

Master Thesis

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Dutch entrepreneurs entering South-Africa: success assured?



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Preface

Alles sal rech komm

With this typical South-African quote I would like to start my thesis: *alles sal rech kom*. In South-Africa it means something like “everything will be alright”. We often used the term during our stay in Africa when we were overwhelmed by our thesis. Fact that I am handing in this thesis now basically shows that everything indeed is *rech komm*.

This master-thesis will be the final part of my study Business Administration at the University of Twente. Through my thesis I hope to sketch a better understanding of what are the critical success factors of Dutch entrepreneurs in South-Africa. An interesting subject which made me learn a lot about entrepreneurship, internationalisation and especially ... Africa!

The South-African experience has been a great adventure. Some negative, extremely learning, moments but especially a lot of beautiful and amazing experiences have enriched my life to a great extent. They gave me a better understanding of how the (African) world works.

First of all I would like to thank my supervisors for their flexible attitude and helpful comments. Further I would like to thank my friends who helped me reading and correcting my thesis, my friends who helped me cheering me up when my thesis was overwhelming and my parents for their ongoing loving support. Finally I want to show my gratefulness to my friend Paul, who was a great support in South-Africa.

Thanks/Baje dankie!

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Mac van der Peet



Abbreviations

BEE	...	Black Economic Empowerment
CR	...	Concentration Ratio
CD	...	Cultural Distance
FDI	...	Foreign Direct Investment
GDP	...	Gross Domestic Product
MNEs	...	Multinational Enterprises
ROI	...	Return On Investment
SAR	...	South African Rand
SMEs	...	Small and Medium Sized Enterprises

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Article: “Dutch entrepreneurs entering South-Africa: success guaranteed?”

Abstract:

This article analyzes the perceived importance of different entry-decision factors by successful Dutch entrepreneurs in South-Africa. Through ranking the different entry-decision factors a more solid explanation is sought for the small number of successful Dutch start-ups in South-Africa. The sample includes fifteen successful companies with Dutch founders started in South-Africa. Through semi-structured interviews a clear overview is created of the perceived critical entry-decision factors of the different founders. Hereby a contribution is made to literature concerning entry strategies and successfulness of foreign entrepreneurs in the emerging market of South-Africa.

Results of this research are an underestimated cultural difference between the Netherlands and South-Africa and different customer preferences of South-African customers. Although measures have been taken to assure a high amount of validity and reliability this research is limited by the restricted number of cases and different nature of these cases.

Implications of this research show that certain topics concerning FDI in emerging countries need more thorough investigation. Especially the influence of entrepreneurial background on the success rate of the company and the different perception on the various entry-decision factors come up as important new subjects of investigation.

Keywords: emerging markets, entry-decision factors, entry-strategy and successfulness.

Introduction

The aim of this paper is two sided. First aim is to create an extensive list of entry-decision factors which can influence the choice of a particular entry strategy. For this purpose a literature survey is done resulting in a list containing all entry-decision factors which, according to literature, can influence the choice of entry strategy, and thereby successfulness of a company. Secondly this paper aims at ranking these entry-decision factors according to perceived importance in relation to successfulness by the founders.

South-Africa seems to be an attractive location for Dutch people to set up a business. Every year hundreds of Dutch people emigrate to set up a new company in South-Africa. However, most of the Dutch *gold diggers* are back in Netherlands within no-time, having lost an illusion and a lot of money. Statistics show that eighty percent of the Dutch entrepreneurs in South-Africa fail (Expat, 2008).

These confronting statistics of high failure rate triggered the curiosity of the authors. What distinguished the few successful entrepreneurs in South-Africa from all these failures? Although existing literature offers a lot of information about start-ups in foreign countries a solid explanation for the high failure rate for Dutch start-ups in South-Africa could not be found. This article therefore aims at contributing to existing literature in emerging markets by creating a list of entry-decisions factors perceived as most important for successful Dutch founders in South-Africa. Due to the acknowledged influence of the suitable entry strategy on the success rate of a foreign company (Crick and Jones, 2000; Nakos and Brouthers, 2002; Anderson and Gatignon, 1986) this topic lies central in this paper.

Despite the high rate of failures of Dutch start-ups we still see a relatively high Foreign Direct Investment (FDI) involvement of Dutch companies compared to other emerging markets (SANEC, 2009). Important reason for this relatively higher Dutch FDI involvement in the emerging country South-Africa is the colonial ties between the two countries. Colony-colonizer links between countries have proved to boost trade by almost 900% (Endo, 2006). Examples of this relation are the high France involvement in the Franc zone of West-Africa and the high interest of British companies in India. This high involvement can be explained by the considerable amount of political and historical association between the countries. Through these associations the cultural distance (CD) between countries is reduced, making it more attractive for FDI (Ghemawat, 2001).

The high FDI involvement of Dutch people, and foreign business in general, in South-Africa is however only something of the last fourteen years. During the apartheid era in South-Africa the huge political - and economic uncertainty greatly discouraged FDI involvement by foreign entrepreneurs. This greatly coincides with entry strategy literature which stipulates the link between a stable political environment and high FDI involvement (Dunning, 2000).

According to Soderblom and Teal (2003) the breakdown of the apartheid regime in 1994 created however a new South-Africa. The replacement of the totalitarian, non-democratic state by a democracy increased the stability of the economic and political environment significantly and stimulated hereby a higher amount of FDI involvement. Also the free-market space which arose together with the regime shift stimulated a higher FDI involvement in South-Africa. The termination of the state-owned monopolies created a new, free market, which offered opportunities for domestic and foreign companies (Paper for the “apartheid” conferences, 2006; Soderblom & Teal, 2003).

Theories

The successfulness of a firm

Central theme in this paper discusses successfulness of firms in South-Africa founded by Dutch people. Because of the importance of the term *successfulness* this term first will be defined.

The level of success is often described as the amount of money which is generated. Although money is an important not to be neglected factor (Head, 2003; Neely, Adams and Kennerley, 2002), different authors agree that also other important terms have to be taken into consideration when determining successfulness of a firm. The sustainability, and employee – and customers’ satisfaction are also acknowledged to make up a part of the successfulness of a business (Baskerville, 2002).

For the purpose of this paper successfulness is defined as *companies which have achieved a stable (financial) growth factor for four years and can also show a decent degree of customer - and employee satisfaction.*

Entering a foreign market

The decision to start up a business in a foreign market is taken after a period of *market screening* (Nakos and Brouthers, 2002). In this period a judgement is made of the profitability a certain market offers. When, after this screening phase, it is concluded that the market indeed offers opportunities the phase is followed by an entry mode choice concerning the establishment of an FDI project. This choice of entry strategy is considered as one of the most important decisions a foreign entrepreneur has to make in the process of entering a foreign market (Root, 1994) and has proved to be significantly related to the (financial) performance of a company (Nakos and Brouthers, 2002).

Literature classifies two different modes of entry strategies: *equity-* and *non-equity entry mode strategies*. Where *equity* modes require major resource commitments in overseas location (Anderson and Gatignon, 1986; Vanhonacker, 1997) and call for actual investment, *non-equity* modes do not require the establishment of an independent organization. They are therefore considered as less risky option. The non-equity mode can be distinguished in *exporting* and *licensing* and is often chosen by small companies which lack enough financial resources. Equity-entry modes consist of *joint-ventures* and *wholly owned subsidiaries* and are often preferred by bigger companies (Pan and Tse, 2000). In this theoretical framework an overview will be made of entry-decision factors, factors which (according to literature) influence the choice of an entry strategy and thereby successfulness of a company. According to the author’s perception the factors influencing the choice of a particular entry strategy are divided into three dimensions, all consisting of factors which can support or inhibit a certain choice of entry strategy. According to their common characteristics the factors will be divided into the following three dimensions: the host-environmental -, industry-specific - and firm specific dimension. To create an extensive list of entry-decision factors offered by literature secondary data is gathered. Through analyzing articles in the field of entry strategies a thorough overview is created of factors influencing the choice of entry strategy. Through search engines like Scholar Google the following databases are used: JSTOR; Springer link and Scencedirect. The following search terms are used: “emerging economies”; “entry strategies”; “FDI”; “entering foreign markets” and “successfulness companies”.

Entry-decision factors in the host-environment

The first distinguished dimension is the *host-environment* which is, in this case, the macro-environment of South-Africa. To analyze this dimension the *PESTEL analysis* is used and expanded with aspects Root (1994) stipulates as being important in the choice of an entry strategy. Four host-environmental factors which can independently influence the choice of a specific entry strategy have been distinguished in this paper as entry-decision factors influencing the success-rate of a company. Firstly, the amount of *political* – and *economic* stability in the host-environment is stated as being important when choosing a certain entry strategy. A stable economic – and political environment facilitates the choice for the more risky *equity-entry mode* (Dunning, 2000). Secondly the social environment, consisting of the amount CD, has proved to be important to take into consideration when choosing an entry strategy (Kogut and Singh, 1988). A large CD facilitates an entry strategy which cooperates with local people like a joint venture where a small CD facilitates the choice of setting up an independent factory (Root, 1994; Kotler, 2003). Thirdly literature distinguishes the technological environment and environmental regulations as entry-decision factors. The technological environment, consisting of mainly the infrastructure of a country, can restrain the choice of certain entry strategies (Johnson, Scholes, and Whittington, 2005). The amount of differences in ecological laws between the host - and target country can also facilitate the choice of a certain entry mode. Where a large amount of differences in ecological laws and regulations facilitates the choice of equity strategy over a non-equity strategy, a small amount of discrepancy favours a non-equity mode (Johnson, Scholes and Whittington, 2005). Final factor of the host-environment is the legal environment. This component of the environment includes antitrust laws, employment laws and health and safety laws. Each of these factors can facilitate or restrain the choice of a particular entry strategy. A low amount of legal barriers facilitates the choice of an equity entry strategy (Goodnow and Hanz, 2009).

Industry-specific environment as entry-decision factors

Second distinguished dimension which contains entry-decision factors influencing the successfulness of companies is the industrial environment of the company, the so-called meso-environment. The amount of competitiveness in the industry-specific environment can support or inhibit the choice of a certain entry-strategy. When the amount of competitiveness in a market is considered low companies often prefer to choose an export strategy, with a more competitive environment companies often favour a licensing or equity entry strategy (Buckley and Casson, 1998).

A widely used model for analyzing the industry structure of a company is Porter's "*Five Forces*" model (Austin, 1990). This model consists of five factors that can all, independently, influence the amount of competitiveness in the market. The following five forces are distinguished: threat of new entrants and substituting products, rivalry among existing firms and bargaining power of suppliers and buyers. Porter's "*Five Forces*" model is however largely based on developed countries. The country of South-Africa has certain characteristics which make her differ from these main emerging countries. Especially the poor state of the economy and infrastructure, both partly inherited from the apartheid regime, are due to this (Ingvarsson, 2004). Because of the less developed nature of the country South-Africa extra factors have to be taken into consideration when determining the amount of competitiveness.

Austin (1990) has made two modifications for adjusting Porter's model to a model which can be used for less developed countries. Firstly another element is elevated. Because

of the greater role the government often plays in economies of less-developed countries this feature is added to the framework. Secondly the main factors of the host-environment are said to influence each of the competitive forces and their relationships. A picture of the modified model of Porter used in this paper to analyze the industry-specific environment can be found in figure 2.

According to questions on the different topics within the industrial environment the amount of competitiveness of the industry-specific environments of the different companies will be determined. A highly competitive industry is considered to favour non-equity modes of investment, a less competitive industry is said to favour an equity mode of investment (Buckley and Casson, 1998).

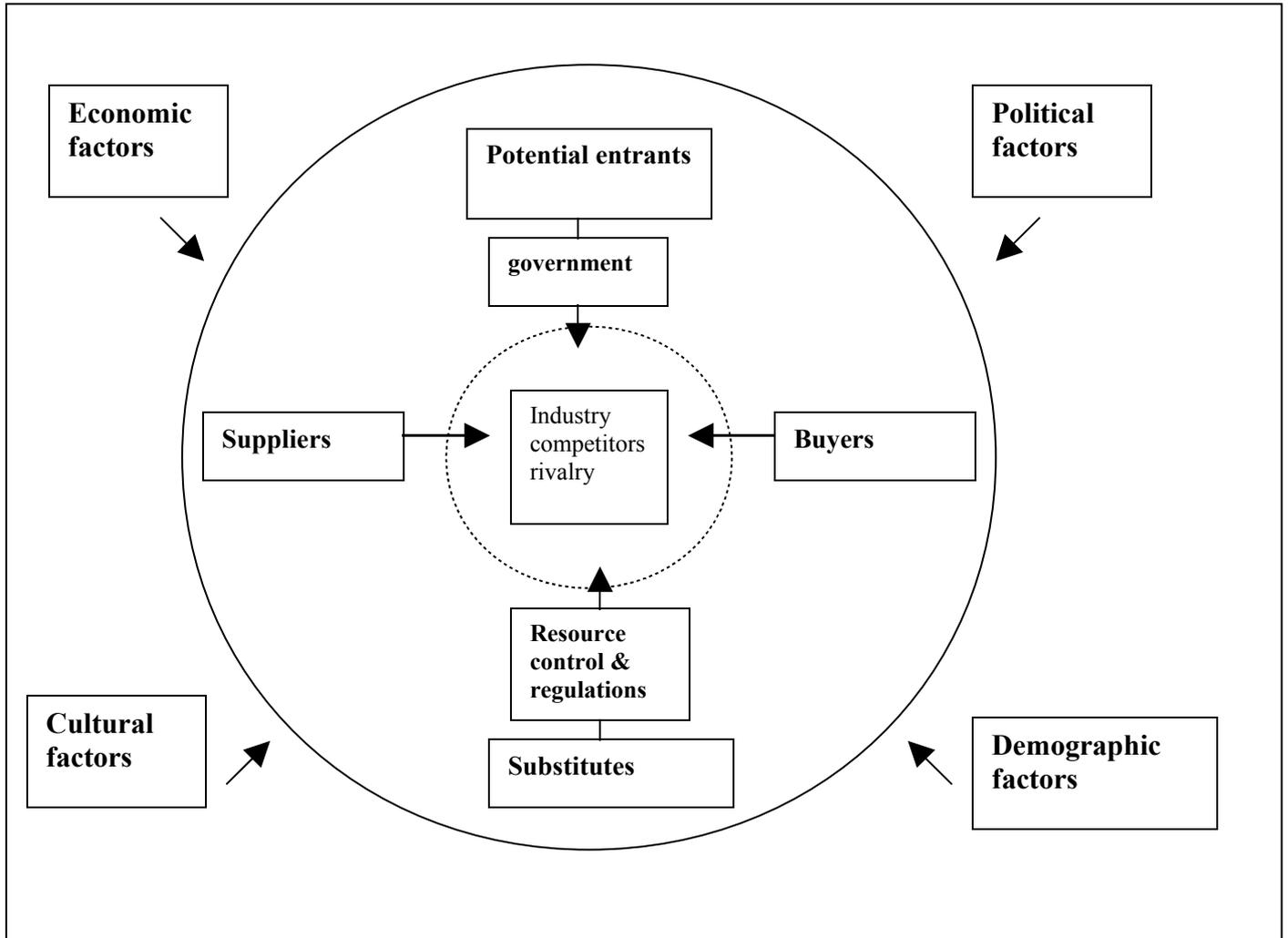
Firm-specific characteristics as entry-decision factors

The final dimension consists of firm-specific characteristics which can influence the chosen mode of entry strategy. Literature offers the following characteristics: *amount of resources* (Wernerfelt, 2006), *amount of required control* (Anderson and Gatignon, 1986) and *the experience in international markets* (Petersen, Pedersen and Shama, 2001; Erramilli; 1991).

The amount of resources contains the amount of physical -, managerial -, and educational resources which are necessary to start up the business. A high amount of these average resources facilitates an equity entry strategy where a low requirement of resources restrains a certain choice (Wernerfelt, 2006). The amount of control is considered especially important when companies are threatened by so-called *opportunistic behaviour* of competitors (Anderson and Gatignon, 1986; Malhotra, 2003). While basic and standard work supports the threat of opportunistic, behaviour and team-based work combined with a great amount of organisation knowledge discourages opportunistic behaviour. When a company requires a high amount of control this facilitates a choice which allows them with a great amount of control, a wholly owned subsidiary. Finally the quantity of international experience has to be taken into consideration. A small amount of experience in international business favours a non-equity strategy over the choice of an equity entry strategy (Petersen, Pedersen and Sharma, 2001; Johanson and Vahlne, 1977). All micro-environmental factors can independently support or inhibit the choice of a particular entry strategy.

From all distinguished factors above a research model is constructed consisting of entry-decisions factors literature names as influencing the choice of entry-strategy. The model is visualized in figure 3 and a further elaboration on the factors is made in table 1.

Figure 2: Industry analysis framework for developing countries (Austin, 1990).



Methodology

In order to gain more insights in entry-decision factors which contribute to the successfulness of Dutch start-ups interviews have been conducted with fifteen founders of successful Dutch start-ups. Through these interviews an overview is created of which entry-decision factors are perceived as crucial by the successful Dutch founders. All of the investigated companies have been started in the last ten years by Dutch people.

For the second aim of this paper, a ranking of perceived most important entry-decision factors, an in-depth understanding of the topic was required. Therefore a qualitative research method is chosen. Although this method offers fewer opportunities for generalization it does allow us to sketch a more detailed and richer picture of the target people. Through in-depth interviews with founders of fifteen different Dutch start-ups primary data is gathered about what, in the founders' perception, was the most important entry-decision factor leading to their successfulness. Also three additional interviews with experts in the field of South-Africa are conducted. Through these interviews a more reliable view of the macro environment of South-Africa could be sketched. As research method semi-structured interviews are chosen. The amount of flexibility this option offered was the main reason for choosing this format.

The selection of the different companies used in this paper was based on two criteria. Firstly the companies had to be classified as successful. During at least four years they should have had a considerable amount of growth and sustainability, and reasonable amount of customer and employees satisfaction.

Secondly, the companies had to agree with an (telephonic) in-depth interview of approximately one hour. After selection of the companies data was collected through interviews with the founders of the companies. In these interviews the founders had to rank certain questions through which their perception on the importance of entry-decision factors could be determined. Most questions required an opinion of the entrepreneur on the scale of 1 (very low) -10 (very high). Afterwards the answers on the different questions are converted in a Likert scale ranging from 1 (very low) – 5 (very high) on every factor.

To obtain a high degree of validity and reliability in this paper different measures have been undertaken. Through the use of multiple sources of information, a clear case study protocol and clear delimitations a maximum amount of construct -, internal - and external validity, and high amount of reliability is strived after. An overview of the used interview questions can be found in Appendix B.

Figure 3: Research model

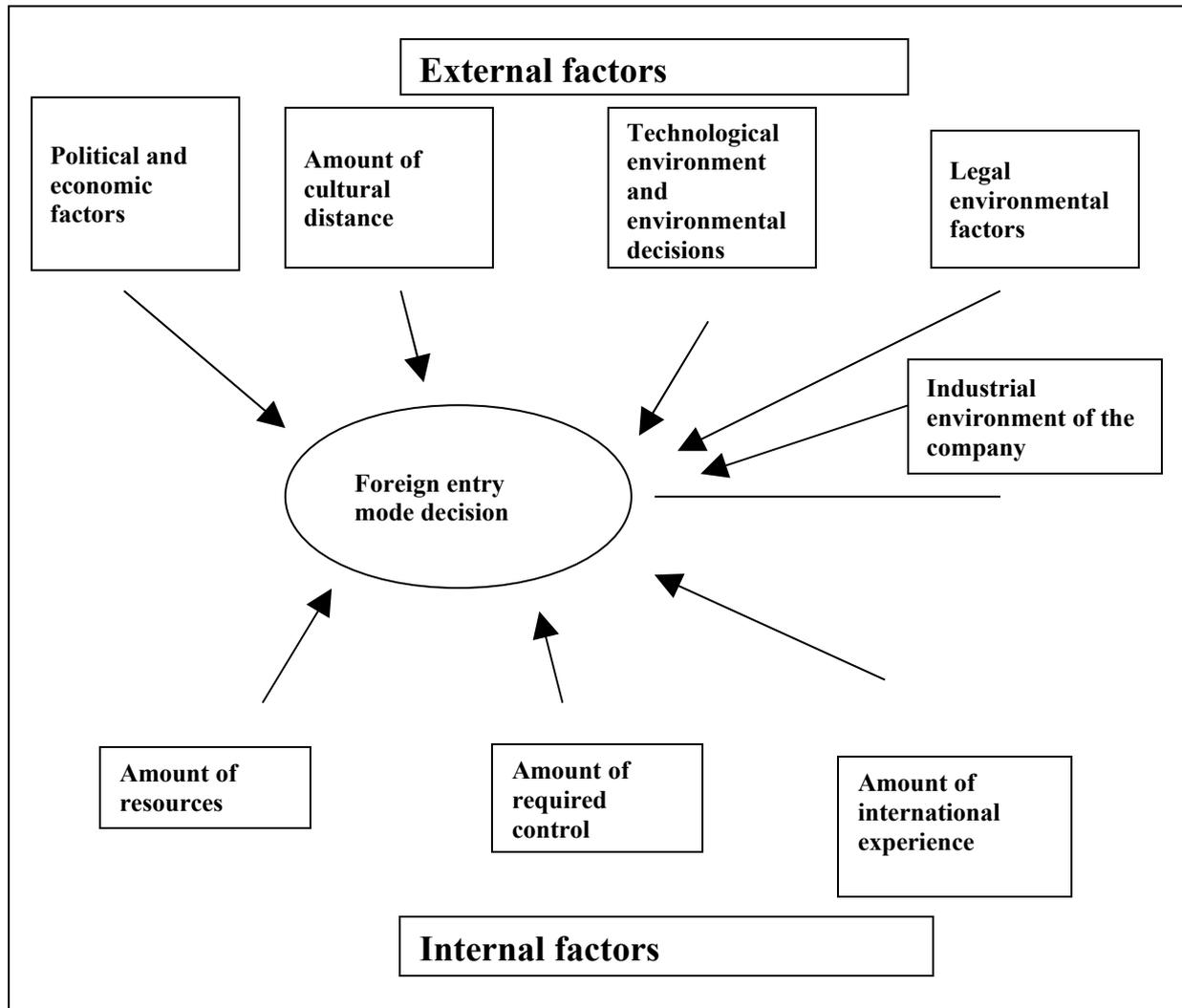


Table 1: Entry-decision factors: a brief summary of previous studies.

Indicator	Description	Reference	Dimension
1. Stability political - and economical environment	To what extent did the successful founders perceive stability of the political and economical environment as an important entry-decision factor for their successfulness?	Dunning, 2000	South-African Macro environment
2. Social environment	To what extent did the successful founders perceive cultural differences as an important entry-decision factor for their successfulness?	Root 1994; Kotler, 2003	South-African Macro environment
3. Technological - and ecological environment	To what extent did the successful founders perceive developments in the technological and ecological environment as an important entry-decision factor for their successfulness?	Johnson, Scholes, and Whittington, 2005	South-African Macro environment
4. Legal environment	To what extent did the successful founders perceive developments in the legal environment as an important entry-decision factor for their successfulness?	Goodnow and Hanz, 2009	South-African Macro environment
5. Competitiveness of the industrial environment	To what extent did successful founders perceive the competitiveness of industrial environment as important for their successfulness?	Buckley and Casson, 1998; Austin, 1990	Industry-specific environment
6. Amount of resources	To what extent did the successful founders perceive their amount of resources as important entry-decision factor for their successfulness?	Wernerfelt, 2006	Firm-specific environment
7. Amount of control required	To what extent did the successful founders perceive the amount of required control as important entry-decision factor for their successfulness?	Anderson and Gatignon, 1986; Malhotra, 2003	Firm-specific environment
8. Amount of international experience	To what extent did the successful founders perceive their amount of international experience as important entry-decision factor for their successfulness?	Petersen, Pedersen and Shama, 2001	Firm-specific environment

Findings

The findings of all interviews can be found in Table 4. To construct the ranking concerning most important entry-decision factors first a literature-survey is conducted through which an overview of these factors could be constructed. Through ranking the factors this paper provides a broader understanding of what determines success of Dutch start-ups in South-Africa.

Most of the companies had an intangible service component in their main product. Also founders of pure production companies have been interviewed however. All companies were started after 1985 by a Dutch founder and have showed to be successful during the last four years of their business. Although almost all distinguished entry-decision factors were perceived as having “*a certain amount of influence*” on the successfulness of the company, certain entry-decision factors were perceived by almost all founders significantly more important.

Companies

Host-environmental entry-decision factors

All interviewed founders agree on the fact that, especially by African standards, recent developments in the political and economic environment of South-Africa can be considered stable. Within the perception of relatively stable the opinions differed however. Certain founders perceived the political and economic stability “as stable as in most Western countries” where others classified the components of the environment as “stable enough to run a business”. Although the perception of stability differed almost all founders did agree on the importance of this entry decision factor. Founders who did perceive the environment as stable stated that they all had had waited for this period of stability. The founders who did not perceive the environment as stable had all set up their company in a certain risk-free way (free-lance workers with a small amount of resources). The risk-free way of setting up the business was influenced largely by their perceived (future) instability of the political and economic environment of South-Africa.

With the exception of three founders also the social environment of South-Africa is perceived as important entry-decision factor influencing the success rate. The factor was mainly mentioned important because of the acknowledged differences between the Dutch and South-African culture. All founders ranked the different distinguished components of Dutch and South-African culture significantly different. Especially the lack of loyalty was stated often as an important difference. All successful founders consciously decided to obtain a lot of South-African knowledge to overcome this cultural barrier. Founders stated different ways in which they dealt with the cultural gap. Certain founders decided to get involved with a local partner (joint venture) to acquire enough knowledge of the South-African culture. Other founders stated other ways through which they acquired sufficient “South-African knowledge”. Three companies did consider the social environment as significantly less important. These three companies were all involved in internationally oriented operations and had extremely internationally oriented customers. Important finding in the perceived importance of this component of the macro-environment was the assumed relation many founders sketched between the lack of South-African knowledge and failed businesses. They thought that underestimation of the cultural differences between the Netherlands and South-Africa was an important reason for a lot of failed businesses.

Only one company perceived the entry-decision factor *technological environment* as important. This founder needs however an extremely well developed infrastructure for running its business. All other founders did not perceive the technological environment as

important. The perceived decent quality of most important aspects of the infrastructure is stated as the main reason for the lack of importance by many founders. The difference in environmental regulations between the Netherlands and South-Africa is perceived quite big by the different founders. Different environmental aspects which are widely known in Netherlands have not showed up in South-Africa yet according to the founders. A certain *environmental trend* is however acknowledged to come up. The lack of importance of environmental regulations in South-Africa is stated as important reason why the different founders do not perceive this entry-decision factor as important for their successfulness.

In the legal environment especially the topic of “*labour legislations*” and “*labour unions*” is said to be notably different from Dutch standards. Because of this difference some founders perceive this factor as important to take into consideration. Especially the more labour-intensive companies with more than 20 employees perceive the way in which have dealt with the different labour regulations and unions important. They all state that they think that the way in which complied with the relevant legislations and unions has been important. The more service-based organisations perceive this part of the environment as less important.

Industry-specific entry-decision factors

Because of the more diverse nature which made up the amount of competitiveness it was sometimes hard to determine which entry-decision factors were perceived by founders as important. The overall competitiveness of the industries could be classified relatively low compared to Dutch standards. The components which made up this competitiveness were however perceived significantly different than Dutch standards. Because of the perceived differences of these distinguished components, and importance to deal with them in the right way, the entry-decision factor *industry competitiveness* was classified as *important* by most founders.

Firstly the preferences of the South-African customers were perceived as different and therefore important to take into consideration by all founders. All founders state that because of the different history, cultures and income distribution in South-Africa products have to be positioned different. Especially in the service-sector the differences are said to be big.

Secondly the different amount of loyalty of customers and suppliers is perceived important by the interviewed founders. All agreed that the loyalty of customers and suppliers was relatively low, compared to Dutch standards. In this case the competitiveness of the industrial environment is influenced by factors from the social-environment of South-Africa. Because of the less loyal nature of South-African people a more competitive industrial-environment shows up.

Also another finding in the industrial sector showed up which could be linked to macro-environmental forces of South-Africa. Many founders stipulated the lack of skilled labour as an important aspect to take into consideration. All agreed on a lack of skilled labour in South-Africa and stated that creative measures are required to deal with this shortage. Almost all successful founders who needed skilled labour used a creative way to assure enough skilled labour. Examples of these creative ways used include: training of the own staff, employing foreign (interns) employees or doing the activities yourself. Because of the more “highly skilled nature” of the most service-based industries this factor was especially perceived important in the service-based companies.

Firm-specific entry-decision factors

Within this dimension of the host-environment significantly more differences showed up in the perception of the founders. Especially on the subject of international experience the opinions of the different founders differed considerably. The founders who did and did not have “international experience” differed considerably in their opinion on the importance of this entry-decision factor. Founders who did have gathered *international experience* through for example an internship in South-Africa or working period abroad all perceived this gathered knowledge as an important factor which had facilitated their successfulness. Other founders who lacked certain international experience perceived this factor however not as something which had facilitated the successfulness of their company.

Also the perception on the importance of the amount of resources as entry-decision factor differed between the founders. Founders who were involved in more labour-intensive companies perceived a high average amount of resources as an important entry-decision factor for their successfulness. Founders in more *service-based* organisations perceived this entry-decision factor as medium important. Only *educational resources* were perceived as important by founders in these companies. Although the service-based founders did not perceive the financial resources important for starting up their business, different founders did state however that a certain amount of financial resources is necessary to “survive” until you become successful. It was stated that it often takes a longer period to set up a business in South-Africa than in the Netherlands. Therefore founders often underestimate the amount of financial resources which are necessary to survive the period till becoming successful. Within the educational resources different founders also stipulate the importance of entrepreneurial skills. It was stated that setting up a business abroad is an extremely risky and difficult project and should not be underestimated. Formal experience as entrepreneur can largely facilitate this process. Also these required entrepreneurial skills are said to be widely underestimated by foreign entrepreneurs who did not succeed in setting up a successful business.

Findings concerning the final factor within the dimension of firm-specific factors showed that none of the founders perceived the *amount of control* as an important entry-decision factor. Also founders who managed a company which was vulnerable to the threat of opportunistic behaviour of competitors did not perceive these factors as important to take into consideration. Most other founders stated the team-based nature and necessary skilled labour as reasons for the lack of required control. Also the *network-based structure* of their business was named by certain founders as an important reason for the lack of importance.

Table 2: Findings

Indicators Company & Entry strategy	Macro- environmental forces Political & Economic	Social environment	Technological Environmental	Legal Environment	Meso- environmental forces Industrial environment of the company	Firm-specific forces Required amount of resources	International experience	Amount of control required
Company 1	Important (4)	Important(4)	Not important (2)	Medium important (3)	Important (4)	Medium (3)	Important (4)	Not important (2)
Company 2	Important (4)	Extremely important (5)	Not important (2)	Medium important (3)	Medium (3)	Medium (3)	Medium (3)	Not important (2)
Company 3	Important (4)	Extremely important (5)	Not important (2)	Not important (2)	Important (4)	Important (4)	Medium (3)	Not important (2)
Company 4	Important (4)	Medium (3)	Not important (2)	Not important (2)	Important (4)	Extremely important (5)	Not important (2)	Absolutely not important (1)
Company 5	Important (4)	Important (4)	Extremely important (5)	Not important (2)	Important (4)	Extremely important (5)	Not important (2)	Not important (2)
Company 6	Important (4)	Important (4)	Not important (2)	Not important (2)	Medium (3)	Important (4)	Important (4)	Not important (2)
Company 7	Medium (3)	Extremely important (5)	Medium (3)	Medium (3)	Important (4)	Extremely important (5)	Importance (4)	Not important (2)
Company 8	Extremely (5) important	Extremely important (5)	Not important (2)	Not important (2)	Important (4)	Not important (2)	Important (4)	Not important (2)
Company 9	Important (4)	Important (4)	Not important (2)	Not important (2)	Not important (2)	Important (3)	Not important (2)	Not important (2)
Company 10	Medium (3)	Extremely important (5)	Medium (3)	Medium (3)	Medium (3)	Not important (2)	Important (4)	Not important (2)
Company 11	Important (4)	Medium (3)	Not important (2)	Not important (2)	Important (4)	Important (4)	Not important (2)	Not important (2)
Company 12	Not important (2)	Important (4)	Not important (2)	Not important (2)	Important (4)	Not important (2)	Not important (2)	Not important (2)
Company 13	Important (4)	Important (4)	Not important (2)	Medium (3)	Important (4)	Not important (2)	Not important (2)	Not important (2)
Company 14	Important (4)	Medium (3)	Not important (2)	Not important (2)	Important (4)	Extremely important (5)	Important (4)	Not important (2)
Company 15	Extremely important (5)	Important (4)	Important (4)	Medium (3)	Important (4)	Medium (3)	Not important (2)	Not important (2)
<i>Average</i>	3,86	4,13	2,53	2,40	3,66	3,46	2,93	1,93

Analysis

The perceived importance of the different distinguished *entry-decision factors* on the achieved amount of success differed considerably between the interviewed founders. Also within the three distinguished environments a difference in perceived importance showed up.

Within the host-environment of South-Africa especially the components *stability of political and economic environment* and *social environment* were perceived as important entry-decision factors influencing the amount of successfulness.

Concerning the political - and economic environment all founders agreed on the fact that their successfulness had been partly determined by the way in which had dealt with forces from this part of the environment. Although the founders agreed on the *importance* of this entry-decision factor however no consensus was reached about what the exact stability in the South-African political and economic environment is nowadays. Where certain founders state that they perceived the period of their start-up (mostly after-Mandela period) as stable enough for running a wholly owned enterprise others stated that they did not perceive this component of environment as stable enough and therefore chose to structure their company in a certain, risk avoiding way (often a service-based firm requiring less resources). Also the way in which was dealt with the social environment was perceived as a factor which contributed to the amount of successfulness. A small gap in perceived importance showed up however according to the customer base of the companies. The companies with relatively more internationally oriented customers perceived this part of the environment slightly less important as entry-decision factor.

The other two factors of the South-African macro-environment were classified as considerably less important entry-decision factors. Only the labour regulations within the legal environment were perceived by founders as having a certain amount of importance. Most founders stated the recent developments in labour regulations (BEE compliancy rules) as important reason for the perceived importance. The perceived importance of the entry-decision factor legal environment also differed a little according to the nature of the company. Companies with relatively labour-intensive processes did perceive labour regulations more important than companies which were largely knowledge-based. Only one interviewed founder perceived the technological environment as insufficient and therefore relatively relevant and important for his successfulness. This founder had however extremely high demands on certain aspects of the infrastructure.

All founders thought that the way in which they dealt with the average amount of competitiveness, or one or more components which make up the competitive structure of the company, had facilitated their successfulness to a certain extent. The competitiveness of the industry was therefore perceived as important entry-decision factor for successfulness. Within the knowledge-based companies especially the lack of skilled labour was perceived vital by the founders. Almost all founders operating in service-industries agreed on the fact that dealing “creatively” with the shortage of labour has been crucial for their successfulness. Also the low amount of competition and different nature of the South-African market was according to the founders important to take into consideration.

In the firm-specific environment again more differences in perception showed up. The perceived importance of *internationalisation* as entry-decision factor determining the successfulness of the company differed widely between the different interviewees. Founders who did have objective - and experimental knowledge perceived this entry-decision factor as important because they thought that this knowledge had contributed to their successfulness. Founders who lacked this experience perceived the factor however as significantly less important and stated that they did not perceive this experience as vital for their successfulness. Also the perceived importance of the *amount of resources* as entry-decision

factor differed widely according to the interviewees. Where most founders involved in labour-intensive companies classified resources as importance, most founders who were involved in service-intensive companies did not classify this factor as important. The lower required amount of resources which is needed for starting a service-based company seems to be the underlying reason for this difference in perception. The findings concerning the final entry-decision factor of the firm-specific environment showed that none of the founders perceived this part as important. It was stated that founders did not perceive this factor as important, not even if the company was structured in a way which made the company vulnerable to opportunistic behaviour of competitors.

Discussion

In order to gain more insights in what is causing the successfulness of a small number of Dutch start-ups in South-Africa this paper aims at determining which entry-decision factors are perceived by successful founders as vital for (their) business success. Although already a lot of research is conducted in the field of entry strategies (Root, 1994; Buckley and Casson, 1998), entry-decision factors (Kotler, 2003) and emerging markets (Gelb and Black, 2004) an extensive research explaining the success factors of Dutch start-ups in South-Africa has not been conducted yet.

The results of this study confirm the importance of the social-environment as entry-decision factor. First main qualitative finding in this research showed the perceived importance of the perceived cultural distance between the Netherlands and South-Africa. All the successful founders agree on a great difference in habits between the two countries and state that especially this is something which foreign entrepreneurs often do not take into account. Because the influence of culture in South-Africa is big, failing to take into account the right amount of cultural distance can be a serious threat for starting entrepreneurs.

Another main finding emerging from the research is the completely different market structure of South-Africa and acknowledged importance to take this different market background into consideration. Because of the different background in history and lack of skilled labour people in South-Africa have different expectations of products. Failing to take this different market structure into account is stated as an important failure reason for foreign entrepreneurs.

Thirdly the findings show differences in perception between companies in different sectors. Although the different companies agreed in general about the importance of the entry-strategy factors significant differences showed up in certain areas. Between the service-based and more labour-intensive industries especially the perception on need for skilled labour (competitive structure) and importance of labour legislations differed (legal environment). Although because of the limited amount of samples no solid conclusions can be drafted yet these findings open new research possibilities.

Final implication of this research is the entrepreneurial background of a lot of entrepreneurs and the acknowledged importance of this experience. All founders agreed that setting up a business in South-Africa is not much easier than in the Netherlands and that this is not in line with what is expected by foreign entrepreneurs. Foreign “gold diggers” often underestimate the skills and efforts which are necessary to start up a business in South-Africa.

With this paper a contribution is made to literature about FDI in emerging markets. Existing literature concerning the influence of a stable political and economic environment (Dunning, 2000), small amount of cultural distance (Root, 1994) and limited amount of competition (Buckley and Casson, 1998) on successfulness is enforced and literature which

expects a high amount of internationalization knowledge when an equity mode is chosen (Petersen, Pedersen, and Shama, 2002) is disconfirmed.

This paper has used interviews with fifteen founders of Dutch start-ups in South-Africa which were mostly operating in different sectors. This variety is the first limitation of this paper. Findings show that sometimes the difference in *importance* perception was caused by the different nature of the companies.

Another limitation of the research is the fact that only successful founders have been interviewed. No data could be collected from founders who failed to set up a business. Further it is important to stipulate that the limited number of founders who were interviewed for this paper make it hard to generalize the findings.

Conclusion

Traditionally literature about entry-strategies and emerging markets has a relatively general focus. In this paper a more detailed picture of a specific part of the theories is investigated. Interviews with fifteen different founders of successful Dutch start-ups show that the different entry-decision factors which literature distinguishes are perceived as unequally important for successfulness. Although these perceived importance sometimes differed a little according to the nature of the companies the average tendency showed up in all companies.

Empirically we found that four entry-decision factors are perceived as significantly more important for the amount of successfulness. *The average amount of resources, competitiveness of the market, stability of political – and economic environment and social environment* are all perceived really important by the founders. We therefore argue that by taking these factors into consideration when entering the market of South-Africa companies have more chance of becoming successful.

The different entry-decision factors which were stipulated as important clearly show that foreign entrepreneurs have to take a lot of factors into consideration when they want to enter the South-African market. Enough market-opportunities turn out to be a necessary but definitely not sufficient condition for successfulness. On the whole this paper found out that enough preparations are extremely important before entering a foreign market. With a solid preparation in the different environmental aspects entrepreneurs naturally take into consideration perceived important entry-decision factors.

Suggestions for further research

Finally this research paper brings on certain topics for future research. Through addressing these questions more progress on research concerning emerging economies can be made. A first research opportunity arising from this article would be to test the influence of entrepreneurial background in setting up a successful business abroad. Findings in this paper assume that there is a certain influence of entrepreneurial background of the founders and the amount of successfulness. Further research is however necessary to strengthen this assumption.

An important limitation of this paper is the limited opportunities for generalization. Also the diverse nature of the different companies involved contributes to lack of opportunities to generalize. A suggestion for further research could therefore be a similar, more detailed research conducted in a homogeneous market.

Another suggestion for further research would be to find out whether the distinguished entry-decision factors are perceived equally important in other emerging economies or that differences arise. Do successful Dutch entrepreneurs in China perceive the same entry-



decision factors as important or do they perceive other entry-decision factors as major contribution to their successfulness? Empirical investigation in this direction could provide more knowledge about the country-dependency importance of certain entry-decision factors.

Appendices

Appendix A: Theoretical framework

Part 1: Elaboration of internationalisation theories and entry-strategies.

1.1.1 Reasons for internationalization

Companies often have different reasons to start operating internationally. Some companies enter foreign markets because their home market is stagnating while other companies just follow their domestic customers who go abroad. Basic underlying reason for every company to start operating beyond their domestic borders is however the same, an increase in their sales (Root, 1994).

Last two decades more and more companies became involved in international business (Buckley and Casson, 1998). This trend is mainly due to the process of *globalisation*. The process of globalisation can be defined as the network of connections consisting of organisations and people across national, geographical and cultural borders (Levitt, 1983). Ongoing innovations in communication have made communication with other continents possible within seconds. The process of globalisation has facilitated the economic and political connection of the different countries in the world in recent years and has thereby created more opportunities for Small and Medium Sized Enterprises (SMEs) to operate in emerging countries like South-Africa. Nowadays also small SMEs can easily enter foreign markets like the South-African market (Alvarez and Barney, 2006). Thanks to globalisation big differences between countries have disappeared, hereby making it easier for companies to get involved in international business.

1.2 Market screening

The process of internationalization starts with a process called global screening. This process is a preliminary stage in the assessment of global opportunities and is used to identify potential markets which can be candidates for subsequent in-depth analysis (Douglas and Craig, 1992; Root, 1994). Purpose of preliminary screening is to identify country markets whose size warrants further investigation. Through preliminary screening the following two errors can be minimized: countries that offer good prospects for a company's products are ignored and too much time is spend on countries that have poor prospects (Root, 1994).

The international market screening literature is highly supportive of using market size, the level of economic development and factors of production for identifying potential opportunities (Russow and Solacha, 1993). Different authors suggest that the screening (*which* market to enter) should come for the market entry-decision (*how* to enter a market). Root (1994) stipulates that companies should not make a first time screening solely on the export markets. They should identify prospective target countries without regard to entry mode.

1.3 Choosing the appropriate entry strategy

After a potential market is selected a company is faced with the decision which entry mode to select. Companies in general have four entry modes available. The choice of an entry mode strategy starts with the decision between equity - and non-equity modes. At this level often macro-level factors play a role (Pan and Tse, 2000). Equity modes differ dramatically from

non-equity modes in resource commitment, risk, return and control. Equity modes require a major resource commitment in overseas location (Anderson and Gatignon, 1986; Vanhonacker, 1997) and call for an actual investment. An independent operation has to be set up and on-going direct management of the establishment is needed. Non-equity modes do not require the establishment of an independent organization and are therefore considered as a less risky option. When firms have decided on equity or non-equity modes, they move down to a lower level. The set of factors that play a significant role at the first level may not continue to exert the same level of influence. When choosing between equity and non-equity modes managers focus more on micro-level factors. Equity-based modes can be divided in joint ventures and wholly owned subsidiaries. Within non-equity based modes we can distinguish exporting and contractual agreements (Pan and Tse, 2000). The different modes of entry will be explained further on in this chapter of the appendix.

In general there is a tendency for SMEs to choose an equity mode which minimizes their risks. Big MNEs in general have more assets available and more access to information channels and therefore tend to choose more risky entry modes (Nakos and Brouthers, 2002). On the other hand we see however that small SMEs often serve niches with highly innovative products. The innovativeness and uniqueness of their products requires a high amount of control. Therefore small SMEs can also choose an equity mode to protect their property (Nakos and Brouthers, 2002).

1.3.1 Non-equity modes of entry strategy

Non-equity modes of entry are considered to be less risky than equity entry modes. The two main non-equity modes, exporting and contractual agreements will be explained in more detail here.

1.3.1.1 Exporting

When companies start operating international for the first time they must overcome anxieties about their ability to compete in a foreign market. Most starting international companies are therefore concerned with minimizing the risks rather than with maximizing the control over international operations. Given this situation exporting usually appears to the manufacturer as the best entry mode (Root, 1994).

Exporting is the most traditional and well established form of operating in foreign markets. It can be defined as the marketing of goods produced in one country into another one. The simplest form of entry strategy is exporting using either a direct - or indirect method such as an agent. The exporting entry mode does not require a lot of investments. Because it is not required to produce the goods in the target country the only necessary risks take the form of marketing expenses (Helpman, Melitz and Yeaple, 2004).

Especially when a company gets involved in overseas business for the first time and has a low resource commitment an export mode is desirable. Once firms acquire more knowledge and experience in an overseas market, they generally go for other entry modes with higher resource commitment including higher levels of risk, control and profit return.

Of all the entry strategies the exporting strategy requires the lowest amounts of resources and is the lowest risk/return alternative. Exporting thereby offers the advantage of flexibility. Firms can change this entry mode quickly and cheap in the face of evolving circumstances (Driscoll, 1995). While exporting provides a firm with a certain amount of operation control it lacks however in providing marketing control that may be essential for market seeking firms (Pan and Tse, 2000).

1.3.1.2 Licensing

Broadly defined licensing includes a variety of contractual agreements whereby domestic companies make their intangible assets (for example know-how) available to foreign companies (licensees) in return for royalties or another form of payment (Root, 1994). Through a contractual agreement a company permits a firm in the target country to use the (usually intangible) property of the licensor. These contractual agreements can include a variety of arrangements such as for example franchising, licensing and R&D contracts (Driscoll, 1995). When a company wants to enter a market quickly and major trade barriers exist in the target country licensing can be a good option. The most obvious advantage of licensing as an entry mode is circumvention of import barriers that increase the costs or limit the quantity (Root, 1994). Also internal factors can make licensing a suitable entry strategy. When a company's end product is a service, licensing may be an attractive way to provide the service.

This licensing model has however also certain disadvantages. Especially the lack of control over use of the assets and the knowledge spillovers could be threats to the company (Foley, 2002). Even when the company makes a good selection of his licensee, it still lacks control over the marketing plan and program in the target country (Root, 1994).

Contractual agreements differ greatly with equity entry modes. Licensing has however more similarities with equity entry-strategies than the exporting entry mode. A bigger amount of control and ownership involvement can be obtained thereby offering more opportunities for profit (Driscoll, 1995). Compared to exporting licensing has however more dangers concerning the dissemination of their specific products and technologies. Also the amount of physical, financial and human resources which is required to use the licensing entry mode is higher than the exporting entry mode (Pan and Tse, 2000).

1.3.2 Equity modes of entry

Equity modes of entry include the more risky and expensive entry modes. An equity mode of entry allows a company to transfer managerial, technical, marketing, financial and other skills to a target country in the form of an enterprise under its own control. Hereby they can exploit their competitive advantage in the target market more fully. Through local production not only the costs of supplying a foreign market are lowered, also the availability of supply can be increased. These kinds of entry modes can offer a quicker and more reliable stream of products to customers. The equity mode of entry involves a complex process that requires an evaluation of both the investment climate of the target country and the intended investment project. Since the ultimate success of a subsidiary is dependent on many political, economic, socio-cultural and market factors the information necessary for good entry investments is far greater than for exporting or licensing (Root, 1994). The choice among the most widely used entry modes, joint venture and wholly owned subsidiaries, differs among the amount of resources required and the nature of the products/foreign market.

1.3.2.1 Joint ventures

A joint venture arises when an international company shares in the ownership of an enterprise in a target country with local private - or public interests. Depending on the equity share of the international company, joint ventures may be classified as majority -, minority -, or 50-50 ventures. They may be started from scratch or by foreign partner's acquisitions of a partial ownership interest in an existing local company.

Because governments in developing countries often do not allow sole ventures, joint ventures can be a good option in these countries (Root, 1994). Also huge cultural differences facilitate the choice of a joint venture (Foley, 2002). By venturing with local partners the foreign company decreases the amount of foreignness (Yiu and Makino, 2002). Also a certain amount of restrictiveness in the environment facilitates a joint venture (Contractor, 1990). When there are high pressures in the environment companies generally prefer a joint venture. Through this kind of entry mode it is easier to conform to the institutional environment (Rosenzweig and Singh, 1991).

Critical factor in the whole process of joint ventures is however the aspect of control. Choosing the right partner is considered crucial in the process. Although a majority ownership can be obtained joint ventures can never achieve full control (Root, 1994). When companies require the full amount of control a joint venture is therefore often considered as a less suitable option (Foley, 2002).

A great amount of asset specificity is also a factor which restrains the choice of a wholly owned subsidiary. With more asset specificity the coordinated efforts required to resolve self-interested bargaining and disagreements between them is increased. The transaction cost theory therefore suggests a positive relation between the degree of asset specificity and the likelihood that a wholly owned subsidiary is chosen over a joint venture (Yiu and Makino, 2002).

1.3.2.2 Wholly owned subsidiaries

With a wholly owned subsidiary a firm basically buys another firm. The firm has full control over the company using its financial and human resources. Main advantage of this mode of control is great amount of control which can be generated (Pan and Tse, 2000).

Although this method can generate a lot of control it is a risky entry mode. Therefore this method is in general better suited for large MNEs which can bear these kinds of risks. Environmental forces and CD can form a danger when a company decides to choose a wholly owned subsidiary as an entry mode. With the lack of local partners it is often hard for a wholly owned subsidiary to handle big environment pressures and huge cultural differences. When the environment of a country is restrictive and the cultural distance is great companies often decide to pick another entry strategy over a wholly owned subsidiary (Yiu and Makino, 2002).

The foreign entry mode of a wholly owned subsidiary consists of two different types: *acquisitions* and *Greenfield operations*. Through an acquisition a company acquires an already existing company in the foreign market. Although with this option markets can be penetrated fast it is conceived as a difficult option because of the difficulty to transfer the culture of the corporation to the acquired firm. A Greenfield operation is an entry mode where a firm is started from scratch in a new market. Through already acquired expertise a completely new firm is set up in the target market. Especially when there is no suitable organization to acquire this mode can be an appropriate option. It can generate large profits and a huge amount of control. A huge amount of resources is necessary however (Pan and Tse, 2000).

Part 2: Elaboration on South-African entry-decision factors which, according to literature, influence successfulness of companies.

The entry-decision factors which can influence the success rate of a company can be distinguished into the following three dimensions: South-African environmental factors (macro-environmental forces), industry-specific factors (meso-environment) and firm-specific factors (micro-environmental forces). In this Appendix a further elaboration will be made on these dimensions.

South-African environmental factors

Environmental factors can have an important influence on the chosen entry strategy of a company. Therefore an overview of the environmental factors of the target country has to be sketched. In this paper Root (1994) and the PESTEL analysis are used to analyze the South-African environment.

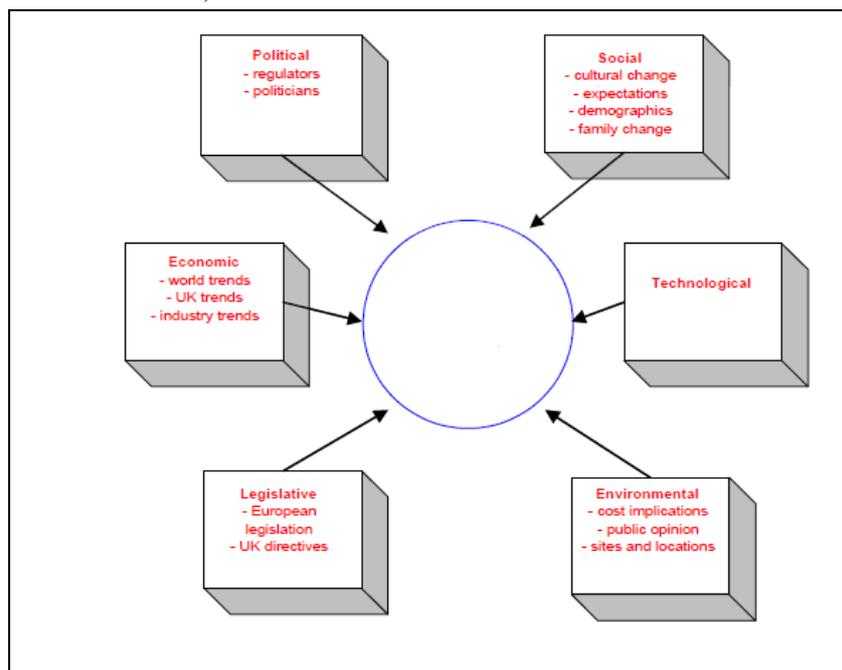
Root (1994) distinguishes eight environmental factors which influence the entry mode selection in a target country. These factors are listed below in table A1.

Figure A1: Environmental factors influencing entry mode selection in the target country (Root, 1994).

- The type of import policy regarding the import of the product.	- The type of exchange controls
- The policy regarding foreign investment	- Exchange rate depreciation or appreciation
- The geographical distance between home and target market	- Political risk
- The type of economy of the target market	- The cultural distance between home and target market

The PEST(EL) analysis divides the different environmental factors in six dimensions, a *Political, Economical, Social, Technological, Environmental* and *Legal* part of the environment is distinguished (Teare, Costa and Eccles, 1998).

Figure A2: Environmental factors influencing the entry mode selection in the target country (Teare, Costa and Eccles, 1998)



Although the PESTEL mode and the factors distinguished by Root (1994) have a lot of similarities Root does not include certain factors as for example the legal environment. In this paper both the model of Root (1994) and the PESTEL analysis will be combined and used to sketch the relevant environmental factors. The following dimensions are distinguished: *the political and economical - , social - , technological and environmental and legal environment*. In the next sections the relevant aspects of these different dimensions, leading to the interview questions, will be highlighted.

1. 1 The political - and the economical environment

Target countries can have a political - and economic environment which can make FDI in that particular country an extreme risky operation. The risk perceptions of the politic and economic environment of the host country can influence the firm's choice of entry mode into that country (Ahmed, 2001). The way in which the founder has dealt with the political and economic circumstances can therefore be distinguished as entry-decision factor influencing the success of the company.

The economic situation is important for foreign companies to take into consideration when they enter a foreign market. Local, national and international economic movements can influence the activities of a company on the market (Yadin, 2002).

Foreign exporting companies often seek to minimize the risks associated with international expansion. When, in the perception of management, the risks of the political - and economical environment is too high management might believe that it has no longer control over the risks. At that point firms often seek to relieve itself of some portion of control by sharing responsibility and shifting the risk management to another firm, either a joint-venture partner or licensee (Ahmed, 2001).

1.1.1 Political risks

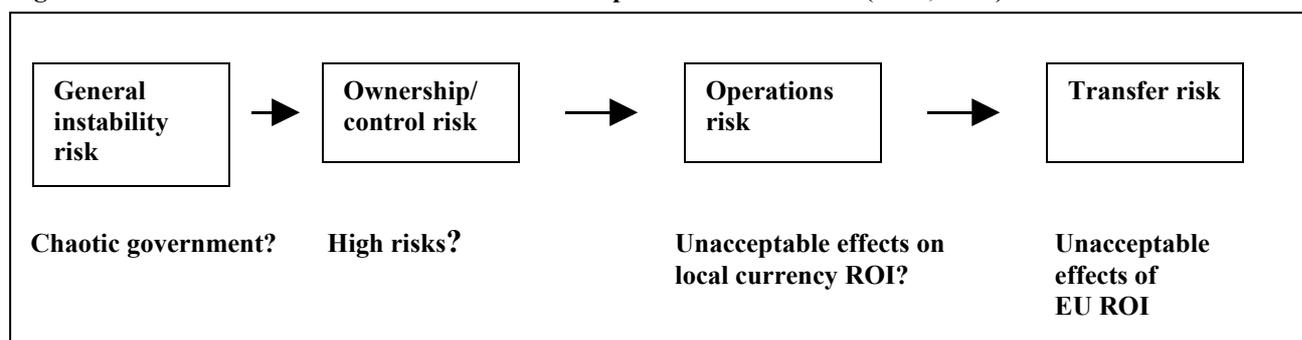
Political risks are mainly determined by the amount of stability in the political environment of the host country. They differ largely from market risks, which derives from uncertainty about future changes in cost, demand, and competition in the marketplace. The amount of political risks is largely determined by the political stability of a country. This degree of stability has a major influence on the amount of success a foreign investor in a particular country has. Political instable countries can cause for example currency restrictions and unexpected changes in law which makes it even more complicated for a foreign firm to operate in a foreign country (Dunning, 2000).

The amount of stability in a host country can be determined by the present political conditions and government policies that are critical for the profitability of the business arrangements in the host country (Dunning, 2000). In most cases political risks proceed from uncertainty that the host government or a successor government will arbitrarily change the *rules of the game* so as to cause a loss or freezing of earnings and assets (Ahmed, 2001).

The potential impact of the stability of the political environment on an investment entry project can be grouped into four classes. Firstly instability concerning the future viability of the host countries political system can be distinguished. Although political instability not always forces the abandonment of an investment project, it will most certainly interrupt operations and lower profitability. To assess the amount of stability of a government a forecast can be made of how stable the government is going to be in the target country in the next five years. The second class concerns *ownership/control risks*. These risks proceed from

managements uncertainty about host government actions that would destroy or limit the investor's ownership or affective control of his affiliate in the host country. The third class of risks are the *operations risks*. These risks proceed from management uncertainty about host government policies or acts sanctioned by the host government that would constrain the investors operations in the host country. To determine the ownership, control and operational risks a picture has to be sketched of how strong the commitment of the present government is to the current *rules of the game* in light of its attitude towards foreign investors. Further a forecast has to be made of what changes are likely to be made. Finally *transfer risks* are distinguished. They derive mainly from the management's uncertainty about future government acts that would restrict the investor's ability to transfer payments of capital out of the host country. These risks concern the transfer risk of the host currency relative to the home currency of the investor (Root, 1994). To determine this risk a forecast of the exchange rate behaviour has to be made. Making a clear evaluation of the political risks is often difficult. To assess the political environment the so-called four hurdle model will be used. This model is visualized below:

Figure A3: The four hurdle model used to assess the political environment (Root, 1994).



1.1.2 Economic risks

The economical factors can be distinguished in factors which influence both the domestic - and foreign company and factors which only influence foreign companies. Factors which influence both foreign - and domestic companies are the Gross Domestic Product (GDP) and the unemployment rate of a country. Both factors can have a major influence on success of the organization (Dunning, 2000). Especially the size of the GDP of the country can be important. This size of the market plays an important role in the choice of entry mode. A small market favours entry modes that have low breakeven sales volumes, such as exporting and contractual agreements (Root, 1994).

Factors which only influence foreign companies mainly concern the exchange rate. This topic has been explained in more detail in the chapter of political risks.

1.2 The social environment

The social environmental dimension includes individuals or organizations that have an influence on values and beliefs. Through a CD companies do sometimes not understand the preferences of foreign customers and/or employees (Kotler, 2003). The social environment can therefore be an important entry-decision factor influencing the successfulness of a company. Most important aspect in this social environment is the *cultural difference* between the target - and home country.

This cultural gap can be a great challenge for a foreign company when they want to export to a foreign country. Cultural distances lead to additional costs for foreign companies caused by the unfamiliarity of the company with the foreign environment in which it engages or discriminatory attitudes of for example customers and government agencies (Hymer, 1976). A smaller cultural gap decreases the amount of transaction cost involved in the whole operation. A big cultural distance between the target - and host country increases the cost of transaction significantly and is therefore important to take in mind when choosing the appropriate entry strategy (Zacharakis, 1997). Besides the CD also geographical distance plays a role. A bigger geographical distance increases the cost of transport and makes it harder to compete with local companies. A high geographical distance discourages export entry modes and facilitates other entry modes which do not have these costs (Root, 1994).

In general the CD gets closer when countries are closer located to each other. This explains the high FDI involvement of countries in their neighbouring countries. Examples are the high FDI involvement of Canada in the U.S. and high FDI involvement of Sweden in other Scandinavian countries (Kotler, 2003).

To measure the amount of difference between the countries certain aspects are used. Literature distinguishes the following factors as making up de cultural distance: the amount of power distance, the amount of uncertainty avoidance, the amount of individualism (Kotler, 2003). These factors will be used to measure the amount of cultural distance between the Netherlands and South-Africa.

1.3.1 The technological – and environmental dimension

The third part of macro-environment in this paper is the dimension consisting of the technological and environmental factors. Both factors are stipulated in literature as important entry-decision factors influencing the success-rate of a company.

1.3.1 Technological environment

The technological environment of a host company is widely recognized as an important tool for a company to create competitive advantage. Therefore this part of the environment can be important to take into consideration for foreign entrepreneurs when they enter a foreign market. Within the technological environment especially the *infrastructure* is classified as an important factor. This infrastructure consists of the electricity- and telecommunications network, the water supply and road and railroad system (Johnson and al, 2005).). The quality of the infrastructure is an extremely important measure to determine the attractiveness of potential entry modes, especially when there is a large geographical distance between two countries (Johnson et al, 2005). When the infrastructure of a country is bad companies often have to make additional costs to bring the product to the customer. A low quality infrastructure makes it therefore difficult for a company to compete with the local products. When the infrastructure of a country is well developed companies can rely on all kind of entry modes, when the infrastructure is poorly developed however companies are often restrained to entry strategies in which they cooperate with local suppliers. To measure the perceived influence of the infrastructure as an entry-decision factor on the success rate of a company different question about the South-African infrastructure will be asked.

1.3.2 The environmental environment

Aspects of the environmental environment include aspects as handling the local, national, and world environmental issues regarding protection laws. Although environmental governance

affects companies worldwide especially production companies have to deal with these issues (Johnson et al, 2005). Companies which are exploring new markets need to understand customer preferences for things like environmental friendly packaging.

When the environment rules and regulations in the target country differ to a great amount from the host country the company requires huge resources in order to maintain effective and efficient governance (Johnson et al, 2005). When this is the case companies often prefer an equity mode of entry.

1.3.2 The legal environment

The legal factors of a country refer to legal traditions, effectiveness of a legal system and treaties with foreign nations. When a company wants to enter a foreign market they have to consider the major laws in the country like the employment - and local competition law. Major factors making up the legal environment are antitrust - and employment laws and healthy and safety regulations (Johnson et al, 2005).

Antitrust (competition) laws consist of three elements: repression of cartels, banning abusive behaviour and supervising mergers and acquisitions. The substance and practise of competition laws varies within jurisdictions. Most important object of antitrust laws is ensuring opportunities for entrepreneurs.

The labour law is concerned with the legal rights and restrictions of working people and their organizations. Generally trade unions, employers and employees play an important role within the labour law. Final component of the legal environment is the health and safety regulations. This is the body that protects the health, safety and welfare of the employees in certain sectors. These laws are often enforced by the state (Goodnow and Hanz, 2009).

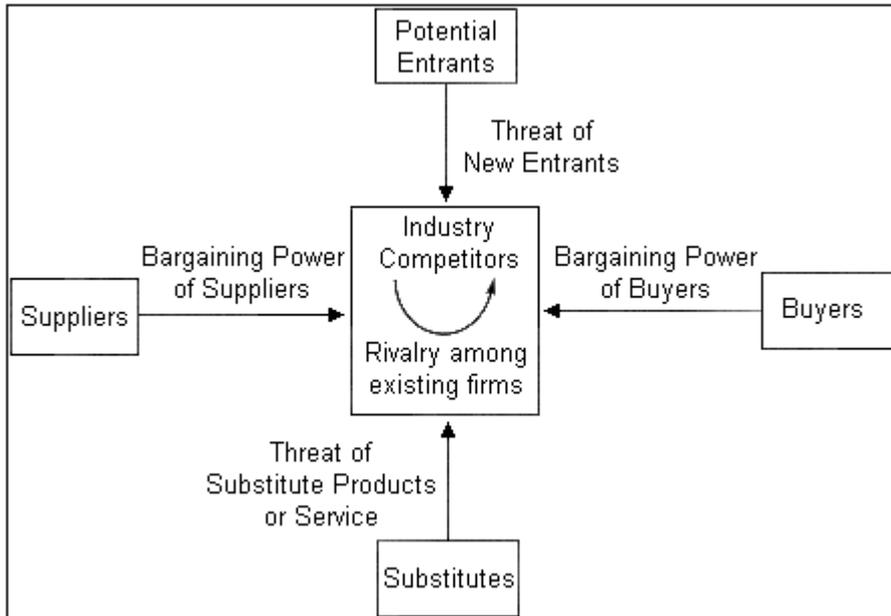
Together, the different components of the legal environment can create a certain barrier for starting entrepreneurs. The amount of these barriers can facilitate or restrain the choice of a certain entry strategy and hereby influence the successfulness of a company.

2. Meso-environmental forces

The meso-environment of the company concerns the industry in which a company is located. The nature of the industry can have a significant influence on the choice of an entry strategy. Important determinant of this nature of the market is the nature and intensity of competition (Porter, 1980).

The nature of the target market can have a certain amount of competitiveness. In more competitive markets companies prefer a licensing, equity-entry strategy (Buckley and Casson, 1998). A widely used model to assess the amount of competitiveness in a market is Porter's *five forces model*. This model makes an assessment of the competitors within the industry through the use of five fundamental forces: *potential entrants*, *powers of buyers*, *power of supplier*, *rivalry among existing firms* and *the threat of substitutes*. The model is visualized below in figure 2.3.

Figure A4: Five forces model of Porter (Austin, 1990)



The *threat of substitutes* is the first force in Porter's model which influences the competitiveness of the industry. Substitute products refer to products in other industries which can affect the product's demand by the price of that product. With more substitutes for a product, the demand of a product becomes more elastic since customers have more alternatives.

The *power of buyers* is the second distinguished factor in the model. The power of buyers contains the impact that customers can have on a particular industry. In the most extreme case we see a market with many suppliers and only one buyer. Under such market conditions, the buyer sets the price. Factors which restrain and facilitate the power of buyers are outlined in table A1.

The third determinant is the *amount of supplier power*. If the suppliers are powerful they can exert a certain amount of influence on the producing companies. The amount of distributors available determines how powerful the suppliers are. When there are many distributors available firms can make long-term arrangements with their distributors which gives them a bigger amount of control. Hereby the danger of opportunistic behaviour can be controlled. Fewer distributors however restrain the control of the company and increase the danger of opportunistic behaviour (Buckley and Casson, 1998). Table A2 outlines the factors which determine supplier power.

Table A1: Factors which make up powerfulness of buyers

Buyers are powerful if	Buyers are weak if
<i>Buyers are concentrated</i>	<i>Producers threaten forward integration</i>
<i>Buyers purchase a significant proportion of output</i>	<i>There are significant buyer switching costs</i>
<i>Buyers possess a credible backward integration threat</i>	<i>Buyers are fragmented</i>
	<i>Producers supply critical portions of buyers' input</i>

Table A2: Factors which make up powerfulness of suppliers

Suppliers are powerful if	Suppliers are weak if
<i>There is a credible forward threat by suppliers</i>	<i>Many competitive suppliers exist</i>
<i>Suppliers are concentrated</i>	<i>Commodity products exist</i>
<i>There are significant cost to switch suppliers</i>	<i>Purchasers are concentrated</i>
<i>Consumers are powerful</i>	<i>Customers are weak</i>

The fourth determinant which is important for the competitiveness of the market is the potential entrance by new competitors. In theory, any firm should be able to enter and exit a market, and, if free entry and exit exists, the profits should always be nominal. In the real world the industry however possesses some characteristics that protect the high profit levels of firms in the market and creates *barriers to entry* for new companies. These barriers of entry reduce the rate of new firms entering thereby maintaining a certain level of profit for those already in the industry. Barriers of entry are widely acknowledged to be obstacles when a firm wants to enter a new (foreign) market. Examples of entry barriers are for example advertising cost, customer loyalty and economies of scale (Mofatt, 2008). Restrictive import policies like high tariffs and tight quota's obviously discourage an export entry mode in favour of others. The decision of several Japanese automobile producers to manufacture vehicles in the United States instead of exporting them from Japan was largely a response to actual and potential U.S. import restrictions (Root, 1994). Entry barriers can be divided into tariff – and non-tariff barriers (Johnson et al, 2005).

Although the subject of entry barriers has been subject to a lot of research economists did not reach consensus yet over a general definition of an entry barrier (McAfee, Mialon and Williams, 2004). Bain (1951) was the first author to present a book on the study on entry barriers. He described an entry barrier as “the advantage of established sellers” over potential entrant sellers, these advantages being reflected in the extent to which established sellers can persistently raise their prices above a competitive level without attracting new firms to enter the industry (Bain, 1956). Bain believed that economies of scale and capital requirements meet his definition because they seem to be positively correlated with high profits.

Later on a lot of different definitions of entry strategy were developed of which the one of Stigler (1986) was the most contrasting with Bain. Stigler came up with a smaller definition of entry barriers in which he defined it as a cost advantage of incumbents over entrants. Stigler did not agree with the fact that scale economies and capital requirements are entry barriers. Stigler (1986) states that, with equal access to technology, scale of economies are not an entry barrier. Further he states that unless incumbents never paid them, capital requirements are not an entry barrier either (McAfee et al, 2004). According to Stigler we only have a barrier if costs of the entrant are greater than the cost of an incumbent.

In an attempt to facilitate consensus on this topic McAfee et al (1984) highlights two aspects of entry: the effect of alleged entry barriers on the timing of entry and the effect on the timing of entry on the interactions between different alleged entry barriers. First two kinds of entry barriers are distinguished: *economic* – and *antitrust* barriers. Economic entry barriers are costs that must be incurred by a new entrant and that incumbents do not have to incur. *Antitrust entry barriers* are costs that delay entry and thereby reduce social welfare relative to

immediate but equally costly entry. Although all economic barriers are antitrust barriers not all antitrust barriers are economic barriers.

Further *direct* and *reinforcing* barriers are distinguished by McAfee et al (2004). *Direct entry barriers* are costs that constitute a barrier to entry on their own. *Reinforcing entry barriers* are costs that do not constitute a barrier to entry by itself, but reinforces other barriers to entry if they are present. An important direct barrier is a lack of skilled labor. Especially in high-tech sectors or in the manufacturing sector this can be barrier.

With the given definitions it is argued that it is dependable on market circumstances whether scale economies or capital requirements are really entry barriers. Whether scale economies are really an entry barrier is largely dependable on the customer loyalty. When consumers stay loyal to an existing brand because continuing to buy it involves less risk than trying a new one, new entrants are expected to maintain their pre-entry output level. If consumers are however less loyal this is not the case making it only a temporary disadvantage. Therefore the statement could be made that scale economies deter entry only if consumers are sufficiently loyal to the incumbent's brand and are therefore *ancillary entry barriers*. Capital requirements are not acknowledged to be economic entry barriers according to McAfee because incumbents had to bear capital costs in the past similar in size to those that entrants have to bear today. They can however be antitrust barriers. Sunk cost can cause firms to delay entry because of their option value. So capital costs do not necessarily have to be an entry barrier in their own right, they can often reinforce other entry barriers, by magnifying the risks. Depending on the amount of customer loyalty capital requirements can thus be an entry barrier. Also large sunk cost can indirectly influence the easiness to influence a market.

In industries characterized by plant scale economies, entrance through equity modes like joint ventures can significantly minimize risks. The presence of scale economies requires large investments to be made by the foreign firm, encouraging firms to enter foreign market through for example joint ventures (Elango and Sambharya, 2004).

Table 2.3a: Entry barriers.

<u>Easy to enter markets</u>	<u>Difficult to enter markets</u>
Common technology	Patented or proprietary know-how
Little brand franchise	Difficulty in brand switching
Access to distribution channels	Restricted distribution channels
Low scale threshold	High scale threshold

Table 2.3b: Exit barriers.

<u>Easy to exit markets</u>	<u>Difficult to exit markets</u>
Salable assets	Specialized assets
Low exit costs	High exit costs
Independent businesses	Interrelated businesses

The final factor which makes up the framework of Porter is the amount of rivalry between the existing players. General economy theory states that competition among rival firms drives profits to zero. Also here we see however that a certain situation seldom exists. Firms are not passive price takers but rather strive for competitive advantage over their rivals. Widely used method to measure the amount of rivalry is the concentration ratio (CR). This CR indicates

the percent of market share held by the four largest firms. A high concentration ratio indicates that a high part of market share is held by the largest firm which means that the market is less competitive. A low concentration ratio on the other hand is an indicator of a market which is characterized by many rivals and thereby more competitive.

Although the model of Porter is assumed to be a good method to analyze the competitive environment within developed countries it is assumed insufficient for analyzing meso-environments within less-developed countries (Austin, 1990). For analyzing industry environments of less-developed countries two adjustments have to be made. Firstly a sixth force of Porter's framework had to be distinguished: the government. Because the government influence over industry structure and dynamics is often so pervasive and powerful it can be classified as a sixth factor. By themselves its actions can create competitive advantage and companies within the industry can create competitive advantage by the nature of their response to government actions. Government actions can influence the five forces in different ways. Influencing the entry of potential competitors and access to supply are examples of methods through which the government in a less developed country can influence the competitive structure.

Secondly the role of environmental factors in shaping industry structure and competitive dynamics has to be added. In less developed countries these macro-environmental forces often affect each of the competitive forces and their relationships.

3. Firm-specific characteristics

The final distinguished dimension is the dimension with the firm-specific characteristics of the company. This dimension can be divided into the following three factors: *the amount of resources; required amount of control* and *experience in international markets*.

3.1 Amount of resources

The international entry mode chosen by a company is often influenced by the amount of resources a company has. These resources can be divided into financial - , managerial - and physical resources.

Literature shows that SMEs often have to rely on less resource-intensive, non-equity modes of entry. Large MNEs often have a bigger amount of resources and can therefore take more risks with an equity mode of entry (Contractor, 1984). The proven relation between the amount of assets and chosen entry strategy makes it assumable that the amount of resources is an entry-decision factor which can influence the success of a company.

3.2 Required amount of control

For their business activities companies can rely on a different amount of *specific knowledge* of that company. Companies which have a high amount of specific knowledge, and have a unique and highly differentiated product, often prefer to maintain a high amount of control. They often have to find a balance between the desire to maximize profits on the one side and the wish to protect their technology on the other side (Anderson and Gatignon, 1986). Depending of the amount of specific knowledge we can therefore state that the required amount of control can be an important entry-decision factor influencing the success rate of a company.

We can decide whether a company has a certain amount of specific knowledge by determining the so-called *danger of opportunistic behavior*. This is the case when a company has a certain amount of firm-specific knowledge. For measuring the amount of firm-specific

knowledge three widely used measured are utilized in this paper: individually based -, group based -, and organization based information (Malhotra, 2003).

Individually held knowledge consists of *basic - and experimental technical knowledge*. Basic experimental knowledge is the basis upon which the firm competes and can be transmitted without loss of integrity (Malhotra, 2003). In manufacturing industries this knowledge could for example be a blueprint (Teece, 1977). Experiential technical knowledge consists of the individual experience required in the application of that knowledge. This would for example be the individual experience which is required to work with the blueprint (Malhotra, 2003).

Besides individual knowledge also *team knowledge* can be distinguished. This team knowledge is not just a collection of individuals but more a summation of individually held knowledge and therefore hard to copy. The process of service creation and delivery requires individually held technical knowledge and experience which has to be coordinated and integrated in a team. Therefore, individually held, experiential technical knowledge can be effectively used in combination with the experience of working together as a team (Malhotra, 2003).

Final aspect of the knowledge component is the *organization knowledge* component. Although knowledge of personal relationships may be embedded in specific individuals in a firm, over time the organization as an entity becomes a part of social networks that are advantageous for future business. Over time an organization acquires a reputation through the people that comprise it. The organization creates a breadth of technical experience and a reservoir of relationships.

When a firm's competitive advantage lies in a combination of multiple types of knowledge, especially experimental knowledge held by individuals, teams, and the organization rather than just easily codifiable and understandable basic technical knowledge, the threat of opportunism is low and often unimportant in choosing an entry mode decision. If a firm's competitive advantage however does lie on simple basic - and easily codifiable knowledge firms have to keep this in mind when they decide which entry mode they are going to select for their international expansion (Malhotra, 2003). When this is the case companies should be aware of the dangers of opportunistic behaviour and choose an entry mode which gives them a big amount of control.

3.3 Amount of experience in international markets

Also the amount of experience in international markets is distinguished within literature as a firm-specific entry-decision factor which can influence the amount of success of a company. The Swedish Uppsala University was the first to assign a role to *international knowledge* in the internationalisation process of a firm. Especially the international knowledge which can not easily be transferred between companies was distinguished by them as an important entry-decision factor for companies which are getting involved in FDI (Petersen, Pedersen and Sharma, 2001). Companies with a high amount of international business experience have

often developed more detailed processes and systems for managing their international operations and are therefore willing to choose a more risky entry strategy which provides them with more control (Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986).

The types of knowledge relevant to measuring internationalization knowledge can be distinguished as objective - and experiential knowledge. Objective knowledge can be collected with the use of standard methods like for example market research. Experimental knowledge is more based on learning by doing. Especially previous international experiences can be an important source of knowledge (Andersen, 1993). People can also gather experimental knowledge through the observation of other firms. By observing the behaviour of other companies' people can gain extra knowledge.

Appendix C: Interview questions

The interviews concern questions in four different areas.

Interview type 1: used to interview the 15 founders of Dutch companies.

Part 1: company-specific information.

<Information for interviewee>. This part of the questions is necessary to get a more detailed picture of your company and your position within the company.

Could you please give a short description of your function within the company?

How many people are working in your company?

Does your company have a Dutch mother company?

Since when is your company in business?

What is the time-period during which people work for you?

Was this your first start-up business? If no, is this your first start-up in South-Africa?

What has been your function in setting up the business in South-Africa?

Which entry strategy have you chosen to start your business in South-Africa?

Part 2: environment of South-Africa

<Information for interviewee>. The first dimension which is distinguished is the macro-environment. According to literature this dimension consists of six aspects: the political, economical, socio-cultural, environmental, technological and legal environment. Each of these aspects can be classified as entry-decision factors which can have an influence of the successfulness of a company.

2.1 Political – and economic environment

2.1 Political environment

The first distinguished aspect of the macro environment is the political environmental. Measures widely used to assess the political environment are the stability of the government and foreign currency. Further measures of the government concerning Foreign Direct Investment are considered important.

A government is considered stable when no radical mediations in the government take place.

2.1 To what extent did you expect the South-African government to be stay stable in the upcoming period (next five years) when you decided to start-up your business?

2.2 To what extent did you expect the South-African government to stick to their regulations concerning foreign direct investment in the upcoming period (next five years)?

2.3 To what extent did you expect the government to stick to their regulations concerning foreign direct investment in the next five years?

If you did not expect any changes, please continue with question 2.6.

2.4 Did you expect the changes the government was going to make concerning foreign direct investment to be facilitating or restraining for foreign investors? Please specify.

2.5 To what extent did you expect the ZAR/EU exchange rate to be stable in the first five years of your business?

2.2 Economic environment

The second factor concerns the economic environment. The economic environment can be determined by the forecasted growth of the Growth Domestic Product (GDP) of South-Africa and the unemployment rate.

2.6 To what extent did you expect the GDP of South-Africa to change in the first five years of your business?

2.7 To what extent did you expect the unemployment rate of South-Africa to change in the upcoming five years?

2.2.1 Overall

2.8 To what extent do you think that your success has been dependent on the fit between the expected economical – and political conditions and your entry strategy?

2.3 Socio-cultural environment

The third aspect of the macro-environment is the socio-cultural environment. Two items make up this socio-cultural environment: the geographical – and cultural distance. In this interview we will only deal with the cultural distance.

According to literature, the *cultural distance* can be determined by the following factors: the amount of power distance, amount of uncertainty and amount of individualism of the people in the target country compared to the home country.

2.3.1 Power distance

Countries in general have a different amount of *power distance*. This power distance concerns the working hierarchy in a company. The amount of power distance in the Netherlands is acknowledged to be low. People are for example often quite informal with their superiors and allowed to criticize them when they have (useful) critics.

2.9 How would you classify the amount of formality in South-Africa ranging from 1 (low amount of formality) to 10 (high amount of formality)?

2.10 How would you classify the ability to criticize superiors in South-Africa ranging from 1 (no ability to criticize) to 10 (good ability to criticize)?

2.3.2 Amount of uncertainty avoidance

Also the perception on uncertainty can differ widely between countries. People in The Netherlands often have a certain space to make their own decisions and errors. In other countries people enjoy less freedom and are just supposed to follow their orders.

2.11 How would you classify the amount of uncertainty avoidance in South-Africa ranging from 1 (low amount of uncertainty avoidance) to 10 (high amount of uncertainty avoidance)?

2.3.3 Amount of individualism

Also the amount of individualism can differ widely. Individualism can be defined as the amount to which people think that their own wellbeing is more important than the wellbeing of society.

2.12 How would you classify the amount of individualism in South-Africa ranging from 1 (highly individualistic) to 10 (highly social)?

2.3.4 Overall

2.13 How important did you think it was to choose the right entry strategy according to the CD between the Netherlands and South-Africa ranging from absolutely not important at all (1) to extremely important (5)?

2.4 Technological environment

2.4.1 Infrastructure

The technological environment is the fourth aspect which makes up the macro environment. Main part of the *technological-environment* which influences the choice for a particular entry mode is the degree in which the infrastructure is developed in a particular country. With infrastructure in this context we mean the technical structures that support a society. Examples of these structures are roads and water supply, but also telecommunications.

2.14 How would you classify the infrastructure of South-Africa compared to a Western country like the Netherlands ranging from 1 (poorly developed) to 10 (highly developed) in the time period when you started your business?

2.15 Do you think that the infrastructure of South-Africa will undergo some significant developments because of the upcoming world championship in 2010?

If you do not think that the South-African infrastructure will undergo any significant changes please continue with question 2.17.

2.16 To what amount do you think that the developments will shape a different infrastructure climate in South-Africa?

2.4.2 Overall

2.17 How important has the fit between the infrastructure of South-Africa and the right entry strategy been for you ranging from not important at all (1) to extremely important (5)?

2.5 Environmental forces

The fifth and semi-last aspects of the macro-environment are the environmental forces. These *environmental forces* concern laws and regulations about environmental issues in the countries and penalties for people who do not conform to these laws and regulations. According to world standards the Netherlands is acknowledged to have good and clear environment laws.

2.18 To what important environmental laws and guidelines do (foreign) companies in your business have to commit in South-Africa?

2.19 Did the amount of guidelines/laws to which you had to apply change through the years?

2.20 To what extent did environmental laws in Holland and South-Africa differ at the moment when you started your company?

2.21 Is the social corporate environmental trend which is visible in the Western countries also starting to show up in South-Africa?

If this trend is not visible please continue with question 2.23.

2.22 To which extent do you think that this *environmental trend* will increase environmental rules and regulation to which (foreign) companies have to obey in the upcoming five years ranging from 1 (not significantly more laws and regulations) to 10 (significantly more laws and regulations)?

2.6 Legal environment

The final aspect of the macro environment is the legal environment. This concerns the other than environmental rules and regulations of a country. In the legal environment especially entry barriers are considered to be important. These entry barriers are factors which restrain a company from setting up a business in a particular industry. According to literature a large amount of entry barriers facilitates the choice of an equity entry strategy.

Literature states that certain characteristics of a business can appear to be a barrier of entry. Examples of these characteristics are capital requirements, which concerns the amount of financial resources which is required to start a business, economies of scale and sunk cost which concerns the cost which are sunk in to the business and can not be returned by selling the business. Whether these three are indeed barriers of entry is however dependable on the loyalty of customers. Customers can be considered loyal when they have a certain amount of devotion to the product.

2.23 How would you classify the amount of loyalty of your customers ranging from 1 (no devotion to the product) to 10 (high devotion to the product)

If you have ranked the amount of devotion of customers as low (1-4) you can continue with question 2.27.

- 2.24 How would you classify the cost advantages when you start producing on a bigger scale ranging from 1 (no cost advantage) to 10 (lots of cost advantages).
- 2.25 How would you classify the amount of financial resources which was necessary to start up a company in this industry ranging from 1 (a low amount of financial resources is required) to 10 (a high amount of financial resources is required)?
- 2.26 How would you classify the amount of sunk costs in your company ranging from 1 (no sunk cost) to 10 (lots of sunk cost)?
- 2.27 To what extent did these forces from the legal environment facilitate/restrain the choice for your entry strategy ranging from completely restraining (1) to completely facilitating (5).

Part 3: the meso environment

The second dimension influencing the choice of an entry strategy is the industry specific environment of the company, the meso-environment. This industry-specific environment has a certain degree of competitiveness which influences the choice of an entry strategy. According to literature we can determine the competitiveness of a market by assessing certain forces in the meso-environment.

The first factor to assess the meso-environment is the *threat of substitutes*. The threat of substitutes can be determined by the elasticity of the demand of the goods. This elasticity shows the sensitivity of the demand for goods according to the price of these goods. The amount of elasticity shows how the sum of goods sold is reacting to the change in price of those goods.

- 3.1 Did you have any experiences with changing prices of your main goods?

If you did not have any experience with changing prices of your main goods please continue with question 3.3.

- 3.2 How would you classify the influence of this price change on the amount of goods you sold ranging from 1 (significantly less goods sold) to 10 (same amount of goods sold)?

If you did have experience with a changing price please continue with question 3.4.

- 3.3 To what extent do you think that a change in price will influence the amount of goods you sell? Please specify why.

The second factor which can be used to assess the competitiveness of a market is the power of buyers. To determine the amount of power a buyer has we firstly look at the amount in which buyers are concentrated. In The Netherlands we see different initiatives in which consumers are concentrated, for example “de consumentenbond”. England has a certain initiative in the form of Consumers’ association.

3.4 Are there any initiatives in your branche where customers unite themselves? If yes, could you specify these initiatives?

If there are no initiatives in your branche in which consumers unite themselves please continue with question 3.6.

3.5 To what extent do you think that these initiatives increase the amount of power buyers have?

Second factor which makes up the amount of buyer power are the so-called *switching costs* which a buyer has when he or she decides to choose another product. A big amount of switching cost forms an incentive for customers to stick to the same supplier, thereby decreasing the amount of competitiveness.

3.6 Do customers have to make additional cost when they decide to start using a similar product of one of your competitors in stead of your product? If yes, please specify these costs.

Also the amount of products a buyer buys can have a significant influence on the competitiveness of the market. When consumers buy a significant amount of products from a company they have a certain amount of power towards suppliers and can demand for quantity discounts.

3.7 Do you have customers who are responsible for a significant amount (more than 15%) of the sales?

If you do not have customers who are responsible for a certain amount of your sales please continue to question 3.9.

3.8 To what extent do these customers have privileges which small customers do not have?

Buyers can supply a critical portion of the buyers' input. A famous example of a company which possesses a critical portion of the buyers' input and thereby is extremely powerful is Intel. Buyers from computers are largely dependable on the Intel processor because this processor forms a critical portion of the buyers input.

3.9 To which amount does the product that you offer form a critical portion of the buyers' input ranging from 1 (no critical portion at all) to 10 (an absolute critical portion)?

Besides the power of customers also the power of suppliers is an important factor making up the competitiveness of the meso-environment.

3.10 What are the necessary suppliers of your company?

3.11 Did you ever have to change your suppliers?

If you have never experienced a situation in which you had to change your suppliers please continue with question 47.

3.12 How would you classify the amount of efforts you had to undertake for finding these new suppliers ranging from 1 (little efforts) to 10 (a lot of efforts)?

If you do have experienced a situation in which you had to change your suppliers please continue with question 3.16.

3.13 When a situation arises for your company in which you have to find new supplies would it be possible for your company to find other suppliers?

3.14 How would you classify the efforts which you have to undertake to find new suppliers from 1 (little efforts) to 10 (a lot of effort)?

3.15 To what extent did you have to make extra costs when you had to switch to another supplier ranging from 1 (a low amount of cost) to 10 (a high amount of cost)?

Besides the concentration of buyers also the concentration of suppliers can have an influence on the competitiveness of the industry. Examples of supplier concentrations are for example labour unions.

3.16 Are there concentrated supplier initiatives in your branche? If yes, could you please specify these initiatives?

The final factor which makes up the competitiveness of the market is the concentration ratio of the market. This concentration ratio can be determined by taking the amount of market share of the four biggest, national and international, companies which you consider as competitors in your industry.

3.17 What would you consider as the four biggest companies in your branch?

3.18 What is the amount of market share which is covered by these big four?

Part 4: firm-specific characteristics

The final dimension of entry-decision factors which, according to literature, can be labelled as relevant for the successfulness of a company concern the *firm-specific characteristics*. The relevant firm-specific factors influencing the choice of entry strategy can be distinguished in: the amount of resources the firm has available, the amount of specific knowledge in the company and the amount of international experience of people in the company.

4.1 Amount of resources

For setting up a business a certain amount of resources is required. Literature states that the amount of the following kind of resources influences the choice of entry strategy: financial -, managerial-, and physical resources.

Financial resources concern the amount of money which was available for starting the overseas business.

4.1 How would you classify the amount of financial resources which was available for starting up the business ranging from 1 (no financial resources available) to 10 (all the resources needed were available)?

Managerial resources concern the amount of skilled labour which is available for setting up the business. *Skilled* labour can be defined as employees who acquired certain skills useful for the company by for example relevant working experience or a particular education. Somebody with a degree in law or working experience in a law firm would classify as skilled labour in a law company.

4.2 How much skilled labour was available for setting up your business?

Physical resources concern the amount of necessary goods which were available for starting up the business. Examples of these physical goods are computers.

4.3 How many physical resources were available in the starting process?

4.4 Did you consider any of these goods insufficient for starting up your business?

4.5 Would you have chosen another entry strategy if you had a bigger average amount of the three resources mentioned above? If yes, please specify:

4.2 Amount of specific (proprietary) knowledge.

Firms can hide a certain amount of *proprietary knowledge*. This proprietary knowledge concerns the firm-specific knowledge which a firm has. When a firm has a certain amount of proprietary knowledge firms have to protect this knowledge. Otherwise this information, which the companies use to obtain competitive advantage, can be used by other companies to imitate the company. Copying the proven successful rationalized production formula of McDonalds would be an example of imitation.

According to literature the amount of proprietary knowledge can be distinguished into three areas:

- individual
- group
- organisation based knowledge.

The individually based knowledge can be divided in basic - and experimental knowledge. The basic knowledge is the knowledge upon which the firm is based. An example of basic knowledge in a manufacturing firm is a blueprint which is a working manual to guide the operational procedures. Experimental knowledge concerns the individual knowledge which is required to work with the basic information. In a manufacturing firm this would be individually knowledge which is required to work with the blueprint.

4.6 What is the basic knowledge on which your business is based?

4.7 How would you classify the amount of training which is required to work with this basic knowledge ranging from 1 (no training at all) – 10 (more than one year extensive training)?

The second area is team based work knowledge.

4.8 How would you classify the amount of team-based work in your organisation from 1 (no team work at all) to 10 (completely team-based)?

4.9 To what extent is teamwork advantageous in your organisation?

The final area is organisation based.

4.10 Does your company has a mother company in The Netherlands?

If your company has no mother company please continue with question 4.13.

Often a mother company has long(er) experience through which they often become part of a social network which can be advantageous for their future business and their subsidiaries.

4.11 To what extent does your company profit from the network connection with the mother company ranging from 1 (no profit) – 10 (lots of profit)?

4.12 Are there other advantages the mother company offers?

Knowledge about internationalization

The final micro-level factor which, according to literature, influences the choice of an entry strategy is the knowledge about internationalization. This specific kind of knowledge can be distinguished as experimental - and objective knowledge. Objective knowledge can be collected with the use of standard methods like for example market research. Experimental knowledge is based on learning by doing

Objective knowledge

4.13 Which standard methods aimed at collecting information about the South-African market were used in the process of setting up a business in South-Africa?

Experimental knowledge

If your company has no mother company in The Netherlands, please continue with question 4.16.

4.14 How would you classify the amount of international experience the mother company has from 1 (first international expansion) – 10 (more than 10 expansions before)?

4.15 Did the mother company offer any developed processes/systems which has facilitated the process of setting up a business in South-Africa

International experience can be defined as experience which somebody has gained in the international business. An example of international experience would be for example a certain work period abroad.

4.16 Were there internationally experienced people involved in the international expansion?

4.17 How many people in this company were concerned with the preparation?

4.18 How would you classify the amount of international experience these relevant people had from 1 (no international experience at all) to 10 (a lot of international experience)?



Part 5: complementary questions

5.1 Did you have any experience with failed foreign entrepreneurs?

5.2 If yes, what do you think that causes this failure?

5.3 To which amount do you think that underestimating certain entry-decision factors leads to failing companies?

Appendix D: interview elaborations

Part 1: Company interviews

4.1.1 Graphic Shop Esther Spaans (CEO and founder Graphic Shop).

Time: 12:00

Place: Sir Lowry Rd. 12.

Date: 12 November, 2008.

Duration: 0.50h.

Company description: Graphic Shop is a graphical design agency based in Cape Town. Before being taken over by Esther Spaans and her Dutch partner, Graphic Shop was already operating for fifteen years. By the time of the takeover the old company was however downsized. Esther Spaans and her partner started expanding the business again after the takeover. According to the owner Graphic Shop now can be classified as a healthy and profitable company. The company is mainly involved in developing labels for wine companies but also takes care of other graphical design jobs. The company is employing five people.

The choice to take over the company in a particular period was influenced by different macro-environmental forces of South-Africa. “We waited for the after-Mandela president to see how South-Africa would unravel afterwards. After we saw that South-Africa maintained a stable and attractive political - and economic environment we decided to move here”, states Esther Spaans. She classifies this entry-decision factor therefore as important for the successfulness of here company. Also the social-cultural distance is considered an important entry-decision factor by Esther Spaans. “We did decide to start a business with a relative low amount of “South-African” experience. This has really been a hassle for us sometimes. If I would do it over again, with the same amount of African experience, I would choose a partner because then it would be easier to become quickly successful” she states.

The environmental and technological factors of the environment are perceived as less important by Esther Spaans for setting up a successful business. The way in which the company has dealt with factors from this part of the environment has not been important for the successfulness of the company according to Esther Spaans. Also the forces from the legal environment are not perceived as important entry-decision factors leading to successfulness. Esther Spaans does state however that the new regulations (Black Empowerment) in South-African labor regulations have become more and more important to take into consideration when you want to run a successful business.

Although all main supplies of Graphic Shop are widely available her competitive environment can still be classified as competitive. Especially the human skills necessary to run the business, often confusing regulations governmental regulations and price sensitivity of the products are classified by Esther Spaans as factors facilitating a competitive industrial environment. This amount of competitiveness is perceived by Esther Spaans as important entry-decision factor leading to successfulness. She states that it is extremely important to comply with the labour regulations (especially Black Economic Empowerment is mentioned) and to deal with the shortage of skilled labour. “Starting, foreign companies do often not



realize that they have to train their own employees and thereby often underestimate the importance of the competitiveness as entry-decision factor”, states Esther Spaans.

The financial - and physical resources within Graphic Shop are labelled as not important entry-decision factors determining the successfulness of the company. Esther Spaans states that her business is mainly build on knowledge and that the amount of money and physical resources needed was minimal. Therefore only the knowledge component of resources was classified as an important entry-decision factor.

The huge influence of the knowledge component within the business is also an important reason why Esther Vergeer does not classify the amount of control required as important. The knowledge based character and team-based structure within the company make an extensive amount of control not considered necessary.

The amount of internationalization is classified by Esther Vergeer as important entry-decision factor for the successfulness of a company. “We did not have a lot of experience with running a business in a foreign country but we did have a lot of friends who did. And their knowledge has been really important for us”, she states hereby explaining the importance of this entry-decision factor.

4.1.2 African Ample Assistance: Jaap Kreeftenberg (CEO African Ample Assistance).

Time: 10:00

Place: Victoria Avenue 15, Hout-Bay

Date: 16 January 2009.

Duration: 0:55h.

Company description: African Ample Assistance (AAA) was founded in 1996 by Jaap and Germaine Kreeftenberg. AAA offers a wide variety of travel products ranging from hostels and luxury hotels to complete safari trips. Although the company now is involved in some initiatives with local companies the company was originally started up from scratch by the owners. At the moment AAA employs 20 people.

Factors from the macro-environment have greatly influenced the timing of start-up and particular choice of entry strategy of AAA. “The reason to start up AAA after the fall down of the apartheid regime was a conscious one. Besides the fact that there was simply no tourist business before 1994, the political situation was just too instable to start up a wholly owned subsidiary”, Jaap Kreeftenberg states. He states that the political and economical situation in South-Africa was, at the time of the start-up, extremely important to take into consideration to choose an appropriate entry strategy. And still Jaap Kreeftenberg perceives this an important entry-decision factor for successfulness. “Although we had some good developments here in South-Africa, it is still important to keep in mind that we do not live a Western country”, he states hereby stipulating the political - and economical situation as important factor to take into consideration when starting your business in South-Africa.

Jaap Kreeftenberg perceives the social cultural environment of South-Africa as extremely important entry-decision factor for successfulness. “We travelled through South-Africa for a year to get to know the people, the habits, meet the right contacts and learn the language. Thanks to this we were able to become successful with our chosen entry strategy (wholly owned subsidiary)”, he states. Although the infrastructure is not as good as a lot of Western countries Jaap states that he does not perceive this factor as important for the

successfulness of a business. It might be important but not as far as important as the cultural habits. The legal environment is perceived as medium important entry-decision factor for a successful business. Especially the new labour regulations (BEE) are important to take into consideration according to Jaap Kreeftenberg.

The industry structure of AAA can be classified as low-competitive. The lack of new entrants and competitors is stated by founder Jaap Kreeftenberg as important reason for this low amount of competitiveness. The lack of enough competitors is a heritage of the apartheid period states Jaap Kreeftenberg. “There is still a certain English *upper-class* which rules the big companies”, he states. Only the shortage of skilled labour and difficult government regulations are creating a certain amount of competitiveness in the industrial environment of AAA. As entry-decision factor the amount of competitiveness is perceived as medium important entry-decision factor for the successfulness of the company. Only the difficult government regulations concerning BEE are said to be important to take into consideration for creating a successful business. Fact that the nature of AAA does not require a lot of skilled labour restrains however an important perception on this entry-decision factor.

The whole internationalization process has been crucial for the success of AAA according to Jaap Kreeftenberg. “We travelled around the world for years and both had companies in different countries. Besides this we also travelled around Africa for a year just to get an idea how to operate here”, he states hereby explaining why he perceives this entry-decision factor as important. Jaap Kreeftenberg states that he thinks that the not adequate picture a lot of foreign entrepreneurs have of South-Africa is often an important failure reasons. Because of the nature of the business the other factors of the company specific environment are perceived considerable less important. Our business is mostly contact and “knowing the right people”. Therefore the amount of control we require and resources we need is minimal”, states Jaap Kreeftenberg.

4.1.3 Farmer’s United (Eveline Schreuder, CEO Farmer’s United).

Time: 11:30

Place: Lower Loop Street 13, Cape-Town.

Date: 14-01-09.

Duration: 0:45h.

Farmer’s United is founded in 2003 by Guido Schreuder. Shortly after the company was set up, Eveline Schreuder became involved in the company. The company Farmer’s United consists of two departments: UFF Thrust and UFF management. The UFF thrust department is the non-profit part of the company. This department of the company gives loans to promising farmers. This money is used by the farmers to create a profitable business. After a profitable business is created, a certain amount of money flows to the UFF management part. The main “product” of the company consists of loans and certain educational courses to farmers. The non-profit part of the company, UFF Thrust, is financed partly by the Dutch department “ministerie van ontwikkelingszaken”. Farmer’s United has two offices, one in Loopstreet and one in Milnerton, and is employing four people.

Eveline Schreuder states that of the macro-environmental forces especially the South-African experience had been an important factor which has made up the success of Farmer’s United.

“When you do not have a partner like we, knowing your way around in South-Africa is extremely important to survive”, she states. Eveline Schreuder states that foreign entrepreneurs often fail because of the bad fit between their knowledge of South-Africa and the way they operate. The other factors of the macro-environment decision factors are perceived by Eveline Schreuder as not important for the successfulness of the business. The nature of the product offered by Farmer’s United (service-based product) and minimal amount of hassle with co-producers suppliers are stated by Eveline Schreuder as reasons why she perceives these parts of the environment as less important for the successfulness of the business.

The labour regulations and dependency on the financial suppliers are stated by Eveline Schreuder as factors which create a certain amount of competitiveness. These factors are however not perceived crucial. Therefore the industrial environment of Farmer’s United can be classified a low-competitive. The minimal amount of skilled labour needed, lack of competitors and high entree barriers all facilitate this low amount of competitiveness in the industrial environment of Farmer’s United. The intensity of competition in the industrial environment is perceived by Eveline Schreuder as important entry-decision factor for the successfulness of Farmer’s United. “We consciously chose this mode of entry because we had all necessary skills and there were big opportunities. I have no doubt that this has facilitated our successfulness”, she states.

When asked about the importance of the assets Eveline Schreuder starts laughing and explains that the coffee machine is the biggest physical asset. Also the required financial assets were perceived minimal. The extensive knowledge about the business environment (Guido Schreuder) and product (Eveline Schreuder) are however considered as important by her. The right amount of education on the different fields is classified as an important entry-decision factor which has led to the successfulness of the company. Because of this expertise the amount of control required by UFF is minimal and therefore not perceived as an important factor leading to success.

Although Eveline Schreuder states that obviously “abroad knowledge” is important when starting a business she argues that this factor has not been a crucial factor which has led to the success of her business. She perceives the right amount of international knowledge more as necessary than sufficient for success.

4.1.4 Marcel Hooagebeen: broker. (Marcel Hooagebeen, former CEO of Marcel Hooagebeen’s Broker agency)

Time: 12:00

Place: Dunes restaurant, Hout-Bay

Date: 16 December 2008.

Duration: 1:05h.

Company description: Marcel Hooagebeen has managed and set up a broker agency in the Western Cape of South-Africa. Marcel Hooagebeen started operating in the Netherlands with small projects in South-Africa and slowly expanded his business to South-Africa. Marcel Hooagebeen’s broker agency operated in the niche of expensive houses. Till February 2008 Marcel Hooagebeen managed three broker agencies in the Western Cape region. In February

2008 Marcel Hooegebeen sold his company. Till 2008 20 people were working in his company.

Marcel Hooegebeen starts by explaining the rare nature of his business. “Setting up my business in any other way than an own company (wholly owned subsidiary) would not have been an option due to the specific nature of my business. What caused my success is definitely not a good measure for other companies I think”, he states. Because the customers of Marcel Hooegebeen are mostly foreign the cultural distance is not perceived as extremely important successfulness factor, although a certain amount of influence is acknowledged. Only macro environment factor which Marcel Hooegebeen perceives important as entry-decision factor contributing to his successfulness is the stability of the economic - and political environment. This is mainly due to the large amount of financial resources which had to be invested. “When you invest the amount of resources I did it is important to know that you have a stable climate”, he states. The other aspects of the macro-environment are not considered important.

Although his product was quite unique and differentiated, and thereby did not have a lot of competitors, the high need of skilled labour and government regulations did create a certain amount of competitiveness in the industrial environment of Marcel Beender’s Broker agency. “I mostly dealt with experts who are highly skilled. Because finding these people in South-African was difficult I often had to work with foreigners. Therefore I have to deal a lot with regulations concerning foreign employees and that is a big mess here”, Marcel Hooegebeen states explaining the competitiveness in the market. Fact that Marcel Hooegebeen thought a lot about how to deal with government regulations and shortage of labour was according to him important for his successfulness. He therefore describes the competitiveness in the industrial environment as important entry-decision factor to take into consideration.

Marcel Hooegebeen states that his product is not comparable with the other investigated companies. You really have to get to know your way in this business he states. Finding the right people and meeting the right contacts is perceived extremely important. Therefore the product was not really a threat for copying behaviour. Marcel Hooegebeen states that it would take other people “ages” to build the same network and company as he did. He therefore labels the amount of control as an absolutely not important factor. Also the amount of internationalization is not labelled as really important by Marcel Hooegebeen. “Of course you need some knowledge about the world, and Africa. But because I, consciously, mostly deal with English and Dutch people I would not classify factor as important”, he states.

The amount of resources is however classified as really important for his success. “I was fortunate enough to have a lot of money when I came here. Without this money setting up a business like I have would have been a “mission impossible”. Running a broker agency is not like running a website agency, you need people, a decent office etc..., he states. Also a lot of experience and knowledge is required according to Marcel Hooegebeen. The experience in international business was not perceived important by Marcel Hooegebeen.

4.1.5 Harley Davidson Shop Cape Town (Ad Keukelaar, CEO and Founder of the shop and a Harley Davidson driving school)

Time: 15:00



Place: Green Point, Cape-Town.

Date: 21 January, 2009.

Duration: 0:55h.

Company description: The Cape Town Harley Davidson Shop was founded in 1998 by Ad Keukelaar. The company is the first established Harley Davidson shop in Africa and has customers all over the Southern half of the continent. The company was started with a small stock and crew but is nowadays a big shop with hundreds of Harley Davidson motorcycles and different accessories. Besides just selling motorcycles Ad Keukelaar has the mission of introducing *the motorcycle way of life* in South-Africa. Therefore he is not only selling the motorcycles but is also involved in different Harley Davidson initiatives in Cape Town and owns a Harley Davidson driving school.

Ad Keukelaar acknowledges that different environmental factors together with his chosen entry strategy have been important for his amount of success. He states that he has dealt with both the amount of stability and cultural distance in a particular way, a way which he thinks has contributed to his success. "I realized quickly that I had to integrate as soon as possible because I had no partner", he states. Also the technological environment is perceived by Ad Keukelaar an important entry-decision factor leading to the successfulness of the company. Because of the infrastructure of South-Africa was not sufficient for running my business I had to develop a kind of structure myself he states. Relatively the influence of the legal environment is perceived not important by Ad Keukelaar.

The industrial competitiveness within the environment of the Harley Davidson shop is quite hard to determine. Certain factors, like the small amount of competitors and differentiated products, create a low amount of competitiveness. Other factors, like the dependency on suppliers and shortage of skilled labour, facilitate a higher amount of competitiveness. The intensity of the industrial environment is perceived by Ad Keukelaar as an important entry-decision factors leading to the successfulness of his company. Especially the way in which he dealt with the shortage of labour (Ad Keukelaar trained most of the employees himself) was according to him an important way to deal with the competitiveness in the environment and thereby creating success.

The resource entry-decision factors in the company specific environment of the Harley Davidson shop of Ad Keukelaar are perceived as important by Ad Keukelaar for his success. First of all the high amount of necessary physical, financial and knowledge assets is stated. "You do not start a Harley Shop in a shed with one motorbike", Ad Keukelaar states hereby explaining the high requirement of resources which is needed to open a Harley Shop. Also the knowledge should not be underestimated according to him: "Harley's are my passion and therefore I know a lot about it. This has been an important reason for the success of my company I think", he states. The international factor is perceived less important by Ad Keukelaar. No market information about South-Africa is used before the start-up. A small amount of experimental knowledge was however acquired by Ad Keukelaar in previous experience and he states that this has been useful to a certain amount. Also the amount of control required is not considered very important by Ad Keukelaar. Because of the high entry requirements copying behaviour of competitors is not really a threat according to him.



4.1.6 Rain (Miranda Hillman former CEO of Rain)

Time: 09:00.

Place: Arnold's, Cape-Town.

Date: 26 January, 2009.

Duration: 1:10h.

Rain is founded seven years ago in 2001. The company was started by the business partner of Desiree Hillman. Two years after the start-up Desiree became involved in the company and a joint venture was formed. The shop quickly expanded to the five shops it has nowadays. Rain offers a wide range of products ranging from simple presents to luxury shower products. Rain has the whole supply chain in own demand. This aspect is according to Miranda Hillman an important marketing tool. At the moment 65 people are working for Rain.

Macro-environmental forces have played an important role in the choice of entry strategy and way of business. Miranda Hillman perceives these factors as important for the successfulness of the business. "For setting up a business on my own I would have needed a lot more financial resources and knowledge about the South-Africa. "Both the entry-decision factors of the political and economic environment and the cultural distance have made me choose a joint venture. With my skills and money that was definitely the best thing to do for achieving success", she states explaining the important perception of these host-environmental forces. Miranda did not see a fit between the legal and technological environment, her chosen entry strategy and successfulness. She therefore does not perceive these components as important factors contributing to the successfulness of the company.

Because of the quite general nature of the product of Rain, the entry barriers are quite low and amount of competitors considerable. These factors facilitate a high amount of competitiveness. Other factors of the environment, like the supplies which are widely available and fact that not much skilled is necessary in the production process, restrain however a highly competitive market. Extra "competitive" element in the industry structure mentioned are the regulations concerning BEE. For Miranda Hillman the amount of competitiveness has not formed an important entry-decision factor influencing her amount of success. Stated is that the amount of competition was not really taken into consideration during the start-up of the business.

Before Rain, Miranda Hillman was already involved in another company in South-Africa. Through this company she did already gain a lot of experimental and objective knowledge. She perceives this as important for the amount of successfulness. "Also relevant skills and the right amount of (physical and financial) resources is perceived as important by Miranda Hillman. A lot of foreign entrepreneurs underestimate how money, knowledge and efforts it takes to set up a business here in South-Africa. Dutch people often have a too "tropical" image of South-Africa hereby greatly underestimating the amount of resources as success factor for their company", she states. She therefore perceives the assets as important. The simple knowledge on which the company is based makes opportunistic behaviour by opponents possible. This is however not perceived as important entry-decision factor by Miranda Hillman.



4.1.7 NBI: New Business Investments (Pieter van Waesberghe, CEO and founder of NBI)

Time: 13:00.

Place: Loopstreet 13, Cape-Town.

Date: 15 January, 2009.

Duration: 1h.

Company description: New Business Developments is set up in 2004 by Pieter van Waesberghe. Although the company was started with another aim, the company operates nowadays as a consultancy company for foreign start-ups. NBI offers a broad range of consultancy services, tips for starting entrepreneurs but also advice for bigger companies about for example joint ventures with South-African companies. Pieter van Waesberghe has a lot of experience with (failing) Dutch entrepreneurs and has there a good picture of what is causing the large failure of Dutch start-ups. NBI first started as a licensee of NBI Europe but is now a wholly owned subsidiary.

Of the macro environmental forces Pieter van Waesberghe states that, in his perception, especially the cultural distance is important. Although other factors are also labelled as medium important especially the entry-decision factor cultural distance is stipulated as being extremely important for the success of his business. “Because I understand the different attitudes of customers and employees in South-Africa now I managed to set up a successful business without a South-African associate”, he states. The lack of loyalty of South-African people formed the major reason for avoiding an agreement with local partners. “People in South-Africa do not stick to their appointment, a South-African appointment is not an appointment. This is also the reason why so many big companies keep their business as much in-house as possible”, he states explaining his motivation for setting up a business on his own. The cultural distance is stipulated by Pieter van Waesberghe as an important factor which failing Dutch entrepreneurs do not take enough into consideration. “Fact that you speak the language does not mean you know the culture. South-Africa is a little Western but stays Africa with all his different culture habits”, he states.

The industry structure of NBI can not be classified as competitive. This is mainly due to highly differentiated nature of the product of NBI. According to Pieter van Waesberghe only the shortage of labour creates a little bit of competitiveness. Because the most important part of NBI is however done by Pieter van Waesberghe himself this is not an important concern however. Pieter van Waesberghe argues that for successfulness it is really important to take into consideration the different competitive structure in Africa. “For the successfulness of my company it was really important that I realized that the market in South-Africa was not a service-based market, thereby I had to position my product in a certain way”, he states.

Pieter van Waesberghe personally thinks that the amount of resources is an extremely important factor for the success of his business and success of foreign entrepreneurs in general. People often underestimate the cost and experience needed to start-up a company. Especially abroad costs are important, he states. Although living expenses are cheaper here, you do need to make other expenses here like private schools, a security gate etc... “Thereby takes it also longer to make a company profitable here. The so-called *profit-graph* is longer

than in most Western countries”, Pieter van Waesberghe explains. Besides the amount of resources Pieter van Waesberghe also perceives the factor *internationalization* as important. “Experience in South-Africa or doing business abroad can be crucial for success”, he states. Because of the knowledge based nature a high amount of control is not important for NBI. This factor is therefore not perceived as important by Pieter van Waesberghe.

4.1.8 Cape Motion (Desiree van Waesberghe, CEO and founder of Cape Motion)

Time: 10:30.

Place: Kloofstreet, Cape-Town.

Date: 21 January, 2009.

Duration: 1:05h.

Company description: Cape Motion is founded in 1994 by Desiree van Waesberghe. After working for CTICC (conferencing hall in Cape Town), Desiree van Waesberghe decided to start her own company. Cape Motion offers consultancy services about how to manage foundations. This whole concept of managing foundations is quite accepted in the Western society but this is not yet the case in (Southern) Africa. Cape Motion works with people on freelance basis.

Desiree van Waesberghe states that both the factors financial - and political conditions and cultural distance are perceived by her as extremely important for the successfulness of her business. “My business is successful because I have set up my business in a certain structure. Through this I limit the risks (financial and political conditions) and avoid working with South-African people (culture)”. Because of the nature of her product (service-based) the infrastructure and legal environment are perceived not important by Desiree van Waesberghe.

The industrial-environment of Cape Motion can be classified as non-competitive. Due to the young market in which Cape Motion operates Desiree van Waesberghe does not have a lot of competitors yet. “Although I am sure that a lot of companies can use it most businesses have never been confronted with my product. They simply have not yet reserved the necessary financial resources to buy my product. This is completely different than in The Netherlands and United States where it is really normal to reserve a certain amount of money for my product (consultancy about managing organizations)”, she states. Only fact which creates a little bit of competitiveness in the industrial-environment of Cape Motion is the high dependability on her resources. Important resource of Cape Motion is skilled people who act as consultants for Cape Motion. Because of the lack of well-educated people finding these people is acknowledged to be a big problem. When starting her business Desiree van Waesberghe consciously considered factors of her competitive environment. She especially thought about how to deal with the shortage of labour when she did set up her business. Desiree van Waesberghe states that it is really important to look at the nature of your service-product. “People here in South-Africa require different services than in the Netherlands”, she states. She therefore perceived it an important entry-decision factor for her successfulness.

Desiree van Waesberghe states that she started her business with a minimum amount of financial and physical resources and therefore can not classify these factors as important entry-decision factors for her successfulness. She did however had a lot of experience and

knowledge about the business in she was going to operate. And that did facilitate setting up a profitable business considerably.

The internationalisation factor is classified as having a medium amount of influence of the successfulness. “I worked abroad and also in South-Africa. And that has definitely helped me with running my business here. Through the objective - and experimental knowledge I knew a lot better how to set up my business”, she states hereby explaining her “important” perception of this part of firm-specific environment. Because the extensive knowledge-based component a high amount of control is not considered necessary by Desiree van Waesberghe. This is therefore perceived unimportant for the successfulness of the company.

4.1.9 Dunes (Rob Gerdsten, Owner Dunes restaurant)

Time: 11:00

Place: Dunes, Hout-Bay

Date: 18 January, 2009.

Duration: 0:45h.

Company description: Dunes is a restaurant located in Hout Bay close to Cape Town. During day-time the restaurant is open for lunch and coffee. Later on it offers possibilities for dancing. Dunes restaurant is bought fourteen years ago by Rob Gerdsten and his father. Nowadays the father of Rob Gerdsten has relocated to Spain and Dunes is owned by Rob Gerdsten. At the moment 26 people are working in Dunes.

Rob Gerdsten states that the relatively stable environment during the start-up of the company has greatly supported the success of Dunes. “With an own company containing relatively a lot of financial assets I think that the stability of the political - and economic environment is critical for success. At the moment of our start we did not know yet what was going to happen after Mandela, we took a big risk with setting up a business in such an uncertain period”, he states. He therefore perceives this factor as important. Also the social environment is perceived as an important entry-decision factor influencing the amount of success of Dunes. “Working with South-African partners is really difficult. Because it works so completely different here we decided to set up the business in a way in which we were completely independent of South-African people/local partners. I think that has been an important reason of why we have survived so long”, he states explaining he perception of important. Because of the great amount of employees Dunes has Rob Gerdsten states that also the legal environment can be important. How to deal with regulations concerning BEE is important. He therefore also classifies this factor as important. The technological and environmental factor is not perceived as important entry-decision factor.

Although Dunes does have a lot suppliers and does not need highly skilled labour her competitive environment can still be classified as competitive. This is mainly due to the low differentiation of the production, relatively low entry barriers and difficulties to deal the government regulations concerning BEE. Rob Gerdsten states that certain factors of the industry-specific environment did however not made him set up his business in a particular way. He therefore perceives this component of the environment as not important for the amount of success.

The internationalization factor is not considered as an important entry-decision factor for the successfulness of Dunes by Rob Gerdsten. “We both lacked experience in international business and I do not feel that has really been important”, he states. The amount of resources is classified as important by Rob Gerdsten. “Not only a sufficient amount of financial resources was needed to become successful as restaurant, also a certain amount of “restaurant knowledge” was important for the success”, he states. Because of the “common knowledge” component of the restaurant business he does not perceive this factor as important.

4.1.10 Treffer’s internet cafe (Theo Treffers, owner of Treffer’s internet café).

Time: 13:30

Place: Sir Lowry Rd., Cape-Town.

Date: 17 January, 2009.

Duration: 0:45h.

Company description:

Treffer’s internet cafe is one of the three internet cafes owned by Theo Treffers. He was the first one to set up an internet cafe in a town-ship. After opening the cafe’s Theo Treffers has slowly expanded his business. Nowadays his cafe’s also offers lunch and different computer work-shop possibilities. At the moment 27 people are working in the three internet cafes of Theo Treffers.

Theo Treffers states that in his opinion the social environment is by far the most important factor for his success. “Without my 20-years of thorough South-African experience I would have never managed to set up a business like this”, he states. ”When people go to China they expect a certain amount of cultural difference, when they go to South-Africa they expect some Western country”, he states explaining the underestimation of cultural differences between The Netherlands and South-Africa. Theo Treffers is arguing that the huge failure rate of Dutch entrepreneurs is often due to the underestimation of cultural differences between South-Africa and the Netherlands. All other factors are perceived by Theo Treffers as less important. “Although certain aspects are slightly different I think that most other aspect of the macro-environment of South-Africa are greatly in line with Western countries and can therefore be considered as less important factors”, he states.

The industrial market of Theo Treffers can be classified as competitive. This is mainly due to the great availability and low differentiation of his product. Theo Treffers states that he thinks that the way in which he has dealt with certain factor of his competitive environment has had a little amount of influence on his successfulness. He therefore classifies this factor as medium.

Of the firm-specific factors especially the internationalization factor is classified as important entry-decision factor for the successfulness of his company by Theo Treffers. He gained a lot of objective and experiment experience during his earlier working period in South-Africa. This knowledge has greatly contributed to his success according to him. The other two firm-specific factors are perceived by Theo Treffers as less important for the success. Especially



the resource requirements are classified as not important. “For setting up my successful business I did not need a lot of money, assets and knowledge”, he states.

4.1.11 Croon (Joris Croon, owner Croon).

Company description:

Time: 11:00

Place: Arnold’s restaurant, Cape-Town.

Date: 12 December, 2009.

Duration: 0:55h.

Joris Croon owns a company which is specialized in creating property portals. Through these property portals more transparency is created concerning the supply and demand of project investments in South-Africa. Main customers are some South-Africans but especially a lot of foreigners like Dutch people. Croon has three employees and is located on oranjestreet.

Joris Croon states that a stable economic - and political environment is important for a steady demand for his product. Therefore he perceives this part of the South-African environment as important for his amount of successfulness. He perceives the way in which he dealt with the social environment as a less important entry-decision factor explaining his successfulness. Because of his foreign or internationally oriented customers Joris Croon states the influence of the social environment is not extremely important. The legal environment is not perceived important by Joris Croon. Because Croon is set up with a flexible structure with a lot free-lance employees the influence of the legal environment is minimal according to Joris Croon.

The competitive environment of Croon can not be considered competitive. Not many competitors are offering the same product and the price sensitivity of the product is low. This low competitive structure is perceived by Joris Croon as an important entry-decision factor which has determined his successfulness.

Joris Croon thinks that especially his extensive knowledge about his main product has been an important factor leading to the successfulness of his company. “When you start a company you always have to know exactly what you are doing, especially abroad. And because of my thorough experience in software engineering I had that background. My other resources can be classified as minimum”, he states. For the successfulness of his company Joris Croon does not consider information about internationalization as crucial. “Before I came here I had a minimum amount of knowledge about Africa and international business and I did not consider that as an important barrier”, he states. He states however that this is probably mainly due to the international nature of his business internationally oriented customers. Due to the nature of the product of Croon the perceived importance of the amount of control is low.

4.1.12 Brandt Security Systems (Maarten Brandt, former owner of Brandt security systems)

Time: 17:00.

Place: Durbanville

Master Thesis: Marc van der Peet

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Date: 27 January, 2009.

Duration: 1:30h.

Company description:

Brandt security systems is specialized in offering customized alarm systems in Cape Town and the suburbs of Cape Town. The company also offers full installation services. At the moment 32 people are working for Brandt security systems. The office of the company is located in Durban Ville near Cape-Town.

Brandt Security Systems was the only company which was started in the pro-apartheid period before 1994. The unstable political - and economic situation is therefore not perceived as an important entry-decision factor for the successfulness of the company. The social environment is however perceived as important for the successfulness. "I did live in South-Africa for many years before I decided to start my business. Through this I had a lot of knowledge of South-Africa. I am sure this knowledge has contributed to my success", Maarten Brandt states. Because his company does not require a solid infrastructure and the environmental regulations at that time were minimal he does not perceive this component of the environment as important. Also the legal environment factor is perceived unimportant.

Especially at the beginning of his company the industrial-environment was low-competitive. Almost no products like Brandt security systems were offered. Maarten Brandt states that he thinks it is quite obviously the amount of competitiveness has contributed to his success. "At the moment of my start-up I only had a product for a market and knowledge about Africa. So I guess these two factors have been crucial in my success", he states.

Maarten Brandt states that resources have been an absolutely unimportant factor in the success of his company. "When I started this business I did not have any money, no assets and no clue of what an alarm system was", he states. Also the other two factors are perceived as not important by Maarten Brandt.

4.1.13 SAFE (Edwin Baas, owner of SAFE)

Time: 12:30

Place: Kloofstreet 13.

Date: 28 January, 2009.

Duration: 0:55h.

Company description:

Safe is a fruit export company started in 1997 by Edwin Baas. The company takes care of the whole production line: packing, cold storage and all other activities. Today SAFE is one the fastest growing international fruit exporting companies employing more than 200 people in South-Africa, Zimbabwe and Namibia. The head office of SAFE is located in Kloofstreet, South-Africa.

Edwin Baas states the changing market of South-Africa was the main reason for success of his company. "We started the company just after the apartheid period. Some years earlier would not have been an option", he states hereby stipulating the perceived importance of the

stability in the political and economical environment. According to Edwin Baas also the social environment is important. He states that, because of the local dealer with which SAFE had to deal, adapting to local standards was crucial. This quick adapting to the South-African culture is named by Edwin as important entry-decision factor for his success.

At the moment of start-up the competitive environment of SAFE could be classified as non-competitive. All necessary resources and labour were available and there were only a few other companies in South-Africa offering the same product. This non-competitive structure which created a lot of opportunities classifies Edwin Baas as extremely important entry-decision factor. “Because of the huge opportunities other factors were considerable less important”, he states.

The average amount which was necessary to start-up his business is classified by Edwin Baas as low. He therefore does not classify this firm-specific factor as important for SAFE’s achieved success. Also the international experience required was perceived as not important by Edwin Baas. “My and my partner had no experience in international business and also our knowledge about South-Africa was minimal”, he states hereby explaining that this could not have been an important success factor. Because of the importance of networking and team-based work also the amount of control is not perceived as an important entry-decision factor.

4.1.14 Cape of Good Hope Productions-Kaap de Goede Hoop producties (Jeroen Vuyk, CEO Cape of Good Hope Production.

Time: 16:00

Place: Arnold’s, Cape-Town

Date: 30 January, 2009

Duration: 1:05h.

Company description: Cape of Good Hope production is a company founded by Jeroen and Mirella Vuyk and is specialized in offering film locations for commercials, (short) movies and foto-shoots. The company is founded in The Netherlands but operates nowadays mostly in South-Africa. Because of the mostly freelance based work the company has a limited amount of employees. The company has two main offices, one in Cape Town and one in Amsterdam.

Jeroen Vuyk perceives the stability of the economical - and political environment as crucial for the successfulness of his company. “Although we are not influenced so much by the amount of stability in the political environment, the stability of economic environment has largely influenced our (positive) results. Within the recent crisis with the ZAR exchange rate we feel that it becomes harder to maintain a profitable basis. That is definitely due because we are dealing with foreign materials/people”, he states. The social environment as an entry-decision factor is perceived by Jeroen Vuyk as having limited effect on the successfulness of his company. Although there definitely is a cultural distance between the Netherlands we mostly deal with foreign customers. I therefore perceive this factor as not important”, he states. Also the technological environment is classified by Jeroen Vuyk as relevant. “We have all material we need and are therefore completely self-sufficient. Except a certain amount of roads which we need, we are not dependant on factors of the technological environment. Because Cape of Good productions does not work a lot with local South-African people the legal environment is not perceived as important by Jeroen Vuyk.

Cape of Good hope productions offers a unique product. This and the brand name of Cape of Good Hope productions are important factors which distinguish her product widely from that of competitors and hereby restrain competitiveness in her industrial environment. The business of Cape of Good Hope productions is known for his high entry barriers according to Jeroen Vuyk. This, and fact that Cape of Good Hope productions needs scarce and skilled labour brings a little bit of competitiveness in her industrial environment. Jeroen Vuyk perceives the amount of competitiveness as import entry-decision factor contributing to his success. The market opportunities offered in South-Africa were an important incentive to start the business like this.

Of the firm-specific characteristics Jeroen Vuyk perceives his resources as extremely important for his success. “For starting his successful company Jeroen Vuyk states that not only a sufficient amount of money and physical resources was necessary but also a decent amount of experience in the relevant branche was absolutely necessary for the successfulness. Also the internationalisation factor is considered relevant. “For operating a business like this it is extremely important to no how things work in the international environment. The South-African knowledge of my partner and my thorough experience in the field has been crucial”, Jeroen Vuyk states. Because of the complex nature of the business of Cape of Good Hope productions the amount of control is not perceived important.

4.1.15 Brand Unlimited (Rudolf van Beerschoten, CEO van Brand Unlimited)

Time: Telephonic interview
Place: Telephonic interview
Date: 12 January, 2009.
Duration: 0:25h.

Company description: Brand Unlimited is founded twelve years ago by Rudolf and Heleen van Beerschoten. The company is specialized in Graphical Design and aims specifically at strengthening the position of brands. Besides this the companies also offers a wider variety of graphical design products.

The main office of the company is located in Johannesburg, but at the moment also a small department is set up near Port Elisabeth. At the moment 26 people are working at Brand Unlimited.

The economic and political environment is perceived by Rudolf van Beerschoten as an extremely important factor contributing to the successfulness of the company. “We always said we wanted to enter South-Africa through this mode of entry and we knew that this kind of entry required relatively a big amount of resources. Therefore we did consciously wait till after the regime shift (1994). We wanted to see that South-Africa maintained a relatively stable environment”, Rudolf van Beerschoten states explaining why he perceives this part of the South-African environment as an important entry-decision factor leading to the success of his company. Also the technological and social environment are perceived by Rudolf van Beerschoten as important for his success. “We dealt consciously with both aspects when we entered the South-African market and structured the company in a way which was in line with the social environment and infrastructure”, he states. Also the way in which was dealt with

forces from the legal environment was perceived by Rudolf van Beerschoten as relevant. He perceives this part of the environment as medium important.

Although the industrial environment has changed during the years, the industrial environment of the company can still be classified as low-competitive according to Rudolf van Beerschoten. “Although you have to be creative with finding your skilled labour and dealing with labour circumstances business environments are still less competitive than Western ones. This low competitiveness has been the main reason his successfulness according to Rudolf van Beerschoten. “When I saw the huge opportunities here, I knew I could be successful with setting up the business in exactly the way I wanted”, he states.

Of the required resources Rudolf van Beerschoten only considers the amount of knowledge as important for his success. According to him the nature of his industry makes setting up a successful business possible without a big amount of physical and financial resources. The internationalization knowledge is not perceived important by Rudolf van Beerschoten. “I lacked certain knowledge and I do not think that this has restrained me in a certain manner”, he states. Because of the nature of the business the amount of control is not perceived important.

Part 2: Interviews with environmental experts

4.2.1 Interview with Thessa Boss (employee Dutch consulate)

Time: 13:00.

Place: Loopstreet 11.

Date: 2 February, 2009.

Duration: 1:05.

The *stability of the South-African politics and economy* is a factor which according to Thessa Bos is important to take into consideration. “Although it is quite stable now it is still Africa. We will never have a “Western stability” here in South-Africa. Thereby the situation here is also much likelier to fluctuate. We see this now with the elections of Zuma”, she states. The traditional South-African culture is said to be a kind of *old-boys network* where networking is extremely important. This also explains the high bribing rates in South-Africa. The amount of stability of likelihood to fluctuate is something which a lot of foreigners, and Dutch people, underestimate according to Thessa Bos.

Also the *social environment* is classified by Thessa Bos as important. “It is incredible how many people make the common cultural distance mistakes here. Of course you have some Western things here, but it still stays Africa!”, she states. Underestimating the completely different aspects of the (working) culture is according to Thessa Bos definitely something which causes a lot of entrepreneurs to fail”, she states. According to Thessa Bos especially the lack of certain rules is an important different aspect. Through this things are said to work differently. The *infrastructure* is according to Thessa Bos an aspect which is quite well organized in South-Africa. She therefore does not think that this is important to take into consideration when starting your business here. “Of course does South-Africa not yet have the infrastructure of a Western country but it is definitely sufficient to find your way around”, she states. The whole concept of corporate social responsibility is however classified as significantly different compared to Dutch standards and therefore important to take into consideration for Dutch entrepreneurs. “The whole responsibility behaviour thing does not really show up yet in South-Africa. It’s getting better but it is still nothing compared to Holland. Therefore you will also see that there are considerable less rules and regulations concerning environmental protection. And control on the small amount of rules which is there is minimal”, she states.

Thessa Bos states that also the legal environment is important to take into consideration when you are starting your business here. Especially all regulations concerning labour regulations are completely different than in a lot of countries. “The whole concept of BEE (Black Economic Empowerment) is something which entrepreneurs should definitely keep in mind. Especially when you have a lot of South-African employees working for you the way in which you deal with this type of regulation can be extremely important”, she states.

4.2.2 Interview with Hans Thijs (former CEO Shell, with thorough working experience in South-Africa)

Time: 11:00.

Date: 12-12-08.



Place: Dunes, Hout-Bay.

Duration: 0:55.

Hans Thijs starts by stipulating the extraordinary nature of South-Africa. “South-Africa is a melt pot of so many different cultures and people. This makes politics, economics and doing business sometimes a difficult situation. Taken this into consideration is according to Hans Thijs extremely important. “Still too many foreigners overestimate the amount of political and economic stability in South-Africa. People often have the image that after the breakdown of the apartheid regime everything is nice and stable here. This is unfortunately not the case yet. Taken this into consideration is extremely important when you start up your business here. According to me a lot of foreign entrepreneurs underestimate the political fluctuations here”, Hans Thijs states. Also the economic situation is said to be completely different from Western countries. The big fluctuations of the SAR (South African Rand) the last decade have made doing business for foreigners extremely difficult. Where the EU/SAR exchange rate was 8 five years ago, it is now 14”, explains Hans Thijs.

Besides the wrong image of the political and economic stability foreigners also underestimate the cultural differences according to Hans Thijs. “You can not transform South-African people and make them work according your Dutch standards, you have to adapt to South-African people. Especially when you have to work a lot with South-African people this can cause serious issues for Dutch people”, he states. Also the shortage of skilled labour is said to be important. “Although there is a certain positive tendency possible people here are still relatively uneducated. You really have to take this into consideration when you start your business here”, Hans Thijs explains.

The quality of the infrastructure of South-Africa can be perceived as relatively stable according to Hans Thijs. “It is not like Holland here. Sometimes internet or electricity might fall out but this is not something which happens all the times and making doing normal business impossible”, he states.

According to Hans Thijs the legal environment has become more and more important for foreign entrepreneurs. Recent developments in labour regulations and labour unions have made this topic more and more important for Dutch people who start their business here. “Especially if you want to deal with government institutions it is important to comply with the difficult new BEE standards. And these standards are really confusing, especially for standards. And also the new developments with labour unions have made it difficult to deal with South-African employees”, he states. Hans Thijs thinks it is therefore that a lot of foreigners structure their company in a way to avoid all these difficult regulations.

4.2.3 Interview with Joyce de Waard (Employee SANEC, Cape-Town)

Time: 15:00.

Date: 15-01-09

Place: Kloofstreet, Cape-Town.

Duration: 1:00.

The most recent factor which foreign entrepreneurs have to take into consideration here in South-Africa is the developments concerning BEE, according to Joyce de Waard. “SANEC recently held a meeting about this topic to inform Dutch entrepreneurs better about this subject. The whole system is, especially for entrepreneurs with a Western background, confusing and hard to understand”, she states. Entrepreneurs who have to deal a lot with local

employees and institutions definitely have to take these factors into consideration when they run their business.

Although Joyce de Waard states that the recent developments in South-African politics have been quite stable it is, according to her, still necessary to calculate on a certain amount of instability. “It is stable for African standards and that is something completely different than standard for European standards”, she states hereby explaining the different perception on stability. The economic developments are according to her also important to take into consideration. Some aspects of the economy definitely show some prospects, especially the high GDP growth of South-Africa. But other aspects, like the fluctuating exchange rate of the SAR, can be quite threatening”, she states.

The relevant aspects of the infrastructure of South-Africa are, according to Joyce de Waard, sufficient for doing business. “We do not have a Western infrastructure here in terms of roads and infrastructure, but we do have a solid infrastructure in terms of internet - and telephone connection. And I think that these aspects are most important for entrepreneurs”, she states. The influence of environmental regulations is according to Joyce de Waard still small. “Where certain regulations start to show up, there is still no control on the obeying these rules. I would therefore not classify environmental rules and regulations as something to which foreign entrepreneurs have to obey”, she states.

The cultural difference between The Netherlands and South-Africa, and especially not underestimating these cultural differences, is extremely important according to Joyce de Waard. “It seems a little like “an open door” but so many people have a wrong picture of South-Africa in their head. Maybe the nice weather and tropical image of South-Africa facilitates this. Dutch (and other foreign people) often have a too Western view of the people who live here. They fall into the easy cultural difference booby traps. I think that an important difference between failing and successful entrepreneurs definitely has to do a lot with “having the right picture” of South-African people”, she states.

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