

Developing a channel strategy for a diesel engine supplier in Mozambique

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It all starts here TM

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To whom it may concern,

LANGUAGE EDITING

This letter serves as proof that the following document was submitted for language editing in April 2016:

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I applied all reasonable effort to identify errors and made recommendations about spelling, grammar, style and punctuation.

I attempted to be consistent regarding language usage and presentation.

The bibliography was also checked and corrections were made where necessary.

I confirmed the content as far as possible, but cannot be held responsible for this as all facts could not be confirmed. This remains the responsibility of the author.

Thank you very much.

Kind regards.

Rentia Mynhardt

ABSTRACT

Title: Developing a channel strategy for a diesel engine supplier in Mozambique – a case study

Keywords: Channel strategy, external environment, internal environment, SWOT analysis, PESTLE analysis, Mozambique, competitive advantage, competitor analysis, business environment, channel to market, emerging market.

With the current global economic growth slowdown more and more companies are looking towards Africa for its future sales growth. Due to it being consistently one of the best performing economies in the world, Mozambique has also caught the eye of potential investors across the globe. It has experienced remarkable growth in a region where its neighbours sometimes battle to achieve only a third of the growth that Mozambique is able to achieve year after year and yet very little is known about this country and the trading conditions there. If its rating on the global Ease-of-doing-business and Corruption indexes are anything to go by, it would seem like a very hostile environment for foreign companies, should they desire to start a business there. Its dependence on China as the major investment partner has also raised some questions about the sustainability of this growth when considering the happenings in the Chinese economy and the economic growth slowdown they are experiencing.

With questions around its economic diversity and its ability to sustain current growth rates in the future as the starting point, foreign investors planning to commence operations in Mozambique need to find accurate and relevant information about the business environment, the markets, its potential competitors and clients in order to choose the best strategy for the achievement of the overall goal of any company – increasing the wealth of the shareholders.

To capitalise on the opportunities available, companies need to analyse their external and internal environments. The main objective of this study is to analyse and to evaluate the competitive environment of a selected world leading diesel engine supplier in Mozambique to determine whether the economic growth currently

experienced in Mozambique is sustainable and whether it justifies further capital investment by the company to achieve a reasonable market share.

The research approach that was firstly followed consists of a literature study and secondly of an empirical study. The planning tools utilised in this study are the SWOT and PESTLE analyses. Both have formed part of the strategic planning process of many firms over the past century and have proved to be a key part in putting together the information needed from which to build a sustainable strategy. This study evaluates both of these planning tools and applies them to the chosen company for this case study.

Following on the corporate appraisal of the PESTLE and SWOT techniques and a review of the summary of responses received during the empirical study, the study is summarised and elaborates on conclusions and recommendations for the selected company, emanating from the study.

ABSTRAK

Titel: Die ontwikkeling van 'n kanaalstrategie vir 'n dieselenjin verskaffer in Mosambiek - 'n gevallestudie

Kernwoorde: Kanaalstrategie, eksterne omgewing, interne omgewing, SWOT-ontleding, PESTLE-ontleding, Mosambiek, kompeterende voordeel, mededinger analise, sakeomgewing, kanaalbemarking, ontluikende markte.

Danksy die huidige verlangsaming in die wêreldwye ekonomiese groei kyk meer en meer maatskappye na Afrika vir toekomstige groei in verkope. Aangesien dit gereeld een van die beste presterende ekonomieë in die wêreld is, het Mosambiek die oog gevang van potensiële beleggers van regoor die wêreld. Dit ervaar merkwaardige groei in 'n streek waar sy bure soms sukkel om slegs 'n derde van die groei wat Mosambiek in staat is om op 'n jaar tot jaar basis te handhaaf, te bereik en tog is baie min bekend oor hierdie land en die heersende handelstoestande. As sy posisie op die globale Gemak-om-mee-besigheid-te-doen en die Korruptsie indekse enige aanduiding is, sou dit voorkom asof dit 'n baie onvriendelike omgewing is vir buitelandse maatskappye wat 'n besigheid daar sou wou vestig en sy afhanklikheid van China, as sy grootste beleggingsvennoot, het ook gelei tot 'n paar vrae oor die volhoubaarheid van hierdie groei as die huidige gebeure in die Chinese ekonomie en die verlangsaming in hul ekonomiese groei in ag geneem word.

Met vrae rondom sy ekonomiese diversiteit en, as beginpunt, sy vermoë om huidige groeikoerse in die toekoms gestand te hou, moet buitelandse beleggers wat beplan om bedrywighede in Mosambiek te begin, akkurate en relevante inligting oor die sake-omgewing, die markte, die potensiële mededingers en kliënte vind, ten einde die beste strategie te kies vir die bereiking van die oorhoofse doel van enige maatskappy, naamlik die verhoging van die aandeelhouerswelvaart.

Om te kapitaliseer op beskikbare geleenthede, moet maatskappye hul eksterne en interne omgewing analiseer. Die hoofdoel van hierdie studie is om die mededingende omgewing van 'n wêreldleier in dieselenjinverspreiding in Mosambiek te ontleed en te evalueer om te bepaal of die ekonomiese groei wat Mosambiek tans

ervaar volhoubaar is en of dit verdere kapitale belegging deur die maatskappy regverdig ten einde 'n redelike markaandeel te bereik.

Die navorsingsbenadering het eerstens uit 'n literatuurstudie en tweedens uit 'n empiriese studie bestaan. Die beplanningsinstrumente wat gebruik word in hierdie studie is SWOT en PESTLE ontledings. Beide vorm deel van die strategiese beplanningsproses van baie maatskappye oor die afgelope eeu en het bewys dat dit 'n kardinale deel is in die versameling van inligting wat gebruik word om 'n volhoubare strategie te formuleer. Hierdie studie evalueer beide van hierdie analitiese instrumente en pas dit toe op die gekose maatskappy in hierdie gevallestudie.

Na die evaluering van die PESTLE en SWOT ontledings en 'n hersiening van die opsomming van terugvoering ontvang vanaf die empiriese studie, word die bevindinge van die studie saamgevat en word voorstelle en gevolgtrekkings vir die geselekteerde maatskappy soos per die bevindinge van hierdie studie, gemaak.

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LIST OF ABBREVIATIONS

BP	-	British Petroleum
BRIC	-	Brazil, Russia, India and China
CPI	-	Centre for Investment Promotion
DUAT	-	Direito de Uso e Aproveitamento da Terra
EBU	-	Engine Business Unit
EDM	-	Electricidade de Moçambique
ENI	-	"Ente Nazionale Idrocarburi" (national hydrocarbons authority)
FDI	-	Foreign Donor Investment
FRELIMO	-	Frente de Libertacao de Mozambique
GDP	-	Gross domestic product
HP	-	Horsepower
LNG	-	Liquefied Natural Gas
OECD	-	Organisation for Economic Co-operation and Development
OEM	-	Original equipment manufacturers
PBIT	-	Profit before Interest and Tax
PESTLE	-	Political, Economic, Sociocultural, Technology, Legal and Environmental
PGU	-	Power Generation Unit
RENAMO	-	The Mozambican National Resistance
SWOT	-	Strengths, Weaknesses, Opportunities and Threats

UAE - United Arab Emirates

UK - United Kingdom

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CHAPTER 1

1. INTRODUCTION

1.1. Background

Across Africa, demographic shifts are creating meaningful opportunities, as well as daunting challenges, for the continent's emergent economies (Douglas, 2012). Mozambique is no exception. According to the Central Intelligence Agency of the United States' world fact book, Mozambique's land surface is slightly less than twice the size of the state of California in the United States of America and bigger than the countries of Pakistan and Turkey with a coastline longer than that of Egypt, Portugal, Angola or the UAE and a bigger population than Australia, Sri Lanka, Syria or the Netherlands. Although Mozambique is growing from a lower base than many other countries, Macauhub (2012) stated that Mozambique and Angola have been ranked at the top of world economic growth in the last decade. Macauhub (2012) also stated that where Angola has been growing due to its oil sector, Mozambique's growth has been due to a much more diverse economic base.

According to Olivenca (2013) a key reason for the bright future facing Mozambique could be attributed to the fact that after almost two decades of civil war, the country is rapidly emerging as one of the fastest growing economies in Africa. Economic growth is expected to average around 8% over the next few years, inflation is slowing down from a high of 17.4% in 2010 to an average rate of 4.14% in 2013, a rate at which economists predict it will remain for the next 10 years. Olivenca (2013) also explained that a further contributing factor is the fact that the country is currently in a period of remarkable political stability. FRELIMO, the ruling political party, has been in power since the cessation of violence in 1994 and was re-elected for another term in 2014.

1.2. The Mozambique business environment

In terms of the Mozambique business environment, the country is rich with opportunities. There have also been substantial offshore gas discoveries in Mozambique which will further develop and fund growth in the country, provided

sufficient investment in gas liquefaction and containerisation are realised. According to Helman (2014) the gas resource discovered by the energy company ENI in Mozambique was one of the biggest finds in the world for 2013. ENI stated in a press release on their website in September 2013 that it has made a new offshore high impact discovery in Mozambique and that the preliminary estimates show that the find could contain 5 to 7 trillion cubic feet of gas in place. Furthermore Mozambique enjoys one of the largest deposits of coal in the world, much of which is export grade coking coal (Olivenca, 2013). In their country mining guide on Mozambique, KPMG (2013:2) reported that Mozambique is set to benefit from large coal demand from China and India and could well become one of the 10 largest coal exporters globally by 2017. Coal output is forecast to reach 41.8 million tons by 2017, mainly driven by the mining company, Vale. Due to a low base from which it is growing, this growth rate should continue despite issues of inadequate infrastructure, global commodity pricing and insecurity (although these all increase “downside risks”).

Another sector experiencing a period of growth is that of agriculture. Douglas (2012) stated that almost 65% of Mozambique’s land is defined as agricultural. However what is interesting is that the country is ranked sixth in the world in terms of the weight of available, under-utilised cropland, an estimated 4.7% of the world’s total. This sector also employed about eighty percent of the country’s working population, resulting in a number of governmental plans, partnerships and programmes – as well as private investments – being established to promote and support agricultural production, create higher employment and in the process also improve food security. Power generation is another key sector and a priority for Mozambique’s government and also a critical requirement for the country’s fledgling mining and agricultural sectors. According to Macauihub (2014) the Mozambican state power company, Electricidade de Moçambique (EDM), has estimated that it needs to spend US\$2 billion on its primary power transmission network to meet a rise in demand for electricity.

From the above it is evident that the country’s natural resources will play a central role in driving the economy forward over the next few decades.

1.3. Mozambican industry - concerns and challenges

Already, some of the world's largest international mining organisations are active across the country and particularly in the mineral-rich Tete province. Olivenca (2013) noted that while much activity is currently underway in certain infrastructure sectors such as transportation and power, the country has seen little activity in other key areas including education, public health, waste, water and public buildings. In part, this is because the country is still largely reliant on foreign aid with limited funds available to channel into capital investments of the size and scope required. Progress is also being hampered by a lack of skills and capability in domestic infrastructure contracting and development.

Ehlers and Lazenby (2004:83) stated that the experience and research of organisations suggest that their growth and profitability are affected by what is happening in the external environment. Because of the increasing turbulence and continuous changes in the markets and industries around the world, external environmental analysis has become an explicit and vital part of the strategic management process. Schendel and Hatten's definition on strategy (Hax & Majluf, 1988:100) states that strategy starts with the basic goals and objectives of the company. From there it is completed by the major programs of actions chosen to reach these goals and objectives and the resource allocation used to connect the organisation with its environment. In the case of Mozambique a thorough study of the external environment will be required.

1.4. SWOT and PESTLE analyses

When an organisation considers to enter a new market, especially a market in Africa with limited market intelligence available, a thorough analysis of the country's strengths and related weaknesses, the opportunities the country has to offer and the technology available to achieve optimum operating conditions, will need to be conducted if a company wants to attain and sustain a competitive advantage. The case study will perform a SWOT analysis of the factors that have a bearing of the business of Company A. Complementary to this, a PESTLE analysis that evaluates political, environmental, social, economic and legislative factors that can influence

Company A's decision on how, where and if to operate in Mozambique, will also be conducted.

1.5. Field of study under consideration

Company A is a global company consisting of complementary business units that design, manufacture, distribute and service engines and related technologies. Company A has been represented in Mozambique since late 2010 through dealership agreements and technical assistance to original equipment manufacturers (OEMs). Company A has appointed an official distributor for its engine business unit (EBU) and power generation unit (PGU) businesses in the southern African territory covering South Africa, Botswana, Zambia, Zimbabwe, Mauritius, Madagascar, Namibia, Mozambique, Malawi, Swaziland and Lesotho. Company A operates in a matrix organisational structure with a market segment focused customer interface. The intention is to keep this consistency across all operations and territories. Consequently, Mozambique will be evaluated in terms of Company A's market segments and focus will be applied accordingly to the following products:

- Whole goods (generators and engines)
- Parts and components
- Filtration, lubrication and coolant
- Services (maintenance, repairs and engine overhauls)

In the next 5 years, Company A plans to grow its business activities in the Mozambique mining, agricultural, marine, rail, filtration, power generation, lubrication and automotive sectors to such an extent that the sales and profit before interest and tax (PBIT) contributions generated in Mozambique places it as one of the leading business units in Company A's group of companies. Company A will benefit from the opportunities in Mozambique by supplying the engines, parts, components, filters and lubrication for the high horse-powered, the power generators and the automotive markets through a combination of OEMs, dealers and cross-counter sales outlets, backed by their superior after-sales support. This success requires Company A to take a strategic view on investment in Mozambique in the short term in order to deliver in the long term. The overall objective of this research is to determine and

define the sustainability of the business growth environment in Mozambique and what the most effective channel to market will be for a company supplying diesel engines, components and after-sales services.

1.6. Motivation

From the abovementioned it is clear that the current economic growth in Mozambique is fuelled by developments in the mining, agricultural and engineering industries. This growth does not only benefit the country and its residents, but the improvement in roads, ports and rail infrastructure should also lead to progress in neighbouring landlocked countries. Behind the increased expansion in the economic environment of Mozambique are generators, equipment and vehicles driven by diesel-powered engines. As a global leader in the supplying and maintenance of diesel-powered engines, Company A has to capitalise on this growth through a channel model ensuring the availability and after-sales support of its diesel engine products. Through an analysis of the external business environment in Mozambique, a better understanding of the real opportunities and threats will be obtained and Company A will be able to make better informed decisions and also develop more sustainable competitive strategies. To secure a competitive advantage, a comprehensive analysis of the expanding sectors powered by diesel engines needs to be done to take into account the following factors:

- Geographical record of economic growth sectors;
- Sustainability of the growth sectors;
- Engine families represented in these environments;
- Barriers of entry;
- Most effective channel to ensure a reliable, timeous and cost-effective supply of products and services to end users;
- Who are the competitors operating in or targeting these markets;
- Challenges and concerns associated with achieving desired market share in these sectors;
- The potential benefit that growth and development in Mozambique can have on other neighbouring countries.

1.7. Problem statement and research objectives

1.7.1. Problem statement

Globalisation and a slowdown in world economies have turned many companies' efforts towards developing countries like Mozambique. This renewed rush to be the front runners and claim the dominant market share has created many new challenges. Establishing a business presence and after-sales service support infrastructure has become important to managers and customers, but this can only be achieved through resource commitments from the expanding company. The problem that managers face is not a lack of appropriate tools. A wide variety of tools - including case-based decision analysis, qualitative scenario analysis and information markets - can be used for decisions made under high degrees of uncertainty. But the sheer variety can be overwhelming without clear guidance about when to use one tool or a combination of tools. When such guidance is absent, decision makers will continue to solely rely on the tools they know best in an honest but misguided attempt to impose logic and structure on their make-or-break decisions (Courtney *et al.*, 2013).

Although an organisation has little influence over its external environment, it has more control over the internal environment and can change the internal factors in reaction to changes in the external environment. Deloitte (2009:4) states that having risk intelligence is all about maintaining the right balance between risk and reward.

This gives rise to the primary research questions:

- Is the growth currently experienced in Mozambique sustainable and
- What is the proposed channel to market for a company like Company A in Mozambique to ensure customer satisfaction?

1.7.2. General objective

Based on the research questions as identified above, the objective of this study is therefore to analyse and to evaluate the competitive environment of a selected world leading diesel engine supplier in Mozambique to determine whether the economic

growth currently experienced in Mozambique is sustainable and whether it justifies further capital investment by the company to achieve a reasonable market share.

1.7.3. Specific objectives

The general objective above makes it possible to formulate the following specific and detailed objectives:

- Identify most suitable channels to market by engine segment;
- Identify steps to take to reduce risk exposure and
- Share experiences from other companies that are currently operating in Mozambique.

1.8. Research methods

This study will firstly consist of a literature study and secondly of an empirical study. The literature study will focus on the external environment in which Company A is operating. The purpose of the literature study is to identify and highlight the important variables of previous research. Information will be gathered from text books, scientific journals, the Internet and other publications.

Secondly, an empirical study will be done that will focus on the external and internal environment in which a company like Company A has to operate in and will be seen as an exploratory research project. Sekaran (2000:123) states that an exploratory study is undertaken when not much is known about the situation at hand, or when no information is available on how similar problems have been solved in the past. Questionnaires will be distributed to managers and owners of companies operating in the same environment as a company like Company A.

1.9. Field of research

Company A is a world-leading engine and related technologies designer, manufacturer, distributor and service leader. Owing to its reliable, durable and cost efficient engines, major OEMs have peace of mind when tendering on major projects and contracts when Company A is the diesel engine supplier. For Company A

though, with this accolade come great responsibility and a desire to deliver to their customers' expectations. The company is nearly 100 years old and employs over 50,000 people worldwide and has an annual revenue of \$19.2 billion in 2014 (Forbes, 2015). The corporation serves its customers through its network of 600 company-owned and independent distributor facilities and with more than 6,200 dealer locations in over 190 countries and territories and built more than one million engines in 2014.

1.10. Definitions

For purposes of this dissertation, the following definitions and concepts are considered to be correct:

Channel to market: The directing of promotional efforts at specific links or levels (distributor, wholesaler, retailer) in a channel of distribution (Business Dictionary, 2016b).

Economy: An entire network of producers, distributors and consumers of goods and services in a local, regional, or national community (Business Dictionary, 2016a).

PESTLE: PESTLE analysis provides a framework for investigating and analysing the external environment for an organisation (Cadle *et al.*, 2010:3).

Political factors: An activity related to government policy and its administrative practices that can have an effect on something. Most business operators will keep a watchful eye on any political factor, such as new legislation or regulatory shifts, which could have a substantial impact on how their company operates and on its bottom line (Business Dictionary, 2016c).

Strategy: Strategy is a coherent, unifying and integrative pattern of decisions. It determines and reveals the organisational purpose in terms of long-term objectives, action

programmes and resource allocation priorities. It further selects the businesses the organisation is in or is to be in, defines the kind of economic and human organisation the company is or intends to be, attempts to achieve a long-term sustainable advantage in each of its businesses by responding properly to the opportunities and threats in the firm's environment and the strengths and weaknesses of the organisation, engages all the hierarchical levels of the firm (corporate, business, functional) and defines the nature of the economic and non-economic contributions it intends to make to its stakeholders (Hax & Majluf, 1988:102).

SWOT: A strategic planning tool used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or business venture. Strengths and weaknesses are internal to the company. Opportunities and threats originate from outside the company. A SWOT analysis is usually performed early in the project development process and helps organisations evaluate the environmental factors and internal situation facing a project (Oxford Learner's Dictionary, 2016).

Theory: The exposition of the abstract principles of a science or art (Webster's Dictionary and Thesaurus, 2006:393; Hole & Hawker, 2004:578) or a set of ideas to explain something (Livingstone, 2008:688).

1.11. Overview

The study will follow the dissertation route in accordance with the guidelines of the North-West University and will be divided into six chapters.

Chapter 1: Introduction

This chapter will address the background to the study and motivation of topic actuality, which will demonstrate the relevance and need for the suggested study. The problem statement and research objectives will also be addressed, which will set the foundation for the rest of the study. Lastly, the hypothesis, research method used and outline of the study will conclude the final part of this chapter.

Chapter 2: Research design and methodology

The focus of this chapter is on the strategy used to conduct the research. It has a twofold purpose: Firstly, to explain how the data of the literature review were obtained and secondly where the data for the empirical study came from and the use of these in the research study. To conclude this section, the principles of rigour and ethics that were used during the research design are explained.

Chapter 3: An overview of Company A and Mozambique

The purpose of this chapter is to provide information that will enable the reader to have a better understanding of the business nature of Company A through its diverse product range, its vision, mission and identifying possible constraints they might incur when setting up a channel to market strategy in Mozambique. It will also attempt to give an ameliorated understanding of the history, current changes and planned future developments reported in Mozambique and some of the factors that will impact on setting up and operating a business in the country.

Chapter 4: Analysing the internal and external business environment

This chapter will explain the corporate planning tools that will be used in the research, namely:

- SWOT – Strengths, Weaknesses, Opportunities and Threats
- PESTLE – Political, Economic, Social, Technology, Legal and Environmental.

The aim of this chapter is to examine the elements of a PESTLE and a SWOT analysis and to identify how these can benefit a company wanting to establish business operations in a country like Mozambique.

Chapter 5: Assessment in practice: an empirical case study

This chapter will provide the empirical data gathered by means of the structured questionnaire and informal interviews held with representatives from different companies, representing different industries in Mozambique. A summary of the responses received from the different respondents will be presented in graphical and tabular format and a short overview of the findings will be shared. Some shortcomings of using a PESTLE and SWOT analysis will be discussed.

Chapter 6: Summary, conclusions and recommendations

This chapter summarises the study and elaborates on conclusions and recommendations emanating from the study. The objectives of the study will be discussed and conclusions, together with recommendations will be given. Lastly, the scope for further research, as well as limitations of the study, will be addressed.

1.12. Summary

In this chapter the researcher wanted to give an overview of how and why this study was done, as well as supplying definitions to commonly used words in this document and the chronological flow of the information in it.

In the next chapter we will explain in more detail how the research design and methodology was conducted with specific reference to the selection of the research process, the literature accessed, the empirical research approach that was used and the steps followed by the researcher to ensure that rigour and ethical principles were used when collecting data from respondents.

CHAPTER 2

2. RESEARCH DESIGN AND METHODOLOGY

2.1. Layout of the chapter

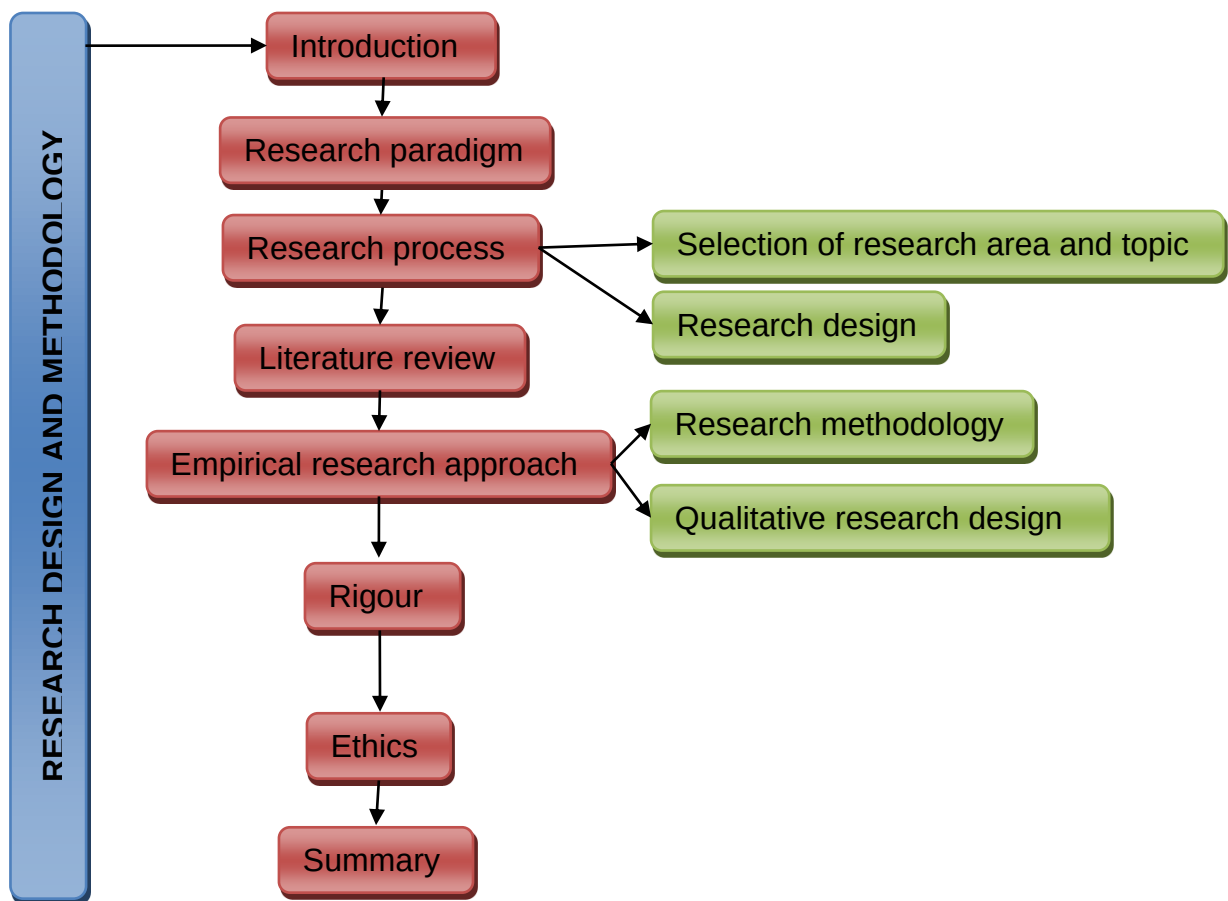


Figure 1 - Layout of Chapter 2

2.2. Introduction

In this chapter the researcher will demonstrate how the research design and methodology were conducted with specific reference to the selection of the research process, the literature accessed in this study, the empirical research approach that was used and the steps followed by the researcher to ensure that rigour and ethical principles were used when collecting data from respondents. From the previous

chapter it was revealed that the objective of this study is to explore the following research problem:

- Is the growth currently experienced in Mozambique sustainable and
- What is the proposed channel to market for a company like Company A in Mozambique to ensure customer satisfaction?

In order to do so the following sub-questions also needed attention:

- What are the PESTLE elements that attention should be given to before formulating a channel strategy?
- What are the SWOT elements that should be deliberated when considering the impact of PESTLE elements on the channel strategy?

2.3. Research paradigm

Research is the application of scientific procedures to study a problem, to acquire useful and dependable information to discover answers to meaningful questions (Manoharan, 2010:3). Arthur et al. (2012:17) further declares that a paradigm represents a person's conception of the world, its nature and their position therein, as well as a multitude of potential relationships with that world and its constituent parts.

Teddlie and Tashakkori (2009:84) define a paradigm as a 'world-view', together with the various philosophical assumptions associated with that point of view. Creswell and Plano Clark (2007:21) also agrees with this statement and refer to a paradigm as a 'world-view'. Business decisions require information and intelligence and research can provide that to make informed decisions (Zikmund et al., 2013:3-5). They continue to explain that research is the search for the truth about business phenomena by applying scientific procedures. This includes defining business opportunities and problems, creating and assessing different courses of action, and monitoring the performance of the company.

Research can also be defined as a creative activity and an original investigation carried out with the intention of contributing to knowledge and understanding in a

particular field (Myers, 2013:6). It provides a means of corroborating a theory or judgement or provides a framework for a theory (Pellissier, 2007:12). Pellissier (2007:6) also make the statement that research is at the most basic level the essential engagement with an intellectual tradition.

Due to the ever changing business environment in Mozambique the research for this study will include country visits and face to face interviews with business managers and owners to get first-hand information and actual business experiences. This approach will be aligned with the views on the research paradigm as expressed in the text above.

2.4. Research process

2.4.1. Selection of research area and topic

The idea of the research topic was as a result of the researcher's interest in the field of management accounting and business development. Having gained twenty years of working experience operating in and with companies situated in ten different Southern African countries, the researcher is of the opinion that starting and conducting business in each country has its own challenges and rewards and that it is through business studies like this that more light is shed on these differences. It is also his opinion that these differences will also result in different channels to market strategies for different countries and therefore a generic strategy will not suffice.

2.4.2. Research design

According to Blumberg *et al.* (2008:195), research design refers to the overall plan of the research. They state that the design is the blueprint for the research project and includes the collection, measurement and analysis of data. A research study could therefore be approached either deductively or inductively. According to Cooper and Schindler (2008:71), the use of inductive and deductive reasoning is vital to draw accurate conclusions about business decisions. They add that inductive reasoning allows the researcher to draw conclusions from the facts and evidence while deductive reasoning refers to the use of existing theory. According to Maree (2010:37), the deductive approach is most commonly used and refers to the way in

which theory guides the research. He further explains that when using the deductive approach, the researcher is using already existing theories to make conclusions on the empirical findings. Sekaran (2000:6) maintains that research can be undertaken for two different purposes, namely:

- *Applied research*: This is done with the intention of applying the results of the findings to solve specific problems currently experienced in the organisation.
- *Basic or fundamental research*: This is done to enhance the understanding of certain problems that commonly occur in the organisation and to seek methods for solving it.

The research type utilised in this study was a basic or fundamental research. A number of participants representing a diverse sample of businesses were selected to share their personal and business experiences via a preset questionnaire. The researcher also attended business seminars and trade delegation conferences in Mozambique and travelled more than 8,000 kilometres through the country interacting with business people and observed the developing business and trade infrastructure. Gathering data on the country and business environment was initially only based on observing change in the country when travelling through it by road and having informal discussions with business owners. From interacting with the local business people it was clear that there was great expectation from what the foreign investments in agriculture, mining and exploration were going to bring to the country's economic growth rate and commercial stability. For a non-empirical study, the researcher used a deductive approach and conducted a literature review.

This approach fitted the research best as the researcher could systematically combine theory and empirical findings.

2.5. Literature review

Hofstee (2009:121) stresses that a literature review provides an overview of the scholarship in the field or in specific aspects of the field and the theory can be used to ground empirical studies on. The literature accessed was a combination of research papers from international business schools, the Internet, census reports, business magazines, banking reports, academic textbooks and global fact books.

The literature review for this study was conducted in two stages. Firstly, the focus was on the country of Mozambique, its history and current developments happening in it. This section also included an overview of Company A, its history, operating practices and potential product offerings to the markets in Mozambique. Secondly, a theory-based review of the PESTLE elements influencing the external operating environment in which a business in Mozambique has to operate in was completed. Further to this an analysis of the internal operating environment of the company was also conducted by way of theoretical research into the SWOT elements and an awareness on how these factors can have an impact on a business. Terre Blanche *et al.* (2006:31) conclude that a literature review involves the process of identifying literature relevant to the topic of research, studying that literature and actually writing the review. This can form part of a larger empirical study, but can also be a worthwhile project in itself. We live in an age of information and often what is required from the researcher is not more findings, but an ability to integrate and synthesise the overwhelmingly large volume of information already available on a topic.

2.6. Empirical research approach

2.6.1. Research methodology

A research study can be quantitative, qualitative or a combination of these methods. A quantitative approach is imbedded in the positivism philosophy and requires that the researcher emphasises quantification in the collection and analysis of data (Blumberg *et al.*, 2008:19). The researcher however chose a qualitative approach for the empirical research. Qualitative research is derived from the interpretivism philosophy where interpretivists believe that the social world cannot be understood by applying principals from the natural sciences (Blumberg *et al.*, 2008:20). The researcher choose to rely more heavily on naturalistic methods like interviewing and observation and analysis of the existing participants in the Mozambique economy. According to Cooper and Schindler (2008:162), qualitative research includes various interpretive techniques seeking to describe, decode and translate in order to gain an understanding of the phenomenon. Basic principles of interpretivism are that the social world is given meaning subjectively by people and the researcher is driven by

interest and forms part of what is observed (Blumberg *et al.*, 2008:20). Blumberg *et al.* (2008:20) also refer to the following two factors implied by the interpretivism research assumption:

- the social world is observed by seeking what meanings people give to it and interpreting these meanings from their point of view and
- social phenomena can only be understood by looking at the totality.

The current study sought to observe and explore the economic, business, social and political changes in Mozambique and get a better understanding of the barriers to entry and operating constraints which a new business might have to plan for to be successful in it. Qualitative research fits exploratory studies best as the researcher might not be sure of the extent of the problem. Qualitative research also has a loose structure (Blumberg *et al.*, 2008:196; Maree, 2010:11). Therefore the researcher chose a qualitative research approach to the empirical data gathering and analysis.

2.6.2. Qualitative research design

According to Burns and Grove (2003:195) research design is a plan or a blueprint of how a researcher intends to conduct his or her research. The research design refers to a strategy, using the underlying philosophical assumptions to specify the selection of participants and the methods to collect and analyse data (Maree, 2010:70). Maree further identifies six qualitative research designs: conceptual studies, historical research, action research, case study research, ethnography and grounded theory. According to Hofstee (2009:120), the research methodology will always be tracked back to one or more of the research designs. The researcher chose exploratory studies for the current study, using a case study design.

2.6.2.1. Sampling design

The single general sampling guide for qualitative research is to keep the sample just big enough for new knowledge and insight to emerge and therefore the sample size in qualitative research is generally small (Cooper & Schindler, 2008:169). Burns and Grove (2003:19) describe a qualitative approach as a systematic subjective approach used to describe life experiences and situations to give it meaning.

According to Cooper and Schindler (2008:169), purposive sampling entails that the researcher select participants based on their characteristics or experiences and Maree (2010:79) mentions that participants are selected according to predetermined criteria. For the purpose of this study, purposive sampling was used. Business managers and owners were selected with a specific purpose in mind using a predetermined criteria. The country of Mozambique was selected because the researcher is familiar with the region and is of the opinion that it has the highest return on investment potential in the region of southern Africa. The literature review revealed that the country has one of the highest economic growth rates in the world and major foreign investment is happening in its mining, exploration, agricultural and infrastructure development sectors. The researcher is also of the opinion that the diversity of investment in Mozambique makes it a more attractive investment option than similar countries whose economies are only based on one or two good performing sectors. The selection of participants was mainly based on their shareholders and senior management's expat status, the markets they are operating in and their dependence on a stable economic environment. The decision on the size of the sample was based on the criteria for non-probability sampling and therefore kept relatively small.

The researcher decided on a sample of ten businesses with operations across Mozambique. At four of the businesses, two independent managers from each was identified but only four of them elected to take part in the study. Ten different interviews were conducted, resulting in ten different managers and owners taking part in this study, representing ten different businesses. The businesses represented in this survey could be distinguished from one another through the differences in their operating sectors, geographical locations and also in the nature of their business.

Each of them represented a business function that could be completed by a business unit in Company A but had no relation to Company A.

2.6.2.2. Data collection design

The research includes a survey questionnaire completed during a semi-structured interview process. A crucial part of good research design concerns making sure that

the questionnaire design addresses the needs of the research. To put this differently; somehow we need to ensure that the questions asked are the right ones (Burgess, 2001:1). According to Cooper and Schindler (2008:92), primary data are opinions of participants on what they know, believe and experience and such data used for the closeness to the topic and truth over errors. Authors like Blumberg *et al.* (2008:284) and Hofstee (2009:135) state that interviews are suitable for case study designs with small sample sizes that allow observations that might enhance the information obtained through the interviews. They also refer to possible interviewer bias and time consumption as obvious disadvantages of interviews. Semi-structured interviews allow the researcher to establish the current view of participants. In the current research it provided space for participants' opinions on developments in the country and what their expectations are. It also allowed for more detailed discussions on possible uncertainties they anticipated and how they are adjusting to it. The interviews took place across Mozambique and ranged from more formal settings like government offices to that of a more relaxed environment like a restaurant. All the interviews started with a few casual questions and comments from the interviewer concerning the participant's time spent in Mozambique, the regions they have travelled in the country and general expectations of the economy. For the purpose of this study, the role of the researcher was that of an interviewer and Cooper and Schindler (2008:172) summarise this role as using the interview guide, asking the questions and identifying possible new lines and questions to discuss. The involvement of the researcher in the data collection process enhanced the reliability and comprehensiveness of the data. The interviewer recorded the answers to questions as they were asked to ensure that no important information was left out.

2.6.2.3. Data analysis design

For the analysis of data gathered during interviews, the researcher used framework coding, based on the combined analytical framework from the literature review to identify initial categories, but more categories emerged from the initial investigation of the transcriptions. Cooper and Schindler (2008:165) confirm this when they say that data collected by interviews are not quantifiable and need to be analysed through human coding, but some sub-categories emerged from the initial investigation of the transcriptions. The data from the transcriptions were analysed

and categorised according to the categories as identified. The outcomes of the interviews were later compared with the information gained from the literature review.

2.7. Rigour

Burns and Grove (2003:391) associate rigour with openness, scrupulous adherence to philosophical perspective, thoroughness in collecting data and consideration of all in the subjective theory development. Tobin and Begley (2004:390) define *rigour* as the way to demonstrate integrity, competency, legitimacy and trustworthiness of the research process. The researcher made use of a combination of current and not so current resources with most of the resources from the last five years and he included an accurate audit trail by providing appendixes. The research was also peer-examined through detailed discussions with colleagues in the same field. Credibility was also improved through the authority of the researcher on account of his experience in the field of business development in countries outside the borders of South Africa and the amount of time he spent in Mozambique travelling, interacting and gathering data to support his research.

The researcher is of the opinion that he has fulfilled the criteria of rigour and ensured adequate trustworthiness and credibility with respondents during the process of collecting data for this study.

2.8. Ethics

The expression "basic ethical principles" refers to those general judgments that serve as a basic justification for the many particular ethical prescriptions and evaluations of human actions. Three basic principles, among those generally accepted in our cultural tradition, are particularly relevant to the ethics of research involving human subjects: the principles of respect of persons, beneficence and justice (The Belmont Report, 1979:4).

- *Respect for people:* According to the definition given by the American Medical Association Journal of Ethics, respect for persons requires that subjects, to the

degree that they are capable, be given the opportunity to choose what shall or shall not happen to them.

This opportunity is provided when adequate standards for informed consent are satisfied. The researcher was fully aware of his accountability and strove to honour the rights of participants. Participants were personally invited by the researcher to ensure no undue influence from any other person. The background and need for the research as well as the research process were also explained at the beginning of the interviews and participants were invited to become partners in the research process. Participants were also informed that they could withdraw from the interview at any stage without fear of victimisation and that the identities of all participants were treated as confidential. From the initial group that was approached, four individuals chose not to take part; citing factors like time constraint and conflict of interest as their reasons not to participate. All the completed questionnaires were given an alpha-numerical code and saved without any reference to the participant on the researcher's laptop. Questionnaires will be kept for two years and then it will be deleted by the researcher.

- *Beneficence*: The Belmont Report (1979:4) defines beneficence as when persons are treated in an ethical manner not only by respecting their decisions and protecting them from harm, but also by making efforts to secure their well-being. Such treatment falls under the principle of beneficence. The term "beneficence" is often understood to cover acts of kindness or charity that go beyond strict obligation.

In this document, beneficence is understood in a stronger sense; as an obligation. This study therefore strove to maximise any possible benefits such as the identification of possible entry barriers that new entrants to Mozambique's business environment could experience and also to identify some of the constraints that current businesses are experiencing. During the entire process the participants' identities and that of their companies were concealed and protected. Participation was voluntary and the researcher is of the opinion that the main motivation for the participants was the benefit they could experience through the findings of this research. Although the topic of this research might not be classified as sensitive in

the traditional sense of the word, the researcher intended to identify any discomfort and uncertainty in order to resolve it if necessary.

- *Justice*: Velasques *et al.* (2014) stated that the most fundamental principle of justice, one that has been widely accepted since it was first defined by Aristotle more than two thousand years ago, is the principle that "equals should be treated equally and unequals unequally." In its contemporary form, this principle is sometimes expressed as follows: "Individuals should be treated the same, unless they differ in ways that are relevant to the situation in which they are involved."

The researcher used purposive sampling in order to select a specific group of businesses, as it was believed that these business would shed light on the phenomenon. Seven different business sectors were represented by the participants in this survey. Participants were selected according to their involvement in the day to day management of the businesses, in the belief that they would be best experienced in the field of research.

2.9. Summary

The aim of the surveys that were conducted was to gain more information on the external and internal elements that impacted businesses operating in Mozambique.

This chapter presented the researcher's strategy in order to achieve these goals. A deductive approach in the form of a literature review was conducted to collect non-empirical data. The empirical research was approached from an interpretivism paradigm using qualitative research methodology to collect primary data using the case study design. In line with the case study design in qualitative research, ten businesses, representing seven different business sectors, were selected through purposive sampling. Semi-structured interviews were conducted with managers and owners to complete a predesigned questionnaire and answer general questions pertaining to the start-up and day to day management of a business in Mozambique.

An interview guide and questionnaire, containing sixty five questions, guided the interviews. The approaches and methods used for sampling, data collection and

analysis of data were described in this chapter. The procedures followed were in line with reviewed literature and therefore adequate for this study.

In the next chapter detailed literature reviews on the country of Mozambique and Company A as a world-leading diesel engine manufacturer, will be conducted.

CHAPTER 3

3. AN OVERVIEW OF COMPANY A AND MOZAMBIQUE

3.1. Layout of the chapter

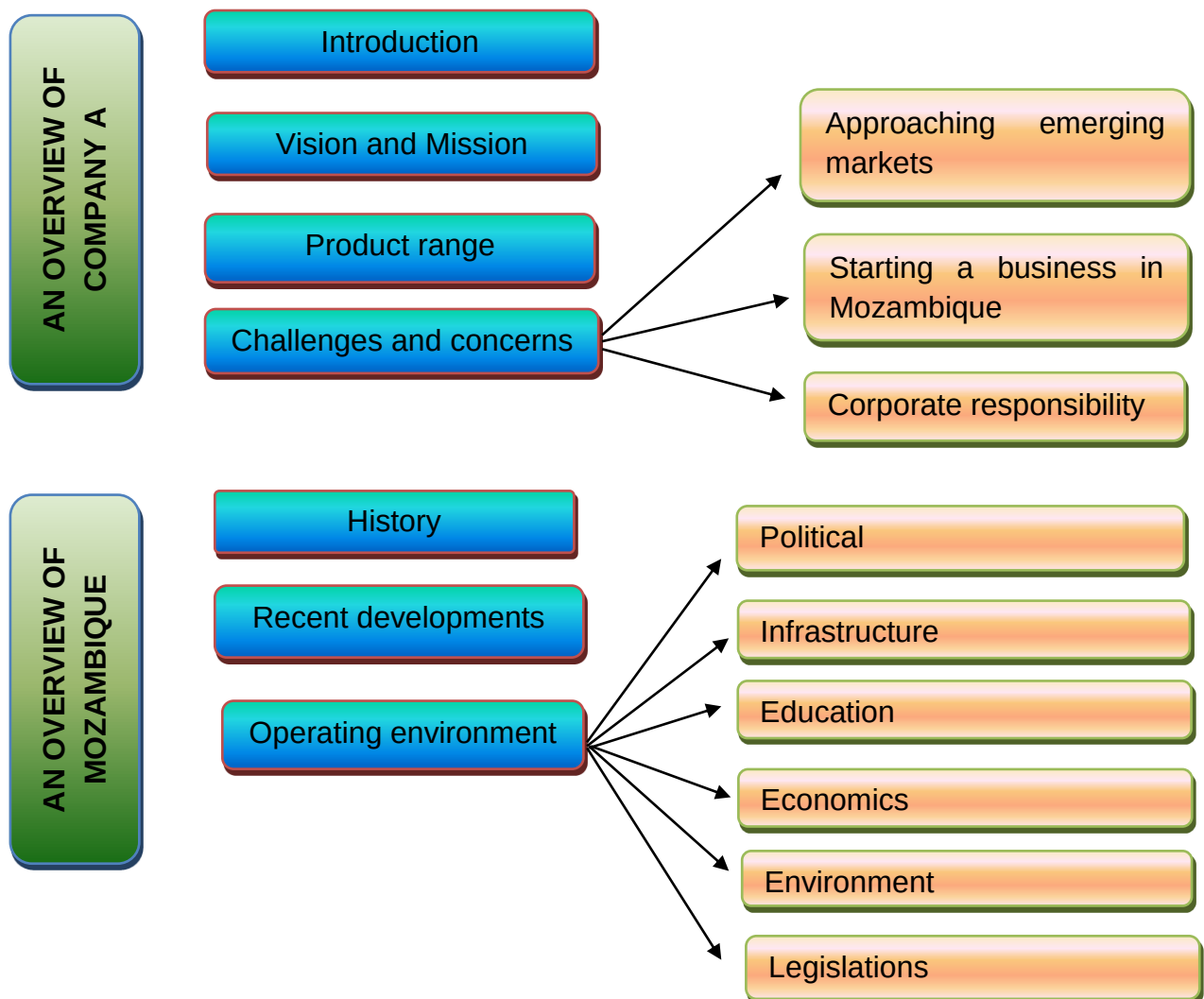


Figure 2 - Layout of Chapter 3

3.2. An overview of Company A

3.2.1. Introduction

The purpose of this chapter is to provide information that will enable the reader to have a better understanding of the business nature of Company A, through its diverse product range, roots, vision, mission and identifying possible constraints they might incur when setting up a channel to market strategy in Mozambique. It will also attempt to give an understanding of the history, current changes and planned future developments reported in Mozambique and some of the factors that will impact on setting up and operating a business in the country.

Company A is a global diesel engine manufacturer. The company designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, after treatment, turbochargers, fuel systems, control systems, air handling systems and electric power generation systems. It has four operating segments: engine, distribution, components and power generation. Company A sells its products to original equipment manufacturers (OEMs), distributors and other customers. It serves its customers through a network of around 600 company-owned and independent distributor locations and around 7,200 dealer locations in more than 190 countries. In addition, engines and engine components are manufactured by the company's joint ventures or independent licensees at its manufacturing plants in the United States, China, India, South Korea, Mexico and Sweden. It is a company that has been operating in the rapid developing diesel-powered environment for nearly 100 years. It was founded in 1919, is headquartered in the United States of America and employs more than 54,500 employees with annual sales exceeding \$19 billion. Company A recognises that differentiating itself from its competitors is key and acknowledges that having a strong, well established global brand is not a guarantee that you will always be able to bring this to your customer, facing distributors and service dealers. They have developed a very strong supply chain management team ensuring that this happens and was recently recognised by the *New York Stock Exchange* lister, Gartner, Inc. as a global Top 25 supply chain company. This is the fourth consecutive year that

this honour has been bestowed upon them and the list includes companies like Amazon.com, Coca-Cola, Starbucks, 3M and Cisco systems (Gartner, 2015).

3.2.2. Vision and Mission

In a recent interview with a British broadcasting company, the company's chief executive officer, who was attracted to the company due to its firm values, stated that the culture is that of a Midwest culture – it's modest and it's one that wants to support communities (Gittleson, 2015). This is understandable if you look at what the company's vision states:

“Making people's lives better by unleashing the power of Company A.”

Nicole Fallone, *Business News Daily* assistant editor, wrote in a recent article that whilst the vision of the company is to indicate where they want the company to go, it is the mission statement that declares the purpose of Company A and defines the reason for the company's existence (Fallone, 2015).

The company's mission statement strives to motivate people to act like owners working together, to exceed customer expectations by always being first to market with the best products, partnering with its customers to make sure that they succeed, demand that everything the company does leads to a cleaner, healthier, safer environment and in the process ensures that they are creating wealth for all stakeholders.

3.2.3. Product range

Company A operates through four business segments: engine, distribution, components and power generation.

- The engine segment offers various diesel and natural gas powered engines under the Company A and other customer brand names, including engines with a displacement range of 2.8 to 95 liters and horsepower (hp) ranging from 49 to 5100 hp for the heavy- and medium-duty truck, bus, recreational vehicle, light-duty automotive, agricultural, construction, mining, marine, oil and gas, rail and governmental equipment markets.

- The distribution segment distributes and services parts and filtration products, power generation products and engines, as well as offers service solutions, including maintenance contracts, engineering services and integrated products.
- The components segment offers emission solutions, including custom engineering systems and integrated controls, oxidation catalysts, particulate filters, oxides of nitrogen reduction systems and engineered components; turbochargers for light-duty, mid-range, heavy-duty and high-horsepower diesel markets; air filters, fuel filters, fuel water separators, lube filters, hydraulic filters, coolant, diesel exhaust fluid, fuel additives and other filtration systems and fuel systems primarily for heavy-duty on-highway diesel engine applications, as well as remanufactured fuel systems.
- The power generation segment designs and manufactures components that make up power generation systems, including controls, alternators, transfer switches and switchgears, as well as provides power generation systems, components and services (Bloomberg Business, 2015).

As their customers are increasingly operating on a global basis, they acknowledge that they will have to elevate their product offerings to a level where every customer everywhere in the world will feel the full power of Company A every time they interact with them, knowing that world-class products require world-class after-sales support.

This will be applicable to formulating a channel to market strategy for the Mozambique market.

3.2.4. Challenges and concerns for Company A to operate in Mozambique

3.2.4.1. How to approach an emerging market

Part of Company A's strategic growth plan is to tap into emerging markets and Ernest and Young (2011:4) state that the emerging markets are no longer a niche play and that many consumer product companies are relying on emerging markets for growth and are focusing their investment strategy on these countries. The drivers behind this investment imperative can be clearly seen in the demographic and economic statistics. GDP growth is currently 4% to 5% higher in emerging markets than in developed markets and continuing population growth means that it will be

good markets in years to come: 82% of the world's population lives in emerging markets and 92% of births appear here. In an article published in the June 2005 *Harvard business review*, it was stated that chief executive officers and top management teams of large corporations, particularly in North America, Europe and Japan, acknowledge that globalisation is the most critical challenge they are facing today. They are also keenly aware that it has become tougher during the past decade to identify internationalisation strategies and to choose which countries to do business with. Still, most companies have stuck to the strategies they've traditionally deployed, which emphasise standardised approaches to new markets while sometimes experimenting with a few local twists. As a result, many multinational corporations are struggling to develop successful strategies in emerging markets (Khanna *et al.*, 2005).

Before defining your strategy, you first need to define the basic concept of a developing or emerging market. While this may appear self-evident, too often there is a temptation to draw an oversimplified distinction between slow growing Western developed economies and the rest of the world, which is assumed to offer growth opportunities. It is also important to distinguish between those developing countries that are truly emerging economically and those that are essentially non-developed and non-developing. An equally misleading simplification is to assume emerging markets are synonymous with the BRIC nations of Brazil, Russia, India and China, which risks overlooking a range of developing countries from Thailand to Colombia (Ernest & Young, 2011:5). The researcher is of the opinion that Mozambique is one of these emerging markets that should not be overlooked but justifies closer investigation and having the experience of operating in more than 190 countries globally, Company A recognises that no one country is the same and therefore there cannot be a generic strategy that will suite all.

- **Weighing the attractiveness**

A great deal of research and planning is required to be done by a company before they even attempt to start preparing to formulate a strategy. It is important that Company A and its management team ensure that they remain focused on acquiring quality data and useful information and not get sidetracked by the potential profits it

stands to make. A thorough investigation into the business and operating conditions the company might be subject to will greatly improve the accuracy and effectiveness of its business strategy. The contemporary business environment is characterised with growing economic uncertainty where millions have to accept the prospect of worsening business opportunities and living conditions. The unpleasant truth is that the current economic turmoil stems from our collective failure to foresee the foreseeable and act on the actionable. In his article, based on the research he conducted for his book, *Global Trends: Facing up to a Changing World*, author Adrian A. Done identifies 12 global trends that he feels will present considerable hurdles in the coming years. Many of these already prominently feature among the core threats identified by the office of the director of National Intelligence and the National Intelligence council of the United States of America. It is also recognised as fundamental risks by senior advisors to the president of the United States on matters of national security and global economic welfare (Done, 2012). Below a brief summary of each as per his article.

- **Ongoing repercussions from the crisis:** The 21st century will be shaped by how the global economy survives profound uncertainties and whether it is able to overcome excessive debt accumulation;
- **Geopolitical power shifts:** The BRIC economies are moving fast;
- **Technology:** Be prepared for the “creative destruction” of developing technology;
- **Climate change:** Scientific evidence that the world’s climate is changing remains unequivocal;
- **Water and food:** Barring radical changes in its management, water resources are only going to get scarcer. 70 % of global water usage is in agriculture – less water, less food;
- **Education:** Despite overall improvements, Asia, Latin America and Africa remain educational black spots;
- **Demographic changes:** The world’s population is projected to rise from the current 7 billion people to reach 9 billion by 2050, putting a strain on resources before eventually levelling off.
- **War, terrorism and social unrest:** Humans have a history of violence and antisocial behaviour. The 20th century was particularly bloody, with as many as 200 million people killed in major wars. Sadly, the 21st century has started in a

similar vein, with war, terrorism, social unrest, piracy, organised crime, illicit trade, corruption, governance failures, fragile states and proliferation of weapons all on the rise. Perhaps most worryingly, the chances of a high impact geopolitical conflict taking place within the coming decade are extremely high.

- **Energy:** Demand for energy is insatiable. Some predict that nuclear *fusion* – significantly safer than nuclear *fission* – could become our most sustainable energy option.
- **Ecosystems and biodiversity:** By 2050, we will be using up the equivalent of two Earths to support our increasingly unsustainable lifestyles. Countless creatures are disappearing from the planet. For example, we remain dependent on bees for pollination, yet their populations are fast collapsing and our fish stocks are already terribly depleted or contaminated. Ecosystem and biodiversity concerns are no longer the preserve of a few tree-hugging ecowarriors, but are shared by all for our mutual wellbeing.
- **Health:** In many poorer nations, a third of the people die before they reach the age of 14 and even greater numbers die between the ages of 15 and 69, many from easily treatable conditions.
- **Natural disasters:** Some 200 million people are affected by disasters each year, compared to only 50 million in 1970. Crowded cities, unsafe constructions, lack of urban planning, the destruction of natural buffers and climate change have all combined to leave more and more people exposed.

It is no longer an option merely to dabble in emerging markets. Instead, as a prospective entrant, companies need to identify the potential significance of an emerging market operation to its core business, as well as decide the extent to which they are prepared to make a long-term commitment to achieve it. An emerging market investment can still be strategically sound, even if it is slow to show profitable results (Ernest & Young, 2011:6). Ernest and Young (2011:13-14) also highlighted that the necessary information required to carry out a due diligence may not be readily available. You may have to compile it, with the help of your advisors, from raw data. Information, which in the developed world would be considered completely standard, can be difficult to obtain. Company A has identified Mozambique as a potential market where it can set up operations and gain early success. A successful implementation of its marketing strategy can build local partnerships and grant it an

advantage over competitors that come along later. The success will be very much dependent on comprehensive data collection on all matters mentioned above and converting that into a fit-for-market-strategy.

3.2.4.2. Starting a business in Mozambique

Formal registration of companies has many immediate benefits for both the companies and business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets and their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government (World Bank Group, 2015a:16). According to data collected by the World Bank Group (2015a:17), starting a business in Mozambique requires 9 procedures, takes 13 days, costs 17.1% of income per capita and requires paid-in minimum capital of 0% of income per capita. This is shown in Figure 3.

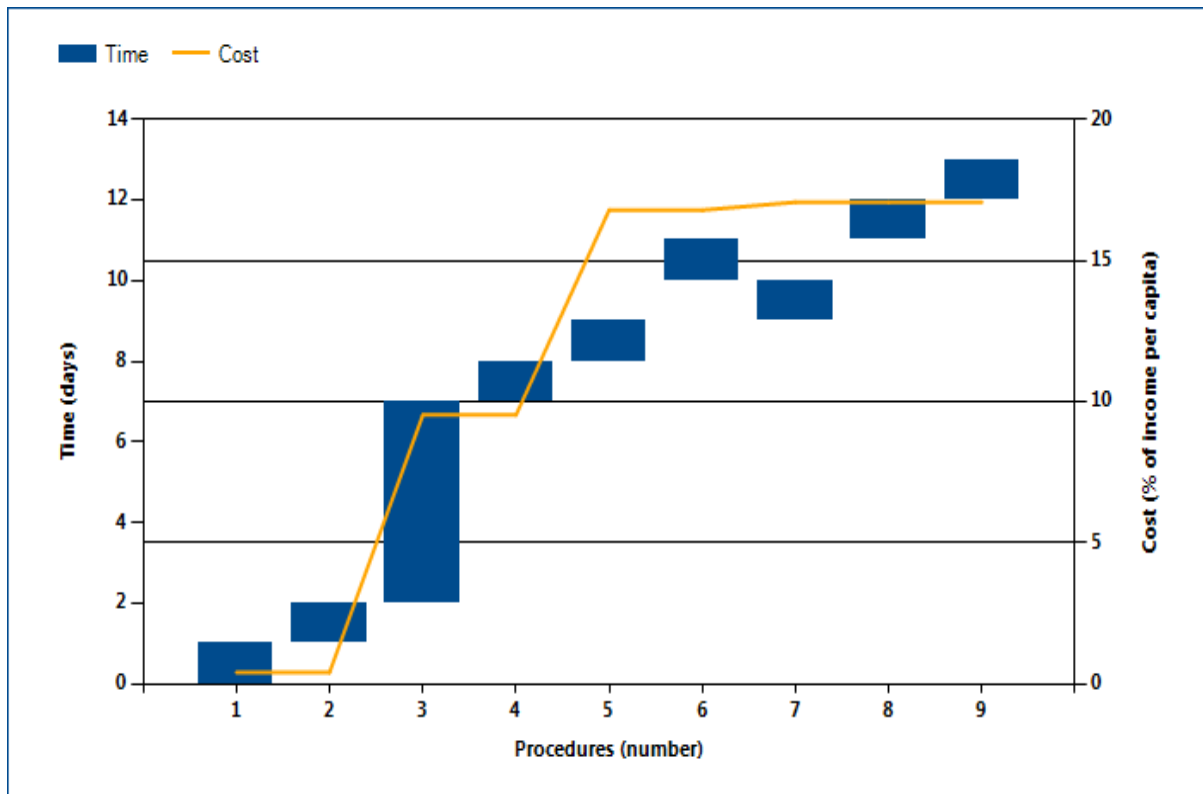


Figure 3 - What does it take to start a business in Mozambique?

(Source: World Bank Group, 2015a:17)

Globally, Mozambique is placed at 107 in the ranking of 189 economies on the ease of starting a business. It ranks how easy it is for an entrepreneur in Mozambique to start a business compared to other countries. This is presented in figure 4 below.

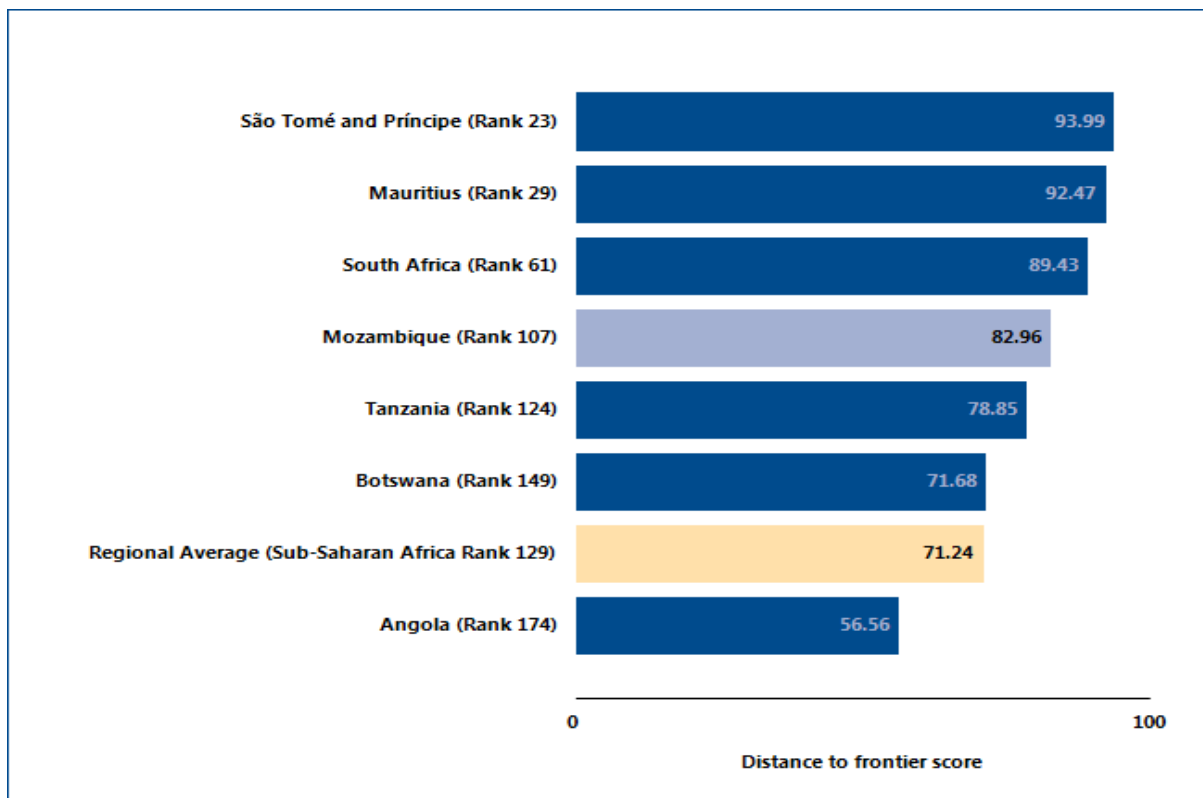


Figure 4 - The ease of starting a business

(Source: World Bank Group, 2015a:18)

Underlying the indicators shown in Table 1 is a set of specific procedures, the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by the World Bank Group through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy.

Table 1 - Starting a business in Mozambique

No.	Procedure	Time to complete	Cost to complete
1.	Obtain certificate of unique name	1 day	MZN 75
2.	Open a provisional bank account and obtain a verification of deposit with a commercial bank	1 day	No Charge
3.	Register company with the Legal Entities Registrar of Maputo	5 days on average	MZN 1,632
4.	Register for taxes and obtain a company tax number "NUI" from Reparticao de Financas	1 day	No Charge
5.	Apply for an operating license with the municipal council	1 day	MZN 1,300
6.	Declare the beginning of activity at the revenue services	1 day	No Charge
7.	Declare the start of trading and register employees at the provincial employment centre	1 day (simultaneous with previous procedure)	Each copy of the chart costs MZN 5
8.	Register employees for social security	1 day (simultaneous with previous procedure)	No Charge
9.	Subscribe for a workmen's compensation insurance coverage	1 day (simultaneous with previous procedure)	No charge – policy will depend on level of cover and number of employees

(Source: World Bank Group, 2015a:20)

Table 1 illustrates the procedure that needs to be followed, average time it takes to complete and costs to complete this action step. The Mozambique government frequently announces that they are committed to improve the country's Doing Business Rankings and the overall business-enabling environment for private sector growth. If one considers that their Ease of Doing Business Ranking has improved from the 142nd to the 127th position between 2014 and 2015 out of 189 countries, it would appear that this is not just empty promises (World Bank Group, 2015b). What remains a concern is that their ranking on Transparency International's Corruption Perception Index remains relatively high with a ranking of 119th out of 174 most corrupt countries in the world (Transparency International, 2014). The Doing Business reports presents quantitative indicators on business regulations and the protection of property rights that can be compared across 189 economies, from Afghanistan to Zimbabwe, over time. The data set covers 47 economies in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in East Asia and the Pacific, 26 in Eastern Europe and Central Asia, 20 in the Middle East and North Africa and 8 in South Asia, as well as 31 OECD high-income economies. These reports are compiled by the staff of The World Bank with external contributions.

3.2.4.3. Corporate responsibility

Vertigans *et al.* (2016) state that there is a definite increase in corporate social responsibility projects in Mozambique but that there is still no systematic approach or coordination through public authorities or the business sector itself. Corporate social responsibility is motivated by immediate own company needs like the training of health of workers. They proclaim that as public institutions are weak, corporate social responsibility in Mozambique is more about "corporate social responsibility towards /compliance" and sometimes less about "corporate social responsibility beyond compliance". They conclude that a better coordination and public-private dialogue about corporate social responsibility is necessary in order to make it a more useful and effective instrument for development.

To summarise the factors impacting on the challenges and concerns of doing business with Mozambique, Paulo (2014:69) puts it best when he said: "Broadly, if you want to do business in Mozambique, three avenues are open to you. If your

investment is major, then liaison and even partnerships will have to be established with local government, but if the investment is small to medium sized, then use the “Centro de Promacao de Investimentos” (CPI – Centre for Investment Promotion). If you would rather operate through private contacts, you’d be advised to seek someone local and tap into their knowledge of how to proceed and do business”.

3.3. An overview of Mozambique

3.3.1. The history of Mozambique

Mozambique was a colony of Portugal until 1975, when an 11-year war of independence ended with the establishment of an independent, Marxist government. But a 17-year civil war started soon after independence, with an internal military uprising that some foreign governments supported. The civil war severely affected Mozambicans, especially in rural areas. Hundreds of thousands of people were killed. Over a million people fled the country, especially to Malawi, and more than a million others were displaced within Mozambique. Many rural people migrated to the cities, especially along the coast where the government maintained control. The country went into severe economic depression. Agriculture was disrupted, so the country could not feed itself. By the late 1980s, Mozambique had one of the lowest per-capita caloric intakes in the world. Even when relief food eventually flowed in after the El Niño-induced 1992 famine, Mozambique's war-ravaged transportation system prevented efficient distribution of the food and internal politics interfered with relief work (Gabrielli, 1999). In 1994 the country held its first democratic elections. Joaquim Chissano was elected president with 53% of the vote and a 250 member National Assembly was voted in with 129 FRELIMO deputies, 112 RENAMO deputies, and 9 representatives of three smaller parties that formed the Democratic Union (DU) (U.S. Department of State, 2011).

3.3.2 Recent developments

The October 2014 elections in Mozambique announced a new political dawn for the country and its people, forty years after gaining independence from Portuguese rule. Filipe Nyusi is now the head of state and chairman of the Mozambique Liberation Front (FRELIMO) and has taken rapid steps to engage afresh with the leadership of

the opposition, Mozambican National Resistance (RENAMO). In a very diverse country, such political confidence deserves support from the international community. While there may be sceptics with regard to the sustainability of this new relationship, recent political developments in Mozambique offer positive signals to foreign investors. Over the past five years, Mozambique's economy has grown at an average annual rate of 7.2 percent, but this has, as yet, brought minimal benefit to the great majority of the country's citizens. This contradiction appears precarious and possibly dangerous, with income disparity having risen exponentially (World Bank Group, 2015c). Vines *et al.* (2015:vii) stated in their executive summary of the Chatham House report that discusses Mozambique's prospects to 2018 that the recent mineral and gas discoveries, together with a more friendly post-election climate, is encouraging foreign investors to come to Mozambique. The arrival of liquefied natural gas (LNG) in some globally significant offshore gas finds to the north is in particular mentioned. The market for LNG is especially strong in the East Asian countries. If considered that the domestic supply to markets in America is in decline and a decrease in supply from North Africa to Europe, the long-term view of the Mozambique's LNG prospects are very healthy. In addition to the LNG, there are also significant investments under way in agricultural products like biofuels, fisheries, coal exploration and mining and other non-hydrocarbon minerals.

In 2010, Anadarko made its first discovery in the Offshore Area 1 of the deep water Rovuma Basin, launching one of the most important natural gas discoveries in the last 20 years. The massive natural gas discoveries have the potential to elevate Mozambique to the world's third-largest exporter of natural gas (Anadarko, 2015). Maylie and Gillbert (2014) report that Anadarko has plans to build one of the biggest projects ever attempted by a Western energy company. Anadarko plans to build giant freezer-like devices to chill the gas to the temperature of the ice-encrusted moon that orbits Jupiter. The process converts gas into a liquid state so that it can be loaded onto refrigerated tankers and shipped by sea, like oil. Exporting this fuel can provide companies with a longer, steadier stream of cash flow than pumping oil, but without crude's heftier profit margin. The article also states that Anadarko harbors some even grander plans. Over the next few decades, it envisions building as many as 14 refrigerated plants in Palma. Such a scale could rival the world's biggest hub

for exporting liquefied gas in Qatar. BP (2013:53) predicts that Africa as a region will overtake the Middle East as the world's largest net LNG exporter in 2028.

Mozambique's mining revenue will remain heavily dependent on the country's coal sector, which will leave the sector exposed to continued global coal price weakness. Low coal prices will undermine the development of the country's nascent coking coal industry. We expect a number of Western mining firms to divest their exposure in Mozambique due to the country's inadequate infrastructure and high start-up costs (Business Monitor International, 2013) (BMI). Business Monitor International (2013) states that the increasing apprehension of Western investors towards the market is being compensated for to a large extent by increased interest from Indian firms as they look to secure long-term sources of coal to meet growing domestic demand. Unfortunately there is a potential downside to these investments as it can cause conflict with local communities due to their disaffection in these developments. As most of these developments are still in the early phases of development, the taxes derived from it is minimal, leaving Mozambique and its citizens not much better off than in the past. Vines (2015:vii) further mentions that many key poverty indicators have largely stagnated over the past decade and the country's infrastructure of roads, telecommunications, railways and electricity is inadequate to keep up with the demands of investors, let alone population growth.

Adrian Frey, director of an estate agency, Pam Golding Properties Mozambique, summed up the mixed mood: "Gas changes everything. It changes our thinking. The investment expected in the next ten years is \$30bn. There is a huge demand for buildings and water and restaurants and banking facilities. We are on the right track and everything is getting better" (Smith, 2012).

3.3.3. Operating environment

3.3.3.1. Political

Vines *et al.* (2015:18) says that Mozambique's political architecture, such as its electoral rules, elections, constitution and decentralisation model, are all important for stability. But they need underpinning by an inclusive politics that key opposition players buy into. A lack of consensus among the main parties around the rules of a

democratic regime has not helped overcome the frailty of political institutions and processes. Persistent mistrust, combined with flawed elections, illustrates that despite the civil war having ended more than two decades ago, reconciliation is far from accomplished and democratisation is a long-term project.

Table 2 – The presidential election results of October 2014

Candidate	Number of valid votes	% of votes cast
Filipe Nyusi (FRELIMO)	2,803,536	57%
Alfonso Dhlakama (RENAMO)	1,800,448	37%
Daviz Simango (MDM)	315	6%

(Source: Conselho Constitucional, 2014:56)

From the information in the table above the 2014 legislative elections saw Frente de Libertacao de Mozambique (FRELIMO) attracting 57% of the votes, the Mozambican National Resistance (RENAMO) 37% and the Democratic Movement of Mozambique (MDM) 6%. Mr. Filipe Nyusi was elected as the Mozambican president and Mr. Alfonso Dhlakama the leader of the opposition. Speaking to Voice of America (VOA) via Skype from London, Vines describes Mozambican leaders at a crossroad: on one side is the ability to create widespread prosperity; on the other is the infamous “resource curse” that has sparked conflict, anger and inequality in resource-rich nations such as Angola, Congo and Nigeria. He said that while newly-elected President Felipe Nyusi has built a more adept technocratic government, presented a leaner budget and attempted to reduce waste and corruption, he will need to work with the nation’s truculent RENAMO opposition, which has threatened to plunge the country back into war nearly a quarter-century after resolving a bloody civil conflict. And because Mozambique remains among the world's five poorest countries, Vines calls economic development Nyusi’s biggest challenge (Powell, 2015). “Unless the government has more equitable growth across the country,” not just in the politically privileged capital or the gas-rich FRELIMO stronghold in the north, which is also Nyusi's home, then the country could follow an alarming trajectory”, he said.

3.3.3.2. Infrastructure

PWC states that Mozambique has one of the least developed road transport infrastructures in the Southern African region (Radon *et al.*, 2013:77). With the exception of major arteries, overall road conditions in Mozambique are generally poor – the road network is mostly unpaved and underdeveloped. Road conditions are a significant bottleneck in developing trade in the region and utilising its port assets to move goods to neighbouring countries. The road network also requires expansion to keep pace with the country's high growth rate. The predominant problems facing the road network right now are overloading and a lack of maintenance and repair (PWC, 2013:60). Overall, Mozambique's infrastructure and links remain in disarray two decades after the civil war ended. Transport projects worth US\$17 billion are in the pipeline, including increased rail links to ports and expanding port capacities to allow for greater exports. However, it should be noted that these projects are being developed to primarily serve the natural resource industry and therefore an uneven infrastructure build-out will be inevitable (PWC, 2013:58). Mozambique is one of three of the main foreign investment destinations in Africa and over the next few years it is expected to be home to infrastructure projects worth an estimated US\$32 billion, according to Deutsche Bank (Macauhub, 2014).

3.3.3.3. Education

Radon *et al.* (2013:51) identify the lack of an adequately educated workforce as one of the most important factors hindering the creation of linkages in Mozambique, with the capacity to establish businesses and work in the country's emerging industries. They report that policies have usually failed to prioritise vocational technical education that is responsive to the needs of the country's production sectors. Currently, concerns focus on the unavailability of both low-skilled and skilled labour to work in the growing extractive industries. Specifically, as shown in **Figure 5** below, the worst rates of literacy in the country are found in the regions where extraction activities are taking place – Cabo Delgado and Tete, as well as their neighbouring provinces of Niassa, Nampula and Zambézia. All present illiteracy rates in these provinces are above the national average. This is particularly worrisome, because

even if the social strategies of extractive companies involve hiring local personnel, this might not become a reality given the low education levels of the local workforce.

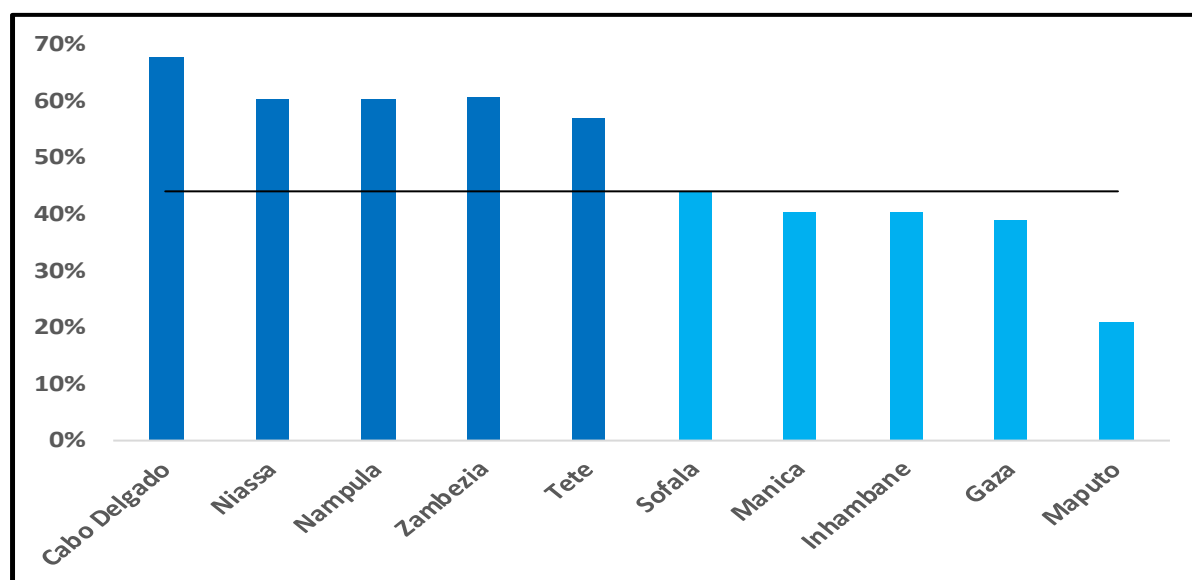


Figure 5 - Illiteracy rates per province

(Source: Instituto Nacional de Estatística, 2007)

The Capstone report, Radon *et al.* (2013;52) continues by stating that the abundance of Mozambique's low-skilled labour force arguably represents a competitive advantage for industries requiring intensive labour. However, extractive industries are typically not labour-intensive and Mozambique's low-skilled workforce is not necessarily the most attractive in South-Eastern Africa. Literacy rates serve to assess current human capital, while primary education enrolment is used as a proxy of future labour productivity. Mozambique must improve access to and opportunities in education in order to strengthen the quality of its human capital, otherwise foreign investors may resort to hiring better educated workers from neighbouring regions at lower costs.

3.3.3.4. Economics

The Mozambican tax system is, nowadays, a modern tax system with a tripartite structure which compares to the most modern tax systems where the income, consumption and assets are taxed separately. However, the current structure is

relatively recent, deriving from the 2002 tax reform, which has completely changed the pre-independence system which was previously effective. The new Mozambican tax system includes solutions customised to the new economic reality, including the application of differentiated rules according to the profile of the taxpayer, as well as the inclusion of international tax elements (Fernandes Ferreira, 2013). Whilst the corporate tax rate is at 32%, individual tax rates vary between 10% and 32%. The value added tax rate is 17%. There are also double tax treaties with South Africa, Italy, Mauritius, Portugal, United Arab Emirates (UAE), Macau, Vietnam, Botswana and India in place (KPMG, 2014:2-3).

Mozambique's macroeconomic achievements appear to be disconnected from the population, as impressive growth has not translated into job creation or reduced income inequality. The country's depressed socioeconomic status is largely attributable to poor education levels and inadequate healthcare (Radon *et al.*, 2013:25). New hydrocarbon-derived revenue streams are likely to supplant Mozambique's chronic dependence on foreign aid, consequently, reducing donors' leverage over domestic policymaking and budget processes. Mozambique remains reliant on foreign investment for resource extraction and many of the attendant risks of hydrocarbon development parallel those associated with aid dependence. It is unclear whether the government will surmount significant obstacles to ensuring that resource wealth spills over and whether foreign donors will be able to redefine engagement to support the government in aligning hydrocarbon-driven growth with broader development (Anderson, 2012:1). In 2014, Mozambique's economy continued to perform strongly with real Gross Domestic Product (GDP) growth of 7.6% and the outlook remains positive. Sustained growth is expected at 7.5% in 2015 and 8.1% in 2016. As in previous years, the main drivers of growth will continue to be public expenditure and Foreign Direct Investment (FDI). The main sectors benefiting are construction, services to enterprises, transport and communications, the financial sector and extractive industries. In the short term, the main challenge is to remain attractive in terms of FDI, while ensuring fiscal and debt sustainability. Consecutive high fiscal deficits, reaching 10.0% of GDP in 2014, have pushed public debt to 56.8% of GDP. A progressive fiscal consolidation for 2015 and 2016 is expected, accommodating also for a decrease in donor budgetary funding (Santos *et al.*, 2015:2).

Table 3 - Macroeconomic statistics versus South Africa

	South Africa	Mozambique
Area	1,219,912 km ²	799,380 km²
Capital	Tshwane	Maputo
Currency	South African Rand (ZAR)	Metical (MZM)
Membership	SADC	SADC
Population	53,675,563	25,303,113
Population Growth	1.33%	2.45%
GDP (per capita)	\$12,700	\$1 100
GDP 2014	\$683.1 bn	\$29,76 bn
Inflation Rate	6.1%	3%
GDP Growth Rate (2014 est.)	5%	8.30%
Labour force	20.23m	12.25m
Unemployment %	25%	17%
Business language	English	Portuguese

(Source: Central Intelligence Agency, 2015)

Currently there is a wide diversity of nationalities investing in Mozambique and assisting with its economic revival but the biggest spenders are China. China is now Mozambique's largest creditor, after increasing its funding to the African country by 160% since 2012 as significant Chinese investments are being prepared. The weight of financing from China to Mozambique will grow by nearly 50%, compared to current loan values, with a new loan of US\$400 million announced. According to data compiled by the Portuguese bank in its latest report on Mozambique, total debt to China was US\$886 million in 2014, 160% more than in 2012, when the main creditor of Mozambique was still Portugal. Debt to China already accounts for about one third of Mozambique's total debt, which has nearly doubled since 2010 (Macauhub, 2015).

3.3.3.5. Environment

Radon *et al.* (2013:94) reports that of Mozambique's 786,380 square kilometres of land, 49.6% is forested with ten million hectares of arable land. The country has 2,770 kilometres of coastline, more than the state of Florida in the United States of America and nearly as much coastline as South Africa. According to data from the Mozambican government's mining registry in October 2012, the government has approved at least 245 mining concessions and exploration licenses in Tete province, covering approximately 3.4 million hectares or 34% of its area. Coal mining accounts for roughly one third of these. While not all exploration activity will lead to the development of mining projects, the high concentration of land designated for mining licenses in Tete province has profoundly limited the availability of appropriate resettlement sites for communities displaced by mining operations (Human Rights Watch, 2013:6).

A desk study carried out by the Water and Sanitation Program (2012:1-3) shows that poor sanitation is costing Mozambique 4 billion Mozambican Metical each year, equivalent to US\$124 million. The costs of poor sanitation are inequitably distributed with the highest economic burden, falling disproportionately on the poorest. The average cost associated with poor sanitation, constitutes a much greater proportion of a poor person's income than that of a wealthier person. The study mentions that the following are the biggest costs associated to poor sanitation:

- **Epidemic outbreak costs:** an annual average of 8,000 cases of cholera are reported;
- **Funeral costs:** In Mozambique, annual sanitation-related funeral costs (discounted against future funeral costs) are estimated at US\$1 million;
- **Water Pollution:** This affects drinking water supply, water supply and treatment costs for drinking and other domestic uses and adds to the costs associated with poor sanitation;
- **Cognitive development:** Early childhood diarrhoea contributes to under nutrition, stunting and wasting which are associated with malnutrition and in turn with reduced long-term cognitive development;

- **Tourism:** Tourism can be a significant source of income, employment and foreign currency. Based on the current contribution of travel and tourism to GDP, addressing sanitation in Mozambique could lead to an increase in travel and tourism of an estimated US\$2.7 million annually.
- **Re-use:** The value of excreta re-use is likely to increase in the future as world phosphate reserves continue to decline.

3.3.3.6. Legislative environment

The 2014 legislative elections saw FRELIMO win 144 seats, RENAMO 89 and MDM 17. FRELIMO therefore has majority enabling it to pass legislation without having to negotiate with others, except for any constitutional change. Azevedo (2009:2) explains that parliament operates by proportionality in almost all matters – from time allocated to the parliamentary groups to take the floor, to the distribution of seats in committees. The document continues and explains that the country has been the “donor darling” in the region as a result of improvements in the economy and of its leaders’ embracement of multiparty democracy. The national assembly, however, has been ignored in the wave of international support for these developments and, worse, has been neglected as a state interlocutor by international donors. As a democracy still operating in its infancy and considering all the minerals extraction, hydrocarbons and related activities happening in Mozambique, it is understandable that changes to legislation to ensure alignment with government policy and maximum benefit to the country is achieved, will take place. The most significant changes recently made to policy were the changes to the mining and petroleum legislation. With the mining law, Law no. 20/2014 and the new petroleum law, Law no. 21/2014, the government’s aim to increase the country’s share of benefits from its mineral and hydrocarbon resources comes across strongly – and more so than was anticipated. The new petroleum law in particular is very different to the draft petroleum bills made available by the government over the past two years and includes onerous additional requirements to be complied with by operators in the Mozambican petroleum sector (such as allocating at least 25% of petroleum production to the domestic market in Mozambique) (Shearman & Sterling, 2014:2).

One of the more innovative laws is that of property ownership. Under Mozambican law, all land belongs to the state and cannot be sold or mortgaged. Farmers can apply to the government for a DUAT (*“direito de uso e aproveitamento da terra”*) for up to fifty years with an option to renew. Although the State ultimately owns all land, Mozambicans, women and men, have the right to use and benefit from the land. This right is known as a DUAT. The law defines three ways by which communities, individuals and companies can obtain a DUAT.

- Rural communities have a perpetual DUAT for land occupied under customary systems;
- Individuals occupying land in good faith for at least ten years have a perpetual DUAT for residential and family use and
- Individuals or companies can apply for a DUAT for a particular piece of land for up to 50 years, with one renewal.

If an investor applies for land held under a community DUAT, the law requires the investor to consult with the community and secure their agreement to cede their rights to the investor. In exchange for ceding their land rights, communities can negotiate for terms and benefits. The government must also confirm that the consultation occurred before approving an investor's application (Focus on Land in Africa, 2011).

3.4. Summary

In this chapter the researcher has given the reader insight into the history and current happenings in Mozambique and also an overview of Company A. This chapter gives a brief history on Mozambique from its struggles under Portuguese rule and the devastating civil war to the newly found democracy and some of the challenges the government of Filipe Nyusi has to face. A bit more detail is given on the opportunities available in Mozambique at present and the challenges associated with the development of these to free government from being FDI dependent and create sufficient infrastructure to stimulate the economy and satisfy its voters. An overview of Company A is also given. Reference is made to its ability to remain focused on its values. In the next chapter the analytical tools that were used in this study will be reviewed.

CHAPTER 4

4. ANALYSING THE INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT

4.1. Introduction

Prior to expanding into a new market it is vital that the organisation has a sound understanding of the macro, socio-economic and political environment in which the organisation will be operating. An in-depth knowledge of the organisation's competitors, its target market and the external powers that have an altering influence on them will significantly impact on the success of the organisation's channel to market strategy. Making an in-depth study of the operating environment, the barriers to entry and the factors outside its control will assist the organisation to take proactive steps to meet fluctuating market demands that will influence market penetration and assist in identifying strategic growth initiatives.

Some of the main reasons why markets rapidly change include (Analoui & Karami, 2003:72-73; Cecchetti, 2008:4-7):

- Finding and unearthing of new mineral resources;
- Development in infrastructure that links demand and supply markets;
- Customers develop new needs;
- New competitors enter a market;
- New technologies result in new products being made; and
- Government introduces new legislation.

The aim of this chapter is to examine the elements of a PESTLE and a SWOT analysis and to identify how these can benefit a company wanting to establish business operations in a country like Mozambique. Generally speaking a SWOT analysis measures a business unit or proposition, whereas a PESTLE analysis measures the market potential and situation, particularly indicating growth or decline and thereby market attractiveness, business potential and suitability of access – market potential and “fit” in other words.

4.2. PESTLE analysis

4.2.1. Introduction

Companies cannot directly control the segments and elements of its external environment. Accordingly, successful companies gather the information required to understand each segment and its implications for the selection and implementation of their most appropriate strategies. Therefore, companies around the world are challenged to understand the effect on their current and future strategies of the decline, when it occurs, of individual economies (Ireland *et al.*, 2009:35–6).

A PESTLE analysis is an important and widely used tool that helps showing the big picture of a firm's external environment, particularly as related to foreign markets. PESTLE is an acronym for the political, economic, sociocultural, technological, environmental and legal contexts in which a firm operates. A PESTLE analysis helps managers gain a better understanding of the opportunities and threats they face; consequently, the analysis aids in building a better vision of the future business landscape and how the firm might profitably compete. This useful tool analyses market growth or decline and, therefore, the position, potential and direction of a business. When a firm is considering entry into new markets, these factors are of considerable importance. Moreover, PESTLE analysis provides insight into the status of key market flatteners, both in terms of their present state and future trends (Carpenter & Dunung, 2011:410).



Figure 6 - The PESTLE elements that impact on a business strategy

Figure 6 illustrates that a PESTLE analysis uses six perspectives, which give a logical structure that helps understanding, presentation, discussion and decision making. These are political, economic, sociocultural, technological, environmental and legal. You should not see these factors as independent factors. They are all interdependent. For example, technological advances can affect the economy in different markets (Makos, 2015). As organisations become more globalised and continuously seeking to expand their existing borders, the PESTLE technique ensures that their leadership asks in-depth questions on each of these external factors and considers the possible impact on their current and future business strategies. Influences like new laws, tax changes, trade barriers and demographic change are only a few of the many macro-environmental factors that affect strategic planning in an organisation: The concept of macro-environmental factors includes all the factors that influence an organisation, but are out of its direct control. These factors tend to have a long-term impact on the operating environment of an organisation.

4.2.2. Political environment

These refer to government policy such as the degree of intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidising firms? What are its priorities in terms of business support? Political decisions can have an impact on many vital areas of business such as the

education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system (Gillespie, 2014:16). Hoskisson *et al.* (2004:46) stated that the political environment is the arena in which organisations and interest groups compete for attention, resources and a voice in overseeing the body of laws and regulation guiding the interactions among nations. Kwak (2003:119) highlighted the following political attributes for developing countries: i) political instability causes foreign direct investment to decrease on large scales; ii) inconsistent policies, laws and regulations at national and regional levels create an environment of uncertainty for the return on investments; and iii) a lack of transparency in policies is an indicator of political instability.

Abeyasinghe (2004:31) states that it is the level of political stability within a given country, regardless of regime type, that results in economic growth. According to Thompson and Martin (2010:86), economic decisions are influenced by politics and government policy. They state that government decisions can affect companies, both directly and indirectly as they provide both opportunities and threats. They also include the following as examples:

- Labour costs will be influenced by inflation and the power and involvement of trade unions;
- Government spending can increase the money supply and make capital markets more buoyant;
- The interest rate will be dependent on the rate of inflation;
- Stakeholders' expectations with regard to company performance, their willingness to provide more equity funding or their willingness to sell their shares will also be affected and
- The availability of skills in the labour force is affected by training, which is influenced by government and other regional levels.

Political environments are diverse in definitions and are much more complicated than what a manager might think the influences will be on their business activities. The PESTLE tool gives the strategic planner a deeper insight into the comprehension and discernment of the political influences that are significant to the formulation of a

successful business strategy for the company. In the context of this study the political environment is taken as the general Mozambican regulatory environment.

4.2.3. Economic environment

Gillespie (2014:17) describes the economic environment as external influences that include factors like interest rates, taxation changes, economic growth, inflation and exchange rates. He further states that economic change can have a major impact on a firm's behaviour and supplies the following examples:

- higher interest rates may deter investment because it costs more to borrow;
- a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency;
- inflation may provoke higher wage demands from employees and raise costs and
- higher national income growth may boost demand for a firm's products.

Hoskisson *et al.* (2005:46) stated that the economic environment is the nature and direction of the economy in which an organisation competes or may compete. The economic conditions affect how easy or how difficult it is to be successful and profitable at any given time, because they affect both capital availability and cost, as well as demand for the products or services offered. The timing and relative success of particular strategies can be influenced by economic conditions. When either the economy as a whole or certain sectors of the economy are growing, demand may exist for a product or service which could not be in demand in more depressed circumstances. Similarly, the opportunity to successfully exploit a particular strategy may depend on demand, which exists in growth conditions and does not exist in recession (Thompson & Martin, 2010:86). For this reason, companies study the economic environment to identify trends, changes and the possible effect on strategic decisions. Economists also look at two realms. There is big-picture macroeconomics, which is concerned with how the overall economy works. It studies such things as employment, gross domestic product and inflation - newsworthy stories and aspects relevant to government policy debates. Little-picture microeconomics is concerned with how supply and demand interact in individual markets for goods and services (Rodrigo, 2012). He further also states that in

macroeconomics, the subject is typically a nation where all markets interact to generate big phenomena that economists call aggregate variables. In the realm of microeconomics, the object of analysis is a single market - for example, whether price rises in the automobile or oil industries are driven by supply or demand changes. The government is a major object of analysis in macroeconomics, for example, studying the role it plays in contributing to overall economic growth or fighting inflation. Macroeconomics often extends to the international sphere because domestic markets are linked to foreign markets through trade, investment and capital flows. But microeconomics can have an international component as well. Single markets often are not confined to single countries; the global market for petroleum is an obvious example.

For the purpose of this study macroeconomics will refer to the general economic environment across all industries in Mozambique while microeconomics will refer to the economic environment that has a direct impact on the day to day activities of business operations in Mozambique. This will include issues such as the effects of minimum wages, taxes, price supports or monopoly on individual markets and is filled with concepts that are recognisable in the real world. It will also further investigate the customer demand and what products to supply in answer to this demand.

4.2.3.1. Micro economy

Microeconomics is the branch of economics that studies decision making by a single individual, household, firm, industry or level of government. Microeconomics applies a microscope to study specific parts of an economy, as one would examine cells in the body. The focus is on small economic units, such as economic decisions of particular groups of consumers and businesses (Tucker, 2011:6). An example of microeconomic analysis in the context of this study would be to study economic units involved in the market for filtration. Will suppliers decide to supply more, less, or the same quantity as Company A filters to the market in response to price changes? Will individual consumers of these filters decide to buy more, less, or the same quantity at a new price? Companies need to study the domestic economic environment of a country where they intend to start business operations to ensure that they

understand all the variables that can have an impact on its start-up and operating phases.

Mozambique's economy has experienced mixed fortunes, including the lucrative discovery of valuable minerals and natural gas fields and the overwhelming impact that the development of its infrastructure will have on its neighbouring economies.

4.2.3.2. Macro economy

Tucker (2011:6) describes macroeconomics as the branch of economics that studies decision making for the economy as a whole. Macroeconomics applies an overview perspective to an economy by examining economy wide variables, such as inflation, unemployment, growth of the economy, the money supply and the national incomes of developing countries. Macroeconomic decision making considers such "big picture" policies as the effect that federal tax cuts will have on unemployment and the effect that changing the money supply will have on prices. According to Hoskisson *et al.* (2004:271) organisations have opportunities to develop and exploit core competencies by diversifying into global markets. Hoskisson *et al.* (2004:271) also stated that when successful, organisations can derive four basic benefits from perusing a global strategy:

- Increased market size;
- Greater returns on major capital investments;
- Greater economy of scale; and
- A competitive advantage through location.

Mozambique's growth has reflected sound macroeconomic policies, complemented by a series of structural policy reforms, strongly supported by donors and favourable global economic conditions, especially for commodity prices. In the immediate post-war phase, macroeconomic policy reforms focused on liberalising the exchange and trade system and reducing fiscal imbalances and the role of the state in the economy. Later on, as market institutions and mechanisms began to operate, macroeconomic policies sought to reduce vulnerability and increase resilience to shocks (Ross, 2014:13). Ross (2014:21-22) further also states that Mozambique's recent economic performance owes much to sound macroeconomic and structural

policies, a favourable external environment and donor support. While much has been achieved, more remains to be done to address the evolving challenges facing the country. The discovery of huge natural resources positions Mozambique for a profound transformation in the years ahead and adds new challenges to managing the natural resource boom. Yet the key challenge remains to maintain economic growth and make it more inclusive so as to achieve a more durable reduction in poverty. This requires a focus on policies beyond the resource sector. The role of prudent macroeconomic policies is very important. Mozambique's growth has been associated with strong macroeconomic policies. As the economy becomes more dependent on natural resources, the role of prudent policies in marshalling these resources becomes even more important. Key among these are designing an appropriate fiscal regime and framework for natural resource management to hedge against volatility in government revenue, while meeting infrastructure and social investment needs and ensuring optimal intergenerational allocation.

There is also need for policies to support the competitiveness of the non-natural-resource sectors.

The macro economy is a broad field of study, however it is imperative that organisations have in-depth knowledge of the determinants of aggregated trends in the economy with particular focus on unemployment, foreign investments and international trade. A crucial variable for international companies wanting to do business in Mozambique will be the exchange rate. Without providing for fluctuating currencies and building in provision for this risk factor, companies can suffer crippling losses on what initially appeared to be a lucrative deal or investment.

4.2.4. Sociocultural environment

Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staff is living longer. It also means that some firms have started to recruit older employees to tap into this growing labour pool. The ageing population also has impact on demand: for example, demand for sheltered accommodation and medicines have increased

whereas demand for toys is falling (Gillespie, 2014:17). Hoskisson *et al.* (2004:141) stated that social culture is concerned with a society's attitudes and cultural values and that these attitudes and values form the cornerstone of that society.

Hoskisson *et al.* (2004:141) also stated that attitudes often drive demographic, economic, political and technological conditions and changes. Bartlett and Ghoshal (2002:33) maintained that the growing gender, ethnic and cultural diversity in the workforce creates challenges and opportunities, including those related to combining the best of both men's and women's traditional leadership styles for an organisation's benefit and identifying ways to facilitate all employees' contributions to their organisations. Langford (2000:143) identified the following cultural factors that define business behaviour:

- **Formality:** Formal cultures emphasise status, hierarchies, power and respect. Informal cultures emphasise an equality of status.
- **Attitudes to time:** Monochronic cultures are time and schedule obsessed. Polychronic cultures place less emphasis upon strict punctuality and are not obsessed with deadlines. Meetings in polychronic cultures are likely to contain meetings within meetings.
- **Expressiveness:** Culture shapes how expressive we are allowed to be. We express ourselves in a number of ways: verbally (what we say), paraverbally (how we say it) and non-verbally (body language). Some cultures are very expressive and some are reserved.

4.2.5. Technology environment

According to Gillespie (2014:17) new technologies create new products and new processes. MP3 players, computer games, online gambling and high definition TVs are all new markets created by technological advances. Online shopping, bar coding and computer aided design are all improvements to the way we do business as a result of better technology. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organisations providing the products. Hoskisson *et al.* (2004:176) stated that technology includes the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes and materials. Ireland *et al.*

(2009:44) stated that the technological environment includes institutions and activities involved in creating new knowledge and translating that knowledge into net outputs, products, processes and materials. Technology is part of a company and the industry forms part of the business model, as it is used for the creation of competitive advantage. New technology could provide a useful input in both manufacturing and service companies, but in turn the acquisition of such new technologies will require funding and possible employee training before it can be used (Thompson & Martin, 2010:87). Given the rapid pace of technological change, it is vital that companies study their technological operating environment in detail. According to Rajaniemi (2007:467-8), leading change in technology will be a fusion of information technologies and telecommunications, resulting in creating new industries, restructuring existing ones and changing the way companies compete. Similarly, other new technologies can change our competitive environment by changing one or several competitive forces.

4.2.6. Legal environment

Gillespie (2014:17-18) states that these are related to the legal environment in which firms operate. In recent years in the UK there have been many significant legal changes that have affected firms' behaviour. The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are examples of relatively recent laws that affect an organisation's actions. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the goods or using the service).

Gillespie (2014:18) states that the different categories of law include:

- **Consumer laws:** these are designed to protect customers against unfair practices such as misleading descriptions of the product;
- **Competition laws:** these are aimed at protecting small firms against bullying by larger firms and ensuring customers are not exploited by firms with monopoly power;

- **Employment laws:** these cover areas such as redundancy, dismissal, working hours and minimum wages. They aim to protect employees against the abuse of power by managers and
- **Health and safety legislation:** these laws are aimed at ensuring the workplace is as safe as is reasonably practical. It covers issues such as training, reporting accidents and the appropriate provision of safety equipment.

The legal obstacles to local resource mobilisation fall into two broad categories. In one category laws and institutions occur that provide inadequate protection of property rights. In this case, the deficiencies of the legal system result in weak or non-existent property rights. In the other category are burdensome regulations that limit the ability to start and carry on with businesses. This category is somewhat the opposite of the first in that here the legal system is too aggressive and overbearing. The effect of both categories is largely the same, however: in both instances, the result is that potentially productive physical and human capital sits idle, or alternatively is driven into the informal economy beyond the reach of the government (Matsuura, 2005:52).

If a political force cannot achieve redress through legal or parliamentary means, it is left with the option of conflict (Vines *et al.*, 2015:30). In its developing economy legislation can be a powerful tool to encourage foreign investors to have a favourable view of Mozambique but an over-regulated environment can have the adverse effect.

4.2.7. Environmental

Environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness, this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries, such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities (Gillespie, 2014:17). Carpenter *et al.* (2011:416) mention that the environment has long been a factor in

firm strategies, primarily from the standpoint of access to raw materials. Increasingly this factor is best viewed as both a direct and indirect cost to the firm. It also makes mention of the fact that environmental factors are also evaluated on the footprint left by a company on its respective surroundings. For consumer-product companies for instance, this can encompass the waste-management and organic-farming practices used in the countries where raw materials are obtained. Similarly, in consumer markets, it may refer to the degree to which packaging is biodegradable or recyclable. It is a modern day fact that both consumers and governments penalise firms for having an adverse effect on the environment. Governments levy huge fines upon companies for polluting but also reward companies for having a positive impact on the environment. Consumers are willing to switch brands if they find that a business is ignoring its environmental duties. The impact on the environment is a rising concern (Makos, 2015). Environmental factors include the weather and climate changes. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries, such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities (Gillespie, 2014:17). Environmental protections should take into account that companies are often in the best position to monitor, prevent and mitigate environmental and health risks. The government must also preserve its ability to reform and improve its legislation over time - especially in relation to the environmental, social and health impacts of extractives (Radon, *et al.*, 2013:15). Radon *et al.* (2013:101) further mention that if environmental and health issues are not taken into consideration, the economic benefits of mineral exploitation can be reversed by their harmful effects on the ecology, tourism and health of the country's people.

4.3. SWOT analysis

4.3.1. Introduction

SWOT is an acronym used to describe the particular strengths, weaknesses, opportunities and threats that are strategic factors for a specific company. A SWOT analysis should represent an organisation's core competencies while also identifying opportunities it cannot currently use to its advantage due to a gap in resources (Olsen, 2010). Carpenter *et al.* (2011:19) define a SWOT analysis as a strategic management tool that helps an organisation take stock of its internal characteristics (strengths and weaknesses) to formulate an action plan that builds on what it does well while overcoming or working around weaknesses and also assess external environmental conditions (opportunities and threats) that favour or threaten the organisation's strategy. The SWOT tool helps you take stock of a company's internal characteristics - its strengths and weaknesses - to formulate an action plan that builds on what it does well while overcoming or working around weaknesses. Similarly, the external part of SWOT - the opportunities and threats - helps you assess those environmental conditions that favour or threaten the organisation's strategy. Because strategic management is concerned with company performance - be that social, environmental or economic - your understanding of a company's SWOT will help you better assess how international business factors should be accounted for in the firm's strategy.

Grant (2005:225) declared that competitive advantage exists when two or more organisations compete within the same market and one organisation possesses a competitive advantage over its rivals by having a persistently higher rate of profit. Grant (2005:225) indicated the internal and external sources illustrated in Figure 7 that will enable competitive advantage.

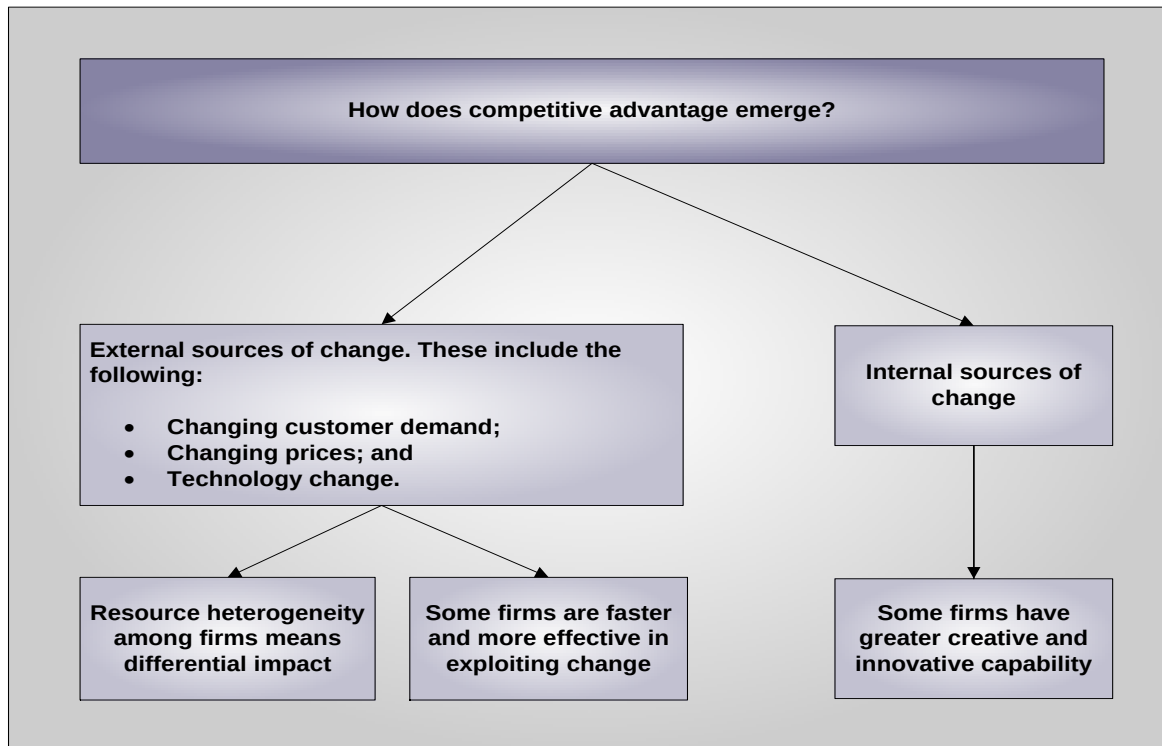


Figure 7 - The emergence of competitive advantage

(Source: Grant, 2005:225)

Nowadays a SWOT analysis is one of the most frequently employed instruments in strategic analysis, but also in other evaluative studies. This wide usage owes much to the simplicity of its four key factors and its flexibility. An Internet search shows that there is a myriad of areas where SWOT has been employed by various organisations in both private and public sectors. SWOT appears to function well in producing action plans and cooperative strategies. In addition, it is often used as a finely tuned instrument for making final evaluations (Al-Araki, 2013). The SWOT analysis is divided into external and internal segments. Strengths and weaknesses are internal factors within the organisation while opportunities and threats are external to the organisation. Organisations should have a good understanding of what their strengths and weaknesses are but to identify opportunities and threats might be less obvious.

4.3.2. Strengths

Katsioloudes (2006:100) states that strengths are “positive attributes or abilities unique to the organisation that in some way enhance the organisation’s ability to achieve its objectives”. Examples of strengths include excellent product quality, high service standards, availability of funds, highly skilled personnel and proprietary know-how. According to Thompson and Martin (2010:106) strengths can take on several forms:

- A skill, an area of specialised expertise in keeping operating costs low, proven capabilities in creating and introducing innovative products and expertise in providing consistently good customer service;
- Valuable human assets and intellectual capital, an experienced and capable workforce, talented employees in key areas and cutting edge technological knowledge;
- Valuable intangible assets, a powerful or well-known brand name or strong buyer loyalty;
- An achievement or attribute that puts the company in a position of market advantage, low overall costs relative to competitors, market share leadership, a wider product line than rivals or award winning customer service; and
- Competitively valuable alliances or co-operative ventures, fruitful partnerships with suppliers that reduce costs and / or enhance product quality and performance.

To be competitive, organisations today need to identify and develop their strengths even more. Examples of strengths are: advantageous location, scarce competency, exclusive access to high-level resources and cost advantages from proprietary know-how. Companies need to identify unexpected ways they can apply their strengths to in environmental changes.

4.3.3. Weaknesses

Thompson and Martin (2010:111) define a weakness as something that a company lacks or does inadequately or a condition that places it at a disadvantage in the market-place. According to Groenewald *et al.* (2003:71), a weakness is a resource or

competency that an organisation has but which is in short supply or of inferior quality compared to the resources and competencies of its competitors. Every organisation has vulnerabilities, obstacles, risks or blind spots. Start by highlighting factors that put your company at risk as environmental challenges impact markets. This can include risks to operations, reputation, brand, suppliers, products and services or employees. Katsioloudes (2006:102) highlights the following examples of weaknesses:

- Managers who are constantly causing labour-related problems;
- Poor fiscal management that has led to a poor cash position and
- Management's lack of vision.

4.3.4. Opportunities

An opportunity is a major positive factor in the environment that puts an organisation in a better position than that of its competitors to meet the needs of its customers (Groenewald *et al.*, 2003:71).

Table 4 - Where to look for opportunities

The unexpected	Unexpected successes Unexpected failures
Industry and market disparities over time or geography	Customers and expectations Industry economics Technologies and operations
Incongruities	Internal misperceptions Conflicting internal realities Gaps in customer expectation
Process vulnerabilities	Weak link in process Technological vulnerabilities
Demographic changes	Aging Changes in culture and labour force Globalisation
Changes in perception and priorities that alter buying habits	Customer perception Customer vulnerability and receptivity
New knowledge	Expensive innovation with long lead times and risks Application of knowledge and information in new areas

(Source: Edersheim, 2007)

Examples of opportunities include:

- Government legislation about to be introduced will enable additional product claims;
- New technology being developed will mean a realignment of the market sector and
- Market vacated by an ineffective competitor.

Historically, many companies have only looked at new global markets once potential customers or partners have approached them. However, trade barriers are falling and new opportunities are fast emerging in markets of the Middle East and Africa, further flattening the world for global firms. Companies are increasingly identifying these and other global markets for their products and services and incorporating it into their long-term growth strategies (Carpenter *et al.*, 2011:155).

4.3.5. Threats

A threat is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness (Hitt *et al.*, 2007:40). According to Carpenter *et al.* (2011:517) threats include factors beyond your control that could place the strategy or even the business itself at risk. Threats are also external, managers typically have no control over them, but it can be beneficial to have contingency plans in place to address them. According to Groenewald *et al.* (2003:71) a threat is a major negative factor in the environment that puts an organisation in a weaker position than its competitors. Examples of threats include:

- Decrease in market demand for products;
- Political unrest and
- New legislation.

Analysing threats to a business requires some level of guesswork. Some threats are tangible, such as a new competitor moving into the area, but others may be only guesswork that results in nothing. It is much better for an organisation to be cautious because, if a potential threat does materialise, the organisation should be able to react much quicker. Organisations should think about the worst things that could realistically happen, such as losing customers to a major competitor, or the development of a new product far superior to its own. It is important for organisations to have contingency plans for every threat that is identified.

4.3.6. Importance of a SWOT analysis

Ireland *et al.* (2005:64) state that the global economy has created a new competitive landscape, one in which events constantly and unpredictably change. For the most

part, these changes are revolutionary, not evolutionary in nature. Revolutionary changes happen swiftly, are constant, even relentless in their frequency and simultaneously affect virtually all parts of an organisation. The uncertainty, ambiguity and discontinuity resulting from revolutionary changes challenge firms and their strategic leadership to increase the speed of the decision-making processes through which strategies are formulated and implemented. A SWOT analysis looks at strengths, weaknesses, opportunities and threats of your business and is an appropriate tool for strategic planning. Based on this analysis, you can set objectives and goals for your business and get a clearer and more objective picture to base your decisions on. From the information above the value of a SWOT analysis on the internal and external factors of your business can be illustrated as in Figure 8.

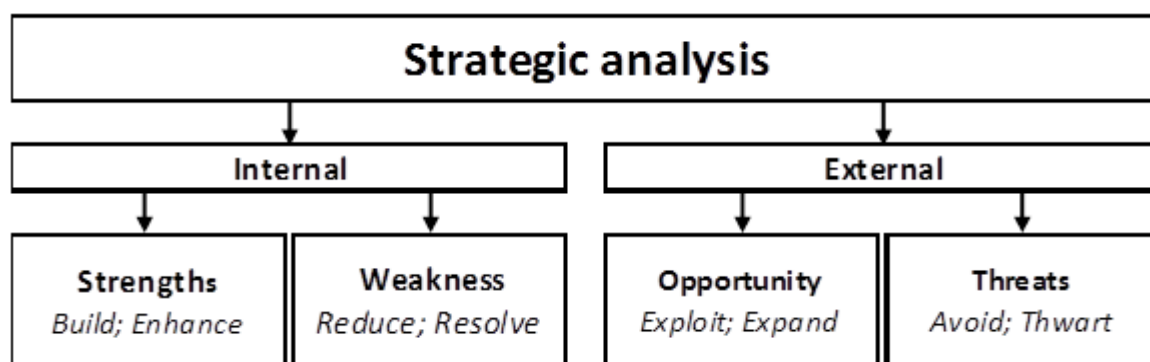


Figure 8 - Summary of SWOT analysis

A realistic recognition of the weaknesses and threats that exist for your effort is the first step to countering them with a robust set of strategies that build upon strengths and opportunities. A SWOT analysis is a powerful technique for understanding an organisation's strengths and weaknesses and for identifying opportunities and threats it might face. Used in the business context it could help an organisation to carve a sustainable niche in its market. What makes SWOT particularly powerful is that, with a little thought, it can help the organisation uncover opportunities that are well placed to take advantage of. Organisations that understand their weaknesses can manage and eliminate threats that would otherwise catch them unawares.

4.3.7. Interactions of a PESTLE and SWOT analysis

To warrant that the company has included as many variables as possible in its business strategy it might be good practice to perform the PESTLE analysis and then use the results in the opportunities and threats section of the SWOT analysis. The advantages and disadvantages of SWOT analyses are that it is simple to come up with a list but far too easy to miss important external factors. Coming up with the results of each factor is not enough, for the SWOT to be successful it is essential to carry out further analyses of all the possible threats and disadvantages to make sure that they have been planned for in advance. The advantages and disadvantages of a PESTLE analysis are that, while the external factors are looked at closely, there are no internal evaluations carried out. Due to the advantages and the disadvantages of using either one or the other methods it is a good idea to combine the two to help provide you with the best analysis (Nishada, 2012).

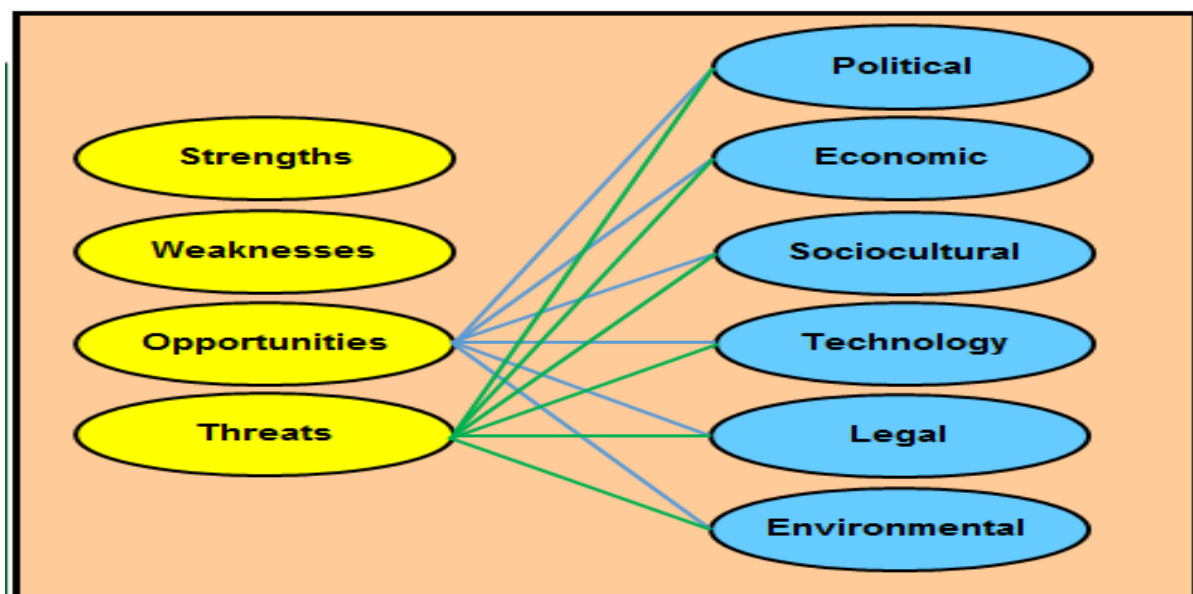


Figure 9 - The interactions of a PESTLE and SWOT analysis

4.4. Summary

Carpenter *et al.* (2011:412-413) state that analysing the external environment is an essential exercise in risk and profitability analysis. Forces outside the organisation's control will have considerable impact on that which transpires within. A PESTLE

analysis highlights important factors that should be considered when constructing a strategy model for an organisation. Organisations will react differently to the external environment because of perceptions of managers and the quality of information they receive. Therefore companies must plan effectively and should have comprehensive information gathering techniques that will enable them to make better and more accurate decisions.

Gillespie (2014:18-19) advises that it is important not to just list PESTLE factors because this does not in itself tell managers very much. What managers need to do is to think about which factors are most likely to change and which ones will have the greatest impact on them, i.e. each firm must identify the key factors in their own environment. To some government regulations may be critical and to others, perhaps firms that have borrowed heavily, interest rate changes may be a huge issue. Managers must decide on the relative importance of various factors and one way of doing this is to rank or score the likelihood of a change occurring and also rate the impact if it did. The higher the likelihood of a change occurring and the greater the impact of any change, the more significant this factor will be to the firm's planning. It is also important when using a PESTLE analysis to consider the level at which it is applied.

Competition will always exist between organisations in the same industry. Competition frequently becomes hostile and organisations need to be smart in handling these situations. People and employees are seen as very important factors in competition because they can be innovative and create competitive advantage. A SWOT analysis supplies information about an organisation's strengths and weaknesses. It is important that managers leverage their strengths and develop their weaknesses. A SWOT analysis also provides managers with the opportunity to do an internal audit and thus the chance to improve activities and processes within the organisation. Organisations need to be thoughtful when they change their processes and/or organisational structures. This might be harmful to the organisation as change might not always be accepted by individuals and/or shareholders. Organisations need to ensure that they communicate these changes clearly and give sufficient support to their employees during these periods of change. Change should also happen according to the organisation's strategy and formal rules and procedures

should be set for the change process and is often the result of a changing business environment. PESTLE can be rightly called a thorough view on the external environment in which an organisation is operating in. On the contrary though, SWOT analysis is the analysis of the internal environment of the company based on its products etc. SWOT tends to be more product / service specific as an individual or an entity conducts this analysis based on that product / service (Makos, 2011).

Having the results of a SWOT and PESTLE analysis on hand is never enough. What is important is how you use this information in your business strategy to achieve higher market share, increased profits, successful business growth and acting upon areas of opportunity identified that could transform the business for the better.

This chapter explained the difference between a SWOT and PESTLE analysis and how each one of these business tools can play a role in assisting a company with the formulation of its business strategy. The PESTLE analysis can be used when more information regarding the external operating environment is required while the SWOT analysis has more bearing on the factors that impact the internal and external business environment. The strengths and weaknesses portion of this analysis is inward facing and information regarding these factors is more readily available. The opportunities and threats section is facing the market conditions and competitor activities. A frequent SWOT and PESTLE analysis should form part of any company's continuous improvement strategy. Doing business in a country with such a social diversity as that of Mozambique can be challenging, to say the least. The companies that are prepared to embrace these social diversities like language, landownership, religion, educational levels, etc. are the ones on track to success.

In the next chapter a summary of the results of the survey questionnaires and interviews that were conducted, will be presented.

CHAPTER 5

5. ASSESSMENT IN PRACTICE: AN EMPIRICAL CASE STUDY

5.1. Introduction

The previous chapter covered the aspects of the internal and external environment and gave a better understanding of why it is imperative that a company addresses each element to proliferate their chances of success in a market like Mozambique.

It was an objective of this research to identify the most significant factors that impact on the internal and external competitive environments of a business operating in Mozambique. The researcher is of the opinion that if these factors are identified it will assist a diesel engine supplier in Mozambique to proactively plan and implement strategies to address these factors and in doing so, increase their chances of succeeding in the developing markets of Mozambique. By identifying and planning accordingly, they will also acknowledge the differentiating factors in Mozambique and understand why a successful generic strategy used abroad might lead to its downfall in Mozambique. The researcher selected eight businesses based on their characteristics, industry type and working experiences in Mozambique. The business managers and owners were selected with a specific purpose in mind, using predetermined criteria.

This chapter will present and summarise the results of the survey questionnaires and interviews that were conducted.

5.2. Empirical results

As mentioned earlier, ten managers from eight businesses, representing seven different business sectors in Mozambique were selected to participate in the research questionnaire. An additional four managers from two other businesses chose not to take part in the survey and thus a 71% response rate was achieved.

5.2.1. Results of the survey questionnaire

5.2.1.1. Background information of research respondents

Part A of the survey questionnaire aims to gather individual information of the respondents. 70% of the participants were on expat assignments and did not bring their partner or spouse with to Mozambique. All of the respondents were males. This was not the aim of the survey though, but only by coincidence.

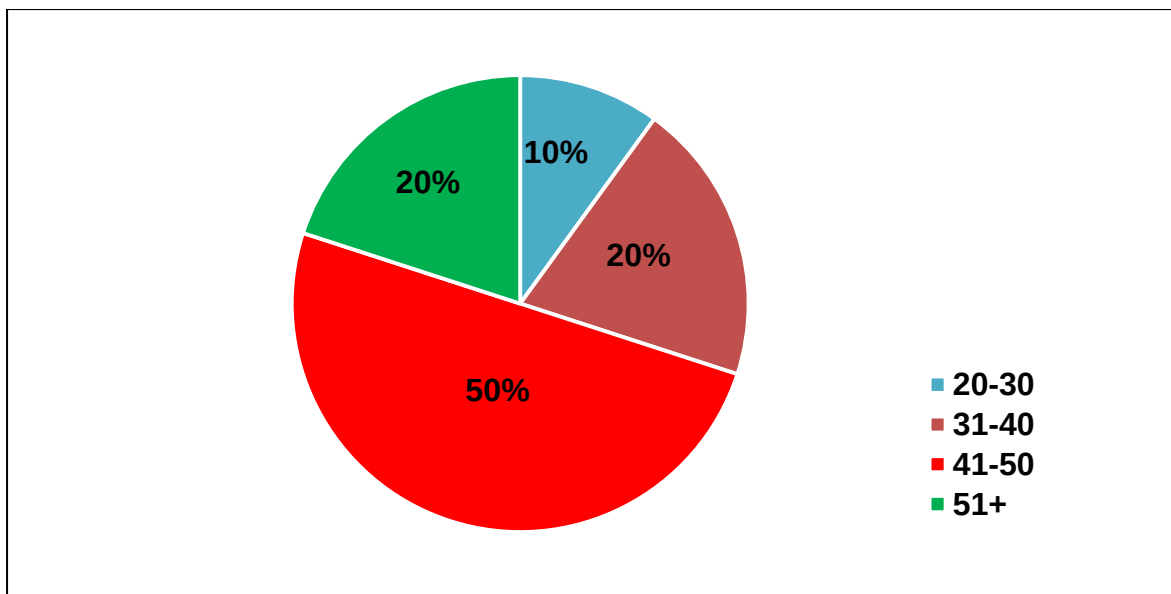


Figure 10 - Age of respondents

Figure 10 indicates that the age of the respondents was diverse as one respondent was younger than thirty years, two were younger than forty years, five were younger than fifty and two were older than fifty years. Eight of the respondents have been employed by their current company for more than 3 years and two for more than six years. One of the respondents has been working for less than two years, five for less than five years, one for less than ten years and three have been operating for more than ten years in Mozambique. The results are shown in Figure 11.

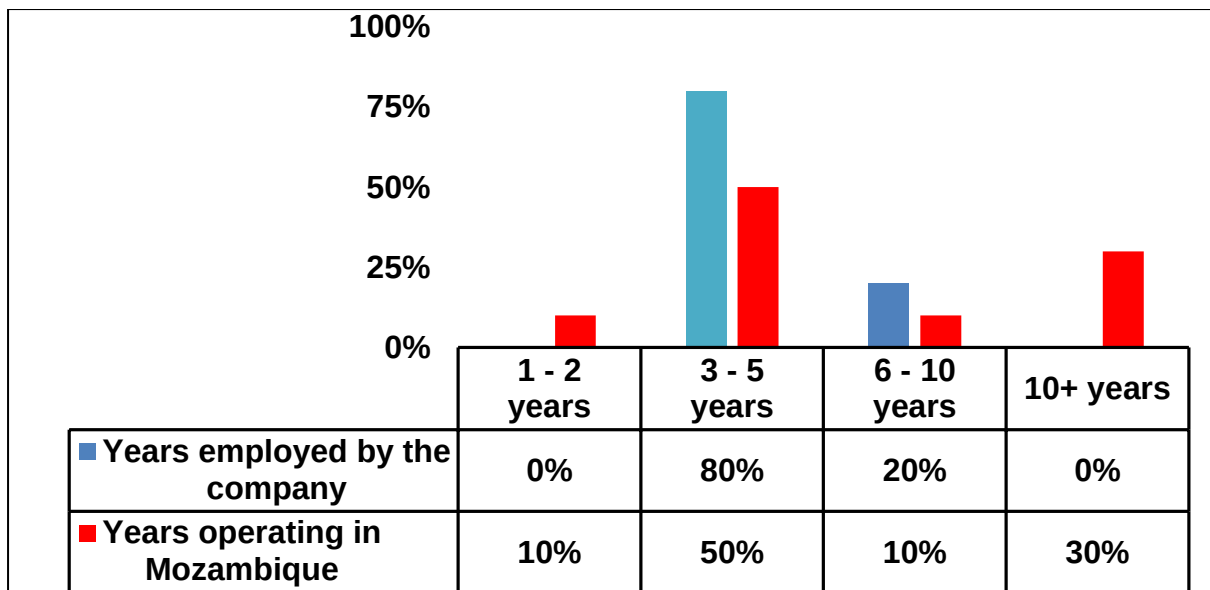


Figure 11 - Working experience of respondents

The aim was to get feedback and opinions from as many different sectors as possible and the researcher is of the opinion that seven of the most important sectors are represented in this survey.

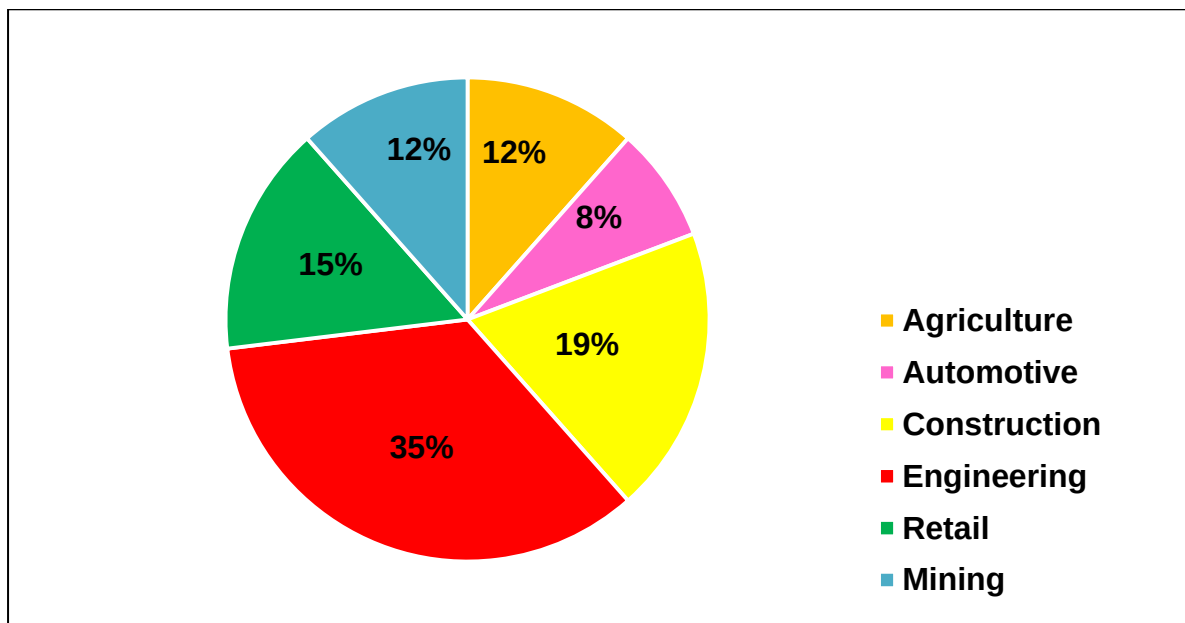


Figure 12 - Sectors represented in the survey

In Figure 12 it is revealed that from the different sectors the selected respondents are working in, 35% of it was operating in or had previous experience in operating in

the engineering industry of Mozambique. From the history and current changes happening in Mozambique that were covered in Chapter 3, it can be concluded that these companies are involved in the resurrection of the economy of Mozambique through the building, design and development of the infrastructure needed to channel products and services to the emerging fields of the budding economy.

From the survey it was revealed that 70% of the respondents depend on their own branches to bring their products and services to their customers. Only 30% of these made use of a combination of own branches and a network of dealers and representatives. It also has to be mentioned that only one of the respondents who only depended on own branches was operating in all the provinces of Mozambique. The current channels to market are shown in Figure 13.

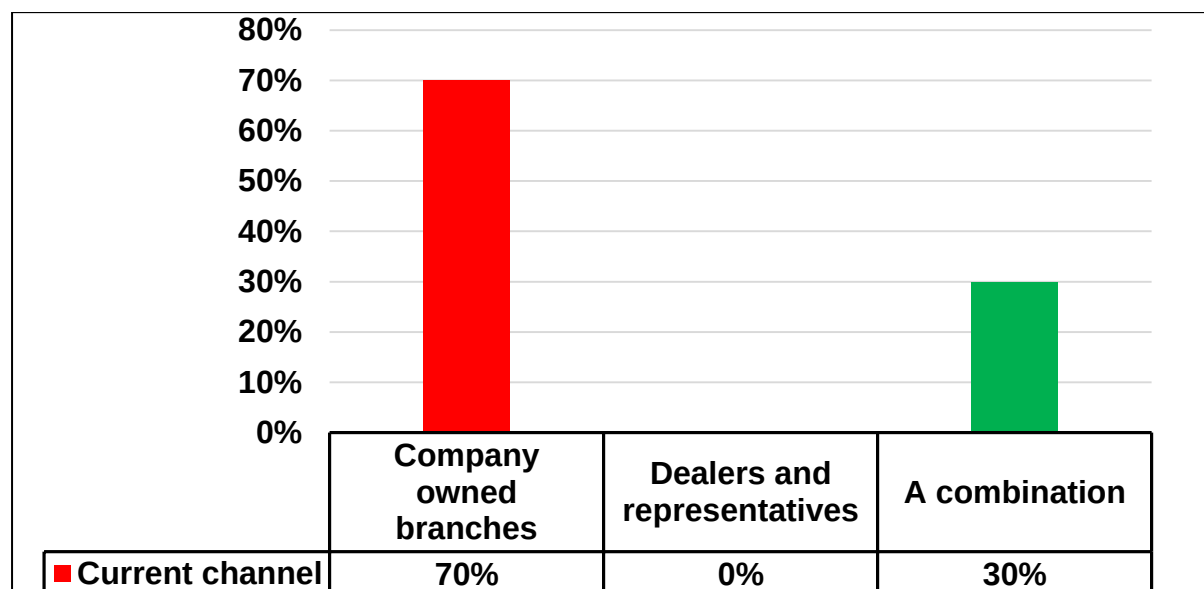


Figure 13 – Current channels to market

Figure 14 shows that only 20% of the respondents has a local holding company or ownership component. 40% had a holding company from Europe, 30% from Britain and 10% from the United States of America.

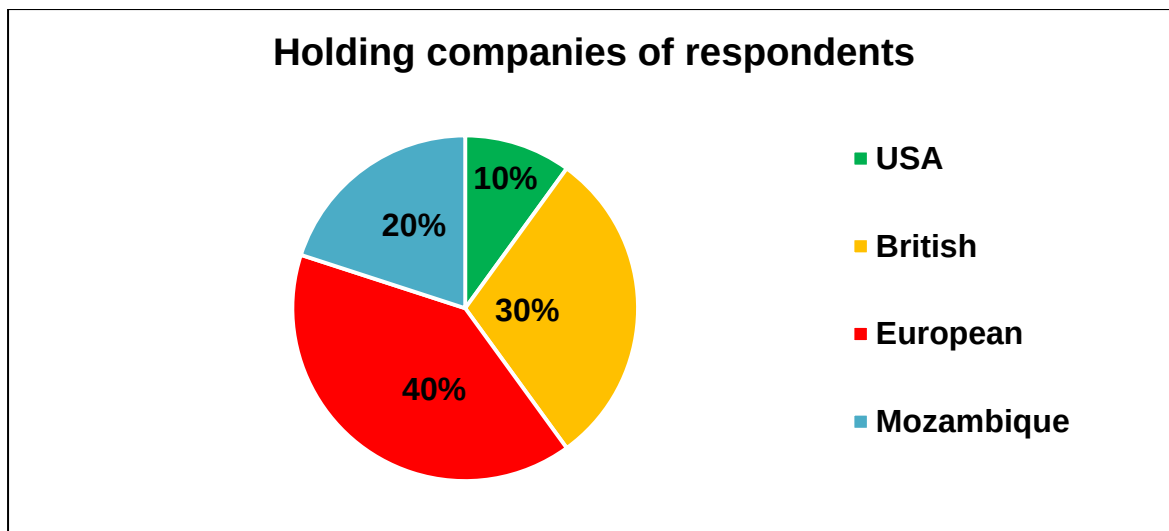


Figure 14 – Holding companies of respondents

5.2.1.2. PESTLE analysis

- **Political environment**

Four questions about the political environment were asked and the respondents had to answer them, the answers based on their knowledge and experience. Figures 15 to 17 presents feedback related to the possible obstacles that a company like Company A might face in the political environment.

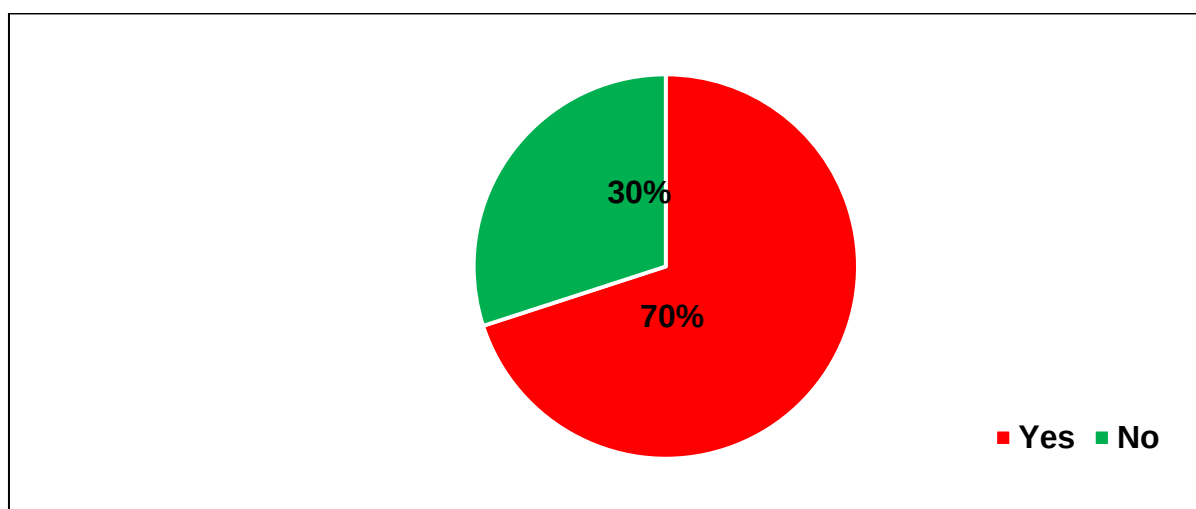


Figure 15 – Competitor analysis tools usage

Only 70% of the respondents were aware of a competitor analysis being done by their company while 30% did not do any analysis on their competitive environment.

This is shown in Figure 15. In Figure 16 the impact that government regulation has on the respondents' business environment is very clear. 90% of the respondents replied that government and the decisions they make has a definite impact on where and how they operate.

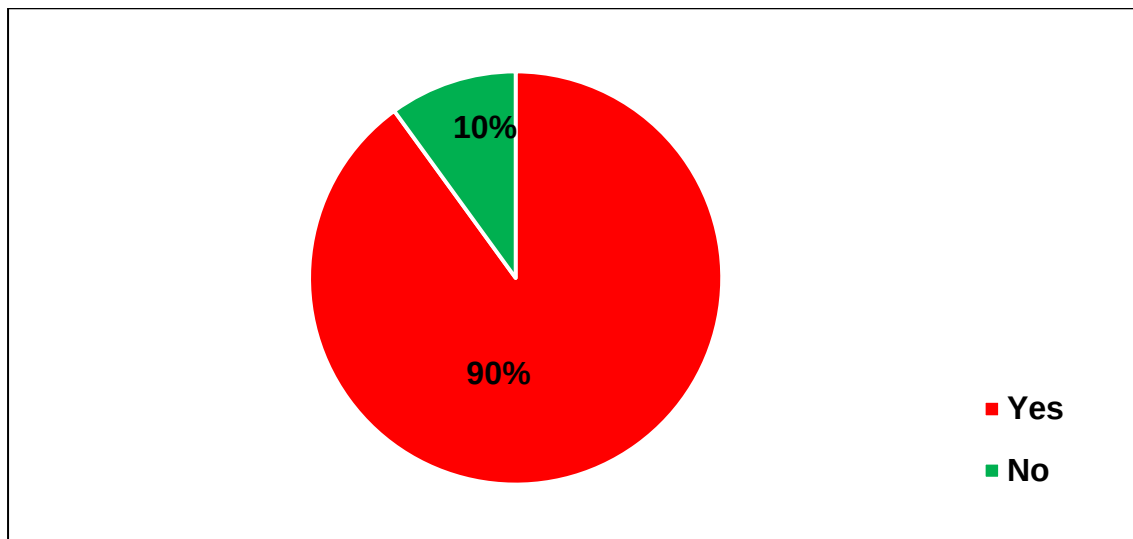


Figure 16 – Direct impact of government regulation on operations

From the information supplied in Chapter 3 it was shown that Mozambique has a history of conflict and civil unrest. In Figure 17 respondents viewed their opinions on how political actions, post elections, will impact on their business environment.

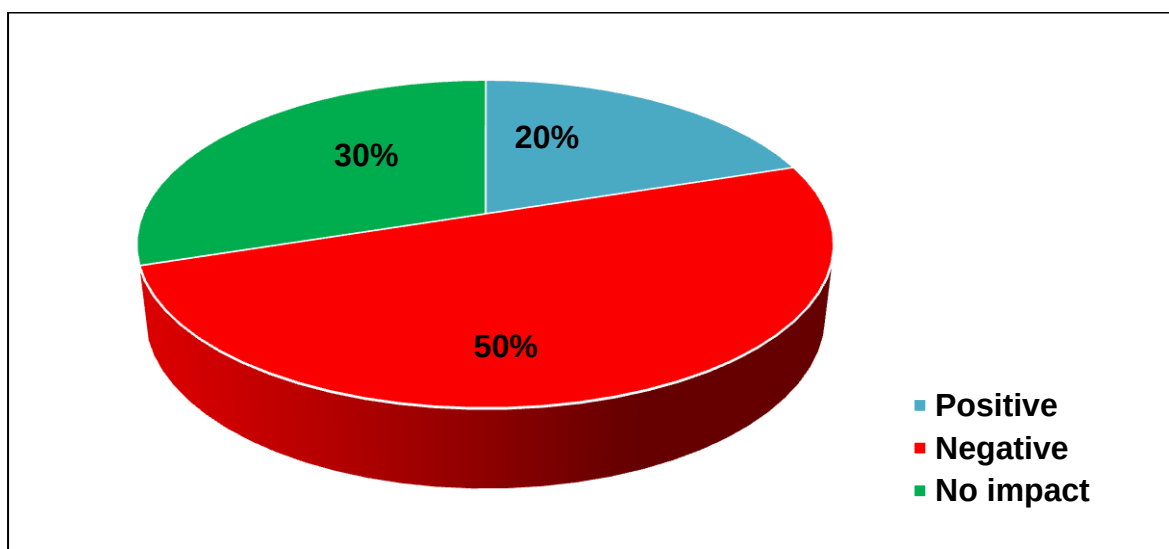


Figure 17 – Expected impact of political actions in the next 5 years

50% of the respondents was sceptical and expect that the actions of politicians will negatively impact on their business in the next five years, while 20% expects the situation to improve and 30% is of the opinion that nothing will change. When questioned about political factors that will have a sure impact on the respondents' business, the actions of the political parties in Mozambique were listed as the biggest obstacle. When considering that only 20% of the respondents had local content in their shareholding, it is understandable that the second item listed was that of local ownership. There seems to be general consensus that it will be difficult for the other political parties to oust the ruling FRELIMO party and that the least worrying aspect on the political front is that of political instability in the neighbouring countries of Mozambique. This list is shown in Table 5.

Table 5 – Political factors that impact business in Mozambique

	Biggest obstacle
Actions of political parties	1
Local ownership content	2
FRELIMO ousted as ruling party	3
Political instability in neighbouring countries	4

- **Economic environment**

Regarding the expectations of what the economic environment will hold for Mozambique in the next couple of years the following was found as summarised in Figure 18. 80% of respondents expected the economy of Mozambique to strengthen in the next five years and 20% expected no change. All the respondents were in agreement that they do not expect the Mozambican economy to worsen from the growth rates it is currently experiencing. 80% of the respondents also expect that their company profits earned in Mozambique will increase to mirror this positive growth and only 20% are of the opinion that they will see a decrease in their profits when the economy of Mozambique grows. The reason why the latter anticipate lower

margins in a growing economy is because they expect new entrants to attack their markets due to its proven earning potentials.

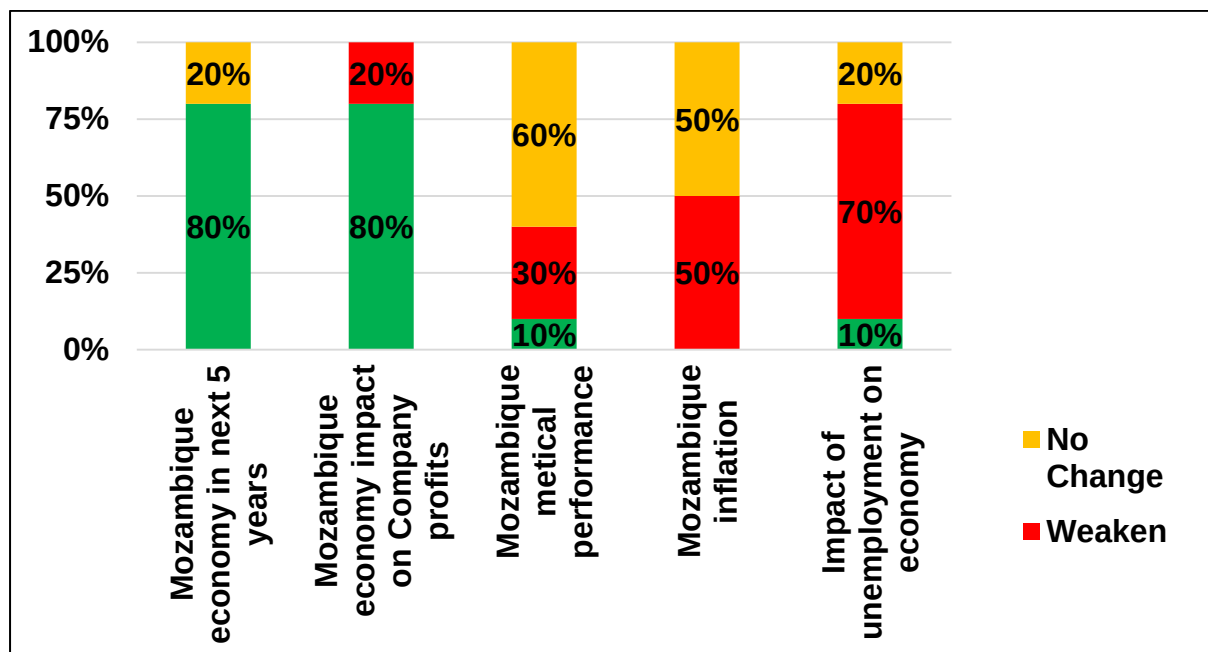


Figure 18 – Respondents expectations for the next 5 years

The majority, 60%, of the respondents also believe that the Mozambican metical will not see any significant change in its rate of exchange while 30% expects it to devalue against the major currencies of the world. A similar pattern is visible in their expectations of the inflation rate in Mozambique. 50% expects no change while 50% anticipates that it will weaken. Considering the level from where the Mozambican economy started its revival, the researcher could not find convincing reasons why the respondents expect the Mozambican economy to be weakened by the current unemployment rates. 70% of the respondents expect the economy of Mozambique to be weakened by the current unemployment rates and 20% see no impact. 10% expect the economy to be strengthened due to the unemployment levels and this was motivated by stating that Mozambique has a liberal supply of low and semi-skilled workers.

60% of the respondents indicated that the level of crime they experience in Mozambique has a low impact on the economy of Mozambique and does not have the power to deter foreign investors from coming to Mozambique. This is shown in Figure 19.

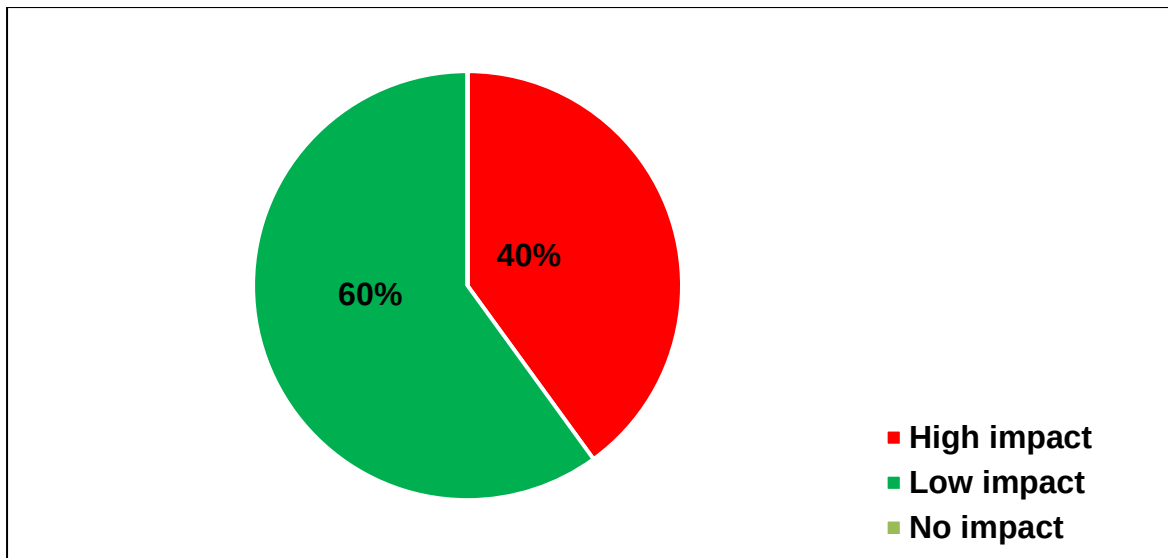


Figure 19 – Impact of crime on Mozambican economy

- **Socio-economic environment**

Five questions were asked about the socio-economic environment and the respondents had to answer them based on their knowledge and experience gained in Mozambique. The results are indicated in Figure 20.

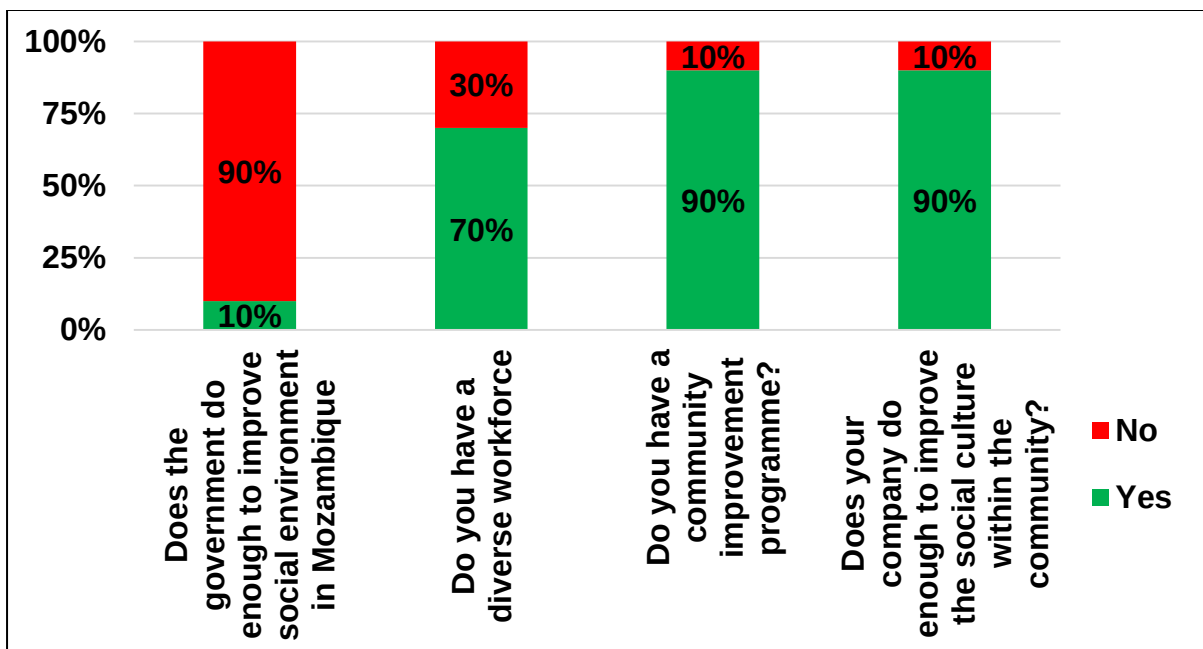


Figure 20 – Socio-cultural feedback received from respondents

Respondents were asked whether they think that the government does enough to improve the socio-economic environment in Mozambique. Nine (90%) respondents

indicated that they believe that the government of Mozambique does not do enough to address socio-economic issues while only one felt that enough was done.

With reference to their own workforce, respondents were asked if they think their staff was very diverse. 70% of the respondents believed that they had a diverse workforce while 30% was not convinced that this is the case in their company.

Respondents were asked if their companies have a community improvement plan in place and nine (90%) indicated that they do have. When considering that Mozambique government expects this from all foreign companies before they issue a license to operate, this was not a surprise. The individual who responded that they did not have a community plan in place was from a company with local shareholding. Because of this the researcher is of the opinion that community involvement is something that should not only be limited to foreign investors but to business as a whole. The researcher also believes that if government forms partnerships with the total business community it might assist in changing the opinion that government is not doing enough to improve the socio-economic environment in Mozambique.

When respondents were asked if they think that their companies do enough to improve the socio-economic environment of Mozambique, 90% of them replied yes. In general discussion the respondents noted that they felt socio-economic development was the responsibility of the government and that they should work together to improve this. Currently the feeling amongst most respondents is that foreign investors are being tasked to perform this basic government function and that the government of Mozambique is not doing their fair share.

- **Technology environment**

When asked what type of telecommunications method they most commonly used, 80% indicated that they use a combination of fixed line, mobile, 3G and Wi-Fi networks as their day to day methods of communication. This is represented in Figure 21.

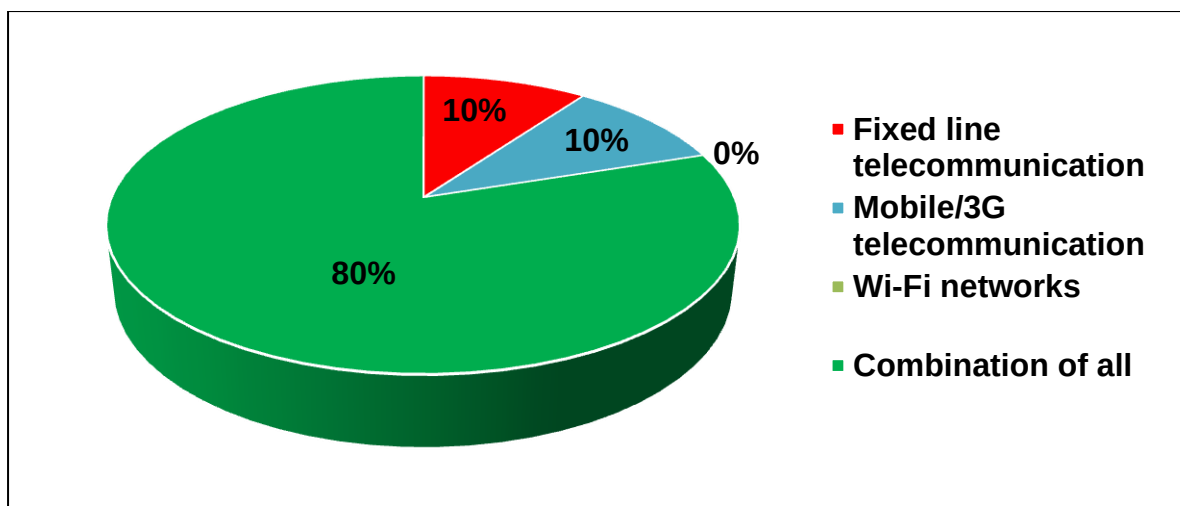


Figure 21 – Telecommunication usage

The feedback on four of the questions that were posed to the respondents regarding the use of technology and the support they enjoy in Mozambique is evident in Figure 22. 60% of the respondents feel that the fixed line telecommunications in Mozambique are stable. All four (40%) of the respondents who felt that the fixed line telecommunication method was not stable are based outside of the main business centres. In comparison to the fixed lines, mobile and 3G networks only received a 30% stable vote from the respondents. These three respondents are all based in Maputo, the capital city of Mozambique. Seven (70%) of the respondents felt that it was not stable. When respondents were asked if in their experience they feel that they have sufficient Wi-Fi and internet access, 70% replied yes. The three (30%) who said no are all based outside the major cities in Mozambique. When asked if they feel that there is sufficient technology support in Mozambique for them to access, all ten (100%) replied no. They replied in conversation that this was one of the biggest technology concerns a new entrant to the market should have.

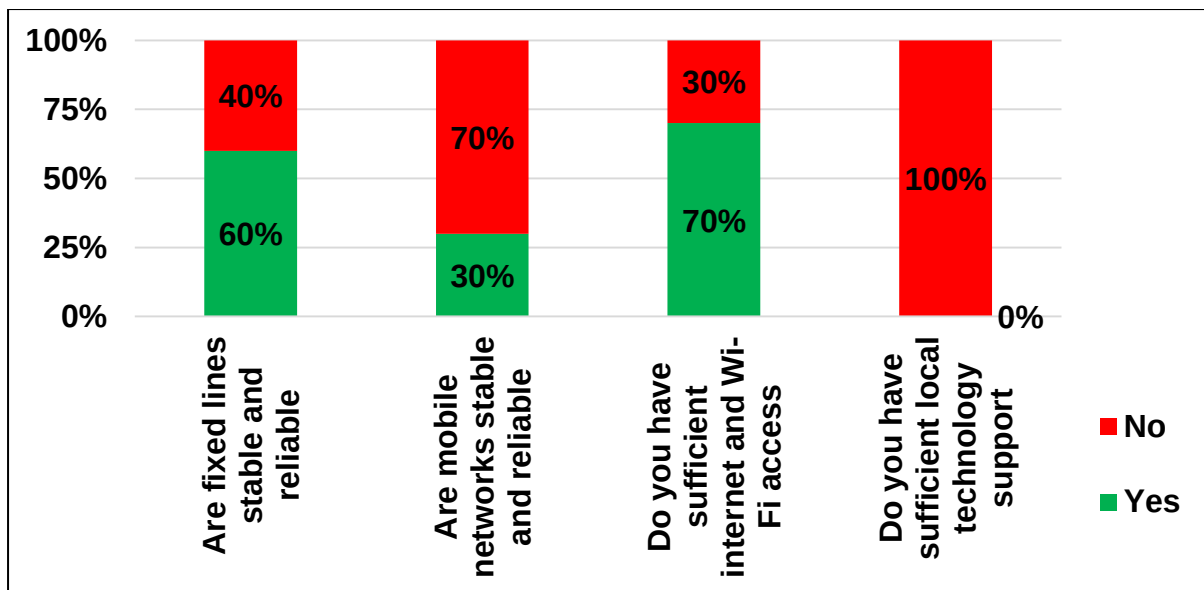


Figure 22 – Technology feedback received from respondents

Figure 23 displays that when asked where they receive their technology support from, four (40%) of the respondents replied that they receive it from their internal international resources, three (30%) respondents replied that they use internal local company resources. These are usually technical capabilities that were recruited from other companies or that were sent from other countries within the group of companies. Three respondents indicated that they use local external technology support.

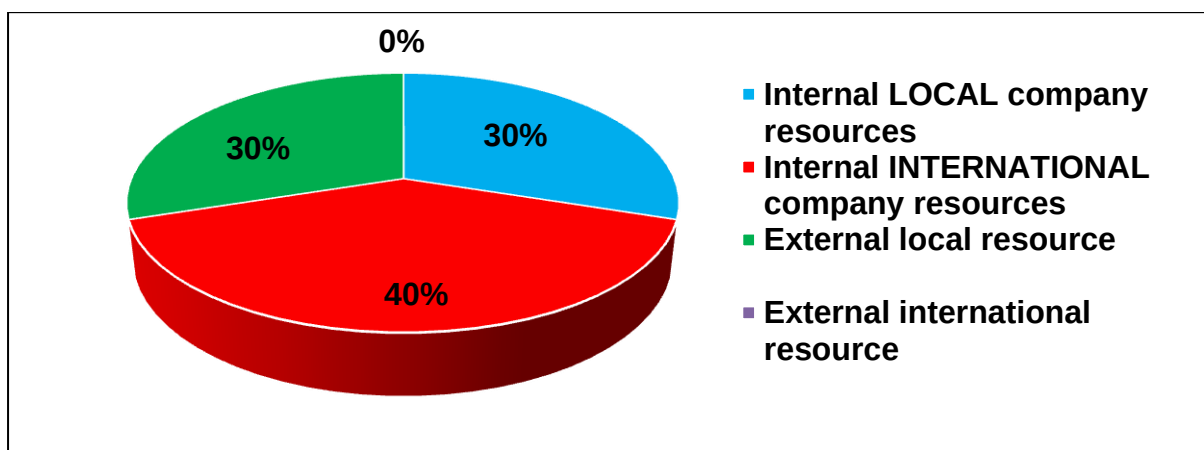


Figure 23 – Technology support in Mozambique

- **Legal environment**

Respondents were asked on who they depend for legal support and 80% replied that they use external local legal representatives. Two (20%) of the respondents make use of their own company's legal team. This is shown in Figure 24.

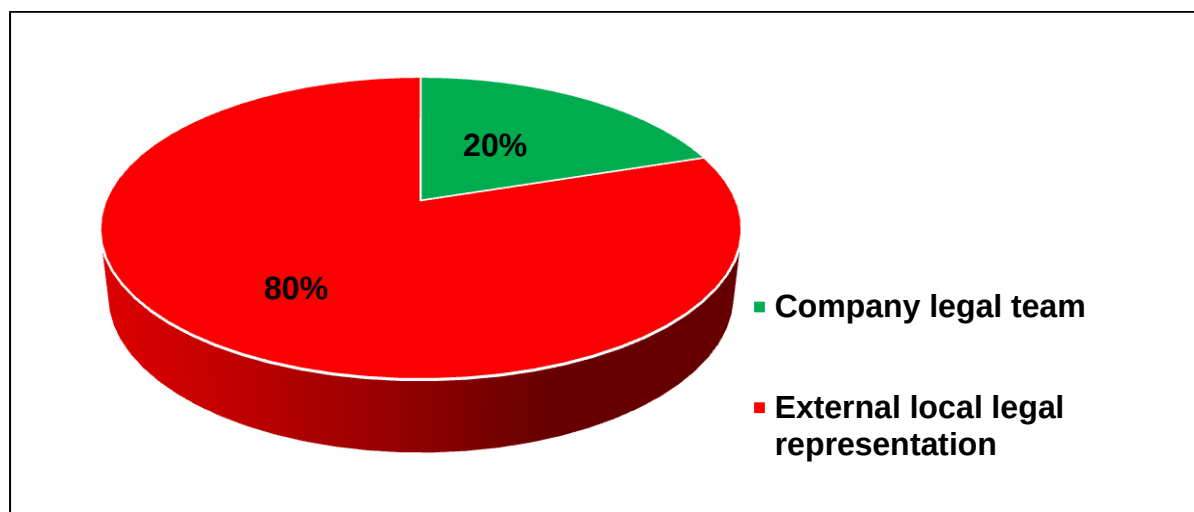


Figure 24 – Legal support in Mozambique

A summary of the questions to the respondents and their answers are shown in Figure 25.

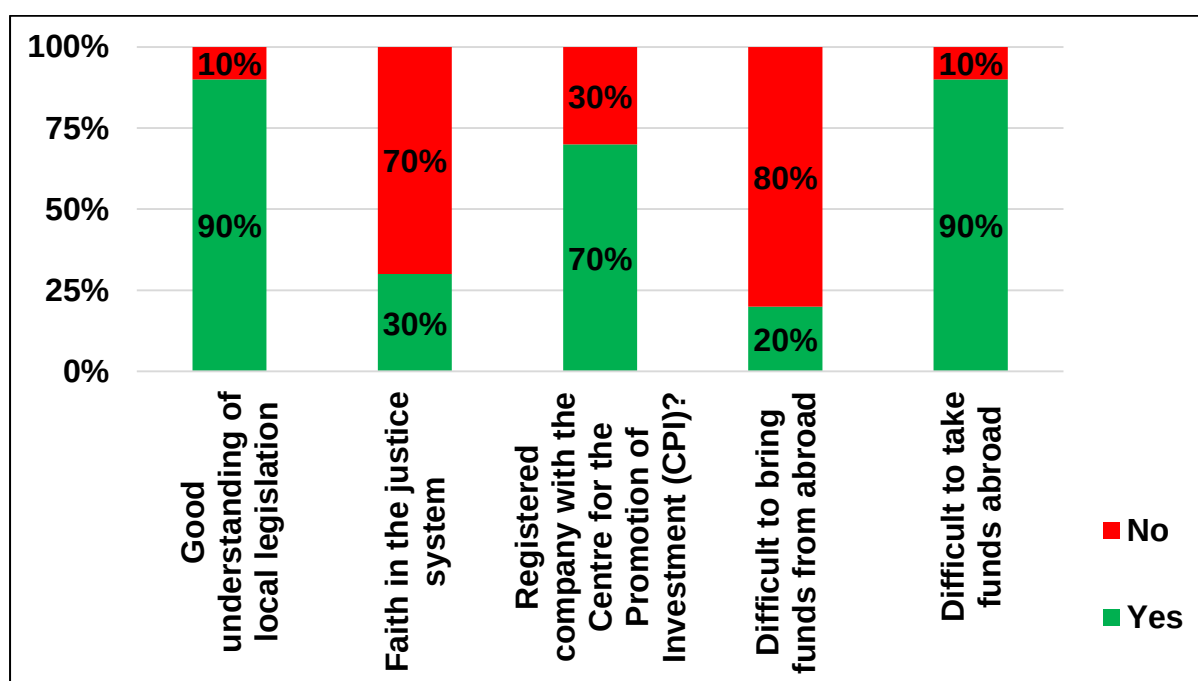


Figure 25 – Respondents' experience in the legal environment of Mozambique

Nine (90%) of the respondents indicated that they consider themselves to have a good understanding of the local legislation. When asked for their opinion on the local justice system, 70% of respondents indicated that they did not have any faith in the local justice system. Two of the respondents replied that litigation is literally impossible in Mozambique and that all levels of justice are corrupt, from the police to the court officials. When asked if their company was registered with the Centre for the Promotion of Investment (CPI) in Mozambique, seven (70%) respondents replied yes and of the three (30%) who said no, one is a local entity with local shareholding. When asked if they experienced any issues when they bring funds from abroad to Mozambique, 80% of the respondents said no and only two (20%) replied yes. It was the opposite reaction when the respondents were asked if they battle to take funds out of Mozambique and 90% of them said yes.

When respondents were asked to rank the aspects of the Mozambique legislation, they found that the most challenging in order of difficulty, import and export regulations surfaced as the most challenging to understand. Labour law was second and applying for working permits the third most difficult to understand. These challenging aspects of the Mozambican law are listed in Table 6.

Table 6 – Most challenging aspects of the Mozambican law

Most challenging aspects of Mozambican law	Most challenging
Import and exports regulation	1
Labour law	2
Applying for working permits and renewal thereof	3
Conditions to obtain an operating license	4
Accounting requirements	5
Foreign exchange regulation	6
Environmental requirements	7

- **Environmental factors**

Fifteen questions were asked to the respondents regarding the environmental factors that impact on their business environment.

Figure 26 shows that when asked what their primary method of transport is when taking their services and products to customers, 50% replied that they use company-owned vehicles and 20% makes use of external freight companies. The 30% that makes use of other freight methods are utility suppliers and they make use of existing transmission lines.

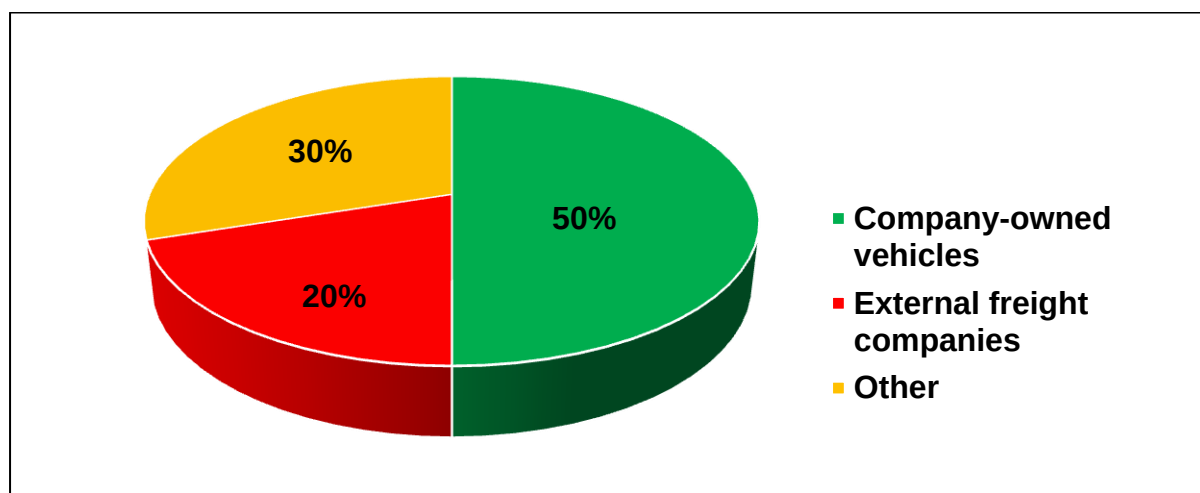


Figure 26 – Freight methods used

Seven questions on how the environmental factors impact on the employees of the company were stated to the respondents. When asked if they consider Mozambique to have sufficient healthcare available all ten (100%) respondents replied no. On the question if they think that there is sufficient clean water available to the citizens of Mozambique only two (20%) replied yes while 80% said no. 70% of respondents deem Mozambique not to have a reliable electricity network. The three (30%) who replied yes are all based in the capital city of Mozambique, Maputo.

Eight (80%) of the respondents replied no when asked if they think that there is sufficient electricity coverage in Mozambique to conduct their business. Only one (10%) respondent, based in Maputo, believed that Mozambique had sufficient accessible roads that enabled them to efficiently and effectively perform their business activities. The other 90% did not share this experience and rejected this claim with an answer of no. All ten (100%) respondents were in agreement that the country of Mozambique does not have sufficient quality housing and schools available to its employees. This was also highlighted as a common reason why they

could not attract skilled labour from other countries to join their companies in Mozambique. Four questions were asked to the respondents regarding the environmental factors that impact on their ability to achieve business results. This is summarised in Figure 27.

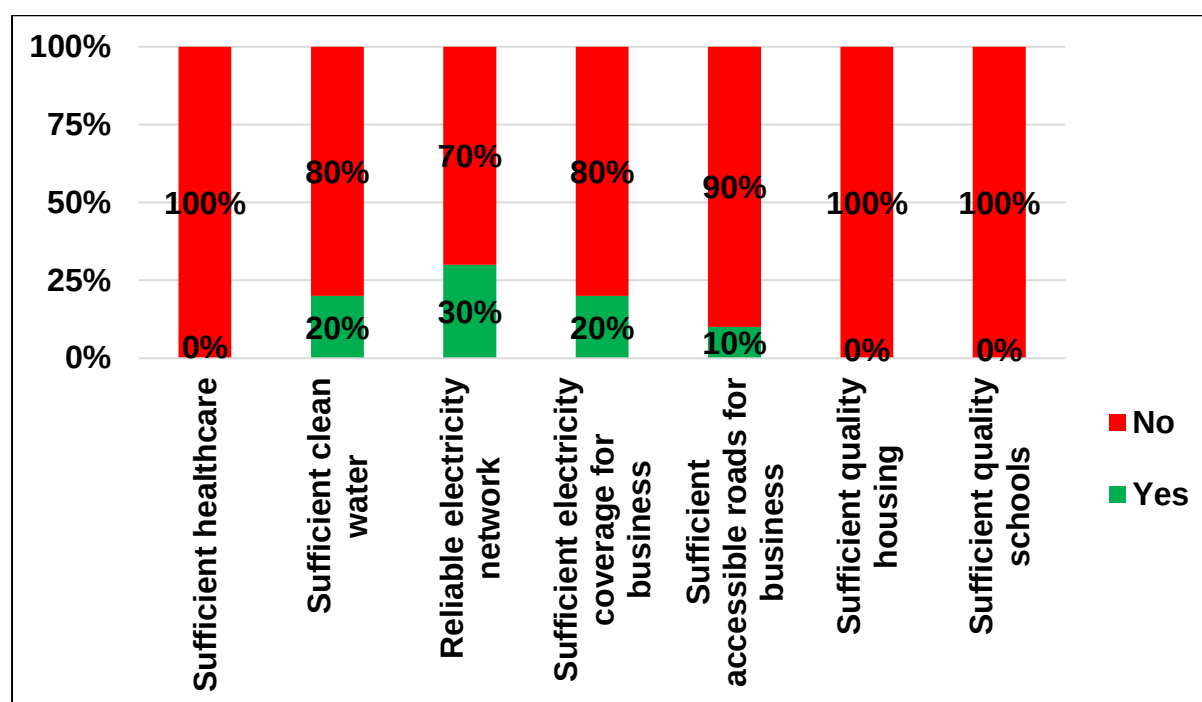


Figure 27 – Impact of the environment on employees

Respondents were asked what their experience was when recruiting new skilled labour and all ten (100%) replied that Mozambique does not have sufficient skilled labour available to meet their needs.

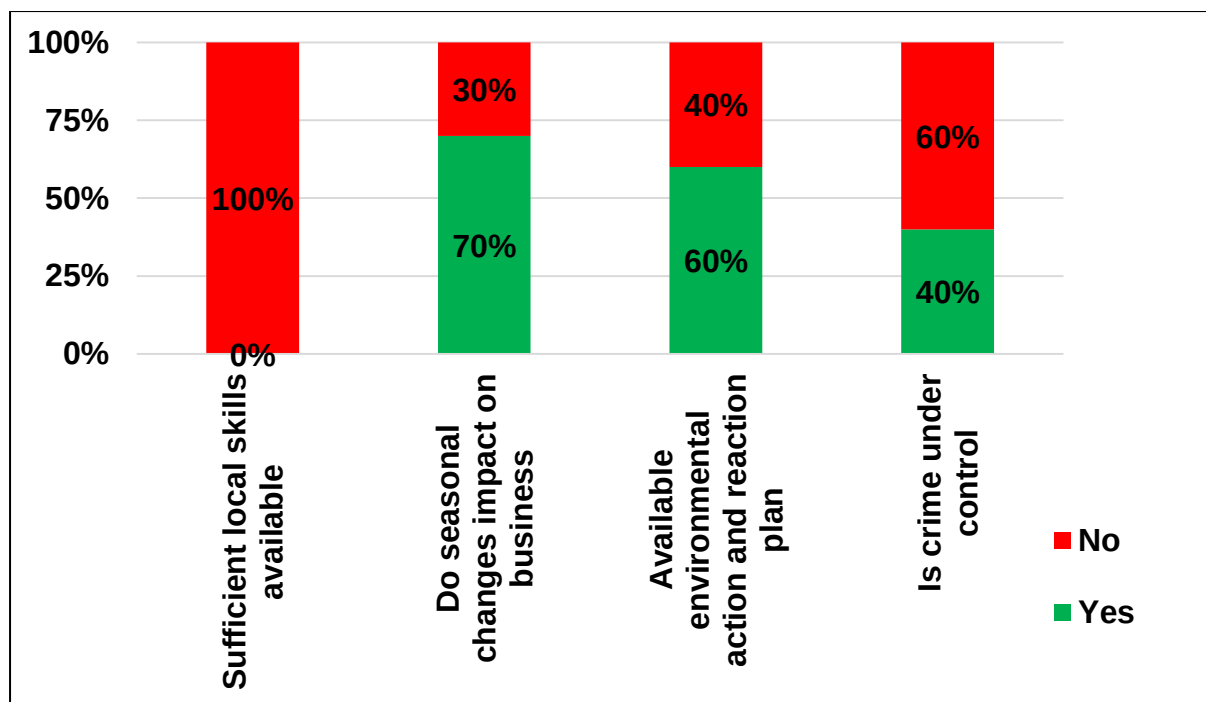


Figure 28 – The impact of the environment on business operations

Seven (70%) of the respondents are of the opinion that the seasonal changes have a definite impact on their ability to deliver service and products to customers. Factors like the effect of seasonal rains on road conditions, mostly gravel roads, and the extreme heat during the summer season were highlighted as the most common causes.

Only 60% of the respondents could confirm that they do have an environmental action and reaction plan available when asked. The remaining four (40%) respondents replied no and that it was not a priority or not applicable to their business sector. Six (60%) of the respondents felt that the crime levels in Mozambique were not under control and that they expected it to further increase while the other four (40%) respondents felt it was under control and that the levels of crime they currently experience in Mozambique were only petty crime.

Respondents were asked to rank the environmental factors that impact most on their business in order of severity and a review of the feedback is shown in Table 7.

Table 7 – Environmental aspects that impact business most

Environmental aspects that impact business the most	Highest impact
Availability of local skilled labour	1
Efficient and reliable transport routes and operators	2
Reliable electricity network with sufficient coverage	3
Crime levels	4
Suitable housing for employees	5
Healthcare available to employees	6
Environmental requirements	7

From Table 7 it is evident that the availability of skilled labour is the main concern. It is also concerning that from the information supplied in Chapter 3, foreign companies are being limited through employment ratios of one foreign worker for every ten locals employed. The transport routes and reliable operators had the second biggest impact on their business while a reliable electricity network with sufficient coverage came in third. Environmental requirements was the last factor on this list and the balance of the list was made up of the crime levels they experience, the availability of suitable housing and quality healthcare available to their employees.

5.2.1.3. SWOT analysis

- **Strengths**

Respondents were asked to rank seven possible strengths they consider their company to have which they are of the opinion are most important for business success in Mozambique. In Table 8 their order of importance is shown. Most respondents were of the opinion that the leadership team was the most important requirement, especially if considering that most senior leaders were expatriates and that they would spend most of their business and private time with colleagues in a similar situation.

Strengths required by a company	Most important
Leadership team and their management style	1
Critical skills relevant to industry	2
Market share	3
Key relationships with major suppliers	4
Footprint in Mozambique	5
Advertising and marketing	6
Global size of the company	7

Table 8 – Strengths required by business

Another critical strength was that of having access to critical skills relevant to their industry. As shown earlier in this chapter the lack of sufficient and capable skilled labour is a major obstacle to operating efficiently in Mozambique. Some respondents also went on to say that the ability of existing skilled labour to transfer knowledge and skills to newly appointed local employees was as important for contingency and succession planning. From the feedback received it would seem that although it is a comfort, the size of a company in the global arena is not that important to the customers in the Mozambican market. It also suggested that due to the limited availability of advertising media, specifically in the rural areas and the geographical areas that needed to be covered, that advertising and marketing were not that effective. It was more important to have key relationships with suppliers and also identifying the most reliant suppliers that will ensure you never run out of products. One of the respondents replied that in Mozambique your suppliers are treated as partners to your business.

- **Weaknesses**

The results shown in Table 9 are from the request to respondents to do the opposite ranking than strengths and rank in order what they would consider most concerning weaknesses to guard against when operating in Mozambique. From the feedback

the availability of skilled labour was the most concerning as this also determined the quality of deliverables and the income earning potential of the companies. Due to the lack of basic infrastructure resulting in expatriates not being able to bring their families to Mozambique with them, the retention of expatriates and skilled labour was listed as the second most concerning weakness. This could also be viewed as a situation created due to the most critical weaknesses mentioned above, the availability of local skilled labour. Not having a good relationship with your suppliers was not even a consideration and was listed as the least worrying weakness. This is the result of the approach that businesses in Mozambique, especially rural areas, have towards their suppliers by viewing them as partners and essential to their business success.

Weaknesses to guard against	Most concerning
Availability of required skills	1
Retention of expats and skilled staff	2
Advertising and brand awareness	3
Language barriers	4
Management	5
Company funding	6
Supplier relationships	7

Table 9 – Weaknesses to guard against

- **Opportunities**

Enough has been said about the abundance of opportunities that are currently available in Mozambique and what the respondents considered to be the priority sectors, are listed in Table 10. The size of the proven gas resources and the potential impact it can have on the economy of Mozambique ensured that it was ranked as the most important opportunity for business to capitalise on at present.

The growing development in the mining and exploration activities in Mozambique was placed second and that of the government infrastructure spending third.

Table 10 – Current opportunities in Mozambique that companies should seize

Current opportunities in Mozambique that companies should seize	Priority order
Growth in the gas industry	1
Growth in the mining industry	2
Construction and government infrastructure spending	3
Increased focus on growing customer base to improve service and product offerings	4
Growth in agricultural sector	5
Footprint expansion due to infrastructure development	6
Growth in marine and rail sector	7
Foreign donor funding for local projects	8
Acquisitions and mergers with local entities	9
Access routes to and from neighbouring countries due to new harbours	10

- **Threats**

Respondents were given ten possible threats to a business and they had to rank them in order of highest to lowest concern to their business. The average response placed the lack of skilled labour on top of the most concerning factor to operating a business in Mozambique again and the political stability was ranked second most concerning. It has to be mentioned that most of the respondents who listed this as a major concern have operations in regions where the RENAMO party still has strong influence. The process of applying for working permits, conditions that need to be met to successfully achieve this and the process of renewing current working permits were also labelled as threats that a business has to proactively act on. The question if government is going to force local ownership onto foreign business is also starting to become more frequent in meetings and discussions and the feeling is that it is just a question of time when it will be announced and it was rated as fourth most concerning factor. The increase in competitors as the markets and its potential opens up, foreign exchange regulation and environmental changes like extreme heat

and seasonal flooding completed the ten biggest threats to conducting business in Mozambique. These results can be viewed in Table 11.

Table 11 – Threats that companies should proactively act on

Threats that companies should act proactively on	Order of concern
Lack of suitable skilled labour	1
Political instability in Mozambique	2
Applying and renewing working permits for foreign employees	3
Legislation to force local ownership in companies	4
Lack of social integration skills	5
Lacking of infrastructure	6
Health and safety of employees	7
Increase in competitors	8
Foreign exchange regulation	9
Seasonal and environmental influences	10

5.3. Summary

This chapter presented and reviewed the findings of the structured questionnaire and informal interviews held with representatives of eight different companies, representing seven different industries in Mozambique. A summary of the responses received from the different respondents was presented in graphical and tabular format and a short overview of the findings was given. The summary of individual respondent replies is presented as Annexure A in this document.

Objectives of the study were highlighted, the sample was discussed and the details of the questionnaire were summarised. The data that was received enabled the researcher to formulate the above information summaries and from this it is evident that both the SWOT and PESTLE analyses are very subjective; this was clearly observable in the results demonstrated within this chapter. Due to the respondents representing different sectors in the Mozambican economy, the respondents had

varied responses on some issues that, if the sample was taken from similar industry participants, it would have been much more similar. This is a problem when using tools such as SWOT and PESTLE, as it is only as good as the information that it contains. Via these analyses it was possible to identify some of the generic and industry specific key strategic issues that will face a diesel engine supplier to start a business in Mozambique and succeed. The value of these responses is not when each of it is analysed individually, but rather when it is compared and analysed as a whole, as it is through the combination of all the information that trends can be identified and suitable strategies adopted in a timely fashion, irrespective of the industry type. During the interview process it was evident that there is a lack of suitable and industry specific market intelligence available to companies and there is great interest by the respondents in the findings of this and results of this study.

In the next chapter of this study a summary is given pertaining to the objectives given in the first chapter, discussing the conclusions and recommendations of the study. In addition, a proposed channel to market strategy is proposed for a diesel supplier in Mozambique. This proposed strategy should assist new companies that have identified Mozambique as a potential new market for their products and services, to negotiate the barriers of entry into this economy by way of a better understanding of the obstacles and limitations other businesses are experiencing. This will enable their company to formulate a strategy, or multiple strategies, that proactively minimise or eliminate the impact that these factors could have on the success of its business activities in Mozambique.

CHAPTER 6

6. SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1. Introduction

The overall objective of this study was to acquire a better understanding of the history and current economic developments happening in Mozambique and what the barriers of entry, the internal and the external factors are that will impact on a company wanting to conduct operations in Mozambique. The previous chapters have reviewed the history of Mozambique and elaborated on the current economic developments in Mozambique that are fuelling the booming growth rate it is presently experiencing. Through the use of the SWOT and PESTLE analysis tools, the internal and external competitive environments that a company will be exposed to were identified, analysed, evaluated and prioritised.

This chapter provides conclusions regarding the findings of the study and presents a proposed channel strategy for a diesel engine supplier in Mozambique. A discussion of the limitations of the research study is also presented.

6.2. Summary of the research

The problem statement was to determine whether the growth currently experienced in Mozambique is sustainable and what the proposed channel is to market for a company like Company A in Mozambique to ensure customer satisfaction? A study was conducted to have a better understanding of the possible impact that the external and internal competitor factors could have on a company wanting to establish and/or expand its business activities in Mozambique. Globally accepted tools and methods to assist with this analysis were presented and discussed. Based on the findings of these tools, recommendations can be made to warrant that decisions will be taken which will ensure a competitive advantage.

The objectives stated in section 1.7 are discussed in this chapter. A survey questionnaire was designed and presented to representatives of eight different companies operating in seven different sectors in Mozambique. The researcher

acted as interviewer during this process and recorded the answers to the questions and points that were elaborated in more detail by the selected respondents. The sample selected consisted of fourteen managers from eight companies that represent seven different industries in Mozambique. Of these, ten questionnaires were completed by way of interviews conducted by the researcher, thereby achieving a 71% response rate. Six of the companies were foreign based companies with expatriates heading up their operations. All of the respondents admitted that they had to have an entrepreneurial skill as they were responsible to grow their business revenue and profits through footprint expansion and increasing their products and service availability. All of the respondents' companies either had a head office or administrative office in Maputo and six of the eight had the majority of their business activities in the Beira, Tete and Pemba geographical triangle.

Company A was used as a case study. They are a global company operating in 190 countries and on all of the continents. During this expansion and footprint growth from their headquarters in the United States of America they had to adapt to the diversity of language, cultural matters, religion and all the external factors relevant in the different competitive environments they targeted.

Company A chooses to follow a philosophy of developing and appointing country leaders from within their ranks to ensure a standardisation of Company A's skills and values in all their new operations. They aim to be the market leaders in diesel engine innovation and thereby making available superior diesel engines to all market sectors, deliver legendary aftermarket product support and always act with a sense of stewardship towards nature and the environment they function in. To achieve this they adopt a hybrid approach of owning service and sales branches and utilising existing dealer networks. They manage to stay in control of the service and product support through a worldwide service provider system of quality control. All Company A's branches and dealer outlets have to adhere to this prescribed criteria or risk losing their accreditation with the company. All engines exceeding a fifteen litre engine capacity is classified as high horse product and the intellectual knowledge of these products are not shared with dealers and therefore no dealer is allowed to service and repair these engines. Their product and parts distribution is managed

through a network of regional and primary distribution centres supplying products to branches and cross border entities.

6.3. Discussion of the study on the objectives

The quintessential objectives of this study was to give an overview of the history of Mozambique, analyse the macro-economic factors within the competitive environment by conducting a PESTLE analysis and to determine key performance indicators of companies currently operating in Mozambique by means of a SWOT analysis. Both techniques were researched, analysed and discussed in the literature study and a practical analysis was conducted by preparing a survey questionnaire that was completed through semi-structured interviews. The latter gave the researcher a better understanding of the competitive environment that the ten representatives and their companies are exposed to due to the unique business environment in Mozambique, based on their trading experience and knowledge gained in the time they have been operating in the country. To address this objective, a survey questionnaire was designed and completed by way of an interview process with them. During the practical analysis of the SWOT technique, the aim was to determine what the respondents perceived to be the strengths a company operating in Mozambique should be in possession of, the weaknesses it should correct and the threats it should proactively try and avoid. It also tested the opinion of where the respondents view the greatest opportunities in the market to be. With regard to the PESTLE analysis, the aim was to determine what external factors, in the relevant environments, respondents believe would have a significant influence on the stability and growth of the Mozambican economy.

A further objective of this research study was to develop a recommended channel to market strategy for a diesel engine supplier in Mozambique based on the conclusions of the three objectives above. These will be discussed below.

6.4. Research synopsis

Based on the information and results supplied in preceding chapters, certain conclusions were reached.

6.4.1. Mozambique history

The geographical area of Mozambique covers just short of 800,000km² and is still a relatively new and fragile democracy indeed. All the elections to date were marked by violence, opposition parties rejecting voting results and subsequent violent clashes between the ruling party and that of the main opposition, RENAMO. The support for the different political parties are also very much regionalised and tension between the ruling FRELIMO party supported in the south and RENAMO support to the north is also a day to day reality. As mentioned in Chapter 3 Mozambique is still very dependent on foreign donor investments and the true benefit from developments in the country has not yet reached the frustrated citizens of the country. The fact that it is also ranked as one of the most corrupt countries on the continent does not do much to boost investor confidence in the country.

6.4.2. External competitor environment

Using a PESTLE analysis, this research has shown that the external environment is complex and dynamic, which made it difficult to investigate. However, by way of personal travels, semi-structured interviews with business managers and owners and attending commercial seminars in Mozambique, the researcher identified numerous variables impacting on the external environment and these have been investigated in the PESTLE analysis covered in the previous chapters. It was cited that Company A currently evaluates the competitive environment remotely from their offices in the neighbouring country of South Africa.

Due to the rapid pace at which development in Mozambique is taking place, legislation or amendments to legislation tend to follow and do not set the rules of engagement from the start. This could result in moving goal posts and again have a negative impact on investor confidence in the country. To predict the actions and reactions of political parties is difficult and was therefore one of the highest factors of concern to business. The electorate is also under more pressure to address the issue of local content in the ownership of foreign business in Mozambique and it would seem that Mozambique will follow the same path as its neighbouring countries like South Africa and Zimbabwe. While the business sector tends to agree that the rate of development will continue, they are more sceptical on the predictions of the

currency and inflation performance. When a person considers that the economy of Mozambique is very diverse and focussed on the export market, a cooling down in world economy will have a direct impact on it.

The level of crime seems to have little impact on business activities and business is compelled to invest in the social and infrastructural upliftment projects in local communities before working permits and operating licenses are issued. Historic performances are reviewed before they are renewed again. On the technological front there is not a stable mobile operating network and technology support is basically non-existent. Mozambique eagerly allows the entry of foreign funds into the country but it is a lot more difficult to send funds from Mozambique to foreign destinations. In general, business finds the interpretation of Mozambique labour law very challenging and also, as mentioned earlier, the fact that it could change as government deem fit complicates it even further. The availability and dependability of basic infrastructure like sufficient clean water, quality schools and worthy healthcare are lacking. Satisfactory road infrastructure and enough electricity supply to conduct business also seem to fall short. Seasonal weather changes seem to directly influence effective and efficient product and service delivery as flooding is a regular occurrence in certain provinces of Mozambique and a lack of well-developed infrastructure leaves the company with no alternatives.

The factor which respondents felt had the biggest impact on their ability to do business, was the lack of skilled labour.

6.4.3. Internal environment

By using a SWOT analysis the feedback received from the respondents highlighted the availability of a strong leadership team and skilled labour as a decisive requirement whether a company wants to succeed in Mozambique. As mentioned above skilled labour is very difficult to come by and fetching expatriates to fulfil these roles are met with opposition from government in the form of adhering to strict employment quotas. Currently the standard is one expat allowed for every ten Mozambican citizens employed.

The relatively low educational levels and language barriers seem to limit operational effectiveness. Mozambique offers opportunities to succeed in various sectors of the economy and growth is not limited to one segment only. It is this diversity that is also attracting more and more competitors to the Mozambique economy.

A strong path to market with value adding channel partners is a result of the balance of key market needs. As shown in Figure 29, end user customers assess the company and its products by looking at a variety of factors beyond the product itself. Such factors can include customer service, price, delivery and availability. These factors are influenced by all channel partners, including dealers. Thus a well-established channel to market model is essential for driving success and delivering high channel profitability and customer satisfaction.

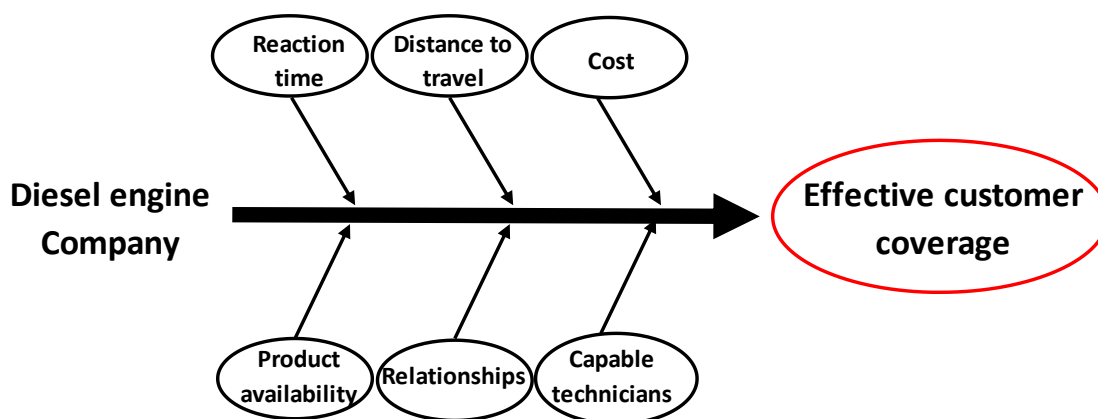


Figure 29 - End user's assessment of a company

6.4.4. The proposed channel strategy

The PESTLE and SWOT analyses were used to determine the impact of external and internal factors on a business that wants to operate in the Mozambican market. From the research that was done and the information that was received from the completed questionnaires it will be advisable for any company or business that considers entering the Mozambican market to take note of the following findings.

The PESTLE analysis showed that although the Mozambican economy is stacked with potential opportunities it is still very much underdeveloped when it comes to available infrastructure to create healthy living and working conditions for employees.

Suitable road and transport infrastructure that will assist a business in being more effective in the execution of its operations is also lacking at present. The political climate is also not very stable and although the civil war that ravished the country in the 1980's is something of the past occasional conflict between FRELIMO and RENAMO supporters is a reality that can impact business operations and the safety of employees, especially expats. The SWOT analysis highlighted that due to the lack of skilled labour it is evident that new business entrants will have to make use of expats. This will come at a great cost due to the lack of suitable and affordable infrastructure and the required quota of one to ten required by government. The absence of a reliable communication network and aftermarket technical support for your technology needs (the further north you go from Maputo) will also require careful planning and further investment.

Both government and business are aware of the impact that the above has on operations and there are currently multiple projects, mostly financed by business and foreign donor money, on the go to close these gaps and increase production and kick-start the investment in infrastructure and skills development. It is also clear that, due to a low base to grow from, the current levels of growth should continue as government and business work together to get the improved infrastructure, skill levels of employees and develop greenfield operations in a very underdeveloped country.

Based on the aforementioned and due to the rapid changes taking place in the developing sectors of the Mozambican economy it is recommended that the company implement and monitor regular analysis of the external competitive and internal environments. The PESTLE and SWOT analysis tools will ensure that the company keeps in touch with its competitive environment. Through the implementation of a hybrid strategy, the company will be utilising local engine service providers and related product sales outlets to distribute its parts, components and conduct aftermarket service support. The range that they should be able to sell and support will be at the discretion of the company as it will differ from company to company from which engine size they would like to protect the intellectual property on. When supporting and managing such a dealer network, it is important to understand the benefits of a dealer and the value it can bring to the channel to

market. The below list is a summary of the main advantages that dealers hold and benefits to your channel strategy:

- a. Strong relationship with end users and familiarity with end users' working conditions or duty cycle;
- b. Focus on developing customer loyalty while working with potentially limited population;
- c. Close proximity to end users and businesses driven by local contacts (relationships).

These benefits can in turn provide the following value to the company:

- a. Low cost approach for increasing and extending market coverage;
- b. Footprint and density in medium to large territories;
- c. Additional existing customer relationships;
- d. Supplemental service and support services;
- e. Cost competitive path to market for low margin whole goods;
- f. Accelerated new product market penetration;
- g. Increased preference for the company's products within dealer network and beyond;
- h. Less risk and exposure during economic downturn periods;
- i. Genuine parts growth in geographic areas with a high level of counterfeit parts.

In addition to the above key benefits, dealers also provide for a strong financial opportunity. The ability to reach a larger market, increase volume and add incremental sales while managing the relevant costs can boost revenue and provide for a sustained aftermarket growth. Network expansion through dealers can increase the company's reach and the relative market size while keeping the investment and related costs at the company at a low level. This is especially the situation in emerging markets like Mozambique and in regions with a critical product density. Sales to dealers are at smaller gross margins and it is generally perceived that putting resources to dealers will have a negative impact on a company's gross marginal performance. However, while gross margins appear lower, the key to profitability through dealers is effective dealer management and development where sales can grow while associated costs remain constant, i.e., efficient resource

utilisation. When considering the total business gross margin, any incremental sales increase through dealers while not increasing associated costs will positively impact the total business gross margin.

This dealer relationship should be managed through a formal dealer appointment agreement that specifies the deliverables from both parties towards the working relationship and also the expectations from both parties. A hybrid model that is made up of a dealer network and some strategic placed company branches is a relatively inexpensive method for reaching a high volume of customers. The dealer network can act as an extended sales force, thus helping to reach a far larger number of accounts keeping the cost per customer interaction low. Access to a low cost dealer sales force can allow the company to allocate its internal sales and service force to higher profitable business and thus positively impact total business profitability and customer service. Utilising a local established dealer network will also assist with overcoming integration issues like language and working permits as these should be addressed by the dealer. Implement a key performance indicator scorecard for all your dealers to ensure that your products and the services supplied are done at a uniform standard.

The company should register its new entity with the Centre for the Promotion of Investment (CPI) in Maputo to qualify for tax benefits and get access to other investor related support services. It will be advisable to have an administrative presence in Maputo as this is where the head offices of most statutory institutions are located as well as the heads of ministries. It is suggested to have warehouse facilities close to either the ports of Maputo or Beira as these are the most efficient entry points for imports from abroad. As these two ports are 1,200 kilometres apart, the decision on which port of entry to use will be determined by the location of your operations. Only use reputable clearing and freight forwarding companies with an effective distribution network, with company owned vehicles to transport your company's products from suppliers to your warehouse or from your warehouse to customers. Keep control over all intellectual protected engines through a company owned workforce. These employees can either operate from company facilities situated close to customers utilising these intellectually protected engines or they

can be allocated to sites where the company has service and maintenance contracts in place with end users.

6.5. Limitations of the research

The following shortcomings were identified during the research and should be kept in mind:

- The sampling frame of ten may be considered too small in size to allow for inferential statistical examination of the reliability and validity of the survey instrument, but the researcher feels that, as this was a case study argument, it was adequate;
- The knowledge of the respondents about the external environment may be questionable due to their lack of understanding the benefits and application possibilities of a PESTLE and SWOT analysis;
- Some of the companies identified to partake in the survey were far removed from the environment that a diesel engine supplier will be operating in and only shared general points of interest;
- The external environment is constantly changing and it is difficult to measure all the variables that would influence the operations of new business entrants and
- The vast geographical area and split in political support render a generic strategy for the country as a whole. This is quite a significant challenge.

6.6. Summary

In this chapter the results of the research were summarised, based on the data obtained from the survey questionnaire and interviews. The specific objectives highlighted in Chapter 1 were addressed while conclusions, recommendations and limitations were discussed and highlighted. This research can be used as the foundation for a future expansion study of other business sectors in the Mozambique business environment or researching other countries like Zambia and Madagascar, based on similar principles that were applied in this study.

ANNEXURE A

Semi-structured survey questionnaire and answers to identify factors that impact on the internal and external competitive environments of a business operating in Mozambique

Instructions:

Please complete all the questions.

If you choose "**Other**", please specify this clearly underneath.

Some questions will give you an option to elaborate; please elaborate if you need to add additional information.

PART A: Individual information of owners and managers from companies participating in the study

1) What is your gender?

Male	10
Female	

2) What is your position in the company?

Shareholder / partner	1
Director	2
Senior manager	6
Consultant	0
Other	1

3) What is your age?

20 - 30 year	1
31 - 40 years	2
41 - 50 years	5
51 - 60 years	2
61 and above	

4) How long have you been with the company trading in Mozambique?

Less than 1 year	
1 to 2 years	0
2 to 5 years	8
5 to 10 years	2
More than 10 years	0

5) In what business sector does your company operate in?

Agriculture	3
Automotive	2
Construction	5
Engineering	9
Information technology	0
Retail	4
Freight and logistics	0
Mining	3
Financial services	1

6) How long have you been operating in Mozambique?

Less than 1 year	
1 to 2 years	1
2 to 5 years	5
5 to 10 years	1
10 years or more	3

7) Please indicate the channel to market you use to bring your services and products to end users.

Company owned branches and outlets	7
Dealers and representatives	0
A combination of the above	3
Other	0

8) If “Other” please indicate the channel:

9) Please state the nationality of your holding company or main shareholder / partner.

USA	1
British	3
European	4
Southern African	0
India	0
Brazilian	0
China	0
Japan	0
Mozambique	2

PART B: External environment of your company according to your knowledge (PESTLE)

General

10) To your knowledge, is your company doing an external environment analysis to gain insight into the competitive environment?

Yes	7
No	3
I don't know	0

Political environment

11) Do you think the political environment will have a negative or positive effect on the future operations of your company in the next five years?

Positive	2
Negative	5
No impact	3

12) Elaborate on the previous question if needed:

13) Please rank the following possible obstacles that your company might face in the political environment (1 most likely to have an influence and 4 least likely to

have an influence):

Actions of political parties (demonstrations, attacks, etc.)	1
FRELIMO ousted as ruling party	3
Political instability in neighbouring countries, e.g. Zimbabwe	4
Local ownership content in all entities	2

14) Will government regulation affect your work function directly?

Yes	9
No	1

Economic environment

15) What do you expect will happen with Mozambique's economy in the next three years?

Strengthen	8
Weaken	0
No Change	2

16) Elaborate on the previous question if needed:

17) What affect do you think the future economy will have on your company's operational profit?

Strengthen	8
Weaken	2
No Change	0

18) Elaborate on the previous question if needed:

19) What do you expect the Mozambican metical to do over the next three years?

Strengthen	1
Weaken	3
No Change	6
Too difficult to predict	

20) The inflation rate today is approximately 3%. What do you think will happen with the inflation rate over the next three years?

Strengthen	0
Weaken	5
No Change	5

21) Elaborate on the previous question if needed:

22) What impact do you think crime will have on the economy of Mozambique?

High impact	4
Low impact	6
No impact	0

23) Elaborate on the previous question if needed:

24) How will unemployment influence the future economy in Mozambique?

Strengthen	1
Weaken	7
No Change	2

Social culture

25) Do you think government is doing enough to improve the social environment within Mozambique?

Yes	1
No	9

26) Do you think that your company's staff is very diverse?

Yes	7
No	3

27) Does your company have a community improvement programme?

Yes	9
No	1

28) Do you think that your company is doing enough to improve the social culture within the organisation?

Yes	9
No	1

29) If you answered no in the previous question, what should your company do to improve the social culture within the organisation?

Technology environment

30) Regarding voice calls does your company primarily make use of?

Fixed line telecommunication	1
Mobile / 3G telecommunication	1
Wi-Fi networks	0
Combination of all	8

31) Do you find the fixed line stable and reliable :

Yes	6
No	4
Other	

32) Do you find the mobile networks stable and reliable :

Yes	3
No	7
Other	

33) Do you have sufficient internet and Wi-Fi access in your operating area?

Yes	7
No	3

34) Elaborate on the previous question if needed:

35) Do you find there is sufficient local technology support in your business area?

Yes	
-----	--

No	10
----	----

36) Where do you source hardware and software components from?

Mozambique	4
Other countries	6

37) When it comes to technology troubleshooting and repairs how do you resolve?

Internal LOCAL company resources	3
Internal INTERNATIONAL company resources	4
External local resource	3
External international resource	0

38) Elaborate on the previous question if needed:

Statutory legislation

39) How do you gain your knowledge of local legislation?

Company legal team	2
External LOCAL legal representation	8
External INTERNATIONAL legal representation	0
Membership with legal association	0
Subscriptions to legal magazines	0

40) Do you feel you have a good understanding of all legislation applicable to your operating and general environment :

Yes	9
No	1
Other	0

41) What form of legislation do you find the most challenging to deal with? (1 being most challenging and 7 least challenging)

Accounting requirements	5
Import and exports	1
Operating licenses	4

Working permits	3
Labour law	2
Environmental requirements	7
Foreign Exchange regulation	6

42) Do you have faith in the local justice system?

Yes	3
No	7
Other	

43) Elaborate on the previous question if needed:

44) Have you registered your company / project with the Centre for the Promotion of Investment (CPI)?

Yes	7
No	3

45) Do you have difficulty to bring in funds from abroad?

Yes	2
No	8

46) Do you have difficulty to transfer dividend / loan repayments or profits to bank accounts abroad?

Yes	9
No	1

Environmental considerations

47) How does your company move its service / products to the customers?

Company owned vehicles	5
External freight companies	2
Rail	0
Marine	0
Air	0

Other	3
-------	---

48) If “Other” please state transport mode:

Transmis= sion cables

49) Do you feel the country have sufficient healthcare options?

Yes	0
No	10

50) Do you feel the country has sufficient clean water available to its citizens?

Yes	2
No	8

51) Do you feel the country has a reliable electricity network?

Yes	3
No	7

52) Do you feel the country's electricity coverage is sufficient for business purposes?

Yes	2
No	8

53) Do you feel the country have sufficient accessible roads for business purposes?

Yes	1
No	9

54) Do you feel that there is sufficient quality housing available for your employees at affordable prices?

Yes	0
No	10

55) Do you feel there are sufficient quality schools available in the country?

Yes	0
No	10

56) When recruiting do you feel the local skill levels are sufficient for what your business requires?

Yes	0
No	10

57) Do the seasonal changes have an impact on your business?

Yes	7
No	3

58) If “Yes” please state season and impact:

59) Does your company have an environmental action and reaction plan?

Yes	6
No	4

60) Do you feel crime is under control?

Yes	4
No	6

61) Please rank the following environmental aspects that impact on your business. (1 being highest impact and 7 no impact)

Suitable housing	5
Efficient and reliable transport routes and operators	2
Healthcare available	6
Availability of local skilled	1
Electricity network	3
Environmental requirements	7
Crime	4

**PART C: Internal environment of your company according to your knowledge
(SWOT)**

Strengths of your company

62) Please rank the following possible strengths that your company has in order of importance (1 being very important and 7 not important)

Global size of your company	7
Key relationships with major suppliers	4
Footprint in Mozambique that supplies services / product	5
Industry-critical skills	2
Dominant market share	3
Leadership team and their management style	1
Advertising and marketing	6

Weaknesses of your company

63) Please rank the following possible weaknesses that your company has in order of importance (1 being very important and 7 not important)

Company funding	6
Availability of required skills	1
Supplier relationships	7
Language barriers	4
Retention of expats and skilled staff	2
Advertising and brand awareness	3
Management	5

Opportunities for your company

64) Please rank the following possible opportunities that your company should consider in order of importance (1 being very important and 10 not important)

Growth in the mining industry	2
Growth in the gas industry	1
Construction and government infrastructure spending	3
Foreign donor funding for local projects	8
Growth in Agricultural sector	5
Growth in Marine and Rail sector	7
Access routes to and from neighbouring countries due to new harbours	10
Footprint expansion due to Infrastructure development (roads, electricity, rail,	6

ports, etc.)	
Increased focus on growing customer base to improve service and product offerings	4
Acquisitions and mergers with local entities	9

Threats to your company

65) Please rank the following possible opportunities that your company should consider in order of importance (1 being very important and 10 not important)

Increase in competitors	8
Political instability	2
Legislation to force local ownership in companies	4
Health and safety of employees	7
Lacking infrastructure (e.g. roads, electricity, telecommunications, etc.)	6
Foreign exchange regulation	9
Applying and renewing working permits for foreign employees	3
Lack of skilled labour	1
Seasonal and environmental influences	10
Lack of integration skills (e.g. language, culture, etc.)	5

THANK YOU FOR TAKING TIME TO COMPLETE THE SURVEY

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