

**CHOICE OF FOREIGN COUNTRY ENTRY STRATEGIES FOR GLOBAL  
FIRMS: A CASE OF ERICSSON KENYA**

**By  
DAVID MULONGO WAMUKOYA**

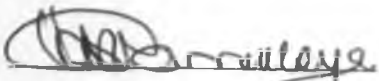
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of the degree of Master of Business Administration, School of Business

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## DECLARATION

This project is my original work and has never been presented for academic purposes in any other university.



David Mulongo Wamukoya

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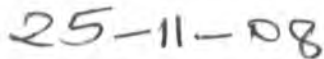


Date

This project has been submitted with my approval as university supervisor



Eliud O. Mududa



Date

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## ABSTRACT

Global companies are left with no choice but to compete on a global scale. This is occasioned by shrinking of markets within their immediate environment, spreading of customers and intensification of business. How they spread out and penetrate other foreign markets remains critical in them achieving their business objectives. Foreign markets are characterized by change of environment and increased competition. The choice of entry strategies into these countries remains critical to their success.

The study focused on strategies used by Ericsson to enter the Eastern Africa region using an operational base in Nairobi Kenya. Data was collected using in-depth interviews with senior managers at Ericsson Kenya. Information was analyzed using content analysis.

From the findings Ericsson established Ericsson Kenya as a subsidiary to help it conquer the Eastern Africa market in the Telecommunication sector. Whereas it exports equipment to the region from outside plants, Ericsson has set up a regional office in Kenya to serve as a centre for exportation of service to the region. The study revealed that for Ericsson, keeping close to the customer and offering good service remains very strategic in their foreign business expansion in the region. While following the values of the parent company, Ericsson Kenya has allowed localization through development and training of the locals to run the regional company. Ericsson Kenya collaborates and co-operates a lot with other regions within the market unit in a bid to benefit from economies of scale and information exchange.

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## **LIST OF ABBREVIATIONS**

LDC.....	Less Developed countries
MNC.....	Multinational Corporations
MNE.....	Multinational Entreprises
NSN.....	Nokia Siemens Network
FDI.....	Foreign Direct investment
EAC.....	East African Community
ECOWAS.....	Economic Community of West African States
EU.....	European Union
GATT.....	General Agreement on Tariffs and Trade
UNCTAD.....	United Nations Conference on Trade and Development
ICMBA.....	Internet Centre for Management and Business Administration
HSTX.....	Harris Stratex
COMESA.....	Common Markets for East & Southern Africa
SADC.....	Southern African Development Community

# CHAPTER 1: INTRODUCTION

## 1.1: Background

### 1.1.1: Foreign Entry and Operation Strategies

As markets shrink, competition intensifies and customers diversify their choices, most existing firms find it inevitable to seek untapped markets elsewhere. Such investments which are always geared towards foreign countries require strategic decisions on entry and operations. These includes but not limited to entry mode, timing, and within country location. The same are often interdependent with operational strategic issues concerning marketing, logistics, or human resource management. One of the strategies used by international firms to increase their market share is approaching worldwide markets with standardised products. This is also referred to as globalization. Such markets are normally created by end consumers who prefer low priced and standardised products over higher priced, customized products and by global corporations that use their worldwide operations to compete in local markets. Hill, (1995) looks at globalization as the trend towards and integrated economic system. This trend creates opportunities for business as well as threats and challenges for global players.

External and internal assessment has to be conducted before a firm enters global markets. External assessment involves critical assessment of features of the global environment with particular attention being given to the host nation in such areas as economic progress, political control and nationalism. Internal assessment involves identification of the basic strengths of firms operations in the host nation. The complexity of the global environment is occasioned by many factors such as but not limited to political, legal, social, geographic separation, competition and regional bloc.

While most of the developed world is leading in adopting Telecommunication innovations, their markets are equally saturated. This has resulted in an exodus of Multinationals to the developing world and especially Africa as witnessed in Eastern Africa. Eastern Africa has witnessed the influx of these multinationals. This has shifted competition arena from the developed world to the developing world.



Despite availability of the market, establishing and operating business in the developing countries is not smooth sailing. Developing countries have got unique barriers to foreign investors. Such include undeveloped infrastructure, political interference and retrogressive foreign investment policies among others. Entry strategies for doing business in developing and LDC are substantially the same as ones for entering industrialized countries. Some special strategic considerations may however be important when considering LDC due to relative political and economic instability compared with industrialized countries (Grosse and Kujawa, 1992). Global firms need to plan for potential problems before engaging in LDC. These emanate from the bare fact that such countries are caught in a spiral of struggle with low GNP and low per capita income. These creates the burden of relatively unskilled population and international debt burden (Dereskey, 1997). Even though the business potential in these countries is high the political risks are fairly high hence firms seeking business in these countries must be content with the risks.

Clearly, a decision by a firm to enter foreign markets may not be an end in itself unless it's coupled by appropriate entry and operations strategies. An appropriate strategy may be a source of competitive advantage abroad while an inappropriate strategy may act as a competitive liability. Kieti (2006) while researching on determinants of foreign entry strategies notes that choosing the wrong foreign entry strategy may result in operational sub-optimization which may result in business failure. An inappropriate choice of entry strategy may also result in undue exposure to adverse environmental factors especially when the chosen entry mode implies large resources commitment. (P:7)

### **1.1.2: Telecommunication Industry**

An industry can be defined as a group of companies offering products or services that are close substitutes for each other i.e. product and services that satisfy the same basic customer needs. A sector on the other hand is group of closely related industries of which it is part. The Telecommunication sector comprises of two industries, the telecommunication equipment industry and the Telecommunication services industry (Hill and Jones, 2004). Whereas the manufacturing industry is simple in terms of entry and operation strategies, the service industry presents a number of methodological problems (Hanneh, 1976). The size of the industry is neither quantifiable nor easy to define in terms of the service type.

Service industries tend to have a flat experience curve and lower economies of scale. High quality service products often depend on the service firm's culture even though maintaining a consistent culture when expanding globally is a challenge. Entry strategies will therefore be largely determined by the type of industry among other factors

Whereas foreign investments brings huge economic benefits, many countries fear opening up markets to foreign competition and foreign investment without restriction as they may loose control of strategic industries(Lin, 2008).Lin further argues that as a result the balance between economic gains and national sovereignty presents a challenging task.

The Telecommunication sector has substantial impact and influence on national security, social stability and economic development. Besides; this sector plays a dual role in economic activities, not only itself as a distinct circle in economic system but also by supplying means for other sectors. Telecommunications cover and relate to other industrial and economic sectors such as manufacturing, entertainment, and communication sectors.

The Telecommunication industry has a historical dominance of political imperatives in government-controlled industries across the world (Doz, 1986).Since 1984, however, forty-four Public Telecommunication Operators (PTOs) have been privatized raising 159 billion US dollars with about one –third of this investment coming from outside home countries (Lin,2008). Lin further mentions that under the process of privatization of telecommunication industries, there are an increasing numbers of opportunities for foreign investors to establish foreign subsidiaries or to combine with other joint ventures.

Eastern Africa is no exception to this with the recent structural adjustment that resulted in privatization has helping a lot in opening up the region to Multinational business. The sector is very lucrative in the Eastern African region mainly because liberalization is still taking place. The combination of stiff competition for the global firms in this sector and the inherent obstacles in the developing world provides an interesting recipe for any interested firm to concoct and ensure viable investment in the region. Ericsson, a leading Telecommunication firm seems to be leading others in East Africa. They have set up an operational hub in Kenya to serve the region.

### **1.1.3: Ericsson as a company**

Ericsson's history spans over four centuries having been established in 1876 as a telegraph repair shop by Lars Magnus Ericsson and incorporated in 1918. Headquartered in Kista, Stockholm Municipality since 2003, LM Ericsson is considered to be part of the so called "Wireless Valley". Creating a parallel with the Silicon Valley in the US, Sweden is sometimes given this name due to being a world leader in wireless technologies.

In the early 20<sup>th</sup> century, Ericsson dominated the world market for manual telephone exchanges but was late to introduce automatic equipment. Throughout the 1990s Ericsson held a 35-40 % market share of installed cellular telephone systems. Like most of the telecommunication industry, LM Ericsson suffered heavy losses after the telecommunication crash in the early years of the 2000s and had to retrench tens of thousands of staff worldwide in an attempt to staunch the losses.

LM Ericsson offers end-to-end solutions for all major mobile communication standards and has three business segments. The systems segment focuses on operations of mobile and fixed line public telephone networks. The phones segment focuses on distribution of mobile handsets to end users. The other operations consist of a number of various operations including Ericsson Mobile platforms, Network Technologies (Cables), Enterprise and Power modules.

Ericsson has been active in Africa since the 1890s when the company started providing fixed line infrastructure to North Africa and South Africa. Today the company is a leading supplier of telecommunications equipment and services to mobile and fixed network operators in sub-Saharan Africa. Ericsson's market in sub-Saharan Africa covers 43 African countries with a combined population of some 440 million people. This is also exemplified by commitment to strengthen its operations in Eastern Africa through a regional office in Nairobi, Kenya to serve its Eastern Africa customers.

## **1.2: Statement of the problem**

For global firms seeking foreign market expansion, entry decisions constitute a key component of the firms overall strategy. The choice of entry and operation modes must consider both the environment within the new markets and the expanded competition from firms in the same industry. Firms must choose appropriate entry strategies to enable them overcome competition amid the challenges of the new environment.

Ericsson, which is a worlds' leading Telecommunication technology with presence in 140 countries worldwide draws the attention for this study. It has approximately 49% of the African GSM market and is seeking to be the most successful telecommunications infrastructure supplier in the Eastern region. To achieve this it has to expand its market share and challenge competition from other multinationals in the region and the world at large.

It has set up a regional hub in Kenya to serve the Eastern region region. Ericsson's Eastern Africa region comprises of Kenya, Uganda, Tanzania, Rwanda, Burundi, Zambia and Democratic Republic of Congo. Multinationals in the Telecommunication industry such as Harris Stratex, a US based company, NEC, a Japanese based company, NSN, a Belgium based company, Alcatel a France based company have been doing business in the region for more than two decades now and continue attempting to increase their dominance.

Ericsson Kenya is meant to service at least 20 key customers in nine countries, while using Kenya as its operation hub. What factors has Ericsson considered in selecting entry strategies in the region amid competition and challenges unique environment?

Research studies exist in general about choice of foreign entry strategies for foreign global firms. I am not aware of one that has focused on Ericsson Kenya. In his research on factors considered important by Multinationals firm when deciding on the host country to invest Sharma, (1989) recommends that a wider research could be conducted to compare the investment incentives offered by Kenya and those offered by neighboring countries. This knowledge gap will be partly field by the findings of this study.

### **1.3: Objective of study**

1. The objective of this study was to determine entry strategies that have been used by Ericsson to venture into the Eastern Africa region while using Kenya as an operational hub. Critical issues in foreign country operations like location, co-ordination and organization design have been explored.

### **1.4: Importance of study**

Foreign country entry strategies are dictated by both the host country environment and competition. Knowing foreign country entry strategies contributes immensely in understanding how multinationals achieve their foreign market penetration. It also helps the government in formulating policies that can encourage Multinationals to invest in a country. There has been little theoretical or empirical research focused on how global companies in the Telecommunication sector are able to penetrate and operate in the Eastern region. This study presents a practical contribution on how Kenyan companies and the region at large can formulate their foreign country entry strategies and on what the governments have to do in order to create an enabling environment for foreign investors. The study also reveals new concepts in the field of foreign entry strategies for companies in the service industry.

The findings of this study will benefit the following interest groups:

1. The government in formulating policies that can maximize foreign investment opportunities and benefits.
2. The business fraternity in Eastern Africa region and Kenya in particular seeking to invest in foreign countries.
3. Local strategic management researchers and scholars who would like to identify areas for further research.

## CHAPTER 2: LITERATURE REVIEW

### 2.1: Globalization

Pearce and Robinson (2007) refer to globalization as the strategy of approaching worldwide markets with standardized products. Such products are commonly created by end consumers that prefer lower-priced, standardized products over high-priced, customized products and by global corporations that use their worldwide operations to compete in local markets. Johnson and Scholes (2002) observe that globalization is the convergence of markets as driven by a variety of reasons. Even though the term internalization and globalization are used interchangeably, there is some slight formal difference. Internalization generally qualifies as the importance of international trade, relations, treaties etc while globalization refers to economic integration on a global scale, into a global economy which blurs national boundaries. One would therefore not be able to discuss globalization without borrowing from internalization as the latter is a means towards globalization. Globalization as a way in which a firm has internationalized its business refers to spreading out internationally. Porter, in "Changing Patterns of International Competition" California Management Review, Winter 1986: (p18) views global strategy as one of the International strategic options. Based on this framework Porter looks at other options as export based strategy with decentralized marketing, country-centered strategy by Multinationals with a number of domestic firms operating in only one country and high foreign investment with extensive coordination among subsidiaries.

Globalization as a consequence creates global firms or corporations. Kotler and Keller (2006) define a global firm as one that operates in more than one country and captures R&D, production, logistical, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. Global firms plan, operate, and coordinate their activities on a worldwide basis. Global firms have generally also been referred to as Multinational corporations (MNC).

A concept that remains inseparable with a global firm is the global industry. Attempts have been made to classify international industries in order to clearly argue out on issues relating to globalization. Pearce and Robinson (2007) argue out that international industries can be ranked along a continuum ranging from multi-domestic to global. A multi-domestic industry is one in which competition is essentially segmented from country to country. Examples of such industries include retailing, insurance and consumer finance. In a multi-domestic industry global corporations should be managed as distinct entities i.e. the subsidiary is rather autonomous. They further define a global industry as one in which competition crosses national borders. In a global industry, firm's strategic moves in one country can be significantly affected by its competitive position in another country. Among the industries universally agreed to be global include aircraft, automobiles, mainframe computers and electronic consumer equipment. The unprecedented growth in the ICT sector has resulted in Telecommunications fast becoming a global industry. Porter (2004) defines a global industry as one in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions. Global industries require a firm to compete on a worldwide, coordinated basis or face strategic disadvantages. Porter argues that some industries are international in the sense of being populated by multinational companies but they do not have the essential characteristics of a global industry.

Globalization has been spurred by several factors in the international business. There has been convergence of markets worldwide for a variety of reasons. In some markets customer needs and preferences are becoming more similar. As some markets globalize, those operating in search markets become global customers and may search for suppliers who can operate on global basis (Johnson and Scholes, 2002).

Cost advantages also result into globalization. This is prominent in industries in which large volumes; standardized production is required for optimum economies of scale. Some cost advantages may also be obtained by lower costs including labour, materials, transportation and financing which may be lower outside the home country.

Government policies i.e. regulations and restrictions have also tended to drive the globalization industry. Some regulations and restrictions may increase the cost of running business at home thus forcing firms to establish business outside their home country. It may also be that particular host governments actively encourage global operators to base themselves in their countries. Closely related to particular countries policies is the issue of trade barriers. Tariffs, quotas, buy-local policies, and other restrictive trade practices can make imports to foreign markets less attractive, thus making operations in foreign locations more attractive.

Global competition is also spurring globalization. One way of companies fighting off competitors who have become international is to adopt some level of foreign operations. Fundamentally, an industry becomes a global industry because there are economic advantages to a firm competing in a coordinated way in many markets (Porter, 2004). Globalization therefore comes with distinct strategic advantages as well as impediments.

## **2.2: Global business environment forces**

Global business, just like domestic business operates within some unique environment understanding the myriad and sometimes subtle nuances of competing in global markets and against global corporations is rapidly becoming a required competence of strategic managers (Pearce and Robinson, 2007). Besides the explicit factors that firms experience while operating in a stable domestic environment, they encounter new competition and competitive dynamics when they move abroad. They also have to deal with non-quantifiable forces in an international environment which remain in the background and are taken for granted (Ansoff, 1993). Operating in an international business broadens the options of strategic maneuvers a company might make in competing both locally and internationally. The new opportunities that beckon international investors also come with new challenges of managing strategy, organization, and operations that are innately more complex, diverse and uncertain (Mintzberg, Lampel, Brian and Ghoshal, 2003).



Scholars have used different frameworks to classify business environment. It is this environment that provides the framework of opportunities, challenges, threats and risks and constraints within which firm strategies are conceived and implemented (Radebough and Erwee, 2000). Such include macro and micro environment (Johnson and Scholes, 2002), remote, industry and operating environment and economic, political, socio-cultural otherwise commonly referred to as the PESTEL as advanced by Porter, (1980). PESTEL framework will form the basis of analyzing the literature on global business environment with some reconfiguration to make it more relevant.

### *The Economic framework*

The economic framework looks at factors that either directly or indirectly affects a firm's wealth creation and distribution. The major components of economic framework are international trade factors, international financial factors, and population factors. Others include income factors, natural resources, economic development and foreign investment. Different economic systems of the host country will affect foreign investors differently. In a centrally planned economy the government allocates and controls resources while in a market economy individuals allocate and control resources (Radebaugh and Erwee, 2000). Foreign investors seeking business in the latter economy will definitely be faced with a lot of bureaucracy in their business operations

The international trade factors include Exchange rate, regional and international groupings and balance of payments. International trade involves use of different national currencies. The exchange rate system determines how foreign exchange rates are set. A country's choice of exchange rate system will either attract or discourage foreign investment. Foreign exchange rate systems could be purely floating, fixed exchange or a hybrid of the two. Positive balances of payment, sound fiscal and monetary policy are among the financial factors that will attract foreign investment as observed by Yabs (2006). Balance of payments indicates the flow of economic transactions within foreigners.

Regionalization has become an increasingly important feature of the global business environment since the Second World War, although the constructs on which regional

integration are based principally free trade are far from new (Hannagan, 2002). Regional and international groups play a critical role in the international business environment. Trading blocs promote free trade within member countries. They however suffer from limitation by quotas, uneven playing grounds and competition. Globals are restricted in their selection of competitive strategies by various regional blocs and economic integrations, such as the European Economic Community, the European Free trade area, and Latin American Free Trade area (Pearce and Robinson, 2007).

International financial factors are policies adopted by the international community to control financial transactions among world nations. Such are accomplished through international world bodies like International monetary fund (IMF), World Bank and United Nations development Fund (UNDP). Policies taken by international financial institutions may or may not favor international trade. The IMF typically makes conditional loans requiring debt countries to implement macroeconomic policies or structural reforms that will alleviate balance of payments problems such as control of inflation or devaluation of currency. The World Bank lends out long term loans for projects which cannot be funded by the private-sector. Such long term loans enable goods and services to flow from advanced nations to developing nations

Demographic factors include size of population, population growth rate, population distribution and composition of population. The most demographic force that marketers monitor is population because people make up markets. Marketers are keenly interested in the size of and growth rate of population in cities, regions, and nations: age distribution and ethnic mix; educational levels; household patterns; and regional characteristics and movements (Kotler and Keller, 2006). National populations vary in their age mix. As different age groups consume services differently it's critical for any foreign investor to factor in this while moving to a foreign country. Countries also vary in ethnic and racial makeup. Firms will therefore look for markets to suit their products or tailor their products to appeal to a certain population depending on the mix.

Income factors include per capita income, income distribution and Gross national product. Markets require purchasing power as well as people. The available purchasing power in an economy depends on current income, prices, savings, debt, and credit availability (Kotler and Keller, 2006). Nationals vary greatly in level and distribution of income and industrial structure. There are four types of industrial structures: subsistence economies, raw material exporting economies, industrializing economies and industrial economies. Each of these structures provides unique recipes for interested foreign firms seeking investments. Globals face extreme competition, because of differences in industry structures within countries. Countries with a high GNP are more welcoming to big multinationals as there is no threat to their sovereignty from larger and more powerful MNC (Mukherjee, 1996).

Another important factor that influences foreign investments is the natural resources. These include mineral and Agricultural products, Topography, Climate, wildlife and others like rivers, lakes, and forests. Firms need to be aware of the threats and opportunities with four trends in the natural environment: shortage of raw materials, increase cost of energy, increased pollution levels and the changing role of governments (Kotler and Keller, 2006). Factors such as availability of local raw materials, proximity of site to export markets and availability of power have direct impact on profitability and operations.

The level of economic development of a country is another important factor that must be considered by a foreign firm seeking foreign investment. Slow economic growth which is characterized by poor infrastructure in terms of roads, communication, energy supplies can be deterrent to some global firms depending of the type of investment. Low level of urbanization is a deterrent to some industries that entirely rely on developed towns to meet their business objectives.

Foreign investment portfolio is yet another important factor considered in a global business environment. A combination of some industries within a country creates some synergy that can be utilized by new investors. Existence of other foreign investment firms also signifies the host government's good will to foreign investors. The methods and strategies existing which foreign firms have used to invest in a market is normally good indicator of what new entrants must do.

### *Political – Legal framework*

This comprises laws, government agencies, and pressure groups that influence and limit various organizations and individuals (Kotler and Keller, 2007). Sovereignty issues among countries have resulted into as many political-legal frameworks as there are countries across the globe. Pearce and Robinson, (2007) points out that interaction between the national and foreign environments is complex, because of national sovereignty issues and differing economic and social conditions.

Government investment policies towards investments and purchasing provides unique environment that must be studied by MNC before investing. Government ownership may either be sole ownership or part ownership in a particular industry. Each of this has far reaching implications for potential foreign investors. Depending on the investment policy, the government may end up being the only competitor for international firm in an industry. In some cases the government monopoly may preclude any other firm from operating in the industry. The structure of purchasing and consumption between the government and the public must be established in any industry or country. Some structures leave the government as the largest single buyer of certain goods and services and yet the government purchasing and payment procedures tend to be quite elaborate and protracted. Radebaugh et al, (2000) appear to concur with Pearce and Robinson by pointing out that the political impact on international business is relatively complex because it's subject to multiplicity of influences.

Governments are bound to influence their citizens differently as they grow politically. Business operations in a country are greatly influenced by a country's political – economic ideology. As to whether a country is non-democratic, socialistic, capitalistic, or nationalistic will have a bearing on a country's attitude towards private and foreign investment by government, customers and competition. A strong spirit of nationalism tends encourage more local ownership than foreign ownership. Whereas a country may not be without political change, the change should be gradual to provide a favourable environment for foreign investment.

Political risk generally refers to a full range of environmental factors that may affect a firm's performance in a particular country. Political risk includes the risk that a government may alter its policies towards the firm or products. It also includes the risk of civil war, foreign war, riots, strikes, and other violent social acts that disrupt business (Grosse and Kujawa, 1992). Abrupt changes in the political-legal parameters can be quite disruptive to business.

Host nation international relations also have implications for the international firms keen on foreign investment. Hostile relations with other countries may lead the host or other countries to extend the hostility to the firm and its subsidiaries. A firm operating in a country that has bad international relations may find it difficult to export or import while in such a country.

Legal factors include laws and regulations that affect business activities. Laws in the home country may impose constraints on the extent to which a firm can participate in business activities in foreign markets. Such laws may include export controls and anti trust laws. Laws and regulations in the host country may exist on product content, promotions, distribution, pollution, exchange control among others. Employment laws, health and safety, corporation laws are among other laws that will have influences on foreign investment. International and regional laws equally play a crucial role in shaping up the global environment for business. International bodies such as IMF, WTO, ISO set up laws that either inhibit or encourage international trade. For instance the World Bank comprises of the bank itself, International Finance Corporation, and the International Development association. Each of these groups has preference to government borrowers for multinational or international agency loans and assistance rather than bilateral loans or aid (Ball and McCulloch, 1993). International and regional groupings such as ECOWAS, EAC, EU, NAFAT also dictate and shape the direction of international trade in various ways. These interest groups facilitate trade by extending the marketing for international business and also simplifying procedures and reduction of tariffs. They may also inhibit international trade by introducing intensified competition, introducing quotas, and allowing some powerful firms of member countries to dominate trade.

### *The Social –Cultural framework*

Culture is the sum total of the beliefs, rules, techniques, institutions, and artifacts that characterize human population. (Ball and McCulloch, 2006) notes that culture consists of the learned patterns of behavior common to members of a given society-unique lifestyle of a particular group of people. Kotler and Keller, (2006) observe that peoples purchasing power is directed towards to or away from some good and services according to their tastes and preferences. Several cultural parameters affect international business.

Material culture refers to the tools and technology of a society. It involves techniques and physical things, but only those made and developed by man, as opposed to those found in nature. Material culture affects various aspects of marketing such as product, packaging, promotional strategy, personnel policies and production policies.

Language refers to symbols, whether verbal or non verbal that people use for communication. The meanings may be conveyed either through direct meaning or indirect meaning. Ball and McCulloch, (1993) notes that means of communication is perhaps the most apparent cultural distinction that new comers to international business perceive. Differences in spoken languages are readily discernible and with time it becomes clear that there are different variations in the unspoken language.

Aesthetics is part of culture that refers to ideas concerning beauty and good taste as expressed in the fine arts such as music, art, drama, and dancing. It also involves appreciation of colour and form. Different societies have different aesthetical preferences. Cateora and Graham, (1999) observes that without a culturally correct interpretation of a country's aesthetic values, a whole host of marketing problems can arise. Aesthetic has significant implications in areas like design, colours, music, brand names etc.

Education is also another aspect of culture that must be considered while seeking investment in a foreign country. It refers to the learning or acquisition of knowledge, skills,

attitudes and values that are important to life in the society. As one of the most important social institutions it affects all aspects of the culture from economic development to consumer behavior. Knowledge about people's education may indicate the extent of literacy in a country to guide advertising, labeling, research work, product design, and instruction manuals. It may also determine the degree of cooperation and relations to expect from distribution channel members as well as useful for manpower planning and development.

Attitudes and values are an important part of culture in explaining a people's behavior and should be taken into account in business decisions, actions and plans.

Equally important under the culture is religion. Religious holidays in a society will affect work schedules and business programs. Some consumption patterns are as a result of religious requirements and taboos. In some countries like India, participation of certain groups of people in the economy such as the caste system is restricted.

Social organizations are the most important social factors that affect business operations. They reflect the way people relate in a society. The kind of social organizations that characterizes a society can offer or limit opportunities for business in the society, as well as dictate how business operations can be effectively carried out. Among the types of social organizations found in most societies include kinship, common territory and special interest groups. Common territory may be different in developed countries and developing countries. Groupings based on common territory may form a basis of market segmentation and also can affect group dynamics in the organization. Special interest groups may be based on religion, occupation, politics, age, gender etc. Special interest groups should be taken into account while making decisions on market segmentation as well as while making decisions on strategy implementation. Radebaugh and Erwee (2000) argue that different attitudes and values affect how business may be conducted. Culture affects how products are accepted and operations are organized, financed, controlled and managed. It's therefore not possible to separate culture from factors like economic, political conditions and institutions.

### **2.3: Competition in the global markets**

“Global industries require a firm to compete on a worldwide, co-coordinated basis or face strategic disadvantages” (Porter, 1998, *Competitive strategy*, Chapter 13, pg 275)

Structural factors and market forces operating in global industries are similar to those in many domestic industries. While analyzing global markets, one needs to additionally look at foreign competition. Foreign markets constitute a wider pool of potential entrants, a broader scope of possible substitutes and increased possibilities that firm's goals and personalities will differ as well as their perceptions of what is strategically important. In a lecture he delivered at Strathmore Business school on Global competitiveness: implications for Kenya (Porter, 2007) observes that global competition is driven by fewer barriers to trade and investment, rapidly increasing stock and diffusion and competitiveness upgrading in many countries. As a result this has led to globalization of markets, capital investments, value chains and value migration to the service component of the value chain.

Competition in the market place continues to grow, particularly between the United States, the European Union, and the Asian nations. The business world is today characterized by global competition, shorter than ever product life cycles, powerful MNCs with significant financial and R&D capabilities and globally distributed production and marketing organizations. There exists national economic policies increasingly supportive of market mechanisms, and high-tech information networks that result in efficient, nearly instantaneous communications, all these providing an enabling environment for intense global competition. (Grosse and Kujawa, 1992). Competition in global industries presents some unique strategic issues compared to domestic competition. A number of issues must be confronted by global competitors as discussed below.

The home countries industrial policy plays a crucial role in global competition. Home governments often have objectives, such as employment and balance of payments that are not strictly economic, certainly from point of view of firm. A government's industrial policy can shape companies' goals, provide R&D funds, and in many ways influence their



position in global competition (Porter, 1998). One has to understand the relationship between a firm and its home country for proper competitor analysis. The home country's industrial policy must be well understood, as well as the political and economic relations of the home government vis-à-vis governments in major world markets for the industries product.

Political considerations play an equally critical role in competition among world industries. Host governments have a variety of mechanisms that might either impede or encourage operations of global firms. In that respect a firm's relationship with host government in major markets becomes a key competitive consideration in global competition. Firms competing globally may need to compete in certain markets in order to gain necessary economies. Such firms must therefore position themselves strategically in such markets in order to establish global strategies. This requirement gives the host country some bargaining power forcing firms to make some concessions in order to preserve the whole strategy.

Competition in global industries involves a coordinated worldwide pattern of market positions, facilities, and investments. Firms may at times be forced to invest in particular markets and locations to prevent competitors from reaping advantages. Analysis of competitors on a global scale may therefore be complex as a result of systemic relationships as described above. Interdependence of a company's operations across the world encourages the globalization of its competitors. Analysis of foreign firms may also involve institutional considerations that are hard for outsiders to understand, such as labour practices and managerial structures.

#### **2.4: Competitive strategies for global business operations**

A combination of factors in the home country and host country results in global firms displaying different orientations towards their overseas activities. Thompson et al (2007) argue that strategies used by foreign firms to compete in foreign markets must be situation driven. Consequently each of the different orientation leads to a different strategy option

for the MNCs. Pearce and Robinson, (2007) defines ethnocentric, geocentric, regiocentric and polycentric as four different orientations adopted by MNCs. Hitt, Ireland, & Hoskisson,(1997); Mockler et al, (1994) concur with Pearce and Robinson on this orientation and further point out that whichever strategy is chosen, the social, political and economic environment of each country must be analyzed carefully in order to be tailored to satisfy local demands.

A company with an ethnocentric orientation believes that the values and priorities of the parent firm should guide the strategic decision of its international operations. This orientation results in an international strategy. In this strategy firms attempt to exploit their core competence internationally without pressures for local responsiveness (Hannagan, 2002). Such firms main mission is profitability. This strategy allows national subsidiaries to develop own marketing and distribution strategy and customize part of the product to account for such basic local differences as language and alphabet (Hill and Jones, 2004). International firms include Toys “R” us, McDonalds, IBM, Microsoft and Wal-Mart. In most cases they use home people for key positions and adopt a top down governance structure. Product development is determined by needs of the home country and most of the times they repatriate all the profits back to home country.

Polycentric orientation has the culture of the host country dominating the decision making process. This orientation is coupled by a multi-domestic strategy where the focus is on local responsiveness. Multi-domestic strategy is also referred to us local or multicountry strategy (Thompson et al, 2007). Under this strategy both the product offering and marketing strategy are extensively customized to match the national conditions. This strategy makes more sense when there are high pressures for local responsiveness and less pressure for cost reduction (Hill and Jones, 2004). Hill points out that it is a high cost structure orientation. Polycentric firms have public acceptance as one of their missions. Their structure is composed of hierarchical area divisions, with autonomous national units. People of the local nationality are developed for key positions in their own country with governance following a bottom up approach. A major problem that faces multi-domestic firms is control. Since each division pursues its own objectives it becomes difficult to transfer skills and information to other units (Hannagan, 2002).

In contrast to polycentric orientation a regiocentric orientation exists when the parent attempts to blend its own predispositions with those of the region under consideration thereby arriving at a region-sensitive compromise. Such firms seek to be profitable as well as acceptable to the society. Governance is mutually negotiated between the region and its subsidiaries. They follow the regional culture and as such develop regional people for key positions anywhere in the region. This orientation is coupled by a transnational strategy. Some scholars have given this strategy the name Multifocal strategy (Doz, 1986). Doz, further mentions that the selection of this strategy helps company to avoid being locked into a particular choice and explore both the benefits of integration and national responsiveness. Researchers Bartlet and Ghoshal argue that in today's global environment, competitive conditions are so intense that to survive, companies must essentially do all they can to respond to pressures for cost reductions and local responsiveness. This strategy is difficult to implement because of organizational problems (Hill and Jones, 2004). In this strategy firms seek to reap both the benefits of cost minimization and local responsiveness and also exploit competences which are developed in all business centers worldwide. This strategy, though complex to implement can be achieved through splitting business into a series of constituent functions which are variously centralized and decentralized.

The final orientation adopted by global firms is geocentric. In this orientation a firm adopts a global systems approach to strategic decision making, thereby emphasizing global integration. This strategy seeks to increase profitability by reaping from cost reductions that come from experience curves and location economies. They pursue low cost strategy on a global scale. They market standard products and use cost advantage to support aggressive pricing in world markets. Companies such as Dell, Motorola, Ericsson pursue global strategies (Hill and Jones, 2004). Such firms strive to market a global product with local variations. Firms here build global brands and coordinate their actions worldwide (Thompson et al, 2007). The personnel is developed globally and also distributed globally while having a mutually negotiated structure at all levels of the corporation. A global strategy is embraced result into firms exploiting experience curve effects and economies of scale. Production, marketing and product development activities are concentrated in a smaller number of advantageous locations. This strategy is inappropriate where the

demands for local responsiveness are high. Since there is continued pressure for customization of consumer goods, this strategy has industrial products as the only comfortable area to excel. Porter (1990) reckons that global firm can gain a competitive advantage by either spreading its activities among nations to serve the world market or through the ability to coordinate among dispersed activities. A dispersed activity mostly involves FDI and is favorable where local products differ substantially and transactional costs are prohibitive. Coordination involves sharing information, allocation of responsibility and aligning efforts.

## **2.5: Strategic entry and operation**

A decision by a firm to enter foreign markets must be accompanied by an appropriate selection of the entry mode. An appropriate entry mode can be a source of competitive advantage. The contrary is also true. Entry and operation modes are strategic decisions that must be made carefully. Approaches used by firms to and penetrate individual markets are important considerations in building global strategy (Robock and Simmonds, 1995). Nardon and Steers (2006) broadly classify entry mode into three categories; trade related, transfer related and foreign direct investment. Within trade related is found exporting and subcontracting. Transfer related mode involves entering a foreign market through transfer of assets or lease of assets to a second party in exchange for royalties or some form of payment. This mode has got forms such as licensing, franchising and Build Operate-Transfer. The third classification, FDI may happen either as a joint venture or a wholly owned. Wholly owned may either be a Greenfield or an acquisition. The benefits and risks associated with each method are contingent on many factors, including the type of product and service, the need for product or service support, and the foreign, economic, political, and cultural aspects of the country one is seeking to penetrate. Other frameworks of classifying strategies for entering foreign markets are as discussed forthwith.

### *Level of involvement*

The level of involvement may range from exporting modes, contractual modes to foreign direct investment modes (FDI). Exporting modes entails producing products in other countries and exporting them to foreign markets for sell. This is the least involving within

this framework. In the contractual mode the products sold in a foreign market are produced by other firms on behalf of the international firm through a contractual agreement. The FDI entails production of products within the foreign country of sale by branches owned by the international firm.

#### *Involvement in manufacturing for the foreign market.*

The classification here may be either indirect manufacturing mode or direct manufacturing mode. In indirect manufacturing mode products sold in a foreign market are produced by other firms on behalf of the international firm through contractual agreement. The second category under this mode entails the parent firm producing the product themselves regardless of the location.

#### *Whether the modes involve manufacturing in the foreign market.*

Under this framework we may either have exporting mode or foreign market manufacturing modes. The exporting mode has the products manufactured elsewhere but exported to the foreign market for sale. The latter category involves manufacturing of products within the same foreign market where they are sold.

Most entry modes will normally fit into any of the above classification and helps to explain the managerial and other implications of the entry mode.

Firms adopt strategies to enter foreign markets depending on the degree of complexity of foreign market and diversity of the firm's products (Pearce and Robinson, 2007). These constitutes variations in speed, control, and risk as well as the required level of investment and market knowledge. For a given foreign market a firm may use different modes in different countries depending on the competitive advantages that can be gained. The entry mode selection can have a significant impact on the firm's foreign market success.

#### ***Exporting***

Exporting is the marketing and direct sale of domestically –produced goods in another country. Exporting normally requires minimal investment since it doesn't require that goods be produced in the target country. The organization maintains its quality control standards over production processes and finished goods inventory (Pearce and Robinson, 2007). Most of the costs associated with exporting take the form of marketing expenses. Firms may adopt several strategies in exporting their products to the target market.

The firm may export directly to the foreign buyer. This strategy requires that the exporting firm undertakes all the sales and marketing activities directly. Whereas it leaves the foreign firm in full control of the business activities its failure to make use of the local experience may be a source of failure.

Firms may also opt to export through a domestic export intermediary to the foreign buyer. Domestic export intermediaries could also be used as an alternative for exporting. They add the domestic knowledge to the foreign firm out of their experience locally. Domestic export intermediaries suffer from a disadvantage of difficulty in interactions due to language barriers. The added cost of intermediary becomes part of the transaction costs (Mendenhall, Punnet, Ricks, and D.1995).

Firms may also opt to use foreign import intermediary to the foreign market. Most of the time this arrangement relieves the foreign firm of some administrative involvement making it concentrate on their local market. Firms may also opt for both foreign import intermediary and domestic export intermediary to leverage on the benefits accruing from both strategies.

Exporting may also be direct or indirect. Firms undertaking indirect exporting outsource export operations such as documentation, freighting and the like.

Indirect exporting may occur through export houses, export management companies, international trading companies and joint marketing or “piggyback exporting”. Indirect export may be opted for due to the fact that it involves less investment and the risks are less (Kotler and Keller, 2007).

Direct exporting companies perform the export task themselves rather than delegating to others. Tasks such as market contact, market research, physical distribution, export documentation, pricing and other marketing activities are performed by the firms export department. Direct exporting may be carried out in different ways such as domestic based

export departments, overseas branch or subsidiary, travelling sales representatives and foreign based distributors (Kotler and Keller, 2007). Direct export has benefits such as minimization of costs associated with intermediaries, parties communicate directly, the firm develops exporting skills internally and the exporter's interests can be the main focus. It however also suffers from drawbacks such as requirement of internal specialists, foreign buyer may not be a competent buyer, and the exporter assumes much of the risk (Mendenhall et al, 1995). Overseas sales branch constitutes a sales branch that handles sales and distribution as well as warehousing and promotion. It may also serve as a display and customer service centre. Travelling export sales representatives entail home based representatives who are sent abroad to find business. Under foreign based distributorship, agents or distributors may be given exclusive rights to represent the company in that country or only limited rights. Generally exporting commonly requires coordination among four players i.e. exporter, importer, transport provider and government. Exporting main advantages come from avoiding costs of establishment in a host country and realizing benefits of scale from economies of scale and location economies (Hill and Jones, 2004). It suffers from drawbacks of high transport costs, and tariff barriers.

### *Licensing*

Licensing essentially allows a company in the target country to use the property of the licensor. Such property usually is intangible and tends to be patents, trademarks, and technical know how and is normally granted to the licensee for a specific time in return for a royalty, and for avoiding tariffs or import quotas (Pearce and Robinson, 2007). Whereas licensing may involve very large ROI because of little investment on the part of the licensor, it has inherent drawbacks. One is the possibility that the foreign partner may gain experience and evolve into a major competitor when the license expires. The other potential problems emanate from the control the licensor forfeits on production, marketing, and general distribution of its products. By licensing its technology a company can easily lose its control over it (Hills and Jones, 2004). Pearce and Robinson argue that this loss limits the firm's flexibility as it re-evaluates its future options.

Contract manufacturing may be taken as an overshoot of licensing since it entails foreign manufacturing by proxy, i.e. a firm's products are manufactured or assembled in another country by another producer under a contract. This contract may only cover manufacturing and assembly as marketing and distribution is still done by the firm. Contract manufacturing works well if the firm's competitive advantage lies in marketing and distribution rather than manufacturing.

### ***Franchising***

It is a special form of licensing that allows the franchisee to sell a highly publicized product or service, using the parent's brand name or trade mark, carefully developed procedures and marketing strategies. The franchise agreement tends to be more comprehensive than a normal licensing arrangement because the franchisee agrees to a total operation being prescribed. A local investor who must adhere to strict policies of the parent operates the franchise. The parent company gains by charging a fee on the franchisee based on volumes of sale. Whereas Franchising and licensing are intrinsically the same the former is mainly pursued by service companies while the latter gets favour with manufacturing firms (Hills and Jones, 2004). The main disadvantage of franchising that sticks out apart from the ones associated with licensing is that it may inhibit a company's ability to achieve global strategic coordination. It also doesn't guarantee quality.

### ***Joint ventures***

Joint ventures constitute two or more parties investing. In this entry mode the firm acquires both equity and management rights of the foreign firm. It results in formation of a new company in which the international firm has enough equity to have a voice in management but not enough to dominate the venture. Joint ventures seek to achieve market entry, risk sharing, technology sharing, joint product development and conformity to government regulations. Other benefits may emanate from political connections and distribution channels that may depend on connections. Joint ventures are favorable when the partner's



strategic goals converge while competitive goals diverge. When partners are able to learn from each other while limiting access to proprietary skills it does encourage joint ventures. The size of the partners may also encourage joint ventures. Partners whose size, market power and resources are smaller compared to the industry are more likely to seek joint ventures than big players. Among the key issues to consider in joint ventures are ownership, control, and length of agreement, technology transfer, local firm capabilities and government intentions.

Just like any entry mode joint ventures have limitations or drawbacks. Mistrust may exist among the partners over sharing of proprietary skills. Each partner may want to guard her skills in case the deal backfires. The different cultural backgrounds may infiltrate into performance and result into conflicts that affect the joint ventures output. Conflicts may also arise over asymmetric new investments since both parent firms may still seek more investments elsewhere. Generally joint ventures suffer from pressures to co-operate and compete at the same time.

### *Strategic alliances*

Strategic alliances are co-operative arrangements between two or more companies. Parties normally agree to pursue a set of agreed goals or to meet critical business need while remaining independent organizations. Strategic alliances are interchangeably also referred to as corporate coalitions, strategic partnerships, and competitive alliances. Alliances vary considerably in their complexity, from simple two partner alliances created to co-produce a product to one with multiple partners created to provide complex product and solutions (Johnson and Scholes, 1998). Global strategic alliances may take various forms such as international joint ventures, international merger, international acquisition and international non-equity alliance. In all the cases the determining factors for variation are percentage of ownership and type of resources committed and shared (Nardon and Steers, 2006).

Alliances come together to share resources such as product distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, and intellectual property among others. The synergy created among the parties should result

into some benefits from the alliance normally greater than those of individual efforts. The alliance often involves technology transfer, economic specialization, shared expenses and shared risk (Hitt, A.M., Ireland, D.R., Hoskisson, E.R., 1997). Partners in strategic alliances tend to be of comparable strength and resources. According to Lorange & Roos (1992) it's crucial for partners coming together to have the strategic intent before entering an alliance. The alliances should further afford the partners greater likelihood of success than if they were to go it alone. (Hitt et al 1997) argue that most strategic alliances are with firms in host countries which has knowledge of the competitive conditions, legal and social norms, and cultural idiosyncrasies that helps the firm become more competitive. Drawbacks of strategic alliances include conflicting goals, lack of openness or trust, disagreement over income distribution, loss of local control and changing circumstances (Nardon and Steers, 2006). Sony has used strategic alliances an international entry mode such as the one it did with Philips in production of Compact Discs (Hitt et al, 1997).

### ***Mergers and acquisitions***

When an organization develops its resources and competencies by taking over another it amounts to acquisition. Development by acquisition tends to go in waves and also tends to be selective in terms of industry sector (Johnson and Scholes, 1998). One of the key motives of acquisitions is that it allows a company to enter a new market faster than internal development would take. This is the case when BMW acquired Rover cars in order to enter the sport utility market (Hitt et al, 1997). Markets which are static and with reasonably steady market shares also provide a good motive for acquisitions as it's easier for a new company to enter through acquisition than as a new entrant. For some time deregulation was a driving force behind merger and acquisition activities in many industries such as Telecommunications, electricity and other public utilities such as water.

Even though mergers and acquisitions go hand in hand, a merger entails a combination of two corporations in which only one company survives and merged corporation goes out of existence. Major types of mergers include horizontal mergers, vertical mergers, conglomerate mergers etc.

## *Foreign direct investment*

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It represents the greatest commitment to foreign markets. It involves the transfer of resources including capital, technology, and personnel. Ideally FDI entails 100% ownership by the international firm although the firm may achieve the same results or powers even by owning 95% or slightly less. Direct investment may be made through acquisition of an existing entity or the establishment of a new enterprise. Over the past decade, emerging markets have become major beneficiaries of FDI as multinational enterprises have expanded their global strategies to take advantage of business opportunities. Emerging economies are attractive for business because of their sometimes large and often fast growing markets (Meyer et al, 2003).

It is favorable where there exist import barriers as well as small cultural distance. A country with a high sales potential and low political risk may also attract FDI. It is advantageous in that the foreign company acquires a greater knowledge of the local market. FDI also minimizes knowledge spillover. Furthermore an FDI can be viewed as an insider.

FDIs also do suffer from a number of disadvantages. They possess the highest risk due to huge amount of resources required and the commitment made. It may also be difficult to manage local resources.

Foreign direct investment on the Telecommunications comprises the ability to establish a commercial presence in a foreign country, or the purchase of telephone companies by foreign investors or joint ventures between local and foreign partners to establish new telecommunication service companies (Lin, 2008).

### **2.6: Choice of Foreign Entry mode**

Agarwal and Ramaswami (1991) while studying the impact of ownership, location and internalization factors on foreign market entry mode observe that once a particular entry mode is implemented it is difficult to change without considerable loss of time and money. This is because all modes of foreign entry require capital and resources

commitments. Entry mode selection is therefore, very important, if not critical strategic decision.

Scholars have suggested various frameworks that determine choice of entry mode into foreign markets. Normative decision theory suggests that the choice of a foreign market entry mode should be based on trade offs between risks and returns. A firm is expected to choose the entry mode that offers the highest risk adjusted return on investment. However behavioural evidence indicates that a firm's choices may also be determined by resource availability and need for control. Doz, (1986) argues out that the underlying economic characteristics of industry, extent and form of government intervention into that industry, and the competitive posture of the firm play crucial role in strategic choices by the firm. The economies of scale, experience, and location, the basis for product differentiation, product and process technology, the maintenance of export and distribution channels controlled by the firm, the firm's access to capital are critical in making a strategy attractive.

In their research paper entitled "The hierarchical Model of market Entry Modes", Pan and 2000) observe that three main schools of thought have been put forward to explain choice of foreign market entry modes. The first school views business operations in foreign markets as inherently risky as a result of differences in culture, politics and market systems that a firm must adopt. Firms therefore tend to enter foreign markets with less resource commitment and less risk but continuously committing more resources at an increased risk with time (Walker, 2004). This perspective often prescribes gradual incremental involvement.

The second school of thought looks at the cost perspective arguing that firms will normally internalize activities with less cost but will subcontract those activities whose other providers have a cost advantage. Normally these transaction costs include all costs as well as outputs and inputs associated with various aspects of the value added chain from production to consumption of goods and services.

The third school underscores the importance of location-specific factors. This perspective is important in today's global competition where non-production related costs are rising faster than production costs.

A consolidation of all these suggestions reveals ownership advantages of a firm, location advantages of the market and internalization advantages of integrating transactions within the firm as the three main determinants of foreign mode selection (Nardon and Steers, 2006). Products with proprietary technology or widely recognized name bear great ownership advantages. The relative advantages of making the product in either the host country or home country are the main focus of location advantages. Internalization focuses on the cost of negotiating, monitoring, and enforcing agreements between potential partners. High internalization costs drives firms to rely on FDI or joint ventures while low costs favours firms to go for licensing, franchising or contract manufacturing.

Firms aspiring to compete in international markets must possess superior skills and assets that can earn them enough economic rents that are high enough to counter the cost of servicing these markets. Firms with high level of skills tend to prefer higher control modes when investing in other countries as a way of protecting proprietary knowledge. Firms also require asset power to engage in international expansion and to successfully compete with host country firms. The size of the firm is therefore expected to be positively correlated with its propensity to enter foreign markets in general and to choose either joint venture or FDI modes in particular. Another form of asset power that determines an entry mode is the firm's level of multinational experience. Firms with immense international experience are more likely to select investment modes of entry unlike less experienced ones who choose non-investments modes.

Firms interested in servicing foreign markets are expected to use a selective strategy that favours entry into a more attractive market. Attractiveness of a market has been characterized in terms of its market potential and investment risk (Agarwal and Ramaswami, 1991).

Highly attractive countries favour investment mode of foreign entry as they provide long term profitability through the opportunity to provide economies of scale and consequently

lower marginal cost of production. Even when scale of economies is not significant, a firm may still choose investment modes since they provide the firm with the opportunity to establish long term market presence.

The investment risk in a host country reflects the uncertainty over the continuation of present economic and political conditions and government policies which are critical to the survival and profitability of a firm's operations in that country. Researchers have suggested that the restrictive policies of a host country's government are likely to impede inward foreign investments. In such countries, a firm would rather not enter but if it does in may adopt non-investment modes.

## **2.7: Strategy for Global business operations**

In trying to define operations (Hayes, Pison and Umpton, 1996) state:

“Within operations we include all those activities required to create and deliver a product, service, from procurement through conversion to distribution. Most of the people employed by an organization (including most of those considered “managers”) are engaged in the operations function and most of its physical assets reside there (pg 3).”

Hayes et al (1996) equate the effects of a firm's operation strategies in delivering the firm's objectives to how software determines how a computer's hardware is used. Operations will touch aspects such as capacity and facilities, process technology, sourcing and infrastructure. How a firm manages and controls its operations is critical for success in a global business environment.

An operations strategy combines a set of goals, instructions and self imposed restrictions that together describe how an organization intends to develop and direct all the resources invested in operations so as to best fulfill its objectives, Hayes et al (1996). Through the organization of a firms resources managers can support the firms overall strategic initiative by creating a competitive advantage. Operations strategy involves collective pattern of coordinated decisions for the formulation, reformation and deployment of firm's resources (Bateman and Zeithaml, 1990). Global business operations take a complex dimension

because of cross cultural aspect and difference in development levels among various countries or regions. Effective implementation of strategies and control of international business operations require a carefully thought out organization strategy. Internal operations must be carried out effectively to meet both the objectives of the local subsidiary and the MNE (Radebaugh and Erwee (2000).

The operation strategy adopted by the foreign firm is determined a lot by the host country's development level. At the apex of an organization strategy is an organizational design. Pearce and Robinson (2003) observe that going global impacts every aspect of a firms operations and structure. Its structure will determine the direction a global firm takes towards foreign operations. Human resources and cross culture management present the most complex aspect of a global company's operation strategy. As firms globalize workforces become increasingly diversified.

### **Organizational design**

Organization structure provides the framework within which management is carried out while controlling provides the mechanisms that allow management to ensure that strategies are carried out (Mendenhall et al, 1995). The organization structure used by a firm to manage its domestic and foreign business is extremely important to the firm's success in the foreign market. A number of options exist and the firm's circumstances will normally determine the appropriateness of the organizational structure adopted. Organization structures evolve as businesses grow to cater for growth and diversification. Hannagan, (2002) observes that structures emerge out of strategic decisions regarding nature of products and services and geographic coverage of the firm in the global market. Legal, fiscal and cultural constraints will largely determine the type of organization structure a firm adopts. Other factors that come into play are range and type of activities, scope and limitations of cross border geographic expansion and internal political power alignments. (Rugman and Hodgetts,1995) observe that organization structure of global operations will largely be determined by efficiency of operations of domestic and international divisions, and whether the firm should be structured on product, area, function, mixed or matrix. Means to efficiently achieve the necessary coordination and co-operations are also crucial in formation of the organizational structure of global operations. Host countries with immense political control of foreign operations will also have an influence of the

organization structure adopted (Bani, 1999). Different approaches have been used to classify organization designs. (Nardon and Steers, 2006) give two broad classifications; domestic organization design and global organization design.

Domestic organization designs are mostly found when firms begin to export a domestic product. This mode of design may include corollary model, export department and international division.

Global organization designs take the form of global product designs, global area design, global functional design, global customer design and global matrix design. In global product design, worldwide responsibility for specific products groups is assigned to separate operating divisions within the firm. Global area design organizes a firm by geographic regions. Global functional designs results in key functional areas being coordinated to allow a firm offer one quality product and service. A global customer design seeks to serve the needs of specialized global customers such as consumers and commercial.

#### *Product Division Structure*

Companies with diverse product portfolio adopt this structure whereby the headquarters is responsible for design, value adding and sales and promotion. This structure allows firms to focus on global efficiencies even though with different products. It achieves this through location of production in low cost areas and product focus (Hannagan, 2002). This structure affords the advantage of linking management decisions closer to the market since the lifecycle of products is closely monitored (Globerman, 1986). Excessive staffing, coordination breakdowns between various product divisions and lack of national responsiveness are among the dangers of this structure (Globerman, 1986).

#### *Geographic Division Structure*

This structure focuses on adapting to differences between countries and geographic regions. With different divisions set up in different geographic centers, decisions are decentralized. It's suitable where companies have a smaller product portfolio and yet want to maximize on local responsiveness. Each region is self sustaining with its on R&D, sales, production,



and sales. It suffers from a major disadvantage of a high cost structure as a result of duplication (Hannagan, 2002). A geographic structure could also be a variation of the international division structure. In this case international divisions can be disaggregated by setting resources into regional units. The setup of regional units is based on common characteristics that distinguish geographic markets in a significant way (Globerman, 1986).

### *International Division Structure*

This structure is adopted by firms expanding abroad for the first time. The implementation entails establishment of an export office or international division which is staffed by a small number of personnel responsible for all international operations. As the international business grows the focus of this division becomes support of international production. The production here may be organized on a country by country for the entire products or on a product basis with each product being produced in different centers. This structure permits centralized direction of a company's foreign operations and adds a champion of foreign activities to top management echelons (Robock and Simmonds, 1989). Some setbacks are associated with this kind of structure. It creates conflict between national and international decision making and furthermore it is difficult for head of international division to rationalize the demands of different countries. This structure also fails to provide for opportunities for coordination between domestic and international activities. Potential conflict between management of domestic division and international division and also lack of exposure and experience in foreign countries on the part of technical staff in the international division raises potential problems for this structure (Globerman, 1986). This makes global product development difficult to achieve. Besides global production planning based on experience curves, local economies are not easily manageable. A variation to the above structure is introduction of an international division headed by a manager. This could be adopted where a firm's foreign business is not as much as the domestic one. Firms that handle different foreign markets and domestic markets in terms of products requirements, marketing requirements and other requirements normally find this structure appropriate. Foreign businesses other than exporting also favour this type of structure. Cases where foreign business is larger than would normally be expected through exporting would find this structure appropriate. However the structure suffers from a setback of being quite

expensive and costly to the firm. Furthermore firms with many foreign markets may find this structure very cumbersome

### *Global matrix Structure*

This structure strives to merge the benefits of product based structure and geographic based structure. In this structure decision making is organized along both product and market through a process of co-operation, consultation and compromise. Consensus building is however not easily achieved as there is a conflict between local adaptation and the generation of scale of economies. Bureaucracies of consensus building can bog down the decision making thus slowing the speed of responsiveness to the market dynamics.

### *Purely domestic Structure*

This structure is adopted by firms that focus on domestic markets alone. Whereas the firm may sell their products on foreign markets this is not put into consideration in the organization structure. This structure may be either regionally based or functionally based. It's appropriate for firms engaged in international business through indirect exporting. It has a lot of favour with small firms as well as new ones.

### *Export Department Structure*

This organization structure incorporates an export department to take care of firm's foreign business. It's intended to take care of both the domestic and export markets. Fundamentally the structure is normally domestic with an export department superimposed. Functional as well as other basis can be used. The export department handles the firm's foreign activities.

Variations to the above structure would be the introduction of two assistant managers each taking care of the domestic and export market respectively. Alternatively the export unit can be established as a sub position within the office of the marketing manager of an otherwise purely domestic structure. The export department is appropriate for firms engaged in direct exporting. In most cases these firms have limited foreign demand for their products.

### *World-wide or Global Structure*

This structure entails a unified structure for the entire world. Both the domestic and foreign markets are treated as one big market or a global market. The structure is normally divided

into areas with each of them taking care of distinct markets. Firms that operate in many parts of the world find this structure appropriate. Normally the product and marketing requirements have to be generally similar throughout the world for this structure to work. Firms with very large and long standing of foreign business find this structure appropriate.

An essential component in operations strategy of a foreign firm is management of human resources popularly known as Strategic International Human resource Management (SIHRM). Given the interdependence of strategy, structure and staffing foreign firms must establish appropriate modes of staffing as their international businesses grow (Radebaugh and Erwee, 2000). Global firms may use ethnocentric, polycentric, regional or geocentric approaches in expatriate selection. In ethnocentric approach all key positions are filled by home country nationals while in Polycentric policies host country nationals are recruited to manage subsidiaries in their own country. A regional staffing policy has an MNE dividing its operations into regions and staffs are transferred within these regions. When a foreign firm utilizes the best people for the best job through out the world it is deemed to be following a geocentric policy in staffing.

### **Strategic Control of Business Interest and Operations.**

Control is yet another critical strategic decision a foreign firm must take besides deciding which entry mode to adopt. Strategic control is the extent to which the headquarters maintains control over the subsidiary concerning decisions and strategy (Bani, 1999). Operating in a foreign country normally requires development of special centers of control at the top level than the case of domestic geographic ones (Walker, 2004).

Effectively control and coordination serves to ensure that relevant information from different parts of the organization flows to decision makers to initiate appropriate actions.

A host of factors which exist between host countries and home country makes control of foreign investments more complicated than foreign ones. Language barriers can distort communication between host country and home management. Cultural aspects may result in no single formula of control across all countries. The headquarters is normally less familiar with both political and economic environments thus being not able to evaluate the performance of overseas managers (Globerman, 1986). These multiple factors constitutes a

complex arena for designing an organization structure that can facilitate effective communication and control between headquarters and local offices. The challenge here is to determine how much decision making powers should be excised by both foreign branches and its subsidiaries. Foreign firms normally require top management oversight for them to operate efficiently.

An important aspect in control is locus of decision making and control. This refers to where the decision making powers lie i.e. either with the branches or the headquarters. Various approaches are used to determine locus of decision making and control depending on the firm's business objectives. (Globerman, 1986) observes that generally strategic issues such as capital budgeting should be left for headquarters while operational issues such as hiring and firing of employees are better off being de-centralized. Factors such as location, nature of firm's international business and stage of development of the firm do affect how much control is vested to the headquarters and the subsidiaries.

Decision making and control may be centered in the headquarters otherwise referred to as centralization. Firms that are home market oriented tend to adopt this type of control. Strategic and operational decision making authority effectively lies at the headquarters. Branches and subsidiaries of centralized foreign firms cannot effectively respond to local market conditions. Local branches have unique requirements which might not be understood by the centralized decision makers. Control from headquarters allows more effective coordination which can help in lowering costs.

Another approach is one that entails decision and control centered in the branches. This makes branches autonomous. Decentralization is suitable for polycentric firms. Autonomous branches quickly respond to the unique conditions within the local markets and this gives them an opportunity to respond to the needs of their customers effectively. Complete autonomy has a setback of the headquarters not being able to impose uniformity in the activities of the branches. Co-ordination and control may also be difficult and expensive.

A third approach to decision making and control is a hybrid between the centralized system and the decentralized one. In this case the branches are semi-autonomous. This structure enables a firm to exploit the benefits of global integration as well as those of local adaptation. In this strategy national subsidiaries serve the needs of their own national markets but also explore the opportunities for specialization in aspects of product development and manufacture that best suit their capabilities.

Several factors determine the locus of control adopted by a firm. The firm's management philosophy is one of the factors. Ethnocentric firms tend to adopt centralized locus of control while polycentric firms adopt decentralized locus of control. The greater the interdependence among units, the greater the need for central coordination and control (Mendenhall et al, 1995)

The nature of the markets also does determine the locus of decision making and control adopted by a foreign firm. Whenever the markets are relatively heterogeneous firms tend to adopt decentralized form of control in order to maximize on the benefits within the local market.

The size of the firm and its branches also determine the locus of decision making and control adopted by firms. Larger firms with many branches normally prefer autonomy among its branches to relieve the headquarters of the huge task of managing over a large area

The advancement of information technology is of late playing a role in the locus of decision making and control adopted by foreign firms. Where information technology of a firm is advanced enough to allow flexibility some firms still adopt centralized control. Advanced technology can also allow decentralized decision making without sacrificing the benefits of coordination and control.

Some industries are more inclined to a particular nature of control by virtue of the operations inherent. The industry in which the firm operates thus determines the locus of decision making and control. For instance the pharmaceutical industry requires centralized control because of consistency of product (Mendenhall et al, 1995).

Given that most businesses must operate in a competitive environment, some decisions are purely made based on the competitors actions. Competitor's locus of decision making and control thus determines the locus of control decision making and control adopted by a foreign firm.

Branches that are geographically close to the headquarters can easily be centrally controlled thus making proximity of branches to headquarters another factor that determines the locus of decision making control of a foreign firm. A firm that has fully developed and competent human resources in all the branches will also be at ease to decentralize control to its branches otherwise centralization would be preferable

Firms that have got their programs standardized are likely to adopt centralized control than the ones without.

Emanating from the locus of decision making and control are several challenges that face a global firm. Financial policies are typically designed to achieve the goals of the parent company. A conflict of interests is thus generated between the global firm and its country and also between the home country and host country. The conflict is gravitated by the use of various schemes to repatriate earnings back home in order to avoid taxes, minimize risk, or achieve other objectives (Pearce and Robinson, 2007).

Given that the foreign firm operates in a different environment normal standards of company behaviours concerning disposition of earnings, source of finance and structure of capital become more problematic. Performance of international divisions thus becomes a challenge to measure.

Another problem posed by control is the perception and approach towards strategic planning. Consistent approaches to planning are crucial for effective review and evaluation by corporate headquarters. However a global firm gets challenges from the fact that national attitudes towards work measurement, government requirements on disclosure are different (Pearce and Robinson 2007).

### **Location and coordination of functional activities**

To achieve its objectives a global firm has several functional activities. Such activities include purchase of input resources, operations, research and development, marketing and sales, and after sales service. A global firm must come up with functional strategies which will help it carry out its strategic plan successfully (Rugman and Hodgetts, 1995).

Several issues can be discussed as related to critical dimensions of location and coordination in multinational strategic planning. Each is directly related to the functional activity in question. Looking at the service function a firm must decide where to perform the after sales function and whether to standardize such a service or not. For research and development issues other than the location and number of R&D center arise. Critical dimensions regarding R&D include a program for interchange among dispersed R&D centers, developing products responsive to market needs in many countries and also the sequence of products introductions around the world. Apart from location issues, coordination issues also arise for a firm regarding the purchasing function. The global firm has to manage suppliers located in different countries before they deliver a complete product to a customer.

Regarding the marketing function, firms have to make decisions regarding the location of a particular product line (Pearce and Robinson, 2007).

Coordination issues that arise regarding the marketing function are commonality of brand name worldwide, coordination of sales to multinational accounts and coordination of pricing in different countries. Similarity of channels and product positioning worldwide is also an issue that warrants coordination in as far as marketing function is concerned. When it comes to operations a firm has to make decisions about the location of production facilities of components. The firm will however be contend with networking of international plants to coordinate activities of its different operations.

The type of industry a firm is will determine its international strategy on how to address location and coordination issues. Little coordination of functional activities across countries may be required for multi-domestic firms. As the industry becomes more increasingly global a firm must coordinate a number of functional activities to effectively compete across the globe ((Pearce and Robinson, 2007).

Given that a global firm operates worldwide the issue of location of these activities is yet another decision that must be made by a multinational. The importance of location cannot be underestimated in strategy implementation. It often provides cost advantage to the producer through various ways of attaining economies of scale. Some locations may be attractive as local governments may encourage foreign investments through such means as low tax rates, free land, subsidized energy and transportation rates and low interest loans

(Rugman and Hodgetts, 1995). Options for location range from each location performing each activity to centering an activity in one location to serve the organization worldwide (Pearce and Robinson 2007).

A multinational corporation must also determine the level of coordination of each function across all the locations. This is very important for a global firm since the synergy created by all the functional activities may serve as a source of competitive advantage. Such coordination can be extremely low resulting in each location performing activities autonomously or extremely high which effectively tightly links all the functional activities of each location. A good example of extremely coordination is Coca cola which has tightly linked its R&D, marketing functions, worldwide to offer a standardized brand name, concentrate formula, marketing position and advertising theme (Pearce and Robinson 2007).

According to Hannagan (2002) recent research on the management of multinational points to the development of heterarchies. These heterarchies are characterized by centers of control either functionally, geographically or product based all coordinated through normative means. This entails use of corporate culture, management ethics, style and similar concepts to ensure the heterarchies do not break down.

With the above approach a company will distribute an administrative centre, manufacturing headquarters, R&D centre, and financial centre across the globe. This is intended to satisfy local requirements while benefiting from the synergy of being a global producer.

Heterarchies are flexible. The independence enjoyed by managers allows for diverse strategic development that allows subsidiaries scope to develop local business operations responsive to the local environment. Flexibility also allows for partnership with other organizations.

The advancement of modern technology allows for different subsidiaries that are geographically to share information. The coordination of the firms overall objective and direction becomes the major function of the head office.



## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1: Research design

In order to enable an in-depth understanding of the research issue a case study was carried out. This provided a focused and issue specific analysis of Ericsson Kenya and how they operate in the region.

Ericsson was chosen to meet certain criteria relevant to the theory underlying the research. It is a global company operating over 140 countries worldwide. It has major business interests in sub Saharan Africa, treating it as one of its market units. Ericsson had just made massive investments in the region through establishing its hub in Nairobi Kenya. In addition to this it continues facing stiff competition from competitors such as Huawei, Nokia siemens and Alcatel Lucent

### 3.2: Data Collection

The data collected was largely qualitative. The study involved collecting data through in-depth personal interviews with the Managing Director and other functional managers strategic to Ericsson's business. The functional managers interviewed were Human resources, Key account managers, Sourcing, Service, Finance and new businesses.

### 3.3: Data Analysis

Content analysis was used considering the qualitative nature of data collected through in-depth interviews. Data was broken down into different concepts of foreign country entry dimensions relevant to the study, grouped into logical groups and analysed. This offered a systematic and detailed qualitative description of the objectives of the study.

## CHAPTER 4: RESEARCH FINDINGS AND DISCUSSIONS

### 4.1: Introduction

The study was carried out in October 2008. In depth interviews with the Managing Director and Country manager for Ericsson Kenya and seven functional managers were conducted. Sessions with the Managing director were tape recorded.

To enhance its competitive advantage in the Eastern region and strengthen its operations, Ericsson established Ericsson Kenya as its subsidiary. A combination of foreign direct investment and exportation characterizes strategies used by Ericsson to invest in the region. Kenya was chosen as an operational hub due to better business conditions compared to other countries in the region

Ericsson Kenya was established in January 2006 to support solutions for mobile and fixed networking; sales and commercial activities and undertake network supplier service in the Eastern region of the market unit of sub Saharan Africa. The countries covered in this region are Kenya, Uganda, Tanzania, Zambia, DRC, Burundi and Rwanda and Seychelles.

Ericsson Kenya operates as an autonomous unit with minimal control from the parent company which has headquarters in Stockholm Sweden. It has adopted the group values while giving room for assimilation of the local culture. Ericsson's vision and mission in the region is guided by the groups' mission which is to be the prime driver in an all-communicating world.

### 4.2: Competitive strategies for global business operations

Global firms will normally adopt different orientations towards their overseas activities depending on a number of factors both in the home country and host country. The social, political and economic factors must however be considered in coming up with a strategy in order to meet the demands of the local market.

Operating in 43 countries in the Sub Saharan market unit, Ericsson is facing competition from Nokia Siemens, Alcatel Lucent, Motorola, ZTE and Huawei. Ericsson controls fifty five percent of mobile market and sixty percent of core market in this market unit. It's striving to compete on the basis of market share increment.

Ericsson Kenya's competitive strategy in the region is guided by geocentric orientation. This has been adopted strategically in order to create synergy among its other regions in Sub-Saharan Africa market unit and the globe at large. These regions are Southern Africa, West Africa and Nigeria. Only five percent of its products are customized depending on the customer preferences. The rest remains standardized globally. Even though there has been no demand for proprietary products Ericsson has the ability to adopt their products to suit the customer requirements.

Ericsson's operation in the region is guided by the group's vision and values which are cascaded from the headquarters down to the region. These values are Professionalism, Respect and Perseverance. It believes that in order for them to gain the most powerful advantage for attaining the vision for global leadership all employees in the 140 countries must consistently apply the same values and principles (Sonesson, 2008).

#### **4.3: Choice of foreign entry mode**

An appropriate entry mode can be a source of competitive advantage for global firms. Choice of the entry mode must therefore be made carefully as it plays a crucial role in a firm meeting its overall business objectives.

Ericsson's business in the region is a combination of both FDI and exportation. Most countries in the region require that a joint venture with foreign investors is comprised of a certain ownership by the locals. Ericsson has not found this condition favourable for in-country production of equipment. In addition it has a general strategy to minimize plants across the globe in order to reduce costs. With eighty percent of capital investment in R&D in the Telecommunication sector being in software, Ericsson has opted to reduce spreading of plants to other regions.

It has therefore adopted exportation of its equipment from outside plants to the region. The establishment of a regional office in Nairobi is very strategic in its export business. To this end it has Key account managers operating from the regional office. The key role of the key account managers is to manage profit and loss of their various accounts. Operating from Nairobi has given it more access to the customers and thus helped it to build good

customer relations. Keeping close to the customer remains a key strategy for Ericsson that has in fact influenced its key account managers operating from Nairobi Kenya.

Ericsson has made a foreign direct investment through establishment of Ericsson Kenya. Ericsson Kenya's main business is provision of services. Given the amount of business they control in the region Ericsson established the Kenya office as a hub to provide services for the region. To this end, Ericsson Kenya exports services to countries within the region and to the rest of the world. Ericsson has invested about 50million dollars establishment of infrastructure in the region. The Kenyan office has cost about 20 million dollars. In addition to infrastructure investment Ericsson Kenya continues spending about 60,000 euros in capacity building for their employees to ensure that they are competent enough to support their core function of service provision. The choice of FDI through Ericsson Kenya is as a result of location factors within the region and Kenya to be specific. With Ericsson controlling equipment sales to many operators in the region, opening a regional based company to provide service was strategic in that it could help them harness their business and ensure delivery of their projects. Ericsson strives to deliver complete solution in order to have a competitive edge in the region and hence their decision to bring services closer to the customer.

In choosing to invest in the Eastern region of Africa, Ericsson didn't concentrate on the conventional methods of assessing foreign environment before investing. According to the Managing director of Ericsson Kenya, using the PESTEL framework would be too long and complicated (Sonesson, 2008). Effectively this would result in competitors taking strategic positions before Ericsson moves in. Instead the existing market potential and the desire to serve their customers better in the Telecommunication sector were the major determinants in Ericsson investing heavily in the region.

Regional governments remain indifferent to MNC investments thus failing to provide incentives for foreign investors. They don't seem to appreciate the need for MNC. There still exists red tape and no end to end solution for MNC seeking to invest. Procedures to be followed by foreigners are handled by different ministries who don't seem to understand what their counterparts are doing. Countries in the Eastern region lack an established framework for production thus they fail to attract foreign direct investment in

manufacturing. Rwanda is however ahead in terms of providing incentives with a vision to become an ICT hub.

The decision to set up a regional hub in Kenya was influenced by several factors after Ericsson had decided to stop operating from South Africa. Eight factors crucial to operation were considered and a comparison drawn in the Eastern region countries. These factors included staff, Security, accommodation, communication network, and cost of establishment, security and access to skills. Kenya's communication network internationally was particularly outstanding in giving it an edge over the nearest competitors who were Uganda and Tanzania. It also had an edge in terms of availability of skills. Among the Eastern region countries, Kenya emerged top in terms of scores and hence the regional office location in Nairobi. There was no government incentive given to Ericsson to set up their regional base in Kenya. Instead there exists a lot of red tape. Private companies were however willing to assist with some processes and in this respect Price Water House and Deloitte played a crucial role in helping Ericsson set up.

#### **4.5: Strategy for Global business operations**

A combination of deployment, utilization and coordination of resources within the firm constitute the business operations. This touches aspects such as capacity, facilities, process technology, sourcing and infrastructure. Generally operations are about all activities required to create and deliver a product. An operations strategy is inseparable from an entry strategy as obviously having managed to acquire business in a new environment a firm must proceed to run it in a manner that meets the business objectives. This study concentrated on organization design, control, coordination and location which are critical aspects in operations in a global environment.

##### **Organizational design**

An organization design provides the framework within which a firm carries out instructions to execute day to day activities. An organization design is formed with an aim to efficiently achieve necessary coordination and co-operation in global business operations. It is largely determined by legal, fiscal and cultural constraints. The type and range of activities, scope

and limitations of cross border geographic expansion also determine the type of organization structure a firm adopts.

The study established that Ericsson Kenya has adopted a structure based on the area of coverage, functions and projects. Following stiff competition from Huawei in the year 2000 Ericsson decided to overhaul their structure which was build around clients. The current structure for the region is built around projects with a pool of resources that can be utilized for any project within the region.

It is a complex structure meant to provide benefits from localization, economies of scale and successful delivery of projects within the region and yet fitting into the global framework. The main sections include Sourcing, Human resources, Service delivery, new business, Key Account management and Finance. With some key functions reporting to the Managing director & Country manager, others report directly to the headquarters of their market unit in South Africa. In country branch offices have also been established to enhance coordination with countries under the region.

### **Strategic Control of business Interests and Operations.**

With the overall vision and mission of global firms lying with the headquarters, there is a need for strategic control of subsidiaries. Effective control serves to ensure that relevant information from different parts of the organization flows to decision makers to initiate appropriate action. A cautious approach is given to the headquarters controlling the subsidiaries since the subsidiaries understand better the local environment.

Ericsson has adopted a hybrid system of control through its subsidiary in the region. The headquarters provides the framework within which the business operates. Ericsson Kenya cannot therefore re-brand itself but closely follows the philosophy of the mother company. The headquarters sets targets to be achieved by the Market unit which are then cascaded down to different customers within the region. Such targets include net sales, margin, human capital index and cash-flow. Ericsson Kenya is however autonomous in terms of

day to day business operations. It controls its budget and is fully in charge of sourcing of both staff and services. This type of approach has deliberately been adopted by Ericsson Kenya in order to respond to the local environment and appeal to the local governments within the region.

### **Location and coordination of functional activities**

With functional activities spread globally and the desire to benefit from economies of scale, location and coordination of functional activities is equally critical and strategic for a firm to meet its business objectives in a foreign land. Location of activities may lead to cost advantage while with proper coordination the synergy created through all the functional activities may serve as a source of competitive advantage.

The study established a high level coordination of most functional activities within Ericsson Kenya through the head office of the Market Unit based in South Africa. Whereas most of the functional activities have their managers based in Nairobi Kenya, they serve the entire region and are engaged by other regions within the market unit.

Whereas KAM are physically located in the regional office, they report directly to head of accounts for the Sub Saharan market unit who sits in South Africa. The regional office only serves to bring them closer to the customer. This gives them an opportunity to understand the customer more and work out solutions together. This aspect underscores the importance Ericsson has placed on customer relationship as a strategy to acquire more business in the region. Key account managers are overall business owners of several accounts and have a responsibility of mapping customer requirements to business opportunities. They hold the key to customer relations and are accountable for any profit or loss resulting from their accounts. Ericsson Kenya has three account managers serving 20 different customers across the region.

The Human Resource (HR) Manager reports both to the MD who is the Country manager and the Head of HR in the market unit Sub Saharan Africa. The head of HR is responsible for recruitment, training, development and expatriate management. Ericsson Kenya has adopted local laws in managing their human resources to match the needs of employees who are sourced locally. To this extend the Human resource manager reports to the country director who is in charge of the Eastern region. To underscore the importance Ericsson

attaches to human resources the head of HR also sits in business meetings for the region. Ericsson Kenya has invested a lot in terms of training and development as part of its strategy to stay ahead of its competitors. It recognizes people as an important resource in their operations and encourages an open working environment. In order to create synergy between the Sub Saharan market units, the Head of HR also reports to head of HR for the market unit who is based in South Africa. Processes across the region have been harmonized with the headquarters and recruitment is not limited to one country. Staffs recruited through Kenyan office are exported to other regions as per demand. This ensures that all the staff are continuously engaged in Ericsson's project across the region.

Ericsson Kenya has a functional office in charge of service delivery for the region. Service delivery remains Ericsson Kenya's core business. The office offers design, integration, implementation and quality audit services to their customers within the region. Ericsson Kenya has adopted a special service delivery known as Build Operate and Transfer (B.O.T) for new operators. It is a unique type of service which has given them an edge over competitors. B.O.T key advantage is that it transfers liability of new equipment and network to the customer once after an operational period by Ericsson. This gives the customers confidence in Ericsson's services. The main responsibility for the Service delivery section is to offer competent resources for project delivery. At the moment Ericsson Kenya is servicing 20 customers with over 40 projects. Their main revenue generation is through provision of services for project delivery. Over the last one year they have generated over 450 million euros through services. Each project serviced pays to the regional office for services rendered. To create synergy between the different regions the Manager of Service delivery reports to the head of service who sits in South Africa from where service delivery across the market unit is controlled. Resources for service delivery are deployed across the region based on the demand of projects an aspect that ensures efficient utilization of resources. To create a competitive edge over competitors in terms of service delivery, Ericsson Kenya continuously measures quality through quality control and works with forecasts. Service delivery has however faced numerous challenges. The expectations from customers are very high and working in some countries is considered unsafe. Getting people to offer services in those countries is therefore a big challenge.



Another key function on organization structure is new business. With technology evolving fast, customer demands are changing and competition intensifying. Ericsson Kenya has a new business section headed by head of new business. This section also remains strategic to Ericsson as they seek to expand their market share of business within the region. The main function of this section is to deal with new customers and develop new accounts. New accounts can be developed in existing business portfolios or new ones. This section is also responsible for offering expert knowledge in developing products for sales as required by customers. The region has potential for new business in terms of new licenses, existing operators and non –operator companies like government organizations, oil companies and other private enterprises like Kenya Data Networks. Ericsson Kenya is able to acquire new businesses by responding to tenders, knocking on the doors of existing ones and expanding with their current customers. For non operators, they communicate what they do in a bid to convince them to acquire their products and services. Ericsson recognizes the need to deliver on their promises and maintain close customer relationship as a way of keeping the competitor at bay. This section relates to other regions in terms of knowledge sharing and exchange of workers.

Another functional office within the Ericsson Kenya is finance, with its main function being maintenance of financial records for the region. Some key financial functions such as payment of salaries have been outsourced to a local company as part of cutting down costs. Some tasks within finance such as contractor management are being managed by shared services centre located in Madrid, Spain and Manila in Philippines. This centre operates on a twenty four hour basis in order to ensure continuous operations for Ericsson’s customers across the globe. Ericsson Kenya has opted to make use of services from this centre as part of the group’s policy to reduce transaction costs and ensure uniformity and security of their services. To ensure that customers do not suffer from delay in services due to distance this centre has established Key performance indicators that must be continuously adhered to and are constantly measured.

Sourcing is yet another function that Ericsson has attached great importance. They have therefore established sourcing function headed by a manager within their Ericsson Kenya subsidiary. Coordination of sourcing function within the regions is performed in South Africa with all the regions subscribing to the same processes. Ericsson has established a

company assessment and acceptance criteria in an effort to maintain quality to their customers. Through market assessment, continuous monitoring of the market, supplier management and focus on good customer relationship; they try to stay ahead of their competitors.

## CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.1: Summary

The study was carried out as a case study of Ericsson Kenya, a subsidiary of Ericsson which is a global company in the Telecommunication sector. Ericsson operates in over 140 countries worldwide. The Telecommunication sector has witnessed immense growth in the last 5 years and especially with the liberalization of the sector in most African countries. Competition has also intensified and especially with the merging of several big players in the sector. In a bid to outwit its competitors in the region Ericsson has established this subsidiary to serve the Eastern region which comprises of Uganda, Tanzania, Kenya, Zambia, DRC, Burundi, Rwanda and Seychelles. Ericsson Kenya is wholly owned by Ericsson.

The findings indicate that Ericsson has engaged in both services and equipment exportation in its bid to penetrate the Telecommunication market in the Eastern region and Sub Saharan market unit at large. The main drive in acquisition of business in the region is availability of opportunities and the desire to beat competitors. It continues using its plants in Europe and Asia to manufacture and export equipment to its customers in the region. To this end it has key account managers (KAM) responsible over several accounts in the region. The KAM directly talk to customers to acquire the business and maintain good business relationship. Owing to the strategic position service holds in acquisition of business, Ericsson Kenya was established as a direct foreign investment to bring services closer to the customer and also generate revenue through service exportation. Service exportation is done within the countries of the region and also among other regions within the market unit.

The research further revealed that Ericsson has adopted a global structure in running its subsidiary Ericsson Kenya. It has allowed localization of the structure by having some functions directly report to the Managing director & Country manager while some functions report to their market unit head office in South Africa. Ericsson Kenya has

adopted values and mission of the parent company although with an open culture with employees coming from all parts of the world.

All the respondents were in agreement that the main benefit derived from Ericsson setting up its regional office in Kenya is proximity to customers which enhances good customer relationship. Closeness to the customer is critical to both retaining business and acquiring more clientele. Even though the political environment in all the regional countries is viewed as erratic, there is a general agreement that Kenya's is the most stable. The interest the international community has in Kenya has instilled some investor confidence thus allowing Ericsson to directly invest in Kenya. The study further showed that the conventional PESTEL framework was not given much weight in deciding which country was suitable as the regional headquarters. This was attributed to its complexity and the duration it would take. A simple criterion with simple factors to analyze was instead used.

Ericsson Kenya has created synergy with other regions within the market unit through an exchange of staff and information. To ensure realization of this synergy all its functional managers report directly to the head office of the market unit in South Africa. The study further revealed that Ericsson acquires its staff from across the globe but with an emphasis on training and equipping the local staff to take over jobs occupied by expatriates. All the regions operate with the same structure with some services being offered by centralized services across the globe. This, the respondents say ensures reduction of transaction of costs and standardization of some services. Another measure deliberately taken to cut costs is outsourcing of some tasks within some functional units. Such include salary processing which has been outsourced to Deloitte and acquisition of some staff which is given to international sourcing companies. This ensures maintenance of a lean staff, easy to manage and also continuity of services whenever staffs leave.

The case study further revealed that Ericsson Kenya remains autonomous in most decisions regarding the regions operations. The head office however sets targets and the framework within the market unit operates.

## **5.2: Conclusion**

In conclusion, the objective of the study was to establish the entry strategies used by Ericsson in the Eastern Africa region using Kenya as an operational hub. From the study results it is apparent that Ericsson established Ericsson Kenya as a strategy to enhance its business within the region. Whereas it continues exporting equipment to the region, Ericsson Kenya was strategically established to enhance customer service and also export service to the regional countries, a factor that further stamps Ericsson as a leader in service delivery. Ericsson Kenya co-operates with other regional offices in the Sub Saharan market unit in order to gain from existing competencies and information from these regions. Though allowing for localization of staff Ericsson Kenya operates on an entirely global structure. Services are standardized with some being offered from a central location to reduce transaction costs. Ericsson Kenya is autonomous while at the same time getting guidelines from the headquarters.

## **5.3: Recommendations for Further Study**

Further studies are recommended in order to determine strategies used by Multinationals to enter and operate in other Eastern Africa countries in specific industries. These industries could have unique strategies for entry and operation. It's worthy noting that some countries within the region have been able to attract foreign direct investors in some industries that Kenya has not. Such a study will be a big contribution to Kenyan companies seeking to venture into foreign markets within the region. It will also help the government to formulate specific policies suitable to attract niche market foreign investors.

## **5.4: Limitations of the Study**

The study clearly focused on Ericsson in the Eastern region of Africa. Ericsson's business is strictly in the Telecommunication sector. This sector is very unique in the sense that it has witnessed liberalization in the last ten years and is the fastest growing in the region. The findings may therefore not entirely apply to other sectors of the economy.

Another limitation of the study is that some of the respondents had just been employed by Ericsson and therefore could not give a proper account of the company and its investment policies. Distance made it difficult to reach some of the senior managers in the head office of the market unit who though not working for Ericsson Kenya, could have provided more information regarding Ericsson's operations in the region.

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**APPENDIX I: INTERVIEW GUIDE (MD and Country Manager, Head of Strategy  
Market unit sub Saharan Africa)**

1. From a global perspective what position is Ericsson holding in the Telecommunication industry?
2. Whom do you consider your competitors in the region?
3. What is your competitive basis?
4. What was your guideline while selecting Kenya as a regional hub?(PESTEL framework to be used for more questions)
5. What are the various factors that influenced your decision to invest heavily in the region and especially setting up an operational hub in Kenya
6. How do Ericsson operations in Kenya relate to the ones in other offices within Africa?
7. What values and priorities have guided your strategic orientation on in the region?
8. In making your decision to set up the regional hub in Kenya what incentives if any did you have from the Kenya government?
9. What's Ericsson's main mission in the region?
10. In your operations, how does the headquarters in Sweden determine your decisions for the region?
11. How do you market your products and services in the region?
12. To what extent has the East African community influenced your competitive strategies in the region
13. What demands if any have been placed on Ericsson by the countries in the region as pre-condition before opening up offices?
14. Are the products and services you offer in the region standardized or customized?
15. Approximately what percentage of your total earnings would you attribute to your foreign source income
16. How do you rate your investments in the region compared to the other parts of the world.
17. What is the attitude of the regional governments towards foreign firms in general?
18. What is the attitude of government towards the Telecommunication industry?
19. What do you think about the general stability of the political, social, and economic conditions in each of the Eastern Africa countries?

20. How would you classify your business investment in Eastern Africa (FDI, JV, Export etc)
21. What factors prompted you to use (export, FDI.....) as a mode of entry in the region
22. Could you have done better by use of other entry modes in the region
23. What structure have you adopted for the region? Does it differ with your global structure?
24. Functionally how is Ericsson running the region?
25. In your structure what is the responsibility of a KAM in so far as your business in the region is concerned
26. In your structure what is the responsibility of the head of business so far as your business in the region is concerned
27. To what extend are these functional activities linked across various locations?
28. From where do you source your staff in the region?
29. How does your office in Kenya relate to other offices worldwide?
30. Which decisions are controlled from the region and which ones do you rely on your headquarters

## **APPENDIX II: INTERVIEW GUIDE (Key Account Managers in the region)**

1. What are the main accounts you hold for Ericsson
2. What do you think is your role as a key account manager
3. What would you term as the key issues in getting business within your accounts?
4. What challenges do you face in securing this business?
5. What volume of business do you control for Ericsson within your account?
6. Who are your competitors and how do you think they are fairing?
7. What would you consider as the strength of your competitors
8. How has Ericsson's decision to create its hub in Nairobi affected your ability to deliver?
9. How do you offer services in the region?
10. What do you do to guarantee quality of service to your customers?

### **APPENDIX III: INTERVIEW GUIDE (Head of Finance)**

1. What does Ericsson's foreign financial policy stipulate about foreign investments?
2. What's the source of finance for the region?
3. What's Ericsson's re-investment policy and how has it been applied in the region?
4. How do international trade factors like ones from IMF, World Bank affect your trade in the region?
5. How do you make use of your finances?

### **APPENDIX IV: INTERVIEW GUIDE (Head, New Business)**

1. What does your role entail? Scope? Staff? reporting lines
2. What potential do you see in the region in terms of business
3. How prepared is the region for new business
4. In your role how do you relate to other regions?
5. What are your strategies to get new business
6. How do you rate your competitors in terms of getting the new business in the region

### **APPENDIX V: INTERVIEW GUIDE (HR Manager)**

1. What does your role entail? Scope? Staff? reporting lines
2. What is Ericsson's policy regarding recruitment of staff for Ericsson Kenya? (foreigners, locals)
3. How do you relate to other regions in your role?
4. What kind of organization structure has Ericsson Kenya adopted? Why?
5. How do you recruit your staff?
6. Within your role what do you do to ensure Ericsson stays ahead of competitors?
7. How would you compare HR function within Ericsson Kenya with other regions
8. What would you consider as the strength of your competitors in as far as HR is concerned
9. How has Ericsson's decision to create its hub in Nairobi affected your ability to deliver?

### **APPENDIX VI: INTERVIEW GUIDE (Manager Sourcing)**

1. What does your role entail? Scope? Staff?
2. How do you relate to other regions in your role?
3. Sourcing entails using non Ericsson firms to provide services. How do you ensure quality is guaranteed?

4. What challenges do you face in sourcing?
5. Within your role what do you do to ensure Ericsson stays ahead of competitors?
6. How would you compare sourcing within Ericsson Kenya with other regions
7. What would you consider as the strength of your competitors
8. How has Ericsson's decision to create its hub in Nairobi affected your ability to deliver?

#### **APPENDIX VII: INTERVIEW GUIDE (Manager Service delivery)**

1. What does your role entail? Scope? Staff?
2. What type of services do you offer your customers?
3. How do you relate to other regions in your role?
4. Provision of service entails using non Ericsson firms to provide services. How do you ensure quality is guaranteed?
5. What challenges do you face in provision of services?
6. Within your role what do you do to ensure Ericsson stays ahead of competitors?
7. How would you compare service delivery within Ericsson Kenya with other regions
8. What would you consider as the strength of your competitors
9. How has Ericsson's decision to create its hub in Nairobi affected your ability to deliver?