Decisions under Uncertainty in Internationalisation

- A Study of the Strategic Decision Process when Entering South Africa

---

Master Thesis by:

Jesper Hvilsby Ulrich

Ricky Nørris Rask Thomsen

Cand.Merc. Management of Innovation & Business Development (MIB)

Department of Innovation and Organizational Economics

Copenhagen Business School 2012

Hand in: 15.10.2012

Supervisor: Prof. Kristian Kreiner, Institut for Organisation

Characters: 226.035

Pages: 116

EXECUTIVE SUMMARY

Danish companies are looking for new growth markets and an increasing number of them find the African continent interesting. South Africa has by the recent inclusion in the BRICS countries and a successful 2010 FIFA World Cup opened the eyes of many foreign companies and investments in the country has been growing ever since. Danish companies have also invested in the country and some have made entries. Many managers however have prejudices about African business culture which lead them to shy away from the opportunity and decide to enter other markets. The fear of the unfamiliar and the uncertain thereby becomes a barrier that blocks many from becoming part of the African growth. This is often due to the fact that management have a hard time trying to develop an entry strategy as a result of limited knowledge about the complex market. This thesis explores how management in the case company AluFlam can deal with the strategic decision process when entering South Africa.

In order to assist the management in making informed strategic decision, a strategic tripod tool is used to explore the environment through the institutional-based view, the industry-based view and the resource-based view, thus providing information and data about the complexity that can be useful for management to take into strategic consideration before strategic action is started. However, a tripod study can only be used to get a basic understanding of the market as an endless number of actors create a dynamic environment around the entry. To get an understanding of the internal and external factors and actors that influence an entry process, an actor network analysis of a prior entry is made. This analysis provides knowledge about how certain actors can influence managerial decisions and how management can deal with the difficulties that arise when actors in the network act in unexpected manner. As a result the realised strategy could be a combination of the intended deliberate strategy and emerging unknowns that will affect managerial decisions in the process of entering. The managerial task is therefore to take decisions where the company can secure efficiency and control and at the same time be flexible enough to adapt to shifting factors in the environment to achieve competitive advantages.

ACKNOWLEDGEMENTS

It has been a challenging but inspiring journey to write this thesis. The process has brought us from CBS to AluFlam's headquarter in Roskilde and all the way to South Africa in our search for knowledge and information. In the process many have contributed with support and encouragement and we find it appropriate to give special thanks to the following people: Johnny Ohgrøn Hansen, for leading us to both our case company AluFlam and model case company Fibertex, and for a wonderful time in Johannesburg. The Lauritzen family for letting us stay in their home in Cape Town. Peter Birch, for letting us study and write about his company, AluFlam. Jørgen Iversen and Anders Søgaard for showing us around in Durban and inviting us inside the Fibertex factory in KwaZulu Natal. Additionally, we would like to thank our supervisor Kristian Kreiner for his guidance and insights during the process.

Picture: Production facility, Fibertex Nonwovens, Durban, KwaZulu Natal, South Africa.

TABLE OF CONTENTS

1. READING INSTRUCTION

To give the reader an overview of how the thesis is structured we provide a short description of the content of each chapter.

Chapter 2: Introduction

The introduction will describe the broader context of the thesis and introduce the research focus and briefly present the theories applied.

Chapter 3: Methodology

This chapter presents the methodological decisions we had to make in order to answer our research question. Furthermore, this chapter presents our research strategy and design as well as a discussion of the reliability, validity and delimitation of our findings.

Chapter 4: Case description

This chapter will present the company used as case in this thesis. The case company is AluFlam, a Roskilde based manufacturer of innovative fire resistant aluminium constructions. The CEO is considering an entry into the South African market, but needs information and knowledge on how it could be done.

Chapter 5: The strategy tripod

The strategy tripod chapter describes how the tripod consists of three separate elements; the institutional-based view, industry-based view and resource-based view, and how they each present new knowledge that the management has the opportunity to use.

Chapter 6: Findings from the strategy-tripod

The findings from the tripod are presented in this chapter in order to create a foundation of data and information.

Chapter 7: Actor network theory

This chapter describes the actor network theory and how this theory can uncover how the interessement of involved actors takes place in the network, how many actors influence an entry and how they can come together with different agendas and pursue a common goal.

Chapter 8: Findings from the actor network theory – knowledge extracted from a prior entry

This chapter explores how a model case entered the South African market. This will be described through an analysis of the process and the stakeholders that influenced the process from the idea of going global to established division and how different actors, even though they had different objectives, where able to find a common goal in the established subsidiary.

Chapter 9: Strategic objectives and entry strategies analysis

This chapter discusses different strategic objectives and considerations that management needs to reflect on when developing an entry strategy. The findings from the tripod are used in an analysis of the potential strategic objectives and entry strategies.

Chapter 10: discussion of managerial decisions and dilemmas

Based on the findings in our thesis we will discuss what AluFlam can use from this study in order to enter and establish them in South Africa. The discussion revolves around the uncertainties management needs to have in mind, how managerial choices can be made, and the potential implication these choices can have.

Chapter 11: Conclusion and future research

Based on the overall findings from previous chapters, this chapter answers our research question and presents the final key recommendations on a successful entry to South Africa.

2. INTRODUCTION

The extension of the European debt crisis is impeding the Danish economy. That is why the forecast for economic growth in the coming years looks slow. The Danish economy appears to have stalled in the crisis-like state it has been in since 2008[1]. Export was the engine that kept the economy going last year. Still, the weak outlook for the European economy is undermining the conditions for higher growth rates[2]. The Danish export is expected to grow just 1 per cent in 2012 which, besides the two crisis years of 2008 and 2009, is the lowest number in 20 years[3]. Danish businesses are therefore forced to seek towards alternative growth markets in order to generate growth.

Danish export has been successful at selling products to new growth markets, especially the large emerging markets such as Russia and China. Now, however, an increasing number of Danish companies have shifted their attention to the African continent in order to capture future growth markets[4]. This is because Africa has some of the fastest growing economies in the world with growth rates of 6 to 8 per cent annually[5].

The strongest economy in Africa, the South African, is growing as a consequence of an increasingly politically stable economy. A decade characterised by strong economic growth, more that 5 to 6 per cent annually[6], has given the country a reputation as an exciting investment opportunity. In addition, economic incentives and business opportunities have increased as a consequence of the 2010 FIFA World Cup held in the country and the inclusion into the BRICS countries in December 2010[7].

The global economic crisis has however slowed down the country's growth. It declined to 2.9 per cent in 2010 but in 2011 the GDP growth is estimated to have been on 3.1 per cent. Growth is however, expected to decrease again in 2012 to 2.8 per cent primarily because of domestic structural weaknesses and the fragile global economic recovery. GDP growth is on the other hand expected to rise to 3.6 per cent in 2013 because of the global recovery that will

[1] Nordic outlook, Economic and financial trends, July 12, Danske Research for Danske Bank
[2] Ibid
[3] Ibid
[4] Interview Johnny Ohgrøn Hansen, IFU
[5] http://borsen.dk/nyheder/virksomheder/artikel/1/241611/danmark_investerer_kraftigt_i_afrika.html
[6] www.ifu.dk
[7] http://www.southafrica.info/news/international/brics-030111.htm

take place[8]. Consumption registered an estimated 3.5 per cent growth rate in 2011 while investment grew by an estimated 5.2 per cent. The Foreign direct investments into South Africa increased to DKK 24.75 billion in 2011 from DKK 6.6 billion in 2010. As domestic expenditure improves with the expected increase in fixed investment in 2013, South Africa's import intensity is expected to rise[9].

Denmark has a good reputation in South Africa. In the 1980's and 1990's, Denmark, among other UN nations, protested against apartheid and supported the struggle of Nelson Mandela's African National Congress against apartheid in the transmission towards democracy. Danish South Africa policy has always focused on development cooperation and this has led to the good relationship that the two countries enjoy today[10]. The economic crisis could be a good opportunity to expand the relationship to also embrace the growth opportunities emerging in South Africa.

The growing South African middle-class is undergoing a transformation and is increasingly demanding products from industries where Danish companies hold strong positions. The energy sector is seen as an interesting opportunity for Danish companies and particularly the market for renewable energy is growing. Other sectors that could be of great interest are information technology and communication where South Africa is showing lower competitiveness. These sectors are now changing in South Africa as the telecommunication industry and the Internet are growing rapidly. There is also a great potential in other sectors such as the health sector, agriculture, food production and processing, fishery and aquaculture, and mining[11]. The construction sector has also been undergoing strong growth. This is in particular due to massive investments before the 2010 FIFA World Cup. These investments mainly included the construction of 10 state of the art football stadiums, numerous hotels and facilities, the overhaul and construction of main airports, major projects in the transportation sector and the building of the first high-speed railway in Africa, the Gautrain[12].

[8] www.africaneconomicoutlook.org
[9] Ibid
[10] Ministry of Foreign Affairs of Denmark – Partnership for the future.
[11] Ibid
[12] http://sydafrika.um.dk/en/the-trade-council/xx-as-market/sector-analysis/construction/

Although Danish exports to South Africa have increased in recent years, the country still only attracts a small percentage of Danish investments abroad[13]. The reason behind this is that many Danish companies are anxious about the uncertainties related to an entry into South Africa[14] because the country is still facing some challenges such as tedious bureaucracy, corruption, and cultural complications[15].

On March 12, 2012, we attended the first BRIC Denmark South Africa conference which was held in Vejle. The relatively humble venue was a fitting setting as most of the attendees represented small to middle sized companies interested in learning more about South Africa. We interviewed companies employing as few as five people. After interviewing most of the attendees and listening to all of the presentations made by the key speakers, it was very clear to us that South Africa is an exciting opportunity for smaller companies that are looking outside the Danish borders as part of their growth strategy. However, we found that there is a real need for a better understanding of how Danish companies can enter the South African markets and do so without committing all the common and expensive errors and mistakes that we got to know about at the Vejle conference. We therefore started searching for a small to middle sized Danish company that had plans to enter a South African market. One such company is Roskilde based AluFlam. We wanted to assist AluFlam's CEO Peter Birch in making the early stage research of how the potential entry could materialise and at same time learn about the South African business opportunities.

By interviewing Peter Birch, we found out that he had concerns regarding South Africa and that he needed information and knowledge about how to set up a business in the country. His primary concerns were on how to enter the distant market and what strategic options he had. Moreover, he expressed a general concern about business opportunities, the industry, cultural barriers, laws and regulations, financial support and the availability of skilled and experienced workforce[16]. After an introduction to AluFlam we began the investigating the strategic uncertainties related to the potential entry.

---

[13] www.ifu.dk
[14] Interview Danish Embassy, Pretoria
[15] Interview Johnny Ohgrøn Hansen, IFU
[16] Interview Birch, AluFlam

2.1 RESEARCH PROBLEM

Most strategies are built on specific beliefs about the future. The future, however, is often unpredictable (Courtney et al 1997), and since it cannot be assumed that originally intended outcomes will necessarily remain relevant over time as project relevance erode if the project environment starts drifting (Kreiner 1995). The difficult managerial task is to adapt the strategy to the future (Courtney et al 1997) and the task is not made easier because the strategic decisions are made in the middle of uncertainties (Akrich et al. 2002). Courtney et al (1997) points to management to mitigate the uncertain future by following one of two strategies, namely: a) to favour investments in flexibility that allows the project to adapt quickly as the environment evolves/changes, or b) to use a "wait and see" strategy postponing investments until the future becomes more clear. The first option can be expensive because the cost of establishing such flexibility often turns out to be high and the second option creates a window of opportunity for competitors. If management underestimates changes in the environment, the strategies that are implemented can neither defend against threats nor take advantage of possible opportunities (Courtney et al 1997).

Even after a thorough analysis of collected data and information, projects will still have *residential uncertainty* which is the uncertainty that remains after a best possible strategic analysis has been conducted (Courtney et al 1997). It is therefore necessary to have project management that is not troubled by moving on as the projects runs into obstacles and setbacks (Akrich et al. 2002). Mintzberg (1985) adds that realised strategy in the end is a combination of an intended deliberate strategy and an emerging one. Thus, we assume that the process of entering South Africa will be a series of decisions where some has been planned by management and some are reactions to emerging changes in the environment.

But how does management know when to trust their own strategic decisions and when to change direction because of the emerging changes?

Project managers can seek external data and information about the environment before the project is initiated and during project implementation. This can, however, result in too much different data and information, which can lead to *dual realities* where the obtained information becomes irrelevant and misleading. Therefore more information may not always help the manager in maintaining the relevance of the project (Kreiner 1995). By looking at

typical best practice solutions and articulating clear goals and plans, top management can gather support and take actions according to plan. The approach makes management able to predict project goals and implementation and thereby minimise risk but conversely limits adaptability to changes in what a customer wants or what new requirement the environment erect (Kreiner 1995). Kreiner (1995) describes this *hierarchy strategy* as one way of dealing with a drifting environment as the strategy incorporates fixed points in order to keep relevance in a project and to maintain the project's accountability. This approach encourages the manager to make use of a "spec freeze" where the manager locks the direction of the entry project early in order secure efficiency and control. The strategy requires no complex information and it brings consistency and efficiency to the project as it helps management to keep distance to the changing factors in the project implementation (Kreiner 1995).

The alternative managerial approach is the *networking strategy*, which allows project goal and environment to co-evolve and drift together in a mutual adaptation. Networking complements the project's formal relationships with a commitment to the parties interested in the project. The relationships are social and create opportunities as well as new obligations that management will have to deal with. The positive aspect of the network approach is that it gives management the option to adjust to environmental drift and new requirements collected through the network and thus makes it possible to correct and chose a new direction before the project is completed. This "spec float" strategy with many sources of input allows the entry project to drift with the new requirements coming from the emerging changes. This approach conversely leaves management in a dilemma if project goals keep changing and thereby obstruct efficiency (Kreiner 1995). It also retains the question of relevance to stakeholders who may hold tacit knowledge that can be difficult to understand and make explicit during a project phase. Kreiner (1995) points out that a balance between the *hierarchy strategy* and the *networking strategy* is ideal and that the concept of the drifting environments is intended to capture the essence of the type of uncertainty that can undermine the relevance and ultimate success of a project. Atkinson et al (2006) finally adds that instead of being concerned by *doing things right*, management should also know when to *do the right things*. This means that management should realise the distinction between hard and soft-ended project goals and when to go for either the robust or the adaptable approach. The soft-ended projects are less amendable to the use of traditional risk management techniques but it is difficult to control the projects and thereby their successes. If the projects on the other hand

are in the hard end, they are more tangible in terms of goals, criteria of success and number of solution available (Atkinson et al 2006). Hard ended projects might however reinforce and put too much emphasis on operational issues of planning, execution, and control and fail to take the strategic view of the projects into consideration and impede management from considering other options or alternative strategies. A balance between the two approaches is therefore needed (Atkinson et al 2006).

2.2 RESEARCH QUESTION

To develop our research question we recognise Kreiner's (1995) distinction between the two extremes with the *hierarchy strategy* on the one side and the *networking strategy on the other*. We want to make the case company able to draw on data and information collected through traditional managerial tools in order to assist management in taking the first strategic decision. We will make use of Peng's (2008) strategy-tripod because it allows us to explore the environment through the institutional-based view, the industrial based view and the resource-based view. This will uncover some of the strategic considerations and variables management has to consider when making decisions in the entry process. We will explore the institutional-based view by making a PEST analysis that besides focusing on key institutions also highlights macro factors of South Africa that can be of useful knowledge before an entry decision. The industrial based view will be explored with a Porter's (2008) five forces analysis and finally the resource-based view will be covered through Barney's (1991) resource-based view and capabilities. The combination of the three perspectives will cover important exploration that needs to be done in order for management to be able to take informed decisions. However, we acknowledge that even though the tripod study provides the management with information and data, "All the research in the world is powerless in untangling such an imbroglio. In order to provide plausible predictions, it must be confronted with trends, which are so incontestable that in reality, not a single genuine innovation is possible" (Akrich et al 2002). The paradox of using intermediaries like the tripod study in order to assist the case company's way to South Africa is in spite of that justified because we believe that it is necessary for the management to realise their limited knowledge before such an entry. We believe that management by being educated through the tripod and being more aware of the complexity of South Africa can approach the process with humility, thus not

underestimating how management is influenced when strategic decisions is made.

In order to utilise the *networking strategy,* management will have to have a good understanding of how internal and external actors in the environment around an entry can influence the process. To understand how the certain actors influenced a prior Danish entry project we will look at a model case. A study of the interessement, which is the process where actors through association and translations form a network (Callon 1986) that took place around the entry process, will provide knowledge about how the model case made use of and was influenced by actors in their network. This is because as Akrich et al. (2002) argues: "The model of interessement allows us to understand how a project process adopted how it moves and how it progressively spreads to be transformed into a success". The knowledge collected through the actor network study will moreover provide an understanding of the difficulties the networking strategy described by Kreiner (1995) contains when establishing in a foreign market. We will additionally use the actor network perspective by means of Callon's (1986) four moments of translation because it helps to structure the findings about how the interessement of involved actors took place in the network, and how they with different agendas came together and pursued a common goal.

Finally, in order to understand how the environment and actors can influence an entry project we will have to understand the strategic considerations the case company should reflect on and the entry options they have available. We will do this by using the strategic objectives of entering a foreign market presented by Peng & Meyer (2009) including whether the company is *resource-*, *market-*, *efficiency-* or *innovation seeking* and what challenges they face if they use the *aggregation-*, *adaption-* or *arbitrage-strategy* (Chemawat 2007). The different entry strategies management can make use of such as *exporting, greenfield acquisition* or *joint venture* (JV) will also be discussed (Meyer et al 2009).

This thesis will therefore focus on:

- An understanding of the environment that can influence the development of the case company's entry strategy.
- The need to recognise how an earlier Danish entry made use of and was influenced by different actors and network in their entry.
- An understanding of how the strategic objectives and strategies are influenced by the environment and involved actors.

This leads us to the following research question:

How can management in a Danish company navigate through strategic dilemmas and necessary compromises in order to enter the South African market?

By answering this question we will get an understanding of the project process and the many strategic decisions management in the case company will have to face in an entry, the uncertainties related to which strategies to decide on, and how management should think about how the strategic decisions come about and are made.

3. METHODOLOGY

This chapter describes the underlying assumptions needed for the knowledge production of the thesis. We will discuss the overall social science methodology that is fundamental for our research and study. We will also describe our research strategy and design as well as method used for collecting data. Finally we will clarify the validity, reliability and limitations of our methodological choices.

3.1 RESEARCH APPROACH

This section describes the general approach that we use in our research. First, the philosophical assumptions that underlie our research are explained. Then, we justify why we have chosen the exploratory research approach.

3.2 RESEARCH PHILOSOPHY

In order to acknowledge and work around the limitations and possible biases in our own perception we have chosen a hermeneutic approach inspired by the philosophy of Hans Georg Gadamer. Our choice is rooted in the focus of hermeneutics, which helps us to understand and appreciate the different opinions and interpretations of actors. The term hermeneutics is Greek and means interpreting and translating. It is primarily used when interpreting texts. However, the method can easily be applied elsewhere – not least in practices where managers try to lead from an interpretation of things such as the company's vision, own judgement, employee signals and current practice (Gulddal and Møller 1999). Additionally involved actors in an entry project try to interpret the manager's signals, both the obvious and also the unspoken. There is so much interpretation at stake in the management practice that we believe that interpretation is interesting in relation actor network analysis and that is why we think this choice of epistemology seems obvious.

In hermeneutics, the interpreter is considered an active player in the formation of new knowledge (Højbjerg et al 2004) and as a result the hermeneutic approach is an ideal frame for the human cognitive process, existence and experience. A hermeneutic circle is a circular

interaction that takes place between the part and the whole where the whole can be understood only through the parts and the parts only can be understood through the whole. It is an endless process in which the separation between the beginning and the end is impossible and in which we as interpreters are a part of the process at all times (Højbjerg et al 2004). Thus, the hermeneutic circle governs us as we work in a continuous process between part and whole to create meaning out of our interpretations, prejudices and preconceptions making us co-creators of the empirical.

Gadamer use the concept of "prejudice" as it was originally understood and not with the negative charge the word seems to have today. In itself prejudice implies a judgement, which is formed before the final review of all factors that determine the matter (Gadamer 1999). This means a provisional judgement that is not necessarily false – it is contrarily embedded in the concept that it can be assessed positively as well as negatively. Just because something is questionable it does not mean that it is by default wrong or false.

All people are prejudiced through no fault of their own. It is natural and biological way of dealing with one's surroundings. Prejudices exist towards everything and are the foundation that makes us able to understand what we encounter (Gadamer 1999). Gadamer believes that one cannot recognise and understand a situation or event without drawing on own presumptions and prejudices. People cannot avoid their past and background, hence our history, experiences and traditions become central to our subconscious understanding of the world.

The philosophical basis for our interpretive perspective is thus hermeneutic. Our Knowledge is influenced by various contextual perceptions and prejudices. We can distinguish between three approaches: positivism, interpretivism, and realism (Saunders 2003). They each provide a distinctive view on how knowledge emerges. We have decided to use interpretivism as our framework for this thesis. This enables us to gradually establish research conclusions by exploring the topics of our study (Saunders 2003).

Interpretive researchers start out with the assumption that access to reality is given or socially constructed. This is only through social constructs such as language, consciousness and shared meanings (Gadamer 1999). They generally attempt to understand the world around them through the meanings that researchers assign to them. Interpretive research does not in

advance characterise dependent and independent variables but focuses instead on the total complexity of human sense making as the situation emerges.

Critical researchers assume that reality is historically constituted and that it is produced and reproduced by people (Gadamer 1999). Although people can consciously act to change their social and economic circumstances, critical researchers recognise that their ability to do so is constrained by various forms of social, cultural and political domination.

3.3 EXPLORATORY APPROACH

The choice of research approach depends on the character of the study. The different approaches can be divided into three different categories: the exploratory, the descriptive and the casual approach (Aaker et al 2000). Saunders et al (2009) describe how the exploratory study approach is useful when the researchers are trying to get an understanding of a problem that they do not fully understand. In our investigation of how the case company could navigate through strategic dilemmas and necessary compromises in order to enter the South African market, we will approach it with the same need to get a better understanding. In our efforts to collect data we will interview experts and stakeholders found through an open-minded approach that guided us to South Africa This is also the case in the market analysis part of the thesis as we try to find out: "*What is happening, to seek new insights, to ask questions and assess phenomena in a new light"* (Saunder et al 2009). In every interview we finished with the question; "*do you know anyone that know more about this topic than you?*". This pyramiding technique is by von Hippel et al. (2008) described as being very useful when you have the need to identify rare subjects within poorly mapped search space.

The exploratory research approach is suited for our thesis as it helps us determine the research design, data collection method, choice of subjects and because it is helpful when the problem is not yet clearly defined (Aaker et al 2000). The approach is well suited when the data is difficult to collect and the subject being investigated is original. Exploratory research is also well-suited when the researcher are doing a more qualitative study, using sources such as informal discussion, in-depth interviews with managers and employees, case studies of companies and data located on the internet. The exploratory research can provide insight into a given phenomenon but the researchers should be careful basing important decisions on only

one exploratory study (Aaker et al 2000). Therefore, one should be cautious not to draw any definite deductive conclusions and generalise based on such a study.

3.4 RESEARCH STRATEGY

According to Yin (1994) the research strategy is how we as researchers attempt to answer our research question. Yin (1994) describes five different research strategies: experiment, surveys, archival analysis, history, and case study research. The figure below illustrates the different research strategies and under which criteria they should be applied.

Research strategy	Form of research question	Requires control over behavioral events	Focus on contemporary events
Experiments	How, why	Yes	Yes
Surveys	Who, what, where, how many, how much	No	Yes
Archival research	Who, what, where, how, how many, how much	No	Yes/no
History	How, why	No	No
Case study	**How, why**	**No**	**Yes**

In our thesis we will use the case *study research strategy* because we will analyse the case company's potential entry into the South African market. The case study strategy is suited for our thesis as we wish to gain an understanding of the context of the research, the processes, and the managerial decisions the case company may have to do, go through, and make. (Saunder et al 2009) The case strategy allows us to develop our approach while we collect our data.

3.5 CASE STUDY RESEARCH

The case study strategy is often used in explanatory and exploratory research. The single case study is an appropriate design when the case represents the critical case in testing a well-formulated theory or when it represents an extreme or unique case or when it is a novel case (Yin 1994). Furthermore, the case study method develops an in-depth analysis of one or more cases. Saunders et al (2009) describe the case study as a strategy for doing research that involves an empirical investigation of a particular contemporary phenomenon.

Yin (1994) suggest that the case study approach should be used when the researchers are dealing with a study that has the following three characteristics:

- The research question tries to answer a "how" or a "why" question
- There is little control over behavioural events
- The researchers deal with a contemporary phenomenon within a real life context.

The case study is therefore not just a data collection technique or a simple design feature. It is a comprehensive research strategy (Yin 1994). In the case study we use both qualitative and quantitative research. The case study has a flexible design allowing us to develop our approach along the way when new issues and new sources of data are discovered. This is in contrast to more fixed designs, for instance random trials, where the entire study design has been determined from the start (Yin 1994). Case studies are often studies of phenomena in the present and the study is conducted where the phenomena take place. That is why a case study takes both the phenomenon and the context into account in the analysis. The concept of phenomena is critical because it requires a very well defined and observable object. Yin (1994) perceives the case study as a natural experiment that merge the case study and the experiment. Therefore, we have to be critical in our study and remember that we as thesis writers have a particular interest in finding the applicable explanations. The case study's flexibility to examine several competing explanations in the same study is a particular strength.

3.6 CASE SELECTION INDUSTRIES AND COMPANIES

We had a vision for what we wanted to study in our master thesis before we looked for case companies. As described in the introduction we have found that Danish companies should not neglect the South African markets. In order for us to get the most valuable insights from our research area we wanted to study case companies operating in large industries like the construction industry. We decided to make our findings useful to future ventures and to avoid ending up with a study of something so rare that no other company would find our findings applicable.

We picked the South African construction industry as it is undergoing solid growth and because a great number of Danish companies hold expert knowledge in that sector.

We interviewed the regional manager of Industrialisation Fund for Developing Countries and he was able to direct us to our case company, AluFlam in Roskilde. AluFlam is a middle-sized company that produces fire resistant aluminium components used when securing fire escape routes. We view the company to be a good case study as it is a Danish company with a specialised innovative product that delivers a high-tech solution.

After settling upon AluFlam we searched for a Danish company already established in South Africa and found that Aalborg based Fibertex recently completed an expansion to Durban, South Africa. Being a producer of a high-tech solution used in the construction industry, Fibertex has the same characteristics as AluFlam and is therefore a suitable model case. We have travelled to Durban and interviewed the management responsible for the expansion.

In order for us to get a better understanding of other aspects of establishing businesses in South Africa we have collected data and interviewed experts for more than a month in South Africa. Based on our understanding of what would be useful and valuable for our thesis we compiled the list of experts whom we wanted to talk to and expanded on this as we explored the business network.

3.7 DATA COLLECTION METHOD

We have used several different data sources to get in-depth insight and understanding of the phenomenon we have researched. The number of sources is, according to Yin (1994),

evidence for our case study. Our study includes qualitative data in form of interviews and quantitative data in form of data analysis extracted from secondary data sources.

The basis for our primary data consists of more than 30 hours of interviews. The qualitative semi-structured interviews were conducted with a number of actors from the case company AluFlam and with other relevant informants. We used a semi-structured and open-ended approach but at all times guided the interviews to make sure that the dialogue evolved around the important subjects. The interview subjects were always free to contribute with other information and data that they found relevant. This approach was most fitting as we were exploring and understanding (Saunders et al 2009).

The semi structured qualitative interview structure was used in all our interviews. This structure was useful as our interviewees had different perceptions and descriptions of the topic we were investigating (Kvale 1997). It is difficult not to interfere with the subject that is interviewed and to a certain extent we generate data instead of collecting data when we ask for information in qualitative interviews. That is why it was important for us to interview as many different sources as possible and interpret critically. To keep correspondence, we had structured a core group of questions that we asked in the same order. We had to make smaller adaptations to our list to fit every interview as the interviewees came from different backgrounds, companies and institutions. We gave a briefing before each interview to the interviewee (Kvale 1997). The briefing defined the focus of the interview to give the person(s) in front of us both an introduction to who we are and what we are investigating. In the end of each interview we made a short debriefing (Kvale, 1997). The debriefing was useful as it helped us clarify terms that we used and to make sure that the answers we just received were clear enough to be useful for our thesis. The interviews were recorded and had an average length of approximately two hours. Many of the interviewees used for this thesis have been helpful and have allowed us to do many shorter *follow-up* interviews. In the cases of AluFlam and Fibertex the interviews were made on company sites. Many of the follow up interviews were conducted over Skype.

The list of contributors is shown on the next pages and include:

Peter Birch, CEO, AluFlam, Roskilde.

It was important to get Birch involved in the project as early as possible as he is responsible for the strategic decisions made in the company. Birch pays visits to the different AluFlam divisions on a regular basis to keep an eye on the global development.

Alan Campbell and Phillip Usiba, Foundation for Business and Consumer Services (FABCOS), Johannesburg, South Africa.

FABCOS has been doing business with Danish companies since 2008 where they established a joint programme. They were essential for our thesis as they were able to provide us with insights into the South African business culture and important components such as the Broad-Based Black Economic Empowerment (explained in the PEST analysis).

Claus Jakobsen, Managing Director, Pandora and Karsten Hovgaard, Director, DanLink Johannesburg, South Africa.

Jakobsen and Hovgaard have several years of experience in doing business in South Africa. They both worked at Danfoss in Johannesburg before they both moved on to other businesses in the country.

Frank Olesen, Regional Manager, Vestergaard and Frandsen, Johannesburg, South Africa.

Frank Olesen is responsible for selling and distributing mosquito nets and other life saving devices for the developing world. He has several years of experience both from South Africa and other African countries.

Jørgen Iversen, CEO, Fibertex, Durban, South Africa.

Iversen served at the board of Fibertex while the company expanded to South Africa. He is the director and CEO of the company in the early stages of their establishment. He has been in the country since 2010 and is responsible for the division until a local director is hired.

Henrik Lauritzen, Marketing Director, Hummel, Cape Town, South Africa.

Has 15 years of experience in doing business in South Africa and is involved in several industries and projects. He has lived and done business in Johannesburg, Port Elizabeth and Cape Town.

Yr Kojetin Sigurdardottir and Jacques Pretorius. Trade Council, Danish Embassy, Pretoria, South Africa.

The Danish Foreign Ministry's Trade Council assists Danish companies with valuable information about the country and can help Danish companies exercise due diligence when dealing with South African companies. The Trade Council offers a favourable discount for smaller companies that seek counselling and advice on South Africa.

Johnny Ohgrøn Hansen, Regional Manager, Industrialisation Fund for Developing Countries - IFU, Johannesburg, South Africa.

Johnny Ohgrøn Hansen provided insights into how IFU can be a partner when a Danish company invests in developing countries as well as on South African business environment in general. He also helped us get in contact with our case company AluFlam and played a critical role in getting access to Fibertex in Durban.

Michael Olsen, General Manager Cement, FLSmidt, Johannesburg, South Africa & Sub Sahara.

FLS started a wholly owned division in 1907 and now has 650 employees in South Africa[17]. Michael Olsen has worked in South Africa since 2010 as General Manager and has significant knowledge about the African business environment. He was particularly valuable in establishing contacts to other experts.

[17] Interview Olsen, FLSmidt.

Jens Risgaard, General Manager, Airland Logistics, Johannesburg, South Africa

Jens Risgaard as 14 years of experience in working with NGOs and governments. He is very involved with the South African mining industry. Airland specialises in logistics contracts that other companies find too difficult to handle.

Gareth Pollis, Scandinavian Trade Center and Per Bjørgvig, Counsel Durban, South Africa.

STC is a newly established consultancy that offers to assist Danish companies looking towards South Africa. Per Bjørgvig has great experience as he has been the consul in Durban for more than 50 years. Gareth Pollis has worked for Danish company Rohde Nielsen A/S for 5 years and has just recently joined STC.

David Allen, Group operation manager, Autospec, Cape Town, South Africa.

David Allen works together closely with architects and the construction industry. He has experience in assisting architects with a products database and a specifications writing tools used by the industry. The focus of his work is innovation and modern design.

Maja Lundgaard Leth, Eksport Kredit Fonden, Copenhagen, Denmark

Maja Lundgaard is a senior underwriter who helps Danish companies when they start new businesses or get new contracts in foreign markets. She has given us considerable insight into how EKF can assist Danish companies when they are doing business in South Africa.

3.8 SECONDARY DATA

Our secondary data was mainly collected through database searches and studies of recent relevant publications, EMIS CBS database on emerging markets, official South Africa government reports and reports and articles from relevant newspapers. Other data was collected through material handed out at the aforementioned 2012 BRIC Denmark conference in Vejle. The conference had a line-up of speakers with relevant knowledge. The most

important contributions came from:

- Rasmus Bartholomæussen, Area Manager, Lyngsoe Systems.
- Carl Chr. Østergaard, Business Unit Director Bridges & Structures, NIRAS & Consul General of Liberia.
- Adrian Lane, Director, IQ Oil Filtration.
- Poul Eriksen, Vice President, Sales & Technology, Develco.
- Anja Granberg, Direktør, Eto Garments.
- Per Christensen, Danish Embassy in Pretoria

3.9 RELIABILITY AND VALIDITY

Reliability and validity are general to all science methods, and many tactics are linked to the concept of validity within a case study. According to Yin (1994) a research process is expected to present a logical set of statements and criteria. Yin (1994) presents four terms to assess the quality of research, namely *construct validity, internal validity, external validity* and *reliability test*. In our thesis we are mainly concerned that we are able to get external validity.

External validity is described as determining whether the findings of the study are in general beyond the specific case study, i.e. how much a study can be generalised. Deductions concerning relationships based on a specific study possess external validity if they can be generalised from the unique and characteristic settings, procedures and participants to other populations and conditions (Yin 1994). The assessment of the external validity of our research is an expression of the degree of generalisation of our results. The results from our specific case study of AluFlam cannot be generalised in a statistical sense. On the other hand the findings produced by this thesis may be used for future entries into the South African market.

As we have made several interviews with experts, used relevant material and documents, participated in the BRIC Denmark Seminar about the South African growth market and opportunities for Danish companies as well as the fact that we visited South Africa as a direct observation (Yin 1994), our study uses various sources of data and evidence described by Yin

(1994) as key factors In relation to our study, these sources are considered to provide us with a thorough understanding of how Danish ventures best enter the South African market. Evidently, our construct validity would be improved if we could analyse more Danish companies established in South Africa giving an objectively more truthful assessment of how the entry can be done most lucratively. Given our limited resources of thesis budget and time, however, we believe that one in-depth analysis of a well-established company in the same industry supported by valuable data from key informants give validity to the findings of our study. In regard to data collection, Yin (1994) writes that is critical whether or not the sources provide valid knowledge, as there is a possibility that the interviewee give the answers the interviewers want to hear. We acknowledge this possibility, however, with the open format of our interviews and the way we constructed our questions we attempted not to disclose any important information that would give away our purpose of the interview. Subsequently, we think that it was in the best interest of our case company to give us all necessary information we needed as they knew that we were attempting to come up with the best possible recommendations. With regard to the other informants that were interviewed we always let them know that we were attempting to improve the process of establishing Danish companies in general. We therefore hope and assume that the answers given to us were genuine as it is of broad interest that Danish companies increase export and that more Danish companies will seek towards South Africa.

Reliability is defined as an expression to determine whether or not the thesis investigation would create the same result if repeated. For a project to be reliable, any researcher using the method applied should be able to achieve a similar result, at least to a certain degree (Yin 1994). With our study, we believe that to be the case. We accept that due to the fact that our study is exploratory and interpretive it would be hard to imitate and we accept that future researchers may find that other techniques are more relevant for a study of this nature.

3.10 AIMS AND OBJECTIVES OF THE RESEARCH

This study aims to investigate the South African market condition to gain knowledge about important environmental and contextual issues that the case company will have to face and deal with. The decision to include a model case and investigate the actors they have dealt with

should give us knowledge of how an entry can be done and minimise the uncertainties related to a South African entry. We seek to uncover which managerial decisions managers have to deal with when entering the South African market and based on that we will make recommendations to our case company on how to reflect on strategic decisions market. The study should also contribute to a better understanding of how Danish companies in general can approach the South African market.

3.11 DELIMITATIONS

The study focuses on the two sub industries AluFlam and Fibertex operate in and success of applying of the findings to other industries is thus limited. We have furthermore focused on a model case (Fibertex) that still is at an early establishment stage since they just entered the market two years ago. The experience they have is therefore only based on the past two years and they may therefore lack elements that a company with more years in the country would have included in the interviews. We would also like to have included and investigated more case companies that are at different stages of their respective South African ventures. It would have added more depth if we had included several different industries. The large majority of the interviews we conducted were with Danish experts; hence the interviews may be rather one-sided as South African interpretations are limited to only a few interviews. In regard to our model case company we also wanted to interview the South African JV partners to get their version of the partnership with the Danes – this was unfortunately not possible.

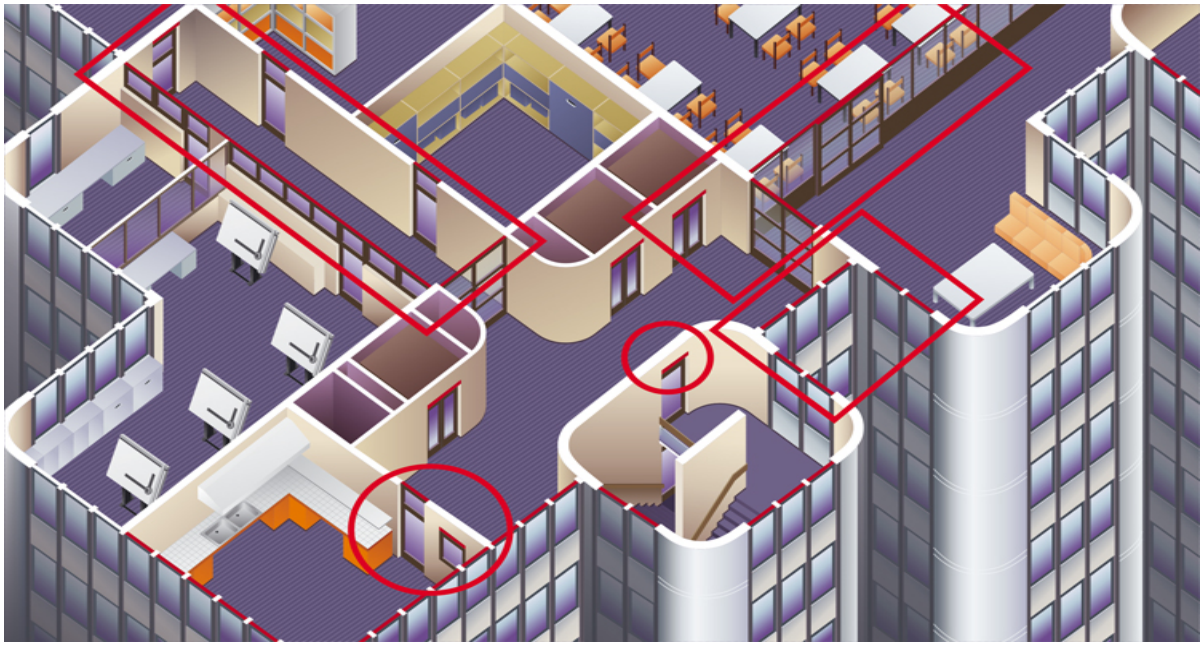
We acknowledge that knowledge has no implication in itself and that it is how it is used and applied that gives it meaning. It is how and what management utilises existing knowledge and facilitate the mobilisation and expansion of new knowledge. The management needs to understand how to make knowledge into an available resource because if this fails, knowledge can turn into a barrier in itself.

4. CASE DESCRIPTION

This chapter will provide a description of our case company AluFlam which we will describe in detail in part by presenting its products and the context in which it is operating.

AluFlam A/S

Peter Birch who owns the company with his mother Jytte H. Christiansen founded AluFlam in 1998 in Roskilde. AluFlam develops, produces, tests, and installs fire resistant constructions of aluminium and glass. The products are used in passive fire protection as the solutions are applied in the construction of fire escape routes in buildings and ships. This is illustrated in the picture below:



Traditional aluminium glass constructions are known for their weakness when subjected to fire and high temperatures. AluFlam (Alu: aluminium, Flam: flame) has found a way to use aluminium profiles for fireproof glass constructions and has patented this fire resistant technology which is tested, certified and used all over the world. The total turnover of

AluFlam Group in 2010 year was DKK 375 million, and the estimated growth of turnover is about 15 per cent annually[18].

Many architects like to use aluminium because it is light, stylish and strong. AluFlam offers the features of the aluminium combined with safety and durability. Tivoli Kongres Center and DONG Energy (See pictures below) are examples of innovative projects where fire protection and design have come together and made both great design and safety possible.

AluFlam's mission is "to be committed to continuously develop high quality and competitive fire resistant products through meeting the standards of conformity and prestigious delivery of world-class services and consultancies"[19]. AluFlam's vision is "to become the world's leading reputable company that provides design and development of aluminium fire resistant constructions fully accredited by the Danish Institute of Fire and Security Technology (DBI) as well as in conformity with the European and American standards"[20]. As an important strength, AluFlam works in close collaboration with architects, project managers and owners during all phases of the building construction process.[21] Furthermore they hold a substantial stock of standard profile products which helps to increase delivery speed to customers[22].

[18] AluFlam material
[19] www.aluflam.com
[20] Ibid
[21] Interview Birch
[22] AluFlam material

AluFlam Group

AluFlam's headquarter in Roskilde consists of administration, research, and development and production facilities. 18 employees work at the total facility that comprises 1500 m² [23]. The AluFlam Group is a consortium of independent companies that carry out projects separately while also to a large degree collaborating. This corporate structure enables AluFlam to provide the technical and architectural expertise on the individual market and gather knowledge and thereby provide still better products and solutions[24].

The organisational structure is important as it plays a vital role in how AluFlam operates in the business environment and how key decisions are made. The organisation is split into four divisions that work closely together and answer directly to the management and CEO Peter Birch. The structure is flat which according to Birch means that the decision process is immediate[25]. It is often Birch who has the final say and responsibility in the entire AluFlam group. Birch uses an old friend as mentor and advisor when he needs counselling but in most cases new ideas are discussed and developed with the rest of the top management in an open discussion. It is, however always, Birch who has the final the final saying[26].

Shortly after AluFlam was founded in 1998, management started to look outside of Denmark to boost sales and today AluFlam operates in Europe, North America, South America, Australia and Asia[27]. In 2009 AluFlam explored the possibility of entering the Mozambican market because of the country emerging aluminium industry. A business meeting in Mozambique, however, turned out to be unsuccessful, as the potential partner was not prepared to run any financial risk[28]. South Africa is therefore the second attempt at expanding into the African continent.

AluFlam has used different strategies in order to enter markets around the world and typically the decision to enter a given market is based on good personal relations between Birch and JV partners or collaborators[29]. When AluFlam enters a foreign market, the first step is to find a

[23] AluFlam material
[24] www.aluflam.com
[25] Interview Birch
[26] Ibid
[27] Ibid
[28] Ibid
[29] Ibid

suitable partner with experience from the passive fire protection industry. The partnerships vary from market to market but AluFlam usually delivers products to the partner that in turn is in charge of selling the product locally[30]. The production departments, besides the headquarters in Roskilde, are in Huntington Beach, California, and in Jonava, Lithuania. AluFlam Dubai is under construction and will be the production facility and administration centre for the entire Middle East region[31]. Birch travels a lot as he sees face-to-face communication as the best approach when AluFlam sets up new divisions because personal relationships strengthens the collaboration with existing business partners. Skype is, however, according to Birch a useful tool that allows a more personal conversation and helps him in his managerial work[32].

AluFlam Lithuania

In 2001 AluFlam started a division in Lithuania which represents AluFlam in Eastern Europe. The division both develops and tests systems and controls the sales and marketing activity in the region. The division has become the main and biggest production unit at the AluFlam group with a total production facility of 5800m² and 40 employees. In the beginning of 2011, an additional 3200m² were opened for operation[33]. The division exports fireproof aluminium glass constructions to all over the world.

AluFlam North America

In 2003, the success in Europe resulted in curiosity about an expansion into the North American market. An evident American demand for AluFlam's products made the decision to enter this market as fast as possible a high priority. The North American entry is a example of how fast AluFlam operates when entering a foreign market: In October 2003 the corporate structure of AluFlam North America was established and a sales/marketing office was set up and already in December 2003 successful fire testing at Underwriters Laboratories in Chicago

[30] Interview Birch
[31] Ibid
[32] Ibid
[33] www.aluflam.com

was initiated. In April 2004 the first orders were accepted and during that period AluFlam North America matured and showed solid growth. Due to this AluFlam started local production in May 2007. Finally, in September 2007 the first shipment of orders manufactured in US was accepted[34]. Today 12 employees work at the North American division that handles sales and marketing for North and South America.

AluFlam and the rest of the world

Besides the three main divisions in Denmark, Lithuania, and the U.S., AluFlam operates in various countries around the world. In Europe AluFlam is represented in Latvia, UK, Spain, Ireland, France, Turkey, Netherland, Greece, Poland, Norway, Sweden, and Russia. Outside of Europe, AluFlam operates in Brazil, Australia, Canada, UAE, and the Philippines.

Products

AluFlam focuses on two main product areas: land and marine. The land systems currently represent four product lines: windows, doors, curtain walls, skylights & glass roofs. The marine area focuses on doors and windows.

Windows

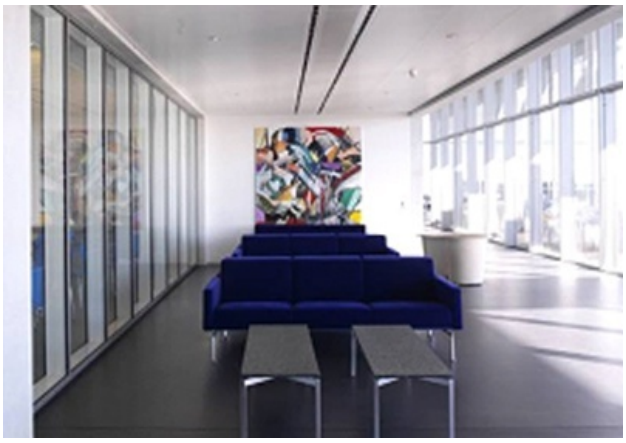
The AluFlam storefront framing window system is based on two extruded and thermally broken aluminium profiles that are filled with a proprietary compound. In a fire test, the aluminium will begin melting on the exposed side of the frame but the remaining construction will retain its integrity throughout the test. One of the main benefits with the AluFlam framing system is that it passes the fire test without the structural steel profiles that other systems use[35]. AluFlam incorporates Vetrotech Saint Gobain clear laminated fire glazing. Glazing conforms to EN 12600 standards for impact while providing excellent clarity and sound reduction. The AluFlam system is approved with both Swissflam and Contraflam

[34] www.aluflam.com
[35] AluFlam product guide

glazing which feature superior heat barrier properties[36].

AluFlam's marine windows are available for interior and exterior installations. They are fully tested and listed by a number of NB European laboratories and Module B of European Union Council Directive 96/98/EC on marine equipment which means that they are approved for use in the entire EU. The windows are designed with a minimum visual obstruction and a great clear vision[37].

All glass with a fire listing for 45 minutes or more is required to pass the fire hose stream test[38]. Tests of AluFlam's 45, 60 and 120-minute products have demonstrated that they act as barriers to radiant heat transmission and the products have been approved for both European and American standards. The price for a 1000 x 1000mm window with glass ex works is DKK 5,250.



Doors

Hinged and sliding doors are offered in land and marine systems. The doors are constructed from same thermally broken narrow aluminium extrusions and filled with a proprietary fire blocking material used in the windows[39]. The price on fireproofed AF 70 doors EI60 classification with B.900 x 2100mm glass is ex works DKK 16,400.

---

[36] AluFlam product guide
[37] Ibid
[38] Interview Birch, AluFlam
[39] AluFlam product guide


Curtain walls

The AluFlam curtain wall system works in a similar fashion with the filler contained within the structural chamber in the aluminium profile. AluFlam facade and curtain walls are made in a patented slim looking aluminium system. The clear fire resistant glazing conforms to EN 12600 safety glass standards while providing excellent clarity and sound reduction.


Glass roofs and skylights

AluFlam's glass roofs and skylights are constructed from narrow aluminium extrusions filled with a proprietary fire blocking element. The glass roof and skylights have a 60 to 90 minute rating for interior and exterior installations.


Anodizing

AluFlam's aluminium framing designs are available in a multitude of finish options[40]. The most pristine finish is satin clear anodize. The aluminium profiles are textured prior to the clear anodizing process resulting in a smooth non-directional finish. AluFlam provides traditional coloured anodize finishes such as dark bronze, medium bronze, black, champagne and others[41].

Powder coating

The powder coating process is gaining popularity due to its environmentally friendly character. The approved powder finishes are processed from Tiger Drylac and Spraylat. This includes architectural finishes with extended warranties[42].

Liquid painting

To meet special specification requirements, AluFlam also provides liquid painting such as 50 per cent and 70 per cent fluoropolymer coatings on all window and door systems. All finishing is done before fabrication to assure ultimate adhesion and finish quality, and

[40] AluFlam product guide
[41] www.aluflam.com
[42] Ibid

stringent quality control guidelines are followed throughout the process[43].

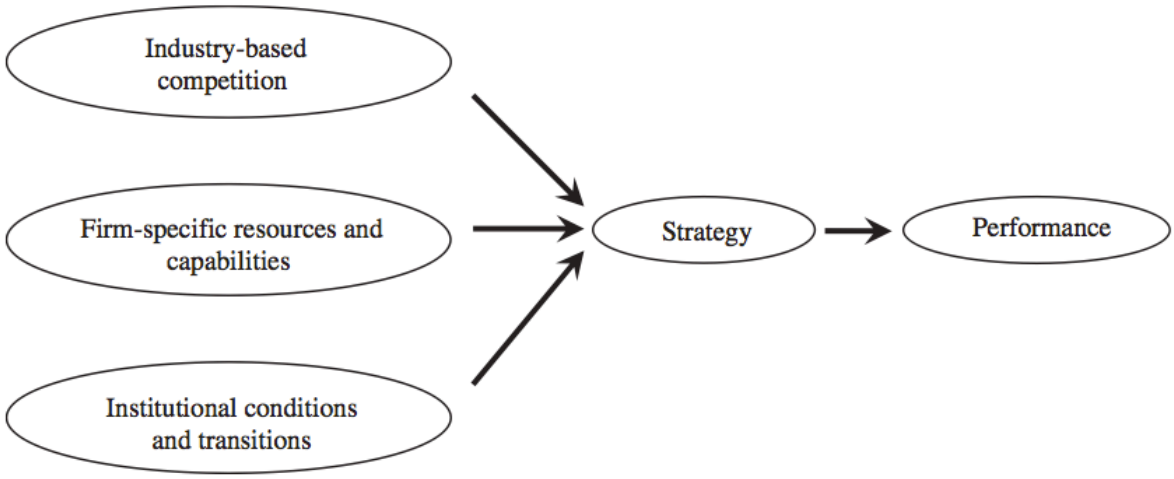
Target customers

Birch states that AluFlam has customers in both the public and private sector. This includes factories, office buildings, hotels, marine, and residential houses. AluFlam however primarily operates in the private sector and their prime products are distributed to customers that seek both a great design and also security. This matches AluFlam's value proposition. Many of the prestige projects are made in collaboration with architects[44].

[43] www.aluflam.com
[44] Interview Birch, AluFlam

5. STRATEGY TRIPOD IN INTERNATIONAL BUSINESS

Peng (2008) has developed the *strategy tripod model* which combines the institution-based view of international business strategy with industry- and resource-based views that provides management with an understanding of what drives companies' strategies in an internationalisation process as well as what determines the international success and failure of companies. Even with the inclusion of the institutional-based view the tripod is not a substitution for the industry-based view proposed by Porter (1980) or the resource-based view by Barney (1991). It is a complementing aspect that makes all the analysis in combination stronger than they each are separately (Peng 2008). The strategy tripod is illustrated in the figure below:



Peng (2008) figure

In order to expand on the strategy tripod model, the PEST analysis tool can help management to understand and find the institutions that can influence an entry. Peng (2008) argues that the analysis is important since institutions in especially emerging markets play a significant role when companies decide which entry mode that will fit the expected strategy and performance. Porter's (1980) five forces analysis is subsequently a useful tool when management needs to understand the industry-based conditions as it focuses on the situation within an industry and thereby helps to determine company entry strategy. By adding the resource-based view, Barney (1991) offers a perspective that helps management understand the specific differences between companies that reveal competitive advantage in an industry.

5.1 THE INSTITUTION-BASED VIEW

When markets work effectively in developed economies, the market-supporting institutions are almost invisible, writes Peng (2008). Meyer et al. (2009) determine two perspectives as the important foundation of success and failure in a foreign entry strategy: the institutions and resource-based view. From an institution-based view, management needs to know about the rules, both informal and formal, that govern competition on the foreign market. The entry strategy requires fitting the institution by complying with local regulation and informal norms and also building legitimacy with local stakeholders. Peng (2008) defines institutions as "humanly devised constraints that structure human interaction" and also that institutions are regulative, normative, and cognitive arrangements that give stability and meaning to social behaviour. Institutions can in this sense generally be classified as formal and informal governing societal transactions in different areas such as politics (e.g., corruption, transparency), law (e.g., economic liberalisation, regulatory regime) and society (e.g., ethical norms, attitudes toward entrepreneurship). In this sense, countries differ in political risk, which affects the stability of their markets. Considering institutions as autonomous variables, the institution-based view focuses on the dynamic interaction between institutions and companies in which strategic choices is the outcome of such an interaction. Said in another way, strategic choices are not only driven by industry circumstances and company resources and capabilities but are also a reflection of the formal and informal challenges of a particular institutional framework that managers confront and have to deal with. This means that institutions in emerging economies are not just background conditions managers typically know from home markets in developed countries. Instead, institutions in emerging markets directly determine how a company can formulate and implement strategy and create competitive advantage (Peng 2008). Also Meyer et al. (2009) find that institutions in the foreign country can prohibit certain operations and transactions, and have unexpected traits that makes the need for local knowledge and expertise important. The institutional environment in many emerging countries is typically characterised by a high degree of personal network interactions, which create a great need for local knowledge and relations held by local companies or institutions (Meyer et al 2009). In the matter of finding local resources and information in emerging economies, information asymmetry can occur as an entry barrier because institutions are weak. When institutions are weak, they provide less legal framework, less effective law enforcement, less available information systems and less

effective bureaucracy, which means a wider spread of corruption (Meyer et al. 2009). All this together means that companies can be forced to design alternative strategies in order to obtain local capabilities and knowledge. Networking and strategic flexibility is therefore an important mind-set in the strategic planning process (Meyer et al. 2009).

5.2 INSTITUTIONAL STUDY TOOL - PEST

The PEST tool is great for highlighting the institutional factors that the company needs to consider and a great tool to understand market attractiveness. Furthermore, it is a useful tool for understanding the "big picture" of the environment in which an organisation is or could be operating. There are a several variables in the analysis: the political, economic, social and technological variables. However, from a strategic point of view, the company is only interested in those variables that affect the company (Gimbert 2011). The variables that affect the company strategically are those that, if they change over time, force the company to adapt and change strategy. The factors that are most relevant to the company should be visible through the use of the PEST analysis which will assist management in dealing with external factors (Gimbert 2011).

- The *political* factors consist of government regulation and legal matters and identifies both formal and informal laws under which a company will have to operate.
- The *economic* factors include the effects of the purchasing power of potential customers and the company's cost of capital.
- The *social* factors consist of the demographic and cultural aspects of the external macro environment and how they affect customer needs and the size of the potential market.
- The *technological* factors include the elements that can lower the barriers to entry, technology legislation and competing technology development.

The variables relevant to the case company are illustrated in the figure on the next page. The variables were developed based on discussions with the Danish Embassy in Pretoria, the Counsel in Durban and IFU South Africa.

Political	Economic
Political Stability Policies Funding, grants and initiatives	Economic growth Industry growth Tariffs
Social	**Technology**
Cultural differences Career attitudes Emphasis and safety	Technological development Technological legislation

5.3 INDUSTRY-BASED VIEW

The management of a company must acknowledge what industry it operates in. This is a key strategic decision before starting the analysis of an industry. This is necessary in order for the management to know who the customers, competitors and suppliers are (Gimbert 2011) and if the industry is profitable (Porter 2008). Furthermore, the definition of the industry is essential because it is subjective: there are usually several possibilities under the chosen industry, e.g. the construction industry is divided into many different sub-industries. It is important that the company forecasts a specific industry but it must not shut the door on innovative opportunities in other sub-industries, as the company's product might fit in other markets than simply the ones first predicted (Reynor 2007). It is up to the specific company to decide how broad the analysis of the industry should be in order to make the right strategic decisions (Gimbert 2011). Porter (2008) adds to this that strategic market management is often difficult as the market environment is hard to understand and predict. Risks in high-growth markets are higher and changes may occur more frequently – for instance the number of competitors may be greater than what the market can support, a competitor may enter with a superior product or low cost advantages, key success factors could change and the company could thus be unable to adapt, resources might be inadequate to maintain a high growth rate etc. (Porter 2008). However, the five forces help define the specific industry as the analysis draws industry boundaries correctly around the industry in which the competition takes place and they thereby clarify profitability opportunities and become a platform for the best possible entry strategy (Porter 2008).

5.4 PORTER'S FIVE FORCES TOOL

Porter's five forces are used as a framework for the analysis of the *industry-based-view*. When conducting the five forces strategy it is important not to pay equal attention to all of the forces, as some may be more important than others. Furthermore the force analysis is not only to declare whether an industry is attractive or not but also to guide management in strategic decisions (Porter 2008). The five forces consist of *rivalry, the threat of new competitors, the threat of substitutes, the bargaining power of suppliers and the bargaining power of customers* (Porter 1980).

Rivalry among existing competitors can be seen in many well-known forms and high rivalry limits the profitability of an industry. Price, discounting, introduction of new products, advertising campaigns and service improvements are all different forms of competing (Porter 2008).

New competitors to an industry is identical to new capacity and new competitors expect to gain market share which can affect prices, costs and the rate of investments which a company needs to compete. It is the mere threat of entry that minimises profitability, no matter if it occurs or not. If entry barriers are low, the possibility of future entrants is higher (Porter 2008).

Suppliers will try to capture more value for themselves by charging higher prices, limiting their quality and services, shifting costs to industry participants, or by squeezing profitability out of an industry that is unable to pass on cost increases in its own price (Porter 2008).

Customers will try to capture more value by forcing down prices and at the same time demanding better products or services and thereby forcing costs up. Suppliers as well as customers can be placed in different groups with regards to bargaining power depending on the industry (Porter 2008)

A *substitute* product performs the same or comparable function as the industry specific product, e.g. plastic is a substitute for aluminium. Substitutes always exist, as there will always be alternative solutions to a given problem or need. It can be difficult for companies to notice the substitutes as they can come from unexpected industries. The threat of substitutes is

typically high if it offers an attractive price performance compared to the industry product (Porter 2008).

5.5 RESOURCE-BASED VIEW

Peng (2001) determines that a company's resources and capabilities are vital when seeking towards new international markets and, specifically, multi-national companies exist and create advantages because of their capability to transfer and exploit knowledge more efficiently internally than through external markets (Peng 2001). Few companies can succeed in a foreign market based on only its own resources and capabilities. From a resource-based view, management therefore often needs to bring the company's capabilities together with local matching s (Peng 2001). No matter which entry strategy a company chooses it thus has to build in a strategy for obtaining local capabilities (Peng 2001). Furthermore, Peng (2001) stresses that minimising transaction costs is a key issue in the internationalisation process. Two very distinct types of resources exist and resources are the components, the raw materials of capabilities (Gimbert 2011). On the other hand, capabilities can be illustrated as the result of how a company uses and organises its resources. A company holds tangible resources such as facilities or premises, vehicles, machinery, staff and funding. The intangible resources are immaterial resources such as its reputation, brands, knowledge and information (Gimbert 2011). A company's competences are the skills and abilities by which resources are deployed effectively through a company's activities and processes. From a strategic point of view, it is important that companies are aware of what capabilities and competences that are needed to carry out the strategy it wants to implement (Gimbert 2011). These competences are divided into different categories such as *skills, technology and knowhow, other intangibles, financial capabilities and other tangible assets* (Gimbert 2011).

The resource-based view suggests three issues that should be considered when planning an entry (Peng 2001). Firstly, the intended entry will require resources that the main headquarter controls from the home market. Secondly, the locally established subsidiary will require resource control itself. Thirdly, the global competences of the company depend on strong coordination and integration of its different subsidiaries. The management and their capabilities and resources are therefore key to entry strategies as they control the entry design

including important issues such as marketing, human resources and logistics (Meyer et al. 2009). Meyer et al. (2009) continues that before a company chooses the strategy to go overseas it needs to consider where they can find the resources that the company need, how the company can transfer existing resources to the new market, and, most importantly, how much control the company needs over the foreign division

5.6 RESOURCE-BASED VIEW - VRIN TOOL

The strategic research in the PEST and the five forces act as if companies within an industry are identical in terms of relevant resources and the strategies they use and also that the companies have heterogenic developments in terms of adapting to changes. In order to help management understand their strategic options better, however, Barney (1991) proposes the resource-based view which consist of two assumptions: A) that firms in industries are varied in terms of the strategic assets they control and B) that the assets tend not to be perfectly mobile across companies. Strategic management decisions are influenced by many conditions in the industry. Barney (1991) therefore point out the importance to keep valuable knowledge in-house and protect property rights. For the most part, strategic assets as reputation and tacit knowledge are not tradable between competitors at factor markets which therefore require that successful achievement of a strategy regards relation specific assets (Barney 1991). Barney (1991) suggests that there can be heterogeneity or company-level difference between companies that permit some of them to sustain competitive advantages. Consequently, the resource-based perspective emphasises strategic decisions charging the company's management with the essential tasks of identifying, developing and organising key resources to exploit returns. Barney (1991) also assume that it is difficult to transfer resources from company to company as it is organisationally difficult and expensive to realise such transfers. Competences can provide competitive advantages and generate rents only if they are based on a collection of routines and skills and complementary assets that are difficult to imitate. Barney (1991) argues that a firm has a competitive advantage when a value creating strategy is implemented and is not all together used by a competing company. Sustained competitive advantage thus adds the extra element that other competitors are unable to imitate the benefits of the firm's strategy. Sustained competitive advantage does not depend on the period of time

– the advantage is only sustained if the firm is actively making efforts to avoid imitation from competing competitors (Barney 1991).

Barney (1991) points to four resources of competitive advantage as VRIN, namely:

- *Value* – when a company conceives or implements strategies that improve its efficiency or effectiveness.
- *Rareness* – valuable company resources that no other or only few other competing firms posses.
- *Imperfectly imitable* – because of three reasons: unique historical conditions, causally ambiguous, social complex.
- *Non-substitutability* – if competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point where the price equals the discounted future rents.

In the end, sustained competitive advantage occurs when capabilities are not only valuable and rare but also inimitable, immobile, and non-substitutable.

6. FINDINGS FROM THE STRATEGY-TRIPOD

6.1 PEST

The PEST findings provide an overview of the macroeconomic and societal factors that influence AluFlam and the industry they may enter. It is seldom that a company can influence these factors that often play a big role in the company's operations and value proposition by forming the framework for the development of the industry. It should be mentioned that we have only analysed the factors we believe are interesting in regard to AluFlam and the industry. Furthermore, we point out that a strict distinction between the different categories is problematic as they interact to a greater or lesser extend. We however believe that the findings provide insights that should be considered by management when decisions are made during the development of an entry strategy.

6.2 POLITICAL

Political stability

The African National Congress (ANC) has held power since the end of apartheid in 1994 and the government has lead a relatively conservative economic policy with emphasis on macroeconomic stability as they are trying to attract foreign investments that can contribute to economic growth and create a better foundation for public investments. The Danish investments in the country are 0,05 per cent of the total foreign direct investments[45].

The fight against poverty has been a high priority for ANC and they are focusing on increasing economic growth and job creation, primarily through industry projects, education and reduced crime[46]. The living standards in South Africa are very unlike compared to developed countries since only 13 per cent of the South Africans, primarily Caucasians, have living standard comparable to what is seen in the developed part of the world, and almost half of the population, primarily blacks, live in deep poverty in townships and rural areas[47]. The ANC has stated that the poverty problems should not be solved by redistribution of the

[45] www.ifu.dk
[46] Eksport Kredit Fonden, landeinformation, Sydafrika
[47] Investment Fund for developing countries, fakta om Sydafrika

current wealth but rather through economic development as the foundation for income to everyone.[48] The support base of the ANC alliance is almost all black. The most important parties are the Democratic Party and the New National Party which recently merged to form the centrist Democratic Alliance that supports free enterprise[49]. Corruption and crime is still at a high level and the problem exists at almost every level of the political and private sector[50]. Strikes can occur frequently and can influence businesses, consider for example September 10, 2012, where 41,000 miners went on strike over wage demands. The protest included death threats, thousands marching and carrying traditional spears and sticks, unrest and riots[51]. However all in all, the South African democracy is well-established and seen in an African context, the institutional framework including financial and legal institutions is excellent[52].

Policies

One of the most fundamental laws in South Africa is the Broad Based Black Economic Empowerment (BBBEE), which is an updated version of the original Broad Economic Empowerment (BEE). BBBEE, put in place by the ANC, is a pragmatic strategy that aims at realising the South African's full economic potential by helping to bring the black majority (including coloured and Indians) into economic mainstream (as opposed to barter economy) Through the BBBEE policy, the government tries to achieve the following[53]:

- Empower black people to own and manage companies. (A company is regarded black-owned if black people, who also have substantial management control, own 51 per cent.)
- Achieve a change in the racial composition of ownership, management and skills occupations in existing and new companies.
- Empower local and rural communities by giving them access to ownership, economic activities and skills.

[48] Interview FABCOS
[49] Interview, Danish Embassy in Pretoria
[50] Investment Fund for developing countries, fakta om Sydafrika
[51] http://www.huffingtonpost.com/2012/09/10/south-africa-miners_n_1869755.html
[52] Industrialisation Fund for Developing countries, fakta om Sydafrika
[53] Interview FABCOS

- Promote human resource development of blacks through activities such as mentorships, learning, training programs and internships.
- Ensure that black-owned companies benefit from the government's preferential procurement policies.
- Develop and assist the financial capacity of micro, small and medium-sized black companies.
- Empowerment of black women in managing and owning existing and new companies.

The BBBEE Codes of Good Practise provide a standard framework for the measurement of black empowerment across all sectors of the economy. In the following table, the objectives are measured in order for a privately held company to get BBBEE rating[54]:

B-BBEE SCORECARD	
Element	Points
Ownership	20
Management control	10
Employment equity	15
Skills development	15
Preferential procurement	20
Enterprise development	15
Socio-economic development	5
TOTAL	100

As the figure illustrates, the BBBEE classification system ranks companies based on their performance at eight different levels where level 1 is the best and is equal to ≥100 points at the scorecard. The classification allows companies with a high rating to get advantages when contracts are negotiated. The BBBEE act makes all-state bodies, public companies and the government apply to them when making economic decisions on procurement, licensing and concessions, public-private partnerships and the sale of state-owned assets or businesses[55]. This means that private companies will have to apply to the codes if they want to do business with the government or any organ of state. Preferential procurement will also affect most

[54] Per Christensen presentation, South Africa event, Vejle
[55] www.bbbee.com

private companies throughout the supply chain. Companies that enter South Africa get a level 4 rating in their first year.

Companies with revenue of more than DKK 24.5 million are measured on all parameters. Companies with revenue between DKK 3.5 to 24.5 million are measured on 5 parameters of their own choosing. Companies with revenue less than DKK 3.5 million do not have to comply and is automatically dealt a level 4 rating[56]. The table below illustrates how the classification of a company will affect its ability to secure contracts when participating in public offerings[57].

Contribution Level	Qualification	BEE recognition Level
Level One Contributor	= 100 points on the Generic Scorecard	135%
Level Two Contributor	>= 85 but < 100 points on the Generic Scorecard	125%
Level Three Contributor	>= 75 but < 85 points on the Generic Scorecard	110%
Level Four Contributor	>= 65 but < 75 points on the Generic Scorecard	100%
Level Five Contributor	>= 55 but < 65 points on the Generic Scorecard	80%
Level Six Contributor	>= 45 but < 55 points on the Generic Scorecard	60%
Level Seven Contributor	>= 40 but < 45 points on the Generic Scorecard	50%
Level Eight Contributor	>= 30 but < 40 points on the Generic Scorecard	10%
Non Compliant Contributor	< 30 points on the Generic Scorecard	0%

In practise this results in companies with a higher BBBEE level being able to achieve a higher price than competitors.

Funding, grants an initiatives

There are numerous sources for financial support for Danish ventures in South Africa. The most commonly used are:

[56] Per Christensen presentation, South Africa event, Vejle
[57] www.bbbee.com

South African associations and institutions:

- The South African Enterprise Investment Program (EIP), launched by the government in 2008, provides grants of up to 30 per cent towards qualifying investment below DKK 140 million in production facilities, equipment or vehicles[58].
- The Foreign Investment Grant (FIG) assists foreign small and middle-sized companies when investing in the country by compensating for the costs of relocating new machinery and equipment to South Africa. The grant will not exceed DKK 2.1 million and cannot exceed the actual cost of relocating or 15 per cent of the value of the new machinery and equipment relocated from other countries[59].
- Industrial development zones (IDZ) are locations in South Africa and have been established to attract investors through attractive tax exemption. Furthermore, this is set out in the government's Economic Programme of Action, where IDZ's are cited as a means by which the country will attain increased levels of foreign direct investment. This will be achieved primarily through granting incentives in order to attract foreign and local investment within these zones and thereby boosting the country's economic attractiveness. The IDZ's will facilitate the creation of an industrial area that has strategic economic advantages for strategic investments. IDZ's also enable the exploitation of resource-intensive industries and take advantage of existing industrial capacity and thereby promote integration with local industry. This creates employment and other economic and social benefits in the area in which the IDZ is located. Furthermore, it should be consistent with any applicable national policies and law, as determined by appropriate environmental, economic and technical analyses. Examples of IDZ's are KwaZulu Natal East London and Coega[60].
- Industrial Development Corporation (IDC) is owned by the South African government and promotes industrial development and sustainable economic growth in South Africa through financial investments in new companies. The goal of IDC is to be the primary source of commercially sustainable industrial development and innovation to benefit both South Africa and the rest of Africa. They will do this by serving as a catalyst for balanced, sustainable development and providing risk capital in

[58] http://www.tradeinvestsa.co.za/incentives/704004.htm
[59] www.fig.co.za
[60] Interview Johnny Hansen, IFU, Johannesburg and http://www.sars.gov.za/home.asp?pid=44747

partnership with the private and public sector. The organisation will primarily support a South African partner (as they did in Fibertex case later in this thesis)[61].

- The National Empowerment Fund (NEF) will support the black part of a JV venture. The NEF support BBBEE related initiatives by assuming equity-based risk in companies that promote black equity ownership. NEF is highly active with projects in South Africa together with foreign companies. The total fund portfolio is at the moment at approximately DKK 22 billion at financial investments. The NEF eagerly hopes for more international investors to come forward as partners in South Africa's effort to develop as a nation [62].

Danish funds and institutions:

- The Investment Fund for Developing countries (IFU) is involved in Danish investments that create jobs and growth in developing countries. IFU brings knowledge, network and venture capital to private-sector projects in developing countries where the aim is to make the projects self-sustaining without IFU. IFU co-invest with Danish businesses in projects in developing countries if the project is expected to have a lasting positive effect on development. If a Danish company invests in South Africa, IFU can grant a loan and will match the investment with an equal amount taking 50 per cent ownership of the venture[63]. The time horizon from a presented business idea to the actual funding depends on the country in which the investment will take place, how thorough the initial market analysis is, laws, agreed success criteria between IFU and the company, and finally which company that applies for financial support[64].
- The Export Credit Fund (EKF) covers risks when doing business in South Africa by providing guarantees and various financial solutions that will allow the foreign partner to get equity and thereby operate with a Danish company. EKF provides credit, that banks and others are unable or unwilling to grant, giving security to the company if the foreign buyers are prohibited from paying. Furthermore, EKF is owned by the

[61] www.idc.co.za
[62] www.nefcorp.co.za
[63] www.ifu.dk
[64] Interview Johnny Ohgrøn Hansen, IFU, Johannesburg

Danish state and thus a company guaranteed by EKF is simultaneously supported by the state which can make a difference beyond Denmark's borders[65].

- GoGlobal is a collaboration between the Danish Ministry of Foreign Affairs, the Danish Trade Council, EKF, Danida and IFU that can provide advice and finance to companies that look towards international markets[66].
- Danida has been operating in South Africa for many years but just recently withdrew from the country in order to focus on other developing countries.

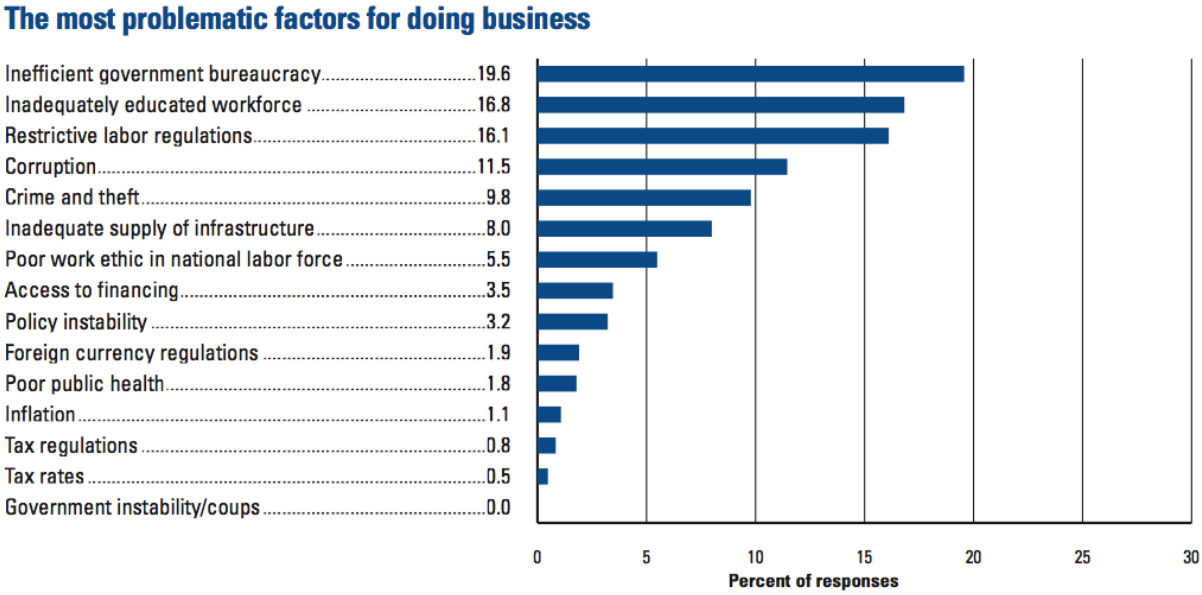
6.3 ECONOMIC

Economic growth

South Africa has a well-developed economic infrastructure and was ranked 2nd in global competiveness in 2012 among the BRICS economies[67] (highest in Sub-Saharan and 50th overall). The financial market development in South Africa is ranked 4th overall, which indicates high confidence in the country's financial market at a time when trust is returning slowly in most other parts of the world[68]. The service sector constitutes 2/3 of the economy but raw materials continue to be an important part of the economy. After 10 years with strong economic growth (5-6 per cent yearly[69]), South Africa dived into recession under the financial crisis that hit the global economy in 2009. In 2010 the GDP grew with almost 3 per cent and there exist strong indicators that the economic growth will continue in the coming years[70]. South Africa has a deficit on the balance of payments which is financed through borrowing from the private market. The total external debt is roughly half the size of the export of goods and services and the country's foreign reserves match the total external debt[71]. In their assessment of the political risks, the Export Credit Fund estimates that there is potential for an increased demand for especially infrastructure, construction, food industry, and water and energy distribution. There is a need for improved infrastructure that can reach the country's

[65] www.EKF.dk
[66] www.startvaekst.dk/goglobal.dk/forside/0/2
[67] The Global Competiveness Report 2011-2012
[68] Ibid
[69] www.ifu.dk
[70] The global Competiveness report 2011-2012
[71] Interview Danish Embassy, pretoria

most remote and rural areas. The health sector needs to be developed and the energy production as it is cannot keep up with the increasing demand[72]. In order to enhance the competiveness, the government will need to address some weaknesses. South Africa ranks 95th[73] in labour market efficiency because of rigid hiring and in firing practices, problems with wage determination flexibility by companies and in labour vs. employer relations. Another issue that needs to be dealt with is the university enrolment rate of only 15 per cent (ranked 97th) which hampers development and innovation potential[74]. The most problematic factors for doing business in South Africa is illustrated in the table below[75]:



The inefficient government bureaucracy ranks number 1 in the Global Competiveness Report and was also mentioned as a concerning issue by the managers interviewed for this thesis. The unemployment rate, currently at 25 per cent, continues to be a problem for the country due to a lack of and gap in education, poor skills among the blacks and a high level of crime. Furthermore, South Africa is the country in the world with the highest number of HIV/aids infected people. In 2007 it was estimated that 5,5 mill. people live with aids amounting to roughly 1/5 of the people between the ages of 15 and 49.[76] South Africa is placed 123rd out of

[72] www.ekf.dk
[73] The Global Competiveness Report 2011-2012
[74] Ibid
[75] Ibid
[76] Interview FABCOS

187 countries on the Human Development Index[77]. South Africa scores higher than the regional average but compared to the OECD countries, South Africa is considerably underdeveloped. It is the health conditions in particular that give the country a low score.

The South African economy is split in two. The first part has a well-established financial sector and a modern economic structure that resembles what we know from Denmark. The other part is the "African" part which is very informal and consists of barter economy, cheap labour and micro companies. This widely resembles the economies on rest of the African continent.[78] The emergence of a new middle-class consisting of blacks that move from the low-income groups in to a more affluent and attractive consumer segment is increasingly gaining the interest of companies involved in consumer goods[79].

Construction industry growth

The South African construction industry has grown substantially over the past decade and growth rates have been more than 8 per cent annually in the years between 2006 and 2010[80]. The performance of the sector is forecasted to slow down but the anticipated yearly growth is still more than 7 per cent in the 5-year period from 2010 to 2015. This is expected to drive the market to a value of DKK 120 billion by the end of 2015.

Statistics of housing plans passed indicates that the sector continues to be at a low level since coming of a peak in 2007 before the financial crisis hit the world economy. Forced distress sales combined with an uncertainty and risk averse behaviour among the building industry and the public together with limited promise for obtaining overdrafts or loans has added to the sector remaining depressed[81]. Sales of aluminium products such as roofs and facades and extrusions such as windows and doorframes in 2011 were at the same level or slightly below

[77] http://hdrstats.undp.org/en/countries/profiles/ZAF.html
[78] Interview FABCOS
[79] Interview Johnny Ohgrøn Hansen, IFU, Johannesburg
[80] South African Infrastructure Rapport – Infrastructure & Construction – Q2 2012
[81] Aluminium & you – the 2011 Aluminium industry review, May 2012

in 2010.[82] Extrusions on itself showed little growth in 2011 mainly as a result of the depressed architectural sector[83].

The surface finishing of the aluminium is undergoing a shift from anodising towards powder coating. AFSA members detect this as they are trying to highlight the benefits of supporting the local industry[84].

Tariffs

With an EUR 1 certificate[85], a Danish company exporting aluminium products like the ones AluFlam produces will not have to pay any tariffs. If the products come from other parts of the world, the tariff is 10 per cent. See table below.

Doors, windows and their frames and thresholds for doors

Item	CD	Decription	Unit	General	EU	EFTA	SADC
7610.10	6	Doors, windows and their frames and thresholds for doors	kg	10%	free	10%	free
Notices				**Effective Date**			
7610.90	2	Other	kg	10%	free	10%	free
Notices				**Effective Date**			

6.4 SOCIAL

South Africa and its population has gone through great changes over the past two decades. Most people know the country's history of colonialism, wars and apartheid which ended in 1991. Since then, the country moved on to the democratisation in 1994. In present day South Africa, the young population of approximately 50 million (94,6 per cent of the population are under 65)[86] is looking forward with optimism, trying not to look back at the past even though

[82] Aluminium & you – the 2011 Aluminium industry review, May 2012
[83] Ibid
[84] Ibid
[85] In the free trade agreements goods are defined, which apply to cheaper rates of duty or to be completely duty-free introduced, on the condition that they were completely manufactured in a member country.
[86] www.southafrica.info

history will of course never be forgotten[87]. The racial make up of the country is illustrated in the table below[88]:

MID-YEAR POPULATION ESTIMATES 2011		
Population group	**Number**	**% of total**
African	40 206 275	79.5%
White	4 565 825	9.0%
Coloured	4 539 790	9.0%
Indian/Asian	1 274 867	2.5%
TOTAL	50 586 757	100%

Source: Statistics South Africa

Cultural differences

One of the most frequent observations Danish companies have made in their time in South Africa is a phenomenon that they call "*African time*". This refers to Africans being prone to turn up to appointments or deliver services or goods later than agreed upon[89]. Another example of African time is the potentially time consuming effort going in to getting permits or paperwork by public officials.

Another difficulty that many of the interviewed Danes have encountered is that many job applicants or people hired for certain jobs claim to be able to perform certain tasks or deliver specific products that they in reality cannot. These acts of promising more than they are able to deliver to the employer or the customer, all the while betting that it will go unnoticed is something that has been a costly lesson for some of the Danish companies in South Africa[90].

Another cultural difference is that Africans oftentimes do not think far ahead. An example could be a Danish company that has a far superior but more expensive product used for heating floors. The product would require the customers to spend more money on their house on the outset but in return get a product with a 10 times longer life span. The Danish company had a hard time convincing customers to buy this more expensive product, as the product's life span was not an appreciated value proposition[91]. Stories like this with Danish products

[87] Interview FABCOS
[88] Per Christensen PP presentation, South Africa conference, Vejle
[89] Interview Danish Embassy, Pretoria, (was talked about in all interviews)
[90] Interview Lauritzen Hummel, Cape Town
[91] Interview Hovgaard and Jacobsen, DANLINK and Pandora, Johannesburg

losing customers to inferior but cheaper versions are well known to most of the Danish companies we visited.

Career attitudes

South Africa has a workforce able to deliver skilled employees to almost any type of business. However, the skilled workers are relatively expensive that the reason being that fact that the BBBEE scorecards create a very high demand for loyal skilled black employees as well as the fact that the workforce consists of a very large group with poor skills and a few with high skills, there is no real segment of the workforce with medium skills and work experience[92].

The management style in South Africa needs to be very controlling and needs to do frequent check ups on the employees. The vertical organisational structure can create problems and misunderstandings, as the distance between management and employees is greater than what we are used to in Denmark[93]. The employees do not walk into the CEO's office and talk about new ideas and no news from the workers is not necessarily good news. This could mean that the workers are not working effectively. The management needs to have a strong presence and make it clear for the employees that they take notice of their progress and lack thereof[94].

Emphasis and safety

The Danish production managers all indicate that they constantly need to tell the employees to use safety helmets and to be careful when working with dangerous machinery[95]. Many of the employees are not used to taking safety regulations into account. Even though the government has updated many regulations in terms of safety and regulations at factories and office

[92] Interview Michael Olsen, FLS, Johannesburg
[93] Interview Risgaard, Airland logistiscs, Johannesburg
[94] Ibid
[95] Interview Søgaard Fibertex, Durban

buildings, many still weigh cost and time higher than adapting in order to comply with the newest regulations[96].

6.5 TECHNOLOGY

Technological development

South Africa has advanced and established a diversified manufacturing base that has shown its resistance and capability to compete in the global economy. South Africa's large and expanding metal industry has enormous national resources and it has access to the infrastructure that it needs - it represents 1/3 of all South Africa's manufacturing. South Africa's non-ferrous metal[97] industries consist of aluminium and other metals. Aluminium is the largest area, raw materials, however, are important because South Africa has no commercially exploitable deposits. South Africa is ranked 8th in the world in terms of aluminium production[98].

There are many organisations and institutions that influence the pace and direction of technological development and the creation of new knowledge, among others universities, research institutions, patent offices etc. The government has played an important role in making the technology-based automobile industry one of the cornerstones in the South Africa economy. Through the *African Growth and Opportunity Act*[99], the government has made sure that several aluminium product groups including vehicles and components and other goods, are exported without tariff to a significant number of countries. Combined with improved competitiveness and the economic development of the country, this has made South Africa an attractive country for investors. This also means that it has become easier to attract technological knowledge that many international companies hold.

The technological competences are as most other socio-economic elements unevenly distributed. Many sectors are lacking behind the developed world but the aluminium industry

---

[96] Interview SCT, Durban

[97] Non-ferrous metals are any metals that do not contain iron in appreciable amounts. They are used because of desirable properties such as low weight, higher conductivity, non-magnetic property or resistance to corrosion.

[98] www.southafrica.info/business/economy/sectors

[99] http://www.agoa.gov/

in particular has over the past decade developed substantially because of the vehicle industry and the mining industry[100].

Technological legislation

South African Bureau of Standards (SABS) determines the national standards used in the construction industry. National standard SANS 10400 covers provisions for building sight corporations and building design and constructions that are deemed to satisfy the provisions of the national building regulations which includes regulations of fire safety and requirements[101]. SANS 10177 covers fire testing of materials, components and elements used in buildings including fire resistance tests for building elements and Surface fire index of finishing materials[102]. SANS 10137 states that deflection in framing for glazing restricted to 1/175th is mandatory. The 1/175th factor has to do with deflection of aluminium sections when subjected to wind load. The installation must be rigid and capable to withstand the wind load pressure specified by architects or engineers[103]. A number of European norms have been adopted or incorporated into recent legislation[104]. This is also the case in the newest fire regulations as the requirements for stability, integrity and insulation has been taken verbatim from British Standards (BS)[105]. A product that meets BS requirements will comply with the local requirements. If a product is tested by an independent reputable organisation as meeting the applicable BS requirements it is likely that it will be able to obtain waivers from Standards South Africa (STANSA) fire lab for retesting in South Africa[106].

The *Agrément certificate* is a certificate issued by the Board of Agrément South Africa and it confirms the fitness-for-purpose for a non-standardised product, material or component or the acceptability of the related non-standardised design and the conditions. The certificate is often relevant for innovative non-standardised construction products, systems, materials, components and processes, which are not fully covered by the South African Bureau of

[100] Interview Risgaard, Airland Logistics, Johannesburg
[101] www.sabs.co.za
[102] SANS 10400-T:2011
[103] www.sabs.co.za
[104] Skype Interview, Michele Rivarola, Carifro Consulting Engineers.
[105] Ibid
[106] Ibid

Standards[107]. In the end, South Africans have a more lenient view on safety than most countries in the developed world but they take the building regulations more and more seriously[108].

6.6 PEST ANALYSIS CONCLUSION

Based on the PEST analysis we find that the potential for a successful profitable entry into the South African market is very likely to be influenced by the development of the environmental factors. In the table below we have summarised the factors that we believe will have the greatest impact on an entry.

Factors that will influence AluFlam
(P) Political factors • Financial support from funds and institutions, • BBBEE act will influence strategy and profit margins,
(E) Economic factors • Potential for strong economic growth, • Emergence of a more affluent middle-class,
(S) Social factors • Strong focus on price, • Change in public focus on safety,
(T) Technological factors • European norms have been adopted or incorporated into recent legislation,

We find that the increasingly more stable political environment and the economic growth have created a foundation for market with potential to grow in size and in level of technology. The fact that European norms have been adopted and enforced is evidence that the government has a focus on keeping the construction industry up to date with the most recent developments. The fact that AluFlam is likely to qualify for financial support and advice from several institutions should be explored as this contribution could be significant.

[107] http://www.agrement.co.za/
[108] Interview Danish Embassy, Pretoria

6.7 PORTER'S FIVE FORCES

Porter's five forces provide a framework for the industry analysis and help determining the intensity of competitiveness and attractiveness of the industry AluFlam may enter.

6.8 RIVALRY

The characteristics and properties of aluminium as a material have lead to revolutionary and innovative changes in building techniques and architectural and engineering projects. Aluminium is leading the way into the future of the building industry in South Africa and is called "the material of opportunity"[109]. Aluminium has recently played a vital role in the renovation of old and historic buildings. Every year millions of aluminium windows and doors are installed in new homes and used for replacement[110]. The rivalry in the aluminium extrusion industry consists of many companies that compete on different value propositions such as their respective quality, service area, price and even their BBBEE rating. The most evident competitors are the following:

- *Hulamin*[111] is the leading manufacturer of semi-fabricated rolled and extruded aluminium products on the African continent. They have been operating in the industry since 1935. They focus on the South African market and other markets around the world. Hulamin's headquarter is in Pietermaritzburg, KwaZulu Natal but the company has other offices in South Africa, Europe and USA. Hulamin meets the requirements of BBA, Lloyds, RVA, SANAS, DNV and ABS and is accredited with ISO 9001:2000, ISO/TS 16949, ISO 14001, OHSAS 18001 and ISO 22900 standards. They have a level 3 BBBEE rating, has 10 per cent black ownership and is 5 per cent owned by its employees. The company has a strong sense of corporate social responsibility and is actively engaged in education, HIV/aids and health, community skills development, poverty alleviation and welfare environment and crime prevention. Hulamin is listed in the Socially Responsible Invest Index which measures

[109] www.afsa.org.za
[110] www.afsa.org.za - Aluminium Federation of South Africa
[111] www.hulamin.co.za

companies for implementation of the triple-bottom-line method, i.e. social, economic and environmental performance of doing business.

- *Eagle Aluminium's*[112] head office is in Port Elizabeth and they cover the entire country through distribution warehouses. They have many years of experience and produce doors, windows and showers. The range of their aluminium windows and doors are designed to provide *"exceptional aesthetics, value for money, performance and safety"*. Standard-size products can be ordered online which is then distributed to agents who contact the customer and provide a quota for supply and fitting. All glazing of doors, windows, showers are finished according to SANS 10137.

- *Proaluminium and glass*[113] is a leading manufacturer and supplier of quality architectural aluminium products in Pinetown, KwaZulu Natal. They specialise in custom manufacturing and are experts in installation of aluminium windows and doors, enclosures, shop fronts, enclosures, facades, louvers and awnings. ProAluminium is a 100 per cent black-owned company with a BBBEE level 1 rating and a score of 135 per cent. The customers have the option of getting their products fire, burglar or bullet resistant.

- *Wispeco*[114] is located in Johannesburg and offers powder coated and anodised aluminium extrusions for numerous applications in a variety of industries that includes building and construction, transport, energy, agricultural, general engineering and automotive. They have a level 4 BBBEE rating and more than 1000 employees in South Africa. The company consists of four main operating units – billet casting, aluminium extrusion (with in-house die manufacturing), surface finishing and aluminium Systems development. The products are in compliance with British Standards.

[112] www.eaglealuminium.co.za
[113] www.proaluminium.co.za
[114] www.wispeco.co.za

- *Origin Aluminium*[115] is a national manufacturer of aluminium and glass architectural products. They have manufacturing facilities in Durban, Johannesburg, Cape Town, Bloemfontein and Port Elizabeth. Origin's domestic patio door became the first in the country to adhere to the SANS 10400 and 10137 wind deflection tests. They produce doors, windows, showers, shop-fronts and curtain walls. They have a BBBEE rating at level 4 with a score between 65-75.

- *Amdoor*[116] is based in Cape Town and Hermanus. They manufacture aluminium doors, windows and ventilation louvres in any specification in accordance with all building regulation requirements. Their customers are found in the construction industry on a variety of contracts including houses, hotels, schools, factories and government buildings. They supply standard and non-standard products manufactured to customers' requirements.

The listed companies would be direct competitors to AluFlam. David Allen, a construction and architectural specialist working for Autospec[117], compared AluFlam with a series of the known competitors and found that "although the product looks similar and they [AluFlam] refer to double glazed products, many of the competitors do not make any reference whatsoever to fire ratings, which is not necessarily to say that they do not have these although I would venture that advertising fire ratings has to be an important marketing pitch". Some of the competitors do however make reference to compliance with certain European standards. Allen continues: "As to the marketability of the product, I have no doubt that with the correct approach, AluFlam's product should be highly marketable for any number of applications, in some cases dependant on price and in other cases I would imagine price would be less of an issue than the need for a product that can perform, depending of course on the application and what can be offered by the competition if indeed such competition exists with a product that provides both the quality and price competitiveness".

[115] www.origingroup.co.za
[116] www.amdoor.co.za
[117] Autospec is a product database and specifacation tool used by many architecs in South Africa

6.9 BARRIERS TO EXIT

If AluFlam decides to set up a production facility, invest in machinery and job training, engage in marketing etc. the sunk cost of the venture will be at a level where an exit would mean a substantial loss of resources. Liquidation of the acquired assets could result in heavy loses and the investments in labour would be lost. If AluFlam conversely decides to make a more careful entry and settle for a slow start and test the market with shipments from Denmark, the cost related to shipment and trade through already established distribution channels will be lower as withdrawal and liquidation of the few products are more likely.

6.10 THREAT OF NEW COMPETITORS – BARRIERS TO ENTRY

The industry consists of a number of established companies. Many of them have been active in the sector for decades and have established strong relations to important actors in the industry. A couple of the competitors and particularly Hulamin has the capacity to produce a quantity that allows them to achieve low cost pr. unit. The established companies also have the advantages compared to new entrants of having build trustworthy brands through the years.

New entrants into the industry will have to put up a relatively high upfront capital investment (DKK 7.5 million to get started with only a couple of agents on the ground the first year)[118]. Foreign entries often find it difficult to get the business running as a study has indicated[119]. This can for instance be coursed by the great distance to other developed economies which leads many entries into a hard start-up phase with key employees having to spend a lot of time flying between South Africa and the home country. Oftentimes the success of an entry depends on the ability to find the right collaboration or JV partner. This becomes even more crucial if the entry company wants to let the South Africa partner manage important elements of the daily operations[120]. The local workforce is very different from the ones many foreign

[118] Interview Olsen, FLS and Risgaard, Airland Logistics, Johannesburg
[119] Interview STC, Durban
[120] Interviews Danish Embassy, Pretoria

entries are used to and this often results in a very significant and costly staff turnover in the first couple of years[121].

The BBBEE component of doing business in the industry is an important parameter which is highlighted by interviewed experts, by company homepages and marketing material. This could be difficult for a newly established company to deal with. The component is likely to be even more crucial in the nearest future[122].

Foreign direct investment in South Africa has grown substantially over the past years and especially after the country has been included in BRICS. The construction and infrastructure sectors have been the target for FDI in the past and this will most likely continue. Still, many enter the country through acquisitions or JVs with local partners in order to mitigate risks[123].

6.11 BARGAINING POWER OF SUPPLIERS

The distribution of heavy material and components used in the construction industry is relatively expensive and the size of the country has led many of the companies in the industry to spread local offices or storage facilities across the country in order to service their customers at a desired rate[124].

6.12 BARGAINING POWER OF CUSTOMERS

The companies in the industry compete in a market where only few new construction projects are started compared to only a couple of years ago. This is primarily due to the financial crisis, which makes it difficult for potential customers to get funding for new projects. This has created a situation where the supply is stable up and the demand has gone down. This new equilibrium favours the customers and is a shift from before the World Cup in 2010[125]. If an entry seeks to find customers with a low bargaining power they should look for a niche

[121] Interview Risgaard, Airland Logistics, Johannesburg
[122] Interview FABCOS, Johannesburg
[123] Foreign Direct Investment in South Africa, Gelb and Black 2007
[124] Interview Iversen, Fibertex and Risgaard, Airland Logistics
[125] Interview STC

market, for instance be delivering superior custom made products with an unmatched performance to high end buyers[126].

6.13 SUBSTITUTE

The threat of substituting products in South Africa is high due to products with similar fire retardant value proposition. A great number of companies sell fire resistant steel doors and provide a similar solution, albeit without the refinement as the aluminium solutions, but to a lower price.

Unplasticized polyvinyl chloride (uPVC) doors and windows have gained momentum in South Africa and the majority are imported and exceed the quality of the locally manufactured solutions[127]. The uPVC products offer many of the same features as the aluminium counterparts. The uPVC products are high-end and are sold at a higher price than most other window or door solutions. The advantages claimed by the uPVC producers are that uPVC windows are made from rigid, high impact-resistant material; that extrusion has a multi-chamber system that makes them resistant to heat loss and condensation; that the products do not have a tendency to distort when exposed to extremes of heat and cold so they remain easy to operate; and that uPVC corners are not mechanically joined but welded together making the window or door one complete unit.

Most of the businessmen interviewed claimed that most South Africans prefer to buy cheap products and that successfully selling a high-end product requires difficult marketing and a fitting niche for the product.

6.14 PORTER'S FIVE FORCES CONCLUSION

We find the rivalry in the industry to be is intense as several established companies have been operating for many years and as imports from China has grown substantially over the past years. Seeing as there are several competitors on the market, AluFlam has to enter into a

[126] Skype Interview David Allen
[127] Ibid

somewhat red ocean with a high degree of competition. It is therefore not possible for AluFlam to obtain any first mover advantages in the aluminium extrusion industry. Some of the larger competitors such as Hulamin and Wispeco have established themselves as synonyms with the industry and have therefore evolved into iconic brands with enormous influence over the development in the industry. The expensive distribution has forced the competitors to open local subsidiaries, which has resulted in no geographical area with an underserved demand.

The barriers to entry are relatively low as there are no structural or institutional obstacles, besides the BBBEE that makes an entry unattractive. However, the socioeconomic factors such as cultural differences to other western countries have turned out to be a real difficulty for prior entries. This should be a focus area for AluFlam as having patience and the right mind-set and approach to the South African business environment is important.

Data suggest that the construction industry will undergo strong growth as a result of public investments in infrastructure and this would create an increased demand for AluFlam products in the coming years. The intense focus on price has helped uPVC become an increasingly more popular solution which can affect sales of doors and windows sold to private homes. The growth has however temporarily slowed down in the industry which means that the competitiveness of the industry has increased.

AluFlam's technological solution is superior to that of most existing competitors, hence AluFlam should be able to differentiate and take advantage of the first movers' investments in the development of the high-performance extrusion industry. There is a risk that the already existing competitors have established strong relationships to stakeholders and thereby created a network that AluFlam will have to break in to. This is particularly risky as relationships to architects play a big part in the business model AluFlam uses on other markets. Based on the growth projections for the industry AluFlam could use the current slow period to get organised for the growth that will potentially come. Competitors may have developed organisations that fit growth markets. They may still need to adapt to a more competitive market where focused differentiation or price is key. AluFlam can enter the market with an organisational setup designed for the current environment or take a wait–and-see approach.

6.15 ALUFLAM RESOURCES AND CAPABILITIES

AluFlam's valuable organisational resources and capabilities in an potential entry into the South African market would be the ones that allow the company to transform a competitive advantage into a sustained competitive advantage and that at the same time are heterogeneous in nature and not perfectly mobile and imitable by competitors. If AluFlam possesses the resources and capabilities suitable for the South African market entry it could enable AluFlam to employ a value-creating strategy and outperform competitors.

Tangible

- That AluFlam's fire resistant products are fully accredited by the high standards set by the Danish institute of fire security technology, the British standards, the European standards and the US standards. This Gives AluFlam a competitive advantage compared to the exciting competitors, as most of them do not comply with the same high level of performance.
- AluFlam patents protect the innovative technical solutions and make the products hard to imitate and create a differentiating value proposition to competitors.
- Heavy costs for competitors if they try to imitate and develop competing technical solutions. AluFlam have developed and installed the needed organisational capabilities and evolved the technical competencies needed to manufacture the high performance products over several years.
- AluFlam qualify for and can enjoy and take advantage of the financial resources of EKF as the export credit offered can enable more customers to procure the products.

Intangible

- AluFlam have demonstrated the willingness and creativity to continuously develop the products to future demands. They have a proven track record that shows that the R&D process has been heavily influenced by their ambition to deliver products of the highest quality[128].

[128] www.aluflam.com

- AluFlam has unique routines and knowledge and expertise of making custom-made products in collaboration with architects and have demonstrated the ability to complete prestigious projects in Denmark and around the world[129].
- AluFlam has successfully transferred knowledge between the main organisation and collaborations and JV partners around the world[130].
- AluFlam CEO Birch takes full responsibility in the overall operations and long-term planning. Strong leadership, quick decision-making and gut-feeling characterise Birch's management of AluFlam[131].
- AluFlam has built a globally recognised brand used in new projects in North America, Europe, UAE and Asia. This communicates that the products are used in the most developed parts of the world in projects that are in the forefront of technical engineering and construction.
- Danish citizens enjoy a great reputation in South Arica because of the historically good relationship founded on the Danish support of the ANC. AluFlam can take advantage of the good reputation in sales and branding.

Shortcomings in resources and capabilities

- AluFlam has limited knowledge of the South Africa market and thus no real industry insights that allow for accurate reading of the newest industry trends, cultural-based customers behaviour or local legislation.
- AluFlam would be handed a level 4 ranking for the first year. This is not a good rating compared to a lot of the competitors that have achieved better rankings through years of investment in human resources and black ownership.
- No business network and no established relationships to the industry, architects, agents etc.
- AluFlam has no local brand recognition in South Africa
- Most control and responsibility rest on Birch which could be a problem since starting a business in South Africa requires management to be present, especially in the start-

[129] Interview Birch
[130] Ibid
[131] Ibid

up phase, and Birch spends a lot of time travelling between the AluFlam subsidiaries around the world.

6.16 SWOT ANALYSIS

In order to sum up the findings from the strategy tripod the SWOT analysis provides a framework that creates an overview that is helpful in matching AluFlam's resources and capabilities to South Africa's aluminium industry's competitive environment. The following figure illustrates the findings for each category that should constitute the foundation for the evaluation of the possible competitive advantage following an entry.

Strengths	Weaknesses
• Products have required international certificates, standards, accreditation, patented solutions, • International experience, Manufacturing capabilities with international quality standards, • High product quality • Product innovation is ongoing • Strong intuitive management,	• Price is high, • Limited knowledge about South Africa, • Bad BBBEE rating compared to competition, • Little or no brand recognition, • No experience with local labor laws • No customer list • Would be a small player
Opportunities	**Threats**
• Potential for strong economic growth, • Increasing market demand, • Bridge to Sub-Saharan countries, • Make use of IFU and EKF, • Leveraging on product expertise to migrate to related aluminum products, • Increased public focus on security and safety,	• Slow economic recovery • Political instability, • Legislation could impact, • Information asymmetries, • Corruption, • Threat of new entrants is high, • uPVC could gain momentum • Vulnerable to reactive counter attack by major competitors,

AluFlam should use the information and knowledge from the tripod as an inspiration and starting point. Furthermore, management should be aware of how the knowledge has been generated, as the information can be different at the time AluFlam need it. We also find that as an important part of the entry, AluFlam needs to conform to the institutional pressure in order to give the company legitimacy. We believe that by taken together the historically determined factors that influence the development in the industry into consideration; Birch

could be more apt in adapting to the South African business culture. The BBBEE act and the rigid employment laws are examples of inventions that originate from development the country has gone through in the past decades. Also, AluFlam has experience from successful entries on different continents and a brand that has proved itself on different markets, we believe that this is something that makes the products stand out from many of the competitors.

7. ACTOR NETWORK THEORY

The tripod analysis gave us insights in the South African macro environment, information about the aluminium industry and which resources and capabilities AluFlam possesses that could be necessary in an entry. The information gathered is however static at the moment it is found and some of the variables already have changed when AluFlam will start the process. To provide AluFlam with further knowledge we find it necessary to analyse how a prior entry have managed and entry to South Africa before and more importantly, to understand how different actors have influenced the entry process. To do this we will use the actor network theory that also should provide us with an understanding of the difficulties that can be part of an establishment in a foreign market and how actors come together in a project and pursuing a common goal but with different interests.

Akrich et al. (2002) describe the difficulties management can go through when trying to control the innovation process as it is constantly reinvented and reformulated by the participating actors. The real task for the management is thus to mobilise and govern this collective process toward the desired goal. Akrich et al. (2002) argue that when we observe the innovation process from start to finish, it will reveal a diversity of heterogeneous and confused decisions made by different actors that have participated. It is a fieldwork where observations are not only made of social interaction but also on the consequences they produce. In other words the focus is on a phenomenon that has both an input and an output (Akrich et al. 2002). The observer follows his study object in the networks of human and non-human actors such as machines and objects without differentiating between social, technical, natural, etc., and without making something out to be definitive cause for the rest (Jensen 2005). Akrich et al. (2002) argue that it is difficult to identify the actors that will influence an innovation process before it has begun or even when it is in process. There are several methods to attempt at this such as market research or listening to customers but there is no reason to think that help from a single technique will allow managers to find the right actors to approach. This thesis combines a tripod study and an analysis of a model case and even though all this research is conducted it still faces the risk that none of the techniques are particularly trustworthy (Akrich et al. 2002).

7.1 ONTOLOGY.

Actor network theory makes us understand the social through a un-reductionist and relativistic ontology (Jensen 2005). This ontological basis has two consequences. Firstly that all actors are treated equally and these are divided into human and non-human. This means people or devices are not assigned hierarchical positions prior to analysis but that they will be studied on the exact same grounds. Secondly that non-human actors have the same agency in networks as people, albeit without consciousness. It is an artificial divide to distinguish between people who act and things that do not act (Jensen 2005).

7.2 FIELD OF INQUIRY

The field of inquiry consists of the actors and the relations between them. The focus is not on what is 'outside' or 'around' the studied networks. ANT is therefore a relational theory that should be considered a material semiotics as the central observations are on how actors make a difference in a network and produce certain realities. The analysis therefore subscribes to the semiotic point about the essential rationality of acting: that nothing has an intrinsic essence and that all attributed meaning come through relationships with other actors (Jensen 2005). An actor must therefore be seen as a semiotic and thus the essence-less actor. An actor is defined entirely by its relations to other actors in the network which means that actors are constructed from the networks they are part of. This means that actors are identified according to whether they act or whether they are attributed agency (Jensen 2005).

7.3 NETWORK

Networks consist of links between human and non-human actors which means that ANT operates with as a relationship-based ontology. The network concept is used across a broad front and the network concept is very open and with no a priori assumption that the network is stable (Jensen 2005), thus an analysis typically deals with heterogeneous network, i.e. network consisting of many different types of relationships. This means that the network is constructed of a variety of human and non-human actors. It is therefore argued that actor-networks emerge as a result of numerous specific and diverse compounds where neither the

technological nor scientific is determinant of the network (Jensen 2005). The network becomes visible when the observer examines the traces the actors leave in their path and the analysis is all about the unravelment of these traces.

Actors are defined through the attributions and actions they are assigned by others and there is in principle no difference between actors and networks. Actors are networks from a given perspective that has achieved stability and thus appears as a black box, i.e. a discrete unit that reacts predictably on specific input; the internal mechanisms are invisible to the observer (Jensen 2005). The black box is a point in the network as other actors in the network expect to act in a certain way. This makes the black box easily taken for granted - like a truism - which means that it is ascribed a status of fact. The point is that the conceptual actor never has any core from which it acts (Jensen 2005). Actor effect is achieved rather by how the network becomes arranged in such a way that one point comes to speak or act on behalf of others – a spokesperson.

7.4 SPOKESPERSON

The fate of a project, its content but also its chances of success, rests on the choice of the representatives or spokespersons that will interact and negotiate in order to give shape to the project and transform it until a market is built (Akrich et al. 2002). Once the spokespersons have been recruited, they should be made to permanently interact as the fate of the project depends on the constant negotiations between the spokespersons, on trials of all sorts, which they will inflict upon each other, on contradictory existences, which they mutually assert. The project that succeeds is the one that comes to master it by choosing good speakers (Akrich et al. 2002).

If a specific market only has a single representative or a single spokesperson, numerous mediators will try to convey to the spokesperson what it is the customers want in the future. The customers are however not clearly identifiable, predictable or loyal. This is why market research or contact with users occasionally resembles a necessary but desperate hunt and this is the reason why the manager should constantly assess the people collaborates with and the spokespersons he appoints: Some will deceive and lie, some will be truthful, some can be faithful, some are half-hearted, and some might be opportunists that are mistrusted but who

cannot be ignored (Akrich et al. 2002).

Immutable mobiles are the core of the ANT analysis of globalisation and long distance control which is ANT's best and most practical suggestions on how western technology and science has been able to strengthen, stabilise and extend its network (Jensen 2005). Immutable mobiles are defined as an entity that can be moved without change to its shape. *Inscription devices* are devices (e.g. instruments) that can transform a substance to an inscription (e.g. a strip, a number or symbol). The inscription is subsequently cleaned, typed and transformed. These inscriptions may subsequently be used for instance a scientific article is supplemented with external literature, materials and theory from other fields. This brings the scientific text, via a series of translations, to speak on behalf of others (Jensen 2005).

7.5 TRANSLATION PROCESS

The translation is a process where something or someone is going to speak on behalf of something or someone else. Translation is a way in which actors are connected to each other and allow a network to speak and act as a unit and so the entire network appears as having common interests – that are represented and translated by a spokesman. Thus, the translation process reveals how different actors change and adapt to fit into a certain situation where they make a difference (Jensen 2005). The point of translation is to define the roles of others and get them enrolled and mobilised to carry out the functions that come with the role. A translation can be for example the inscription where a brand, a character or a figure on a piece of paper is going to speak on behalf of a substance. Other examples of translation processes are cleaning, transcription, quoting, and/or subversion where an article talks with, against or on behalf of other texts. A translation thus creates connectivity and similarity between things that before were different and unrelated (Jensen 2005).

7.6 NETWORKS ARE FRAGILE

The networks generate a social order but this order is fragile. For example, politicians will be denounced, a clock can go wrong and theories can be rejected. Networking, therefore, is a way of disciplining the actors. The world is a battleground where the social order must be

constantly reorganised. In a world observed with the ANT perspective, the winner always stands on feet of clay, meaning that there is no stability and changes will happen (Jensen 2005). A network's truth and power are constructed through connection to many other networks, hence, the actors cannot on their own manage the networks as they are dependent on other actors.

7.7 MODEL OF INTERSSEMENT

"Lost in this world of "fog and illusion", the innovator can only find his bearings by endeavouring, through negotiations and socio-technical compromises, to interest more and more actors." – (Akrich et al. 2002).

Since the outcome of a project depends on the alliances that form it and the interests it mobilises, no criteria or algorithm can ensure success a priori (Akrich et al. 2002). Instead of only looking at the rationality of decisions, the researcher should also look at the accumulation of interests that decisions are capable or incapable of generating. Innovation is the art of making an increasing number of allies interested as it will make the projects stronger and stronger. Callon (1986) describes four events that constitute the process of a project in which alliances are formed:

- The first event is a *problematisation* of what needs to be done in order for the project to be successful. This evolves around the identification of a system of alliances or associations between the involved entities that must be constructed in order to achieve specific goals.
- The second event is *interessement* - a process through which an operator defines a second inclined actor and attempts to impose and stabilise it as defined through the problematisation phase. When actor A is trying to create a connection to actor B then A simultaneously weakens or severs the connections that exist between B and any other actors that may define B differently.
- The third phase, *enrolment*, is a series of negotiations that transform the diverse interests of effective actors in order to get them to identify with their roles.
- The last phase seeks to *mobilise* the network by ensuring the coupling between the spokesman and the entities they speak on behalf of and ensuring that the actors

represent the interest of the group.

Callon's project is to establish an *obligatory passage point* (OPP) that a number of actors can relate to, and it is thus necessary to redefine the actors' interest using the interest constructors and then conducting an extensive mobilisation of them. The obligatory passage point is a point in the network with great importance, as the actors that participate in the network must pass through it to represent the network (Jensen 2005). Callon (1986) describes technology and science as an alliance that in some cases can be stabilised but could collapse without warning. Akrich et al. (2002) adds that what is crucial is to know who and what you can rely on and to predict the way in which alliances will be reorganised if you decide to transform the project.

8. ACTOR-NETWORK ANALYSIS

This analysis will focus on the forces that influence and interfere with events and processes of establishing the Danish company Fibertex in KwaZulu Natal, South Africa. It is important to find out what enabled, imposed and prevented course of actions from the starting point of the idea in the boardroom to the established factory that operates today. We do this in order to identify the actors that were most involved around the establishment of the subsidiary. By identifying the obligatory passage point in the establishment process we will learn about the actors different objectives and individual goals in the subsidiary. The analysis will also focus on the challenges Fibertex has come across since the factory was established in South Africa

8.1 THE FIBERTEX MODEL CASE

Founded in Aalborg in 1968, Fibertex was a subsidiary to Østasiatisk Kompagni (ØK). The first products were carpet backings manufactured through the use of needle punch technology. In the 1970's the needle punch technology was advanced enough to be useful in production of geotextiles, furniture and bedding materials. Increasing demand made possible an expansion in 1989 and the establishment of sales subsidiaries in Spain in 1990, France in 1996 and Portugal in 1999[132]. Fibertex Nonwovens has approximately 400 employees and generated revenue of DKK 726 million in 2011, compared to DKK 413 million in 2010. The products are sold in more than 70 countries and the expectations for 2012 is revenue of around DKK 900 million and EBIT in the range of DKK 15-25 million. In 2002, Aktieselskabet Schouw & Co acquired Fibertex and made it part of their conglomerate. Fibertex Industrial Nonwovens and Fibertex Personal Care are split into two independent legal entities with effect from 1 January 2011. The new company name for Fibertex Industrial Nonwovens is Fibertex Nonwovens A/S[133].

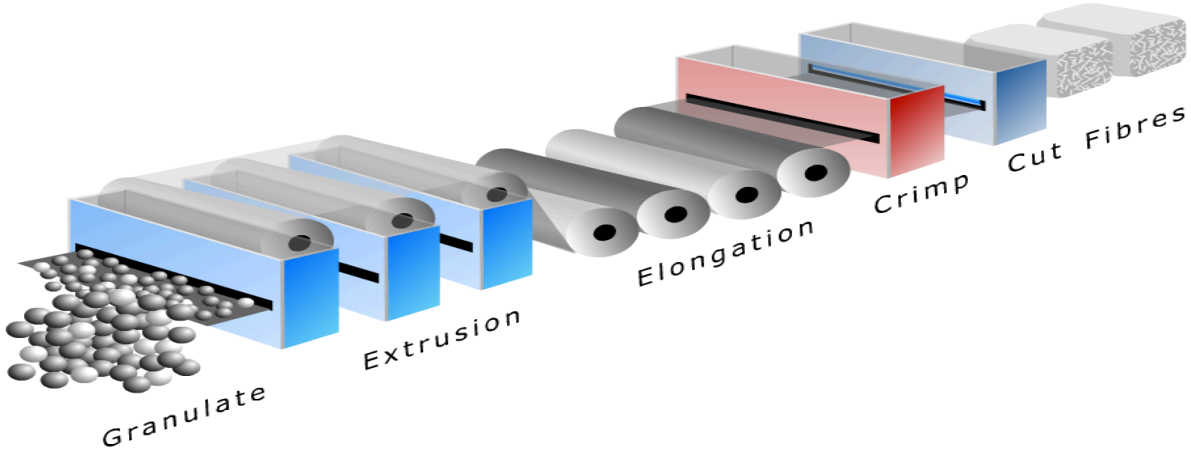
[132] http://www.fibertex.com

[133] Ibid.

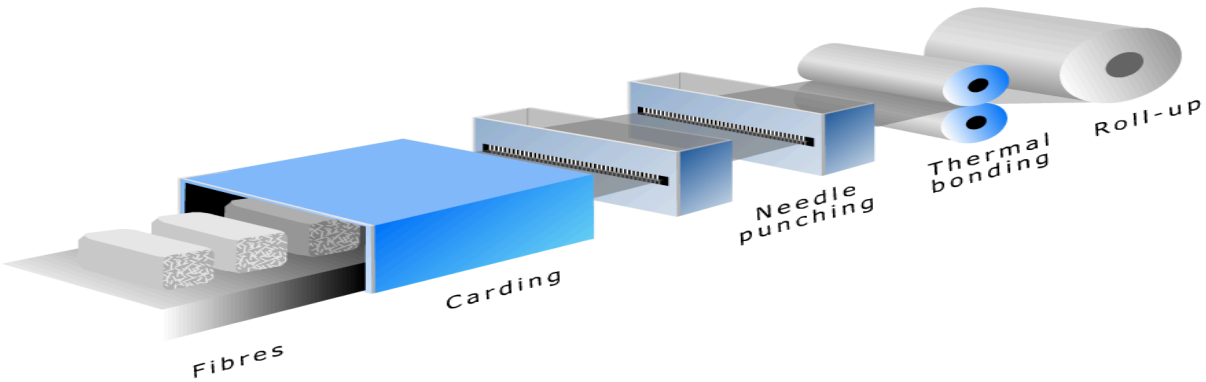
The needle punch production technology

Fibertex uses a unique combination of in-house technologies based on the latest developments within needle punch and spun lace technology. The state-of-the-art needle punch technology has been key to Fibertex's success, but cutting edge technological competences are present in all the manufacturing sites resulting in high performance products available throughout the entire Fibertex group. Carding, aero dynamic carding, IR and air through bonding, fibre spinning, polymer extrusion, lamination and various surface treatments are all part of Fibertex's technology portfolio.

The dry-laid technology is based on a two-step process. First, polypropylene resin is extruded into endless fibres and then stretched, crimped and cut into short fibres.



Second, these fibres are carded and needle punched and then bonded thermally to form nonwovens. Finishing technologies include impregnation, coating and thermo fixation.



Fibertex is engaged in research and development, production and sales of nonwovens for a range of global business areas:

- Automotive (insulation of engine compartments, car ceilings, door panels, trim panels and acoustic solutions)
- Construction (geotextiles, building and composite materials as well as DIY products)
- Industrial (furniture, bedding, carpets and flooring) and the med-tech industry
- Filtration (air, liquid and odour filters) and acoustics
- Wipes (wet wipes for the consumer market and specialist products for the industrial market)

Fibertex Nonwovens in South Africa

Fibertex Nonwovens has consistently enhanced its market position in growth areas and in geographical growth markets, preparing to capitalise on the growth potential as demand begins to recover. In early 2010, Fibertex Industrial Nonwovens established a factory in Durban South Africa, in collaboration with local business partner SAFYR and IFU for the purpose of manufacturing and selling needle punched products, mainly geotextiles as well as other products to South Africa's growing automotive industry. The factory produces a series of needle punch products and the factory and offices are part of Fibertex' effort to increase the marketing presence in the country. The primary focus for Fibertex in South Africa is geotextiles for construction works and products for the growing South African automotive industry[134]. During its first two years in operation, the priority of the business was to establish production and build a position in the market. Demand is expected to increase during 2012 driven by a large number of infrastructure projects in South Africa and its neighbouring countries.

Through the fund's regional office in South Africa, IFU has assisted Fibertex in the preparation and establishment of the company. This includes negotiations with authorities and local partners. In addition, IFU has helped to create a comprehensive financial solution where

[134] Interview Iversen, Fibertex

both IFU and the South African development fund Industrial Development Corporation (IDC) injected capital into the new business.

The South African company is jointly owned by Fibertex, IFU and the South African company SAFYR which is owned partly by local industry experts and by the IDC - South Africa's equivalent of Danish State investment fund, Vækstfonden. SAFYR is located in Hammersdale in KwaZulu Natal and has more than 25 years of experience with producing and developing modern products in the chemical fibre sector. Fibertex invested approximately DKK 25 million in the company acquiring a stake of 26 per cent. IFU invested 30.2 million DKK in equity participation and granted a loan on DKK 20.1 million. Fibertex have the option to eventually acquiring IFU's 26 per cent[135]. The Fibertex board was pleased with the support from IFU as expressed by the CEO of Fibertex: "It was a great advantage to have IFU in on the whole process. They know the local market and have a wide network that makes things a little easier. Meanwhile, it is important that they help to share the financial risk both to invest and to establish contacts with other potential investors"[136].

The manufacturing facility is located in near Durban and has a high-tech, state-of-the-art and competitive production system with a view to manufacturing and marketing needle punch products – primarily geotextiles for road works but also products for the growing South African automotive industry. From a long-term strategic perspective, the project furthermore serves as a bridgehead – not only to southern Africa but eventually also to other markets in the Southern Hemisphere such as Australia, Asia, India, the Middle East and South America. The factory has a just over 40 employees and revenue is DKK 60 to 80 million a year[137].

The investment contributes positively to the development of the region and Fibertex's world leading expertise in the production of geo and industrial textiles involves a substantial transfer of know-how to South Africa and the local employees. This means that the region in the future will be able to produce a range of products that otherwise would have had to be

[135] Interview Iversen, Fibertex

[136] http://www.startvaekst.dk/goglobal.dk/ggarkiv/154839

[137] Interview Iversen Fibertex

imported. It is expected that the company eventually will export to other markets and thereby create export revenue for South Africa [138].

Prior to the entry, Fibertex's board in collaboration with IFU listed the strategic rationale and perspectives of investing in South Africa:

- To create a leading position in an established construction market with good growth potential based on modern state-of-the-art production technology.
- It will be excellent timing as a significant portion of the line's capacity will be used to substitute imported goods (50 per cent).
- To create a competitive production platform that can reach other markets in the southern hemisphere (Australia, Asia, India, Middle East, South America).
- To expand business into automotive, furniture and bedding. Significant investment in the automotive industry is on-going and already Mercedes, BMW, VW, Audi, GM, Ford, Toyota, Nissan, Renault and Fiat have or will expand local manufacturing plants.
- Expected sustainable profitability and good expansion opportunities (first mover in a growth market)
- To make a reasonable investment with limited risk and strong support from IFU and Danida.
- Robust shareholder structure with Fibertex and IFU together holding 51,8 per cent of the shares and, locally, IDC together with experienced business people holding the reaming 48,2 per cent of the shares.

Market and drivers:

- Local geotextile market in excess of 4,000 mt, with 10 per cent growth rate.
- Well-established industrial and automotive markets.
- Rapid growth is foreseen in neighbouring countries.
- Market is in need of capacity as a significant volume is being imported.
- Sophisticated and versatile products required (Fibertex specialty).

---

[138] http://www.ifu.dk/dk/Investeringer/Cases/Fibertex+ser+Sydafrika+som+nyt+vækstmarked

- Potential export to Middle East, Australasia and South America.
- Pre-marketing efforts.

Competition:

- Monopolistic situation.
- Main competitor operates with out dated equipment lacking flexibility.
- Main competitors have production in Cape – major markets in KwaZulu Natal and Gauteng.
- Main competitor not BBBEE certified.

Partners:

- SAFYR Management with many years of experience in the business.
- IDC, a highly professional investment bank.

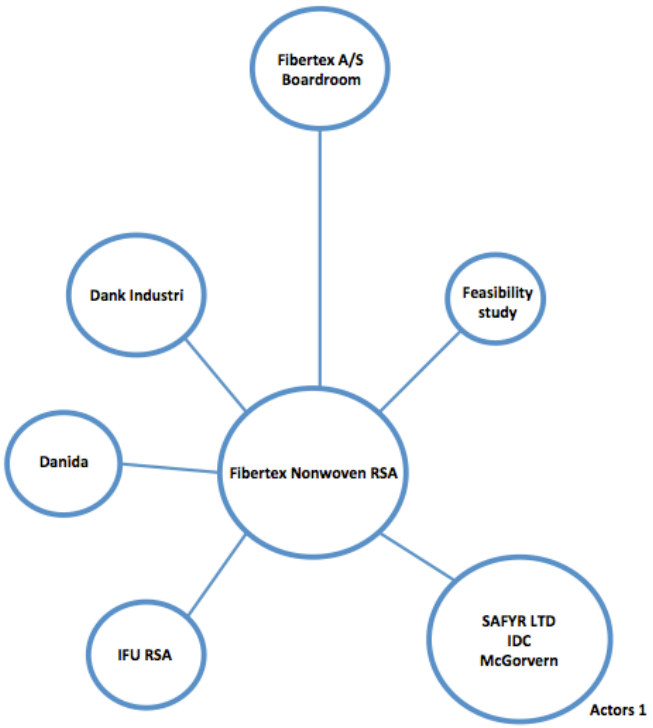
Concerns*:*

- Cultural differences.
- Relatively small local market size.
- Distance between Denmark and South Africa could be a problem in regard to spare parts and technical support.
- Availability of skilled and experienced workforce.
- Interest rates.
- Availability and pricing of raw materials.

The list served as pros and cons before the strategic decisions were made. This was followed by a pilot phase concentrated around a feasibility study carried out in collaboration between SAFYR, Fibertex and Confederation of Danish Industry which received approx. DKK 350,000 in support from Danida. When the pilot indicated that the investment was feasible, a project phase was initiated concentrating on training of the new employees and technical assistance. Basic training was carried out at Fibertex in Denmark and was followed up with more extensive training on site in South Africa. Other activities such as CSR and environmental measures also formed part of the project phase. More than 8250 man-hours were spent on training and technical assistance and the project received approximately DKK 4.6 million in support from Danida.

8.2 INTERESSEMENT ANALYSIS

The interessement analysis will identify the relevant actors that participated in the establishment of Fibertex Nonwovens in South Africa. After the identification of these actors, the relations between them and how they influenced the Fibertex business is highlighted. This is done in order to understand how a Danish venture is influenced by a number of heterogeneous and unfamiliar actors in their efforts to set up a subsidiary in South Africa. Callon's four translation events illustrate how the different actors unite around a common OPP and each bring value to the project despite having their own individual agendas and goals with the project. This also helps to understand how top management can utilise their knowledge about the different actors and make them participate in the establishment project. This is done to unravel the interweaving of economic, political, social and technological in order to explain the establishment of Fibertex in South Africa. The analytical approach is to look at the network as heterogeneous and the crucial question is how it in practice is possible to stabilise a heterogeneous network. Another aspect is how a small group of Danes can handle long-distance control in such a way that they can influence events in South Africa more than 10,000 km away. Based on interviews with the management in South Africa, the actors exercising the most influence on the Fibertex establishment in South Africa are illustrated in the figure below:



8.3 FROM IDEA TO ESTABLISHMENT

SAFYR made a study of how to expand their business in South Africa. They contacted Steve McGovern, a local business magnate in KwaZulu Natal with a great business network, and contact to the CEO of Fibertex Jørgen Bech Madsen in Aalborg was established. *The board in Fibertex* was aware that geotextile sales were growing in South Africa as they had studied the market and knew that it was attractive. The increased public investment in infrastructure and in particular roads, mining and substrates for landfills were a considered a good match for Fibertex who liked the idea of having the Fibertex brand in an emerging market. McGovern and SAFYR made their interest clear by promoting a *feasibility study* that acted as and enabling factor as it showed that local South Africa prices would only drop 10 per cent if Fibertex were to enter the market. McGovern and SAFYR acted as spokespersons for the study that was an important factoring convincing the boardroom about the opportunities in South Africa. McGovern also promised that Fibertex would be able to use his network as a strong business platform to find business relations and good quality employees. The feasibility study combined with the market growth potential made KwaZulu Natal an interesting opportunity for Fibertex and their owners Aktieselskabet Schouw & Co.

SAFYR would act as a South African JV partner in the project and as the supplier of raw materials used the production of the Fibertex nonwovens products. Employees could also be transferred to the Fibertex facility in order to transfer knowledge about SAFYR's products to Fibertex. SAFYR acted as a good intermediary when Fibertex is recruiting locals for employment as they possessed relations to the local community.

Fibertex's interest in South Africa made the relevant *DI consultants* aware of a new possible Danish export opportunity. DI assisted Fibertex with another study that suggested that the country would be an excellent long-term investment. DI furthermore suggested the use of Danida as they could aid financially to investments in job training. DI would take the role as supporting adviser and a great public relation that showed serious commitment and importance to the South African partners.

The venture picked up pace when Danida granted 350.000 to the initial feasibility study that made the foundation for the entry. Danida also invested DKK4.6 million in education of the local workforce and a group of them were sent to Aalborg for job training.

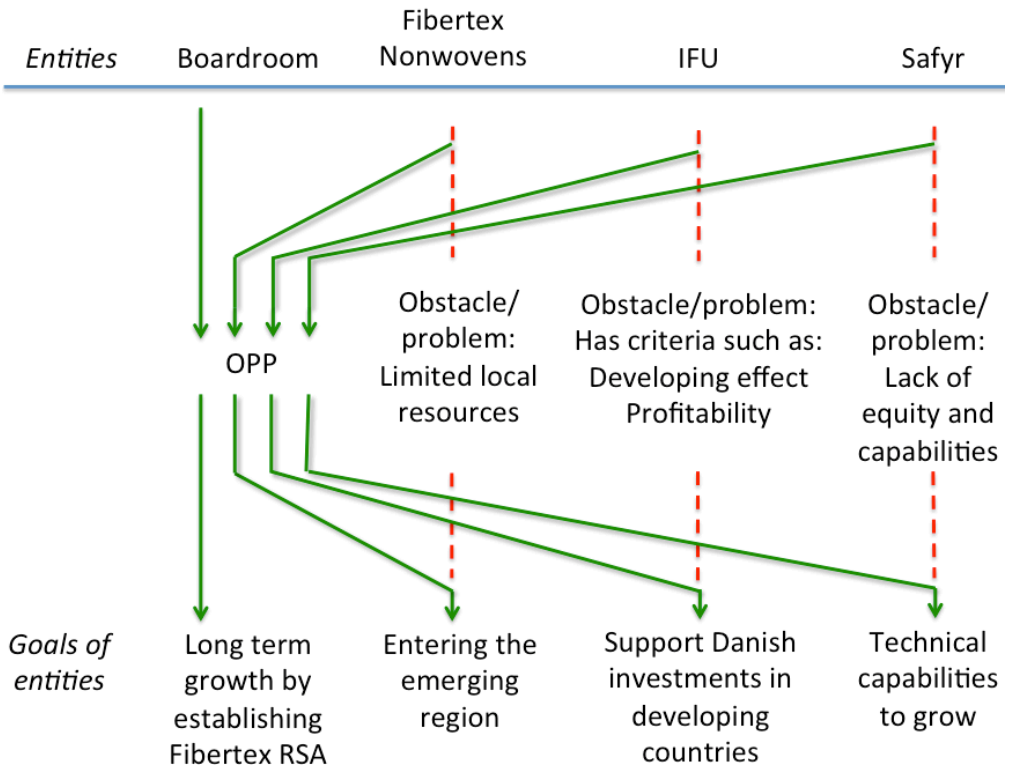
Fibertex had good experience and relations with IFU and decided to involve them in the project. IFU explored the business opportunities and risks related to the project and looked through the business plan. In the end, IFU guaranteed to invest the same amount in the South African project as Fibertex. The 50/50 solution was a good match for both parties as it would keep them both engaged in the project. IFU would subsequently play the role as co-investor and local expert. This agreement had furthermore built in to it that Johnny Ohgrøn Hansen, the regional manager in South Africa from IFU, would be part of the board of Fibertex South Africa. Fibertex successfully made a JV with SAFYR in KwaZulu Natal together with the key investors IDC and IFU. Fibertex acquired production facilities only 500 meters from where SAFYR produces the raw materials used in Fibertex geotextile production. Board member Iversen was named CEO of Fibertex South Africa.

Problematisation

The boardroom's attempt to establish a subsidiary in South Africa and pull together the needed resources for an entry consists of four moments of translation. The first is when problematisation takes place when the board identifies Fibertex Nonwovens, SAFYR and IFU as tools that can be used to establish the factory in South Africa. The board understands that the different actors have different motives but that they can unite and work together around the Danish company's investment in South Africa. The different actors can then cooperate on the unifying goal and thereby develop the project they all have an interest in.

Then the obligatory passage point is formed as a result of the problematisation phase by Fibertex boardroom. The OPP was by the boardroom and top management of Fibertex defined as *the project of establishing Fibertex Nonwovens in South Africa.*

The figure of the OPP is illustrated on the next page:



The figure illustrates how the OPP becomes the common objective. Each of the actors can use the OPP to achieve their own interests and at same time contribute to the boardrooms ambition of securing long-term growth and access to the new markets.

Interessement

In the interessement phase, the boardroom the locks participants into place through interessement where the actors define the biases of the other participants. The boardroom understood that Fibertex Nonwovens needed knowledge and local resources in order to enter and establish a factory in an emerging region and that IFU is constantly looking for Danish investment projects that support developing countries. Since IFU's objective is to invest in projects that are sustainable and help secure environmentally and socially responsible development the setup of Fibertex Nonwovens would have to include certain aspects. In order to comply with the interests of IFU, SAFYR could bring local knowledge and resources to Fibertex. SAFYR also satisfied IFU through their nature of being a South African business with black employees and a foundation in the local community of KwaZulu Natal. SAFYR was interested in the project as they looked for capabilities to grow and saw the partnership

with Fibertex as a source of both technology and capital.

Enrolment:

The enrolment phase took place when the different actors negotiated their roles and formed the relevant alliances and associations that needed to be made in order for the project to be realised. The boardroom needed to identify the Fibertex personal to be responsible for and manage the project of setting up a factory in South Africa and at the same time to collect the internal and external financial resources needed to finance the investment and finally to collect the approvals to move on. As the project took form, more and more details were identified through a series of meetings and negotiations between the involved actors. When details started to fall in place IFU could start to arrange their part of the agreement. This made them more involved with the meeting held with the South African part of the business, more assistance in terms of approaching the local business environment and the details of the IFU ownership part of 26 per cent by investing 30.2m DKK in equity participation of the JV and a loan on 20.1m DKK. IFU estimated that the project would generate 58 jobs for the local community, which helped to seal the deal. This phase also made it clear the SAFYR should be responsible for suitable production facilities, raw materials, local knowledge and qualified workforce. The details around ownership share were negotiated in place making SAFYR's equity share 48 per cent of the final JV.

Mobilization

The mobilization phase is about ensuring the link between the spokespersons and the entities they speak on behalf of. The boardroom appointed Iversen as CEO in Fibertex Nonwoven in in South Africa in 2010 and became the spokesperson for both the boardroom in Denmark and the management in South Africa. He would tie the operations in the country to the organisation in Denmark and ensure that the projects development according to plan.

The negotiations between the boardroom and IFU had built in to it that the regional manager Johnny Ohgrøn Hansen from IFU South Africa would be part of the board of Fibertex South Africa. This resulted in Hansen being the spokesperson for IFU's involvement in the project

as would become the prominent IFU representative and actor in Fibertex' relationship with IFU.

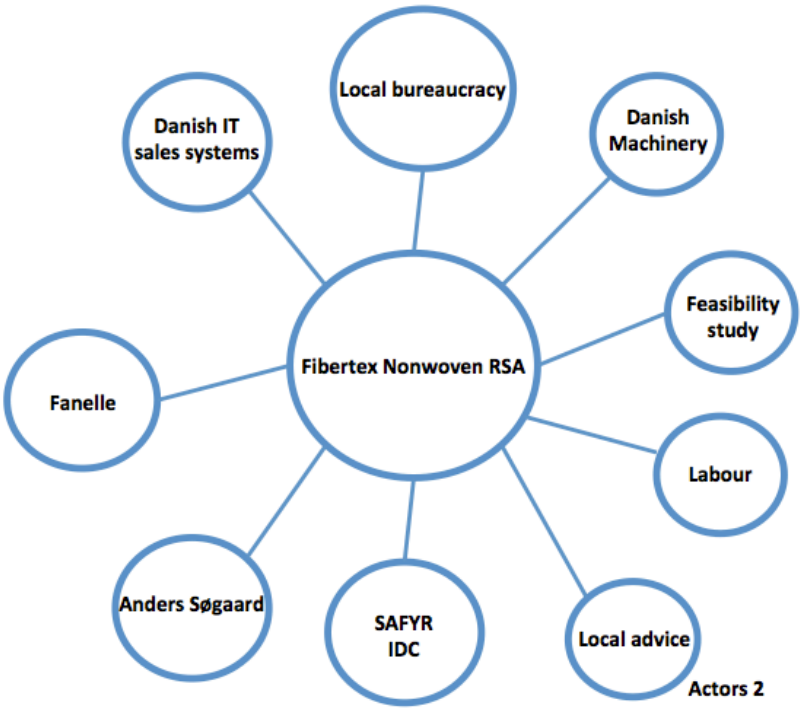
SAFYR also accepted the premises as they realised the prospect of supplying the project with raw materials needed in the production of the fibres and the utilisation of one of their facilities. They would then get a partnership with a strong Danish company that could supply technology and finance needed to expand their own business.

Even though the boardroom succeeded in the establishment of the constellation of actors and spokespersons who had a great interest in the success of Fibertex, there was no guarantee that the constellation would not be challenged. Management could at any time be let down by actors diverging from their intended roles.

8.4 MANAGERIAL CHALLENGES OF RUNNING THE SUBSIDIARY

Many of the managerial challenges that Fibertex has faced so far in their South African adventure are due to uncertainties about how the diverse unfamiliar human and non-human actors influence the business operations on the new market. The discovery of relevant actors immediately showed that the new factory had to deal with a lot of actors that Fibertex had little way to influence and control.

The actors are illustrated in the figure on the next page:



To begin with, *local bureaucracy* created problems in relation to installation of water sprinklers in the production facility. The process was delayed for several months even though the actual instalment of the water pipes from public water supply to the factory was simple and should have been done in a matter of weeks[139].

Then, the *machinery* used for producing the geotextiles was not compliant with local standards as the products coming out of the Danish machinery was too wide. The standard used in South Africa was adopted from the only competitor.[140] The machinery only needs a few people to be operated and this is not good for Fibertex's BBBEE rating as the scorecard favours companies that have more people employed in manual labour.

Local organisation *Fanelle* has from the early stages assisted Fibertex to train employees which should help Fibertex achieve a better BBBEE ranking[141]. Fibertex hopes for a level 3 in the end of 2012. Unfortunately for Fibertex, the employees found new jobs in other companies when they returned to South Africa with improved working skills as they were offered more in salary. Furthermore, Fibertex recruited Anders Søgaard from the Czech

[139] Interview Iversen, Fibertex
[140] Ibid
[141] Ibid

Republic division as COO and thus responsible for the machinery and workforce that operates the machinery. He is very important as he act as Fibertex' spokesperson on the ground as is closer to the employees compared to the rest of the top management. Søgaard incorporates Danish values to local employees and having a Danish COO enabled Fibertex to implement a working style similar to what they know from Denmark[142].

The Danish *IT sale systems* used in the entire Fibertex cooperation in every country they operate in acted as a deal breaker as it prevented the local sales division from communicating with the Danish headquarter. Iversen had to constantly teach employees how to use it as they preferred the old-fashioned pen and paper method[143]. This created a lot of problems as the IT help desk and support unit for the Fibertex cooperation located in Denmark had trouble reaching the South African sales division.

The *local advice* Fibertex received from the local capabilities such as SAFYR, IDC, IFU, DANIDA and DI was not satisfactory as the public rating of BBBEE dropped from a level 4 to a level 7 in the second year because the investments made in BBBEE related performance measurements was not met[144]. This should have been avoided as the local competences should have acted as spokespersons for the existing knowledge about the issue and should have been able to point to the BBBEE issues that would influence the operations[145]. Fibertex can however easily attain a higher BBBEE level through smaller correct investments.

In the end, the *feasibility study* that influenced the managerial rational and decisions to invest in South Africa turned out to be too optimistic as the local prices dropped 30 per cent instead of the anticipated 10 per cent which led Fibertex to a higher cost per unit produced compared to the price per unit sold. This means that Fibertex loses money every time they sell products in South Africa[146].

---

142 Interview Søgaard, Fibertex
143 Interview Iversen, Fibertex
144 New entrants automatically receive a level 4 the first year. Fibertex invested in BBBEE projects in the first year but should have waited
145 Interview Johnny Ohgrøn Hansen, IFU, Johannesburg
146 Interview Iversen, Fibertex

8.5 ACTOR-NETWORK CONCLUSION

The reason for making the actor network analysis is to find out how actors are connected to each other and what their relations have led to so far. The danger of the analysis lies in the interpretation and the subsequent decisions of the management – more precisely the danger is over-interpretation or ignoring logical rationales that play a role in the formation process. It is like taking a snapshot of reality with the risk of missing the context or what came prior to the analysis. The analysis is an attempt at showing how management based on a structural ontological understanding of the entry process can meet the network that is characterised by processes and uncontrollable dynamics. The analysis however also helps us to capture the procedural aspects of the entry even though it tends to have a structural approach.

The illustration of the OPP presented earlier shows the importance of coordination in order for the network to operate successfully. Ideally all the actors should strive for an internal agreement, because their individual strength depends on coordination within the network. In networks where players have converged successfully, the network in its entirety supports any of the actors that represent it. We find that the establishment of the Fibertex in South Africa was a strong OPP as it was the foundation for quick establishment in the new market. However, the coordination and contracts were not successful when the network was tested after the entry was made. Lack of coordination meant that important legal matters did not get the attention required. The BBBEE difficulties were a result of little circulation and communication between the actors with local knowledge, IFU and SAFYR, and the actors responsible for legal matters such as getting a good BBBEE score.

The process from idea to actual entry has proved that strong coordination of circulation is needed when setting up a subsidiary in coordination with local partners. The process also illustrates that a new network has to be very active and considerate in connecting, transferring and trying to guide the different actors towards a more stable and predictable outcome. Ideally the newly formed network should become more stable over time because the involved actors have no interest in its decline. That is why the problematisation of the OPP is so important as is draws the actors in the network together.

The actor network study has thus helped us illustrate how Fibertex had to deal with a series of unfamiliar and unrelated actors. AluFlam should thus consider the following in their entry:

- It is important to understand the “true intentions” of the involved actors. In reality no one can know the true intension of the other actors really are, but it is important to reason what they might be.
- The importance of a well-communicated OPP.
- That the actors need to accept and support the OPP to the best of their ability.
- AluFlam must be aware that initial market studies also constitute spokespersons that speak on behalf of a certain agenda and have incentive to highlight specific elements over others, e.g. the price drop of three times the expected suggests that the market gave a false promise.
- Allying themselves with fellow Danish actors already established in South Africa such as IFU and the trade council can help AluFlam as these offer advice, due diligence and funding. Taking advantage of their experience and expertise can help AluFlam understand the local actors and market conditions.
- Local authorities are not as stable and efficient as what we are used to from Denmark, and unexpected actors can suddenly play a role. Such was the case when local bureaucracy for no obvious reason stalled the connection of water supply for months delaying the instalment of needed sprinkler in the production facility.
- The fact that local institutions can play an unexpected role as legislation may surprise. AluFlam should not rely only on the initial assumptions about the new market as mechanisms are different and changing.
- Cultural differences play a significant role in terms of behaviour and what can be expected from the actors a company surrounds itself with.
- Contracts must be made very carefully and the agreements made with local actors require strong communication and coordination.

9. ANALYSIS OF ALUFLAM'S STRATEGIC OPTIONS

A company does not choose its industry's degree of globalisation. However, the company does choose the degree of its own internationalisation and how it will go international. When a company chooses to enter a foreign market, there are various alternative entry strategies available. These alternatives vary with cost, risk and the level of managerial control that can be exerted over them.

Before going into a foreign market, the main managerial concern or strategic dilemma is to figure out what the company seeks to achieve in a new market. When a company operates in more than one country, it establishes subsidiaries for various reasons. Consequently, every entry decision needs to be considered in regard to the overall company strategy and in this sense make use of the resources in both the local and global context (Peng and Meyer 2009). It is important to have a clear idea of what a company aims to achieve before designing entry strategies. Peng and Meyer (2009) present four standard objectives that management needs to consider before going global, namely: *natural resources*, *market seeking*, *efficiency seeking* and *innovation seeking*.

AluFlam has primarily started exporting to developed economies such as USA and England. In recent years the focus has been on expanding the company to growth economies such as Brazil and UAM. This *market seeking* approach has lead to a focus on new customers by identifying appropriate markets to enter. As a market seeking company the low growth rates in the South African aluminium industry (which has not grown since 2010) should be a sign that the market is not currently attractive. However the forecast for the long-term development of the construction industry in general has high growth rate over the next ten years, which is backed by most of the Danish South Africa experts. The development in the aluminium industry should change for the better in the future.

9.1 WHERE TO ENTER

The location the company chooses within the country can be vital in order to achieve location specific advantages - advantages that can be further developed by actors present at a location - this relates to markets, resources, endowments, clusters and institutions (Peng and Meyer

2009). The main worries are the quality and costs of specific local resources that the company requires for the operation in the foreign market. Market seeking investors sees a market's size and growth potential as the prime motives. Companies that focus on these markets aim to identify future demands for their products or services. Access to markets may require a local sales operation or even local production. This could be due to tariffs, costly transportation or if the local environment slows down effective marketing and distribution of imported products.

Most of the interviewees stressed that it is important to be established close to customers and stakeholders. We believe that South Africa has three different locations that could be attractive to AluFlam. The first location is *Durban* in KwaZulu Natal with a population of 35 million. Scandinavian Trade Center points to this location because the area has experienced a rapid economic growth in the past decade. Durban is expanding and investing in the already biggest port on the African continent. The port serves as a gateway for 2.5 million container shipments yearly. Tourism has influenced architecture and hotel modernising. Durban also has a new top modern international airport, King Shaka International Airport, that was built as a result of the growing tourism and in preparation of the World Cup in 2010. Scandinavian Trade Center recommends Durban because of the easy access to the port and the strong aluminium industry that has developed mainly because of the car industry in the region. Furthermore, the region KwaZulu Natal has an investor friendly tax exemption zone (IDZ). A number of direct competitors to AluFlam are located in the region. The most notable are Hulamin, Proaluminium and Origin Aluminium. Furthermore, Fibertex chose Durban to be the most competitive location to set up the subsidiary.

The second location is Johannesburg in Gauteng with a population of 10.5 million in the greater Johannesburg area. Johannesburg is the business centre in South Africa and all major companies has their headquarters in the Gauteng area that also counts the capital Pretoria where the government ministries and the Danish Embassy are also located[147]. The city contributes to 17 per cent of the national economy's gross value added[148]. Johannesburg's growth has consistently outperformed the national growth. Between 1996 and 2004 Johannesburg's growth was at an annual average rate of 4.5 per cent while the national

[147] Interview Danish Embassy in Pretoria
[148] www.joburg.org.za

growth was 2,9 per cent[149]. The Danish Embassy can temporarily provide office space at its facilities which AluFlam could benefit from if Birch decides to visit in order to receive advice concerning an entry[150]. Companies that operate in Gauteng can also benefit from the short distance to the northern border and a recently modernised infrastructure[151] which makes the city the gateway to sub-Saharan Africa. The Main competitor in this region Wispeco is situated in Johannesburg however most of the competitors have sales offices or subsidiaries in the city.

The third location is Cape Town in Western Cape with a population of 3.5 million. Cape Town is the country's second richest city in terms of GDP (Johannesburg is the richest) and it produces 10.6 per cent of South Africa's GDP.[152] Cape Town is the city on the African continent that share most similarities to cities in developed countries. Compared to the rest of South Africa, people in this city display a willingness to pay premium prices for good quality products[153]. Furthermore, the focus on fashion, design and art is growing[154]. The main competitor in this area is Amdoor.

9.2 CHALLENGES OF INTERNATIONALISATION

To clarify business models Chemawat (2007) defines three types of strategies: *aggregation strategy*, *adaption strategy* and *arbitrage*. The *aggregation strategy* aims to realise synergies between operations at different locations. R&D facilities that serve various activities may be spread out to a number of strategic locations in different countries. The strategy is intended to exploit economies of scale and to advance innovation and knowledge management. *Aggregation* is often focused on regional business rather than global. Sales, marketing and human resources are normally handled locally and production could be from a regional headquarter or from outside the country in a global hub. The strategy is typically associated with geography, both country, region and global. However, the strategy may also focus on culture and administration when it comes to specific companies in specific countries

[149] Ibid
[150] Interview Danish Embassy in Pretoria
[151] Interview Johnny Ohgrøn Hansen, IFU
[152] www.capetown.gov.za
[153] Interview Frank Olesen, Vestergaard og Frandsen, Johannesburg
[154] Interview Jens Risgaard, Airland logistics

(Chemawat 2007). Companies can adapt their level of *aggregation*. An example could be having a global R&D department in only one country, regional supply-chains and smaller local sales offices. This allows the company to fine-tune their operations to fit different demands. However, cooperation challenges often grow when the complexity of the *aggregation strategy* is increasing (Chemawat 2007).

The *adaption strategy* focuses on distributing locally adapted products in each market. In emerging economies it is important to take into account that adaption of products can be affected of lower income, higher variability of customer groups and lower labour costs (Chemawat 2007). Products from Europe or the U.S. may be too expensive or complex for an emerging market despite the fact that the product can be produced locally. If large variations within a country exist, adaption may be necessary as there can be big differences between different areas. The adaption strategy does not require products to be produced locally. Furthermore, companies can externalise costs of adaption by working with a local partner that both contributes with money and knowledge.

The third strategy is *arbitrage*. It exploits differences in prices in different countries. Prices on products may vary from country to country. This provides opportunities for a company to earn money on trading their products and moving products from one location to another (Chemawat 2007). It is possible to combine elements all of the strategies in the matrix, however, it is difficult to combine all of them as it increases complexity and carries high costs (Chemawat 2007).

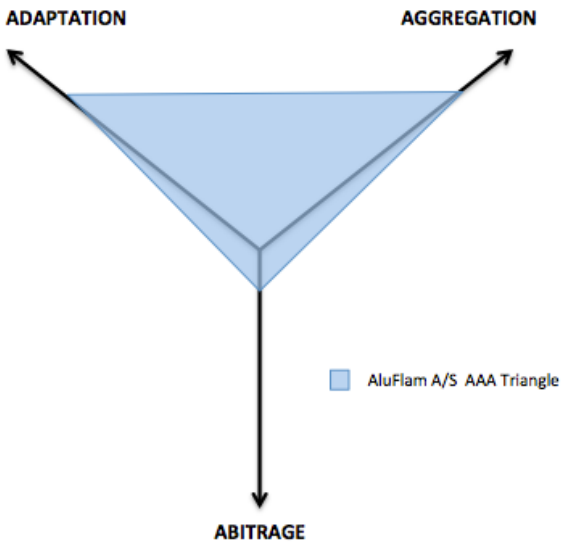
AluFlam will as a market seeking company have to consider whether the adaptation, aggregation or arbitrage strategy is suitable for the entry. In order to be successful on the South African market, we find that they need to fit the products to local architectural demands, thus becoming relevant. We have found that the accreditations and standards that AluFlam will have to comply with will be very similar to the capabilities and quality of the products already developed. We therefore believe that the main adaptation challenges will concern the cultural aspects of the entry as opposed to Fibertex that beside the cultural challenges also dealt with problems in relation to industry standards.

AluFlam will have to sell the products to customers that look for high quality when they build their new businesses, storefronts, new office building, high-end private housing etc. We find

that these customers are very similar to the segment they are already selling to on other markets. The segment in South Africa will primarily consist of the small minority that has habits and incomes similar to what AluFlam find on other markets.

When Fibertex entered the South African market they had a clear *Aggregation* strategy as they wanted to create a hub for the region that besides enabling them to sell their products in South Africa would also allow for export to the Sub-Saharan and the Australian markets. Furthermore, the strategic position of the new fabric needed to be in Durban as it was both close to the attractive automobile industry as well ideal to export products from the harbour to Perth in Australia. Even though the strategy was clear from the beginning of the South African venture, the conditions and different actors in the environment forced Fibertex to rethink their approach. This was due to the fact that the only competitor in South Africa dropped prices more than expected which forced Fibertex to shift its focus to the growth markets in other sub-Saharan countries. Also, Fibertex will be able take advantages of the infrastructure and new roads will be modernised in the coming years in Sub-Saharan Africa, which. The new strategy means that the company is now focusing almost entirely on sales outside of South Africa and that they have taken *a wait and see* strategy in the South African market. This indicates that even though management had decided on a strategy, upon entering the new market complex and perhaps unexpected situations arise that will have to be dealt with when the entry process advances.

To summarise, we find that AluFlam has so far in their internationalisation process used both aggregation and adaptation with only little emphasis on arbitrage as illustrated in the figure on the next page:



The aggregation strategy has been used because:

- AluFlam has developed a business model that involves production in Denmark, Lithuania, USA, and currently sets up production facilities in UAE.
- The company has limited R&D which is to be primarily conducted in Denmark.
- Local sales offices and agents are operating in the countries in which the products are sold.
- The high standard of quality obtained by AluFlam allows the products to be certified in all markets. The standardisation has allowed AluFlam to achieve scale and scope.

AluFlam has simultaneously used adaptation strategy because:

- They have formed local partnerships with architects that demands adaptation of the products to fit customer needs. This has required a flexibility and variation in the final design.
- In order to comply with local standards, the testing is made by institutes in the local countries allowing AluFlam to obtain several local certificates.
- Adapted and developed products to marine installation because of sudden demand.

AluFlam has used very little arbitrage strategy because:

- The production facility in Lithuania was justified because of lower wages.

AluFlam has previously managed to balance between the adaption and the aggregation strategy. When entering South Africa, the management needs to consider if circumstances in the new country will allow for the strategy they have used so far.

A combination of the strategies may at some point guide AluFlam's management towards desired goals as well as when dealing with unforeseen variables and new complex situations occur. If AluFlam chooses to enter South Africa, the strategies Birch has previously used and succeeded with will be obvious to have in mind when creating the entry strategy. However, as we learnt from Fibertex unpredictable circumstances occur each time decisions are made and strategies need to be revisited and reconsidered in order for a company to be competitive. AluFlam has so far been good at adapting each product in response to the needs of customers and architects. If production facilities are set up in South Africa and AluFlam can export to other African countries, new strategies can be taken into consideration. If AluFlam is explorative in their way of thinking they may even sell their products to a new type of customers, thus adapting the products more to market demand.

9.3 SHORT-TERM STRATEGY AND SURVIVAL

From a short-term strategy perspective it is key that the survival strategy is first of all to ensure liquidity and positive cash flow (Peng and Meyer 2009). When going into a new market, a short-term strategy could for instance be starting with only exporting products in order to reduce risks and ensure necessary cash flow. This strategy can however change over time if the market allows for a more prosperous long-term strategy. Short-term survival strategies may ensure not more than survival and minimum cash flow in the establishment period. From a long-term strategy perspective especially due to strategic positioning and attempting to find the best resources the company has to consider how it can take advantage of the given industry's market situation in in a given country.

AluFlam needs to develop a short-term strategy that can ensure a cash flow and test the products on the market in the early stages of the entry process. A short-term strategy could for instance be starting with export. Data suggests that South Africans are very focused on costs which can be a problem for AluFlam if the customers perceive the products as too expensive. Considering this, AluFlam should as a consequence try to differentiate early on in order to

make the value proposition clear and test if the market has interest in the products. EKF can enable AluFlam to reach new customers that may have problems raising capital. This competitive advantage is particularly useful in the time of a financial crisis where borrowing from banks and raising capital is the main barrier for many new projects and businesses in South Africa. A possible alternative short-term strategy could be piggybacking where AluFlam follow architects or companies to projects in the region. This would allow AluFlam's products to become visible which could lead to new projects or orders from local customers. This strategy would however require that AluFlam would have to wait for projects.

As a long-term strategy, AluFlam could consider to set up manufacturing in the country. IFU can by contributing with 50 per cent of the investment in an entry, remove a substantial part of the risk. Collaboration with IFU will however require a setup that has a developing effect on the locals. AluFlam would get the option to buy IFU's equity share in the investment at a later stage. A long-term setup can moreover evolve around collaboration with local partners both in term of JV partners and local investment funds. When the entry includes external actors the uncertainties accumulate as demonstrated in the Fibertex case example, but the perspectives and possibilities may increase as a result.

9.4 ENTRY STRATEGIES

Peng and Meyer (2009) define two vital modes of entry that are the format of foreign market strategies, the *non-equity* and the *equity* mode. The non-equity mode, which covers exports and contractual agreements, tends to deal with smaller commitments to foreign markets. Smaller companies typically use non-equity modes as the foundation for their international strategy. Larger companies usually use non-equity to complement equity modes. Equity modes are JVs and wholly own subsidiaries which are typically larger commitments that can be harder to reverse. Equity modes establish a division at a foreign market that the company at least partially owns. Equity modes are normally preferred when a company transfers intangible assets (Peng and Meyer 2009). Furthermore, transferring tacit knowledge involves learning by doing and face-to-face interaction between people which is difficult to achieve unless these people work within the same company. After the company has decided on

whether or not to use an equity mode, management still needs to make the decision of which entry mode they are going to go global with since the different entry strategies vary in conditions of commitment, risk, control and return (Peng 2001). Also, a particular entry decision cannot be viewed in isolated manner. Rather, the choice of entry should be considered in relation to the overall strategic position of the company (Peng 2001). Meyer et al (2009) present three different equity modes of entry strategies; greenfield, acquisitions and JVs.

As we have learned, AluFlam can choose between the equity and the non-equity mode of entry. In the short term the non-equity would allow for a limited risk as the smaller commitment of just exporting products to South Africa would allow for a cost-efficient withdrawal from the market if the entry proved unsuccessful. The non-equity mode could be appropriate in the early stages as an experimental export would let the products be tested on the market allowing for feedback on whether or not there is a market in the short term. One positive aspect is that with a EUR1 certificate, AluFlam can enjoy a zero per cent tariff. It could be valuable to find agents that can promote the products to architects as they might use the products in their designs and thereby new projects. If the market response is positive then management can explore a possibly stronger commitment and move on to one of the other entry strategies. The export has drawbacks in terms of longer delivery as the products needs to be shipped from distant production facilities.

The equity mode requires more commitment because AluFlam would transfer both tangible and intangible assets and would require more control. This mode is also more costly and, in the end, related to more risks and uncertainties than the non-equity. One of the equity entry modes is the greenfield entry. This mode would give AluFlam full control over the operations. However, the added capacity that a new production facility would add to the industry could result in a supply too big for the market demand. This combined with the high investment risk, capital requirements and uncertainties makes the greenfield entry the most risky of the modes.

The acquisition of a competitor would allow AluFlam to enter the market without supplying new capacity. It would be faster than the greenfield entry mode but it would require much capital upfront and post-acquisition and integration challenges can be many when buying a local company. The strategy is common when foreign companies enter South Africa as it

allows the entrant to make use of the already existing resources and capabilities in the target company[155]. Partial acquisition takes place if AluFlam buys a smaller part of a local company. AluFlam would get access to operations that the former owner was involved in. The former owner will still be committed in projects, but AluFlam could eventually buy more shares in the company if agreed between the partners and thereby get more control. With this entry mode integration problems and conflict could occur as they did in the Fibertex case.

The third entry strategy is one through a JV, joint by two or eventually more companies. A JV has three principal forms. Minority JVs are when the central company holds less than 50 per cent equity. 50/50 JVs and majority JVs are when the central company holds more than 50 per cent equity. A JV with a local partner has three main advantages. Firstly, the financial risks are shared with a local partner. Secondly, the company gains access to local knowledge and market share in turn for technology, management etc. Thirdly, a JV might be more acceptable politically. However, the drawbacks are less control and conflicts with the local partner which make this strategy include uncertain elements that management should consider. The transfer of resources or benefits between the investors can be subject to high transaction costs however JVs are commonly used as an entry strategy in emerging countries (Meyer et al 2009). For multinational companies, the intensity and diversity of learning from local partners can facilitate knowledge creation and thereby strengthens the company's performance in host countries (Peng 2001).

If AluFlam decides to enter in a JV model, many solutions are possible and the collaboration could be between more than just two partners. In order to validate potential local partners the Danish Embassy can assist with due diligence[156]. An interesting partner could for instance be the Foundation for African Business and Consumer Services (FABCOS) as they actively seek Danish technology in different industries. In 2009, FABCOS signed an agreement with Dansk Industri (DI). The agreement entailed the promotion of business between the two countries, particularly amongst members of the two organisations[157]. FABCOS prefers to make JVs where they own more than 50 per cent of the business and they are known to invest what is needed for the JV to survive on the long-term. By collaborating with FABCOS, AluFlam

[155] Interview Henrik Lauritzern, Hummel, Cape Town
[156] Interview the Danish embassy in Pretoria
[157] Interview FABCOS, www.fabcos.co.za/enterprise_development_international_relations.htm

would get access to a partner with vast local knowledge and a business network covering most industries. The advantages of entering into collaboration with a partner like FABCOS would be sharing of costs and reduction of risks. FABCOS would assist the JV in complying with the BBBEE regulation. In a JV with FABCOS, AluFlam would have to give up control and might face coordination issues and divergent goals. IFU could assist in a JV with the 50/50 model and EKF could provide export credit and reduce risks. As we have learned from the Fibertex model case, AluFlam should be aware that partners in a JV could have divergent interpretations of what the cooperation entails and what is expected from one another.

A company's resources, capabilities, and institutions in the host economy can be key in order to decide which strategy the company will focus on and develop from. Fibertex was invited to South Africa by SAFYR who was searching for a partner. This made the process fast as the many actors involved in the entry contributed the decision making process by clarifying certain variables. SAFYR knew Fibertex because of Fibertex's reputation as a world leading manufacturer of nonwovens and because the two companies already had worked together in smaller projects. The decision to accept the invitation unlocked many new uncertain variables for Fibertex that have led to the circumstances they have dealt with since the entry. Fibertex is left with the feeling that they could have entered South Africa alone and that the local capabilities and resources are not adequate and contributes only little to a positive development of the organisation in South Africa. As of yet, AluFlam has not been invited to South Africa. AluFlam is as a market seeking company actively looking for opportunities to expand and grow. As a result of this, AluFlam needs to reflect on the important question of whether or not it is necessary to have a partner and which potential problems a partnership can have on business. But as we have discovered in the analysis many different opportunities exist for AluFlam even though a potential partner has not invited them. Before the strategic decisions are made it is essential to reflect on what an entry will add to the AluFlam group in general and be aware of which factors that motivates a possible entry. Many unknown variables will undoubtedly occur and affect managerial decisions no matter which and how strategic decisions are made in the entry process and after an establishment. AluFlam should in the process be careful not be their own limitation by simply excluding certain strategic options.

10. DISCUSSION

In this chapter we will discuss the managerial uncertainties in relation to the strategic choices in the South African entry process as well as how knowledge from the findings can be applied. The chapter is divided into three parts. The first part discusses how knowledge can make management make decisions that in the end can prevent management from doing the right things. The second part discusses how findings from the studies can have consequences for decision making in a dynamic world. The last part is a discussion of the strategic implementations made from the findings.

10.1 KNOWLEDGE AS A PARADOX

We find that knowledge can be used as a barrier prohibiting action and enabling management able to disregard new ideas because earlier experiences has taught them to act in a certain way in response to certain situations or conditions. This does not happen because managers do something wrong but simply because they act as their experience and knowledge has taught them to. A lot of knowledge and information can therefore sometimes, if not used correctly, lead to inertia or wrong managerial decisions. Knowledge can become an obligation that makes managers able to act in accordance with what they know to be true. Knowledge should be something that does not prohibit action but makes the company evolve instead. Knowledge should motivate, give new opportunities and inspire to do new things and make new actions possible. As we learned through the interviews and the tripod study, South Africa is a very complex, unfamiliar and uncertain place. Such a place makes it difficult to predict the effects of what management decides because the environment is constantly changing. If managers think that they know what will happen when they decide something, they will often find that outcomes are different than what they expected them to be. We therefore find that certainties in management are something that should be tested constantly to evolve the way they perceive and understand things and to test their convictions.

The management should look for different opportunities in a possible entry and not only the first, most obvious and most safe ways to do it. By looking at all possibilities and making well-informed decisions, the management should try to create more than just one attractive option. We suggest that AluFlam's CEO Birch makes use of both intuitive and analytical

thinking even though they are each other's contradictions. Birch's intuition has been developed through the years of managing and growing his business in the aluminium industry and he therefore possesses a tacit knowledge about how to set up subsidiaries in different markets. This means that his way of perceiving opportunities and obstacles is different than what potential partners and actors will. Birch use of his intuition can lead to a more rounded assessment of strategic options as he will be able to combine different types of qualitative information that he has collected through the years. In addition, intuition is better than analytical thinking when it comes to taking the big picture and implications of a decision into account. Birch's tacit knowledge and intuition will help the project of developing an entry strategy to not be brought to a standstill, because of excess of complex and difficult analysis that could be collected through tools such as the tripod study. It is however important to understand that Birch's intuition can be unreliable and imprecise. Intuition can lead him to jump to conclusions without rational analysis. It would however lead to increased speed which is often rewarded in business but increased speed also increases risks and uncertainty. The danger of relying too much on Birch's intuition and knowledge is that these are biased and that he may concentrate on the incorrect variables and understand them in a certain way. We therefore suggest that Birch should support his intuitive judgement and knowledge about the aluminium industry with a more explicit rational analysis.

From a managerial perspective the main issues are how to make data, information and knowledge into a valuable useful resource. It needs to be transformed into something that makes Birch able to act and leads him to a position where he can achieve desired outcomes. Knowledge is in that sense a pragmatic problem that needs to be dealt with. The question is what management is able to do with the knowledge they possess and how to use it to add value.

10.2 THE CONSEQUENCES OF USING TOOLS IN A DYNAMIC WORLD

The information collected through the use of the strategy-tripod tools is a snapshot of the current environment. The PEST analysis is a helpful tool to gather macro information in order to get an overall understanding of the conditions in South Africa. It also helps to map out key institutions in the country that influence the market AluFlam is possibly entering. The

findings from the PEST and five forces are limited by the sources and data that they made use of as economic numbers and figures describe the history and can therefore never tell anything about the future – it can only give ideas and (false) prospects. From the moment the analyses are concluded they are per definition out-dated as they are static at the moment the information is gathered. The development in the industry is problematic to give predictions about and the chances of new entries that the five forces analysis did not anticipate are relatively high due to the attractive aluminium industry and the fact that South Africa is a dynamic emerging market. Also, competitors could have secured new patents, made alliances etc. that would be impossible for Birch and his network to foresee.

Analysts interpret their findings and thus become spokespersons for the particular project and process and it is therefore important to consider the agendas of the actors that interpret a study. Fibertex had different initial studies (Dansk Industri consultancy, SAFYR feasibility study, IFU evaluations, Fibertex own study, Danida study) that all had different backgrounds and outlines for the establishment project. They all had one thing in common, though, in that they all wanted the subsidiary established. Market studies and analysis' can be made to indicate whatever the management wants and needs it to state. The data and information that is searched for depends on the actor that is doing it and the premises that it is conducted under.

10.3 STRATEGIC IMPLEMENTATIONS AND MANAGERIAL DECISIONS

When a company like AluFlam consider entering into an unknown and emerging market like South Africa it would be easy to just say that they need to adapt to and follow the many shifts among al the numerous actors such as collaborators, customers, competitors, government regulations, distribution structures etc. This will however be an impossible managerial task, first of all because it is not possible to adapt to every element that would changes in the future. In spite of this, Birch needs to identify which changes that will affect the company the most if the circumstances in the environment start to drift. It will require great managerial capacity and skill to align the value proposition offered by the AluFlam products and the resource base that will be established during an entry. That is why we believe the

development of a strategy begins with an analysis of the environment and the identification of attractive market opportunities.

AluFlam will have to put much energy into staying attuned with the industry changes as well as with rules and regulations since there can be many different indications in the emerging market. A misalignment can nevertheless easily happen if Birch fails to take appropriate action because of myopia. He will therefore have to find a balance between his own objectives and the relevant developments. We suggest that Birch use the network strategy and thus take different actors in the environment into account and ask them for advice when determining the entry strategy and the strategic choices following the entry.

The fact that AluFlam has no history in South Africa and thereby very limited knowledge about society could lead to misinterpretations about institutional regulations, trouble with the rigid local bureaucracy and confusion about cultural customs. This would be a disadvantage that the local competitors do not have. We think that this information asymmetry could be limited by taking advantage of the available resources that Danish companies can draw on when doing business in the country. IFU and the Danish Trade Council could be valuable collaborators that would be able to assist with knowledge and information on how to deal with the local regulations and thereby help AluFlam avoid making misinterpretations. Our findings with Fibertex who were not assisted properly in their interpretation of the BBBEE act suggest that AluFlam's management should be active themselves in their investigation of the local conditions.

Some of the essential questions that Birch needs to reflect on before deciding on whether or not to enter South Africa are: What are the capabilities and identity of the AluFlam Group? What do they make us able to accomplish? And finally, if we enter, what will we become? At the moment the entry is initiated the company will change its shape and identity as new environmental circumstances will influence the way business will be done. New cultures will influence decision making and alternative processes will have to be dealt with. AluFlam has already tried to enter Mozambique with help from DI who had found a suitable partner. The experience was not good and valuable time and money was wasted because of the differences in expectations between the parties. Fibertex is an example of how the identity changes when companies enter new markets. In South Africa the company is identified as an entrant from Denmark that has brought jobs and new opportunities to the region. The fact that DANIDA

and IFU were part of the setup influenced the entry process to make local responsibility a high priority, which made job training and other initiatives part of it. The problems that this particular entry setup led to could have been avoided if another setup was used but conversely an alternative setup could have led to different problems that could have been more critical.

AluFlam would have to enter into a developed aluminium industry however AluFlam has a proven track record of competing in the most developed markets with many competitors. Even though the track record proves that AluFlam can compete we find that it would be unwise to make strategic decisions without reflecting on the long-term consequences that the entry would make on the industry. Failing to anticipate the reactions of competitors could be costly. Industry leaders such as Hulamin and Wispeco have a disproportionately impact on the industry because of their size and influence over customers, suppliers and other competitors. They may as a consequence try to take actions to improve or protect the market share. AluFlam should therefore consider if and how an entry would affect the competitors. Taking them head on could result in a competitive situation where AluFlam would have to fight in an unfamiliar market. We suggest that management experiments and will not be discontented if negative results occur in the initial phase of the process. A way of experimenting could be by piggybacking on other Danish companies and architects working on projects in the country and thereby entering the new market as a result of good relationships.

We however find that the entry strategy should not only be built around external opportunities or threats but also around the capabilities and resources that Birch has amassed throughout the years of building and organising the company. The starting point of creating an entry strategy should therefore also consider which resources and capabilities that are valuable in South Africa. AluFlam should try to develop a set of competences with which they constantly try to outperform the competitors. Being adaptable to the environment and at the same time developing competences and resources that match this development is the foundation for a robust long-term strategy. The real issue is which competences that are difficult to imitate and which exclusive assets that should be further refined. We believe that the accreditations and standards achieved by the AluFlam products would be a strong value proposition in differentiating the product against competing products. However, we find the competences such as Birch's ability to work closely with architects and the company's ability to deliver

custom-made high quality products with a high level of service to still be the key proposition as this has been proven formula in the other markets that AluFlam has entered. The combination of both the tangible and intangible competences should be regarded as an asset that rival companies cannot imitate all together. If Birch succeeds in refining these distinctive competences they could be attractive sources for differentiation.

In regard to AluFlam's search for external resources and knowledge about South African business culture, Birch cannot be certain that a possible partner provides the local resources promised. This was one of the key lessons learned from the model case of Fibertex whose collaborators did not live up to their part of the agreement and had a different interpretation of the obligations of the partnership. The interessement model used in the ANT analysis illustrated that even though the collaboration seemed to be made around a common goal the human and especially non-human variables changed, It is therefore vital that the actors participating in the project are active and collaborates in order to deal with the variables that change. That is why Birch must have in mind that a seemingly fruitful collaboration can drift apart as a result of divergent interests. Communication is therefore needed during the entire process to secure efficiency and cope with possible misinterpretations. While it is very important that Birch is involved in all the negotiations with potential partners in the entry process, he cannot be both present in South Africa all the time and run the AluFlam group from the headquarters in Denmark. If the entry becomes is made, Birch will subsequently need to find good and reliable spokespersons that can speak on behalf of him to secure strategic orientations. But there will always be an amount of uncertainty by not being present yourself. Furthermore the initial Fibertex feasibility study was quickly outdated at certain parameters that especially involve information about the industry environment. As a consequence Fibertex is not profiting as expected before the entry was initiated and is now focusing more on other sub Saharan markets that are easily reachable from the factory in Durban. We therefore stress that the knowledge and information gathered in the tripod has no implication in itself, rather it is how AluFlam would use the knowledge and information that is of great matter. Birch is forced to be critical about the information and knowledge he is presented and be sceptical with respect to the most probable implication of the actions. It is easy to think that the implications will be the same as they used to be but this is oftentimes not the case. It is this problem that management needs to consider and try to rise above. If Birch focuses too much on his lack of knowledge and information he can feel pressured into

not doing anything at all or just do what the network proposes. As a market seeking company, AluFlam should use the information obtained from the tripod as motivation and inspiration to create strategies that fit the entry best.

11. CONCLUSION

This thesis has investigated which managerial decisions that need to be made when a Danish company wants to enter the South African market, how a Danish company has succeeded on the market before, and finally the strategic uncertainties related to an entry. We wanted to learn how a Danish company could enter South Africa without making the common and expensive mistakes. The case company AluFlam proposed a series of concerns that they wanted us to investigate as an initial study and we found that by making the early stage research of how the potential entry could materialise, we could get a sense of South African business opportunities as well as the uncertainties that can occur in an entry process. We found it interesting to investigate how management in a Danish company can navigate through strategic dilemmas and necessary compromises in order to enter the South African market. The idea behind this question was to get an understanding of the process of making an entry and of the nature of the strategic decisions that management needs to make in such an unfamiliar place.

In our study we have determined that decisions can be made between two extremes with the *hierarchy strategy* on the one side and the *networking strategy* on the other. We have found that in order to navigate through strategic dilemmas and cope with uncertainties, management should be careful and always consider what method they use to determine which and how decisions are made. We used the tripod analysis to gather data and information about the environment and we believe that this is important to do before the entry project is initiated. This analysis gave us an understanding of the business environment and the many difficulties AluFlam could face. The combination of the three perspectives uncovered which areas that need to explored further and what areas that need to be considered in order for management to be able to make informed decisions. However, we also learned from the model case study of Fibertex that feasibility studies are not always necessarily a good thing as the information provided in such a study can become irrelevant or misleading. The information gathered may not always help the project manager in maintaining the relevance of the entry project. Nevertheless, we still hold that by focusing on the information from the tripod study and articulating clear goals and plans, AluFlam will have a good foundation before they start to take strategic action. On the other hand, because South Africa is a very complex country we suggest that management include interested external actors for assistance and advise before,

during and after the entry process. However, as this creates opportunities we also find that by including different actors, new obligations that management will have to deal with surface as we learned from the Fibertex study. It raises the question of the individual ambitions and goals of these actors who may hold tacit knowledge that can be difficult to understand and make explicit during a project phase.

The *spec float* strategy allows the entry project to drift with the new requirements coming from the emerging changes as new inputs constantly affect managerial decisions. But the management in AluFlam should be wise to not let the project goals keep changing and thereby obstruct efficiency. When Fibertex first entered South Africa, changes in their environment made it necessary to change focus to other markets and other products. Fibertex experienced that many actors such as local institutions and industry reactions required them to find different opportunities in order to be successful. Preparation and informed decisions will eliminate some of the uncertainties but not all and it is therefore important to prepare a setup that allows for adaptations and flexible decision-making. We find that the process of entering South Africa is a series of decisions where some has been planned by management and some will be reactions. We thus find that a balance between the two strategic approaches would be required to maintain efficiency all the while making sure that AluFlam's entry adapts to the emerging changes in the environment. We believe that by maintaining a positive and opportunity-driven outlook, management should try to discover the opportunities that offer themselves and respond to the most relevant ones. This should happen in alignment with the collaborating actors as the response otherwise could create a new setting where management could find themselves without the support they need. It will also be important to consider whether the timing of a change and the degree of the change is really necessary.

The tripod study and the actor network analysis of Fibertex clearly illustrated the many different variables AluFlam needs to be aware of before taking any strategic decisions that could affect the entry to South Africa in a negative way – perhaps decisions that would even influence the rest of the AluFlam group. We clearly observed that if the entry is to become successful it ought to be built on an understanding of the elements in the environment that can contribute to AluFlam's own resources and capabilities. We find that actors such as IFU and EKF can play an important role in reducing the number of uncertainties and risks, but also that new obligations arise by including them. Sometimes in order to secure that the project

advances decisions have to be made through compromises with other actors - especially the local ones. AluFlam should however be careful never to bring them into a situation where other actors prohibit them from considering other options. If IFU for example is considered as a partner to the project, AluFlam should be aware that by including them new variables come into play. The same goes for other collaborators that could be possible for AluFlam as all of them could have different goals and objectives. We interviewed FABCOS who showed interest in being a "black partner" to AluFlam but they are a large organisation engaged with many projects in different industries, so a vital question is how dedicated they would be to the project after all. Fibertex are not satisfied with their partner's contribution to the project and has made some mistakes that could have been avoided if the local knowledge was shared properly. In the end we find South Africa to be a country with great opportunities and a gateway to other African markets. However AluFlam and other Danish companies need to approach the country with respect and humility as many information asymmetries from various actors can affect business in many directions.

11.1 SUGGESTIONS FOR FURTHER RESEARCH

When the entry strategies AluFlam will use in South Africa are formed and if AluFlam decide that a JV with a South African partner is the best way forward, a study through the relational view (Dyer and Singh 1998) could be an interesting and useful analysis since the perspective can help to clarify which capabilities the different potential collaborators can contribute with. Dyer and Singh (1998) argue that a company's critical resources may span their boundaries and may be rooted in inter-firm routines and processes, and a relation to a partner suggests the need of sharing and renting routines and company processes. Dyer and Singh (1998) find that the creation of relational rents is often depending on a company's ability to find a partner with complementary strategic resources and also a relational capability (a company's willingness and ability to partner up). A relational view analysis of the AluFlam case will be interesting as they may as a late entrant find that all potential partners with the necessary complementary strategic resources already have entered into alliances with other companies. Dyer and Singh (1998) find this to be a particular problem for late movers into foreign markets where there may be few local companies with the local market knowledge, contacts, and distribution networks needed to facilitate a successful and competitive market entry. In a market such as

the South African another problem could be that potential partners may lack the relational capability or the relation building skills and process skills necessary to make relation specific investments or develop knowledge sharing routines. This could be an interesting future analysis as the market in South Africa is developed and many relations are probably already established between competitors and other institutions. An analysis of this could discuss how AluFlam could break into these relations or find a new partner in order to create competitive advantages.

12. REFERENCES

12.1 LITERATURE

Aaker, Day, Kumar (2000) – Marketing Research: student edition, Publisher: John Wiley and Sons (WIE)

Akrich, Callon, Latour (2002) - THE KEY TO SUCCESS IN INNOVATION, PART I: THE ART OF INTERESSEMENT. Publisher: International Journal of Innovation Management Vol. 6, No. 2 pp. 187–206 © Imperial College Press

Akrich, Callon, Latour (2002) - THE KEY TO SUCCESS IN INNOVATION, PART II: THE ART OF CHOOSING GOOD SPOKESPERSONS. Publisher: International Journal of Innovation Management Vol. 6, No. 2 pp. 207–225 © Imperial College Press

Atkinson, Crawford, Lynn & Ward (2006): Fundamental uncertainties in projects and the scope of project management. *International Journal of Project Management.* Vol. 24, pp. 687-698.

Barney 1991 (1991): Firm Resources and Sustained Competitive Advantage, Journal of Management, 17: 99-120 (19 p.)

Callon (1986a): 'The Sociology of an Actor-Network: The Case of the Electric Vehicle'. In: Callon, M., Law, J. and Rip, A. (Eds), *Mapping the Dynamics of Science and Technology*. London: Macmillan Press,pp. 19-34.Courtney 1997

Chemawat (2007): "Managing Differences – The Central Challenge of Global Strategy" Harvard Business School Publishing Corporation.

Courtney, Kirkland, and Viguerie (1997). Strategy under uncertainty. Harvard business review, November-December, pp. 197-218. (12p)

Dyer and Singh (1998): The relational view: Cooperative strategy and sources of organizational competitive advantages. Academy of management review, 23

Gadamer (1999): Hermeneutics, Religion, and Ethics. Yale University Press pp.192

Gimbert (2011): Think strategically. Publisher: PALGRAVE MACMILLAN

Gulddal and Møller (1999): Hermeneutik, En antologi om forståelse. Udgivet 16.11.1999 af Gyldendal

Højbjerg, Fuglsang, Olsen, Bitsch (2004): "Videnskabsteori i samfundvidenskaberne – På tværs af fagkulturer og paradigmer", 2. udgave 2004, 3. oplag 2007, Roskilde Universitetsforlag

Jensen (2005): Aktør-netværksteori : Latours, Callons og Laws materielle semiotik. Socialkonstruktivistiske analysestrategier. red. / AndersEsmark ; CarstenBagge Laustsen ; NielsÅkerstrøm Andersen. s.185-210.

Kim and Mauborgne (2004). Blue ocean strategy. From theory practise. California management review, spring 47 (3), pp. 105-121

Kreiner (1995) In search of relevance: Project management in drifting environments. *Scandinavian Journal of Management*. Vol. 11, No. 4, pp. 335-346

Kvale (1997): InterView. Hans Reitzels Forlag, 1997 1. udgave, 1997, 318 pp

Latour (1986). Laboratories and Texts. pp. 35-50 in Callon, Michel; Law, John; Rip, Arie (eds.): Mapping the Dynamics of Science and Technology. London: MacMillan

Meyer, Estrin, Bhaumik, Peng (2009): Institutions, resources and entry strategies in emerging economies. Published in SMJ January 2009

Mintzberg and J. A. Waters (1985): Of Strategies, Deliberate and Emergent, Strategic Management Journal, Vol. 6

Peng (2001): The resource-based view and international business. Journal of management, 27 (6): 803-829

Peng, Wang, and Jiang (2008): An institution-based view of international business strategy: a focus on emerging economies. Journal of International Business Studies (2008) 39, 920–936

Peng & Meyer (2009): International Business. Publisher: Cengage Learning Emea

Porter (1980): Competitive Strategy, Free Press, New York, 1980.

Porter (2008): The Five Competitive Forces That Shape Strategy, Harvard business Review, January 2008.

Reynor (2007): The strategy paradox. Publisher: Doubleday

Saunders (2003): Research Methods for Business Students. Author, Saunders. Edition, 3. Publisher, Pearson Education

Saunders, Thornhill, and Lewis (2009): Research Methods for Business Students. Publisher: Financial Times Prentice Hall

Von Hippel & Prügl (2008): 'Pyramiding': Efficient Identification of Rare Subjects, 4720-08. Sloan Working Paper, Sloan School of Management, Massachusetts Institute of Technology. Retrieved November 29, 2008

Yin (1994): Case Study Research: Design and Methods. Publisher: Saga publications

12.2 PRIMARY DATA

Transcriptions can be provided on request:

Interview Birch, Roskilde

Interview Danish Embassy, Pretoria (transcripted)

Interview David Allen (Skype)

Interview FABCOS, Johannesburg (transcripted)

Interview Hansen, IFU, Johannesburg (transcripted)

Interview Hovgaard and Jacobsen, DANLINK and Pandora, Johannesburg

Interview Iversen, Fibertex, Durban (transcripted)

Interview Lauritzen Hummel, Cape Town (transcripted)

Interview Michele Rivarola, Carifro Consulting Engineers. (Skype)

Interview Olesen, Vestergaard og Frandsen, Johannesburg (transcripted)

Interview Olsen, FLS, Johannesburg (transcripted)

Interview Risgaard, Airland logistiscs, Johannesburg (transcripted)

Interview SCT, Durban (transcripted)

Interview Søgaard Fibertex, Durban

12.3 REPORTS

AluFlam Material

AluFlam Product Guide

Aluminium & you – the 2011 Aluminium industry review, May 2012

Eksport Kredit Fonden, landeinformation, Sydafrika

Foreign Direct Investment in South Africa, Gelb and Black 2007

Investment Fund for developing countries, fakta om Sydafrika

Ministry of Foreign Affairs of Denmark – Partnership for the future

Nordic outlook, Economic and financial trends, july 12, Danske Research for Danske Bank

Per Christensen presentation, South Africa event, Vejle

South African Infrastructure Rapport – Infrastructure & Construction – Q2 2012

SANS 10400-T:2011

The Global Competiveness Report 2011-2012

13.4 WEBSITES

www.aluflam.com

http://www.southafrica.info/news/international/brics-030111.htm

www.africaneconomicoutlook.org

http://sydafrika.um.dk/en/the-trade-council/xx-as-market/sector-analysis/construction/

www.ifu.dk

http://www.huffingtonpost.com/2012/09/10/south-africa-miners_n_1869755.html

www.bbbee.com

http://www.tradeinvestsa.co.za/incentives/704004.htm

www.fig.co.za

www.idc.co.za

www.nefcorp.co.za

www.EKF.dk

www.startvaekst.dk/goglobal.dk/forside/0/

http://hdrstats.undp.org/en/countries/profiles/ZAF.html

www.southafrica.info

www.southafrica.info/business/economy/sectors

http://www.agoa.gov/

www.sabs.co.za

http://www.agrement.co.za/

www.afsa.org.za

www.hulamin.co.za

www.eaglealuminium.co.za

www.proaluminium.co.za

www.wispeco.co.za

www.origingroup.co.za

www.amdoor.co.za

www.joburg.org.za

www.capetown.gov.za

www.fabcos.co.za/enterprise_development_international_relations.htm

http://www.sars.gov.za/home.asp?pid=44747

http://borsen.dk/nyheder/virksomheder/artikel/1/241611/danmark_investerer_kraftigt_i_afrika.html