

# Master Thesis

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**Market Entry Strategies into Volatile Security Environments**  
**The case of Eijkelkamp Agrisearch Equipment into Iraq**

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Enschede, 19 January 2011



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## Management Summary

Even though the security situation in Iraq is slowly improving, it is still an aspect that is very dominant in the image of the country. When a company aspires to enter the Iraqi market it somehow needs to incorporate this characteristic into its entry mode decision process. However, current entry mode decision models mostly neglect this important entry mode decision variable.

This research aims to assess the influence of a volatile security environment in the target country on the entry mode decision of a company. Through an online survey tool a total of 1047 companies and 101 international market entries have been analysed. In addition to this, a total of 11 different experts, with widely disparate backgrounds, have participated in a Delphi study on the topic.

The results of both studies emphasise the high influence of a volatile security environment on the entry mode decision of a company. Although companies do not refrain from entering volatile security environments all together, they very rarely use entry modes that involve substantial numbers of personnel or assets.

The Delphi study shows that the decision to refrain from investing, is mostly independent of the prospective gains of the entry. The experts agree that the decision to expose employees to a volatile security environment is a moral issue. The primary concerns of the experts are about employee wellbeing and the hardship caused to friends and relatives in the worst case scenario. Secondly, the experts raise concerns about the financial risk associated with the loss of any employee.

The results of the study have been used to update a currently excepted entry mode decision model. Compliance to moral values and regulations of the company regarding security (of personnel) has been added as a major point of discussion in the early stages of the model. Only, if sending employees to volatile security environments is considered morally acceptable, the entry modes that involve personnel should be used for further consideration. A second improvement is that the financial implications of entering a volatile security environment should be considered thoroughly during the comparative risk analysis.

During the second section of the research, the new entry mode decision model has been used to support the entry mode decision of Eijkelkamp Agrisearch Equipment into Iraq. The model proved to be effective in identifying the most suitable entry mode. In addition to that, the model revealed management policies that seriously constrain the international ambitions of Eijkelkamp.

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## Preface

In the early stages of my attempt to identify the most suitable entry strategy for Eijkelkamp it proved that little was known about the influence of a volatile security environment on the entry mode decisions of companies. This did not simply obstruct the entry mode selection process, it was also considered very remarkable as the influence was perceived to be very high.

Soon the primary objectives of the research became to identify this influence and secondly to select the most suitable entry mode for Eijkelkamp. The reason I have decided to do this master thesis assignment is because of personal interest in both of the major topics in the assignment, being one, entry strategies and two, Iraq. I am personally concerned with the reconstruction of Iraq, because of my work in the Royal Dutch Armed Forces. As a Lieutenant with the Engineers, direct colleagues of mine have contributed to the initial reconstruction of Iraq. Without a proper follow-up to this mission their efforts and sacrifices would be worthless. I hope therefore, and for the sake of the Iraqi people, that this thesis might someday contribute to the reconstruction of Iraq.

The successful completion of this master thesis would have been impossible without the support of my close friends and relatives. I owe special thanks to Yvonne for her patience during the period in which a great deal of my attention was dedicated to this research. I also owe special thanks to both Johan, for his excellent technical skills and my parents, whom were always prepared to discuss or check pieces of my work.

Furthermore I would like to thank both Eijkelkamp, especially Barry and Jorrit, and my supervisors at the University, Rik and Sam, for their effort and flexibility during this master assignment. At last I would like to thank the Royal Military Academy in Breda that they provided me with the opportunity to acquire a masters degree.

Enschede, 19 January 2011

Wouter Robertus Johannes Beeks

# 1 Introduction

## 1.1 Background

In the early morning of March 20, 2003 aircrafts and cruise missiles of the coalition forces, led by the United States of America, started their assault on the Iraqi capital Baghdad. That same evening a full scale ground campaign was launched.<sup>1</sup> Ever since there have been vast amounts of reconstruction efforts going on in Iraq. These efforts vary from peacekeeping missions by the international stabilization force Iraq, following UN Security Council resolution 1483 (2003)<sup>2</sup>, to charity initiatives by multiple aid agencies. However, for the long term self sustainability of Iraq, it is essential that the economy will become strong and reliable once again. To achieve this, or at least to assist this process, foreign involvement is advantageous.

The advantage of foreign involvement in the Iraqi market has dual characteristics. The Iraqi market will profit from the extra labour opportunities and investments created by foreign investors, but on the other hand, these foreign companies will profit from the opportunities that the Iraqi market has to offer. However until these companies can profit from these advantages, they need to get involved in the Iraqi market. The decision to get involved in a foreign market always leads to the inevitable discussion about the entry strategy that should be used.

In this study there is a specific and deliberate focus on the 'market entry mode' that companies use to get involved in foreign markets in general, and specifically in the Iraqi market. This focus originated from both my personal interest and from the demand by Eijkelkamp Agrisearch Equipment BV (Eijkelkamp). While studying the literature on market entry strategies it emerged that there is a wide range of factors that influence a company's decision for a certain entry mode. These factors vary from the sales potential to cultural distance and production costs.<sup>3</sup> An item that is not being discussed, however, in this literature is the influence of a volatile security environment in the target nation. Many sources<sup>4</sup> discuss the influence of reduced political security on the entry mode decision, but the influence of potential physical suffering of any employee or relation is hardly ever mentioned. The term "volatile security environment" is in this thesis defined as an environment in which there is a serious risk of physical human suffering.

Because of the author's personal affiliation with the army, and therefore, potentially dangerous environments, he considers it highly remarkable that this factor is not included in most decision models on entry mode decisions.<sup>5</sup> There is a fair amount of literature available on the possible effects of dangerous situations on the decision making process of humans. Slovic et al. (2005) have examined what recent research in psychology and cognitive neuroscience reveals about risk as a

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<sup>1</sup> Dutch Ministry of Defence ([www.defensie.nl](http://www.defensie.nl))

<sup>2</sup> UN Security Council Resolution 1483 (2003) ([www.un.org](http://www.un.org))

<sup>3</sup> See Root, F.R. (1994) pp. 16-17.

<sup>4</sup> See Root, F.R. (1994) pp. 16-17 and Quer, D. et al. (2007) pp. 75.

<sup>5</sup> Root, F.R. (1994)



feeling and how it may influence judgments and decisions.<sup>6</sup> They, amongst other things, concluded that “providing information designed to alter the favourability of one's overall affective<sup>7</sup> evaluation of an item (say nuclear power) would systematically change the risk and benefit judgments for that item.”<sup>8</sup> Because of the presumable influence of affective evaluation when dealing with potentially life threatening situations it is assumed that the security environment in the target country does have a significant influence on the entry mode decision.

A logical hypothesis that can be derived from this conclusion is that (continuously) providing negative (or positive) information about the security environment in a country could influence the benefit judgment of that country, and therefore influence the entry mode decision. Because information about the security environment in a country is currently neglected in most entry mode decision models it is very well possible that a number of market entry failures could have been prevented. In this master thesis the influence of a volatile security environment on the market entry mode decision of companies will be assessed.

## **1.2 Objectives**

The initial assignment of this research, provided by the University of Twente, was to study the Iraqi water market and formulate a market entry strategy for Eijkelkamp Agrisearch Equipment into the Republic of Iraq. In order to successfully accomplish the initial assignment it was necessary, like stated in the background, to determine the influence of a volatile security environment in a target country on the entry mode decision. After completion of this objective the research could focus on the initial assignment by formulating a market entry strategy for Eijkelkamp into Iraq.

### **Main objective 1:**

Assessing the influence of a volatile security environment in the target country on the entry mode decision made by companies.

**Main objective 2:** Formulating a Market Entry Strategy (MES) for Eijkelkamp Agrisearch Equipment BV into the Republic of Iraq.

## **1.3 Research Strategy**

In order to fulfil the objectives of this research several different methods and tactics were used during different phases. Completion of main objective 1, first of all required a thorough understanding of the current literature on entry mode decisions. This literature provided information for the completion of the research methodology and about the currently accepted entry mode decision models. One of these models was used as a basis for the improvements that were suggested after the completion of the first objective. The selection of this model followed from an in depth desk research.

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<sup>6</sup> See Slovic, P. et al. (2005) pp. S35-S40.

<sup>7</sup> Affect may be viewed as a feeling state that people experience, or as a quality (goodness or badness) that people associate with a stimulus.

<sup>8</sup> See Finucane, A. et al. (2000) pp. 1.

Completion of the first objective was achieved by using two different research approaches (a Delphi study and a statistical comparison). The results from these studies provided information on the influence of a volatile security environment on the entry mode decision of companies which was used to improve the selected decision model.

The newly constructed model was, in the second half of the master thesis, used to analyze a market entry strategy for Eijkelkamp. Eijkelkamp is an international company that supplies a complete range of equipment for environmental and agricultural research.<sup>9</sup> Eijkelkamp is currently represented in over 60 countries and has sold its products in over a 100 countries.<sup>10</sup> Due to external stimuli from both the NL EVD Internationaal<sup>11</sup> and Dr.ir. U.F.A. Karim they decided to research the possibilities for increased activity in Iraq.

### **1.4 Research Questions**

Based on the objectives and the research strategy that have been discussed earlier in this thesis, it is possible to formulate two main research questions as well as several sub questions.

**Research Question 1:** What is the influence of a volatile security environment in the target country on the entry mode decision of a company?

**Sub Question 1.1:** Which decision model for entry strategies is currently accepted and how does this model work?

**Sub Question 1.2:** To what extent is the influence of a volatile security environment on the entry mode decision represented in this model and in the rest of the current literature?

**Sub Question 1.3:** How did a volatile security environment influence entry mode decisions in the past?

**Sub Question 1.4:** Does a volatile security environment influence the entry mode decisions made by experts?

**Sub Question 1.5:** How can the currently accepted decision model for entry strategies be improved?

**Research Question 2:** What is the optimum entry mode for Eijkelkamp to use when entering the Iraqi market.

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<sup>9</sup> Eijkelkamp ([www.Eijkelkamp.com](http://www.Eijkelkamp.com))

<sup>10</sup> Barry Leuverman (interviewed on 28-9-2010)

<sup>11</sup> NL EVD Internationaal ([www.evd.nl](http://www.evd.nl))

### 1.5 Thesis structure

Based on the previous the research is summarized in the following thesis structure. The figure is a schematic representation of the steps that were used to complete the research objectives.<sup>12</sup> It serves to clarify the links that the different research- and sub questions have with one another.

The thesis is clearly divided in two sections. The first is the theoretical section in which the influence of a volatile security environment in general is assessed and in which the entry mode decision model is selected and updated. In the second section the constructed model is used to identify the best entry mode for Eijkelkamp into Iraq. These sections will be clearly separated in the thesis.

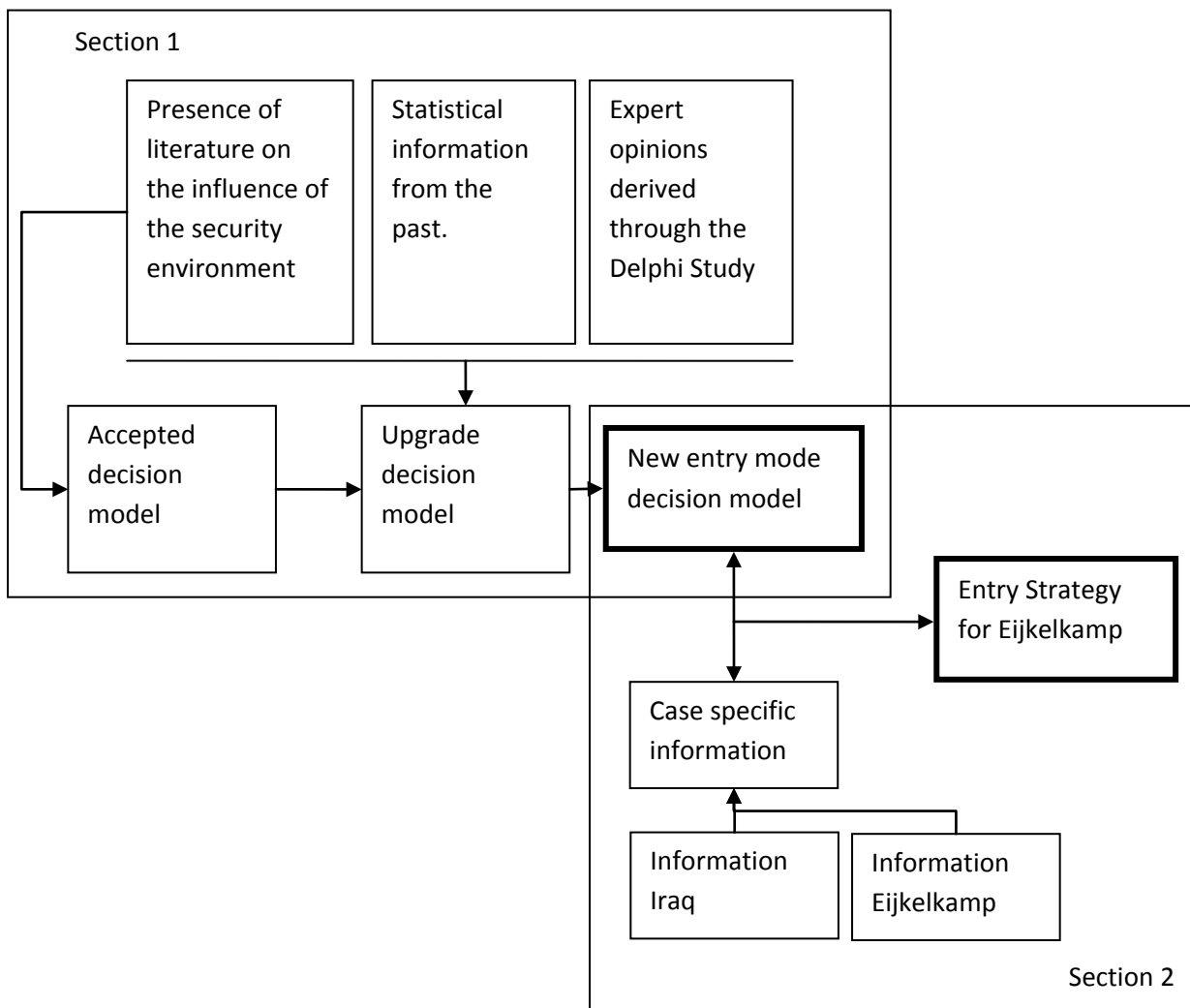


Figure 1 Structural Framework

<sup>12</sup> Translated from Verschuren, P. & Doorewaard, H. (2005) pp. 46.

# Section 1

*Market entries into volatile security environments*

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## 2 Literature review

### 2.1 Introduction

Analysing and improving models on entry mode decisions requires a general understanding of entry mode decisions and strategies and the deficiencies which are present in the current models. This chapter will first provide a general introduction into entry strategies, entry mode decisions and the variables that influence this decision. Secondly it will focus on the models that are currently used to structure an entry mode decision and the deficiencies that these models have.

This part of the research will primarily have an explanatory nature since it aims to distinguish the different variables (independent variables) that influence the choice for a specific entry mode (dependent variable). The type of research is qualitative research because a clear, in-depth analysis of all the variables is needed in order to be able to formulate meaningful relations between the dependent and independent variables.

### 2.2 Entry strategies

Every company that has the aspiration to enter an overseas market, has some sort of entry strategy. The entry strategy is normally a well documented and comprehensive plan. "It sets forth the objectives, goals, resources, and policies that will guide a company's international business operations over a future period long enough to achieve sustainable growth in world markets."<sup>13</sup> An in-depth market entry strategy will minimise the uncertainties that the company might face during its market entry.

Market entry strategies are typically not formulated for an entire company. They are normally formulated for a specific product or a specific market that a company intends to enter. It is therefore that a company has to evaluate its entire entry strategy when it desires to expand its international activities. The exact elements, that if combined form an entry strategy, depend on the model that is used. Figure 2 shows an iterative model containing the basic elements of an international market entry strategy. One of these elements is the decision for a specific market entry mode. This element will be discussed in more detail in the next paragraph and will be a major focal point for this research.

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<sup>13</sup> Root, F.R. (1994) pp. 2.

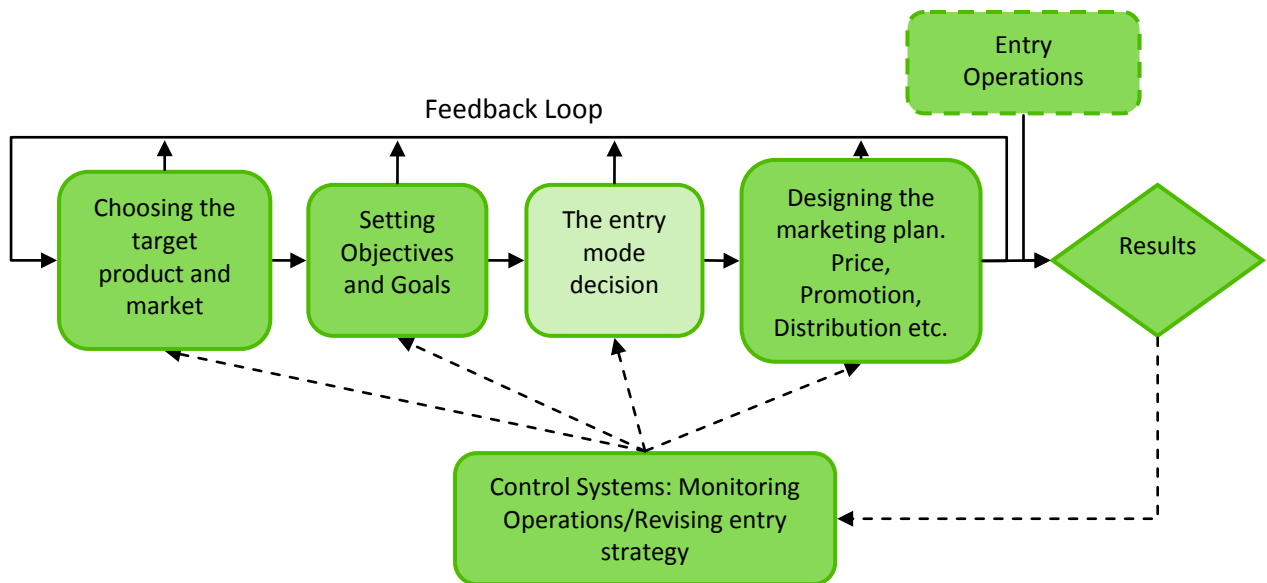


Figure 2 The elements of an international market entry strategy (Based on Root, F.R. (1994))

### 2.3 Entry modes

There is a wide variety of descriptions and definitions of (international) entry modes. International entry modes have been described as “the institutional arrangement that enables a firm to enter a market with its products, technology, human skills, management and other resources.”<sup>14</sup> Entry modes are therefore often seen as an element of the total international entry strategy of a company.<sup>15</sup> “Entry modes are the format of foreign market entries.”<sup>16</sup> It is widely acknowledged that the decision for a certain entry mode is very important. Once made, the decision is difficult to change or reverse.<sup>17</sup> Accordingly, Quer et al. (2007) state that “choosing the most suitable modes of entry in the different countries is one of the most relevant strategic decisions that an enterprise must adopt during its internationalisation process.”<sup>18</sup>

Deciding on the mode of entry means choosing between several different future scenario’s including differences in responsibility, profitability, investments, risks etc. Different entry modes give a firm varied degrees of control and require different resource commitments. Choosing the appropriate entry mode is therefore an important decision, especially given the difficulty of changing once the decision has been made. In order to clarify the difference between the most common entry modes used, they will be discussed briefly.

Entry modes come in a wide variety of forms. The basic distinction between the modes refers to the equity issue. Most large-scale entries involve ‘equity modes’ while most small-scale entries involve ‘non-equity modes’. The non-equity modes, including exporting and contractual agreements,

<sup>14</sup> Root, F.R. (1987) cited according to Sarkar, M & Cavusgil, S.T. (1996) pp. 827.

<sup>15</sup> Root, F.R. (1994) pp. 3.

<sup>16</sup> Peng, M.W. (2009) pp. 286.

<sup>17</sup> See Anderson, E & Coughlan, A.T. (1987) pp. 71.

<sup>18</sup> See Quer, D. et al. (2007) pp. 74.

demand a relatively low scale of investment, while the equity modes normally involve high investments and harder to reverse commitments.<sup>19</sup> The importance of this distinction is also reflected in one of the characteristics of a multinational enterprise (MNE). A MNE is a firm that has employees abroad.<sup>20</sup> To be a MNE means that “ (...) there is more than just trade happening.”<sup>21</sup> All of the exporting modes are modes in which no employees of the company will be permanently working abroad. If a company only uses these entry modes it cannot be as a MNE. The contractual entry modes could involve employees working abroad, but normally only require partners locally. Investment entry modes, on the other hand, always require employee involvement in the target country. Peng (2009) confirms that “a firm that merely exports/imports with no foreign direct investment (FDI) is usually not regarded as an MNE.”

**2.3.1 Non-Equity Modes**

Non-equity modes are defined as modes that do not entail equity investment by a foreign entrant. They are essentially exporting modes and contractual modes, such as licensing, franchising, and R&D contracts.<sup>22</sup> Table 1 shows an overview of the most common exporting entry modes and their advantages and disadvantages.<sup>23</sup> Table 2 shows the advantages and disadvantages of the most common contractual entry modes.

Entry Modes	Advantages	Disadvantages
Non-Equity modes: Exporting entry modes		
Direct Exports	<ul style="list-style-type: none"> <li>Economies of scale in production concentrated in home country</li> <li>Better control over distribution</li> </ul>	<ul style="list-style-type: none"> <li>High transportation costs for bulky products</li> <li>Marketing distance from customers</li> <li>Trade barriers and protectionism</li> </ul>
Indirect Exports	<ul style="list-style-type: none"> <li>Concentration of resources and production</li> <li>No need to directly handle exports processes</li> </ul>	<ul style="list-style-type: none"> <li>Less control over distribution (relative to direct export)</li> <li>Inability to learn how to operate overseas</li> </ul>
Table 1 Exporting entry modes (Based on Peng, M.W. (2009))		

Entry Modes	Advantages	Disadvantages
Non-Equity modes: Contractual entry modes		
Licensing / Franchising	<ul style="list-style-type: none"> <li>Low development costs</li> <li>Low risk in overseas expansion</li> </ul>	<ul style="list-style-type: none"> <li>Little control over technology and marketing</li> <li>May create competitors</li> <li>Inability to engage in global coordination</li> </ul>

<sup>19</sup> See Peng, M.W. (2009) pp. 286.

<sup>20</sup> See Pitelis, C.N. & Sugden, R. (2000) pp. 72.

<sup>21</sup> Som, A. (2009) pp. 78.

<sup>22</sup> Dunning, J.H. (1988) cited according to Erramill et al. (2002) pp. 224.

<sup>23</sup> See Ball et al. (2010) pp. 447.

Turnkey projects	<ul style="list-style-type: none"> <li>• Ability to earn returns from process technologies in countries where foreign direct investment (FDI) is restricted</li> </ul>	<ul style="list-style-type: none"> <li>• May create efficient competitors</li> <li>• Lack of long term presence</li> </ul>
R&D contracts	<ul style="list-style-type: none"> <li>• Ability to tap into the best locations for certain innovations at low costs</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to negotiate and enforce contracts</li> <li>• May nurture innovative competitors</li> <li>• May lose core innovations capabilities</li> </ul>
Co-marketing	<ul style="list-style-type: none"> <li>• Ability to reach more customers</li> </ul>	<ul style="list-style-type: none"> <li>• Limited coordination</li> </ul>

**Table 2 Contractual entry modes (Based on Peng, M.W. (2009))**

### 2.3.2 Equity Modes

Equity modes are the entry modes that require ownership involvement in the venture.<sup>24</sup> This ownership can either be partially, like in joint ventures, or wholly, like with direct investments. When a company decides to use an equity mode it still has several alternatives left to choose from.<sup>25</sup>

Table 3 shows a selection of the most common equity modes.

Entry Modes	Advantages	Disadvantages
<b>Equity modes: Investment entry modes</b>		
Joint ventures	<ul style="list-style-type: none"> <li>• Sharing costs, risks and profits</li> <li>• Access to partners' knowledge and assets</li> <li>• Politically acceptable</li> </ul>	<ul style="list-style-type: none"> <li>• Divergent goals and interests of partners</li> <li>• Limited equity and operational control</li> <li>• Difficult to coordinate globally</li> </ul>
Green-field operations	<ul style="list-style-type: none"> <li>• Complete equity and operational control</li> <li>• Protection of know-how</li> <li>• Ability to coordinate globally</li> </ul>	<ul style="list-style-type: none"> <li>• Potential political problems and risks</li> <li>• High development costs</li> <li>• Add new capacity to industry</li> <li>• Slow entry speeds (relative to acquisition)</li> </ul>
Mergers and Acquisitions	<ul style="list-style-type: none"> <li>• Same as green-field</li> <li>• Do not add capacity</li> <li>• Fast entry speed</li> </ul>	<ul style="list-style-type: none"> <li>• High development costs</li> <li>• Potential political problems and risks</li> <li>• Post acquisition integration problems</li> </ul>

**Table 3 Investment entry modes (Based on Peng, M.W. (2009))**

<sup>24</sup> Raff, H. et al. (2009) pp. 3.

<sup>25</sup> See Ball, D.A. et al. (2010) pp. 451.



## **2.4 Variables that influence the entry mode decision**

After mentioning the most common entry modes it is critical to understand the variables that influence the entry mode decision. "A company's choice of its entry mode for a given product/target country is the net result of several, often conflicting, forces."<sup>26</sup> There is a selection of studies available that try to assemble all the factors that influence the entry mode decision.<sup>27</sup> There are, however, even more studies that focus on the influence of one, or a selection, of these factors. These studies assess for example the influence of national culture,<sup>28</sup> CEO experience,<sup>29</sup> corruption<sup>30</sup> and many more.

In this research a model has been created that contains the most important clusters of influencing variables.<sup>31</sup> The variables, mentioned in multiple pieces of literature, have been analysed and are clustered based on some major characteristics. An overview of the entry mode decision variables is shown in Figure 3.

In the model there is a distinction between internal and external variables as well as between efficiency driven- and global strategic variables. External variables are those that can hardly be influenced by the management of a company.<sup>32</sup> They are regarded as the preconditions that are to be accepted by any organization. The internal variables are, as opposed to external variables, possibly subject to management changes. The second distinction is between efficiency driven- and global strategic variables. Efficiency driven variables are those that should be taken into account when trying to make a specific market entry as efficient as possible. Sometimes, however, there are strategic reasons to choose a different, probably less efficient entry mode. Including these influences in the model assures that the model "more closely captures the complex managerial decision framework in making entry mode decisions, for managers have to balance firm objectives in individual foreign markets with those of overall corporate strategic goals."<sup>33</sup>

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<sup>26</sup> Root, F.R. (1994) pp. 8. and pp. 161.

<sup>27</sup> See e.g. Sarkar, M. & Cavusgil, S.T. (1996) and Root, F.R. (1994)

<sup>28</sup> See Kogut, B. & Singh, H. (1998)

<sup>29</sup> See Herrmann, P. & Datta, D.K. (2006)

<sup>30</sup> See Rodriguez, P et al. (2005)

<sup>31</sup> Quer, D. et al. (2007) pp. 74, Sarkar, M. & Cavusgil, S.T. (1996) and Root, F.R. (1994).

<sup>32</sup> Root, F.R. (1994) pp. 8.

<sup>33</sup> Aulakh, P. & Kotabe, M. (1995) cited according to Sarkar, M. & Cavusgil, S.T. (1996)

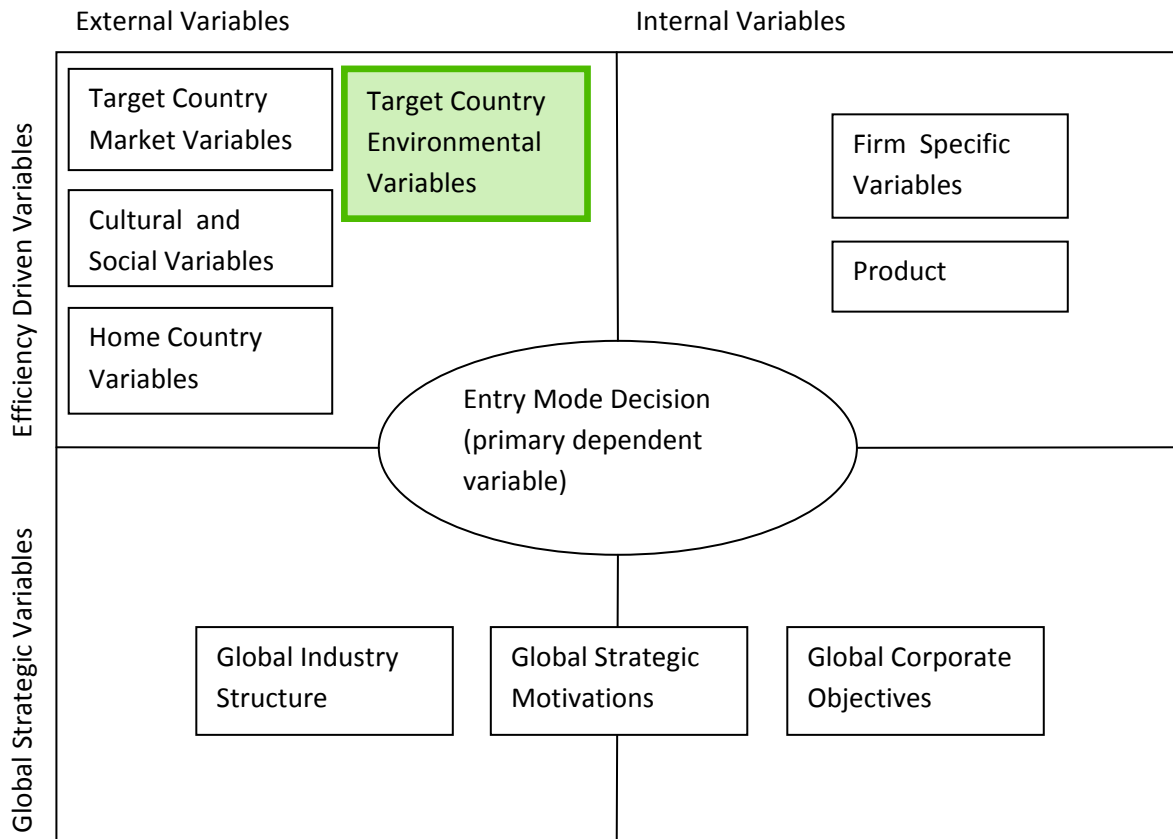


Figure 3 Entry Mode Decision Variables (Source: Own source)

### 2.4.1 Target country environmental variables

Because of the large number of variables that can be assigned to all of the clusters in Figure 3 this paragraph will specifically focus on one of these clusters, the ‘target country environmental variables’. This cluster includes all the variables that are specific to a country apart from the market variables and the cultural variables. “The specific characteristics of each target country stand out as fundamental among the various factors determining that [entry mode] decision.”<sup>34</sup> Table 4 shows a selection of the variables that are included in this cluster.<sup>35</sup> Although the variables are listed as separate items most of them are in a way interdependent. The amount and type of import restrictions are, for example, heavily dependent on the ratio between import and export of that particular country. A country with a high import surplus is more likely to install import restrictions or trade barriers than a country with an export surplus.

<sup>34</sup> Quer, D. et al. (2007) pp. 74.

<sup>35</sup> Quer, D. et al. (2007) pp. 74, Sarkar, M. & Cavusgil, S.T. (1996) and Root, F.R. (1994)

<b>Target country environmental variables</b>
<b>Political Factors</b>
Political risk
Threat of appropriation
Political (in)stability
<b>Economic Factors</b>
Type of Economy (market economy or socialist economy)
Size of the economy (Gross National Product (GNP))
Absolute level of performance (GNP per capita)
Dynamics of the economy (rate of investment, growth of GNP, changes in employment, etc.)
Exchange rate behaviour
Export and Import
Economic fluctuations
<b>Government Policies and Regulations</b>
Import restrictions
Legal infrastructure
<b>Geographical Factors</b>
Geographical Distance
Availability of natural resources
<b>Social Factors</b>
Human resources
Managerial Expertise
Technological Expertise
<b>Table 4 Target country environmental variables (Source: Own Source)</b>

## 2.4.2 The absence of the influence of a volatile security environment

A shared characteristic of all the factors included in the target country environment variables cluster is that they cannot be influenced by the management. It is therefore that they inevitably impose some sort of risk on the entry mode decision. In a broad sense, this 'country risk' can include various types of interrelated specific risks varying from uncertainty about the demand, to the actual financial situation in a country and the political risk. "That last facet of country risk is the one that has received the most attention in the literature (...)." <sup>36</sup>

A factor that is, however, not included in any of the models nor in the literature on entry mode decisions is the influence of a volatile security environment in a country on the entry mode decision. In recent research 'Violence' was considered the biggest threat to doing business in Iraq but the consequences for the entry mode decision still remains undiscussed. <sup>37</sup> The risk of a volatile security environment might, unfortunately, expose the employees or the partners of a company to a considerable risk. These risks include all the physical threat that employees or partners might have to endure, including violent attacks, hostages or even (suicide-)bombings. These threats could lead to all kind of possible mental trauma's, injuries and potentially death. Even a recent study on "The

<sup>36</sup> Quer, D. et al. (2007) pp. 75.

<sup>37</sup> The Economist Intelligence Unit ([www.economist.com](http://www.economist.com))

impact of country risk and cultural distance on entry mode choice” by Quer, D. et al. (2007) does not incorporate this major threat into their assessment of country risk.<sup>38</sup>

When considering this issue it is easy to immediately eliminate all dangerous countries as potential markets. This attitude would unfortunately result in the loss of some very successful market entries. Some companies have chosen to enter a volatile security environment with tremendous success. Coca Cola, for example, flourished in Europe during the aftermath of the second world war, and companies like Xe Services<sup>39</sup> are, because of the nature of their products and services, heavily dependent on their operations in volatile security environments.<sup>40</sup>

Because of the enormous contrast between the advantages of the potential benefits and the downsides of the potential threats, considering to enter a volatile security environment is a very important and difficult decision. It is a complicated trade off between profits and potential human suffering. In order to simplify, or at least structure, the entry mode decision, several different models have been created in the past.

## ***2.5 Currently accepted entry mode decision models***

Entry mode decision models are generally large and complex models. Ideally the entry mode decision should be captured into a quantitative model that produces a single score for each entry mode. Ranking these scores would then result in the ‘best’ entry mode for a particular scenario. Unfortunately it is, because of the complexity of the entry mode decision, not possible to produce such a score, not even with the assistance of advanced computer software.

It is therefore, that the current models all rely on a systematic comparison of the alternative modes, in order to assist the managers in making a better entry decision.<sup>41</sup> The model that will be used during this research is based on the model designed by F.R. Root in chapter 6 of the book ‘Entry Strategies for International Markets’. This book is widely cited in the international market entry literature and the model is clear and extensive.

In the book three different decision rules for entry mode selection are recognised:

1. The Naive Rule (Uses the same entry mode for all foreign markets)
2. The Pragmatic Rule (Uses a workable entry mode for each target market)
3. The Strategy Rule (Uses the right entry mode for each target market)

Although the strategy rule is considered to be the most difficult set of rules, it is also acknowledged that it provides the managers with better entry decisions.<sup>42</sup> The aim in this research is also to provide the ‘best’ entry mode for a given situation. Therefore the strategy rule will be used despite the extra difficulties that it might generate. The strategy rule will allow managers to “(...) Choose

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<sup>38</sup> Quer, D. et al. (2007) pp. 75-87.

<sup>39</sup> Previously known as Blackwater Worldwide or Blackwater USA

<sup>40</sup> Xe Services ([www.xeservices.com](http://www.xeservices.com))

<sup>41</sup> See Root, F.R. (1994) pp. 160.

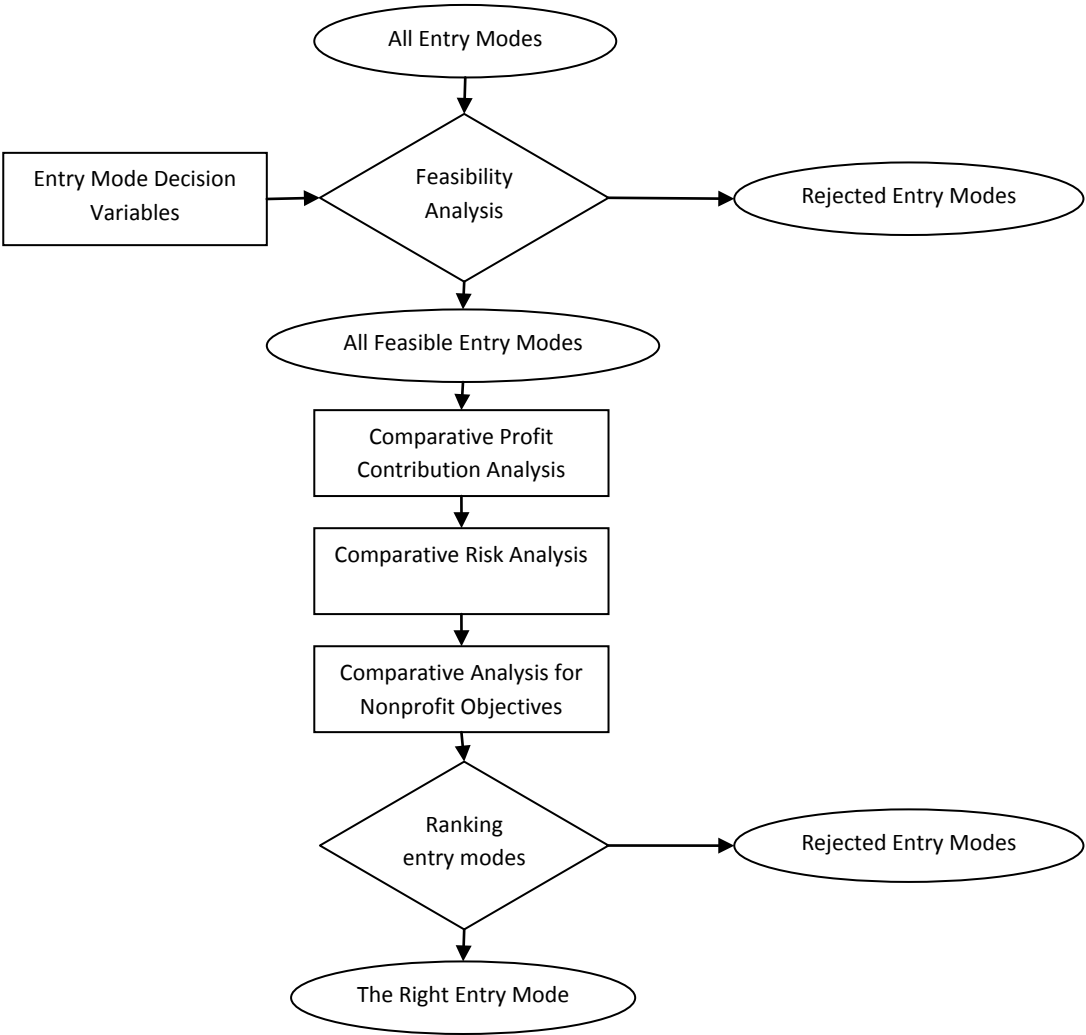
<sup>42</sup> See Root, F.R. (1994) pp. 160.

that entry mode that maximizes the profit contribution over the strategic planning period within the constraints imposed by (1) the availability of resources, (2) risk, and (3) non profit objectives.”<sup>43</sup>

**How does the model work?**

How the model works is thoroughly described in the original source. In order to provide a general understanding of the model a short description and the flow model are presented in this paragraph.

The flow model that summarizes the process of deciding on the right entry mode is presented in Figure 4 Flow model for the entry mode decision (Based on Root, F.R. (1994))



**Figure 4 Flow model for the entry mode decision (Based on Root, F.R. (1994))**

<sup>43</sup> Root, F.R. (1994) pp. 162.

### ***Feasibility Analysis***

The process starts with the feasibility analysis. This analysis is a so called negative screening in which alternatives are eliminated because they are impossible for a company to achieve.<sup>44</sup> For example it is very well possible that a company does not possess the recourses that are required for a Greenfield investment. In this analysis all entry modes (see paragraph 2.3) are assessed with respect to the target country factors and the firm specific factors. "Ordinarily, feasibility screening can be done quickly, but it should be done on the basis of reliable information."<sup>45</sup> After this initial screening the remaining entry modes will be subjected to the Comparative Profit Contribution Analysis.

### ***Comparative profit contribution analysis***

In the comparative profit contribution analysis all the remaining entry modes are ranked according to the net revenue it will earn for a company over the strategic plan.<sup>46</sup> In this analysis it is vital to make assumptions about the expected costs and revenues that each of the entry modes will produce. The most profitable entry mode will, of course, have an increased chance of being selected as 'the best' entry mode. However, two more analyses will precede the final decision making. The first being the Comparative Risk analysis and the second being the Comparative Analysis for Non profit Objectives.

### ***Comparative Risk analysis***

Whatever entry mode a company decides to incorporate, it will always impose some sort of risk on the organisation. The risks that are being faced are all caused by environmental factors, which are collectively also referred to as the investment climate.<sup>47</sup> Factors in this climate could include the factors shown in Table 4. There are several different sources available that assess the country risk of individual countries.<sup>48</sup> Again, however, it should be stated that these studies frequently don't incorporate the physical danger for employees or partners in their analysis.

The fact remains that all the different risks may impose a negative effect on the profitability of a certain entry mode. It is therefore that the profit contribution, which was derived in the previous analysis, should be adjusted for the risks involved in each entry mode. Adjusting this profit contribution is done by adding a 'risk premium' to the minimum acceptable rate of return (MARR)<sup>49</sup> when calculating the net present value<sup>50</sup> of the investment. The level of this risk premium is heavily dependent on the uncertainty over the continuation of the present environmental conditions. When facing a highly insecure environment the risk premium will be considerably higher compared to an environment which will most likely be very stable during the project period.

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<sup>44</sup> Asset 4 ([www.asset4.com](http://www.asset4.com))

<sup>45</sup> Root, F.R. (1994) pp. 162.

<sup>46</sup> It is essential to compare the present value of the estimated profit because different entry modes can have different time profiles for revenues and costs.

<sup>47</sup> Your Dictionary ([business.yourdictionary.com](http://business.yourdictionary.com))

<sup>48</sup> A.M.Best ([www.ambest.com](http://www.ambest.com))

<sup>49</sup> See Park, C.S. (2011) pp. 227.

<sup>50</sup> See Drury, C. (2008) pp. 294.

### ***Comparative Analysis for Nonprofit Objectives***

The last analysis that managers should do when deciding on the entry mode is concerning the non-profit objectives. "The entry mode that ranks highest on risk-adjusted profit contribution may not rank highest on certain non profit objectives."<sup>51</sup> Factors that influence this analysis are the Global Strategic Variables. These variables, are opposed to the Efficiency Driven Variables in Figure 3, all related to the non profit objectives of a company. Common example of non profit objectives are the establishment of a certain reputation through corporate philanthropy or the company targets for sales volumes.<sup>52</sup> Evaluating all entry modes on these non profit objectives allows the manager to make a final decision that will be in the company's overall best interest.

### ***Ranking entry modes***

After all the analyses are completed, the "(...) manager should bring together the results of their analyses of profit contribution, risk, and non profit objectives to make an overall comparative assessment of the feasible entry modes."<sup>53</sup> This process is not about capturing all the analyses into a single score, or profit. "(...) managers must use their own judgement in making the overall assessment."<sup>54</sup>

Although the above presented model is a useful entry mode decision model it might, lack an important decision variable. In order to assess the influence of this decision variable, the security situation in the host country, research has been conducted. The methodology of this research is extensively described in the following chapter.

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<sup>51</sup> Root, F.R. (1994) pp. 167.

<sup>52</sup> Porter, M.E. & Kramer, M.R. (2002)

<sup>53</sup> Root, F.R. (1994) pp. 167.

<sup>54</sup> Root, F.R. (1994) pp. 167.

### 3 Data collection methodology

This paragraph is dedicated to the methodology that is used to complete the first objective. The first part of the research aimed to find a relationship between the “security classification” of a country and the mode of entry that companies chose to enter that specific market.

Completion of the first objective was achieved by using two different research approaches, a statistical research and a Delphi Study. The first approach aimed at finding a statistical relationship between the “security classification” of a country and the mode of entry that companies chose to enter that specific market in the past. Because multiple countries were used, this analysis provided a reliable relationship. It is however considered insufficient to rely entirely on statistical research from past entry mode decisions into different countries. It is impossible to eliminate all other factors that might influence the results and it is therefore impossible to create a perfect *ceteris paribus*. Consequently there is a minute chance that the found relationship is the result of other factors influencing the entry mode decision. This means that the internal validity of this section is not entirely guaranteed.<sup>55</sup> In other words, it is not definite if the observed co variation between the treatment (the security situation) and the outcome (the entry mode decision) reflects a causal relationship.<sup>56</sup>

In order to overcome this hurdle an additional research method has been chosen. Using the Delphi method it is attempted to confirm the relationship found in the statistical research. The Delphi method has also contributed in finding the theory behind the influence of the volatile security environment. Because it is a qualitative research method it did not only provide a statistical relationship, but it has also generated information and valuable expert opinions which have been used to explain the relationship.

The reason the Delphi method<sup>57</sup> has been selected, is because of its potential strength. According to Rowe and Wright (1999) the Delphi method is “intended for use in judgment and forecasting situations in which pure model-based statistical methods are not practical or possible, because of the lack of appropriate historical /economic/ technical data, and thus where some form of human judgmental input is necessary”.<sup>58</sup> The method has proven to be superior to both traditional group methods and statistical methods with an average of at least 1 to 5.<sup>59</sup>

The method is a structured alternative to traditional group meetings<sup>60</sup> and aims to construct a generally accepted judgement through a series of iterations.<sup>61</sup> Delphi is designed to reveal the

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<sup>55</sup> See Shadish, W.R. et al. (2002) and Babbie, E. (2006)

<sup>56</sup> See Babbie, E. (2006) pp. 90-93.

<sup>57</sup> See Saunders, M. et al (2009) pp. 29.

<sup>58</sup> Rowe, G. & Wright, G. (1999) pp. 354.

<sup>59</sup> See Rowe, G. & Wright, G. (2001) pp. 126. in Armstrong, J.S. (2001)

<sup>60</sup> See Green et al. (2007) pp. 2.

<sup>61</sup> See Rowe, G. & Wright, G. (2001) pp. 126. in Armstrong, J.S. (2001)



knowledge and opinions of the participating experts via their forecasts and the reasoning they provide.<sup>62</sup> The human judgement in this particular research, will be provided by a diverse selection of experts. The amount and background of experts needed and the other principles required to accomplish an accurate Delphi study, are described in Rowe and Wright (2001).<sup>63</sup> This article, and the stated principles, will be leading in the design of the exact research methodology.

After completion of the first objective, the model selected in the literature review has been 'updated' to form a more satisfactory model which has been used in the completion of the second objective.

The second objective has been completed by following all the steps in the newly created model. It has enabled a critical review of the new model and meanwhile has served to provide Eijkelkamp with a clear market entry strategy.

### **3.1 Statistical research**

The aim of this statistical research has been to find a relationship between the entry strategies of companies and the security classification in the target country. In order to be able to identify any relationship a research sample of countries needs to be selected, a selection of international companies needs to be made and the information from the companies needs to be analysed accurately.

#### ***Selection of the countries***

The security classification that has been used in this research is the travel advice provided by the Dutch Ministry of Foreign Affairs.<sup>64</sup> The advice is established based on information provided by the Dutch embassies or consulates and are, whenever possible, synchronized with information from representatives of other European countries. According to a representative of the ministry<sup>65</sup> the classification intends to warn travellers that have an increased risk of physical suffering when travelling to a specific country. The travel advice is solely based on potential danger caused by human activity such as terrorist attacks, robbery, carjacking, kidnapping, rape and murder. Other potential threats to humans like natural hazards and diseases are not incorporated in the travel advice and are also excluded from this research. Additional sources the Ministry uses to establish the travel advice are worldwide local partners, European partners in Brussels and intelligence agencies.

The travel advice typically classifies countries into 6 categories:

- 1. No special security risks**

Most visits can be easily made. There are no special safety concerns for this country / the degree of safety is identical to the situation in the Netherlands.

- 2. Vigilance is required**

There is a small security risk, but there is no tangible evidence that the traveller will experience discomfort.

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<sup>62</sup> See Green et al. (2007) pp. 2.

<sup>63</sup> See Rowe, G. & Wright, G. (2001) pp. 126-146. in Armstrong, J.S. (2001)

<sup>64</sup> Dutch Ministry of Foreign Affairs ([www.minbuza.nl](http://www.minbuza.nl))

<sup>65</sup> Interviewed on 08-November-2010

**3. There are unsafe areas**

There are areas in the country which are considered to be unsafe. These areas might have a more negative travel advice than the rest of the country.

**4. Non-essential trips to certain areas are discouraged**

There is an increased safety risk in a particular area. The traveller should decide if the trip to this particular area is justified and necessary.

**5. Non-essential trips are discouraged**

There is an increased safety risk for the entire country. The traveller should decide if the trip to this country is justified and necessary.

**6. All trips are discouraged**

This advice is given when there is a definite safety risk in a country which might result into an acute life-threatening situation for the traveller.

By using the information from the ministry it was possible to construct a list of countries that have a volatile security environment. The countries in this list all have a negative classification (classification 5 and 6) and have been volatile (class 4 and up) for at least 5 years. This information assures that any entry into that country from 2006 onwards can be regarded as an entry into a volatile security environment. Congo is since the 16<sup>th</sup> of May 2007<sup>66</sup> regarded as a class 5 country, before this it was however, regarded as a relatively secure class 3 country. Therefore some of the entries might be planned while the situation wasn't volatile. For this reason a country like Congo is not incorporated in this research.

Countries with a volatile security environment		
Afghanistan	Iraq	Somalia
Algeria	Ivory coast	Sudan
Burundi	Liberia	East-Timor
Central African Republic	Mauritania	Yemen
Haiti	Niger	
Iran	Pakistan	

**Table 5 Countries with a volatile security environment (source: Dutch Ministry of Foreign Affairs)**

Using multiple countries in this analysis ensured that other country factors are of a reduced influence to the results. The influence of for example religion is reduced, because different religions are followed in the different countries. Reaching a perfect ceteris paribus and providing optimal internal validity is impossible. Using this methodology however ensures that the most important dependant variable is the reduced security environment in the target countries. In order to be able to determine the existence of a causal relationship between the dependant- (entry mode) and the independent variable (the volatile security environment) a control group is required.<sup>67</sup> This group of countries should have similar characteristics to the countries in Table 5 except for the security situation. Countries in this control group need to have a positive travel advice of 1 or 2 (again provided by the Dutch Ministry of Foreign Affairs) and are selected based on their geographical proximity to the volatile countries. This proximity reduces the differences in external factors like religion, geographical

<sup>66</sup> Dutch Ministry of Foreign Affairs

<sup>67</sup> See Shadish et al. (2002) pp. 3 and pp. 506.

distance between host and home country, and availability of resources. The countries selected for the control group are shown in Table 6. A map of all the volatile countries (in red) and the countries of the control group (in green) is shown in Figure 5.

The control group		
Egypt	Morocco	Tunisia
Gabon	Oman	Turkey
Kazakhstan	Saudi Arabia	United Arab Emirates

**Table 6 The control group (Based on: Dutch Ministry of Foreign Affairs)**

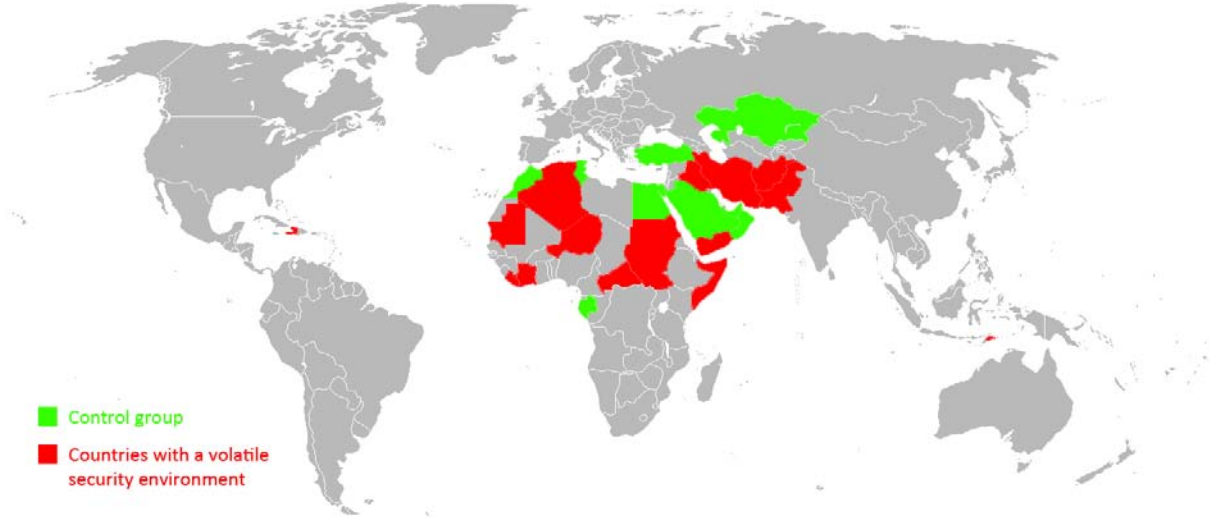


Figure 5 Countries involved in the research (Source: Own Source)

**Selection of the companies**

After all the countries involved in the research were known it was to be determined which entry strategy Dutch companies have used to enter these selected markets. Only Dutch companies (or departments) are selected because it reduces other potentially influencing factors, like cultural influence and home market factors, to a minimum.

A total number of 1045 companies have been invited to participate in the research. The contact information from the companies was acquired through their websites or through any of the following sources:

- The Netherlands Water Partnership (NWP)
- The Netherlands Council for Trade Promotion
- NL EVD Internationaal
- Dutch Ministry of Economic Affairs
- Dutch Ministry of Foreign Affairs
- Internal Eijkelkamp Databases

A total number of 84 companies actually participated in the research equalling a response rate of approximately 8%. They collectively provided information on 101 different executed or planned market entries.

### **Data Collection**

The actual data was collected through a specially designed web based application available on <http://entrymode.deskpage.net>. All the selected companies were requested to complete a small online questionnaire. In the questionnaire the companies were asked to select all the countries (from Table 5 and Table 6) in which they are active. If they selected a country in which they are active, they were also requested to provide additional information. The company was asked which of the (9) entry modes (discussed in paragraph 2.3) they have used and if the entry was regarded as a success or a failure.

The same process was used to determine which countries the company plans to enter within the next 5 years. All the submitted data will be automatically collected and used for the information analysis.

### **Information analysis**

The information that is was collected from all companies is simply stated: (1) if, (2) how, and (3) how successful they entered each of the selected markets. After all information was gathered, several matrixes have been constructed including a summarizing matrix similar to Table 7.

	Entry mode A		Entry mode B		Entry mode C		Entry mode etc.	
	Success	Fail	Success	Fail	Success	Fail	Success	Fail
Volatile security Environment	X	X	X	X	X	X	X	X
Safe security Environment	X	X	X	X	X	X	X	X

**Table 7 Example of summarizing matrix (Source: Own Source)**

The information from the matrices was used to clarify the existing relationships after which the information was used to draw conclusions on the frequency of certain entry modes into volatile and non-volatile security environments in the past.<sup>68</sup> Because the conclusions from this statistical research do not provide any reasoning or explanation for the found relationships a second study was required. This study will be a Delphi Study.

### **3.2 Delphi-Study**

As stated the Delphi-Study will be used complementary to the statistical study. Originally the Delphi method is “intended for use in judgment and forecasting situations in which pure model-based statistical methods are not practical or possible because of the lack of appropriate historical /economic/ technical data, and thus where some form of human judgmental input is necessary”.<sup>69</sup>

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<sup>68</sup> See Shadish et al. (2002) pp. 461-470.

<sup>69</sup> Rowe, G. & Wright, G. (1999) pp. 354.

As stated in paragraph 1.3 the Delphi study in this research will be conducted using the guidelines of Rowe, G. & Wright, G. (2001) published in "A Handbook for Researchers and Practitioners".<sup>70</sup> The handbook distinguishes four necessary features for each Delphi study:

1. Anonymity
2. Iteration
3. Controlled feedback of panellists' judgements
4. Aggregation of group members' responses

### ***Selection of experts***

For an average Delphi-Study between 5 and 20 experts are required.<sup>71</sup> In this study between 7 and 10 experts participated in each round. The experts had a widely disparate domain knowledge and all had experience with either the entry mode decision making process or with the influence of volatile security environments on humans. The experts were carefully selected and all approached the subject from different perspectives. Security experts were selected because of their general concern about security risks. Company managers were selected because of their affiliation with the management of commercial companies and the general obligation to make profit.

Experts that contributed to this research include:

- Dutch ambassadors in any of the countries from Table 5 and Table 6. These persons are very well informed about the security situation in their country. The travel advice that is published by the ministry of foreign affairs is based to a great extent on the advice provided by the different embassies.<sup>72</sup>
- Expatriates who worked in countries from both Table 5 and Table 6. These persons have firsthand experience with working in volatile and non-volatile environments which enables a very objective comparison between the two situations.
- Experts from the ministry of Defence specialised in working in dangerous environments. These experts are specially aware of the influence of hazardous environments on the functioning of people but also have affiliation with business economics because of their job at the military faculty of business science.
- Company managers who have dealt with, or are currently involved in, entries into countries from both Table 5 and Table 6. Their experience in both situations will provide valuable insights in the risk a manager is prepared to take for any form of competitive advantage.
- Experts in international business. These experts can provide valuable theoretical input because of their extensive knowledge on entry mode related problems.
- Experts from the ministry of foreign affairs which are responsible for the travel advises published by the ministry. These persons are better than anyone else, aware of the danger that people face when entering category 5 or 6 countries.
- Market advisors from the NL EVD Internationaal. NL EVD Internationaal is a Dutch governmental agency that supports Dutch companies with their ambition to go abroad.

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<sup>70</sup> Armstrong, J.S. (2001) pp. 124-144.

<sup>71</sup> See Rowe, G. & Wright, G. (2001) pp. 125. in Armstrong, J.S. (2001)

<sup>72</sup> Representative of the ministry of foreign affairs interviewed on 08-November-2010.

### **The questionnaire round 1**

The questionnaire that was presented to all the participants, consisted of a series of specially designed scenario's. All of the experts were requested to explain which 'entry mode category' they would choose in any of the given scenarios and why. In order to allow a deliberate decision given the reduced information availability the panellists were requested to choose between three categories of entry modes:

1. Exporting entry modes
2. Contractual entry modes
3. Investment entry modes

The entry modes were categorized in accordance with the tables in paragraph 2.3. Requiring the panellists to choose a specific entry mode wouldn't be reasonably possible, because of the minute difference between several entry modes.

The scenario's that were presented to the panellists were specially designed to reveal the influence of a volatile security environment on the entry mode decision. The variables which were used to create the different scenarios are:

1. The security classification of the target country (see paragraph 3.1) (or a specified location)
2. The duration of the project.
3. The number of fulltime employees (both locals and expats) involved in the operation (different values for each Entry Mode).
4. The net present value (NPV) (different values for each Entry Mode).

These variables were selected, because they represent a trade-off between human risk and financial benefits depending on the different market entry modes. The human risk and financial benefits in a market entry can be regarded as:

#### **Equation 1:**

$$\textit{Human Risk} = \textit{security qualification} \times \textit{the duration} \times \textit{the number of employees}$$

As the equation shows, the security risk of an entry increases when the security qualification of the country is high, but it is also dependant on the duration of the project and the number of employees involved.

#### **Equation 2:**

$$\textit{Financial Benefits} = \textit{NPV of the entire project}$$

Assessing the trade-off between the risks and benefits is a difficult assignment. The outcome is dependent on the perceived importance of all the different variables. By carefully changing these variables in all the different scenario's the panellists were required to make the trade-off several times. Their answers and motivations reflect the importance of all the variables. Ultimately this revealed their view on the influence of a volatile security environment.

The reason that no other variables were included is because of the potential threats to the validity. If information would have been provided about any other influencing variable (see paragraph 2.4) this

could influence the decision. If, for example, the risk of appropriation would be very high, this would automatically decrease the favourability of the equity modes (see paragraph 2.3.2) regardless of the influence of the security situation.

The different scenarios were designed to assess the influences of all the different factors in the risk and benefit equations. Isolation of the factors was achieved by formulating scenario's that only differ from each other on a single characteristic. Additionally, some scenario's were included to assess the influence of the perception of Risk in a certain existing country:

1. In scenario 1 all variables in the risk and benefit equation are equal for each entry mode.
2. In scenario 2 the security qualification is 6 (dangerous) and the entry modes with the highest risk have, like in all following scenarios, also the highest potential benefits.
3. Scenario 3 is a scenario in which Italy is used as the location of the business.
4. In scenario 4 the risk is very high but the rewards are also very high.
5. Scenario 5 is identical to scenario 3 except that the location is now Iraq.
6. In scenario 6 a lot of local employees are involved in the entries and only very little expats.
7. Scenario 7 is identical to scenario 2 except that the security qualification in 7 is 1 (very safe).
8. Scenario 8 is a scenario in which the risk is relatively low (short duration and few employees) while the benefits are extremely high. Scenario 8 is in the results compared with scenario 4.
9. Scenario 9 is identical to scenarios 3 and 5 except that the location is now Kazakhstan.
10. Scenario 10 is identical to scenario 6 except for the fact that the numbers of expats and locals are switched.

Next to choosing an entry mode all the experts were requested to motivate their choices extensively. Their answers provided valuable information for the analysis and conclusion, and the answers were also used to construct the statements used in the second iteration.

The first round of the Delphi study is available at <http://delphi.deskpage.net> and also shown in appendix 2.

### ***The questionnaire round 2***

Because of the high level of consensus during the first round of the study, it was decided to use a different questionnaire during the second round. The questionnaire used in the second round consisted of several statements that were formulated based on the expert input provided during the first round. They served to gain a more detailed understanding of the reasoning provided during the first round and to clarify some of the patterns that emerged from the first round.

The second round of the Delphi study is available at <http://delphi2.deskpage.net> and also shown in appendix 3.

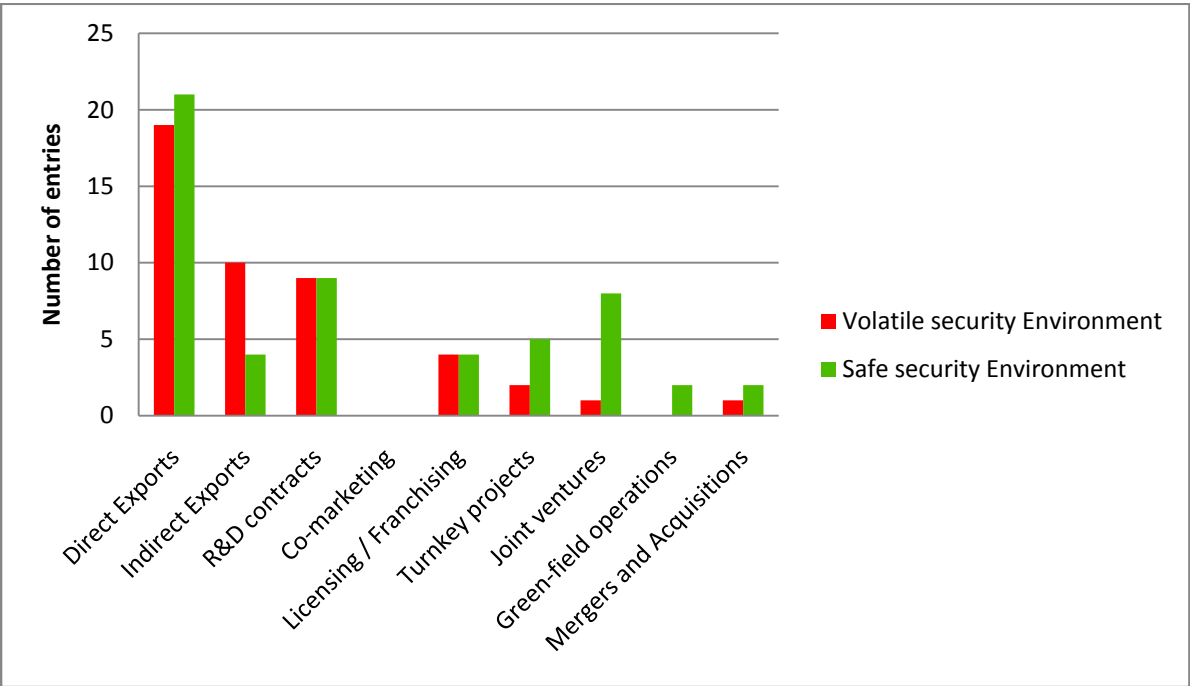
## 4 Results and analysis

The results and analysis chapter of the research is divided in the results from the statistical analysis and the results from the Delphi study. The results from the Delphi study have been divided in the results from the first and the second round.

### 4.1 Statistical Analysis

In the statistical research a total of 101 different executed or planned market entries were studied from a total of 84 companies. This equals a response rate of approximately 8% since the number of companies invited to participate was 1047. From the total of 101 entries 46 entries involved a volatile security environment (see Table 5) while 55 were entries into countries of the control group (see Table 6)

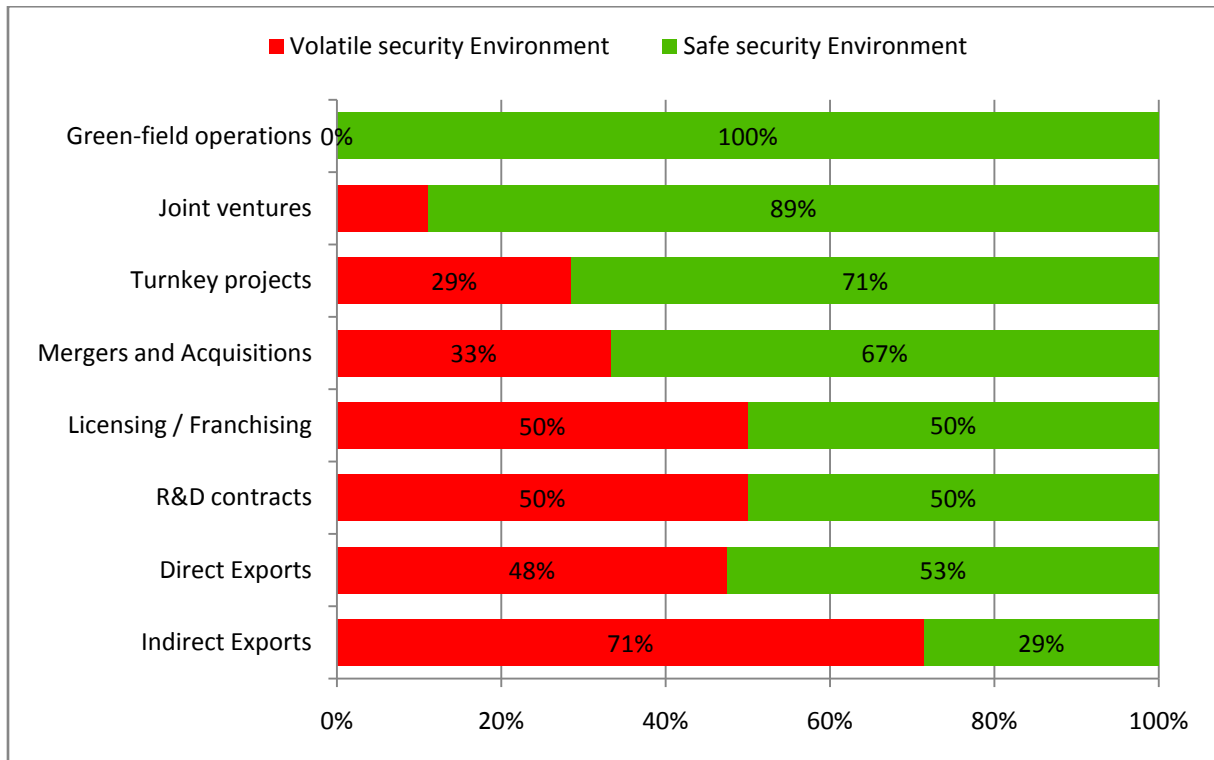
Graph 1 shows the entry modes chosen in all the involved market entries. It clearly shows that direct export is the favourite entry mode followed by R&D contracts and Indirect export. It also shows that Joint ventures, Green-field operations and Mergers and Acquisitions are very limited in volatile security environments.



Graph 1 International Market Entries

Probably more relevant is that 100% of all Greenfield operations and 89% and 71% of all Joint Ventures and Turnkey Projects respectively, are entries into safe security environments. Graph 2 clearly shows that the entries that involve more personnel and assets, are mostly into safe security environments. The entry modes that involve a reduced physical risk are more equally divided amongst safe- and volatile security environments. The entry mode with the lowest level of involvement in the target country, indirect export, is relatively the most popular entry mode in volatile security environments.





**Graph 2 Security environment per entry mode**

Another interesting fact that emerged from the statistical analysis is that the chance of a failed market entry is slightly higher in a safe security environment. 29.4% of the entries into safe security environments failed as opposed to 27.2% in the volatile security environments. This indicates that although there is an increased chance of physical harm this does not reduce the chance of a successful entry.

## **4.2 Delphi Study round 1**

In the first round of the Delphi study 10 experts participated with working experience in multiple countries. They collectively worked in 15 countries which are classified as a volatile security environment (the central African republic is the only country from Table 5 in which experience is absent). The background of each of the experts is shortly discussed, before the results from this round of the Delphi study are presented using the different variables discussed in the methodology

### **Background of the experts**

- Expert 1 is the head of the Economic and Commercial Department of the Dutch embassy in Ankara, Turkey.
- Expert 2 is the company manager of a Dutch international company
- Expert 3 is the managing director of the middle east department of a Dutch consultant and engineering company.
- Expert 4 is an consultant in enterprise development with working experience in multiple foreign countries including Pakistan.
- Expert 5 is an highly experienced project manager with completed projects in multiple countries including Oman, Pakistan, Russia, Tanzania, United Arab Emirates, United States

and Yemen. He is currently managing director of the German department of a Dutch company that employs over 3000 employees.

- Expert 6 is an associate professor in International Management at the University of Twente.
- Expert 7 is an export manager with export experience in almost all countries from Table 5 and Table 6.
- Expert 8 is manager at the international department of the largest construction corporation of Europe.
- Expert 9 is Deputy Head of Mission at the Netherlands Embassy in Tunis, Tunisia.
- Expert 10 is a professor at the Netherlands Defense Academy

The results are supported by quotes provided by the above presented experts. The quotes provide explanation for the found relationship and have been used to construct the statements for the second round.

### **Security Classification**

Graph 3 shows the relationship between the security classification in a country and the entry modes that have been selected. The graph clearly confirms the relationship which was already found during the statistical analysis. It shows that 86% of the respondents would favour an exporting entry mode whenever a class 6 country is involved. Only (14%) would choose a contractual entry mode in a class 6 country, they argue that they favour some extra control over the business. The following quotes are all provided by the participating experts.

Expert 3:

*"[Company] will never send people to a class 6 country. So we will only enter into such project if all work can be done from abroad. Employing local staff under our responsibility will not happen as we have the same criteria for all our employees."*

Expert 5:

*"Of overriding importance is the security for our personnel; it is the most sensitive and therefore most important criteria in choosing locations of our projects. In this day and age, plenty of countries have stabilized and are developing their economies. Those countries are our future, as we can grow in potential in these stable markets; not those with volatile environments, offering a quick but risky gain."*

Expert 7:

*"The money (NPV) is attractive, but we still have the responsibility for our staff."*

Expert 1:

*"If the security environment does not change, no long term entry investments will be made"*

Expert 4:

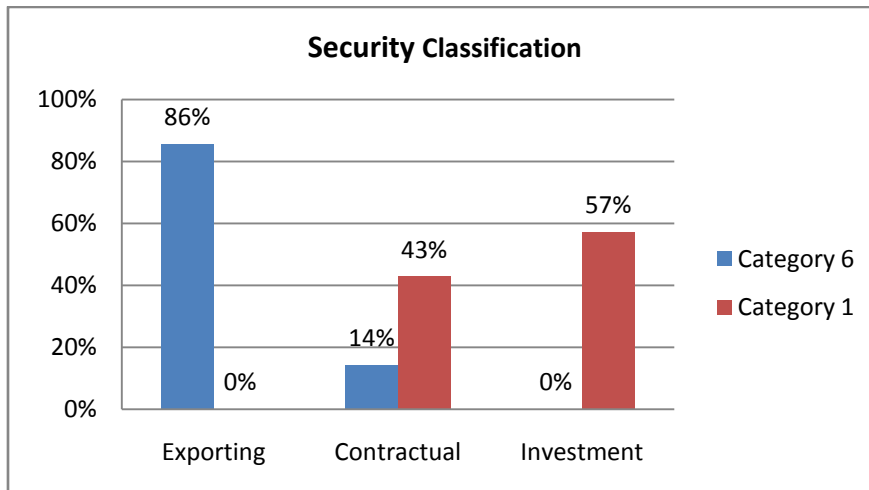
*"We would not consider entering into any contract. The long duration, high risks and negative travel advice for supervising expat personnel being the main reasons."*

Expert 8:

*“Exposing staff to high risk (level 5 and 6) is not acceptable for our company”*

Expert 6:

*“There is not much room for compromises concerning the security of foreign staff to be engaged. If considering an “exporting entry mode” without involving foreign staff, the type of product would play a role: if exported products would increase the exposure / vulnerability of local staff there could be reason to stay away from the country altogether.”*



Graph 3 Security Classification

### Country Influences

The entry modes selected for the few real world countries are very disperse.

#### Iraq

It shows that most experts would not invest in Iraq because it is a class 6 country.

Expert 5:

*“The security qualification in Iraq is currently 6. Even though Iraq might have a lot of potential in the future it is still not acceptable to our company to expose employees to such great danger.”*

When Scenario 5 (Iraq) is compared with Scenario 2 (a class 6 country) very similar results are found. In both scenarios the vast majority would favour an exporting entry mode. Only 1 expert favoured investment in Iraq while he favoured an exporting entry mode in scenario 2. He argues that there are “Big growth opportunities in Iraq”.

#### Italy

Most experts would use an investment entry mode when entering the Italian market. Some others however, raise more concerns.

Expert 5:

*“No safety risks and highest NPV”*

Expert 6:

*"(...) start with exporting before making further commitments (testing the market)"*

Expert 4:

"The Italian market is substantially different from the Dutch, with insecure economic forecast for the next 5 years."

Although some experts raise additional concerns when considering to enter the Italian market, the scenario does show that when security concerns are absent, most experts would choose an investment entry mode.

### Kazakhstan

The entry mode decisions for Kazakhstan are very diverse. It is frequently acknowledged that "security might not be a too big issue in Kazakhstan". But only few experts really consider investment as the best option.

Expert 5:

"Looking at the scenario there is no reason not to invest in Kazakhstan. Kazakhstan is a very secure class 1 country and has a higher score (position 59) on the 'ease of doing business ranking' of the World Bank than Italy (position 80)."

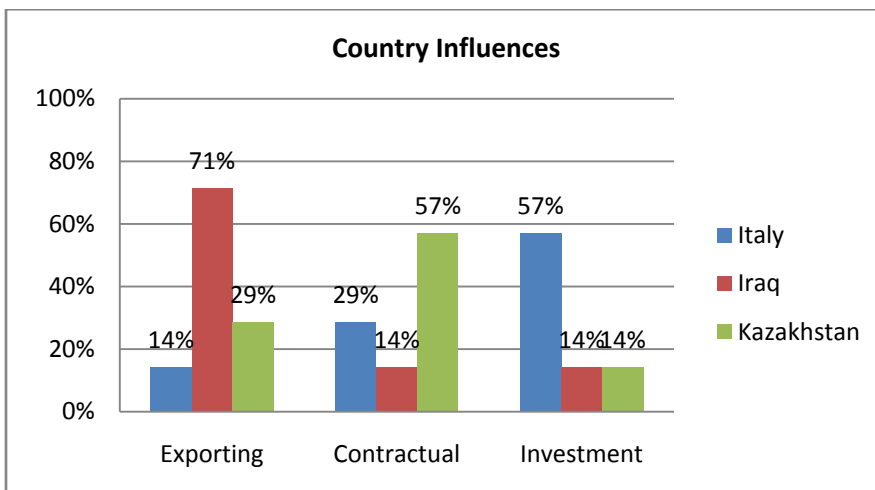
Expert 10:

"Investment is best for the development of the country"

Expert 4:

"Kazakhstan is unexplored, but unclear about economic growth potential"

Because of the diverse entry mode decisions for Kazakhstan and Italy the second round of the Delphi study has been used to clarify some of the differences. In the second round the experts are asked to explain "why they would favour an investment entry in Italy as opposed to Kazakhstan". This is essential to the research because it reveals if the entry mode decision is influenced by the (perception of) the security situation in Kazakhstan.



Graph 4 Country Influences

**The number of expats and locals**

The number of expats and locals are both part of all the scenarios. Graph 3 shows the entry mode that was chosen in scenarios that have a high level of locals or a high level of expats.

Expert 3:

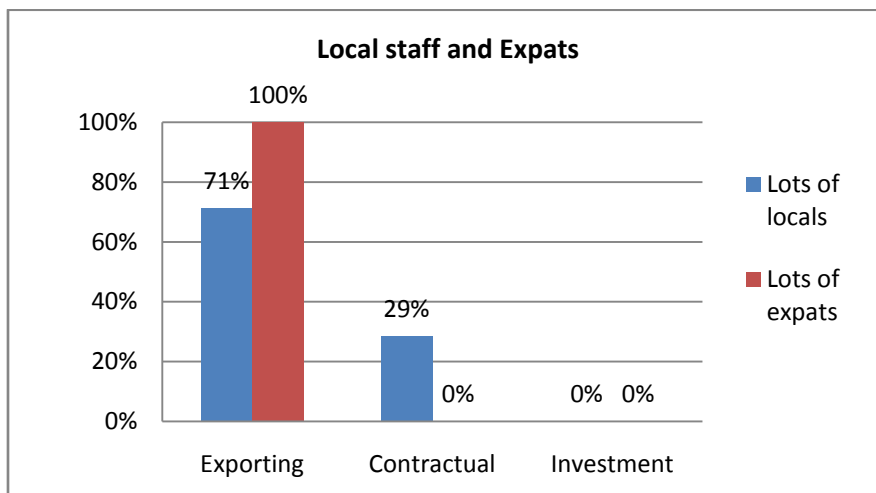
*"(...)we have the same criteria for all our employees."*

Expert 10:

*"Be careful in sending expats."*

Expert 6:

*"(...) if exported products would increase the exposure / vulnerability of local staff there could be reason to stay away from the country altogether."*



**Graph 5 Local staff and Expats**

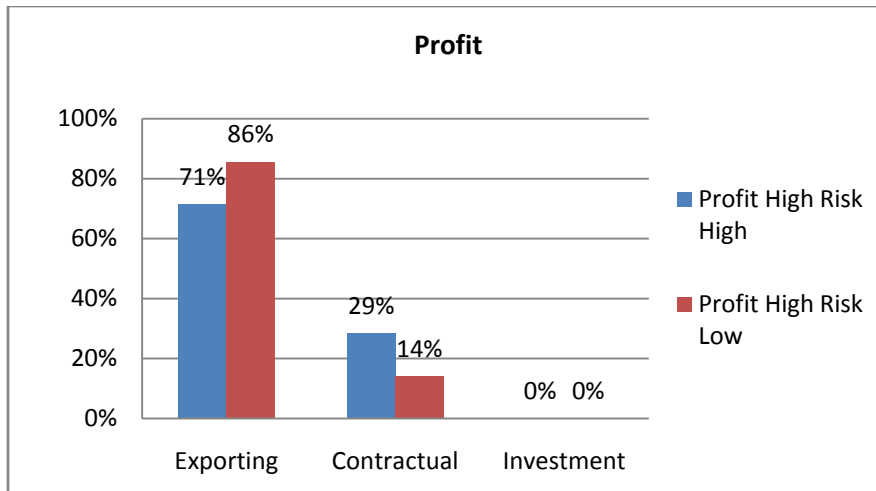
First of all the results very clearly confirm that whenever a significant amount of employees are involved, investment entry modes are not considered. Secondly, the results show that some experts are more careful with sending experts as opposed to employing local staff. More important however is that most experts agree that the same criteria account for all employees. Interesting comment was that employing local staff is acceptable as long as it does not increase the exposure or vulnerability of the local staff. In order to verify this comment amongst the other experts it is used in the second round of the study.

**The amount of profit**

As stated before, in Equation , the human risk that exists in all the scenarios can be described as a function of the following variables:

**Equation 1:**

$$Human Risk = security\ qualification \times the\ duration \times the\ number\ of\ employees$$



**Graph 6 Influence of height of profit**

Two of the scenarios in the study (scenarios 4 and 8) have been specially designed to show if there is a certain (financial) stimulus that will persuade managers to accept the risk of potential human suffering. In scenario 4 there is a very high profit (NPV), but there is also a high risk (as a result of a long duration, a lot of employees and a volatile security environment). In scenario 8 there is the same profit, but the risk is considerably lower, potentially motivating experts to accept the risk. Interestingly it shows that the experts were not tempted by the high profit and chose for the security of their employees. One expert even chose a contractual agreement in the risky scenario, because he wanted to have more control over the business in the risky situation.

In order to ensure that there is no (reasonable) financial stimulus which will persuade managers to accept the risk the following statement has been included in the second round of the study.

***A company should accept the risk of an investment entry into a volatile security environment whenever the benefits for the company are substantial.***

### **4.3 Delphi Study round 2**

The second round of the Delphi study served to confirm and elucidate the relationships found in the first round of the study. A total number of 7 experts contributed during this round of the study. The experts will be shortly presented after which all the statements are discussed one at a time.

#### **Background of the experts**

- Expert 1 is the head of the Economic and Commercial Department of the Dutch embassy in Ankara, Turkey.
- Expert 2 is an associate professor in International Management at the University of Twente.
- Expert 3 is the managing director of the middle east department of a Dutch consultant and engineering company.
- Expert 4 is counsellor at the Dutch embassy in Abu Dhabi, United Arab Emirates.
- Expert 5 is an highly experienced project manager with completed projects in multiple countries including Oman, Pakistan, Russia, Tanzania, United Arab Emirates, United States

and Yemen. He is currently managing director of the German department of a Dutch company that employs over 3000 employees.

- Expert 6 is Deputy Head of Mission at the Netherlands Embassy in Tunis, Tunisia.
- Expert 7 is an export manager with export experience in almost all countries from Table 5 and Table 6.

### **Financial Risk**

In most of the motivations provided during the first round of the Delphi study, the financial implications of the foreign entries were considered a primary concern. Therefore the experts were requested to comment on the following statement:

***The decision to expose employees to a volatile security environment is merely a financial trade-off.***

All experts strongly disagreed on this statement. This clearly shows that the potential human suffering cannot be justified by the (prospective) gain of a high profit. This confirms the relationship found in the first round which showed that the height of the NPV was of no significant influence to the selected entry mode. This was also confirmed by the experts opinions on the second statement:

***A company should accept the risk of an investment entry into a volatile security environment whenever the benefits for the company are substantial.***

The experts generally agree that it is only acceptable to take the risk whenever the company does everything in its power to protect the staff or whenever the risk is imminent to the nature of the company (for example the mercenary armies in Iraq (Xe Services) or regular military service).

Companies in which security concerns are imminent are generally forced to offer higher salaries in order to attract enough employees. They give financial incentives to employees that are voluntarily willing to take more risk. "By comparing wages in risky and less risky occupations, controlling for education, experience, and other determinants of wages, economists have got some sense about what value people put on their own lives. Studies using this approach concluded that the value of a human life is about \$10 million."<sup>73</sup> The fact that an employee is willing to go does however, as shown later on, not mean that the security concerns are solved.

### **Germany**

During the first round it showed that most experts were not willing to employ any staff in volatile security environments. Quotes like "Exposing staff to high risk (level 5 and 6) is not acceptable for our company" were very common. To verify these rigid claims a scenario has been included in the second round in which Germany was turned into a volatile security environment. The experts were asked to explain what they would do with their fictional production facility in case Germany became a class 6 country.

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<sup>73</sup> Mankiw, N.G. (2009) pp. 232.

Completely in line with their preceding statements all experts would “Evacuate and close”, “Withdraw expat staff” or repatriate all staff. This clearly confirms the importance of the security situation as an entry mode decision variable. It shows that a secure security environment is considered a fundamental need for employing any staff in any region.

This finding is supported by Maslow’s basic needs hierarchy. In his famous hierarchy he placed the safety needs as the second most important need of any organism, right after the basic ‘physiological needs’. The physiological needs (food, air, etc) are undoubtedly “(...) the most potent of all needs”.<sup>74</sup> But “if the physiological needs are relatively well gratified, there then emerges a new set of needs, which may be categorized roughly as the safety needs.”<sup>75</sup> The need for safety is so crucial to human beings that it is, according to the experts, more important than any kind of financial benefit. The reason that security risks in military operations are very often considered acceptable is that they contribute to higher goals like homeland security, freedom etc.

### **Staffing**

Closely related to the debate about exposing staff to risk is the debate about employing staff that is already exposed to the risk. During the first round 29% of the experts were willing to take more risk when the entry involved locals as opposed to expats. One of the arguments was that “The locals are not exposed to an increase in risk. They are in the volatile security environment anyway.” Therefore the following statement was included in the second round:

***As long as the security situation of an employee does not get worse as a result of the entry, the entry is acceptable.***

The experts unanimously agreed on this statement provided that it is hard to prove if the security situation of the employee does not get worse. This again proves that ‘exposing’ staff to life threatening risks is unacceptable. The latter even proved to be valid if the employee is willing to take the risk. By using the following statement the experts were asked to give their opinion on a situation in which one (or more) of the employees wants to travel to the volatile country for a longer period of time, even though he is aware of the risk:

***When an employee wants to go to a volatile security environment there is no reason for the company to refrain from an investment.***

The experts collectively agreed that the willingness of the employee to go, does not mean the security concerns are solved. The employee should be involved in the decision making process and his or her support is an essential part in the entry mode decision but, “the company has its moral responsibility too.” According to one expert the company should even take into account that it might need to protect the employee against him or herself.

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<sup>74</sup> Maslow, A.H. (1970) pp. 16.

<sup>75</sup> Maslow, A.H. (1970) pp. 18.



### ***Investing in volatile security environments***

Over 85% of the experts stated that they would not invest in a country with a security classification of 6 (All trips are discouraged). It is however, also argued that “Investment modes can support a decrease in the volatile security environment while profit from the investments is good for the country as a whole”.

***All companies should invest more often in volatile security environments to improve the safety situation in the region.***

Although some experts agree that the investments of companies could be valuable to the security situation in a region, the primary concern still is the security of their own employees. The experts generally agree that investing is only an option whenever “(...) such investments do not compromise the security of investor's staff.”

So although investing in an insecure region might be seen as a ‘noble deed’, like it was described during the first round, the majority of the experts agreed that this is not worth the risk of an employee’s life.

### ***Investing in Kazakhstan or Italy***

In the first round it was proven that most experts (57%) were willing to use an investment entry mode when entering Italy. When entering Kazakhstan only 14% would use an investment entry mode, even though both scenario’s were exactly identical. One of the experts stated: “*Looking at the scenario there is no reason not to invest in Kazakhstan. Kazakhstan is a very secure class 1 country and has a higher score (position 59) on the ‘ease of doing business ranking’ of the World Bank than Italy (position 80).*” During the second round the experts were asked why they would favour an investment entry in Italy over an investment in Kazakhstan.

The expert opinions on whether or not to invest in Kazakhstan remained diverse in the second round but the motivations provided showed that it is not a security issue. This shows that when the security issue is not a concern other (less important) issues dominate the debate.

In the final question of the second round the experts were asked to explain why it is not acceptable for their company to have employees in volatile security environments. This question aims to explain why most experts would never invest in a class 6 country, irrespective of the prospected gains.

The main arguments to stay away from dangerous countries are dominated by moral reasoning. Most managers consider it morally unacceptable to expose any employee to a volatile security environment. They do not want to bear the risk of losing an employee, they are afraid for the possible consequences. This fear is closely associated with the hardship it causes to all the friends and relatives of the employees (the organization of one expert chooses to send single men and women only).

Furthermore the consequences of a potential loss to the performance of the company are taken into account. Experts mention potential damage to the company image, the company safety record and other financial risks is possible reasons to refrain from investing in volatile security environments.

These aspects are generally perceived to have a severe influence on company performance, by the experts, but also according to various international management scholars.<sup>76</sup>

Lastly some experts mention the personal inability to decide about the safety of their employees. Most managers do not want to bear the responsibility for the death of an employee which could have been avoided.

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<sup>76</sup> See Fombrun, C.J. (1996) and Gray, E.R. & Balmer, J.M.T. (1998)

## 5 Conclusions

Because of the enormous contrast between the advantages of the potential benefits and the downside of the potential threats, considering to enter a volatile security environment is a very important and difficult decision. It is a complicated trade off between profits and potential human suffering. During this study the influence of a volatile security environment in the target country on the entry mode decision made by companies, has been assessed. By using a statistical analysis on 101 international market entries and a Delphi study amongst a diverse selection of experts the following conclusion can be drawn.

Based on the statistical analysis and both Delphi rounds it may be concluded that a volatile security environment in the target country significantly influences the entry mode decision made by companies.

Statistical analysis shows that companies do regularly enter volatile security environments. It however, also shows that Joint ventures, Green-field operations and Mergers and Acquisitions are very limited in these areas. Only some entry modes without personnel on location (direct export, indirect export and R&D contracts) are popular entries for volatile security environments.

Both Delphi rounds clearly support these conclusions. It is not recommended to invest in volatile security environments. This decision appeared to be independent of the prospective gains. The concerns about employee wellbeing and the hardship caused to friends and relatives in the worst case scenario are the primary motivations to refrain from investing. Furthermore the experts are concerned about the financial risk associated with the loss of an employee. Because of high direct and indirect costs an investment entry will hardly ever be financially interesting (even without considering the other downsides).

Another conclusion is that the employment of local staff in volatile security environments, is considered acceptable as long as the security situation of an employee does not worsen because of the entry. This is acceptable because the security situation of the local employee would not be different without the foreign investment.

Furthermore it may be concluded that companies are not recommended to invest in a region with the sole purpose of improving the security situation. If their investment contributes to the safety situation this should only be regarded as a positive side affect. The security of the employees is always the primary concern.

On the basis of the aforementioned, it is to be concluded that the currently accepted entry mode decision model would be more accurate if the influence of a volatile security environment would be incorporated.

## 6 New entry Mode Decision model

During the research it was proven that the entry mode decision model, presented in paragraph 2.5, needs some improvements in order to include the influence of the security environment in the target country. Although the influence of the security environment might be regarded as common sense, it is very important to incorporate its influence in the early stages of the decision model. Including this variable ensures that doing business in volatile security environments is not excluded all together and it ensures that the entries that do occur are well considered entries.

As stated before, entry mode decision models are generally large and complex models. The current models all rely on a systematic comparison of the alternative modes, in order to assist the managers in making a better entry decision.<sup>77</sup> The model that is used during this research is based on the model designed by Root (1994).<sup>78</sup>

The model that is briefly described in paragraph 2.5 should be updated on two stages in the model. The first update includes deliberately paying attention to the influence of a volatile security environment during the feasibility screening. During this negative screening all entries should be tested for compliance with the moral values and regulations of the company. Managers should question if it is acceptable for their company that employees are exposed to dangerous situations? Do they want to bear the risk of losing an employee? Will they accept sacrifices for an increase in profit?

If it is unacceptable to the company to send employees to volatile security environments, this will eliminate most of the investment and contractual entry modes. The decision is a clear Go – No Go decision in which financial parameters are not incorporated. Considering this in an early stage of the entry mode decision model ensures that no useless effort is spend in evaluating undesired entry modes.

All entries that pass the feasibility screening are hereafter subjected to the, previously discussed, comparative profit contribution analysis and subsequently to the comparative risk analysis. The second update of the model is integrated in the comparative risk analysis. During this analysis the negative effects of certain risks on the profitability of the entries are assessed. By including the negative effects of certain security risks, it is possible to objectively assess the profitability of each entry mode. A project might even be opportune after the risks of potential human suffering are incorporated. (Even though the economic value of a human life is calculated to be around \$10 million)<sup>79</sup>

There are several different approaches to adjust project cash flows for risks. Two commonly used methods are adding a 'risk premium' to the regular hurdle rate or year-by-year adjustments of the expected cash flows.

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<sup>77</sup> See Root, F.R. (1994) pp. 160.

<sup>78</sup> See Root, F.R. (1994) chapter 6.

<sup>79</sup> See Mankiw, N.G. (2009) pp. 232.

Adjusting the expected cash flow by using a risk premium is done by carefully selecting the premium in accordance with the level of insecurity. The risk premium will be especially high for a company which faces extreme direct and indirect costs (lost business, damage to the company image, etc.) in case of a security incident. Adjusting the expected annual cash flow can be achieved by estimating the probability of certain security risks (like the death of an employee) for each year of the planning period, and then weigh the annual cash flows by these probabilities to get their expected values or “certainty equivalents.”

In both situations the calculated cash flows after the risk assessment have a high chance of turning negative. Especially, projects that involve high investments should therefore be treated with more caution. And, whatever technique is used, assessing the influence of the project’s cash flows to all possible security risks should be done with great care and by using the best possible information. It is important to understand that adjusting the cash flows for security risks does not exclude all other types of risk.

After the calculation of the risk-adjusted profit contribution, each entry mode will, in accordance with the original model, be analysed for the company’s non profit objectives. In this stage, it is interesting to discuss the extent to which each entry mode contributes to the security situation in the country. If the management considers this a valuable characteristic, this might favour a less profitable entry mode over another.

The final stage in the entry mode decision model is the ranking of the entry modes. The total process of deciding on the right entry mode is summarized in Figure 6.

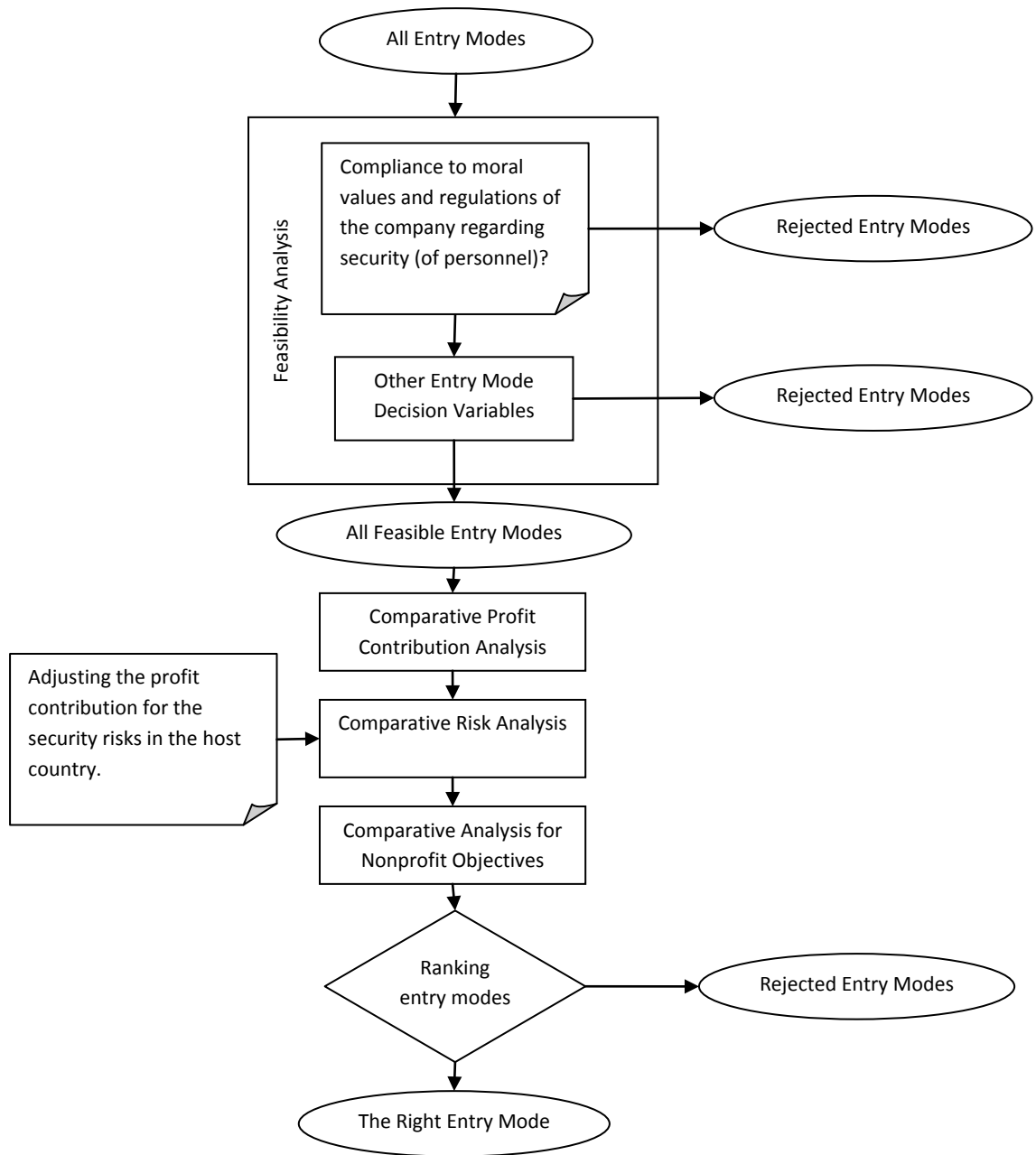


Figure 6 New entry mode decision model (Based on Root, F.R. (1994))

## 7 Discussion

In this final chapter of the first section several aspects of the research will be discussed. The discussion will include a debate about the validity and reliability of the research, a debate about the generalizability of the research, information on other influencing factors and suggestions for future research.

Important point of discussion in every research is the validity and reliability of the research. Reliability focuses on the consistency of the measurements. In this research, and in other Delphi studies, it has been questioned whether the results would change significantly if other experts would have been used. The experts that have been invited for this research have a widely disparate background. This ensures that the scenarios and statements are approached from multiple different perspectives. Despite their different backgrounds, the experts unanimously agree on most of the statements. This indicates that the results are not likely to change significantly if a different selection of experts would have been used.

More important however is that all the studied companies and the experts originate from the Netherlands. This means that the results may be subject to cultural influences of the home country. The Netherlands has, according to Hofstede, “a moderate (53) uncertainty avoidance index (UAI) score [that] may indicate a cultural tendency to minimize or reduce the level of uncertainty within the population.”<sup>80</sup> This tendency to avoid uncertainties probably influences the entry mode decision process of the company managers and the experts. If experts and companies from other cultures would have been involved this might have strengthened or weakened the found relationships. The reason that no managers and companies with different cultural backgrounds are incorporated is because this would have had a negative influence on the validity. Other factors, like cultural and geographical distance, would have played an important (undesired) role in the entry mode decision. This would have damaged the results because the influence of the security environment in the target country would get diluted.

Regardless of whether the influence of a volatile security environment is stronger or weaker in other cultures the new entry mode decision will remain the same. The suggested improvements to the model will remain identical because they do still allow company managers to make entry mode decisions that incorporate a level of risk that is acceptable for them, their company and their culture.

Other factors that may explain differences between company policies in different countries are governmental regulations or consortium initiatives. Some governments may have special incentives to invest in certain volatile security environments, while companies might also consider entering a country in a consortium. This reduces the collective security costs and may reduce the negative influences on company performance after a security incident. The effects of incentives and consortium initiatives like these, should however be studied in more detail.

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<sup>80</sup> Geert Hofstede ([www.geert-hofstede.com](http://www.geert-hofstede.com))

Other suggestions for further research include a country comparison and research that is more focused on the Iraqi market. During the country comparison it is valuable to assess whether countries that are more willing to accept security risks (because of cultural reasons) are more successful in their international business and export. Additional research on Iraq is of increased importance because Iraq is currently adapting a capitalist system. Their government, including the oil sector, is increasingly making use of commercial companies to exploit the Iraqi wealth. Research on how the Netherlands, or the European Union (EU), can contribute to the further reconstruction in this transition stage is very important. The contribution of European companies to the reconstruction could result in tremendous mutual benefits in the future. These benefits could include a reliable supply of natural gas and oil from Iraq to the EU. Security will most likely remain an issue of concern in Iraq for the decades to come. Hopefully this thesis will contribute to the decision making process of companies that aspire to enter the Iraqi market.



# Section 2

*Eijkelkamp Agrisearch Equipment BV into the Republic of Iraq*

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## 8 Introduction

In this section of the research the most suitable entry mode for Eijkelkamp Agrisearch Equipment into Iraq is identified. The entry mode decision is made with the help of the new entry mode decision model, presented in chapter 6. The model is, as explained in paragraph 2.5, based on the model designed by F.R. Root in chapter 6 of the book 'Entry Strategies for International Markets'. How this model works, is thoroughly described in the original source and summarized in paragraph 2.5.

In order to accurately identify the most suitable entry mode for Eijkelkamp, information on the company and the Iraqi market is provided in the first two chapters. Hereafter the entry mode decision model is used to systematically select the most suitable entry mode. Several stages of the entry model are discussed in separate paragraphs. The final chapter contains the conclusions and recommendations .

## 9 Internal Analysis - Eijkelkamp Agrisearch Equipment BV

Eijkelkamp Agrisearch Equipment BV is an international company which supplies a complete range of equipment for environmental and agricultural research. Eijkelkamp sells over 2000 different products which are partially (55-60%) produced in the own factory or resold (40-45%) for other suppliers.<sup>81</sup> The total turnover in 2010 is approximately € 17.500.000,-- and Eijkelkamp aims to double this turnover every 5 years. This equals a targeted turnover growth of 15% each year.

A complete company profile of Eijkelkamp is available in Appendix 4. In this paragraph the International policy and the current entry mode decision process at Eijkelkamp are discussed.

### *International policy*

Since their products are applicable in industries all around the world, Eijkelkamp regards the entire world as a potential market. Domestic sales (including Belgium and Luxembourg) are all managed from Giesbeek in the Netherlands by the Benelux sales department.

Next to their domestic activities Eijkelkamp has a special export department which is divided according to 4 geographical locations:

- German-speaking countries (Germany, Austria, Switzerland)
- Europe (minus the Benelux and the German-speaking countries)
- Africa, North- and South-America
- Asia, Middle East, Far East and Australia

For most international sales this export department relies on an extensive network of distributors. Eijkelkamp currently has distributors in 61 different countries (see Table 5).

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<sup>81</sup> Internally acquired information

Eijkelkamp has six categories of distributors divided into two groups<sup>82</sup>. The first group consists of Certified, Authorized and Potential distributors, while the second group includes Catalogue suppliers, Trading companies and International tendering companies.

The certified distributor is the highest partnership which can be obtained from the company. Usually a certified distributor starts as a potential distributor, becomes an authorised distributor and finally reaches the highest level of partnership.

<b>Definition typical distributors</b>	
<b>Certified distributor</b>	A certified distributor is the highest level of partnership. In general the certified distributors generate an important part of the EAE sales abroad. Between a certified distributor and Eijkelkamp exists a long-term partnership and the performance is checked regularly conform support and demand package.
<b>Authorised distributor</b>	A authorised distributor is the second level of partnership. In general the authorised distributors generate a respectable part of the EAE sales abroad. Between an authorised distributor and Eijkelkamp exists middle long-term partnership and the performance is checked regularly conform support and demand package.
<b>Potential distributor</b>	A potential distributor is selected after a market search activity or after strong recommendation by another party.
<b>Catalogue / Internet supplier</b>	A company who sells some EAE products by catalogue / Internet. A few Eijkelkamp products are included in the sellers sales program.
<b>Trading companies</b>	There is no regular contact and the contact is based on projects.
<b>International tendering companies</b>	Companies which are mainly focussed on international projects.
<b>Table 8 Definition typical distributors (Source: Eijkelkamp Agrisearch Equipment BV)</b>	

#### ***Current entry mode decision process at Eijkelkamp***

Eijkelkamp is currently a classic example of the ‘Naive Rule’ as described by Root (1994).[1] “Managers follow the naive rule when they consider only one way to enter foreign markets.” In the case of Eijkelkamp this one way is to export. Other entry modes are not seriously considered by the management. Reasons mentioned for this strategy are the fact that “Eijkelkamp wants to control the foreign business, but is does not want to bear the risk of the operation.”[2] Another reason is that the organization is perceived to be too small to (partially) outsource departments like R&D, Marketing or Production.

This policy is remarkable because the turnover in most countries is relatively small compared to the turnover in the Benelux. This indicates that Eijkelkamp has a rather small market share in most of these countries. For expanding this market share Eijkelkamp currently relies entirely on its distributors, over whom they only have limited control. As Eijkelkamp aspires to grow at an annual

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<sup>82</sup> Handbook distributor policy of Eijkelkamp Agrisearch Equipment BV

rate of 5-15%, with limited growth in the domestic market, the international business will increase in importance to Eijkelkamp. In an effort to gain a substantial turnover in few selected markets, it is recommended to reconsider the current international policy.

For example an Eijkelkamp department somewhere in Asia might function as a 'hub' from where the Asian market is served, reducing transportation costs and increasing the influence on regional business.

The entry mode decision for Eijkelkamp into Iraq will be made using the new entry mode decision model, and is presented in chapter 11. In this decision process all possible entry modes are considered.

## 10 External Analysis – Iraq

The external analysis of Iraq is a comprehensive analysis of the country and of the aspects related to the business of Eijkelkamp. First of all Iraq is quickly introduced in this chapter after which the remainder of the country characteristics of Iraq are presented using a DESTEP approach. DESTEP is an abbreviation for Demographic, Economic, Socio-cultural, Technological, Environmental, and Political. In the last paragraphs of this chapter the government regulations concerning import and the agriculture and water industry are discussed.

### 10.1 Iraq

Iraq is a country located in the Middle East, adjacent to the Persian Gulf, covering a total area of about 438,317 sq km (about 10 times the size of the Netherlands).<sup>83</sup> The country is home to about 31,234,000<sup>84</sup> people and is bordered by Jordan to the west, Syria to the northwest, Turkey to the north, Iran to the east, Kuwait to the south, and Saudi Arabia to the south and southwest.<sup>85</sup> There are two major rivers flowing through Iraq from the North West to the South East, the Euphrates and the Tigris.

Baghdad is the Iraqi capital with an estimated population of 6.5 million people. It is located in the centre of the country on the banks of the Tigris river.



Figure 7 Map of Iraq (Source: CIA World Factbook (2009))

<sup>83</sup> CIA World Factbook (2009)

<sup>84</sup> 2009 estimates of the International Monetary Fund ([www.imf.org](http://www.imf.org))

<sup>85</sup> CIA World Factbook (2009)

Iraq has a hot and arid climate. It has mild to cool winters with dry, hot, cloudless summers; northern mountainous regions along Iranian and Turkish borders experience cold winters with occasionally heavy snows that melt in early spring, sometimes causing extensive flooding in central and southern Iraq.<sup>86</sup>

The country has a very long history which in recent years is mainly characterized by several wars including the Iran-Iraq war, the Gulf War and the US-led invasion in 2003.

The country is very rich in natural resources like petroleum, natural gas, phosphates and sulphur. The Iraqi oil reserves are estimated at 143 billion barrels<sup>87</sup> but the Iraqi government recently claimed to have the greatest oil reserves in the world, estimated at around 350 billion barrels.<sup>88</sup>

## 10.2 Demographic

The total population of Iraq is estimated to be 31,234,000<sup>89</sup> and is expected to grow at a rate of 2.449% (2010 est.) each year.<sup>90</sup>

The most important demographic statistics of Iraq are presented in Table 9.<sup>91</sup>

<b>Demographic statistics of Iraq</b>	
<b>Age Structure</b>	
0-14 years:	38.8% (male 5,711,187/female 5,514,794)
15-64 years:	58.2% (male 8,535,550/female 8,303,942)
65 years and over:	3% (male 410,395/female 469,701) (2010 est.)
<b>Population Growth Rate</b>	
2.449% (2010 est.)	
<b>Birth Rate</b>	
29.41 births/1,000 population (2010 est.)	
<b>Death Rate</b>	
4.92 deaths/1,000 population (July 2010 est.)	
<b>Urbanization</b>	
urban population:	67% of total population (2008)
rate of urbanization:	1.7% annual rate of change (2005-10 est.)
<b>Sex Ratio</b>	
at birth:	1.05 male(s)/female
under 15 years:	1.04 male(s)/female
15-64 years:	1.03 male(s)/female
65 years and over:	0.88 male(s)/female
total population:	1.03 male(s)/female (2010 est.)
<b>Table 9 Demographic Statistics of Iraq (Source: CIA World Factbook)</b>	

<sup>86</sup> CIA World Factbook (2009)

<sup>87</sup> CNN (2010)

<sup>88</sup> The Sunday Times (2008)

<sup>89</sup> 2009 estimates of the International Monetary Fund ([www.imf.org](http://www.imf.org))

<sup>90</sup> CIA World Factbook (2009) update 2010

<sup>91</sup> CIA World Factbook (2009) update 2010

### **Ethnic Composition**<sup>92</sup>

As for ethnic composition, Arabs constitute nearly 80% of Iraq's population and are the principal ethnic majority with two relatively unassimilated groups—namely, the Bedouins (desert nomads) and the Madans (sedentary Marsh Arabs of the lower Tigris and Euphrates Deltas). The Kurds, the largest ethnic minority, account for 19% of the population and live in the mountains of the northeast highlands.

### **Religious Orientation**<sup>93</sup>

Regarding religious orientation, Islam, the official religion, constitutes nearly 97% of the population, with the Shia Muslims accounting for about 60% of the population and the Sunni Muslims, who dominated the government and bureaucracy under Saddam Hussein, account for 35% of the population.

### **Language**

As a result of the high percentage of Arabs in the population, Arabic is the primary language in Iraq. It is the official language and is spoken by about 80% of the population. Other important languages in Iraq are Kurdish (official in Kurdish regions), Turkoman (a Turkish dialect), Assyrian (Neo-Aramaic) and Armenian.<sup>94</sup>

### **Refugees**

Iraq currently has a high number of refugees and Internally Displaced Persons (IDP). About 3,565,375 Iraqis are currently recognised by the United Nations High Commissioner for Refugees as part of the 'population of concern'.<sup>95</sup>

## **10.3 Economic**

The following quote by Akoum, et al. closely describes the economic situation for Iraq in 2003:

*“Nearly three decades of despotic Saddam Hussein’s regime (1979–2003), 12 years of worldwide economic sanctions (1991–2003), a Kurdish rebellion in the north (1991), two major wars with Iran (1980) and Kuwait (1990), and two wars against Saddam by the United States and its allies in 1990 and 2003 have left the entire nation’s infrastructure, oil industry, institutions and economy in shambles.”*

Ever since 2003 the Iraqi economy has shown a healthy growth. The GDP growth in 2004 even reached the astonishing figure of 46.5%.

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<sup>92</sup> Akoum, I. / Zbib, I. & Ahmed, Z.U. (2007) pp. 477.

<sup>93</sup> Akoum, I. / Zbib, I. & Ahmed, Z.U. (2007) pp. 477.

<sup>94</sup> CIA World Factbook (2009)

<sup>95</sup> United Nations High Commissioner for Refugees (www.unhcr.org)

## Current situation

The most important economic parameters of Iraq, according to the Central Intelligence Agency World Factbook are presented in Table 10.

<b>Economic Parameters of Iraq</b>	
<b>Gross Domestic Product (GDP)</b>	
	\$109.9 billion (2009 est.)
	\$105.2 billion (2008 est.)
	\$97.56 billion (2007 est.)
<b>GDP – Growth Rate</b>	
	4.5% (2009 est.)
	7.8% (2008 est.)
	1.5% (2007 est.)
<b>GDP Per Capita</b>	
	\$3,800 (2009 est.)
	\$3,700 (2008 est.)
	\$3,500 (2007 est.)
<b>GDP – Composition by sector</b>	
	agriculture: 9.6%
	industry: 62.8%
	services: 27.6% (2009 est.)
<b>Exports</b>	
	\$40.86 billion (2009 est.)
<b>Imports</b>	
	\$55.4 billion (2009 est.)
<b>Table 10 Economic Parameters of Iraq (Source: CIA World Factbook)</b>	

## Projections for the future

The GDP in Iraq is projected to grow at a rate of 11.5% during 2011 and is expected to continue a double digit growth until at least 2015.<sup>96</sup> The dominant Oil sector in Iraq is recovering fast and the “(...) improved security situation should permit a recovery in some of Iraq's more ethnically and religiously homogenous southern and western provinces, leading to greater wholesale and retail trade. In addition, foreign direct investment is set to surge, as work on several large oilfield and infrastructure projects gathers speed.”<sup>97</sup>

Overall the economy and the export (closely related to the oil production) are expected to grow.

## Currency

The official currency in Iraq is the Iraqi Dinar. The present Dinar was introduced by the Coalition Provisional Authority after the deposition of Saddam Hussein. It is currently issued by the Central Bank of Iraq and is subdivided into 1,000 fils. The currency has been relatively stable since 2004 and is currently valued at 1000 IQD = 0.650147 EUR.<sup>98</sup>

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<sup>96</sup> International Monetary Fund (2010) pp. 87.

<sup>97</sup> NL EVD Internationaal (www.evd.nl)

<sup>98</sup> XE (www.xe.com) (on 20-December-2010)



## **Iraq and the Netherlands**

The Netherlands are currently the 7<sup>th</sup> most important export partner for Iraq. Initiatives from Dutch (water) companies to enter Iraq are however still limited. Previously planned business meetings have been cancelled for security reasons but the activity between the countries is likely to increase in the future. The Dutch ambassador in Baghdad recently confirmed "(...) his country's desire to reinforce economic relations and to utilize the available opportunities to enter the Iraqi market in a way that is beneficial to both countries."<sup>99</sup>

### **10.4 Socio-cultural**

Iraq is home to one of the most important cultural histories. Mesopotamia, which literally means 'land between the rivers', is a toponym for the area of the Tigris-Euphrates river system. It is often referred to as the 'cradle of civilization'. Modern Iraq still possesses a huge amount of historical monuments and archaeological sites, originating from any of the civilisations which have conquered Iraq in its history.

Because of the dominance of Arabs in Iraq the Arabian culture is, nowadays, the primary culture in Iraq. The primary religion is the Islam. 97% of the Iraqi's is Muslim (Shia 60%-65%, Sunni 32%-37%) while only 3% practices the Christian- or another religion.

When doing business in Iraq it is important to understand the most important aspects of the Iraqi culture. Many sources are available for a study on the Iraqi business culture<sup>100</sup>.

#### **Education**

"The Education system in Iraq, prior to 1991, was one of the best in the region, with over 100% Gross Enrolment Rate for primary schooling and high levels of literacy, both of men and women. The Higher Education, especially the scientific and technological institutions, were of an international standard, staffed by high quality personnel."<sup>101</sup> Due to the deterioration of the social services in recent years the literacy rate in Iraq has dropped to about 74.1% (male 84.1% and female: 64.2%).<sup>102</sup>

#### **Hofstede's Cultural Dimensions**

"Geert Hofstede's research provides insights into other cultures so that we can be more effective when interacting with people in other countries."<sup>103</sup> Although Geert Hofstede did analyse the Arabic culture in general, his conclusion will provide an important understanding of the Iraqi culture. The analysis includes the countries of Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, and the United Arab Emirates.

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<sup>99</sup> (Iraq Business News, 2010)

<sup>100</sup> Encyclopedia of Business ([www.enotes.com/biz-encyclopedia](http://www.enotes.com/biz-encyclopedia)), [www.kwintessential.co.uk](http://www.kwintessential.co.uk), <http://www.worldbusinessculture.com/Business-in-Iraq.html>

<sup>101</sup> UNESCO and Education in IRAQ Fact Sheet (2003)

<sup>102</sup> CIA World Factbook (2009)

<sup>103</sup> Geert Hofstede ([www.geert-hofstede.com](http://www.geert-hofstede.com))

Geert Hofstede's model contains five dimensions, the Power Distance Index (PDI), Individualism (IDV), Masculinity (MAS), Uncertainty Avoidance Index (UAI), and Long-Term Orientation (LTO).<sup>104</sup> All dimensions are rated on a scale from 0 to 100. The Hofstede cultural dimensions for the Arab World are presented in Table 11.

<b>Hofstede Cultural Dimensions for the Arab World</b>	
Power Distance Index	80
Individualism	38
Masculinity	52
Uncertainty Avoidance Index	68
Long-Term Orientation	Not available
<b>Table 11 Hofstede Cultural Dimensions for the Arab World (Source: www.geert-hofstede.com)</b>	

The most important conclusions which can be drawn from the dimensions are:<sup>105</sup>

- The high ranking for PDI and UAI show that "(...) leaders have virtually ultimate power and authority, and the rules, laws and regulations developed by those in power reinforce their own leadership and control."
- The high Power Distance ranking is indicative of a high level of inequality of power and wealth within the society.
- The high Uncertainty Avoidance Index ranking of 68, indicates the society's low level of tolerance for uncertainty.
- The relatively low Masculinity index would indicate that while women in the Arab World are limited in their rights, it may be due more to Muslim religion rather than a cultural paradigm.
- The low ranking for individualism shows a collectivist society. Loyalty in a collectivist culture is paramount and over-rides most other societal rules.

### **10.5 Technological**

Under the rule of Saddam it was forbidden for Iraqis to have internet access, a telephone connection or unrestricted television. After the 2003 there is a rapid increase in access to communication systems. The number of mobile telephone connections is estimated to be nearly 20 million as for 2009 while the number of main lines in use is estimated to be only 1.108 million.<sup>106</sup> The number of internet users is still a relative low 300.000.<sup>107</sup>

Despite the increase in communication possibilities the availability of technological knowledge in Iraq is under serious pressure. "Since 2003, 40 percent of Iraq's professional class, including 50 percent of its 34,000 medical doctors, left the country."<sup>108</sup> These numbers are a serious threat to the country, especially when the large numbers of professionals already fled during the regime of Saddam are

<sup>104</sup> Hofstede, G. (2001)

<sup>105</sup> Geert Hofstede (www.geert-hofstede.com)

<sup>106</sup> CIA World Factbook (2009)

<sup>107</sup> CIA World Factbook (2009)

<sup>108</sup> Cohen, R. (2009)

taken into account. The high-tech sector in Iraq is very limited. Most high-tech products are currently imported.<sup>109</sup>

## **10.6 Environmental<sup>110</sup>**

Iraq currently faces an enormous amount of environmental issues. Due to the wars and water management problems there are several major environmental issues identified by the United Nations Environment Programme (UNEP). The major concerns are the heavy pollution from multiple sources, and the degradation of the Mesopotamian marshes.

### **Pollution**

Pollution in Iraq is a widespread problem. Causes for the pollution differ from destroyed or looted industrial sites, military activity, industrial production, oil industry, the lack of waste management infrastructure and many more.

In general, the environmental performance of industry in Iraq can be classed as poor and in line with basic international standards from the 1960s to the early 1980s when most of the plants were constructed. In most of these plants discharges to air, water and soil were largely uncontrolled. Another major cause of pollution is the lack of an appropriate central waste facility in Iraq. This is a serious constraint for the management of contaminated land and the hazardous waste.

The major problems arising from the pollution issue are the increased vulnerability of the environment and the population.

### **Water management**

Water management in Iraq is a major issue of concern. "Massive drainage works in southern Iraq in the late 1980s and early 1990s, together with the effects of major upstream damming (also internationally), devastated the wetlands so that only minor and fragmented parcels remained as the former regime collapsed in 2003." The central and Al-Hammar marshlands had been almost completely destroyed, with approximately 95 percent of their cover transformed into bare land and salt crusts.

### **Cultivable land**

"It is estimated that about 11.5 million hectares (approximately one quarter of the country's total area) are cultivable. However, due to soil degradation, the practice of leaving fallow land, and the unstable political situation of recent years, it is estimated that only 3-5 million hectares are currently cultivated annually."<sup>111</sup>

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<sup>109</sup> United Nations Environment Programme in Iraq Post-Conflict Assessment, Clean-up and Reconstruction (2007)

<sup>110</sup> All information in this paragraph originates from the 'United Nations Environment Programme in Iraq Post-Conflict Assessment, Clean-up and Reconstruction (2007)' unless otherwise indicated.

<sup>111</sup> United Nations Environment Programme in Iraq Post-Conflict Assessment, Clean-up and Reconstruction (2007)

### **Environmental Performance Index**

The major concerns about the Iraqi environment are clearly reflected in its low score in the 2010 Environmental Performance Index, published by the Yale Center for Environmental Law & Policy. "The 2010 Environmental Performance Index (EPI) ranks 163 countries on 25 performance indicators tracked across ten well-established policy categories covering both environmental public health and ecosystem vitality."<sup>112</sup>

Iraq scored 41 out of a total 100. Which is low compared to other countries in the Middle East and North Africa and also low compared to other countries with a comparable income. Iraq scores particularly low on the 'Environmental burden of diseases', 'agricultural (policy)' and 'biodiversity and habitat'. In the last category they score a 0.0, indicating a total absence of policy on the protection of biodiversity and habitat.

### **10.7 Political**

The political situation in Iraq has been very turbulent following the 2003 invasion. Right after the fall of Saddam Hussein's regime in April 2003, an occupation structure was set up by the United States.<sup>113</sup> "In May 2003, the President Bush, (...), named Ambassador L. Paul Bremer to head a "Coalition Provisional Authority" (CPA), which was recognized by the United Nations as an occupation authority."<sup>114</sup>

After 1 year of occupation the United States handed sovereignty to an appointed Iraqi interim government on June 28, 2004. This government was followed by several elected governments with the last one just recently approved by the parliament. "Nuri Kamal al-Maliki became prime minister of Iraq in 2006. He gained a second term in 2010, after nine months of political struggle following the inconclusive results of the country's parliamentary elections in March 2010."<sup>115</sup> Talabani will continue as president and Allawi will head a new security council.

The federal government of Iraq is defined under the current Constitution as an 'Islamic, democratic, federal parliamentary republic'.

Although the current political environment in Iraq has been shaped with the help of many western powers, the situation is still not regarded as stable. According to the Failed State Index 2010 Iraq is still a failed state with a particular bad score on the political indicators.<sup>116</sup> This shows that although there is a lot of stabilisation effort in Iraq, it is not yet a stable democracy. Another indicator that confirms the fragile state of Iraqi government is the corruption perception index 2010.<sup>117</sup> In this index Iraq scores a 1.5, which equals a 175<sup>th</sup> place out of a total of 178 countries.

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<sup>112</sup> Yale Center for Environmental Law & Policy (2010) pp. 6.

<sup>113</sup> Katzman, K. (2010) pp. 1.

<sup>114</sup> Katzman, K. (2010) pp. 1.

<sup>115</sup> New York Times ([www.nytimes.com](http://www.nytimes.com))

<sup>116</sup> The Fund For Peace Failed State Index 2010 ([www.fundforpeace.org](http://www.fundforpeace.org))

<sup>117</sup> Corruption Perception Index 2010 ([www.transparency.org](http://www.transparency.org))

## **10.8 Legal System and Trade Regulations**

“Along with the security situation, Iraq’s legal and regulatory system is the weakest aspect of its business environment. In almost every category, the current system scores appallingly. Corruption, rule of law, enforceability of contracts and corporate governance are all major weaknesses.”<sup>118</sup>

During the regime of Saddam the country suffered heavily under the economic embargo imposed by the United Nations during 1991–2003. After the invasion, the Coalition Provisional Authority (CPA) tried to restore foreign trade and investment through a series of laws and regulations. As a result of these, and subsequent regulations by the government, a new investment climate is slowly emerging in Iraq.

Although the investment climate of Iraq is gradually improving the NL EVD Internationaal does not have a standard set of regulations that apply for Dutch companies with aspirations in Iraq. These regulations are neither documented nor available on a website.<sup>119</sup> There are however general reports available that include information on the legal and regulatory environment, the trade regulations, taxation etc .

For a complete overview of the most important trade regulations that Eijkelkamp will face when entering Iraq please see the D&B Country Report in Appendix 5. The report is provided by the NL EVD Internationaal as the most reliable source of business information for Iraq. This report also includes an overview of the Iraqi tax regulations and the required trade documents.

## **10.9 The agriculture and water industry**

The agricultural and water industry, which are of particular interest to Eijkelkamp, are industries that currently face major challenges in Iraq. The Iraqi ministry of water resources is struggling with the availability of fresh water as well as the pollution concerns discussed in paragraph 10.6.<sup>120</sup> “The irrigated agricultural lands need more water than is available if all irrigation and reclamation projects are implemented.”<sup>121</sup> “The increasing need for water resources in the country, as a result of the population growth and the social and economic development, comes whilst there is a reduction in this vital resource and deterioration in its quality due to the intensive use of water resources by riparian countries.”<sup>122</sup> As a consequence of intensive damming of the Euphrates and Tigris river (in Syria and Turkey) the annual inflow of both rivers is expected to drop with as much as 70%.<sup>123</sup> This will have a major influence on the population and the agriculture of Iraq.

### **The ministry of water resources**

Solving the water related problems in Iraq is the main task of the newly (2004) formed Ministry of Water Resources (MWR). The MWR is comprised of a number of state directorates, state owned

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<sup>118</sup> (Dun & Bradstreet Limited, 2010)

<sup>119</sup> Interview with NL EVD Internationaal

<sup>120</sup> Republic of Iraq Ministry of Water Resources (2010)

<sup>121</sup> Republic of Iraq Ministry of Water Resources (2010) pp. 2.

<sup>122</sup> Republic of Iraq Ministry of Water Resources (2010) pp. 2.

<sup>123</sup> Republic of Iraq Ministry of Water Resources (2010) pp. 10.

enterprises, and offices to manage other aspects of the MWR activities. A total of 25000 employees are working for the ministry in its head office, state companies or any of the directorates.

“The Ministry is the bulk water supplier for the country and responsible for the whole national water planning, operating twenty-five major dams, hydropower stations and barrages and 275 irrigation pumping stations serving almost the entire irrigated area.”<sup>124</sup>

### **Agricultural Sector**

The agricultural sector in Iraq accounted for 9.6 percent of the total Gross Domestic Product of the country in 2009.<sup>125</sup> During the year 2005 a total of about 651.000 people are economically active in agriculture.<sup>126</sup>

The total irrigation potential for Iraq is estimated to be about 5 554 000 ha (est. 2007).<sup>127</sup> It is however estimated that only about 59% of this land is actually used and irrigated. As stated in a Congressional Research Service Report of the Congress in 2003: “Iraq’s irrigation infrastructure is only partially functional; salinization of prime cropland is widespread throughout the irrigation system; and the fertility of cropland and rangeland has been badly depleted from over exploitation due to poor soil management practices (such as continuous cropping rather than the normal cereal-fallow rotation).”<sup>128</sup> The groundwater table in the Southern parts of Iraq is saline and very close to the surface, a very little increase in the level will allow the water table to reach the roots of the crops and destroy them.

It is acknowledged that it is vital for the Iraqi agriculture to restore the irrigation infrastructure and to develop an “(...) agricultural research and extension service”<sup>129</sup>. The research is needed to restore knowledge about basic agricultural production practises and to increase agricultural productivity.

### **Water Sector**

The water sector in Iraq is predominantly occupied with providing fresh water. Due to the limited rainfall Iraq is mainly dependant on the inflow of the rivers. Only 36% of the total renewable water resources of Iraq (annual average) is from an internal source.<sup>130</sup> Because of upstream damming there are several disputes between Iraq and Turkey and Iraq and Syria about the amount and quality of the water that flows to Iraq through the Euphrates and Tigris rivers.

Another major problem in Iraq is the deterioration of the water quality caused by the pollution problems discussed in paragraph 10.6. The several sources of waste and pollution in Iraq are a very

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<sup>124</sup> Aquastat (2008)

<sup>125</sup> CIA World Factbook (2009)

<sup>126</sup> Food and Agricultural Organization of the United Nations (2010) Country Fact Sheet Iraq pp. 1.

<sup>127</sup> Food and Agricultural Organization of the United Nations (2009) FAO Water Report 34 pp. 2.

<sup>128</sup> Schnepf, R. (2003) pp. 6.

<sup>129</sup> Schnepf, R. (2003) pp. 6.

<sup>130</sup> Food and Agricultural Organization of the United Nations (2010) Computation of long-term average annual renewable water resources by country (in km<sup>3</sup>/year).

serious threat to the environment and the public health in Iraq. Testing and purification of the polluted water will be a major issue in the near future.

**Budget<sup>131</sup>**

The budget for environmental and agricultural research in Iraq is not explicitly specified in any of the available documents. The general plan of the Ministry of Water Resources is to spend around 85billion ID annually (until 2015) on general projects. For 'cleaning up works' and 'fighting aquatic weed' a budget of around 145billion ID is planned annually. Additional funding is reserved for dredging and dam building and maintenance. These projects do not require specific research capacity but monitoring systems are always required in projects like these.

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<sup>131</sup> Republic of Iraq Ministry of Water Resources (2010) pp. 20-28.

## 11 The entry mode decision for Eijkelkamp into Iraq

The overall ambition of Eijkelkamp in Iraq is to: “sell its products”.<sup>132</sup> There is no specified sales target or other financial performance indicator. The overall (worldwide) growth that Eijkelkamp aspires is 5-15% annually.

Furthermore Eijkelkamp has no specified non-profit objectives like market share or specified reputation building objectives for Iraq. They do have companywide internal targets for 2015 including: A Customer Satisfaction Ratio of 8 out of 10, an on-time delivery of 100%, an Employee Satisfaction Ratio of 8 out of 10 and an annual turnover of 27 million Euro.

The entry mode decision for Eijkelkamp into Iraq is made by using the new entry mode decision model (presented in chapter 6).

### 11.1 *Feasibility Analysis*

The entry mode decision starts with the feasibility analysis. This analysis is a so called negative screening in which alternatives are eliminated because they are impossible for a company to achieve.<sup>133</sup> The negative screening analysis of Eijkelkamp into Iraq is executed based on information provided by Barry Leuerman, Export Manager Middle East and Jos van Zuilen, General Manager of Eijkelkamp. All nine possible entry modes, identified in paragraph 2.3, are one by one analysed. After this initial screening the remaining entry modes will be subjected to the Comparative Profit Contribution Analysis.

Special attention is dedicated to the moral values and regulations of the company regarding security (of personnel). These values of Eijkelkamp have been specially discussed with Jos van Zuilen, CEO of Eijkelkamp Agrisearch Equipment BV. During an interview he stated that not a single employee of Eijkelkamp will travel to Iraq, even if the employee would be willing to do so. He considered the risk of casualties to high and wouldn't even appoint a distributor that does not originate from Iraq.

Having a distributor on location is acceptable, even if there would be an increased risk to the distributor because of his business with Eijkelkamp. As long as the government and the EU do not raise any concerns about doing business with locals in Iraq it is acceptable to Eijkelkamp. In addition to this he did state that any request from the distributor to stop the cooperation because of security concerns would be respected.

Furthermore the CEO of Eijkelkamp stated that he was not willing to invest in Iraq. He is not prepared to bear any form of risk in Iraq. The only commitment that Eijkelkamp is prepared to make is a small investment in marketing. This investment is generally only 1% of the expected turnover, but can be raised when the business shows potential.

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<sup>132</sup> Jos van Zuilen, CEO of Eijkelkamp Agrisearch Equipment BV. (translated from Dutch)

<sup>133</sup> Asset 4 ([www.asset4.com](http://www.asset4.com))



### **Indirect export**

Eijkelkamp is using Indirect export with a distributor in the host country in many different markets. Most of these distributors are located in the countries itself while some operate in multiple countries in the same region. Indirect export is considered to be a feasible entry mode for Iraq.

### **Direct export**

Eijkelkamp has its own export department that already practices direct export into multiple countries around the world. Including Iraq in the direct export network is a feasible option, provided that it would be impossible to participate in any kind of fair or other local marketing activity.

### **Licensing / Franchising**

When using licensing en franchising entry modes there will inevitably be a need for personnel in the target country, either temporarily or permanently. This already excludes this entry mode as a feasible option. Additionally the Eijkelkamp management is very reluctant in providing valuable information to other parties (even when it would be safe). Sharing information on technology, production processes and patents is not an option. Therefore it is impossible to move the production of any type of Eijkelkamp products to a third party. Besides that, it has been proven that the quality of the products made in Giesbeek is unmatched. Chinese companies have tried to reproduce the products, but were not able to reach the quality standards of Eijkelkamp. Since the quality of the products is one of the core values of Eijkelkamp it is not an option to accept the possible reduction in quality.

### **Turnkey projects**

A turnkey project is an export of technology, management expertise, and in some cases capital equipment with the purpose of erecting an overseas production unit. All of which Eijkelkamp has never done before to any international market. It is therefore, and for the other reasons mentioned under licensing and franchising, not feasible for Eijkelkamp to start such a project in a risky and small market like Iraq. If a project of this scale will be attempted, it will be in the most promising markets in which Eijkelkamp is already established.

### **R&D contracts**

The R&D facility of Eijkelkamp is currently located very close to the production process. Moving the R&D capacity to a foreign location is considered to be too costly and unfavourable. The management of Eijkelkamp is not willing to lose the tight control they have over the (technical)knowledge of Eijkelkamp at the moment.

### **Co-marketing**

Co-marketing involves the establishment of a new product, service or brand. The intention of Eijkelkamp in Iraq is to sell its current set of products to a new market. Co-marketing is therefore considered a strategy which is not suitable for the current intentions of Eijkelkamp.

It is however possible for Eijkelkamp to share marketing knowledge and databases with a potential distributor. In this research this practice is not considered co-marketing, but merely support of the distributor.

### **Joint ventures**

Jointly establishing a business in Iraq is certainly not an option for the Eijkelkamp management. It would, like all other equity entry modes, involve large investments and personnel on location, criteria that are not acceptable to Eijkelkamp.

### **Green-field operations**

See Joint ventures

### **Mergers and Acquisitions**

See Joint ventures

## **11.2 Comparative profit contribution analysis**

In the comparative profit contribution analysis all the remaining entry modes, direct and indirect export, are normally ranked according to the net revenue it will earn for a company over the strategic plan. The ambition of Eijkelkamp in Iraq is unfortunately limited to “selling products”.<sup>134</sup> There is no turnover target and the duration of the project is not specified.

Determining the expected profit contribution is therefore impossible. Assumptions about the height of the annual turnover can be made based on the differences between the entry modes.

Because the human resources committed to the Iraqi market are likely to be higher when using a distributor this entry mode is also likely to have the highest turnover. This additional use of human resources is however to be compensated in the form of a discount or fee, which could again decrease the profitability. Using the own staff, employed in Giesbeek, would however also come at significant costs. Especially if it is necessary to employ a special sales person to stimulate the turnover in Iraq. When considering the costs of human resources, indirect export will most likely have an advantage over direct export. The average cost of a worker in Iraq are in fact lower than in the Netherlands.

A second advantage that indirect export has over direct export is the efficiency of the human resources employed. Because the distributor on location will most likely be able to speak Arabic, he will be able to communicate with potential customers more easily. Furthermore the local distributor has a much greater market awareness and he is better acquainted with how business is done in Iraq.

A third, very important, issue is the inability for Eijkelkamp employees to travel to Iraq. Because of security concerns the Eijkelkamp management has indicated that they will not allow any employee to travel to Iraq. This means that Eijkelkamp cannot use major fairs in Iraq to promote its products and services. Additionally it is also impossible to provide any assistance or training on location. This is expected to have a serious negative effect on the expected turnover for the direct export entry mode.

Based on rational argumentations it can be concluded that the profitability of Indirect Export is most likely to be higher than Direct Export.

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<sup>134</sup> Jos van Zuilen, CEO of Eijkelkamp Agrisearch Equipment BV. (translated from Dutch)

### **11.3 Comparative Risk analysis**

The comparative risk analysis is the second stage of the entry mode decision model which has been updated in section 1 of the research. The expected profit contribution is to be adjusted for the security risks in the host country and the other risks involved in each entry. The two remaining options are both very low risk entry modes.

The risk of potential human suffering is limited to the risk of the potential distributor. In the worst case scenario the distributor is not able to continue its work for Eijkelkamp. This would force Eijkelkamp to find either a new distributor or to continue the business using direct export. Both scenarios are obviously not desirable, but they do not have a tremendous impact on the organization from a business perspective. Eijkelkamp normally shares the customer database with its distributors allowing them to continue the business even after a potential loss.

When using the Direct export entry mode Eijkelkamp is by no means physically present in Iraq. Therefore no serious risks are imposed on the organization. In the worst case scenario, when the business in Iraq totally fails, Eijkelkamp has only invested some human resources and spent a small amount on marketing.

As a conclusion it can be stated that both entry modes do not impose serious risks on the organization. Because of the limited resources committed in both entry modes there is, from a business perspective, no serious risk in either of the two entry modes. The comparative profit contribution of both entry modes therefore remains unchanged after the comparative risk analysis.

### **11.4 Comparative Analysis for Nonprofit Objectives**

The last analysis that is included in the entry mode decision model is the comparative analysis for non profit objectives. In the case of Eijkelkamp this analysis is redundant because the Eijkelkamp management has explicitly indicated that “Eijkelkamp does not have any non profit objectives in Iraq”<sup>135</sup>.

A non profit objective that is frequently related to volatile security environments by the Delphi experts is contributing to the reconstruction of (the security situation in) a country.

### **11.5 Ranking entry modes**

After all the analysis of the entry mode decision model presented in Figure 6 have been completed an overall comparative assessment of all the feasible entry modes can be made. The most favourable entry mode is Indirect export. The advantage of local presence and knowledge are perceived to prevail over the small additional risk to the continuity of the business.

1. Indirect Export (with a distributor on location)
2. Direct Export

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<sup>135</sup> Jos van Zuilen, CEO of Eijkelkamp Agrisearch Equipment BV. (translated from Dutch)

It is important to understand that these scores are only applicable to the Iraqi market under the current management policy of Eijkelkamp. Analysis of other countries might show very different favourable entry modes.

## 12 Conclusions and recommendations on the market entry strategy

As a result of an in depth study on the influence of a volatile security environment and an in depth study on the possible entry modes of Eijkelkamp into the republic of Iraq it is possible to answer the second main research question. After the first main research question was answered during the conclusions of section one, this conclusion will answer the second.

### **What is the optimum entry mode for Eijkelkamp to use when entering the Iraqi market?**

Based on the new entry mode decision model it can be concluded that the best entry mode for Eijkelkamp is Indirect Export. This entry mode is likely to be the most profitable with only very limited risks.

Although there is still a chance that the suggested entry mode does not turn out to be the most profitable, the presented entry mode decision approach will help the managers of Eijkelkamp to make a more deliberate entry mode decision in the future. "The model's key advantage is the forcing of a comparison of feasible entry modes so that managers do not accept a workable [entry] mode when a better mode is available."<sup>136</sup>

It is however to be stated that the current management policy of Eijkelkamp imposes serious restrictions on the entry mode decision process. Effectively using the new entry mode decision model is impossible without changes in the management attitude towards risks and investments. The entire international policy is currently based on Eijkelkamp's distributor policy. This might have (negative) consequences on the international business of Eijkelkamp on the long run. Eijkelkamp is a 'risk averse' company that is reluctant to changing any existing policies.

Eijkelkamp currently makes a total international profit (in 61 countries combined), which is comparable to the profit of the Benelux. This indicates that the market share in each of these 61 countries is quite limited. The current distributor policy has shown to generate turnover, but it has also shown that it does not allow Eijkelkamp to dominate the international market. If Eijkelkamp aspires to dominate the world like it dominates the Benelux it should reconsider its international policy and be open for different international entry strategies.

In the long term different international entry strategies, like departments in major markets or joint ventures, might increase the global turnover of Eijkelkamp tremendously. But it might also reduce transportation costs (currently about 15%), labour costs, unit production costs and other overhead costs.

Without serious changes it is very well possible that a great deal of the Eijkelkamp turnover will be lost to competitors. Without efficiency gains, the Eijkelkamp products, which are already very expensive, will become too expensive for most purposes. Even the high quality niche that Eijkelkamp

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<sup>136</sup> Root, F.R. (1994) pp. 167.

focuses on will be increasingly served by cheaper high quality alternatives. Different international entry modes provide Eijkelkamp with sufficient alternatives that might increase both turnover and profitably. It is strongly recommended to seriously consider more intensive international activities even if this requires significant investments in assets and personnel.

## 13 Suggested additional readings

The following list is a list of publications which are of special interest for Eijkelkamp while doing business in Iraq.

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# Appendix 1 - The Statistical Research Questionnaire

## The Statistical Research Questionnaire

The questionnaire for the statistical research is available on <http://entrymode.deskpage.net>. The content of the questionnaire and the invitation letter is shown in this appendix.

### *Invitation letter*

The invitation letter is shown below in both English and Dutch.

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--- English Version Below ---

Geachte Heer/Mevrouw,

Als MBA Student verbonden aan de Universiteit Twente doe ik onderzoek naar "the influence of a volatile security environment on the entry mode decision of companies". Het onderzoek is in het bijzonder gericht op alle bedrijven aangesloten bij het Netherlands Water Partnership (NWP).

In het kader van dit onderzoek wil ik uw bedrijf ook uitnodigen om deel te nemen aan een korte online vragenlijst. In de vragenlijst wordt u verzocht aan te kruisen in welke 'gevaarlijke' en 'minder gevaarlijke' landen van deze wereld uw bedrijf actief is. Wanneer u een land selecteert, wordt u verzocht aan te geven door middel van welke entree strategie uw bedrijf de markt in het betreffende land heeft benaderd.

Het invullen van de vragenlijst duurt naar verwachting minder dan 3 minuten en zal een grote bijdrage leveren aan het onderzoek. De vragenlijst is te vinden op <http://entrymode.deskpage.net>.

Alvast hartelijk dank voor de moeite,

Met vriendelijke groet,

Wouter Beeks

<http://entrymode.deskpage.net>

+316 269 06 793

--- English Version ---

Dear Sir/Madam,

As a master student connected to the Dutch University of Twente I am currently assessing “the influence of a volatile security environment on the entry mode decision of companies”. The research has a special and deliberate focus on the companies connected to the Netherlands Water Partnership (NWP).

I would like to invite your company to join the research through a short online questionnaire (only 3 minutes). In the questionnaire you will be asked to select volatile and non-volatile countries in which your company employs some sort of business. When you have selected a certain company you will be asked to select the entry mode your company has chosen to enter the market and whether or not the chosen entry was regarded as successful.

Completion of the questionnaire will only take about 3 minutes, but will be a great contribution to our research. The questionnaire is available on <http://entrymode.deskpage.net>.

Thank you very much for your participation.

Yours sincerely,

Wouter Beeks

<http://entrymode.deskpage.net>

+316 269 06 793

## **Questionnaire**

Welcome to the Entry Mode Research Website

This website will guide you through a small survey on the entry mode decisions of companies into volatile security environments. When you start the questionnaire you will first be asked to fill out some general information, followed by the remainder of the survey.

Thank you very much for participating in this study!

**< Start Questionnaire >**

---

### **General information**

Please answer the following general questions:

Name:

Company / Organization:

Function:

Country of Origin:

---

### **Past Market Entries**

Please select all the countries in which your company is or has been active. If you select a country please name the entry mode your company used to enter the country and whether the entry was regarded as successful or unsuccessful.

### **Entry Modes**

The possible entry modes are:

- Indirect export
- Direct export
- Licensing / Franchising
- Turnkey projects
- R&D contracts
- Co-marketing
- Joint ventures
- Green-field operations
- Mergers and Acquisitions

### **Countries**

The countries included in the questionnaire are:

<b>Countries included in the questionnaire</b>		
Afghanistan	Iraq	Saudi Arabia
Algeria	Ivory coast	Somalia
Burundi	Kazakhstan	Sudan

Central African Republic	Liberia	Tunisia
East-Timor	Mauritania	Turkey
Egypt	Morocco	United Arab Emirates
Gabon	Niger	Yemen
Haiti	Oman	
Iran	Pakistan	
<b>Table 12 Countries included in the questionnaire (Source: Own Source)</b>		

---

### **Aspired Market Entries**

Please select all the countries which your company aspires to enter in the next 5 years. If you select a country please select the entry mode your company is planning to use. The possible entry modes and the countries included in the questionnaire are identical to Entry Mode Question 1.

### **Thanks**

**Thank you for participating in this entry mode study. Your input is really appreciated.**

## **Appendix 2 - The Delphi Questionnaire Round 1**

### **The Delphi Questionnaire Round 1**

The Delphi questionnaire is a web based application available on <http://delphi.deskpage.net>. The content of the application (the different web pages are divided by a horizontal line) and the invitation letter are shown in this appendix.

#### ***Invitation letter***

(see next page for the invitation letter)



Return address: [w.r.i.beeks@student.utwente.nl](mailto:w.r.i.beeks@student.utwente.nl)

Name Recipient  
Company Name  
Street Address  
Zip Code, City

Drienerloaan 5  
7522 NB Enschede  
The Netherlands

[www.utwente.nl](http://www.utwente.nl)

**Contact**

Wouter Beeks  
Calslaan 49-23  
7522MJ Enschede  
The Netherlands

Date 04/01/2011  
Subject Delphi Study

T: +31 (0)6 269 06 793  
Email: [w.r.i.beeks@student.utwente.nl](mailto:w.r.i.beeks@student.utwente.nl)  
Website: <http://delphi.deskpage.net>

Dear <name Recipient>,

Thank you for participating in this Delphi Study on the influence of a volatile security environment on entry mode decisions of companies. The first round consist of a questionnaire which is available on <http://delphi.deskpage.net>. During this questionnaire you are kindly requested to explain which entry mode category you would choose in any of the given scenarios.

Deciding on the mode of entry means choosing between several different future scenario's including differences in responsibility, profitability, investments, risks etc. Different entry modes give a firm varied degrees of control and require different resource commitments. Choosing the appropriate entry mode is therefore an important decision, especially given the difficulty of changing once the decision has been implemented.

In the questionnaire you will only be provided with information on the profitability, the number of full time employees (expats and locals) involved in the operation, the duration of the project and the security classification of the target country. It is understood that there are numerous other factors that influence the entry mode decision of a company. For methodological reasons, however; you will just be provided with the above stated information.

In order to allow a deliberate decision given the reduced information availability you are requested to choose between three categories of entry modes.

1. Exporting entry modes
2. Contractual entry modes
3. Investment entry modes

Information on the different entry modes and the classification of the security environment is available on the website.

After all the questionnaires have been returned and analyzed the (statistically) summarized answers of all the panelists will be presented to you for further consideration. After reading the summarized answers and the provided reasoning you are requested to fill out the same questionnaire again. It is expected that filling out each questionnaire and studying the provided summary will cost you no more than 15 minutes.

Thank you very much for your contribution.

Yours sincerely,  
Wouter Beeks

## ***Application content***

---

### **Welcome to the Delphi Expert Website**

This website will guide you through the Delphi study. When you start the questionnaire you will first be provided with information on the different entry modes and the security classification. Hereafter you will be asked to fill out some personal information, followed by the series of scenario's.

There will be a total of 10 different scenario's.

You are requested to answer the questions as if you are the manager if a fictitious company.

Thank you for participating in this study!

**< Next >**

---

### **Entry modes**

There is a wide variety of entry modes which companies can use to enter a specific market. Each of these entry modes can be altered to meet the specific requirements of a certain company in a certain market. These entry modes are carefully selected and specially adjusted based on a complicated decision making process. Because the information provided in this study is limited the entry modes have been clustered. This results into clusters of entry modes that have sufficiently different characteristics to make a deliberate decision. The 3 clusters used in this study are:

#### **1. Exporting entry modes**

Exporting entry modes include Direct export and Indirect export. With these entry modes the production of the goods and services are concentrated outside the target country and subsequently transferred to it. The physical products and services are exported by the company itself or through a distributor that is based in either the home- or the target country. Therefore the exporting company has no personnel in the target country.

Entry modes that are included in this cluster are:

- Indirect export (with an intermediary)
- Direct export (without intermediary)

#### **2. Contractual entry modes**

Contractual entry modes are long-term nonequity associations between a company and an entity in the target country that involve transfer of technology or human skills from the former to the latter. (Root, F.R, 1994) Contractual entry modes differ from exporting entry modes because they mainly involve the transfer of technology or human skills. The actual product or service is created (partially)

in the target country. Therefore employees, or employees from the contracted company, are always active in the target country.

Entry modes that are included in this cluster are:

- Licensing / Franchising
- Turnkey projects
- R&D contracts
- Co-marketing

### **3. Investment entry modes**

Investment entry modes include all entry modes in which (part of) the manufacturing facilities or production units in the target country are owned by the international company. The facilities may range from a small scale assembly unit to a full scale factory. Employees working in the facilities are directly employed by the international company.

Entry modes that are included in this cluster are:

- Joint ventures
- Green-field operations
- Mergers and Acquisitions

**< Back > or < Next >**

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## **Security Classifications**

The security classification that is used during this research is based on the travel advice published by the Dutch Ministry of Foreign Affairs. The advices are established based on information provided by the Dutch embassies or consulates, and are whenever possible synchronized with information from representatives of other European countries.

A negative travel advice will only be issued when there is a considerable chance of continuing threat. Suicide bombings are obviously a security risk for Dutch travellers. The attacks are, however, very often isolated incident which are followed by a long period of relative peace. A suicide bombing will therefore not automatically result in a lower security classification.

The security categories that are used in this research are:

#### **1. No special security risks**

Most visits can be easily made. There are no special safety concerns for this country / the degree of safety is identical to the situation in the Netherlands.

#### **2. Vigilance is required**

There is a small security risks, but there is no tangible evidence that the traveller will experience discomfort.

**3. There are unsafe areas**

There are areas in the country which are considered to be unsafe. These areas might have a more negative travel advice than the rest of the country.

**4. Non-essential trips to certain areas are discouraged**

There is an increased safety risk in a particular area. The traveller should decide if the trip to the area is justified and necessary.

**5. Non-essential trips are discouraged**

There is an increased safety risk for the entire country. The traveller should decide if the trip to is justified and necessary.

**6. All trips are discouraged**

This advice is given when there is a definite safety risk in a country which results into an acute life-threatening situation for the traveller.

**<Start Questionnaire>**

---

**Personal information**

Name:

Company / Organisation:

Function:

Country of Origin:

**Please select all countries where you have working experience:**

Afghanistan

Algeria

Burundi

Central African Republic

East-Timor

Egypt

Gabon

Haiti

Iran

Iraq

Ivory coast

Kazakhstan

Liberia

Mauritania

Morocco

Niger

Oman  
Pakistan  
Saudi Arabia  
Somalia  
Sudan  
Tunisia  
Turkey  
United Arab Emirates  
Yemen

**< Next >**

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**Scenario 1:**

Your company considers doing business in country A.

The security classification: 6 (All trips are discouraged).

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	5	€1.000.000,-
<b>Contractual entry mode</b>	0	5	€1.000.000,-
<b>Investment entry mode</b>	0	5	€1. 000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

< Next >

---

**Scenario 2:**

Your company considers doing business in country A.

The security classification: 6 (All trips are discouraged).

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€500.000,-
<b>Contractual entry mode</b>	1	4	€2.000.000,-
<b>Investment entry mode</b>	4	10	€4.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

< Next >

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**Scenario 3:**

Your company considers doing business in Italy.

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€500.000,-
<b>Contractual entry mode</b>	1	4	€2.000.000,-
<b>Investment entry mode</b>	4	10	€4.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

**< Next >**



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**Scenario 4:**

Your company considers doing business in Country A.

The security classification: 6 (All trips are discouraged).

Duration of the project: 10 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	5	€750.000,-
<b>Contractual entry mode</b>	3	5	€3.000.000,-
<b>Investment entry mode</b>	6	25	€12.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

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**Scenario 5:**

Your company considers doing business in Iraq.

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€500.000,-
<b>Contractual entry mode</b>	1	4	€2.000.000,-
<b>Investment entry mode</b>	4	10	€4.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

**< Next >**

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**Scenario 6:**

Your company considers doing business in country A.

The security classification: 6 (All trips are discouraged).

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€1.000.000,-
<b>Contractual entry mode</b>	1	3	€4.000.000,-
<b>Investment entry mode</b>	2	6	€8.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

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**Scenario 7:**

Your company considers doing business in country A.

The security classification: 1 (No special security risks).

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€500.000,-
<b>Contractual entry mode</b>	1	4	€2.000.000,-
<b>Investment entry mode</b>	4	10	€4.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

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**Scenario 8:**

Your company considers doing business in Country A.

The security classification: 6 (All trips are discouraged).

Duration of the project: 2.5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€750.000,-
<b>Contractual entry mode</b>	1	2	€3.000.000,-
<b>Investment entry mode</b>	2	5	€12.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

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**Scenario 9:**

Your company considers doing business in Kazakhstan.

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	<b>Nr of Expats involved</b>	<b>Nr of Locals involved</b>	<b>NPV of the entry</b>
<b>Exporting entry mode</b>	0	1	€500.000,-
<b>Contractual entry mode</b>	1	4	€2.000.000,-
<b>Investment entry mode</b>	4	10	€4.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

**< Next >**

**Scenario 10:**

Your company considers doing business in country A.

The security classification: 6 (All trips are discouraged).

Duration of the project: 5 years.

You have 3 potential entry modes with the following characteristics:

	Nr of Expats involved	Nr of Locals involved	NPV of the entry
Exporting entry mode	0	1	€1.000.000,-
Contractual entry mode	3	1	€4.000.000,-
Investment entry mode	6	2	€8.000.000,-

Select the entry mode of your choice:

Drop Down: 3 choices

Please motivate your choice extensively:

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**Final question:**

What is the influence of a volatile security environment in the target country on the entry mode decision of a company?

< Next >

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**Thanks**

Thank you for participating in the first round of this Delphi Study. Your input will be analysed thoroughly and summarized together with the input from the other panellists.

As soon as possible you will be notified about the results from the first- and the start of the second round.

# Appendix 3 - The Delphi Questionnaire Round 2

## The Delphi Questionnaire Round 2

Thank you for participating in the first round of the Delphi Study. The input that has been provided includes some interesting reasoning and shows some very valuable relationships. In order to gain a more detailed understanding of the reasoning and in order to clarify some of the patterns you will be asked to comment on several statements. The statements are all based on the input provided by the experts during the first round.

---

### ***Financial***

In most of the motivations provided during the first round of the Delphi study, the financial implications of the foreign entries were considered a primary concern. Therefore you are requested to comment on the following statement:

***The decision to expose employees to a volatile security environment is merely a financial trade-off.***

Please comment:

---

### ***Accept the risks***

During the first round the amount of profit (NPV) hardly proved to influence the entry mode decision. Even though in one of the scenario's the exposure to the volatile security environment was very short, the number of people involved were very limited and the profit very high few experts were willing to take the risk.

In most industries labour risks are accepted, even though they impose a risk on the employees. Construction workers sometimes die in accidents, but we continue to build. Casualties amongst military personnel are very common, but we keep sending them on missions. Planes still crash quite regularly, but we continue to fly. These risks are all accepted because the benefits are considered high enough. Please comment on the following statement:

**A company should accept the risk of an investment entry into a volatile security environment whenever the benefits for the company are substantial.**

Please comment:

---

### ***Staffing***

During the first round 29% of the experts were willing to take more risk when the entry involved locals as opposed to expats. One of the arguments was that "The locals are not exposed to an increase in risk. They are in the volatile security environment anyway." This could imply that:



***As long as the security situation of an employee does not get worse because of the entry, the entry is acceptable.***

Please comment:

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***Investing in volatile security environments***

Over 85% of the experts stated that they would not invest in a country with a security classification of 6 (All trips are discouraged). It is however, also argued that “Investment modes can support a decrease in the volatile security environment while profit from the investments is good for the country as a whole”.

***All companies should more often invest in volatile security environments to improve the safety situation in the region.***

Please comment:

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***Investing in Kazakhstan or Italy***

In the first round it proved that most experts (57%) were willing to use an investment entry mode when entering Italy. When entering Kazakhstan only 14% would use an investment entry mode, even though both scenario’s were exactly identical. One of the experts stated: *“Looking at the scenario there is no reason not to invest in Kazakhstan. Kazakhstan is a very secure class 1 country and has a higher score (position 59) on the ‘ease of doing business ranking’ of the World Bank than Italy (position 80).”*

Please explain why you would favour an investment entry in Italy as opposed to Kazakhstan:

---

***Germany***

Germany is the most important economic partner of the Netherlands. It is a well developed and secure country. Suppose your company has a production facility in the eastern part of Germany with several German and Dutch employees.

Because of a series of unexpected events the security situation in eastern Germany suddenly changes dramatically and the country becomes a volatile security environment (Class 6 on the classification of the Dutch Ministry of Foreign Affairs). What would be your new business plan concerning your production unit?

Please comment:

---

***Employee willing to take the risk***

The moral inability to risk the life of someone else could be a reason for not sending employees to a volatile security environment. However, it is possible that one (or more) of your employees want to travel to the volatile country permanently, even though they are aware of the risks. Please comment on the following statement:

**When an employee wants to go to a volatile security environment there is no reason for the company to refrain from an investment.**

Please comment:

---

***We do not expose staff to category 6 security environments***

*"[Company] will never send people to a class 6 country."*

*"Exposing staff to unnecessary danger is not acceptable to the company"*

*"We cannot allow our staff to travel in dangerous countries."*

Quotes like these were very common during round one. Although they represent a clear statement, they do not reveal the reasons for this rigorous decision. Is it unacceptable because of potential damage to the company image? Is it financially to risky? Is it a moral consideration? Or are there other reasons?

Please comment extensively on why it is not acceptable for your company to have employees in volatile security environments:

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## Appendix 4 - Company Profile Eijkelkamp Agrisearch Equipment BV

### Company Profile Eijkelkamp Agrisearch Equipment BV

Eijkelkamp Agrisearch Equipment BV is a Dutch company that supplies a complete range of equipment for environmental and agricultural research worldwide. The current product range of Eijkelkamp Agrisearch Equipment can best be described as equipment for soil, water, plant, climate and residual substances research and is intended primarily for agricultural, hydrological and environmental studies. Meanwhile Eijkelkamp Agrisearch Equipment employs around 91 people, and has an expected turnover for the fiscal year 2010 of €17.5 million.

### **Contact information**

Office Address: Nijverheidsstraat 30  
6987 EM Giesbeek  
The Netherlands

Mail Address: P.O. Box 4  
6987 ZG Giesbeek  
The Netherlands

Telephone: +31 313 880200  
Telefax: +31 313 880299  
E-Mail: [info@eijkelkamp.com](mailto:info@eijkelkamp.com)  
Internet: [www.eijkelkamp.com](http://www.eijkelkamp.com)

### **Historical background**

The history of Eijkelkamp Agrisearch Equipment first began in the year 1911 when Hendrik Eijkelkamp set up as an independent smith in Lathum. When his son Jan Eijkelkamp took over the business he could not have foreseen that today this same business would be counted among the foremost of global leaders in the area of testing equipment in environmental and agricultural research.

In 1948 Jan Eijkelkamp manufactured the first hand-operated soil drill for soil testing. It was this that became the first real foundation stone for Eijkelkamp Agrisearch Equipment BV, the company that has earned us our present day reputation. Already in those days Jan Eijkelkamp saw a future in the auger: "I felt that these soil augers were headed in the right direction. The augers were not only used for soil testing but also by farmers for setting creosoted poles in the ground." Within the space of ten years these hand-operated soil-drilling tools had achieved national and international recognition. The first mail-out became a reality and Fons Eijkelkamp, then still a little boy, was kept busy sticking stamps on this first marketing initiative.

1970 was the year when Fons Eijkelkamp joined Eijkelkamp Agrisearch Equipment. The existing range of products was soon added to and in 1980 the company relocated from Lathum and Eijkelkamp Agrisearch Equipment took up its new residence at Giesbeek. A decision was made in the same year to add more merchandise to the range. It became easier in this way for customers to obtain a total product package from Eijkelkamp Agrisearch Equipment with the result that additional costs were significantly reduced. This led to an explosive growth of nearly 40% and in 1981 the business was

officially taken over by Fons Eijkelkamp. In 1997 the Giesbeek premises underwent extensive alterations with the addition of a large logistics centre and de luxe premises for holding courses. The developments continued to take place in quick succession, however, and in 2000 Eijkelkamp Agrisearch Equipment was once again in need of more room and went on to buy an additional building.

In 2006 SonicSampDrill (a spin-off of Eijkelkamp Agrisearch Equipment) was founded as an independent company with Fons Eijkelkamp as the managing director.

### **Mission**

“Eijkelkamp Agrisearch Equipment intends to travel into the future with its reputation upheld as one of the world’s leaders in the design and manufacture of equipment for environmental and agricultural research. Its entire business approach is aimed at continuity and manageable growth.”<sup>137</sup>

“Eijkelkamp Agrisearch Equipment maintains an open and informal business culture which is focused on the involvement and commitment of staff, suppliers and customers alike. Sound information, products of high quality, reliable delivery and full attention to after-sales-service are the corner stones of Eijkelkamp. In addition Eijkelkamp Agrisearch Equipment pours much effort into pushing worldwide organization and transfer of knowledge about testing equipment to higher and higher levels. Eijkelkamp Agrisearch Equipment is keen to exercise a directing influence on the entire process including marketing, sales, product development and production through to delivery into the hands of the end user.”<sup>138</sup>

### **General statistics on the current status of the business**

Number of employees:	91
Number of products:	Over 2000
Number of countries with distributor:	60
Total number of countries:	Over 100
Total Sales 2010 (gross):	€ 17.500.000,--
Sales from export (gross):	€ 9.700.000,--

### **Structure**

The legal structure of Eijkelkamp Agrisearch Equipment BV is a ‘Besloten Vennootschap’. This structure is similar to a Private Limited Company (Ltd) in Great Britain.<sup>139</sup>

Eijkelkamp Agrisearch Equipment BV is one of the four subsidiaries of the Eijkelkamp Earth Sampling Group BV. (EESG). “EESG is a holding that consists of several companies that produce and supply products and services for environmental soil and (ground)water research and monitoring.”<sup>140</sup>

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<sup>137</sup> Eijkelkamp Agrisearch Equipment BV

<sup>138</sup> Eijkelkamp Agrisearch Equipment BV

<sup>139</sup> Kamer van Koophandel (www.kvk.nl)

### **Distributor network**

For most international sales Eijkelkamp relies on an extensive network of distributors. Table 13 shows a complete list of all countries in which Eijkelkamp has a distributor.

<b>Distributor network of Eijkelkamp</b>		
Argentina	Australia	Austria
Belize	Brazil	Brunei Darussalam
Bulgaria	Buthan	Canada
China	Colombia	Costa rica
Cyprus	Czech Republic	Denmark
Ecuador	Egypt	El Salvador
Estonia	Ethiopia	Finland
France	Germany	Greece
Guatemala	Honduras	Hungary
India	Iran, islamic republic of	Iraq
Ireland	Israel	Italy
Japan	Korea, republic of	Latvia
Lithuania	Malaysia	Mexico
Nepal	Nicaragua	Norway
Panama	Poland	Portugal
Romania	Russia	Saudi Arabia
Serbia	Singapore	Slovakia
Slovenia	South-Africa	Spain
Sweden	Switzerland	Taiwan, republic of China
Thailand	Turkey	Vietnam
United Kingdom	United States	

**Table 13 Distributor network of Eijkelkamp (source: Eijkelkamp Agrisearch Equipment BV)**

<sup>140</sup> Eijkelkamp Earth Sampling Group B.V. ([www.earthsamplinggroup.com](http://www.earthsamplinggroup.com))

## **Appendix 5 - Dun & Bradstreet Limited Country Report Iraq**

The following report contains valuable information on trade regulations and the business environment of Iraq. The report is provided by the NL EVD Internationaal as the most reliable source of business information for Iraq.

## Commercial Environment

### Overview

*The commercial environment remains challenging*

Although the various governments since the overthrow of the Hussein regime have emphasised the need to liberalise the economy, progress to improve the commercial environment has been patchy. The necessary legislation, on which the basis of a modern economy can be built, has been passed. However, implementation remains weak, while the uncertain security situation continues to hinder the development of a private sector.

As a result, the World Bank *Doing Business Report 2010* ranks Iraq 153 out of 183 countries in terms of ease of doing business, down from 150 in 2009. It is also bottom of the regional rankings behind Iran and Syria. Furthermore, the survey ignores the issue of security. Iraq is ranked below average in seven of the ten categories measured and only ranks in the top 50 countries in terms of paying taxes and registering a property.

### Physical Environment

Aside from its oil and natural gas reserves, Iraq has few natural resources and, in current circumstances, a limited endowment of arable land. There is considerable potential for the rebuilding of agricultural capacity, given the necessary investment. However, available investment funds are more likely to be channelled towards the hydrocarbons sector, and the availability of water remains an issue. Water for irrigation purposes comes mainly from the Tigris and Euphrates rivers, but these sources are both significantly affected by upstream dam and irrigation projects in Syria and Turkey, and the flow varies considerably from year to year depending on rain and snow conditions in the north of the country and in Turkey.

### Natural Environment

*Iraq has the third largest oil reserves in the world*

Iraq has the third largest reserves of oil in the world, after Saudi Arabia and Canada, with proven reserves of 115bn barrels (the same level as in 1990 because of the lack of new exploration), about 65% of which is in southern Iraq. However, only about 10% of the country has been explored for reserves and there is potential to double the reserve figure. In addition, extraction costs are among the lowest in the world. Furthermore, Iraq's gas reserves are also severely under-exploited: reserves are 110trn cubic feet, while industry estimates of unexplored potential range as high as 180trn cubic feet.

Agricultural development is periodically hampered by both drought and flooding, given the very flat topography of the southern half of the country and the variations in water flow in the Tigris and Euphrates. For example, in both 2008 and 2009, severe water shortages meant that grain production was severely curtailed in the major northern rain-fed provinces after poor autumn rainfall caused many farmers to abort sowing operations. Crop yields are also expected to be significantly reduced in major southern irrigated provinces in 2009 owing to severe shortages of irrigation water in the Tigris and Euphrates river systems during the wheat growing season. During the winter months, water levels dropped precipitously along both rivers owing to restricted releases of water from upstream reservoirs in Turkey.

### Infrastructure

A combination of war, post-invasion violence and earlier periods of underinvestment has left Iraq with severe deficiencies in terms of its physical infrastructure. In much of the country access to clean drinking water, sanitation and health services is limited. Electricity shortages are commonplace, with existing capacity able to meet only around 50% of demand, and the government estimates that there is a need for around USD28bn in new investment in generating capacity by 2012. Telephone services are also unreliable. Even in the key oil sector, there is a pressing need for investment in

repairing and upgrading oil production and refining capacity. There is also considerable scope to utilise existing and potential natural gas resources, and to develop refining capacity and downstream hydrocarbon activities. The country's transport infrastructure is also in need of significant investment. The transport ministry has plans to upgrade the country's rail network, including the planned construction of a new line between Baiji, location of Iraq's largest oil refinery, to Aleppo in Syria. It also hopes to build a new container port at Al Fao in the south of the country, adding to the capacity of the country's only existing deep water port at Umm Qasr. However, the scale of the infrastructure investment needed is vast, and will probably require the participation of foreign, private sector investors. However, the security situation will need to improve if Iraq hopes to attract sufficient foreign capital.

## Legal and Regulatory Environment

Along with the security situation, Iraq's legal and regulatory system is the weakest aspect of its business environment. In almost every category, the current system scores appallingly. Corruption, rule of law, enforceability of contracts and corporate governance are all major weaknesses.

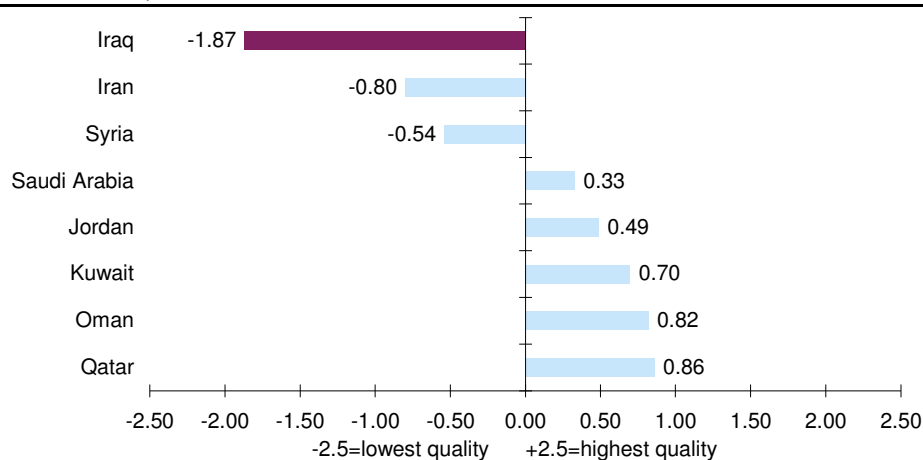
### Judicial Environment

#### *The Judiciary and Contract Enforcement*

***The rule of law is one of the worst in the world***

Although the constitution states that the judiciary is nominally independent, political influence is sometimes exerted in order to secure outcomes that may be more suitable to the government and/or related parties. According to the World Bank's 2008 *Worldwide Governance Indicators* survey, Iraq was one of the worst rated countries in terms of rule of law, albeit a slight improvement since 2004 when it scored -2.01.

#### Rule of Law, 2008



Note: The World Bank's *Worldwide Governance Indicators* are derived from annual surveys of businesses, citizens and experts in nearly 200 countries on six governance indicators: voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; and control of corruption.

Source: World Bank, *Worldwide Governance Indicators*

***Contract enforcement remains an area of weakness***

In terms of contract enforcement, Iraq's performance is also weak. In the World Bank's *Doing Business 2010*, Iraq ranked 139 out of 183 countries. Although this was an improvement from 148 in the 2009 survey, enforcing contracts clearly remains a problem area. Iraq's poor showing in the World Bank's analysis reflects various ongoing issues, including a high (average) number of procedures (red tape) pertaining to contract enforcement (51 compared to a regional average of 43.4 and an OECD average of 30.6), time delays (it takes an average of 520 days to enforce a contract in Iraq, below the OECD average of 462.4 days), and relatively high costs (the average cost of contract enforcement is equal to 27.3% of the claim, in excess of 23.7% for the region and 19.2% for the OECD).



### *Protection of Intellectual Property Rights*

Iraq is a member of the World Intellectual Property Organisation (WIPO) and is a signatory to the Paris Convention for the Protection of Industrial Property but not the Berne Convention or the Patent Co-operation Treaty. The Coalition Provisional Authority updated the intellectual property laws.

*Patents:* Invention patents are valid 20 years from date of application. Prior public knowledge or use anywhere is prejudicial. There is no opposition provision. Patent must be worked within three years and not discontinued for two years, otherwise they are subject to compulsory license or revocation.

*Trademarks:* Registrations are valid 15 years from application filing date, renewable for similar periods. A registered mark becomes incontestable after five years. Applicant, as user or intended user, is entitled to registration. Applications given preliminary search; published opposition three consecutive times; opposition must be filed within 90 days of last publication date. Registration not used for two consecutive years can be cancelled unless owner proves non-use was due to circumstances over which he had no control. As of May 2001, service marks may be registered.

*Copyrights:* Copyright laws on books, audio cassettes, records and computer software are generally not enforced and pirated items are openly sold on the local market. In April 2004, the Coalition Provisional Authority (CPA) issued Order 84 regulating copyrights. Order 84 grants copyright protection for the life of the author plus 50 years or 50 years for collective works.

### **Corporate Governance**

The Companies Law of 1997 was substantially amended in February 2004 with the issuance of Order No. 64, which brings the legislation into line with international norms. The amendments allow any Iraqi or foreign person or legal entity to establish or own an interest in a company in Iraq. The amendments also require the Registrar in the Iraqi Ministry of Trade to either approve or disapprove in writing within ten days any application to register a new company.

#### *Company Organisation*

Company Law No. 21 of 1997 as amended by Ministerial Instruction No. 196 of March 2004 permits the following types of corporate structure:

*Mixed or Private Joint Stock Company:* Requires at least five people. Its capital cannot be less than IQD2m, while its liabilities may not exceed 300% of its total capital and other equity rights. Any company that is engaged in insurance and reinsurance or financial investment must form a joint stock company.

*Mixed or Private Limited Liability Company:* This type of company can comprise of no more than 25 persons, all of whom must subscribe to its shares and be responsible for its debts. The capital cannot be less than IQD1m.

*Joint Liability Company:* Must comprise of not less than two and not more than 25 persons, each owning a quota of its capital. They are jointly and personally responsible for unlimited obligations. The capital cannot be less than IQD0.5m.

*Sole Owner:* Can be either sole owner or sole owner limited liability.

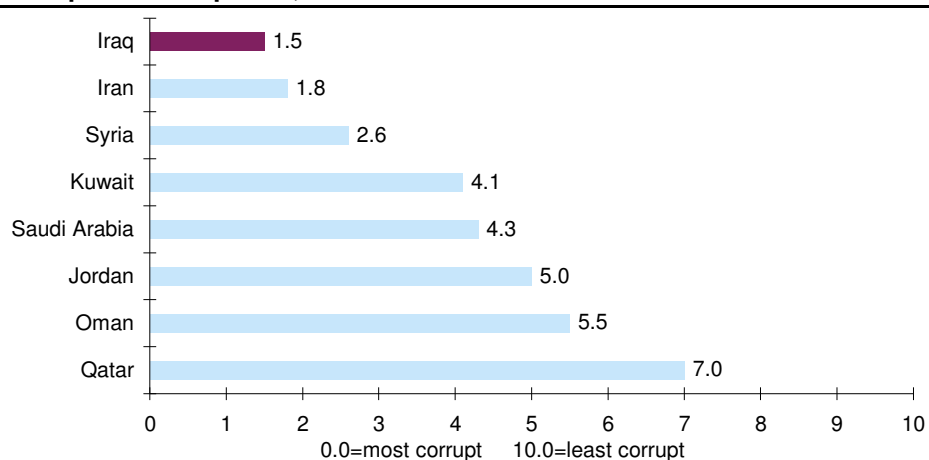
*Mixed Company:* A mixed company is formed by the agreement between one or more persons from the state sector and one or more persons from outside this sector. The state's share must not be initially less than 25%: if the share subsequently falls below 25% then the company will be regarded as a private sector company. The mixed sector company can be a joint-stock company or a limited liability company.

*Private Sector Company:* A private sector company can be a joint-stock company, a limited liability company, a joint liability company, a sole owner enterprise or a simple company.

## Corruption

Corruption is a major problem. It was already endemic under the Hussein regime and has not been helped by problems experienced during the UN's oil-for-food programme or the chaos experienced when the Coalition Provisional Authority held power. However, the subsequent Iraqi-run governments have also been riddled with corruption up to ministerial level. The lack of a sophisticated banking system has resulted in government contracts being paid for by suitcases of cash, while the lack of accountability has further encouraged significant corruption at the top of the political system. This has fed through to the business environment.

### Corruption Perceptions, 2009



Source: Transparency International, *Corruption Perceptions Index*

In Transparency International's 2009 *Corruption Perception Index*, Iraq was ranked 176 out of 180 countries, with only Sudan, Myanmar, Afghanistan and Somalia ranked worse; in 2006 the country was ranked 159 out of 160 countries. The index reveals that the worsening trend experienced between 2005 (when Iraq scored 2.2) to 2008 (scored 1.5) reversed in 2009 when it was scored at 1.8 (where 10.0 is the lowest level of perceived corruption and 0.0 is the highest).

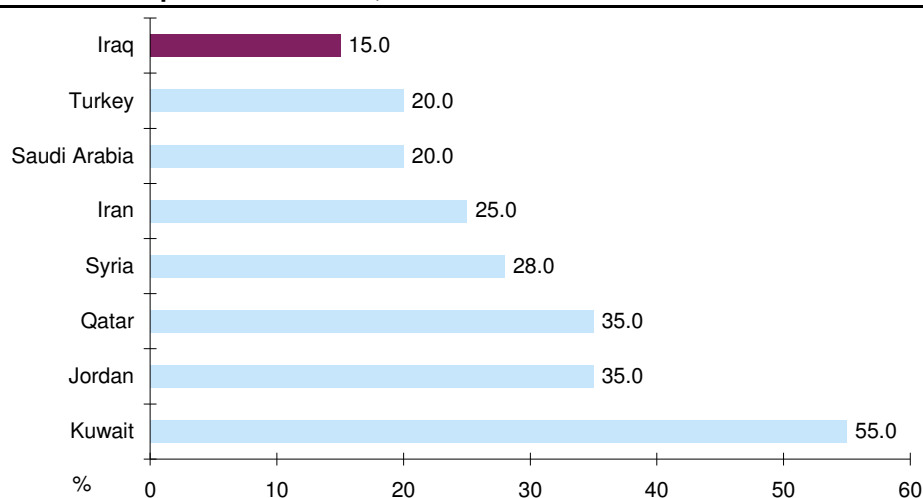
Iraq has established a Commission on Public Integrity (CPI), which is the co-ordinating umbrella organisation for the other two pillars (the Board of Supreme Audit and Inspector General Programme) of the national strategic anti-corruption campaign. The CPI seeks to promote and advance open, honest and accountable government through public education and awareness programmes, allowing citizens to report corruption through anonymous means. In October 2007, the head of the CPI Judge Radhi Hamzi al-Rahdi, after fleeing Iraq, appeared before a US Senate Committee at which he accused Prime Minister Nuri al-Maliki of protecting corrupt employees and trying to eradicate the CPI. In the present climate it is almost impossible for the CPI to operate effectively.

## Taxation

Corporate taxation is set at a flat rate of 15%, while income tax is progressive up to a maximum of 15%. However, foreign employees, contractors and subcontractors are not liable to pay taxes on income from foreign sources. All employees must pay 5% of their salary as a contribution to the social security system, with the employers' contribution set at 12%. Most other taxes have been suspended. A hotel tax of 10%, a real property transfer tax of 10%, a car sale fee and a petrol excise tax remain in force; however, implementing a tax system on a population that has traditionally not been used to taxes

is encountering opposition. Furthermore, the bureaucracy for collecting such taxes will need to be built from scratch. In the medium term, a form of sales tax can be expected to be introduced as a prelude to a full VAT.

### Headline Corporate Tax Rates, 2008



Source: KPMG, *Corporate and Indirect Tax Rate Survey*

### Trade Environment

In the period from 1996 to May 2003, all legal trade was undertaken under the auspices of the highly regulated oil-for-food programme. Illegal trade was also carried out by the Iraqi regime through the smuggling of oil to pay for imports outside the control of the UN. Following the war in 2003, the UN removed the sanctions regime, while the Coalition Provisional Authority put in place the necessary legislation required by a modern economy, including a law liberalising trade, legislation encouraging foreign investment, a new companies law and a new banking law; it also established the Trade Bank of Iraq and a new Custom Service, and removed all barriers to trade, including quotas and customs duties. A reconstruction levy of 5% on most imports was introduced with effect from January 2004 (see **Tariffs**, p41). In addition, the importation of fuel was fully liberalised in late 2006 in line with the IMF programme.

Despite these positive developments, five major problems need to be addressed for the trade sector to develop:

- the weakness of the banking sector (see **Financial Sector Risk**, p35);
- the uncertain security situation, which is deterring the international export credit agencies from offering full terms;
- establishing the necessary institutions of a modern business environment, such as a credit reference bureau;
- the difficulty of importing goods through Iraq's only port at Umm Qasr (see **Other Commercial Risks**, p35); and
- ensuring legislation is acted on (although much of the legislation is in place, the security situation means that implementation is given a low priority).

### Current Account Exchange Regulations

The Coalition Provisional Authority abolished the previous regulations, and the only prescription that remains is the ban on transactions with Israel. In June 2004, the Coalition Provisional Authority promulgated an anti-money laundering act, which includes terrorist financing. The legislation meets international norms.

The central bank limits the export of domestic currency to IQD200,000 per Iraqi adult and to USD10,000 or its equivalent in foreign currency per Iraqi adult. Foreigners may take out the amount imported. Amounts in excess of the limits may be transferred for purposes of importing goods or making external payments not made through the banking system on submission of supporting documents.

Iraq has not accepted the obligations of Article VIII, Sections 2, 3 and 4 of the IMF's Articles of Agreement, which would ensure that the riyal is convertible for current account transactions. However, the government has acknowledged that it intends to work towards acceptance.

## Trade Regulations

### Tariffs

One of the first moves implemented by the Coalition Provisional Authority was the opening of all trade, which included the suspension of all customs duties. However, the Coalition Provisional Authority introduced a reconstruction levy of 5% on all imports from January 2004, with a number of exceptions. The government agreed to change the reconstruction levy into a flat rate import duty, with reduced exemptions, with effect from April 2006. In the long term, accession to the WTO will ensure duties remain low.

### Quotas and Licences

Imports are no longer restricted by UN or national sanctions. Imports of commodities are normally handled by the public sector. Iraq maintains a negative list of items that are prohibited from importation: arms and ammunition, non-medical drugs, and goods contrary to public norms.

### Non-Tariff Barriers

The lifting of UN sanctions and the opening of the economy by the Coalition Provisional Authority has removed virtually all non-tariff barriers. There is little likelihood that the government will re-impose these barriers in the medium term. There are restrictions on a number of goods, primarily dual use items. Imports of all goods from Israel are prohibited. Iraq prohibits the importation of used cars manufactured before 2004. Poultry imports have been banned from areas reporting bird flu.

### Non-Tariff Trade Barriers

	<i>Iraq</i>	<i>Region Average</i>	<i>OECD Average</i>
Documents required for export (number)	10	6.5	4.5
Time required for export (days)	102	23.3	10.7
Cost to export (USD per container)	3,900	1,024	1,069
Documents required for import (number)	10	7.6	5.1
Time required for import (days)	101	26.7	11.4
Cost to import (USD per container)	3,900	1,205	1,133

Source: World Bank, *Doing Business*

### Trade Documentation

Legalisation of commercial invoices and certificates of origin by the appropriate chamber of commerce is required before presentation to the appropriate Iraqi consulate or interests section for certification.

*Bill of Lading:* A minimum of three copies is required. 'To order' bills are generally acceptable. In the case of an LC, the bill of lading is to be made out in the name of the bank. No special form is necessary, but it should give names of the shipper, consignee, vessel, port of discharge; number and markings of packages; kind of packages; gross weight; and contents. Nationality of vessel must be given or banks will reject

documents. Quantities, weights and values should agree with those given in the invoice. If goods are covered by a bill of lading dated earlier than the corresponding import licence, they are liable for confiscation.

*Certificate of Origin:* The importer, bank or a clause in the LC may demand a separate certificate of origin. A general form (sold by stationers) should be used. The country of origin statement must appear on the invoice. If products contain any components foreign to the stated country of origin, their origin and percentage should be indicated. The full name and address of the manufacturer(s) should be included. The following declaration must appear on certificates of origin issued in the US: 'We certify that the goods are wholly produced in the USA and do not contain any foreign material'.

*Commercial Invoice:* No prescribed form, which should be made out in an original and a minimum of five copies. It should contain all the particulars and details necessary for the assessment of customs duty, including description of goods, price, quantity, quality and freight charges, cost of packing, marks, weight, number of packages and country of origin. Freight charges must be shown separately from the value of the merchandise (banks will reject documents if not shown separately). Wording on the invoice should agree exactly with the description on the import licence. If the products contain any components foreign to the stated country of origin, the origin of the foreign components and percentage thereof should be indicated. The full name and address of the manufacturer(s) should also be included. The following declaration must appear on commercial invoices issued in the US: 'We certify that the goods are wholly produced in the USA and do not contain any foreign material'.

The commercial invoice must be certified by a chamber of commerce as to current export market prices and country of origin. It is then to be taken or sent to the Iraqi consulate or Iraqi Interests Section for legalisation. Only the original of the invoice is presented for legalisation; however, the importer's instructions should be followed in this matter, as they may require extra legalised copies. The original visaed invoice should be sent to Iraq along with three to five un-visaed copies.

*Insurance Certificate:* Goods must be insured in Iraq with the National Insurance Company.

*Packing List:* Packing lists in duplicate must accompany other documents and should itemise the contents of each shipping container, including marks, description, weights, sizes, quantities and colours.

*Pre-shipment Inspection:* May be requested by importer.

*Pro-forma Invoice:* May be requested by importer to substantiate application for import licence or as the first step in negotiating an import contract.

#### *Other Documents*

*Analytical Certificate:* Importers of antibiotics and formulations thereof must present at customs an analytical certificate on a special form, legalised by an Iraqi Consul. This certificate should be prepared in English by a recognised laboratory and must be furnished every six months.

*Health and Sanitary Certificates:* Livestock (including dogs and cats) and animal products are subject to quarantine and health controls and must be covered by health/veterinary certificates. Foodstuffs are also subject to strict controls, including the production of special certificates issued by officials in country of origin. Special requirements govern imports of used paper and old newspapers (must be covered by sanitary certificate certifying freedom from infectious diseases) and used clothing (must be covered by a fumigation certificate from a recognised company).

## Investment Environment

The security situation will dictate the foreign investment environment into the medium term. Investment that does not require significant investment in fixed assets (such as in the services sector) has tended to be more attractive. A second problem in attracting investment in the hydrocarbon sector is the failure of the government to pass a new hydrocarbon law (see **Policy Agenda**, p8). This has resulted in the Kurdish regional government in the north of the country passing its own laws and attracting hydrocarbon investment. However, the central government has refused to recognise contracts between the international oil companies and the KRG, and has banned any companies that have signed agreements from becoming involved in exploiting oil fields in the rest of the country. A new hydrocarbon law has been under discussion for over 18 months and was no nearer to being passed as of October 2009.

### Foreign Investment Laws

The previous regime imposed a blanket ban on foreign, non-Arab investment; Arab foreign investment was permitted, although disallowed by the UN sanctions regime. The Coalition Provisional Authority reversed this policy with the issuance of Order No. 39 of September 2003 (amended by Order No. 46), which replaced all existing foreign investment legislation. Thereafter, a new national investment law was approved by parliament in October. The key elements of the draft law were to:

- establish a National Commission for Investment, to take responsibility for designing investment policies, drafting regulations and monitoring their application;
- allow regions and provinces to establish their own investment bodies;
- equalise the position of domestic and foreign investors; and
- permit investment in the stock market.
- The law also exempted investments from fees and taxes for ten years (15 years if an Iraqi investor contributes 50% or more of the project).

However, the original law did not apply to:

- investment in oil and gas extraction activities; the new draft hydrocarbon law remains with parliament despite two years of debate
- investment in the banking and insurance sectors;
- land ownership, except for housing projects (land can be owned by Iraqis as separate units; otherwise, it is leased for a period of 50 years, which is renewable).

The text of the law stipulates that projects with a capital of over USD150m require cabinet approval. Applications should be reviewed by the board within 45 days of receiving the application.

The new investment law permits regional governments, such as in the Kurdish north, to establish their own investment bodies. However, this has caused significant tensions between the regional and central government authorities, particularly in relation to the lucrative hydrocarbon sector; as a result, foreign investors have found themselves caught up in political in-fighting between the central and regional governments. International oil companies that have signed contracts with the KRG have found themselves barred from tendering for the more lucrative hydrocarbon in the south of the country.

The June 2009, Iraqi government approved a bill amending the 2006 Investment Law, which allows foreign companies to buy land dedicated to a specific investment project.

The changes also permit foreign investors to trade on the Iraq Stock Exchange and form joint ventures with public and private companies

### **Capital Account Exchange Regulations**

The Coalition Provisional Authority permitted all capital transfers; this policy has been continued by subsequent governments and is not expected to change in the medium term. However, restrictions remain on foreign ownership in extracting and producing oil and gas, and land ownership.

### **Investment Incentives**

There are no specific investment incentives at present. Incentives in the post-sanctions era will depend on a number of factors, including when and if the new national investment law is passed, the level of interest among foreign companies, when Iraq joins the WTO and the government's economic policy priorities. In the medium term, the government can be expected to introduce investment incentives, permitted under WTO regulations.