ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACTORS INFLUENCING MARKET ENTRY STRATEGY OF FOREIGN COMPANIES INVESTING IN ETHIOPIA: CASE OF MANUFACTURING COMPANIES

BY: EMEBET TAKELE

JUNE, 2016

ADDIS ABABA, ETHIOPIA

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APPROVED BY BORAD OF EXAMINERS

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DECLARATION

I, the undersigned, declare that this thesis is my original work prepared under the guidance of Dr. Getie Andualem All sources of materials used for this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name Signature

St. Marry's University College, June, 2016

Addis Ababa

ENDORSEMENT

This thesis has been submitted to St. Marry's University, school of Graduate Studies for examination with my approval as a university advisor.

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Advisor Signature

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Finally I, hope this thesis can contribute to fellow students better understanding of factors influencing market entry strategy of foreign companies investing in Ethiopia in case of manufacturing companies.

Addis Ababa June, 2016

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EMEBET TAKELE

Dedication

This thesis is dedicated to my father ATO. TAKELE ANDYHUN a loving and wonderful Father.

Table of Content

Title

Acronyms and Abbreviations

FDI - Foreign Direct Investment

GTP - Grand Transformation Plan

LDC - Least Development Countries

MEM - Market Entry Mode

MEMS - Market Entry Mode Selection

MNC - Multi National Companies

MNE - Multi National Enterprise

OECD- Organization for the economic cooperation and development

LIST OF TABLES

List of Figures

Abstract

The purpose of this study is to address what factors influence foreign manufacturing companies to invest in Ethiopia, these factors could be internal, external or the combination of both factors that can influence companies to choose direct investment strategy in the manufacturing sector. The study achieved the objective of the research with the help of questionnaires for the foreign manufacturing company's key leaders and interview with Ethiopian investment Commission key informants. To further clarification on the subject matter, reviewing of related literature has a great place. For greatly accomplished the study, descriptive methods of research design used and the significance of each factor tested using t-test table including measure of central tendency with mean and also the nature of distribution calculated by using standard deviation. As a result after thoroughly present and analyzing the data obtained from respondents the researcher clearly put the findings, and conclusion then provides recommendation for the Ethiopian Government policy makers to work on the adjustments needed by the foreign companies and also, to work on major factors that can influence foreign companies to invest in Ethiopia. As a result it is highly believed that the study will also serve as input for policy makers and other stakeholders who might also be interested to make further studies.

Key words: - *foreign companies, entry strategy, external and internal factors*

Chapter one

1. Introduction

1.1 Background of the Study

Globalization has been changing the business world and the way business is being performed in a dramatic pace within the last few decays. This effect is being felt everywhere in the world whether it is a developed, developing or underdeveloped nation. Companies, Individuals/small groups in any part of the world are thinking a business opportunity in different countries that might result from the search for cheap labor or resources**.**

Today's companies, whether they are small, medium-sized or multinational, are striving to make their products and services more global than ever. The internationalization of firms is occurring at an ever increasing pace. In the past 20 years, firms have changed their orientation from domestic to international; they have shifted from multi-domestic marketing to global marketing (Malhotra et al., 2003, p.1).

Different authors emphasize on the variety of reasons why companies expand to foreign markets.(Thompson et al., 2005, p.174) mention four major motivations of the companies for going abroad: 1) gain access to new customers for realizing the potential of increased revenues, profits and long-term growth; 2) achieve lower costs and enhance the firm's competitiveness as often domestic sales volume is not large enough to fully capture manufacturing economies of scale or learning curve effects; 3) capitalize on its core competencies; 4) spread business risk across a wider market base so that the economic turbulences do not put the existence of the company at risk. (Couturier &Sola 2010, p.45) add that companies wish to acquire resources that are more efficient than those obtainable in the home market of the firm (e.g. labor and natural resources).

In deciding to go abroad, the company needs to define its international marketing objectives and policies. Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures, and direct investments. And also the company might discover that some foreign markets present higher profit opportunities than the domestic market.

When a company goes international, there are three questions that need to be answered: a) who are we? b) Where do we want to go? c) How will we go there? (Thomson et al, 2005, p.3).Who are we gives the idea of company's core competencies and values. Where do we want to go shows the (expansion) direction and ambitions, specifically the foreign markets where company wants to establish itself? How will we go there identifies the strategies and ways of entry. There are different options for entry ranging from licensing and franchising, through exporting (directly or through independent channels), to foreign direct investment (FDI) (joint ventures, acquisitions, mergers, and wholly owned new ventures).

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them. (OECED 2002, p.3)

The overall benefits of FDI for developing country economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries. Moreover, beyond the strictly economic benefits, FDI may help improve environmental and social conditions in the host country by, for example, transferring "cleaner" technologies and leading to more socially responsible corporate policies. (OECED 2002, p. 5)

(Pollavini 2010, p.8) stated "The literature of International Business has still many unanswered questions about reasons and determinants of success and failure of firms on the global stage as well as the effectiveness of drivers concerning global and international strategies."

In the pages to come this study address the diverse factors that foreign companies will consider before their entry in a given business sector with an emphasis given to the manufacturing sector will be discussed. Because bringing such a decision requires constant monitoring and analyzing a large number of factors ,the purpose of this study is to provide a deeper understanding of the factors that influence foreign companies investing in Ethiopia and how they choice there entry modes especially the manufacturing companies that are investing in Ethiopia.

1.2 Statement of the problem

Market entry in developing countries will most likely mean being exposed to unfamiliar environments. The general business conditions might be very different from the home market and constitute higher levels of trade barriers and socio-cultural distance may be difficult to deal with (Petter 2009, p.3).

The more than 200 nation states of the world do not all hold the same profit potential for a firm contemplating foreign expansion. Ultimately, the choice must be based on an assessment of a nations long- run profit potential. This potential is a function of several factors including political and economic factors of the nation. And this factor also influences the potential attractiveness of a foreign market. The attractiveness of a country as a potential market for an international business depends on balancing the benefits, cost and risks associated with doing business in that country. (Hill 2013, p.486)

Thus, the entry mode has great effect on the intensity of control that the MNC has over the company. Repeal and inappropriate mode can be very hard to change therefore it’s important that the decision taken is deeply considered. (ibid)

Foreign direct investment (FDI) is prized by developing countries for the bundle of assets that multinational enterprises (MNEs) deploy with their investments. Most of these assets are intangible in nature and are particularly scarce in developing countries. They include technology, management skills, channels for marketing products internationally, product design, quality characteristics, brand names, etc. In evaluating the impact of FDI on development, however, a key question is whether MNEs crowd in domestic investments (as, for example, when their presence stimulates new downstream or upstream investments that would not have taken place in their absence), or whether they have the opposite effect of displacing domestic producers or preempting their investment opportunities. (Agosin, R. and Mayer 2000, p. 16) FDI is not only important to sustain high investment rates, but also essential for knowledge and technology transfer. (World Bank 2012, p.6)

This reluctance on the part of the MNC to transfer technology to its affiliate may, in turn, affect the extent of technology spillovers on account of foreign direct investment (FDI). Since such spillovers are important for the process of economic development in a developing country, an examination of the determinants of a MNC's mode of entry in a developing economy assumes significant importance. (Bhaumik and Gleb 2003, p.5)

When it comes to entry strategies in LDC's the amount of literature is limited. As we know Ethiopia is one of the LDC's in the world. However this study tries to confine and investigates, how foreign companies investing in Ethiopia enter the market particularly companies using the direct investment entry strategy those operates in the manufacturing sector. of course In order to sped up the country's development the government will also grants them different incentives that might attract foreign companies to come to Ethiopia and invest so this and other factors will be considered in the study.

The researcher wants to study this area because there is only little known about what factors influences the foreign companies investing in Ethiopia to choose the direct investment entry mode and also there is no a deeper investigation undertaken to know about the international business effect in our country. To the researcher knowledge, there was no research undertaken in this specific area in the Ethiopian context. Thus, this study examined determinant factors that affect foreign companies in selecting the market mode of entry strategies to enter an overseas market - with a particular emphasis of those who preferred direct investment entry strategy to enter into Ethiopia in the manufacturing sector.

1.3. Research question

1. What are the key (internal and external) factors that influence foreign companies to choose direct investment strategy to enter into Ethiopia in the manufacturing sector?

2. Which of the key (internal and external) factors significantly affect the direct investment market mode of entry strategy choice by the decision makers of foreign companies?

3. What types of adjustments are made by the government of Ethiopia for foreign companies to get familiar with the country context?

1.4. Objectives of the study

1.4.1General objectives

The general objective of the study is to identify what factors influence the market entry strategy of foreign companies investing in Ethiopia and what are the key factors influences the companies to choose direct investment of the manufacturing sector.

1.4.2 Specific objectives

The specific objective of the study is:

- To identify the key (internal and external) factors that influences the companies to choose direct investment strategy of manufacturing.

- To explore the (internal and external) factors positively and significantly affect the market entry mode strategy choice of key decision makers of foreign companies

- To identify the adjustment made by the government of Ethiopia for foreign investors as they get familiar with the country context.

1.5 Definition of Terms

1.5.1 Operational Definitions'

- **Decision makers:** People who are the ultimate (highest) in the decision making hierarchy of a company. It might be an individual or board.
- **Country context:** The prevailing sociopolitical and economic situation of a country as perceived by the study participant.

1.6 Scope of the study

Geographically the study is limited to Ethiopia but only investigating the foreign companies operating in the manufacturing sector in Addis Ababa region which only registered within the 10years time period. Moreover the study is limited to what factors influencing their choice of market entry strategy.

1.7 Significance of the study

The study has the following significance:-

- It can be uses as a major input to the Ethiopian investment office policy makers to make the necessary adjustments on policy papers.
- It also help foreign investors interested to invest in Ethiopia as well as those who have invested in Ethiopia already.
- It serves for other researchers who are interested on enquiring further on other modes of entry.
- It stimulate other researchers to undertake a research on examining the preferred

mode of entry on non-manufacturing enterprises operating in Ethiopia.

1.8 Organization of the study

The study organized under 5 Chapters.

- Chapter 1 presents the Research Proposal, comprising of Introduction to the study, the Problem Statement, Objectives of the Study, Research Questions, Significance/Relevance of the Study and the Scope / Limitations of the Study.
- Chapter 2 presents a comprehensive review of relevant literature in an attempt to position the study in an appropriate theoretical framework. Thus it will discuss findings of related theories to this study.
- Chapter 3 presents the methodology to be employed for data gathering as well as the relevant statistical analytical tools that will be employed for analyzing the survey results gathered during the study.
- Chapter 4 presents the findings from the survey, using the statistical tools and methods chosen for data analysis.
- Chapter 5 presents the conclusion chapter, which presents the analysis of the findings, summery, conclusions and recommendations.

Chapter two

Literature review

2.1 Chapter Overview

This chapter presents an overview of the literature that relates to the topic under investigation Factors influencing market entry strategy of foreign companies investing in Ethiopia in case of manufacturing companies. In doing so the researcher tries to overview of different aspects of the entry strategy or entry modes and the variety of considerations that influence the choice of the specific entry mode which is briefly described.

The literature of International Business has still many unanswered questions about reasons and determinants of success and failure of firms on the global stage as well as the effectiveness of drivers concerning global and international strategies.

A firm seeking to enter a foreign market must make an important strategic decision on which entry mode to use for the specific market. Regardless of the motives, once deciding to go abroad and choosing the target market and timing, companies' need to consider the choice of entry modes. Entry mode selection is therefore a very important if not a critical strategic decision. The choice of entry modes is one of the most critical strategic decisions a company has to make in its foreign expansion.

The variety of theories has evolved trying to explain the motives and justification for the choice of entry strategy, mostly for entry modes. But, for this thesis the researcher try to see some of the theories which are Dunning for example proposed a comprehensive, frame work which stipulate that market entry modes are determined by three factors:- ownership advantage of the firm, location advantage of a market and internalization advantage of integrating transaction within the firm. And also transaction cost theory and resource based view also explain the choice of entry modes. And regarding the entry mode selection process we can see the MEMS model of Koch, which explain how the firms go abroad and which factors influences them most. However the researcher only tried to capture the aspects from the above mentioned, theories that are most relevant for making the entry strategy choice.

2.2 Market Entry Strategy

According to (Janssen 2007, p.151-152) market entry strategy consists of four factors: entry mode (determines whether company shall export, establish a company of its own or cooperate through a joint venture), entry node (determines how shall company plug into the local network), entry process (determines how company shall build relationships in the local market) and entry role (determines what commercial role the company shall perform in the local network - seller, buyer and/or manufacturer). Janssons view is quite well aligned with the views of (Albaum & Duerr 2008, p.275 in Ashiqur and Tantu 2011, p.11), who state that a market entry strategy consists of an entry mode and a marketing plan and it determines the degree of a company's control and its commitment in the target market. Some identify another aspect –entry timing, which can be crucial while entering to emerging markets (Pan & Chi 1999 in Johanson &Tellis 2008, p.1)

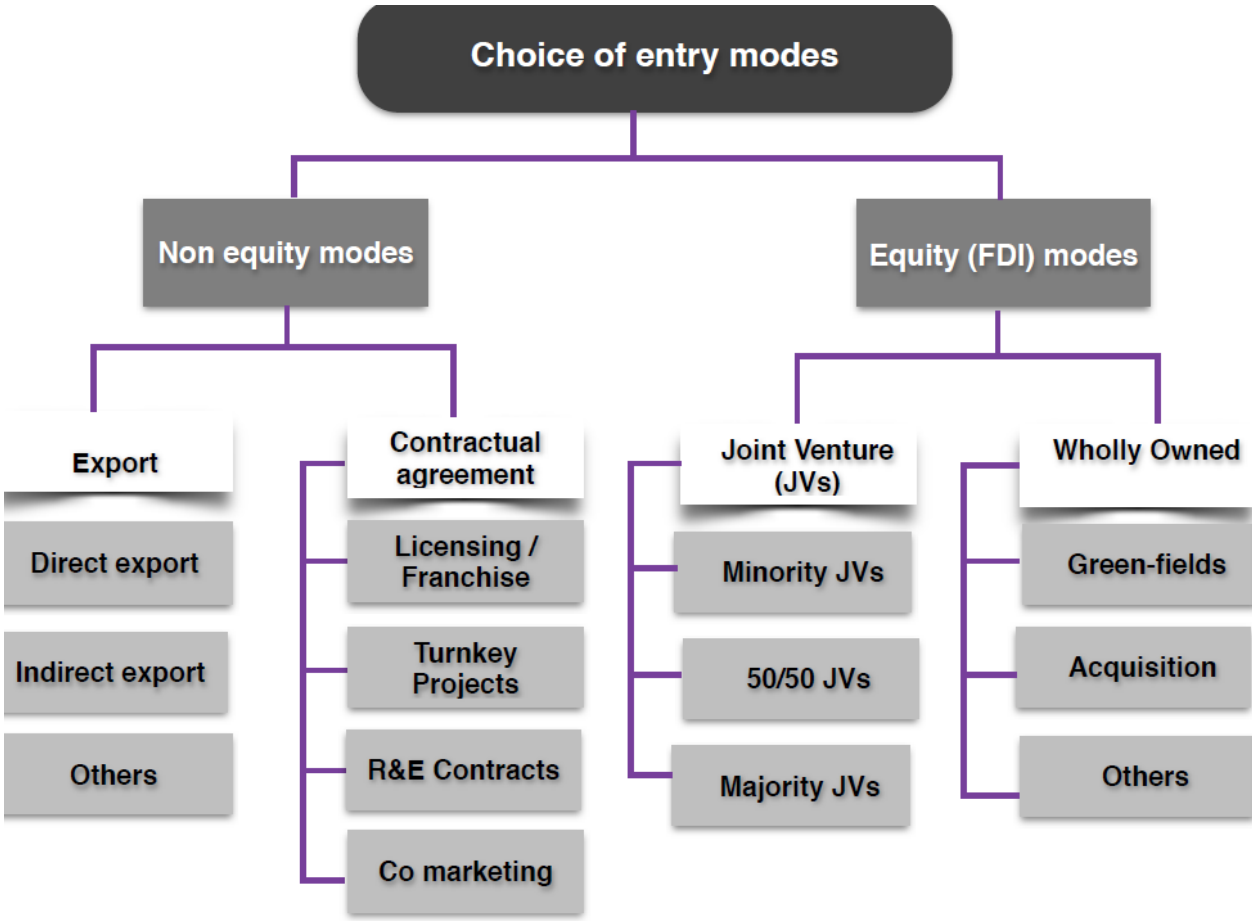
The variety of theories has evolved trying to explain the motives and justification for the choice of entry strategy, mostly for entry modes.

The firm's performance in the host country to a great extent depends on its mode of market entry. The choice of market entry mode selected by a firm is one of the most crucial decisions a firm can undertake when it decides to internationalize (Choo & Mazzarol 2001, p.291). Choice of entry automatically constrains the firm's marketing and production strategy (Johanson &Tellis 2008, p.2).

Entry Modes (How)

There are number of international market entry modes available for companies who wish to enter in to a new market. Entry modes available for companies to choose are in theory the same for each market. However, there might be some regulations regarding the choice of entry modes (Pelle 2007, p.150).

The entry modes can be non-equity based or equity based (foreign direct investments). The most common market entry modes described by the majority of the authors are exporting (indirect or direct), licensing, management contracting, joint venture, acquisition, Greenfield. The first three of them are non-equity based, the rest are different forms of foreign direct investments –that means equity based entry modes.



Source: (Peng 2006:231)

2.2.1 Exporting

It is the easiest way to meet needs of foreign market and it has minimal effect on the ordinary operations of the firm (Albaum & Duerr 2008, in Ashiqur and Tantu 2011, p.13). According to (Rasheed 2005, p. 41) a study results indicate that firms will have a higher rate of international revenue growth using no-equity-based (exporting) foreign market entry modes in growing domestic environments.

According to (Albaum & Duerr 2008, in Ashiqur and Tantu 2011, p.14) as well as to (Kotler & Keller 2006, in Ashiqur and Tantu 2011, p.14) exporting is classified into two categories: a) direct exporting (every responsibility is performed by the company itself) and indirect exporting (responsibilities are done through other intermediaries).

2.2.2 Licensing

Licensing is the provision of the companies (licensor's) manufacturing, processing, trademark or name, patents, etc to the licensee with payment (Albaum & Duerr 2008, in Ashiqur and Tantu 2011, p.15). It can be the process of transferring technology from one company to the other or from home country to the host country (Mottner & Johnson 2000, p.185). According to Claver et al. licenses and franchises are the most important of the main contractual agreements (Claver et al. 2007, p.4). Licensing is the most appropriate when the company has well codified knowledge, there is strong property rights regime and host country location advantage.

2.2.3Joint Venture

Joint venture exists when a company joins another non-national company for common interest (Albaum & Duerr 2008, in Ashiqur and Tantu 2011, p. 16). According to (Albaum& Duerr 2008, in Ashiqur and Tantu 2011, p.16) the main feature of joint venture is that ownership and control are shared. In long run, this approach is more profitable than any other approach. In the literature, joint venture is the topic about which different scholars make different conclusions and recommendation.

2.2.4 Franchising

Franchising is the only non-equity entry It is defined as "an organizational agreement form based on a legal agreement between a parent organization (the franchisor) and a local partner (the franchisee) to sell a product or service using a brand name and process that have been developed and are owned by the franchisor." (Alexander and Doherty 2009, p. 260) By making this agreement the franchisor is sharing the costs and the risk associated with entering the market. On the other hand the franchisor does not have much control, and also the potential income will have to be divided with the respective partners (Alexander and Doherty, 2009, p.263).

2.2.5 Acquisition

Acquisition is defined as having a majority of interest in another company (e.g. acquisition of a business unit) by stock purchase or exchange (Couturier & Sola 2010, p.47). Acquisition facilitates quick entry and immediate access to local resources (Meyer & Estrin, 2001, p. 575). Firms establishing themselves abroad for the first time often choose to do so via acquisition. This path reduces uncertainty (Dubin 1976; Brouthers&Brouthers 2003; Halliburton, Hünerberg &Töpfer1993 in Couturier & Sola 2010, p.47 in Ashiqur and Tantu 2011, p.15) as acquisition provides the access to target market knowledge as well as control over foreign operations and own technology.

2.2.6 Greenfield FDI

Greenfield as investment in a commercial office; manufacturing plant, distribution facility or other physical structure in a country where no corporate facilities previously existed, It is a direct investment normally entailing 100% ownership and therefore full control. (Couturier & Sola 2010, p.45 in Ashiqur and Tantu 2011, p.18) Greenfield uses the resources of the investor and combines them with local assets, giving the investor more discretion over the organization of the new venture, but generally permitting only a gradual establishment (Meyer & Nguyen 2005, p.75). A Greenfield entry would be more likely if the multinational company has prior operating experience in the host country or in similar developing countries or emerging markets (Barbosa et al. 2004 in Bhaumik& Gelb, 2005, p.9). It is also more likely if the “cultural” distance between the multinational’s home country and the host country of operations is minor (Yip 1982 in Bhaumik& Gelb, 2005, p. 15). Greenfield strategy can be very appealing when there is lack of proper acquisition target in the foreign marker, there is in-house foreign market expertise and embedded competitive advantage.

2.2.7 Foreign Manufacturing

International firms engage in contract production or contract manufacturing either within a framework of allocating low-cost production facilities in many countries around the globe (depending mostly on the local labor market conditions prevailing at that period of time) or because this is the only market access possible due to government limitations and other local Conditions.

In any case this type of market entry mode as the term denotes focuses primarily on production and not marketing (at least when target countries are considered). The international firm makes a distinction between favorable production conditions that may occur in certain countries and market opportunities that may or may not coexist with a favorable production environment in the same country. (Katsioloudes and Hadjikis, 2007, p. 251)

2.2.8 TURNKEY PROJECTS

Firms that specialize in the design, construction, and start-up of turnkey plants are common in some industries. In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel.

At completion of the contract, the foreign client is handed the "key" to a plant that is ready for full operation-hence, the term turnkey. This is a means of exporting process technology to other countries. Turnkey projects are most common in the chemical, pharmaceutical, petroleum-refining, and metal-refining industries, all of which use complex, expensive production technologies. (Hill, 2013, p. 493)

2.2.9 Management contracting

Management contracting exists when a local investor in a foreign market provides the capital for an enterprise, while a company from 'outside' provides the necessary know-how to manage the company (Albaum & Duerr 2008, in Ashiqur and Tantu 2011, p.15).

Advantages of management contracting for an outside firm is that it offers a low risk way into a foreign market, allows a company to manage, and in many ways to control (in a functional sense), another company without equity control or legal responsibility, quick return, establishes clarity in administration and decision making. It provides the company with access to local management skills and helps them avoid buying unwanted assets. On the other side, the disadvantage of management contracting is the need for complex contract and expensive legal document, which must differ for each case (Albaum & Duerr, 2008, in Ashiqur and Tantu 2011, p.15).

2.2.10 WhollyOwned Subsidiaries

In a wholly owned subsidiary, the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary in a foreign market can be done two way s. The firm either can set up a new operation in that country, often referred to as a Greenfield venture, or it can acquire an established firm in that host nation and use that firm to promote its products. (Hill 2013, p.493)

2.3 Theories of Foreign Direct Investment

These theories approach the various phenomena of foreign direct investment and attempt to explain the observed pattern of foreign direct investment flows.

2.3.1 The OLI framework

The OLI framework, or eclectic paradigm, has been developed by John H. Dunning and dates back to 1958 but it has been revised continuously through the years (Dunning 2000, p. 168). OLI is an abbreviation for ownership, location and internalization, which are the three sub-paradigms in the framework. The OLI framework combines a number of theories such as transactions cost theory and the resource based view of the firm and in this way serves *"as an envelope for complementary theories of MNE activity"* (Dunning 2000, p. 183). The framework describes the three above mentioned factors which are relevant for companies engaged in international expansion. We will give further details about these sub-paradigms below.

2.3.1.1 The ownership sub-paradigm

It's about ownership advantage to investment, which means that the firm controls some specific asset which allows is to generate positive profit. As a result of having the specific asset, the firm could have either lower costs or be able to charge higher prices than can other firms and potentially therefore make greater economic profits both now and the future. (Dunning & Lundan 2008, p.573-593)

2.3.1.2 The Location sub-paradigm

To generate greater profits than could be attained if they produced here, possible types of location advantage, First, natural resources may be needed to produce the product, second, some capital or labor inputs may be less costly there and the production intensively uses those inputs. Third, local production may be favored by the government there. Fourth, net transportation costs are lower if part of the production is done there. (Dunning & Lundan 2008, p.573-593)

2.3.1.3 The internalization sub-paradigm

Generally, this advantage arises if allowing another company to use the asset would increase probability that the value of the asset to the MNC would be diminished by the other company acquiring control of use of the asset. (Dunning & Lundan 2008, p.573-593)

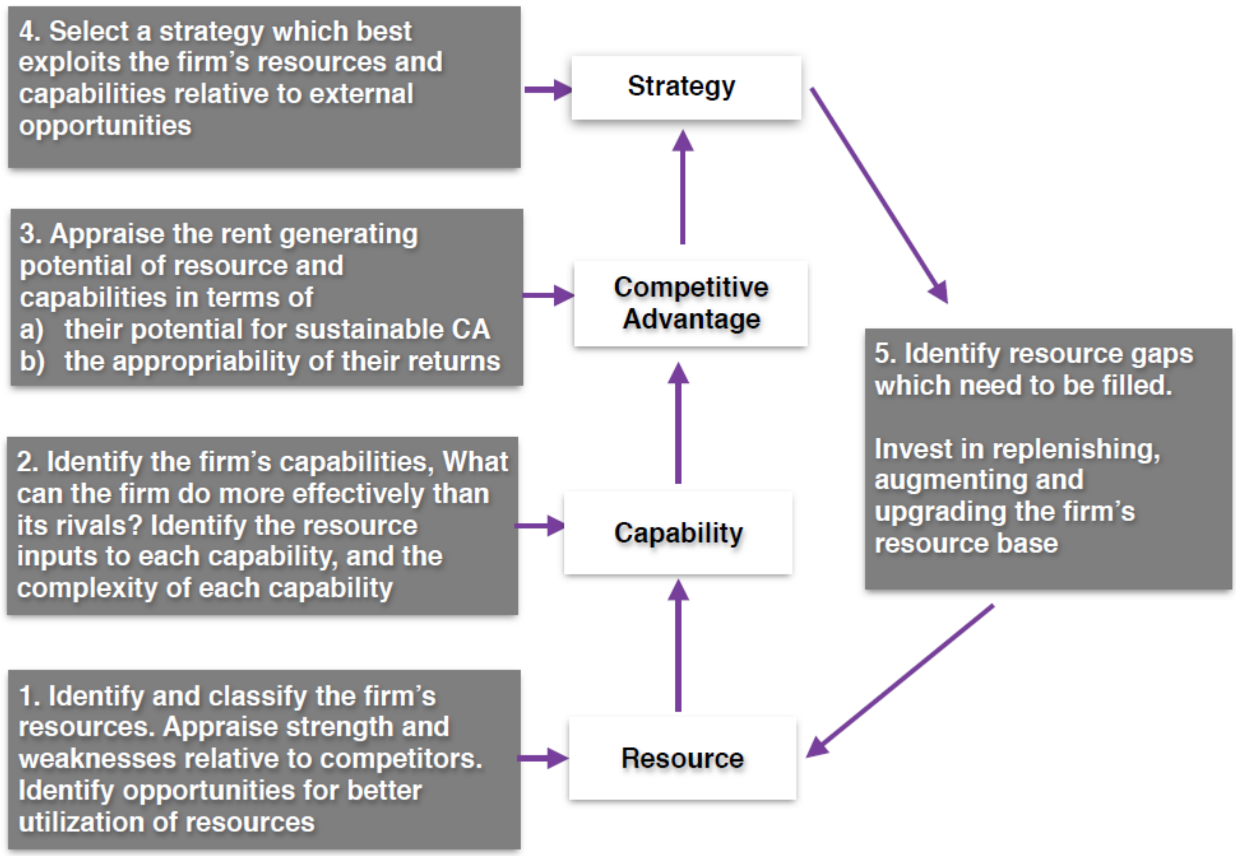
2.3.1.4Transaction cost theory

One of the theories, which seek to answer why transactions are handled within a firm instead of between independent parties in the market, is transaction cost theory. This theory states that transaction is made within an institution if the transaction costs on the free market are higher than the internal costs. Based on the concepts of bounded rationality and opportunism, transaction cost economics focuses on minimizing the costs created by uncertainties associated with protecting proprietary assets, investing in different markets, and monitoring partner behavior (Hennart, 1988; Williamson, 1985 in Broutherset al., 2008, p. 936).

2.3.1.5 The Resource Based View

As a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Wernerfelt1984, p. 175) there is a strong evidence, that supports the resource based view (crook & et.al 2008, p. 5) states that identifying the firms potential key resources, evaluate the resources fulfill criteria, which means if the resources is valuable, reliable, rare, and imitable.

The resources based view is concerned with the firm's internal factors and the more intangible subject of resources, also called firm-specific factors. The Resource-Based (RB) Theory, by contrast, can be seen as an **"Inside-out"process** of strategy formulation. We start by looking at what resources the firm possesses. Resource based view on subjects like the timing of market entry in recent years (see for instance Geng et al 2005; Frawley et al 2006).Next, we assess their potential for value generation and end up by defining a strategy that will allow us to capture the maximum of value in a sustainable way. The process is summarized in the graph below:



Source: - (Robert M. Grant, 2001)

(Agarwa l& Ramaswami 1999, in Choo & Mazzaro 2001, p. 293) in their examination of the effect of interrelationships among ownership advantages, location advantages and internalization advantages have found the following:

- Larger and more multinational firms prefer sole venture (e.g. acquisition, Greenfield) and joint venture modes to the other market entry modes in low market potential countries.
- Smaller and less multinational firms prefer no entry or joint venture mode in high potential markets to reduce costs and risks.
- Firms having higher ability to develop differentiated products prefer to choose investment modes to exporting in countries that are perceived as having high contractual risks.
- Firms prefer the exporting mode in markets that have high potential but are perceived to have high investment risk.

Location costs, internalization factors, financial variables, cultural factors, such as trust and psychic distances, market structures and competitive strategy, adaptation costs(to local environment), and the cost of doing business abroad are all identified in the literature as playing a role in determining firms foreign market entry decisions(Buckeley & Casson 2004,p.204).

2.4 Factors influencing market and entry mode selection: developing the MEMS model (Adam J. Koch, 2001)

According to Koch MEMS model Market entry mode selection process fall into three broad categories: external, internal, and the mixed, internal/external category. But for this study we are only going to see the two categories of factors that may influences firms decisions to go abroad, which are the internal and external factors. The role of each of these categories will be briefly characterized to help the reader examine the reasons behind each proposition.

There are various internal and external factors that influence market entry strategy of firms who wants to go global. Internal environment factors will be looked at first.

2.4.1 Internal Factors

a) Company Size/Resources

The influence of company size on its choice to select from the different market entry modes depends on the pertinent preference and the specific industry resource demand they are going to choose from the individual marketing modes.

b) Management Locus of Control

The importance of management locus of control for the scale of company international business participation and the market entry mode preference is frequently underestimated, if not ignored totally. Yet strong internal, or external, loci of control are possibly to have a significant effect on manager perceptions; the way their instinct works and their market entry mode decisions may thus, predominantly affect in less experienced companies, and we can determine the outcome of this decision process.

c) Experience in using MEMs

The organizational learning process needs to be effective, and efficient, on the amount of experience gathered through different ways including by specific individuals, and the pervasiveness of sharing this information in the company.

d) Management risk attitudes

The point to which accepting various international business risks depend on some of this situation which are: financial situation of the company, its strategic options, the competitive environment which the company operates on and the intensity of the competition and also company's environment on the international business environment etc. However what we should consider is that the risks linked with individual market entry modes or the country chosen by the company may greatly affect company's decision.

e) Market share targets

The different standards which are used to select the market entry mode of a company preferred to be the most probable ones which could bring the most advantageous outcome within the time-honored planning periods.

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2.4.2 *External Factors*

a) Characteristics of the overseas country business environment

While the general characteristics of overseas country business environments are usually very easy to obtain these days, industry and company-specific information is usually more difficult to acquire. In this case the first group of information is complete and up-to-date. And the second category is measured to be somewhat sensitive and costly. In fact it's very much costly to small and beginner companies. The Similarity and volatility of general business regulation/practices, business infrastructure and supporting industries levels of development, forms, scope and intensity of competition, customer sophistication and customer protection legislation are amongst those characteristics which would normally attract the attention of potential entrants into a foreign market.

b) Market barriers

Among the barriers that can make foreign markets more difficult, to access the following categories are considered to be the major ones:-

- Tariff barriers;
- Governmental regulations;
- Distribution access;
- Natural barriers (market success and Customer allegiances);
- Advanced versus developing countries;
- Exit barriers;

b) Industry feasibility/viability of MEM

The industry feasibility for market entry mode selection differs from country to country. For example wholly owned foreign subsidiary and international joint venture may be excluded by law in some countries. It's because the selected industry may have an important strategic use for the country's future decision. And there are also other issues involved like, restrictive labor regulation and practices, cost of labor, insufficient level of skill etc. may discourage the foreign company from establishing a subsidiary, or a joint venture operation in a foreign market. There are also advantages Investing in a foreign subsidiary for securing a favorable taxation treatment (for instance, tax holidays) and save the company a lot of money on avoiding paying custom duties.

d) Popularity of individual MEMs in the overseas market

Some market entry modes are very popular to enter in a specific industry or even country. Of course entry mode selection is always influenced by different factors. Especially new entrants most of the time influenced by this and other factors which are the former entrant experience, degree of success, the anticipated product market situation, stable business environment and growing demand etc. will affect their choice of entry mode. And also this and other factors will encourage companies to enter in to a new market. companies who also has a positive experience in different entry mode are also curious to try another mode of entry that are common in the new market and they also try to see, if that could improve strategy match.

E) Market growth rate

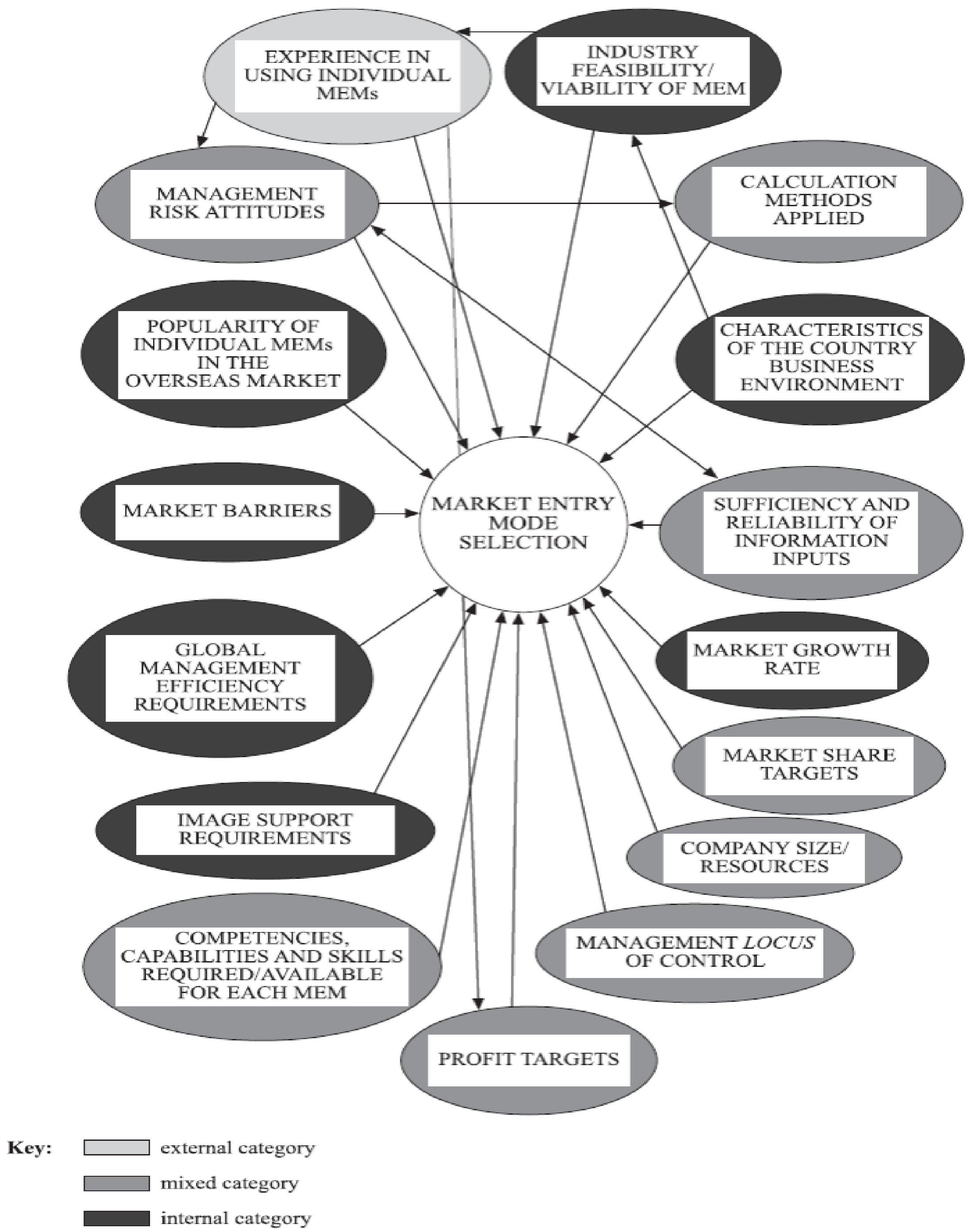
Market growth rate is one of the criteria, when a company is on its way of choosing its market entry mode. If a market growth rate is high and the growth is not consistent for several years, the company will be advised to use its opportunity quickly as much as possible and go for. But when the demand for a foreign market is expected to be very large but only more than few years the company is advised establish own manufacturing/marketing subsidiaries is may be the best answer.

f) Image support requirements

A Company who want to build and keep up its image of a top global supplier needs to be present in the leading global market environment. Companies, who also license their inventions for the global market wants to enlarge their position in the global market by providing new technology and influence the relevant industry standards, They also try to maintain equal and high standard after they sale the product. And this also helps them in the choice of entry modes and to control the distribution and service network. The Image support requirement of a company maybe, diverse, to correspond with various company strategies and their aspects.

g) Global management efficiency requirements

The growing involvement of companies in international business increases the awareness of the limitations of the company's resources and, it’s a matter of time before the company re-defines its global strategy. Some of the companies may choose to diversify; others may go for multinational mode of operation. And some will choose standardized global approach, from a strategic point of view. Critical success factors and companies' core capabilities must be studied to get the optimal organizational structure and strategy to follow. By avoiding unnecessary diversity of the global market entry portfolio many global companies can be benefit from it. All potential economies of scale (and scope) that may flow from such a portfolio must be investigated. And also it’s good to consider organization structures and strategies of all competitors. Sometimes Smaller participation is required from the company headquarters but in some entry modes it may be another decision factor.


EXPERIENCE IN USING INDIVIDUAL MEMs
INDUSTRY FEASIBILITY/ VIABILITY OF MEM
MANAGEMENT RISK ATTITUDES
CALCULATION METHODS APPLIED
POPULARITY OF INDIVIDUAL MEMs IN THE OVERSEAS MARKET
CHARACTERISTICS OF THE COUNTRY BUSINESS ENVIRONMENT
MARKET BARRIERS
MARKET ENTRY MODE SELECTION
SUFFICIENCY AND RELIABILITY OF INFORMATION INPUTS
GLOBAL MANAGEMENT EFFICIENCY REQUIREMENTS
MARKET GROWTH RATE
MARKET SHARE TARGETS
IMAGE SUPPORT REQUIREMENTS
COMPANY SIZE/ RESOURCES
COMPETENCIES, CAPABILITIES AND SKILLS REQUIRED/AVAILABLE FOR EACH MEM
MANAGEMENT LOCUS OF CONTROL
PROFIT TARGETS
Key:
external category
mixed category
internal category

2.5 Hollensen.s on some approaches to the choice of entry mode (2004)

States that when companies choose entry modes for given it is outcome of several forces in conflict. The external factors which are presented by hollensen are more in detail explained below as stated in Hailmariam .A, 2008, p. 20

A, Socio-cultural Distance between home and host country

Socio-cultural distance between firms home and the foreign country creates uncertainties, for the firm which led to influences on the selection process of choice of entry mode. When the cultural distance is very far between two countries most probably a company will avoid using entry mode such as direct investment and joint venture. These entry modes make it very hard for a company to exit foreign market. If they would face any problems regarding the cultural distance modes with low resource commitment and

B, country Risk and Demand Uncertainty

Often foreign market are seen as more risky than decision making the level of risk the company is exposed to it's a functional of the market itself as well as both its method of investment there, country risk can be both political and economic risk. When, thinking of a method of entry the country have to first conduct a risk analysis, of both market and entry mode.

C, Market Size and Growth

Country size and the market growth are important parameters when deciding on the mode of entry.

D, Direct and Indirect trade barriers

Tariffs and quotas on the imported foreign good encourage local production and assembly operations. Product trade regulations and standards and favor of local suppliers also influence the choice of mode of entry.

E, Intensity of Competition

If the competition level of intensity in a foreign market is high, companies are ready to work hard to stay away from internalization, but this sort of markets tend to be less beneficial and do not motivate high resource demanding entry modes. Thus when the competition intensity is high in the host country company will prefer modes that involve low resource commitments.

2.6 Hollensen.s on some approaches to the choice of entry mode (2004)

Internal factors which are presented by hollensen are more in detail explained below as stated in (Hail-mariam .A, 2008, p. 20)

A, Company Size

The size of a company tends to show the resource availability of the firm. Company which large resource availability provides a fundamental for increased international involvement in the future.

B, International Experience

International experience is another internal factor affecting the entry mode choice. It explains the level a firm has been active in operating internationally and is achieved through operating in a specific foreign company or in broad in the international environment.

C, The Product

The feature of the product for instance characteristics as value, weight ratio and compositions is crucial when deciding on where the production should be conducted.

2.7 Attractions and Obstacles for Foreign Companies

According to a study,(Utesch. F, 2014, p.19-42) Done on the title 'manufacturing of foreign companies in Ethiopia and Kenya- economic and social impacts', the researcher tried to identify what factors attracts the foreign companies to invest in this countries and also the obstacles for their entrance choice. And it also tried to see the spillover effects.

2.7.1Attraction for foreign companies 'investment

a) **Economic and political partnership**

As a developing country Ethiopia is oriented for the manufacturing industry and currently benefited from the 'AGOA'enacted by the USA and Ethiopia, Additionally from the EU developed “everything –but arms ’’agreement. According to this research The Ethiopian government has economic partnership agreements with 19 countries from Asia, Europe and Africa, Northern and Southern America, which could be advantageous for foreign manufacturing investors as they could benefit from economic agreements, as published in October 2012.

b) Size of population and labor costs

Regarding population, Ethiopia is with its estimated 96 million people the second largest country of sub-Saharan Africa. Next to the amount of potential labor, it is the cheap labor offered in Ethiopia that makes it an interesting spot for foreign manufacturing companies. Labor intense manufacturing business can benefit and gain advantage to competitor markets, where labor costs are on a higher level. However, as the country does not have a minimum wage set for the private business sector, companies looking for even lower labor costs could find their target country in Ethiopia.

c) Tax Incentives

Another attempt, to further accelerate the growth rate of foreign investors in the manufacturing sector is tax incentives. Foreign companies investing in Ethiopia benefit from an exemption of tax payments for several years. In Ethiopia, foreign companies profit after the expiration of the tax exemption from an income tax allowance of 30 percent for three more years in specific areas of the country.

c) Industrial Zones & Export processing zones

Within the Ethiopian GTP, the government is currently establishing its first national governmental operated industrial zone, called Bole Lemi industrial zone. It is located in the east of the capital of Ethiopia, Addis Ababa. Another, industry zone (Eastern Industry Zone) has been established four years ago and is owned by a Chinese company. Furthermore, the Government of Ethiopia plans to set up several industrial zones next to the first operating one.

2.7.2 Obstacles for foreign direct investment

a) Investment regulations

As stated in this research, The Ethiopian government did not establish any regulations regarding a minimum threshold of shares on a company in joint ventures. However, there are capital requirements existing for foreign investors. Thus, for joint ventures it is required to at least invest US$150,000 and without a joint venture it is US$200,000.

b) Corruption and criminality

Ethiopia is seen as a political stable spot on the African continent with a low rate of criminality and with high security levels. The country is located in the horn of Africa, and is also seen as relatively uncorrupt. Albeit on the other side, it is also stated that corruption within the service and governmental is on a high level. In the sector of potential foreign investments, the government conducts measures against corruption to stay more attractive.

c) Transportation costs

Ethiopia plans to invest, within the Ethiopian Growth and Trans-formation plan, largely in the country's infrastructure. Such is really needed. The country is especially dependent on the infrastructure connections to its neighboring countries and their ports, and such is caused by its land locked position.

d) Lack of skilled workers

Another factor, which needs to get bypassed by potential foreign investors, is the training of unskilled worker and consequently the high market entry costs. Foreign companies within the manufacturing sector work within sectors, where large amounts of cheap labor are needed to stay competition the world market.

e) Electricity supply

Another challenge for foreign investors in Ethiopia's manufacturing industry is the bad support of electricity. Blackouts in the rainy season can stop the manufacturing line and raise the overall costs. Further, telecommunication is on a high cost level.

2.8 Spillover Effect of Foreign Companies

2.8.1 Economic impacts

As the United Nations Industrial Development Organization revealed in its working paper in August 2012, the investment of foreign companies within Ethiopia have a higher positive than negative impact on the local companies. At the time when the study conducted in Ethiopia 431 local companies got observed, 27.4 percent showed positive impacts, compared to a share. For emerging markets, as Ethiopia attraction of foreign direct investors is mainly reasoned by the fact of technology transfer, as several researchers confirmed with their independent studies.

a) Foreign direct investment inflows

Most foreign companies in the manufacturing levels moved to the two selected East African countries after 2000, thus it can be assumed, that they helped the countries FDI inflows to increase during the 12 years until 2012.

b) Transfer of technology and knowledge

- **Training:** The foreign manufacturing companies'aim however, is to operate profit-maximizing and as cost-effective as possible. Thus, they calculate if it is cost-effective to train their employees abroad and how they can keep their trained employees within the own company. This has large influence on the spillover effects of the foreign manufacturers to the welfare and economy of the market invested in.

- **Local imitation:** A second possibility of transferring technology and knowledge is imitation or reconstruction of the foreign company. Local companies can learn from the foreign companies' successes or failures and copy their way of procedure, and technology used.

- **Local up-and downstream linkages:** A third and final way of gaining spillover effects for local companies is possible through up-and downstream linkages of local companies and the foreign firm. Within this third attempt, the local companies are either already connected as a supplier or buyer of the foreign companies' manufactured products.

e) Higher tax income

By attracting foreign companies for the Ethiopian manufacturing sector, it could be observed that “first movers”, being successful in the country. This is currently seen within the textile sector, The local government’s aim of attracting foreign companies to invest, is the higher tax income through the foreign investor itself, and there With the spillover effects on local businesses, they, on the long-term, can work more productive and gain a higher profit, which leads to higher tax payments and higher income for the government.

2.8.2 Social impacts

- **Employment in the manufacturing sector:** With the Ethiopian government’s plan of growth and transformation, the employment rate should be increased and new jobs shall be created.

- **Job creation by foreign manufacturing companies:** Foreign companies doing business in Ethiopia, created many business opportunities, so, it can be assumed, from the time of they started operation. So we can say currently double the amount of jobs were created by foreign investors.

2.9. Conceptual Framework

According to (Miles and Huberman 1994, p. 18) defined a conceptual framework as a visual or written product, one that "explains, either graphically or in narrative form, the main things to be studied—the key factors, concepts, or variables—and the presumed relationships among them" It is crucial to be selective and choose the most relevant variables and relationship that have the highest probability, to be relevant for the study (Miles and Huberman, 2004, p. 11). The conceptual framework emerges from the Literature Review in the thesis, is created to help the researcher collect data necessary to answer research questions. As a result, only the relevant literature to the research will be chosen and presented in the same order as the research questions presented.

With regard to factors influencing choice of entry mode I have chosen theories of (Koch .J 2001, p.1-11), due to the fact that these theories are well known and regarding what factors attracts the foreign companies to invest in Ethiopia. I believe these theories can show an immediate relevance to the research questions as well as the external and internal factors they, seems to be sufficient to collect data on.

(Koch. J, 2001, p.1-11) discusses several internal and external factors that influence the choice of market entry mode and the focuses are:-

Internal Factors

- Company size and resources
- Management locus of control
- Experience in using MEMs
- Management risk attitude
- Market share targets

External Factors

- Characteristics of over sea country business environment
- Market barriers
- Industry feasibility/viability of MEM
- Market growth rate
- Image support requirements
- Popularity of individual MEMs in the overseas market
- Global management effort requirement

These above mentioned internal and external factors will work as the basic for the interview guide and the questioners that are going to be created to answer the research questions so the purpose of the study can be obtained.

As for the factors attract foreign companies to invest in Ethiopia, I am going to use the factors point out by (Utesch. F, 2014, p.19-31) the author states several factors on the attraction of foreign companies to invest in Ethiopia.

- Economic
- Political
- Population
- Tax incentive
- Industrial zones and export zones

So, these above mentioned factors will work as the basic for the interview and questioner guide that is going to be created to answer the research questions so the purpose of the study can be obtained. Of course the researcher also includes other variables, which was not including in the above research.

Furthermore I also want to go in detail and investigate the internal and external factors that have been stated by (Hollensen 2004, as stated in Hailamriam .A, 2012, p.20)

The author states 3 internal and 5 external factors, however only 5 of them are going to be discussed:-

Internal Factors

- International experience
- The Product

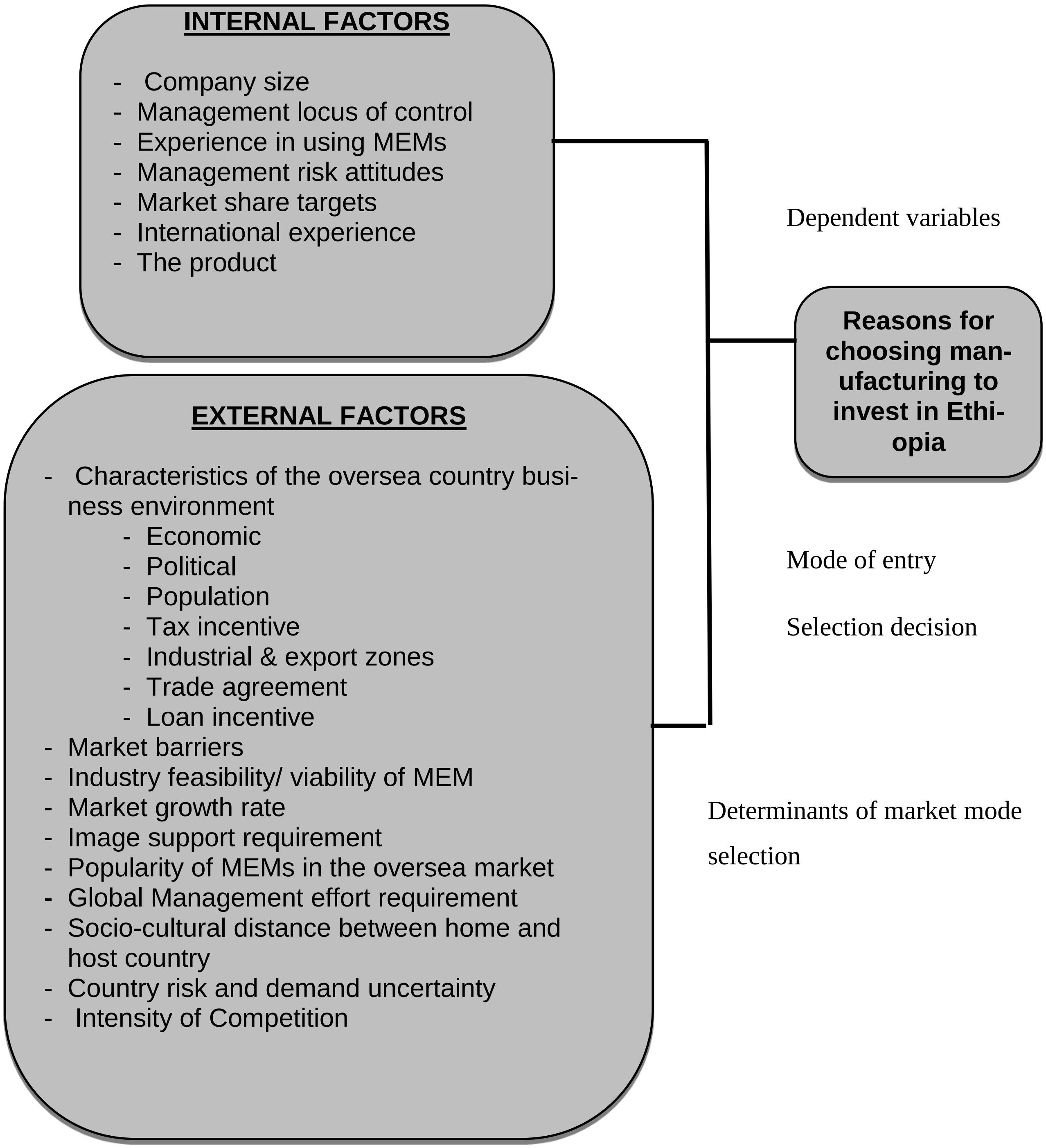
External Factors

- Socio-cultural distance between home and host country
- Country risk and demand uncertainty
- Intensity Competition

So, these above mentioned factors will work as the basic for the interview and questioner guide that is going to be created to answer the research questions so the purpose of the study can be obtained. Of course the researcher also includes other variables, which was not including in the above research.

A graphical presentation of the conceptual frame work is present in the next figure

Independent Variables



Chapter Three

Research Design and Methodology

3.1 Research Approach

There are two sorts of research approach, these are qualitative and quantitative research approaches. And this study used both the qualitative and quantitative research approach, to conduct the appropriate study.

3.2 Research Design

The research involved both quantitative and qualitative methods which is sequential nested design. As study is about finding out the perspectives of foreign companies'leaders/ key decision makers in the choice of entry mode strategies, the marketing officials also included and also the officials in the Ethiopian investment commission included which makes the qualitative approach appear to be appropriate. Likewise, as we need to have some kind of generalization in the specific investment area selected, it would be reasonable to employ quantitative approach. The qualitative study presented followed by the quantitative study as the variables to be considered in the quantitative study are expected to emerge in the qualitative study. The study take a cross sectional approach as it is constrained by time and for the fact that the research questions could be answered by findings that could result from such design.

3. 3 Sampling Design and Determination

3.3.1 Population of the study

The population of the study is 446 of foreign manufacturing companies operating in Addis Ababa region. The number of foreign manufacturing companies registered in capital city as of February 04, 2016 is 1,733 companies. Of these categories the number of companies, whose status is under operation within the 10 years time period is 446.

3.3.2 Sampling technique

Simple random sampling technique was used in the selection of foreign manufacturing companies, from the list of companies operating in Ethiopia within the Addis Ababa region, which registered in the 10 years time period, in the manufacturing sector. And from the 446 foreign manufacturing companies registered the researcher took 90 companies which included in the quantitative study, by using computer generated numbers and this number is thought to be sufficient enough to get the required data for the study purpose. And also purposive sampling was used to select the key respondents. And the qualitative study was conducted by interviewing the Ethiopian investment commission officials. But as it is true for qualitative studies, the sample size is subject to saturation criteria.

3.3.3 Sampling Frame

From the list of all foreign manufacturing companies the researcher takes samples from the ones who operating in the Addis Ababa region and registered within the 10 years time period, and which are 446 companies.

3.3.4 Sample Size determination

Since all foreign manufacturing companies operating in Addis Ababa were466 which are registered within the time period of 10 years; the sample size (SS) was determined considering 95% confidence level (α= 0.05), and 0.5% variability or 95% homogeneity among companies in decision making first using a formula for infinite Population was used (Godden, 2004).

$$SS = \frac{Z^2 * (P) * (1-P)}{C^2}$$

= 73 and then adjusted to new Sample size (SS) for finite number of population (where the population is less than 50,000) using the formula derived from the first step.

New SS = =63

Finally adding 40 % of the sample (63) for non-response rate a sample size equals to 90 were considered for the study. Where, SS = Sample Size , Z = Z-value (1.96 for a 95% confidence level), pop= population, P=Population variability expressed as decimal), C = Confidence interval (α), expressed as decimal.

3.3.5 Sampling Procedure

From the list of the foreign manufacturing companies operating in the Addis Ababa region by using the simple random technique the researcher selected 90 companies as its sample size by using a computer generated number and from their contact list of the companies the researcher crave their email address and send for each participant having a contingency plan .

3.4 Source of Data

There are two sources of data; these are primary source of Data and Secondary Source of Data, for this study only primary source of data used.

3.4.1 Primary Source of Data

Primary source of data was gathered by using both qualitative and quantitative research approach. And for this specific study the researcher used semi-structured in depth interview and self-administered questioner within the selected units.

3.5 Data collection instruments

Semi structured in-depth interview guide and a structured self-administer questionnaire was used in the collection of the qualitative and quantitative data respectively. In light of this, qualitative data was collected from the Ethiopian investment commission officials, through the use of semi structured in-depth interviews. And the structured self-administered questionnaire was used focus on finding out why the foreign companies used the direct investment entry mode particularly the manufacturing sector at the time of their entry, what are the factors that influenced their decision at the time, the weight they had attached to each of the factors, and their reflection on the value of in the selection of market entry mode selection in Ethiopia context. The self- administered questionnaires were conducted by email interview.

In addition questionnaires data was collected by using a 5 point likert scale. As the study uses the appropriate frame work the scale was apply to the variables thought to determine factors influenced the decisions of the foreign companies.

Quantitative Data: - the items included in the questionnaire was classified as internal and external factors which consists 21 single variables and distributed to 90 foreign manufacturing companies in Addis Ababa region and the researcher was used structured self- administered questionnaire and semi structured in depth interview. The questionnaire has 2 parts, the first was general information and the second part was the factors that influence their market entry strategy. Questions were present in affirmative statements relating to the concepts of factors influencing market entry strategy. Such, a way is to enable measurement of the respondent opinions. The respondents were asked to indicate the level of importance on a 5point likert scale with the following ratings. Most important, (5), very important, (4), moderately important, (3), least important, (2) and unimportant, (1).the numbers were indicated in the questionnaire to provide a full of ordinal scale measurement and to generate data suitable for quantitative analysis. Finally of all the 90 questionnaires distributed only 58 of them to be used for the final Analysis.

Qualitative Data: - for the qualitative type of data semi structured in-depth interview was employed, with the officials of Ethiopian investment commission, to have sufficient information regarding the research problem. Therefore the interview was conducted to supplement the results of the questionnaire.

3.6 Data Collection Methods

The study only used primary Data Source with descriptive type of data, which is structured self-administer questioners and semi-structured in-depth interview. Questioners were distributed for selected key informants of the foreign manufacturing companies and interviews were conducted with Ethiopian investment commission officials. The data collection tools was reviewed by the experts in the area and tested for its validity and reliability before the actual conduct of the study. The review and approval of the in-depth interview guide by veteran experts were sufficient. As a result the reliability test was only applied to the quantitative one. To this effect, the tool was administered one additional person and the reliability of the tool was tested using reliability index i.e. alpha cronbach if α value appear to be 0.8 and more we will consider as the tool is reliable.

3.7 Data Analysis Methods

The quantitative data analysis was including measure of central tendency and test of statistical significance. As measure of central tendency mean was used, in connection to this, standard deviation of the respective analysis was also calculated to see the nature of the distribution, the variation among the responses. The values were tested for significance level using one sample t-test. A Correlation is also used which is inter- correlation matrix with descriptive type of data, which is a person correlation coefficient. Thematic and chronological analysis was used in analyzing the qualitative data. Issues will be coded, grouped and analyzed thematically. Occurrences of events were analyzed and presented following their chronological time.

3.8 Validity and reliability

3.8.1 Validity

Validity refers to the degree to which a study accurately reflects or assesses the specific concept or construct that the researcher is attempting to measure. Content, criterion-related, and construct validity of the survey instrument will be established. Content validity will show the extent to which the survey items and the scores from these questions are representative of all the possible questions about Factors Influencing Market Entry Strategy of foreign companies investing in Ethiopia in case of manufacturing companies. The wording of the survey items will be examined by the assigned advisor and experts in the Ethiopian investment commission and also Officials of the foreign company. This helped assess whether the survey questions seem relevant to the subject it is aimed to measure, if it is a reasonable way to gain the needed information, and if it is well-designed.

3.8.2 Reliability

The reliability of the study must generate the same results which help to reinforce the findings and ensure its acceptance. So in this case to know the reliability the researcher used reliability index of internal consistency and test the reliability of the prepared questions by using (α) alpha cronbach if (α) value appear to be 0.8 and more we will consider as the tool is reliable. And the test for reliability had done by conducting a pre-test in 10 foreign manufacturing companies which are not included in the main studies.

3.9 Ethical issues

To conduct the study, an ethical clearance and supporting letter obtained from the Ethical review committee of Saint Mary’s University then; an informed consent form developed to state that the participants are guaranteed certain rights, agree to be involved in the study, and acknowledge their rights are protected. The anonymity of participants protected by numerically coding each returned questionnaire and keeping the responses confidential. While conducting the individual interviews with the selected respondents, they assigned fictitious names for use in their description and reporting the results. All study data, including the survey electronic files, and interview tapes, will be kept confidentially and destroyed after a reasonable period.

Chapter Four

Data Presentation and Analysis

4.1 Data Analysis

Table 1: Respondents background

Background		N	Percentage
Type of industry the Company engaged	Textile and garment	13	22.4
	Construction materials	15	25.9
	Goods and service	13	22.4
	Others	17	29.3
Years in the business	Less than 5 years	28	48.3
	5-10 years	30	51.7
Designation	General manager or owner	37	63.8
	Marketing manager	21	36.2
	Total	**58**	**100.0**

Source: - Own Survey, 2016

Company's decision making to go abroad may depend on several internal and external factors. In order to assess the main factors that may drive company's investment in foreign countries, respondents are presented to give ratings on the level of importance on potential factors that made their company's invest in Ethiopia (foreign country). The respondents' ratings (in a scale of five) are then analyzed and tested for its significance using one-sample t-test.

Table 2: Dependency on company size

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Dependence on the pertinent preference and specific industry resource on company size	58	3.57	0.65	6.65	57	.00	.57	.40	.74

Source: - Own Survey, 2016

Dependence on the pertinent preference and specific industry resource on company size is rated for its importance in decision making on FDI. The average rating to this criterion is 3.57. The one-sample t-test result with t-value=6.65, and p-value=0.000<0.05 indicates that this factor's importance is significantly higher than the moderate level (i.e. 3.00) of importance. The level of importance of this criterion, in making investment decision abroad, falls within the 95% CI of (3.40, 0.74).

Table 3: Companies Internal and External locus of control

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Company internal locus of control	58	4.05	0.54	14.73	57	.00	1.05	.91	1.19
company external locus of control	57	3.77	0.68	8.55	56	.00	.77	.59	.95

Source: - Own Survey, 2016

Company's loci of control, both internal and external, are also assessed for their significance as decision making factors. The internal and external loci of control are rated 4.05 and 3.77, respectively. Both of these factors have above moderate level of importance as the respective t-test results with p-values < 0.05 indicate. The 95% CI's for these factors reveal the importance of them that manufacturing companies consider in their investment in Ethiopia. Though the two intervals overlap to some extent, the internal locus of control has relatively more important than the external locus of control.

T*able 4: Companies risk management attitude*

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Risk taker	31	4.51	0.71	16.04	56	.00	1.51	1.32	1.70
Risk neutral	10	2.67	0.97	-2.45	50	.02	-.33	-.61	-.06
Risk averse	17	1.68	1.00	-9.35	49	.00	-1.32	-1.60	-1.04

Source: - Own Survey, 2016

Management risk stance (being risk taker, risk neutral, or risk averse attitude) may have influenced the company's decision in investing in Ethiopia. The majority of the companies found to have risk taking attitudes and followed by risk averting and risk neutral attitudes respectively. In case of risk taker management, companies see the importance of this attitude to the level of 4.51. For the risk neutral and risk adverse management the average importance of the respective risk attitudes in making investment decisions are 2.67 and 1.68 respectively. Being risk neutral has below moderate level importance (p-value=0.02<0.05) in investment decision making. Similarly being risk averse attitude of the company has significantly below moderate level of importance as indicated in p-value=0.00<0.05, and the 95%CI for the mean difference falls below zero. In contrast, risk taker companies are employing their risk attitude as one basic criterion in making

FDI. Hence, the higher company's attitude in risk taking the more important is such attitude for making decision in foreign investment.

Table 5: Emphasis on market share target

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Emphasis on market share target	58	3.97	0.70	10.50	57	.00	.97	.78	1.15

Source: - Own Survey, 2016

Emphasis on market share target of companies is rated 3.97 for its importance in going abroad. This average rating is above moderate level agreement (p-value=0.000<0.05) in the 95% CI of (3.78, 4.15), which indicates that market share target is an important factor of companies for making investment decisions.

Table 6: Company's profit margin target

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Very high	11	3.33	0.74	3.22	50	.00	.33	.13	.54
Moderate	33	2.25	1.30	-4.23	52	.00	-.75	-1.11	-.40
Minimum	14	1.31	0.88	-13.30	47	.00	-1.69	-1.94	-1.43

Source: - Own Survey, 2016

Companies prospective profit target is also assessed for its level of importance in making decisions to invest in Ethiopia. The level of importance is assessed vis-à-vis the level of profit margins Companies perceived, for companies with very high profit target the average level of importance is 3.33. This is significantly above moderate level importance in decision making (p-value=0.000<0.05) with 95% CI of (3.13, 3.54).

For companies seeking moderate and minimum profit target, the respective average importance are 2.25and 1.31, which have significantly below moderate level of importance. The result indicates that, the higher the profit target of companies, the more important is this criterion for deciding foreign investment. Conversely, companies view their profit target as least important factor if they have minimum profit target.

Table 7: Company's focus on prior international experience

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Company's focus on prior international experience	58	3.03	1.14	0.23	57	.82	.03	-.26	.33

Source: - Own Survey, 2016

Companies focus on international experience has moderate level of importance on decision making to invest in Ethiopia as the t-test result with mean=3.03, and p-value=0.818>0.05 reveals.

Table 8: Attention to detail to the nature of manufactured product

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Attention to detail to the nature of manufactured product	58	4.22	0.56	16.55	57	.00	1.22	1.08	1.37

Source: - Own Survey, 2016

The nature of the manufactured product, with average rating of 4.22 has significant level of importance (p-value=0.000<0.05) in the 95%CI of (4.08, 4.37). This implies that giving more attention to the nature of the product has found to be significantly important for making decision to invest in Ethiopia.

Table 9: Characteristics of the Ethiopian business environment in terms of external factors

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Economic development	58	3.21	0.95	1.66	57	.10	.21	-.04	.46
Political stability	58	4.47	0.57	19.63	57	.00	1.47	1.32	1.62
Population size	58	4.84	0.41	34.23	57	.00	1.84	1.74	1.95
Availability of tax incentive	58	3.97	0.65	11.35	57	.00	.97	.80	1.14
Availability of industrial zones	58	3.38	0.77	3.76	57	.00	.38	.18	.58
Availability of export zone	58	3.16	0.81	1.45	57	.15	.16	-.06	.37
Trade agreement	58	2.79	1.02	-1.54	57	.13	-.21	-.48	.06
Loan incentive	58	2.47	1.34	-3.04	57	.00	-.53	-.89	-.18

Source: - Own Survey, 2016

Regarding the characteristics of the Ethiopian business environment, the importance of eight aspects of the business environment was rated for their relevance in making decisions. Of these dimensions of business environment, the population size and political stability are rated 4.84 and 4.47, respectively, for their influence in making overseas investment decisions. Both are most important factors to be considered in pursuing investment in Ethiopia. Availability of tax incentives in Ethiopia is seen the third important business environment aspect, with average rating of 3.7, that companies considered their investment. Availability of industrial zones has also above moderate level importance, with 3.38 average rating. These four dimensions of business environment have significant level of importance in making investment decisions as their respective p-values < 0.00 reveals.

Whereas, economic development in the country, and availability of export zone have 3.21 and 3.16 average importance, respectively, The 95% CI of mean differences for these two business dimensions contain zero; hence they have moderate level of importance in investment decisions. Trade agreement with the overseas country is utmost has a moderate level of importance.

The least important business dimension is found to be the availability of loan incentive with average rating of 2.47, which is significantly below the moderate level of importance.

Table 10: Market barriers

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Barriers with tariff	57	2.98	1.11	-0.12	56	.91	-.02	-.31	.28
Barriers without tariff	54	3.24	1.20	1.48	53	.15	.24	-.09	.57

Source: - Own Survey, 2016

Market barriers with and without tariff are also compared for their level of importance in overseas investment decision. In case of Market barriers with tariff, manufacturers has moderate level of importance, with mean=2.98 and p-value=0.91>0.05. The average level of importance in case of non tariff market barriers is 3.24. This is also not significantly higher than moderate level of importance (p-value=0.15>0.05). So, in both cases of market barriers, manufacturers gave this criterion a moderate level of importance in making investment decision.

Table 11: Industry viability

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Industry viability	58	3.91	0.54	12.91	57	.00	.91	.77	1.06

Source: - Own Survey, 2016

Industry viability, rated 3.91 on average, is found to be an important decision element to manufacturers in making investment.

Table 12: Market growth rate

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
High	39	3.75	0.67	8.22	54	.00	.75	.56	.93
Medium	15	2.39	1.02	-4.21	48	.00	-.61	-.90	-.32
Low	4	1.59	1.02	-9.36	45	.00	-1.41	-1.72	-1.11

Source: - Own Survey, 2016

The importance of Market growth rate, as a decision criterion, is assessed where manufacturers' expectations of the growth rate is high, medium or low. When there is low level market growth in the oversea country, the importance of investing in that country falls as low as 1.59 on average. When, manufacturers expects medium level of market growth, their level of importance in investing in that country is as good as 2.39, In both medium and low market growth rate cases, the one sample t-tests with the 95% CI of the difference falls below zero, reveal that manufacturers pay significantly below moderate level of importance for these market growth rates in the overseas country. In contrast, if there is high market growth rate potential in the overseas country, manufacturers' average level of importance in investing in such country amounts to the level 3.75, Hence, the higher the market growth potential, the more the importance of investing in that country.

Table 13: Image of the country

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Image of the country	58	3.71	0.79	6.77	57	.00	.71	.50	.92

Source: - Own Survey, 2016

The importance of considering image of the oversea country in investment decision is rated 3.71 on average. The one-sample t-test result, with p-value=0.000<0.05, reveals that it is a significant level of importance.

Table 14: Acceptability of market entry strategy

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Acceptability of market entry strategy	58	3.10	0.93	0.85	57	.40	.10	-.14	.35

Source: - Own Survey, 2016

For the manufacturers, acceptability of market entry strategy has only a moderate level of importance with average level rating of 3.10.

Table 15: Global management efficiency

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Global management efficiency	58	3.24	0.88	2.08	57	.04	.24	.01	.47

Source: - Own Survey, 2016

Global management efficiency of the manufacturing company is rated 3.24 on average. This efficiency has found to be above moderate level of importance (as p-value=0.04<0.05) for decision to invest.

Table 16: Socio Cultural difference

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
socio-cultural difference	58	2.41	1.20	-3.72	57	.00	-.59	-.90	-.27

Source: - Own Survey, 2016

Socio-cultural difference b/n the oversea country and country of origin is assessed for its level of importance in making investment abroad. The average level of importance attached to this criterion is 2.41, which is significantly below the moderate level of importance as a decision element (p-value=0.00<0.05). Hence, socio-cultural difference is viewed to have low level of importance in investment decision.

Table 17: Political and socio-economic risk

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
political and socio-economic risk	58	4.07	0.90	9.09	57	.00	1.07	.83	1.30

Source: - Own Survey, 2016

Political and socio-economic risk in the overseas country has an average level of importance with mean=4.07. This is significantly important factor (p-value=0.00<0.05) that manufacturers consider while investing in this country.

Table 18: Demand uncertainty

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
Demand uncertainty	58	3.50	0.90	4.22	57	.00	.50	.26	.74

Source: - Own Survey, 2016

Demand uncertainty on their products is also considered important factor, with mean=3.50, to the manufacturers investment abroad.

Table 19: Level of competition

One-Sample Statistics				Test Value = 3					
								95% Confidence Interval of the Difference	
	N	Mean	Std. Deviation	t-value	df	p-value	Mean Difference	Lower	Upper
High	55	3.96	0.58	12.40	54	.00	.96	.81	1.12
Medium	52	2.52	1.02	-3.40	51	.00	-.48	-.76	-.20
Low	49	1.71	1.04	-8.65	48	.00	-1.29	-1.58	-.99

Source: - Own Survey, 2016

Level of competition with similar manufacturers may influence the investment decision. When the level of competition is expected to be high, manufacturers consider this situation as an important criterion in their overseas investment decision. The average level of importance as a decision criterion for stiff competition is rated 3.96, which significant level of importance. In contrary, for medium and low levels of completion/competitors in the overseas country, the respective level of importance to these situations is 2.52 and 1.71. In both cases, the importance of medium and low level competition has low level of importance for investment decision. In general, the higher the level of competitions exist, the more important is the situation for its worth of importance as a decision factor.

Table 20: Correlation among external factors

	1	2	3	4	5	6	7	8
Economic development(1)		.273*	-.141	.069	.203	.253	.352**	.185
Political stability(2)			.240	.282*	.312*	.221	.289*	.355**
Population size(3)				-.086	-.255	-.295*	-.287*	-.249
Availability of tax incentive(4)					.414**	.144	.042	.140
Availability of industrial zones(5)						.691**	.437**	.302*
Availability of export zone(6)							.674**	.593**
Trade agreements(7)								.699**
Loan incentive(8)								
*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).								

Source: - Own Survey, 2016

The inter correlation coefficient among external factors as determinants of decision to invest in Ethiopia depicts that the importance given to economic development is significantly correlated to that of importance given to political stability (r=0.273) and trade agreement (r=0.352).

The importance attributed to Political stability in foreign investment decision has also significant correlation with importance given to availability of tax incentives (r=0.282), availability of industrial zone (r=0.312) and trade agreement (r=0.289).

Importance to availability of export zone is significantly correlated to both trade agreement and loan incentives with r=0.674 and r=0.593, respectively.

The most highly correlated are between importance given to trade agreement and loan incentives, where r=0.699. This means that, there is high chance that manufacturers consider trade importance in their decisions as they do to availability of loan incentives.

4.2 Findings from the interview

The qualitative information collected from the key informants regarding the pulling factors for the foreign companies to invest in Ethiopia and efforts made to attract Foreign Direct Investment (FDI) are categorized into three categories. These are Product, Price, and Promotion, also termed as 3P's.

Product includes Investment site, location, existence of natural resources, physical and social infrastructures, including huge labor force and furthermore macro-economic stability. For all these, Addis Ababa can serve as the best demonstration center, since the capital city has a (continual) stable economic development. Furthermore market size by itself is a good measuring yardstick.

Price includes cost of land, infrastructure utility, tax, and also includes administrative costs. Irrespective to land it's on lease except Addis Ababa, Especially the land cost outside Addis Ababa in different regions is very reasonable. The land will be granted on a lease basis but it is still a fare price. When we see things, from the investors perspective they see things comparatively and competitively For example, if we take electricity, it is the cheapest compared with all African countries. For example when we look the price for Electricity is the cheapest compared with all African countries especially East African countries. Because when, we see, the cost of electricity on average, it is 0.3 to 0.25 cents, which makes it very cheap.

In terms of promotion we have to see how much we capitalize ourselves in order to attract foreign investors and we need to promote the countries investment advantage in every international aspect. So these are the pulling factors for foreign companies to come and invest in Ethiopia.
So, we think these 3 factors as the pulling factors for the investors to come and invest in Ethiopia.

Regarding incentives provided by the Ethiopian government/investment agency to attract foreign companies; generally, the incentives are more concentrated on tax exemptions which includes tax holidays-which will be granted depending on the specific sector, and it starts from on average 1upto 9 years, Capital use- such incentive is granted for necessary machineries that foreign, companies can easily access them. It is 100% duty free including spare parts worth up to 15% of the imported investment capital goods; plus exemption for import of raw materials needed for the production of export goods. In addition construction materials are also granted100% duty free and if their manufactured outputs will be marketable in foreign country (i.e. if exportable) additional incentives will be given for these foreign companies. Besides the tax holiday will be extended for two years. In all these there are three kinds of schemes. Bond Schemes - a scheme where foreign companies will have their own warehouse to carry out their production activities. Duty Scheme - a guaranty scheme where once the product is sold, there will be a possibility of returning the product. Voucher Scheme - This is the process of documenting before settling the transactions.

Another category of incentive is export Customs Duty(Products and services developed in Ethiopia are exempt from export tax).Currently the government is also planning to provide two options of loan incentives for those foreign companies whose manufacturing product will be offered for foreign manufacturing. These are 80% loan with 20% own capital while the other option is 85% loan with 15% own capital. The categories of the manufacturing sectors, which will be entitled for either of the options has yet been clearly set out but it will be soon.

Regarding factors that better position Ethiopia in terms of competitive advantage to Ethiopia among other African countries; in east Africa region most of the countries are now doing business easily when compared to Ethiopia and the numbers of investors on these countries are also higher than Ethiopia. This shows that Ethiopia needs to compete stiffly within the region to attract foreign investment to the country. But on a region wise and also If it is compared with all African countries, Ethiopia has competitive advantage is security which makes Ethiopia very preferable. The other competitive advantage is both skilled and unskilled labor cost, is very cheap. For example let's compare this with our neighboring country Kenya. In Ethiopia a skilled laborer can earn 120 - 250 USD per month, where as a laborer in Kenya earns 150 USD per month. We can also put liberalized economy as a competitive advantage because all major economic sectors are liberalized for investment and marketing, furthermore, availability of land and power (electricity) supply is an added benefit to consider investment in Ethiopia. So that Security, availability of Land, availability of power supply and Liberalized economy could be taken as comparative advantages Ethiopia should nurture to attract foreign investments.

As far as strategies exercised so far to reach potential foreign companies to invest in Ethiopia and also the major entry strategy followed by the foreign investors to enter in foreign direct investment concerned; Promotion–it was the main strategy that the government uses. This is done either via Embassies or by a business diplomacy organized by the Embassies. Currently we are actively working on using by this strategy. The way we are doing so is primary our Embassies in different countries will look for potential investors wherever they are located. Then they will inform this for Foreign Affairs Ministry. Furthermore, we also prepare investment Commission guide and different brochures that will be distributed to each Embassy. Then the Embassies in turn, organize Ethiopian business forum and discuss about the general investment opportunities in Ethiopia at the Foreign Affairs and investment office. From the Prime Ministry to Foreign Affairs office, different government higher official's task is to attract investment in to the country, by doing so they will bring 3 to 4 foreign companies to Ethiopia. When we see it from the strategy perspective, foreign investors prefer wholly owned. But our interest, as a government is, if foreign companies work in Joint Venture with Ethiopian investors. This in turn will create a conducive, atmosphere in experience sharing, technology transfer and grasp lots of other advantages, For example where the foreign investor is in a joint venture with a domestic partner ($50,000 for consultancy or publishing business). This figure reduces to $25,000 (in cash or in kind) for foreign investors working in partnership with a domestic investor in the areas of engineering, accountancy, architecture, auditing services or business/management consultancy. But most of the time foreign companies prefer to inter in to Ethiopia using wholly owned entry mode. Which means 100% foreign ownership of investment is permitted.

In terms of realizing the advantages of industry zone and export zone establishments and the overall progress made in creating industry parks to attract potential foreign companies; the key informants mentioned that: Investment parks are being constructed in different sites. So far 16 Industry Parks are under construction. Currently Bole Lemmi and Awassa industry parks are finalized and many investors are already in it. These industry parks which cover an area of 5,000 - 11,000 hectors either can be bought or rented from the government. Priority is also given to those foreign companies who manufacture and then export their products. This in turn will pave the way to diversify the export outputs of the country. For example big companies from USA, India, and Sirilanka are recently coming to Ethiopia and their production is 100% for export.

On the other hand, due to the current prevailing land and lease problems the need for such industry parks is indispensable. In order to administer these parks, the government has set up an independent enterprise, whose main purpose is to resolve all challenges of the investor in relation to land, particularly for those who export their product. This is why the enterprise is engaged in constructing industry parks, so that they can solve the challenges of land scarcity. And also these help to boost our economy by increasing exporting which generate foreign currency.

Backward tax system as compared with the complex demand of the investors was mentioned as the major challenge which shading a negative impression to the overall investment attraction effort. As a result the government is trying its best in modernizing the tax system. Therefore as much as possible the government will work on awareness creation in simplifying the system. The second most mentioned challenge was infrastructures. Basically transportation is one of major problems. Ethiopian Shipping Lines as well as Ethiopian Air Lines are costly and not accessible to different regions. Therefore the solution is railway construction. Once this is completed, it will connect Addis Ababa to Djibouti and this will also be connected with different regions. This will help a lot in facilitate business doing. But what we need to know is, regarding infrastructure development from the overall GDP of the country, 3% is allocated for infrastructure development, which is the highest in Africa. But still the demand is very high. Hence a lot needs to be done taking into consideration keeping the balance between quality and quantity.

4.3 Discussion of the findings

Taking in to consideration the different attitudes of foreign companies engaged in the manufacturing sector this study will discuss the data taken from different foreign companies located in the capital city. As a result the following points are discussed.

Regarding the key internal and external factors that influences the companies to choose direct investment strategy of manufacturing:-

The influence of company size to select entry mode is important in the case of Ethiopia According to most foreign companies, their company size and resource is important to come to Ethiopia and invest in the area they chose to engage in.

Locus of control of the foreign companies as shown in the findings Having strong internal or external loci, of control are possibly, to have major effect on management perception because it’s important for them to make decision on their choice of market entry mode.

Management risk attitude is one of the most important factors that almost all of the foreign companies in Ethiopia agree that risk taking as their base to make their decision. According to them risk taking is always the integral part of any business, be it in the developed, developing and underdeveloped nations. Besides, it is this inherent nature of business that convinced them to come to Ethiopia despite the diverse challenges. Therefore, it is the only part of the question where almost all respondents agree unanimously.

Market share dominance is the ultimate end objective of all companies, short run and long run objectives of the foreign companies. Market share target is one of the important factor, which influences the foreign companies to invest in Ethiopia.

Nature of the product is the other important factor in their decision. In each year, the demand of the government of Ethiopia and quality assurance organization established has urged the companies to focus on the nature of the product.

Profit Target is one of the important factor for foreign companies to invest abroad, and of the foreign companies investing in Ethiopia their profit target is on average level. Because it’s a new market they expect above average profit.

Population size is the most important factor rated by the foreign companies to make their decision on the selection of their entry mode. Because of the population size in Ethiopia which is estimated, as 96 million the potential labor force is high which offers cheap labor. So this makes Ethiopia to spot by foreign manufacturing companies, and labor intense manufacturing companies can benefit and gain competitive advantage.

Political stability is one of the determinant factors of foreign company's decision making. Without political stability, all investment incentives will be considered as unimportant and meaningless. Hence political stability is indispensable for all the companies and one that is shares by all foreign companies.

Availability of tax incentives is also shared by majority of the respondents to be the most important component. Of course this is one of prime reason for them to consider investing in Ethiopia. So far the Ethiopian government is offering tax and duty free incentives on machineries and vehicles depending on the nature of the manufacturing activities and the region, these foreign companies are engage in. even though industrial zones is in its inception stage, it's still considered as the key factor by the foreign companies to invest in Ethiopia. What is currently been doing by the government at Bole Lemi and Hawasa are taken as good measures. This is partly because their product is offered for local customers and partly they feel that there are other issues they prefer the government would give emphasis. Besides the primarily focus of the government, in providing these industrial zones is so that these companies can produce their products and offer it for foreign market, so that they can bring foreign currency to the country.

Regarding the (internal and external) factors significantly affects the market entry mode strategy choice of key decision makers of foreign companies:-

Any company internal and external locus of control is important for its decision making especially the one considers investing in oversea market. When we come to the foreign companies investing in Ethiopia their external and internal locus of control considered to be important especially the foreign companies with internal locus of control which indicates it's very significant for their choice the manufacturing entry mode.

According to (Koch. J, 2001 p. 20) Risk taking is linked with the choice of entry mode by the companies from this we can see most of the foreign companies invested in Ethiopia grouped as risk taker. Because Ethiopia is one of the least developed countries in the world it's obvious for these companies to be risk taker and this is also one of the significant factors that affect this foreign companies.

As shown in the correlation table the external factors which are significantly correlated one another is the ones in the business environment of the host country in this case Ethiopia. And the other external factors which significantly affect the foreign manufacturing companies are industry viability which is if the industry is seen as feasible it's obvious it influences their decision.

The political and socio-economic risk is also one of the significant criteria for making decision, to go abroad and invest so, Ethiopia having a low socio-economic risk made the country preferred by the foreign companies in the manufacturing sector. And when we see the market size of Ethiopia it is also one of the significant factor for foreign manufacturing companies to choose Ethiopia as their investment destination.

Regarding the Adjustments made by the government of Ethiopia as the foreign manufacturing companies get familiar with the country context:-

The government of Ethiopia has been working hard on the followings sectors so that these foreign companies can be familiar with the country context. Currently the government is planning to provide two options of loan incentives for those foreign companies whose manufacturing product will be offered for foreign market. These are 80% loan with 20% own capital while the other option is 85% loan with 15% own capital. The categories of the manufacturing sectors, which will be entitled for either of the options hasn't yet been clearly set out but it will be soon, according to a higher government official news briefing for potential foreign companies. By doing so the government is planning to get an annual foreign currency of 1 Billion USD from this sector. And also the tax incentives offered by the government is concentrated on tax exemption and also working on the tax system to solve the problems related with tax issue.

According, to (Utesch. F, 2014, p.19-42) Electricity supply was mentioned as one of the challenges of foreign companies in Ethiopia. This was true two years ago. But currently the power blackout is not as severe as two years ago. Furthermore, the Renaissance dam is already started to generate a power of 750 mw. As a result this has been helping a lot in solving the power shortage. And also on other infrastructure, development the government of Ethiopia is making many adjustments to build the countries business environment conducive for investment.

Chapter Five

Summary, Conclusion &Recommendation

5.1 Summary

Generally, all the factors that drives a foreign company to invest in an oversea country, in this case, in order to assess the main factors that may drive foreign companies investment in Ethiopia are the concern of this study. To measure their drive, I used different factors as main criteria, and these factors are classified in to two broad categories which are internal and external factors. According to the findings the key internal factors which influence the foreign companies are:-

- Company size,
- Management locus of control,
- Market share target,
- Nature of product,
- Profit target,

On the other hand for the external factors, the findings show that the key factors are:-

- Population size,
- Political stability,
- Availability of industrial zone,
- Availability of tax system,
- Political and socioeconomic risk or country risk; and,
- Industry viability

On the other hand, the government of Ethiopia is working on the business environment in order to create a Conducive atmosphere for the foreign company's investment in Ethiopia, in the case of foreign manufacturing companies. The country is also working on power provision and infrastructure development, as it's stated by the government, from the overall GDP of the country, 3% is allocated for infrastructure development. Furthermore, the government is also trying to shift to voluntary tax system, so that the complexity of the tax system could be resolved for foreign companies.

5.2 Conclusion

Ethiopia offers an attractive business environment and foreign investment in the country is permitted to all sectors which stimulate foreign companies to invest in Ethiopia. But, Foreign Company's investment, especially in the manufacturing sector in a developing country like Ethiopia, is indispensable. As a result this study tries to identify, the major factors that influence the foreign companies who are engaged in the manufacturing sector, and we can see there are many internal and external factors as the main influence for the foreign manufacturing companies to invest in Ethiopia. And from the key internal factors, company size, locus of control, nature of product, there target market share are the major ones which significantly affect their decisions and when we see the external factors especially Ethiopia's business environment, the country population size and political stability puts as the major factors of course including tax incentive and industry zone availability. So, far lots of improvements have been made in the areas of power, infrastructure and different incentives provisions. Some of the latest incentives provisions are 80 % loan facility that foreign manufacturers can come and invest in Ethiopia. Such provision has a good attraction force for both, the government and for the foreign manufacturers. But this doesn't mean that everything is rosy for foreign manufacturers.

On the other hand, in the second five years Grand Transformation Plan (GTP) provided by the government of Ethiopia, the manufacturing sector is expected to take the lead in the overall development of the country. Therefore the ultimate goal of this study is to serve as a platform in linking the foreign companies standard requirements for their investment with what the government endeavors to attract these foreign companies.

In one statement the purpose of this study can be summarized as, how to attract foreign companies among other computing countries while at the same time avoiding the impediments from their ways. Such study is the first of its kind and as to the researcher's knowledge; no study has ever been done which addresses this critical issue. So, our country, being an emerging developing country, is expected to do a lot in attracting these influential foreign companies

5.3 Recommendation

Compared with other countries, Ethiopia is one of the least favorable attractive destinations of Multi National Corporations of the developed world. One of the problems faced by foreign companies was the complexity of the tax system. Adjustment on the tax system, with proper guidance provided by the government will ultimately lead to lower administrative and compliance cost to foreign companies. Therefore voluntary tax system is one that is currently needed be implemented for these foreign companies. Of course this voluntary tax system is one that has been applied in the developed nations and my recommendation is to copy this beneficial system and implement it in Ethiopia to attract foreign companies. This in turn will pave the way to effective and strong tax collection system for the government. This in turn will serve as the best strategy to clear the veil from minds of the foreign companies that has been frustrating them. Therefore, I recommend that voluntary tax system provision be implemented, that can help theses foreign companies is a wise plan to attract more foreign companies and keep the first comers.

On the other hand, the government of Ethiopia needs to speed up its infrastructure development in order to attract many foreign investors especially the ones in the developed nations. And also the government should work on all types of adjustments for the foreign companies currently investing in Ethiopia. So far most of the foreign companies are from East Asian countries. This implies that overall investment opportunities provided by the government is not as impressive as it should be to attract these MNC of the developed world. Hence a lot need to be done.

Finally, this thesis can contribute to fellow student's better understanding on the study area and also it can be a benchmark for other researchers who are interested on enquiring further studies on other modes of entry and the international business environment effect in our country.

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Interview questions for Ethiopian Investment commission

1. What do you think is the pushing factor for the foreign companies to come to Ethiopia and, Invest and also what are the opportunities and challenges presented for the companies?
2. What are the incentives provided by the government/investment agency to attract foreign companies?
3. What are the factors that have the competitive advantage to Ethiopia so that foreign companies prefer Ethiopia over other African countries?
4. What kind of strategies do you follow to reach potential foreign companies to come and invest in Ethiopia?
5. What are the benefits of industry zone establishments? And is there any progress in creating industry parks to attract potential foreign companies?
6. What are the major challenges of existing foreign manufacturing companies and what did you do to solve their problems so far?

- ✓ If there is anything you would like to add?

Thank you for your time!!

Emebet Takele

St. Marry University
School of Graduate
Department of General MBA
Questionnaire to be filled by companies in the manufacturing sector

The purpose of this questionnaire is to collect data for the thesis project in requirement for partial fulfillment of MSC degree in General MBA at St. Marry University. The study is aimed at identifying factors influencing market entry strategy of foreign companies investing in Ethiopia in the case of manufacturing sectors. Hence I would like to emphasis that your response is extremely valuable for the successful completion of this thesis and greatly appreciate your response. I can assure you that the information you provide will be completely anonymous and will not be used for any purpose other than academic one. I thank you very much in advance for your cooperation.

PART I <u>General Information</u>

1. **Type of industry your company engaged in: - (please tick on the specified circle)**

   1.1 Textile and Garment manufacturing ◯
   1.2 Construction materials manufacturing ◯
   1.3 Goods & Services manufacturing ◯
   1.4 Others ◯

2. **Years in the business**

   2.1) Less than 5 years ◯
   2.2) 5 - 10 years ◯

3. **Designation**
   3.1 General Manager / Owner ◯
   3.2 Marketing Manager ◯

PART II **Please circle one according to the relative importance for your decision making to enter in to Ethiopia for the following internal and external factors**

	How do you rate your company's decision making to go abroad regarding the following internal factors using 1 - 5 scales?	Unimportant 1	Least important 2	Moderately important 3	Important 4	Most important 5
4	Dependence on the pertinent preference & specific industry resource on our company size is	1	2	3	4	5
5	Our company's management locus of control on the below factors had significant effect on mangers perception					
	5.1 Internal	1	2	3	4	5
	5.2 External	1	2	3	4	5
6	1. Our company's management risk attitude can be expressed as					
	6.1 Risk Taker	1	2	3	4	5
	6.2 Risk Neutral	1	2	3	4	5
	6.1 Risk Averse	1	2	3	4	5
7	Emphasis on market share target for our company was	1	2	3	4	5
8	2. Our company's profit target was					
	8.1 Very high	1	2	3	4	5
	8.2 Moderate	1	2	3	4	5
	8.3 Minimum	1	2	3	4	5
9	3. Our company's focus on prior international experience was	1	2	3	4	5
10	4. Attention to detail to the nature of our manufactured product is	1	2	3	4	5

	How do you rate the following external factors country context of host country using 1 - 5 scales?	1. nim-portant 2. 3. 4.	5. east im-portant 6. 7.	8. Moderately important 9. 10. 3	11. Important 12. 13. 14. 15. 4	16. Most important 17. 18. 19. 5
11	**Characteristics of the oversea country business environment in terms of**					
	5. 11.1 Economic development	1	2	3	4	5
	6. 11.2 Political stability	1	2	3	4	5
	7. 11.3 Population size	1	2	3	4	5
	8. 11.4 Availability of tax incentives	1	2	3	4	5
	11.5 Availability of Industrial zones	1	2	3	4	5
	9. 11.6 Availability of export zones	1	2	3	4	5
	10. 11.7 Trade agreement	1	2	3	4	5
	11. 11.8 Loan incentive	1	2	3	4	5
12	12. **Market barriers**					
	12.1 With tariff	1	2	3	4	5
	12.2 None tariff	1	2	3	4	5
13	**Industry viability**	1	2	3	4	5
14	**Market Growth rate**					
	14.1 High	1	2	3	4	5
	14.2 Medium	1	2	3	4	5
	14.3 Low	1	2	3	4	5
15	**Image of the country**	1	2	3	4	5

17	**Global Management efficiency**	1	2	3	4	5
18	**13. Socio- cultural distance**	1	2	3	4	5
19	**14. Political & socio economic risk**	1	2	3	4	5
20	**15. Demand Uncertainty**	1	2	3	4	5
21	**Level of Competition**					
	21.2 High	1	2	3	4	5
	16. 21.1 Medium	1	2	3	4	5
	21.2 Low	1	2	3	4	5

Thank you for your time!

Emebet Takele