knowledge becomes solely the responsibility of the said local partner, and if the partner does not adhere to corporate governance laws, the whole marketing will become disastrous, and this could permanently ruin the reputation of the company before it even takes off in the market. To do business in the DRC, South African companies have to carefully consider their approach to marketing and sales.

4.2.3.2 Results

Mining D has embarked on a strategy to attract the local market, by embarking on a number of initiatives in the local communities, including refurbishment of the local school and the establishment of literacy and finance programmes. Support has also been given to local vaccination campaigns and malaria prevention. Consultative and information sharing forums are regularly held with the local community and include participation by artisanal and small-scale mining operators. Environmental studies have been commissioned both as part of the feasibility study and also to determine broader regional biodiversity, water quality and land-use, which in many areas have been heavily impacted by previous formal and informal mining activity. Several engineering projects that will benefit the community were completed, including construction of a new road.

Media A's communication in the DRC included marketing and advertising. As this was a Greenfield investment, corporate communication was driven by a Government Department as a partner. The inclusion of Government was done to better position Media A as there are always negative feelings in the community due to uncertainty around intentions of foreign companies in the DRC.

For Export A, communication to customers was essential for sales and distribution channels to establish route to market. The South African executives embarked on a trip to local customers, and personally introduced the brand. The executives emphasised on pricing consistency and negotiated upfront on discounts and promotions. Customers were guaranteed on time deliveries, and service level agreements were signed to ensure constant delivery and quality service from Export A. Goods sold to the DRC market were then modified to adhere to the DRC requirements, and a dedicated production line was assured to the customers. As a way to attract new customers, advertising was done via radio stations and a website, ensuring the local distributor was used as the point of contact for all other potential customers.

Property A used advertisements in media, business magazines and sponsored a Women's Day event for local business women. The event was used to further promote the company's offering to businesses, with free trial periods and discounts offered to the attendees.

4.2.4 Research Proposition 4: Human Resources

4.2.4.1 Introduction

A considerable asset for business is the fact that the DRC has about 60 million consumers, constituting a large market for foreign companies. With over half of the population between 15 and 65 years old carrying out an income generating activity, it has become apparent that the nation is very enterprising in trade. The DRC has no recruitment firms and skilled industrial labour is often in short supply and must often be trained by the investor companies. However, it should be noted that the pool of university and college graduates from the DRC is exceptionally skilled, the only problem is that the skilled labour force is often already taken or already working out of the country.

Companies are thus often faced with the expensive exercise of bringing in their own pool of skilled personnel either on secondments or expatriate assignments. Successful companies identify local employees with the best talent and they develop it. Strategies for the South African companies in the DRC must include providing additional training to the less skilled local employees, as this has proven to be essential for skills transfer and also getting to know and understand the local market better.

4.2.4.2 Results

The country's labour legislation was modified by the October 2002 Labour Code, which is in compliance with the conventions and recommendations of the International Labour Organization. The code provides for tight control of labour practices and regulates recruitment, contracts, the employment of women and children, and general working conditions. The code also formally permits a woman to gain employment outside her home without her husband's permission. Larger firms are required to have medical staff and facilities on site, with the obligations increasing with the number of employees. Employers must provide family allowances based on the number of children, and paid holidays and annual vacations, based on the years of service.

Due to the fact that there were no employment agencies in the DRC, most of the companies interviewed appointed a local manager to manage staff recruitment, interviews and placements. Great reliance was placed on the local manager, as the manager had a good understanding of local employment conditions. Expatriates from South Africa were also used to run the business and ensure consistency with the South African operations and philosophies, taking cognisance of the fact that all foreign employees must apply for a work permit from the National Committee of Employment of Foreigners within the Ministry of Labour. With corporate governance being a major issue, great reliance was put on the chosen expats, to emphasise on the adherence of fundamental requirements of King III and other regulatory bodies.

The introduction of performance management programs was unknown to the locals, as the belief always was that annual increases were the same for everyone. Benchmarking of salaries to market, proved to be quite cumbersome, as salaries are generally set on an individual basis in the DRC, and other factors (other than education and experience) play a role in how people get compensated. Staff training costs were very high initially, as it took the form of training in South Africa, on the job training, bursaries and e-learning. All companies interviewed, expressed that this cost was extremely necessary, as it created long-term value for their DRC operations. Some companies even worked with the Government to recall special skills personnel from other overseas missions, to come back to the DRC and apply their skills in their own country. Those who returned were already performing at the required levels of competency as they had been exposed to international ways of operating.

Exchange programmes were also embarked on by some companies, in order to promote cross-cultural awareness and understanding. Succession planning became a major requirement, especially in expat positions, as the people were on fixed term contracts, and when they left the DRC, locals were the naturally preferred replacements.

4.2.5 Research Proposition 5: FDI Incentives in DRC

4.2.5.1 Introduction

South African companies have to assess the desire for the DRC to attract foreign direct investment. The DRC has been attracting South African investors as it has shown a desire to attract foreign direct investment by seeking to promote regional integration and trade, and currently serves as a member of SADC, COMESA, ECCAC, and CEP. This assures funders and investors that the environment is more conducive to high standards of performance. The DRC Government has the responsibility to create an enabling environment for trade and investment, by promoting good political and economic governance, by strengthening institutional and human capacities, by developing a regulatory environment that not only facilitates and attracts foreign investment to the economy, but also safeguards it. The enabling Investment Code favours and gives security to investments, and other laws aim to favour business development, by ensuring that there is overall equality of treatment between domestic and foreign investors and simplifies the approval procedure (30 days) which ends in granting customs and tax advantages.

4.2.5.2 Results

All companies interviewed have expressed their satisfaction with regards to the new thinking of the DRC Government in creating an enabling environment for foreign investors. With more international assistance, the Government continues to work to implement the various technical and legislative reforms to facilitate the movement of goods. The DRC's rich endowment of natural resources, large population size and generally open trading system, provide significant potential opportunities for South African investors. There are no formal limits or screening mechanisms imposed upon foreign ownership of businesses in the DRC, and the DRC's macroeconomic situation has stabilized and the economy has begun to recover. The DRC adopted a freely floating exchange policy in 2001 as part of the implementation of broader economic reforms, and has also lifted restrictions on business transactions nationwide. Pro-business incentives range from tax breaks to duty exemptions granted for three to five years, and are dependent upon the location and type of enterprise, the number of jobs created, the extent of training and promotion of local staff, and the export-producing potential of the operation. There is no requirement that investors purchase from local sources or export a certain percentage of produced goods. Foreign investors are allowed to bid on Government contracts just as domestic investors, with no discriminatory terms. The DRC's Constitution (chapter 2, articles 34-40) protects private ownership without discrimination between foreign and domestic investors.

In 2008, the DRC became a candidate country for the Extractive Industries Transparency Initiative (EITI), a multi-stakeholder effort to increase transparency in transactions between governments and companies in the extractive industries. The commercial banking system has undergone a full reorganization and continues to expand, even though the commercial banking sector is very small. There has been great awareness created about Corporate Social Responsibility (CSR), and many of the large, multinational investors in the DRC have formal CSR programs. There are six flights with SAA from South Africa weekly, which makes it easier to have physical presence as and when required.

4.2.6 Research Proposition 6: Operational Challenges in the DRC

4.2.6.1 Introduction

There are key operational challenges that South African companies, irrespective of the sector of the industry, need to be aware of and subsequently overcome to succeed in the DRC. Overall, the challenges identified concern the enhancement of peace and economic recovery within a context of acute economic crisis. One of the first challenges is to restore security throughout the country to enable free movement of goods and persons which is a guarantee for sustainable recovery of market output. Another challenge concerns the improvement of public resource management through the promotion of good governance, and the improvement of the management of natural resources and environment. Lastly, the consolidation of the macro-economic framework and sustainable increase in production needs serious attention, by restoring production capacities and diversification.

4.2.6.2 Results

There were many common challenges faced by companies interviewed, and the following challenges often surfaced as the most frustrating: A weak operating environment; low income levels; regular electricity blackouts; macroeconomic instability; dilapidated infrastructure; high property rental costs; lack of financial services; tax rates that can be above 100%; high political risk; legal rights that are not protected; lack of public services; high internal transport costs.

Corruption is cited as a principal constraint to doing business in the country. The Mobutu regime created a culture of corruption in the DRC during more than 30 years of rule. This ingrained culture permeated the private, public, administrative, and business environments and has been difficult to root out. Most of the companies interviewed have adopted a non-corruption policy and would rather leave the DRC than lose their reputation.

Other common challenges experienced by the interviewed companies are:

Underdeveloped infrastructure – electricity, water, roads and telecommunication is in very poor condition in the DRC. Transport routes in the DRC are inefficient, and this causes great inconvenience, especially for the mining companies, as this hikes their set-up costs immensely.

Inadequate contract enforcement and lack of adequate judicial system – most of the companies interviewed expressed their concern with the inadequate legal system in the DRC, where processes dealing with contract fraud and payment disputes are often slowed, corrupted and often fruitless.

Continued insecurity in eastern DRC – the ongoing conflict puts the DRC in a high-risk zone, and companies who are brave enough to enter the market, have to constantly deal with the destruction of the normal economic activities, and this leads to high costs of doing business. Mining companies in eastern DRC have had to provide their own basic infrastructure, in order to ensure that they operate efficiently.

Crime is also very high in the conflict area, as displaced and disgruntled former soldiers roam the streets, and resort to crime as a form of revenge. Staff security in those areas is of the highest concern.

High levels of bureaucracy - the finding in DRC is that Government officials make the rules and take bribes to circumvent the very same rules as and when convenient, and this leads to complex regulations being an obstacle to business instead of being a facilitator.

4.3 CONCLUSION AND RECOMMENDATIONS

Due to the option of economic liberalisation and to important consecutive measures taken by the Government (the adoption of a floating exchange system, the reduction of domestic tax rates, the cooperation revival with international institutions, the liberalisation of mining and oil sectors as well as the promulgation of new Codes), the Congolese economy is on the road to stability and growth. As a result, the country is mere and more viewed as one of the best destinations of investments in Africa where great multinational companies are working.

The mode of entry into the DRC market is an important strategy for risk management of South African companies entering the market. Choosing the right mode of entry will depend on the entry motive, whether there are suitable acquisition targets, and any other opportunities arising from the DRC Government (PPP's or privatisation). With most companies interviewed preferring to maintain a majority stake in the DRC, joint-ventures proved to be the most popular mode of entry. It is further stated in literature that joint-ventures are an encouraging sign that the transfer of skills and technologies and the creation of other forms of linkages through which foreign investment can enhance the local development process, will take place. Evidence shows that the partnership between foreign investors and local operators often results in higher productivity by domestic companies, whereas fully owned foreign affiliates may have a negative effect on domestic partners, and that the risk is lower.

Finding a local business partner is probably the single most important factor for successful commercial activities in the DRC, and conducting of proper due diligence on potential business partners is a vital step in choosing a partner. The local knowledge the right partner brings to accessing vital information for business reports, market research and the analysis of competition, is invaluable (Jonah, 2006). Companies interviewed were all in agreement that a carefully chosen, strategic local partnership, which does not compromise on principles, produced distinct benefits. Coupled with this, is the importance of gaining local knowledge about business culture, competitors and opportunities. The research confirms the fact that South African companies entering the DRC should conduct research through as many sources as possible and that face-to-face meetings are advisable, including at least one initial visit to the DRC. Most businesses in the DRC have purchased from the same vendor for many years. Strategic relationships formed from inception, should have sustainable beneficial consequences for the South African investors in the DRC. South African companies that have participated longer with local partners will enjoy stronger, more favourable relationships which help to get access to the best joint-venture or acquisition partners, mostly facilitated by the Government. Arnold and Quelch (1998), state that executives familiar with emerging markets invariably stress the great importance of personal relationships with key local players in both the public and private sectors.

Market knowledge is a capability that is required for doing business in the DRC and this includes knowledge of business practices, negotiating styles, cultural norms and all that add up to the way people do business in the DRC. Companies expressed the fact that this knowledge could not be acquired without the right local partner right from the time of entering the DRC market. In order to succeed in the DRC, companies have to adapt their product and services and ensure that effort is put into working with the locals to fit within the culture of doing business in the country.

The issue of Human Resource development is of strategic importance, and all the companies interviewed gave it high priority, emphasising the importance of the role professionals play in economic development. The DRC's large urban population provides a ready pool of available labour, including a significant number of high school and university graduates. There has been an unprecedented increase in population which has not been accompanied by equal growth in social development. Consequently, there are huge numbers of people without access to education, healthcare and food (UN HDI 2010). Skilled industrial labour is in short supply and must often be trained by individual companies. Most foreign employers pay higher wages than the official minimum wage, as set out by the GDRC. Mandated medical benefits are a major cost for most firms. Companies operating outside the major cities often assist by providing infrastructure, such as roads, schools and hospitals. The Ministry of Labour must grant permission for staff reductions, making it harder for MNC's to retrench existing staff while acquiring businesses in the DRC. A major issue for South African companies to note was the fact that the right to strike is recognized, and the law provides for reconciliation procedures in cases where the Government is not involved.

The DRC Government has created a number of incentives to attract foreign investment to the country. Pro-business incentives range from tax breaks to duty exemptions granted for three to five years, and are dependent upon the location and type of enterprise, the number of jobs created, the extent of training and promotion of local staff, and the export-producing potential of the operation. There is no discriminatory or excessively onerous visa, residence or work permit requirement designed to prevent or discourage foreigners from investing in the DRC, though corruption and bureaucracy can create delays in obtaining the necessary permits.

Findings on the operational challenges in the DRC indicate that the DRC remains a highly challenging environment in which to do business. Key market challenges include: Underdeveloped infrastructure; inadequate contract enforcement, limited access to credit; continued insecurity in eastern DRC; high levels of bureaucracy, red tape and corruption; lack of adequate judicial system; inconsistent application of commercial laws; inefficient and burdensome tax and customs administrations; high cost of basic infrastructure; low domestic purchasing power; lack of qualified human resources and dominance of the informal sector.

It is therefore recommended that the correct mix of the above recommendations be considered by South African companies entering the DRC. The right mix will depend on the industry invested in, as well as the internationalisation strategy at large.

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