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Competencies required for an emerging market SME to compete in the developed market for design, development and manufacturing projects

Grant Miller

Student #: 29612812

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

10 November 2010

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Abstract

This paper explored the requirements and subsequent competencies needed for an emerging market SME to operate in the developed markets on design, development and manufacturing projects. This was analysed by first exploring the differences in the requirements of the two markets and then determining what competencies a typical SA company would have to acquire to be competitive in the DM.

The case was explored through a study of an SA SME operating in the design and development market, who was in the process of internationalising into the US and European markets. Data was gathered through a desk analysis of specifications from each market as well as in-depth interviews with the firm's key decision makers and customers from each market.

The first outcome was that there was a difference in the requirements of the two markets, namely the level of detail and sophistication of the DM specifications, the greater need for a competitive product in the DMs, both in pricing and functionality, the requirement for socially ethical practices and that EMF products need to overcome the negative COO effects.

The final outcome was that EM SME's needed to improve on their current competency set, namely an adaptation of the development process, sourcing practices and improvement in technical competencies. The firm also developed a method of introducing their product to the DM, such that the COO effect was reduced. This was done through the use of SA OEM's and DM MNE's supplying SA.

Keywords

Core Competencies, Emerging Markets, SME, Internationalisation, Foreign Market Entry

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Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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10 November 2010

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Acknowledgements

My first thanks goes to Claudia, without whom, this journey would have been far more arduous. You have supported me in every way possible, and for that I am eternally grateful.

I would also like to express my sincere gratitude to my family and friends for their unconditional support and patience towards my constant declines to their invitations.

I am very indebted to my company for providing me with this opportunity to further myself, as well as for the understanding of the toll it takes on my work obligations.

Finally, I would like to thank my supervisor, Prof. Albert Wöcke, for his invaluable guidance from beginning to end. If I had done what you initially said, this thesis could have been finished much earlier.

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List of Abbreviations

B2B	Business to Business
B2C	Business to Customer
COO	Country of Origin
DDM	Design, Development and Manufacture
DM	Developed Market
DMF	Developed Market Firm
EM	Emerging Market
EMF	Emerging Market Firm
FSA	Firm Specific Advantage
HVAC	Heating, Ventilation and Air Conditioning
IMF	International Monetary Fund
IP	Intellectual Property
KPI	Key Performance Indicator
LBC	Locally Based Capabilities and Competencies
LSA	Locally Specific Advantages
MNE	Multi National Enterprise
OEM	Original Equipment Manufacturer
SA	South Africa
SME	Small to Medium Enterprises
US	United States of America

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1 Problem Definition

1.1 Introduction

The aim of this research was to identify the competencies required for an Emerging Market (EM) Small to Medium Enterprises (SME), that are entering the Developed Markets (DM), based on the requirements and expectations of both EM and DM customers for Design, Development and Manufacturing (DDM) projects.

Etemad (2004) stated that when an SME is attempting to internationalise, they need to develop their own distinctive, if not unique and dynamic, set of competencies (Hamel & Prahalad, 1990). These competencies can then be used to empower equally distinctive competitive strategies, further enhancing their competitiveness, allowing them to compete against other firms, regardless of size. Etemad (2004) further stated that if the firm's competitive strategies were based on these competitive advantages, which were also described as core competencies (Hamel & Prahalad, 1990), the firms would be able to change the prevailing "basis of competition", thus eroding the competitive advantage of the competitor they are up against.

Davies (2005) stated that the SA economy was experiencing a process of accelerated globalisation, with the private sector making rapid strides in moving offshore since 1994, but SA companies were still in the early stages of progress re-integrating themselves into the global economy. Global growth is now being driven by EMs that offer new commercial opportunities as well as competitive

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challenges for SA. In order to remain competitive, SA needs to take advantage of these opportunities.

While Bartlett and Ghoshal (2000) noted that some Emerging Market Firms (EMF) had entered the DM, this was not without encountering substantial challenges. Dawar and Frost (1999) found that Developed Market Firms (DMF) wielded a daunting array of resource advantages, namely financial, advanced technology, superior products, powerful brands, and seasoned market professional and management. This was supported by Hoskisson, Eden, Lau and Wright's (2004) finding that EMFs wishing to enter the DM, must compete against DMFs which normally have richer resource portfolios. It was hypothesized that the EM provide a weak bases for nurturing the financial, organisational and technological resources, due to poorly developed institutions, and it is these resources that allow EMFs to compete internationally (Hitt, Dacin, Levitas, Arregle, & Borza, 2000). Due to this, EMFs face a double challenge; they have to incur the costs of doing business abroad faced by all firms, and they have to compete against the resource rich DMF (Thomas, Eden, Hitt, & Miller, 2007).

Ekeledo (2008) also stated that an increase in the globalisation of markets and advances in information technology were opening markets and creating sales opportunities for firms from EMs that were not previously available to them. As SA firms form part of this EM, it was felt that they should take advantage of these opportunities, as it will enhance their competitiveness as well as the competitiveness of the nation.

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Zafarullah, Ali and Young (1998) hypothesized that the decision for business owners from EMFs to select DMs, based on a study of firms from Pakistan, was that DMs offered a greater potential for growth and the security of sales. Raymond, Kim and Shao (2001) found that, when compared to exporters from a DM, EM exporters chose to move into DMs in order to take advantage of sales opportunities, increase productivity, enhance profits, hedge against business risk and finally to establish and maintain a competitive position in the market. Their study also found that by moving into the DM, firms were able to reduce the risk of stagnated sales or poor profitability in their local market.

Regarding the drivers behind SME internationalisation, Etemad (2004) stated that there are both push and pull factors causing SMEs to attempt an entry into the global economy. It is the interaction between these factors, as well as the entrepreneurial mindset of the firm's owners or decision makers, that would influence the firm's decision. Etemad (2004) defined this entrepreneurial mindset as "a lens through which the firm sees the internal and external forces magnified, or as a filter that lessens the true impact of such influences".

Irrespective of the push and pull factors affecting the firm, certain barriers to entry exist for firms attempting to enter a developed economy. Leonidou (2004, p. 281) described these barriers as "constraints that hinder the firm's ability to initiate, develop or sustain business operations in overseas markets". These barriers can be classified in terms of internal and external barriers. Internal barriers can be considered to be related to resources and capabilities, while external barriers are environmental factors from the local market as well as the host market (Leonidou, 2004).

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1.2 Research Motivation

Traditionally, research around market entry has examined market entry from the view of a DMF attempting to enter an EM (Ekeledo, 2008), or an SA company attempting to enter a less developed economy. Thus the motivation for this research was to better understand the competencies required by an SA firms attempting to internationalise into DMs. It was also noted that very little research has been done on competency requirements for SA firms attempting to enter DMs. It was noted by Etemad (2004), that SME's had and were effectively using their core competencies to create a competitive advantage in international markets, but this discussion was on generic competencies, and not specific to the requirements for DM's or SA firms.

Magnussen, Haas and Zhao (2008) found that EMFs faced several challenges when competing in DMs. A lack of resources and limited experience forced firms into becoming low cost providers for the DM (Hussain & Jian, 1999). This created the view that their products were commodities and thus they competed on price, which tends to lead to lower levels of performance (Brouthers & Xu, 2002).

In order for SA to compete on an international level and meet the requirements of DM customers, firms will need to improve on their current competencies, as well as obtain certain new competencies. This is especially important as the SA economy is less sophisticated and the requirements placed on businesses by EM customers are not as stringent as those in DMs. Thus in order for SA firms to compete effectively and efficiently in a DM, they will need to raise and

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expand their current competencies, as well as obtain new competencies in order to meet the requirements of DMFs.

Improving the competencies of SA firms will also raise the competitiveness of SA as a whole. This will also help to improve the requirement expectations of SA customers, and thus force those companies that did not attempt to internationalise to improve and expand on their competencies, if they wish to compete in the improved SA economy. This will further aid the SA economy to take a step forward and move out of the emerging economy bracket towards a developed economy.

There was also a substantial amount of research done by Brouthers and his colleagues in exploring how EMFs can succeed in DMs (Brouthers & Xu, 2002; Brouthers, O'Donnell, & Hadjimarcou, 2005; Brouthers, Nakos, Hadjimarcou, & Brouthers, 2009), but these were mainly in the area of branding and the Country of Origin (COO) phenomenon and were based on Chinese companies.

It is also becoming increasing difficult for SME's to thrive in their local markets, due to globalisation (Etemad, 2004). Thus it is becoming increasingly important, in terms of survivability and expansion, for SA firms to internationalise (Davies, 2005).

Both Dawar and Frost (1999) and Khanna and Palepu (2006) did substantial research into DMF's entering EM's, as well as what competencies these firms would need in order to achieve this. This research sought to explore this phenomenon in the opposite direction, being EMF entry in the DM, and to focus on SME's.

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1.3 Research Scope

The research was focused on the competencies required by an SA company to be competitive in the more sophisticated DMs. It was a study on the expectations and requirements of customers in DMs in relation to what is required and expected by customers in EMs, based on an analysis of a set of interviews with the researched firm and its customers. Once the differences between the two were known, the additional requirements and competencies needed by the SA firms were determined.

The requirements for each market that was analysed and discussed are as follows;

- The skills required to compete in each market
- The competencies required to compete in each market
- The demands and expectations of each market

Based on the outcomes of the above analysis, recommendations were made as to what competencies SA companies are lacking, as well as what competencies they will need to improve, in order to be competitive in DMs.

This study focused on a single case of an SME in SA and their attempt to internationalise into the DMs. The company that was used to explore this research question was a specialised SME engineering firm located in SA. It discussed their entry attempts into the United States (US) and European markets, compared with the requirements of customers in SA, as well as other customers in EMs. It focused on business to business (B2B) requirements, rather than business to customer (B2C) requirements.

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1.4 Research Problem

This study attempted to gain a deeper understanding of the competencies required by an SA firm, based on the requirements and expectations of DM customers in relation to EMs customers. It is the hope that this understanding will better equip SA firms in their internationalisation attempts by gaining an understanding of where SA firm competencies are lacking, and thus help to improve the competitiveness of SA as a whole.

The research will attempt to answer the following questions:

1. Are there differences between the requirements of EM and DM customers, in terms of DDM projects?
2. If there are differences, what are they?
3. What competencies are needed for EMFs to meet these requirements and thus enter and be competitive in the DMs, for DDM projects?

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2 Theory and Literature Review

2.1 A Review of Core Competencies

Core competencies, as described by Prahalad and Hamel (1990), are the collective learning in the firm, especially how to coordinate diverse production skills and integrate multiple streams of technology. It involves communication, involvement and a deep commitment to working across organisational boundaries.

Prahalad and Hamel (1990) explained that "core competencies do not diminish with use, but still need to be nurtured and protected, as the knowledge can fade if it is not used. Competencies are the glue that binds an organisation. They are the engine for new business development"

Based on Prahald and Hamel's (1990) paper, core competencies can be identified by means of at least three traits; they provide access to a wide variety of markets, make a significant contribution to the perceived customer benefit of the end product, and finally, are difficult for competitors to imitate.

Hitt, Ireland and Hoskisson (2005) also defined competencies as a combination of resources and capabilities in an organisation that can be classified as core competencies when they are;

- Valuable
- Rare
- Difficult to imitate
- Difficult to substitute

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Based on the above, core competencies can be a source of strategic competitiveness. Kennedy and Dresser (2005) further defined competencies as skills or knowledge that employees have or acquire that contributes to organisational success.

Turner and Crawford (1994) discussed a broad classification of competencies and stated that they belong to one of two categories, namely; personal or corporate. Turner and Crawford (1994, pp. 241 - 254) described these two categories as follows; “Personal competencies are possessed by individuals and include characteristics such as knowledge, skills, abilities, experience, and personality. Corporate competencies belong to the organisation and are embedded processes and structures that tend to reside within the organization, even when individuals leave. These two categories are not entirely independent. The collection of personal competencies can form a way of doing things or a culture that becomes embedded in the organisation. In addition, corporate characteristics can determine the type of personal competencies that will best work or fit in the organization.”

Based on Prahalad and Hamel (1990), it is assumed that market entry is not only driven by the attractiveness of the market, but also by the need to grow and diversify the competence into other markets. Thus core competencies can also be used as a catalyst to diversify into new markets.

Quinn and Hilmer (1995) concluded that if a firm concentrated on their core competencies and outsourced other non-essential activities, managers can leverage their firm’s resources in four ways;

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- Maximize returns by focusing on what they do best
- Provide formidable barriers against the entry of competitors
- Fully utilise external suppliers strengths and investments that they would not be able to duplicate
- Reduce investment and risk, shorten cycle times, and increase customer responsiveness.

Mascarenhas, Baveja, and Jamil (1998) found that leading companies do not stand still and rest on their traditional competencies. They instead attempt to respond to new market conditions, or anticipate emerging business conditions, by developing new competencies. Their study also revealed that a shift was occurring from internal technological and reliable process competencies toward external relationship competencies. It was concluded that this shift was occurring because the firms felt that having multiple competencies can make it that much more difficult for competitors to imitate, as well as to increase the adaptability and promote the long-term survival of the firm.

2.1.1 Competitive Advantage and Core Competencies

Porter (1985) argued that competitive strategy is the implementation of an offensive or defensive action that creates a defendable position in an industry, in order to cope successfully with competitive forces and generate a superior return on investment. An above-average performance within an industry is a sustainable competitive advantage.

Barney (1991) stated that a firm has a competitive advantage when it employs a value creating strategy, though the use of its available resources, which is not concurrently being implemented by a competitor. Barney (1991, p. 101) went

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on to describe a firm resources as “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”.

According to Prahalad and Hamel (1990), short run competitive advantage is based on the price and performance attributes of products. But, after the first wave of global competition in the Western and Japanese markets, which are DMs, the minimum standards for cost and quality were raised, thus lowering the sources of competitive advantage.

In the long run, competitive advantage is to utilise core competencies and create unanticipated products for customer needs. The real source of the advantage is for firm management to consolidate technology and production skills that empower individual businesses, and to ensure that these can quickly easily adapt to changing opportunities (Hamel & Prahalad, 1990).

Based on Porter’s (1985) view that strategy is about establishing sustainable competitive advantage and Prahalad and Hamel’s (1990) view that “the essence of strategy lies in creating tomorrow’s competitive advantages faster than competitors mimic the one you possess today”, to sustain a competitive advantage, a firm needs to ensure that it improves and expands on its core competency base faster than its competitors can. In essence, a company’s core competencies, and its ability to adapt and create new competencies, are key to its competitive advantage.

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2.2 Adaptation from EM to DM Requirements

2.2.1 Barriers to Entry Faced by SME's Attempting to Internationalise

Ekeledo (2008) stated that a firm's entry decision was not only influences by forces from its local market, but also those of the host market. Thus the firm would have to adapt to the institutional norms of the host market, if it was to succeed and survive. The institutional frameworks that the firms would need to adapt to include the culture distance, as well as the institutional distance between the firm's home market and the host market (Ekeledo, 2008). According to Xu and Shenkar (2002), the cultural difference refers to the cultural difference between the two countries, while the institutional distance is the degree of similarity or difference of the regulatory, normative and cognitive environments between the two countries.

Armario *et al.* (2008) also found that SMEs that wanted to improve their international performance and competitiveness should develop market-oriented behaviours. By promoting a market-oriented culture, managers will facilitate the development of core capabilities that promote international competitiveness. This adds to the above argument from Ekeledo (2008) that a firm needs to adapt to the culture of the host market if there are to succeed.

Badrinath (1994) also found that SME's from EMs often received inadequate support from the government, and that this support between the government and the business community is essential to provide the momentum for SME's to internationalise.

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2.2.1.1 Barriers faced by SME's Attempting to Export

Leonidou's (2004) study showed that there are many barriers faced by SME's when they attempted to internationalise through exporting. These can be broadly classified into two groups, namely internal barriers and external barriers.

2.2.1.1.1 Internal Barriers

Upon examining the internal barriers, Leonidou's (2004) study showed that it could be further broken down into informational, functional and marketing barriers.

Leonidou (2004) stated that informational barriers include problems in identifying, selecting, and contacting international markets due to information inefficiencies, while functional barriers relate to inefficiencies of the various enterprise functions, such as human resources, production, and finance.

Finally, he stated that marketing barriers deal with the firm's product, pricing, distribution, logistics, and promotional activities abroad. It was stated that this is the largest problem area for the exporting firms. Leonidou (2004) found that the most widely studied examples were meeting product quality standards, obtaining reliable representation, and dealing with high transportation and insurance costs.

2.2.1.1.2 External Barriers

Following his examination on internal barriers, Leonidou (2004) focused on the external barriers and stated that this barrier could be further broken down into

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procedural barriers, governmental barriers, environmental barriers and task barriers.

He stated that procedural barriers focused on operating aspects of transactions with foreign customers and included three items: unfamiliarity with techniques and procedures, communication failures, and slow collection of payments.

Leonidou (2004) next focus was on governmental barriers. He stated that they relate to the actions or inaction of the exporters home government towards exportation. The emphasis was on two problem areas, namely; the limited interest shown by the government in assisting exporters, and the restrictive role of the regulatory framework on export management practices. Despite attracting extensive research attention, both barriers demonstrated a relatively moderate impact on export business development.

Leonidou's (2004) then focused on task barriers. Task barriers focus on the firm's customers and competitors in foreign markets. It is this barrier that is created by different foreign customer habits and competition in overseas markets.

Leonidou (2004) stated that the environmental barrier consists primarily of the following; economic, political–legal, and sociocultural environment of the target market. These barriers usually are subject to rapid changes and are very difficult to predict and control.

2.2.1.2 Barriers Faced When Entering the Developed US Market

In an article by Ewald (2006), it was stated that the overriding legal risk associated with an entry in the US markets was litigation and the associated

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costs. He further stated that there are three general legal issues that a foreign company faces when attempting to enter the US market, which is considered a DM (International Monetary Fund, 2010). These were categorised into the following; establishing a presence, hiring workers, and selling products or services.

Ewald's (2006) discussion on establishing a presence revolved around the decision the foreign firm had to make regarding whether they would form or acquire a new entity or to enter the market by establishing a subsidiary of the parent firm. The difference between the two was that an entity can limit the liability of the parent company. Following this, it was discussed that in terms of lowering the legal risk for the parent company, the best approach to establishing a presence was to create a separate legal entity in the US.

Following this discussion, it was stated that the hiring and firing of US workers was generally easier than in other markets (Ewald, 2006). The main reason for this is that US employees are often employed "at will", and thus their contract can be terminated at any time for no reason.

Finally, the discussion ended on selling products in the US. Ewald (2006) stated that written contracts are paramount in the US and tend to longer and more detailed than in many other countries. Because of this, companies should draw up a standard contract that addresses the common risks with the product when selling the product or service. Ewald also discussed the issues of intellectual property and that firms should make employees and contractors sign non-disclosure or confidentiality agreements. Also, a firm should check that a product can be patented in the US, as many products that can't be patented in

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other countries, can be patented in the US. This can also provide the company with additional protection.

2.2.2 Doing Business 2010 Report

The seventh Doing Business report (International Finance Corporation, World Bank, 2010) is an annual report published by the World Bank and the International Finance Corporation that ranks countries according to the regulations that enhance business activity and those that constrain it. The report focuses on the regulations that affect the 10 stages of the life of a business (International Finance Corporation, World Bank, 2010), namely; starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. Generally, the higher up the rankings a country is, the easier it is to start and run a business in that country.

But it should be stated that this report does not consider what constraints a firm would face should it attempt to entry said countries market. Thus, even if it is easier to operate in one country compared to another, it may be far more difficult to break into the countries marketplace, should the entering company not have the required skills to do so.

From Figure 2-1, it can be seen that the majority of DM's, which generally fall within the Organisation for Economic Co-operation and Development (OECD) high income category, have an average ranking of 30, thus it can be assumed that operating a business in these markets is easier than say Sub-Saharan Africa, which has an average ranking of 139.

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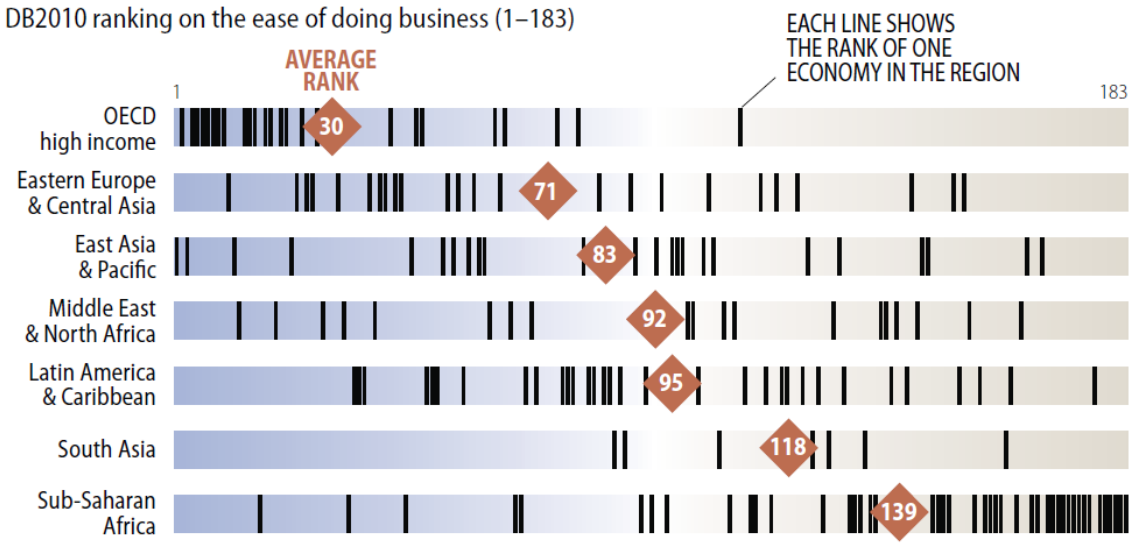
Figure 2-1 - Regions with the most business friendly regulations



According to the report, SA has a ranking of 34 (International Finance Corporation, World Bank, 2010). Thus, based on this, it can be considered that operation a firm in SA is on a comparable level as those of firms in the OECD countries.

2.2.3 EM versus DM Specification Analysis

In order to gain a deeper understanding of the requirements of each market's customers, a desk analysis of nine EM and eight DM customer specifications for DDM projects and products was done. These specifications were all customers of the host company and were projects which the host company had worked on.

It should be noted that only the technical requirements for each project were analysed and not the commercial requirements. A brief discussion on the commercial requirements was held during certain interviews.

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The purpose of this analysis was to assist the researcher in generating the interview guide questionnaires, as well as to assist with the analysis of the findings of the interviews.

2.2.3.1 EM Customer Specification Review

A total of nine specifications were analysed from EM customers. This consisted of six specifications from SA customers, one from a Cameroon customer and two from Malaysian customers.

Of the above sample, two were written by the host company, based on the requirements of these customers, due to them not having the capabilities to generate the specifications of their requirements.

It also found that the specifications were generally shorter than DM customer specifications. The average number of pages per spec was 10.7, with the longest specification being 23 pages and the shortest being two pages.

Certain specifications did not contain all of the necessary data to design a unit, such as electrical power requirements and physical space constraints. This could also prove to be problematic, as many specifications also did not include a full scope of supply, and thus this could lead to conflicts regarding this in the future.

Only three EM specifications listed external specifications which the supplier also had to adhere to, such as vibration or environmental conditions the system was likely to experience.

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Two of the specifications listed quantifiable reliability requirements, while only one of the specifications list quantifiable maintenance requirements. This is another area which is lacking when compared to DM specifications.

It is proposed that, based on the specifications analysed, that there is a lack of capabilities in the EM with regards to writing specifications of requirements of projects for DDM projects.

2.2.3.2 DM Customer Specification Review

A total of eight specifications were analysed from DM customers. This consisted of five specifications from US customers, one from a Dutch customer and two from Singaporean customers.

It was found that the specifications were generally longer than EM customer specifications. The average number of pages per spec was 24.1, with the longest specification being 33 pages and the shortest being nine pages.

It was a general note that the requirements found in the specifications were quantifiable and could be tested with a definite pass or fail criteria. This was not the case many of the EM specifications.

Seven of the DM specifications also included an exact scope of supply, which detailed what each party was required to supply. The specifications also listed the customer's requirements towards certain components in the design. This would assist in preventing the supplier from supplying a products with components that the customer had already had problems with in the past, thus raising the reliability of the unit. This was not found in any EM specification.

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Seven of the DM specifications listed external specifications which the supplier also had to adhere to, such as vibration or environmental conditions the system was likely to experience. Many of the additional specifications also included other company requirements for the units, such as wiring and reliability specifications.

Six of the DM specifications listed the documentation required from the supplier in terms of testing reports, as well as other logistical documentation for the project.

Thus, based on analysis of the specification documentation, it was assumed that the specifications from DM customers are far more detailed in terms of the requirements of the customer and the application the product is destined for. It is assumed that this is due to a deeper understanding of the product as well as their requirements, when compared to the EM specifications.

2.3 Competencies Required for EMF Entry in the DM

2.3.1 Previous Research on EMF Entry into DMs

Based on research by Magnussen, Haas and Zhao (2008), firms in EMs face several challenges when attempting to compete in DMs. A lack of international experience and limited financial resources has forced EMFs into becoming low cost providers for DMFs around the world (Hussain & Jian, 1999). This is further compounded by EM economies focus on low factor costs to drive industrial development (Porter, 1990). The result is that EMFs products are being considered commodities thus they are forced to compete on price, which can lead to lower levels of performance (Brouthers & Xu, 2002).

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Both Khanna and Palepu (2006) as well as Dawar and Frost (1999) noted that advantages DMFs held over EMFs can appear insurmountable. They noted that they possess well-known brands, efficient innovation processes and management systems, sophisticated technologies, as well as having access to vast reservoirs of finance and talent. They stated that the last point poses a severe hindrance to EMF's, as it can prevent DMFs investing in R&D and building global brands. It was noted that the research and papers presented by these writers was towards DMF's entering the EM, and not an EMF entering the DM, as this research was investigating.

Magnussen *et al.* (2008) also noted that an EMF's products can suffer from a negative stigma that consumers in the developed world have toward products made in EMs, otherwise known as negative COO effects. These negative COO effects are created by the impression that EM products are of an inferior quality, when compared to DM products and thus, most DM consumers are not willing to pay the premium they pay for DM products (Verlegh & Steenkamp, 1999).

Wright, Filatotchev, Hoskisson and Peng's (2005) research also suggested that EMFs may find it difficult to enter DMs for several reasons. They found that EMFs tend to have less international experience than DMFs, as well as they tend to be smaller and, as a result, have substantially fewer resources. Due to this relative lack of resources and experience, EMFs find it difficult to engage in foreign direct investment and smaller and newer firms typically use exporting as their primary vehicle to generate international sales (Leonidou & Katsikeas, 1996).

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Johansson (2003) stated that DMs tended to be highly competitive, as they are generally mature and saturated. This implies that the entry into DMs can be difficult.

2.3.2 Previous Research on EMF Success in DMs

Etemad (2004) noted that SME's not only possess distinctive competencies, but also use them effectively, due to the survival of SME's in the exceedingly globalised and competitive international markets. Etemad (2004b) had observed previously that one distinct competency that SME's had, was an ability to establish and manage special relationships with their partners at home and abroad. Because of this, SME's were able to tap into their Locally-Based Capabilities and Competencies (LBC). Etemad (2004) described LBC's as an SME's strong local knowledge base, socio-political capital, social networks and functional supply chains, and that they could easily base their strategies on these LBCs. This created an advantage for SME EMF's because their DMF competition were not able to do this, and thus could not imitate them, which enhanced their competitiveness and reduced their exposure.

In addition to this, Etemad (2004) noted that SME's are able to provide competitive safety, by leveraging these LBC's, to their partners against their competitors. They were also able to arrange similar agreements with their partners, in order to protect themselves from their competitors. This ability was allowing SME's to build strategic pillars and create a strong worldwide network, allowing it to fully utilise its LBC's and Locally-Specific Advantages (LSA) (Etemad, 2004).

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Research by Khermouch, Einhorn and Roberts (2003) found that firms and governments from EMs were attempting to overcome these barriers by attempting to develop their own differentiated brands with the ability to command a premium price on international markets. To achieve this, researchers and firms are trying to develop strategies to help offset some of these potential negatives and turn DMs into profitable opportunities for EMFs. As an example, Magnussen *et al.* (2008) observed that former competitors were joining forces and pooling their resources to jointly change consumer's negative perception of their products in DMs. They noted this in an article by Tylee (2002) that SA and Chilean wine growers have used this strategy in order to improve their products image abroad.

Thomas, Eden, Hitt and Miller (2007) explored how experiential learning affected how EMF's entered DMs and their survival after entry. They found that even though EMFs were at a resource disadvantage over DMFs, experiential resources do affect the likelihood of entry and success in DMs, although their study was heavily weighted for Mexican firms entering the US.

Brouthers and his colleagues have also spent a considerable amount of time exploring how EMFs can succeed in DMs (Brouthers and Xu, 2002; Brouthers *et al.*, 2005). One of their findings was that the firm's brand equity reduces the COO effect, which otherwise prevents consumers from objectively evaluating the product. This allows EMFs to compete in DMs on a much more level playing field (Brouthers *et al.*, 2005).

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Magnussen *e. al.* (2008) also suggested that EMFs can offset the negative effect from their home countries perceived image and create a favourable COO image, by effectively managing their branding strategies.

Johansson's (2003) research revealed that EMFs tend to avoid entering DMs and rather attempted to enter less competitive EMs or to enter DMs as Original Equipment Manufacturers (OEM), providing low price goods and partnering with existing firms. By partnering with existing firms, EMFs are able to further reduce the negative COO effect.

Khanna and Palepu (2006) stated that EMFs tend to avoid head-to-head competition with DMFs and generally chose to focus on niche opportunities that allow them to capitalise on their existing strengths. This allows them to improve on their capabilities and competencies as they learn how to operate in the DM.

Brouthers *et al.* (2005) suggested that one potential strategy EMFs can use to compete in DMs was that by mimicking the appropriate DM price/quality product strategy, EMFs can improve their export performance satisfaction. Their study found that if EMFs align their strategy with the DMs generic product strategy, they achieve, on average, higher average performance satisfaction. They hypothesised that their results may help to guide EMFs as they formulate product strategies for specific DMs.

Brouthers *et al*. (2009) later found empirical support for the notion that SMEs are not merely smaller versions of Multi-National Enterprises (MNE) and that SMEs may need to develop their own export strategies rather than merely imitating the behaviour of larger MNEs.

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Khavul, Bruton, Zheng and Wood (2007) found that firms that were successful in their internationalisation attempts learned from their efforts and subsequently adapted and changed over time. This ability of entrepreneurial SME firms to learn and adapt allows them to consider the necessary processes they need to follow in order to internationalise.

Brouthers *et al*. (2009) found that smaller firms are more likely to improve their export performance if they engage in active learning about their foreign markets. This finding supports the argument proposed by Khaval *et al.* (2007).

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3 Research Propositions

In order for SA to become competitive in the international markets with regards to wining DDM tenders, they will need to increase, improve and expand on their competencies, as well as take advantage of their various LSA's. By doing this, the competitiveness of the nation will improve, as well as the requirements and expectations of the markets, thus further enabling SA to take the step from an EM to a DM.

In determining the necessary propositions required to determine the outcome of this research, the following was considered. Zigmund (2003, p. 43) put forward the notion that a proposition is a statement that concerns the relationship between concepts. Propositions are thus allegations that there is a general connection between concepts which may be true. They are not statements of fact, but proposed links between two or more concepts or ideas.

Two propositions are put forward for the purposes of this study, as well as a brief discussion on the formulation of each proposition. These are discussed in the sections below.

3.1 Proposition 1: EM versus DM Customer Requirements

The expectations and requirements placed on suppliers for DDM projects differ for EM and DM customers.

The purpose of this proposition is to determine if the requirements and expectations of customers from the two markets differ. This stems from the

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arguments of Ekeledo (2008), Leoniou (2004) and Badirnath (1994) that the barriers to enter these markets were high, due to these requirements, even though the 2010 Doing Business Report (International Finance Corporation, World Bank, 2010) deduced that the competitiveness of SA was comparative to many DM countries. An analysis was also done on 17 product specifications from separate customers in each market, in order to assist in determining the difference in requirements, and thus if there was a difference.

Thus in order to determine the competencies required to overcome the barriers, this research sought to first identify what the requirements were of each market. It is assumed that an EMF would have the competency set needed to meet its respective requirements, thus if it should be proven that the requirements for each market differ, a separate set of competencies would be needed for an EMF to compete in the DM.

3.2 Proposition 2: EM Competency Requirements for DM Competitiveness

EMF's need to improve and adapt their current competency set, if they are to enter and be competitive in the DM, in terms of DDM projects.

The second proposition stems from the results of the first proposition. Should it be proven that there is a difference in the requirements of each market, a separate set of competencies would be necessary for firms to be competitive in each.

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The basis for this proposition comes from the arguments of; Brouthers and his colleagues (Brouthers and Xu, 2002; Brouthers *et al*., 2005), Magnussen *et al.* (2008), Etemad (2004) and Khavul et al. (2007), that SME EMF's need to adapt and improve on their competency set if they are to be competitive in DMs.

Thus once the difference in the requirements of each market is known, the host company can be analysed to determine what its current competency set is to meet the EM customer requirements, and following this, determine what they did to improve on their current competency set, or where they needed to obtain competencies.

It is the aim that this will shed light on the areas where SA firms are lacking skills and where competencies are needed, once an understanding of the differences between the two markets has been obtained, and the conclusion of the competencies that SA firm's lack in order to compete effectively in DMs have been drawn.

This will also allow SA firms to raise their competencies, and thus their competitiveness, to that of a DM. In doing this, SA companies will improve the competitiveness of SA as a whole.

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4 Research Methodology and Design

4.1 Method of Analysis

The research was aimed at identifying the core competencies that EM companies require when attempting to compete in DMs for DDM projects. This was achieved by a twofold analysis that started with an analysis of tender requests that the researched firm tender on from both EM and DM customers. Following the desk analysis, key personnel and customers from the researched firm within both markets were interviewed. The interview guide questions were based on the findings from the tender documentation analysis.

It was felt that the most suited research design model was a qualitative model, as the research was exploratory in nature. Qualitative research, rather than the traditional quantitative empirical tools, was particularly useful for exploring implicit assumptions and examining new relationships, abstract concepts, and operational definitions (London & Hart, 2004).

Zigmund (2003) stated that exploratory research should be used when there is a limited amount of knowledge regarding the research issue. It was found to be a useful step to ensure that a more rigorous and conclusive future study will not begin with a misunderstanding of the nature of the business problem (Zigmund, 2003). Zigmund (2003) also stated that exploratory research can be used to diagnose a situation, where much has already been said about the problem, but there is a need for a situational analysis. Exploratory research will help to diagnose the dimensions of the problem so that successive research projects

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will be on target and that is helps to set priorities for future research (Zigmund, 2003).

In additional to this, Welman and Kruger (2001) stated that quantitative research did not allow the researcher to identify cause-and-effect relationships, but rather to describe actions within a specific setting. While quantitative research attempted to control variables, qualitative research was open minded and facilitated research opportunities that could lead the researcher into unforeseen areas of discovery.

The method used to analyse the research problem was the single case study method. Zigmund (2003) described the case study method as an exploratory research technique that intensely investigates and obtains information from one or a few situations which are similar to the researcher's problem description. Based on the host company's choice to enter the DM from strong base in an EM, this would provide the researcher a similar situation from which to analyse the research problem.

The case study analysis approach was very advantageous in that it allowed an entire organisation or entity to be analysed in depth and with meticulous attention to detail (Zigmund, 2003). Due to this focus on the detail, the researcher was able to carefully determine and study the events, and concentrate on identifying the relationships between these event, individuals, functions and entities (Zigmund, 2003), and though this, would be able to show what competencies the host company acquired in order to be competitive in the DM.

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The researcher was also careful to avoid making generalisations from the case, as it is was single unit in the population and the situations in which different entities find themselves may lead to different results. But a case study was useful in that it allowed for an insight into the situation, as well as allowed for hypothesis to be determined for future research (Zigmund, 2003).

Further to this, Yin defines the case study research method as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly known, and in which multiple sources of evidence are used” (Yin, 1994, p. 23).

In order to enhance the validity of the case, the case was analysed by studying multiple sources of evidence, such as a review of tender documentation that the firm was willing to hand over, interviews with key personnel within the firm and interviews with the firms customers in both the EM and DM,. The concept of analysing the case with these multiple sources of information is known as Triangulation (Yin, 1994).

Finally, Perry(2001) would argue that through the use of a carefully structured approach to case studies, that studies of this nature can meet the “rigorous academic standards’ required.

4.2 Population and Unit of Analysis

The proposed population consisted of all SME companies in SA who compete in EM’s and have attempted to enter a developed economy, as these companies fall within the scope of the research. This included; SME’s that have

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succeeded in the internationalisation attempts and SME's that have failed in their internationalisation attempts.

The unit of analysis was the decision to compete in both the EM's and DM's.

4.3 Size and Nature of Sample

The method of sampling was convenience sampling, as the main restriction in adding samples was the firm allowing an interview, as well as access to tender documentation. The sample consisted of a single company from the proposed population. The reason for this is that the method of analysis is qualitative, and thus exploratory in nature, and that the single case study approach was used.

Convenience sampling was also used for selecting the specifications to analyse, as well as customer interviewee's, based on access and availability, but was limited to customers that the host firm is currently in contract with.

The company that agreed to be interviewed and analysed for the purposes of this study is a private SA company that was established in 1985. They specialise in the design, development and production of custom air handling systems, with technical capabilities in cooling, heating, ventilation, cab pressurisation and filtration systems. The current markets that they focus on are the military, railway and mining industry.

The selection of the researched company was for the following reasons. Firstly, it was an SA company that was in the process of attempting an entry in the US market, which was considered a DM at the time of the research project. Their entry attempt was twofold in that they were attempting enter through exporting,

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as well as they were attempting to set up a subsidiary in the US market, from which they hoped to further create a presence in the market. They had also supplied products to customers in Germany, Australia and were in process of tendering to a customer in the Netherlands.

Secondly, they also had supplied products to customers in various EMs. The firm's main customer base fell in SA, but it had also supplied firms Namibia, Botswana, Malawi, Guinea, Mali, the United Arab Emirates, Saudi Arabia, Malaysia and Cuba, and they were in the process of tendering to firms in India and China.

The third reason was the availability of the company to the researcher and access to its key decision makers and customers. This was an essential requirement for collecting the data in a timely fashion.

4.4 Data Collection

The method of data collection was through a twofold process. The first process was a desk analysis of a total of 17 tenders requests or specifications, which the host company has tendered on, from both EM and DM customers. The split between these was eight and nine for the DM and EM respectively. The purpose of this phase of the research was to determine the differences in the requirements placed on suppliers by either the EMFs or DMFs. This analysis also looked for trends and similarities between the various specifications, which was then used in the development of the guide questionnaires, which can be found in the appendix of this report. The results of this desk analysis can be found in Chapter 2.2.3.

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Following the tender analysis phase, a set of face-to-face, semi-structured, in-depth interviews with the owner, or key decision makers, of the firm and the firm's customers in both the EM and DM, were held. It was the purpose of these interviews to discuss the requirements placed on firms attempting to compete in both markets. A total of six interviews were done, including the top three key decision makers at the host company, as well as three separate customers from the EM and the DM. A schedule of the interviewee's can be found in Appendix 9.2.

A relatively unstructured, extensive interview was used in the interview stage of the research process, as it encouraged the respondent to talk freely and in depth about an undisguised topic (Zigmund, 2003). Zigmund (2003) also stated that face-to-face interviews allowed researchers to gain complete and precise information, as well as to clear up any misunderstandings the researcher may have with the responses, as well as to clarify any vague points or answers the respondent has given.

An interview guide was be used to guide the discussion, which can be found in Appendix 9.1 of this report. The guide questions focused on the research questions proposed and attempted to give the researcher a better understanding of the requirements placed on EM SME's wanting to compete in both EMs and DMs. The nature of the research was ex post facto, in that there was no control over the variables so the study could only report on what actually happened.

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4.5 Data Analysis

Once the interviews had been completed, the data was analysed and used to determine the competencies an SA SME needed to obtain or develop, in order to compete in the DM.

Once this information was known, it allowed for a better understanding of the competencies required by SA SME's to enter DMs. This will allow SA companies to be better equipped to deal with the possible constraints, and thus pre-emptively plan, or set up a contingency, for them. This, in turn, can enhance the competitiveness of SA's companies and improve the potential of SA as a whole.

Yin (1994) stated that every case study should start with a general analytical strategy. Yin (1994) adds that a researcher using case studies can theoretical propositions as a general analytical strategy (Yin, 1994).

In order to analyse the case study data, the method that was used was the within-case analysis, which allows the researcher to compare data against the theory used (Miles & Huberman, 1994). In writing about qualitative data analysis, Miles and Huberman (1994) state that the focus is on data in the form of words, which would emanate from the case study analysis and the interviews conducted. These required processing, and according to these authors, this processing is itself a form of analysis.

In their writing on qualitative data analysis, Miles and Huberman (1994, p. 10) explained that data analysis should consist of the following steps, namely; data reduction, data display and conclusion drawing and verification.

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Once the data is obtained during a data collection period Miles and Huberman (1994) explain that there are three stages of qualitative data analysis. These are discussed in the following three sections.

4.5.1 Data reduction

Miles and Huberman (1994) stated that data reduction should not be considered to be separate from analysis, but as a part of it. This reduction helped to sharpen, sort, focus, discard, and organize the data in a way that allowed for conclusions to be drawn and verified. They added that data can be reduced and transformed through such means as selection, summary, paraphrasing, or through being subsumed in a larger pattern.

4.5.2 Data display

According to Miles and Huberman (1994), data display was the second major activity that the researcher should go through. This was achieved by taking the reduced data and displaying it in an organised manner so that conclusions could be more easily drawn. Miles and Huberman (1994, p. 11) explained that the reason for this was because “humans are not powerful processors of large amounts of information,” and that “extended text can overload humans’ information-processing capabilities”. They further stated that good displays are “a major avenue to valid qualitative analysis”.

4.5.3 Conclusion drawing and verification

Based on Miles and Huberman (1994), conclusion drawing and verification was the final analytical activity for the qualitative researcher. It is this step in which they stated that the researcher should start to draw conclusions. This was done

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by noting regularities, patterns (differences/similarities), explanations, possible configurations, causal flows, and propositions. However, Miles and Huberman (1994) also added that the competent researcher should hold such conclusions lightly, while maintaining both openness and a degree of scepticism, as a different situation may yield a different result for a similar case.

4.6 Data Storage

All specification documentation was stored electronically. The interviews were voice recorded and were stored electronically. The recordings and specifications will be stored for minimum of ten years from the date of submission of the research report.

4.7 Potential Limitations

Potential limitations for this study included:

- The researcher was not properly trained to ensure consistency in the formulation of the questions during the interview process.
- The researcher was not trained to encourage the respondent to talk freely, without influencing the direction of the conversation.
- The results of this study are based on a case study of a single company, thus any recommendations with regards to this study need to be evaluated with this point in mind.

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5 Results

In this chapter is the presentation of the responses received from the interviews conducted with the host firm's key personnel, as well as the interviews with certain of its customers from both the EM and the DM. In order to gain an insight into the research problem, the data that was collected included opinions and insights into operational experiences when attempting to enter and operate in each market. This data was sorted and presented according to the three research questions proposed in Chapter 3.

5.1 Host Company Description

In order to gain a better understanding of the questionnaire responses, a description of the host company was needed, in terms of their markets and their capabilities.

The host company designs, develops and manufactures custom Heating, Ventilation and Air Conditioning (HVAC) systems for mobile applications. The market focus of the company is the military, railway and mining industry. The market which it operates in is also very niche and there are high barriers in terms of technical skills to enter the markets. It was stated in an interview that "there are only a handful of companies around the world who have the technical competencies to do what we do". Due to this, the margins that the company can charge are higher than those in the mass production markets.

The systems that are designed are typically subjected to extreme ambient conditions and high level of vibration. The systems are also designed for

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capabilities that do not conform to the standard products that are available commercially or “off the shelf”.

Due to this, each product that the company builds is in response to specifications a customer has identified, or that the host company has identified, and thus each project is required to go through a design and development phase, prior to production of the units. This process is called the DDM process.

5.2 Proposition 1: EM versus DM Customer Requirements

5.2.1 EM Requirements for DDM projects

It was stated that the overall requirement of EM customers in terms of DDM projects was for a product that works, is sold at a reasonable price and is developed in a time span that the customer can live with. But there was a general consensus that EM customers are less sophisticated and less mature than DM customers when it comes to DDM projects, in terms of their understanding of the requirements of the design and development process.

One respondent stated that due to lower levels of maturity, SA customers tend not to understand the development risks and accept realistic timescales to debug and fine tune a new design. Due to their lack of understanding of the prototyping process, EM customers can become demanding, especially when things go wrong, and they tend to force suppliers into unrealistic timescales.

It was also found that EM specifications are not highly developed, and tend to lack information on the technical requirements. It was also an opinion that the

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average length of a technical specification from the majority of SA customers is ten pages, if not just one page on what is wanted.

There are also very limited discussions, if any, on the specification before release between the customer and the supplier. The reason for this is felt to be that the customer is not entirely sure of what they want, thus due to the basic nature of the specification, there is not real need for input from the supplier.

EM customers also tended to have unquantifiable requirements when it came to the quality of the products, in that there was no actual requirement given, thus nothing for the host company to design against.

Due to the above points, SA customers tend to have a higher dependency on the supplier to interpret and define exactly what they need, as their specifications tend to have a required end result which is not always quantifiable, as opposed to providing a comprehensive specification on their requirements. An example of an EM customer overall requirements was given as “a requirement of some customers is that the system must cool the vehicle when it is in a desert”. It is then up to the supplier to determine the constraints and quantifiable requirements of the project, and to then design the system to meet those requirements with the intention of meeting the customers initial unquantifiable requirement.

Due to this lack of requirements, it is more difficult for SA customers to retaliate to something they don’t want, as they never really specified their requirements up front. Thus EM customers tend to be more accepting of mistakes when compared to DM customers. This can also be because the SA market is

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generally smaller than the DM, and thus there are fewer suppliers for customers to choose from.

SA customers also require infield support for their products, as the product which the host company supplies has a life cycle maintenance plan. This requirement is generally easier for a company in SA to support, as a technician can be sent anywhere around the country within two days of receiving the request. But it was becoming a greater requirement for suppliers to have a support network in the areas where the product is required to operate.

It was also stated that there has been an increase in the commercial requirements placed on suppliers, but this was only really noted in the railway industry and not in the military and mining industry. These requirements are generally for letters of credit, performance bonds and escrow accounts for the protection of design data packs as well as the transfer of Intellectual Property (IP) to the customer, which the host company stated this was something it was not willing to do, as it considers itself a grey matter company.

An interviewee also reported that there is an increase in the number of requests for different payment terms from the standard 30 days offered by the host company. This is generally for extended terms, such as 60 or 90 days, or seven to fourteen days after the customer has been paid by their customer. This can be especially difficult for an SME, as “funding is can generally a problem for them.” It was also stated that the customers tend to bully their suppliers into accepting these terms, else they do not receive the contract.

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The larger governmental customers, especially in SA, also have a requirement for localisation of products and skills transfer, especially when dealing with developed market suppliers. Thus when the large DM MNE's sell their products in SA, they are required to transfer the skills needed to supply the product to the country, as well as source local components for the products.

EM customers also tend to be more accepting of risk, but this seems to be because they are not able to quantify what their requirements are. Thus they are more willing to accept running changes to units when they do not get what they want. There is also a growing understanding of the time required for developments and the realisation that they push people into much shorter timescales that they generally require.

It was also felt by the respondents that EM customers do not understand the value-add of the DDM process and they do not understand that "a custom designed product for their application will cost more than an off-the-shelf product". When this is coupled to the small size of the market and subsequent lack of scale of economy, the input costs for custom units are higher than mass produced products, as well as there is a limited number of units over which to amortise the development costs. Because of these two aspects, EM customers tend not to understand the reason for the margin placed on the products and tend to argue over the price for unrealistic reasons.

There was also consensus that there are strong parallels between the requirements of SA customers and other EM customers, in terms of DDM

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projects and lack of providing quantifiable requirements and no additional requirements of other EM customers could be determined.

It should be stated that the host company has supplied into Namibia, Botswana, Malawi, Cuba, Malaysia, Guinea, Mali, Saudi Arabia and the UAE. But while a few were supplied directly to these customers, the majority were through products supplied to a SA customer, which were in turn sold on to the foreign EM. Thus while the requirement may have come from the EM customer, they were filtered through the SA customer.

5.2.2 DM Requirements for DDM Projects

It was stated that the overall requirement of DM customers in terms of DDM projects was very similar to EM customers, in that their requirements are for a product that works, is sold at a reasonable price and is developed in a time span that they can live with. But there was also a general consensus that DM customers are more sophisticated and more mature than EM customers when it comes to DDM projects, due to their understanding of the requirements of the process. They also realise that they are not experts in the field and tend to get as much input from other parties before releasing their specifications.

It was found that DM specifications are more refined and clear in terms of the technical requirements and operational parameters expected of the products, and the requirements are quantifiable and can be tested. Their specifications are also more rigorous as they know that the concept can be done, as they generally want a solution that has been tried and tested in the industry.

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DM specifications also go through a review process which includes the supplier, so that there are multiple inputs from many parties, as it is felt that this will mitigate the risk of the project. It was assumed by the respondents that this was to increase in the probability of designing a product that is correct.

It was also found that the average length of a technical specification from the majority of DM customers is 24 pages, and this does not include references to other requirements or standards in the industry.

DM customers also tend to understand the risks associated with development and are more willing accept realistic timescales to debug and fine tune a new design. They are also more tolerant of design requests, as they understand that it is a process and that their input can help the designer to provide them with a better product. Because of this, they are much more involved in the design process.

Due to the detail of the specification, as well as the input by the supplier to the spec, DM customers have a much lower tolerance for design flaws and do not expect the design to take longer than the estimated time, as they provided an exact description of their requirements, which the supplier was allowed to comment on before the specification was issued. Thus failures tend not to be tolerated, as DM customers expect a “world class product”. But discussions to prevent failure are more tolerated. This was described with the analogy of “the three strike rule, the first strike is accepted, the second strike starts to upset the customer, and with the third strike you are out of the game, and once you are out of the game, it is very difficult to get back in”. It was the opinion that DM

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customers feel justified in this action, as they gave an exact specification of what was required, and the supplier was not able to meet these requirements, thus they are not able to meet the requirement of the customer.

DM customers also have a support requirement for the life cycle of the products and also tended to have quantifiable specifications on the quality requirements of the systems. These are generally in terms of designing the system to a specific Mean Time Between Failures (MTBF) or an allowable failure per million units.

Suppliers are also required to go through a supplier approval process for many DM MNE's. This includes an evaluation of the numerous quality requirements expected of the supplier. Certain examples that were given were on time and in full delivery percentage, component rejection rates and an evaluation of the supplier's financial standing.

There is also a high demand placed on social requirements in the DM, especially in terms of environmental and labour policies. Many of these stem from the requirements of governments, such as the emissions controls and environmental impact of the supplied products. In order to compensate for this, DM MNE's tend to have a strict and lengthy supplier approval process, as stated above, in which the supplier is required to disclose any unethical practices, such as the use of under-aged labour anywhere in the world for any of its sub components, and many other environmental and labour aspects.

One reason given for this approval process was "that the supplier is selling a product to *the customer*, that they have to put their name on, thus *the customer*

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has to ensure that the supplier will not bring *the customer's* name into disrepute"

DM customers also realise that they are operating in a larger market, and due to the corresponding scales of economy, and the lower input costs, they tend to be quite demanding when it comes to the price of a system, as they require cost competitive products. It was felt that this logic was much more reasonable than the logic of EM customers in terms of the pricing of the system. Thus each market is demanding on pricing, but DM customers are justified, while EM customers are not.

DM customers also have a greater requirement for document control and expect a supplier to have some sort of quality management system in place. It was also stated that bureaucracy of DM customers was far more developed when compared to EM customers. The opinion for the reason for this was due to the size and age of many of the host company's customers.

There is also a higher requirement in terms of commercial conditions from DM customers. While SA companies may be increasing their requirements for certain commercial conditions, DM commercial conditions are still far more detailed and complex than EM conditions. It was explained that "DM customers know exactly what they want, how they want it, how they want it delivered, how they are going to pay you and what protections they want in place in order to minimise risk". There are also multiple contractual conditions that are to be set in place that will protect the customer should the project fail.

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Also, because of the nature of the projects, being military and railway, the overall customer for projects tends to be governments. Thus there is a requirement for offsets in contracts, such as the US militaries "Buy America Act", which requires that a product should be bought in the US, or at least have a certain percentage of components sourced from the US market.

There is also a greater threat of litigation, mainly in the US market, thus there is a need for a firm to have an attorney at hand, as well as indemnity and public liability insurance. This raises the operating costs of firms in the US market.

5.2.2.1 The Advantage of the DM over the EM

Based on responses given in the interviews, the main attraction of the DM was the sheer size and volumes available in these markets. This would allow the firm to increase its profits, due to the scales of economy caused by the increase in volume.

Another advantage of the DM was that the host company already held a large portion of the market share in the SA market. It was felt that the amount of effort it would take to gain any further percentage would be too costly, as well as certain EM customers encouraged competition within the market.

The markets that the host firm focused on, namely the North American and Western Europe markets, also had a greater respect for and protection of IP, which is very different to certain eastern markets. This held a high appeal to the host company, as it considered itself a grey matter company and thus has to protect its IP.

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The DM also allowed the host company a link to customers who understand the value-add they create and are more willing to pay for this value add. Also, there were no real language barriers in the DM countries that the host company was focusing on, as these were Northern American countries and Eastern Europe, where the majority of people speak English.

5.3 Proposition 2: Competencies Required for EMF Entry in the DM

5.3.1 EM versus DM Requirements for DDM Projects

The main difference between EM and DM customers, with regards to DDM projects, is the corresponding maturity and understanding of the design process.

It was also stated that both the DM and EM are equally demanding regarding the pricing of DDM systems, but DM customers were justifiable in their demands, due to their understanding of the process, while EM customers were not.

5.3.2 Competencies Acquired from Competing in EMs

As the host company evolved and grew within the SA markets, they have an in depth understanding of the requirements of it. Thus their competency base is towards realising the unquantifiable goals that EM customers place on them.

One competency that the host company has obtained is an ability to go from a "clean sheet of paper to a working prototype in a relatively short time span". It is felt that this is one of the firm's key competencies when competing in the EMs, as well as competency that will make it competitive in the DMs.

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Because of the generally short timescales for DDM projects that EM customers place on their suppliers, the host company has also developed a competency in being able to produce a result in a relatively short amount of time. This may not meet the exact requirements of the customer, but it does give them a working solution. Once this solution is on the table, the prototype is then refined towards the exact specification. It is felt that this competency is very valuable when attempting to operate in DMs, as many DM suppliers are not willing to take on projects with those requirements or such a high level of risk.

It is felt that even though the host company is an SME, they have highly developed operating procedures and structures, as well as well defined Key Performance Indicators (KPI), which are geared towards ensuring customer satisfaction. It is felt that this factor helps to set them apart from other SA companies, as there is a general trend of a product being “good enough” and not right in terms of what the customer wants.

It was stated that one competency they believe they have is that they are extremely action orientated and will find a way of giving the customer what he wants, or at least guiding them to understand that they will have to compromise on certain aspects for a system that will meet the overall requirement of the project.

It is felt that this competency is a trait of SA companies, as it stems from the days when SA was in isolation for the rest of the world, and thus was forced to make a plan and figure out a way of solving problems. It was described by one

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respondent that "SA engineers are generally better at practically applying concepts that DM engineers."

The host company was not generally willing to turn its back on projects which many other suppliers considered was not feasible, either in terms of technical requirements, space constraints or time scales.

They have also developed a competency for risk mitigation on short timescale DDM projects, and are not willing to accept the project if the customer is not willing to share in the risk, as they are generally the ones who place the timescale requirements on their suppliers. Thus they have a competency in "finding that middle path in terms of not setting ourselves up for failure and getting the customer to understand the risks of the projects".

Because of this, the company also has a very good understanding of what it can do, and what it can't do. This allows it to focus on the projects where it has the technical competencies to succeed and not focus on projects where it has a larger potential to fail.

One advantage the company felt it has over its competitors in SA was that it was the only competitor in the market with a recognised quality management system, namely ISO9001. Due to this, the process control requirements of DM customers were not as demanding on the host company as it would be for companies without a system of a similar calibre.

Another reason the host company felt it was competitive, was that it was able to make decisions and operate from an extremely well managed balance sheet.

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Due to this, it is able to make the right decision for the company and does not have to make survival decisions. Also, they were then able to give their EM customers the extended payment terms they needed, within reason. But they did not have to accept payment terms that they did not agree with "just to get the project".

Finally, the host company felt that it had a competency in terms of the culture amongst its employee's that could not easily be re-created. These included its tenacity, the interaction of its staff as well as the values and ethical standing of the firm. It was felt by the host company respondents that the employees enjoyed working for the firm, and this was shown by the reduction in the staff turnover over last few years. This was something that the host company was focussing on improving and felt that it was "winning the battle".

5.3.3 Competencies Acquired to Compete in the DM

In order to compete in the DM, the host company stated that they had to change their way of thinking when it came to design. The process used in EM's was to design the unit for functionality, and then to determine the cost of the unit, generally due to the tight time constraints placed on DDM projects. Thus any changes to the cost of the unit would need to fall within the boundaries of the design. When designing for DM customers, due to their demand and understanding of the process and pricing, there was a need to design for both the budget and the functionality. If it was found that the proposed solution was too costly, a different alternative would need to be found.

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One of the main reasons the host company decided it was able to compete in DM, was that it found that its technical capabilities were on par with, if not exceeding, many of the global competitors in the market. This was not by accident, as it was a long term strategic goal of the company to enter the DM, and one requirement realised was that the company would need to improve on its technical skills. Thus there was a huge drive in this area to build and maintain technical competencies. It was also felt that SA engineers had an advantage over DM engineers, as they tended to have a larger base to work from in terms of technical knowledge. This meant that they were able to talk authoritatively across a wider band of subjects, as well as having an understanding of the impact of the decisions on the rest of the design.

There was also an improvement in the host company's processes, in terms of design, quality checking and production control. Due to the requirements of DM customers on the details of the design process, there was an increased need for documentation. While the company did already have a quality management system in place, the requirements of certain DM customers was superior to the requirements of the ISO9001 system. Thus the company had to improve its processes if it wanted to compete.

The change in the quality control and production process was that a concept of quality is built and designed into products and not inspected into the products. There was also an improvement to the pre-delivery testing process, as the requirement for pre-delivery testing was higher than EM customer requirements.

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There was also a need to improve on the level of detail on the production data packs for the systems, due to the geographical distance that the products had to be supported over. This was created in response to a need to explain as much detail as possible to the person who was required to repair a unit.

Another improvement was in response to the DM pricing demand and the increased volumes. This was for an improvement in procurement practices and sourcing components from around the world. The increased volumes meant that the host company could gain a cost advantage by procuring stock from OEM suppliers around the world, and no longer had to purchase components from agents of the OEMs. The improved procurement practices were also important, as they had to ensure they were selecting suppliers that were not only cost competitive, but did not use any unethical practices to produce those products

5.3.4 CSA's of EM suppliers over DM suppliers

The questionnaire also tried to determine if there were any CSA's that SA companies had, in response to DM suppliers, and thus what would make them more competitive.

One of the main competitive advantages that the host company felt it had over its DM competitors was that it was "far more used to going from a clean sheet of paper to finished design in much fewer steps, due to the limited volume and the corresponding number of units to amortise the development costs over". This created an ability to generate a prototype a lot faster than most competitors.

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It was stated that EM labour is cheaper on all levels, namely management and production, against DM labour, but that SA was not competitive against Eastern Block Europe and Asian countries. This was revealed when the host company put in a competitive bid for a project, only to be informed that the labour in Slovakia was a third of the cost of the host companies. Due to this, the host company is finding it more and more difficult to compete on price in DMs, as competitors are outsourcing production to these countries.

The interviews also revealed that DM suppliers were somewhat risk adverse and inflexible in terms of their delivery dates and the projects they are willing to tackle, where the host company found that it was more willing to at least look for a solution or a compromise. It was believed that this came from the SA trait of "trying to make a plan and figuring out a way", as SA suppliers tend to be more practical than DM suppliers.

It was also found that, in general, an engineer's technical knowledge tended to be broader and more versatile than the corresponding technical person in the DM. It was stated that the DM customers tend to rely on experts, rather than gain knowledge in that field. This is an advantage to an EM designer, as they are able to respond faster to requests, as they will have a better understanding of the impact it has on the rest of the design.

5.3.5 DM Entry Strategies

The questionnaire also tried to clarify by what methods the host company attempted to enter the DMs. Due to their size, they had limited financial resources. The basis for the entry strategy was the host company first

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determined which market it wanted to be in, and then looked for opportunities of how to get into that market.

It was stated that due to their size, they needed to look for opportunities or wait for them to present themselves, and they were ready to take them when they did. This allowed them to focus relative lack of resources into projects that had the most promise and "would give them the most bang for their buck".

Initially, their products were being exported through an OEM supplier. This occurred through the host company supplying a system to a locomotive or vehicle builder, who would in turn sell to a DM customer. Thus there was no real international marketing done by the customer. But the host company did have to look for projects that SA customers were marketing to DM customers.

Once their product had been delivered to the DM customer, other DM customers stated to take note of it and stated to contact the host company. Through this the brand of the host company started to build.

Once this had happened, the host company started to look for SA end user customers who were looking to buy locomotives or vehicles internationally, and were specifying SA content. When this opportunity was found, the host company went to market itself to the two potential suppliers in the DM, using this requirement to get them in the door. This was further aided by their product already being known.

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6 Discussion of Results

This chapter analyses the results of the interviews and draws correlations to what has been reported in the literature. The analysis is categorised according to the research questions posed in chapter 3 and is geared towards providing an answer to these questions.

Etemad (2004) stated that when an SME attempts to internationalise, they needed to develop their own distinctive, if not unique and dynamic, set of core competencies. It is these competencies that this research is attempting to determine, based on the requirements of EM customers versus DM customers. Once these competencies are known, the difference between the requirements of each market can be determined, and based on this, the competencies required for SA companies wishing to internationalise can be determined.

6.1 Proposition 1: EM versus DM Requirement Difference

6.1.1 EM Requirements for DDM projects

When comparing the requirements of SA customers to those of other EM customers, the interview results did not yield any difference between the two. Thus it is assumed that the requirements of SA customers can be classified along with those of other EM customers.

Based on the results of the interviews, there were eight overall requirements of EM customers with regards to DDM projects. These requirements are listed in Table 6-1 and discussed further in the following paragraphs.

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Table 6-1 – EM Customer Requirements for DDM Projects	
1	There is a general lack of sophistication in terms of specification documentation and the actual requirement of EM customers towards DDM projects
2	EM customers tend to place unrealistic timescale demands, due to this lack of understanding
3	EM customers tend to rely on the DDM supplier to determine the requirements needed to meet their overall specifications, possibly due to the lack of sophistication
4	EM customers tend to be more accepting of risk and design changes to the products
5	EM customers have a requirement for life cycle support of their product and a support network to achieve this
6	There has been an increase in the commercial requirements placed on suppliers, but this was only really noted in the railway industry and not in the military and mining industry
7	There is a requirement for extended payment terms from EM customers.
8	There is a requirement for skills transfer and product localisation into the market, if the supplier is from a DM for government contracts

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There was a general consensus that EM customers are less sophisticated and less mature than DM customers when it comes to DDM projects, in terms of their understanding of the requirements of the design and development process. This was expected, based on the findings of Magnussen *et al.* (2008) and Wright *et al.* (2005) that EMF's generally lack experience when compared to DMF's.

The above point was also observed when it was found that EM specifications are not highly developed, and tend to lack information on the technical requirements, and generally do not have the same "thud" factor of the specifications documentation from DM customers.

Possibly as a result of the above observations for EM customers, namely a lack of sophistication and a lack of understanding of the DDM process, EM customers tend to rely on their suppliers to interpret and define exactly what they require in order to meet their overall requirements. This also further explains why EM specification documents tend to be shorter and have less detail than DM specification documents. It is possible that this is compounded due to EM customers not knowing what they actually need to specify in order to meet their requirements.

It was also found that EMF's are unrealistically demanding in terms of timescales for DDM projects, which is further compounded by them not understanding the design process and thus squeezing suppliers into unrealistic project plans. Another issue which adds to this problem is the customers

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buying from the SME's are generally much larger and have far more resources available to them, and thus the SME is forced into accepting those terms.

In addition to the above point, this lack of understanding is also shown in the attitude of EM customers towards a custom developed product's price and this misunderstanding that this price is not comparable to products that are mass produced.

It was found that EM customers tend to be more accepting of risk and changes to the products, but this seems to be because they are not able to quantify what their requirements are as well as there appears to be a realisation that they do push for developments to be completed in a relatively short period of time.

It was also found the EM customers also required support for the supplied products for the duration of its life cycle, and that this requirement was starting to grow into the requirement for a support network across the country, or least access to one which was accredited by the supplier.

It was also found that there has been an increase in the commercial requirements placed on suppliers, but this was only really noted in the railway industry and not in the military and mining industry, and these requirements still do not compare to the commercial requirements placed by DM customers.

In addition to the above point, it was found that EM customers were starting to request extended payment terms, effectively expecting the supplier fund a portion of the customers business. This can be especially difficult for SME's, especially when the customers bully them into accepting these terms, by

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threatening not to give them contract. It is unclear whether this new requirement is due to the current global financial climate or if it is due to other reasons.

6.1.2 DM Requirements for DDM Projects

As done previously were eleven overall requirements of DM customers with regards to DDM projects were determined, based on the results of the interviews. These requirements are listed in Table 6-2 and discussed further in the following paragraphs.

Table 6-2 – DM Requirements for DDM Projects	
1	DM specification documents are more refined and clear in terms of the technical requirements and operational parameters expected of the products
2	DM customers also tend to understand the risks associated with development and are more willing accept realistic timescales to debug and fine tune a new design
3	Due to their greater understanding of the risks involved, they are more risk adverse than EM customers
4	DM customers have a lower tolerance of design flaws and do not expect the design to take longer than the estimated time
5	DM customers are more demanding on pricing, due to an understanding that they operate in a more competitive market,

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	where there are more suppliers than in the EM
6	DM MNE customers tend to have a lengthy and detailed supplier approval process, in which many quality and social aspects are evaluated, which the supplier is expected to meet.
7	DM customers have quantifiable specifications on the quality requirements of the systems
8	DM customers have a requirement for a support network to be able to support their products for the duration of the products life cycle
9	DM customers have a greater requirement for document control and expect a supplier to have some sort of quality management system in place
10	There is a higher requirement in terms of commercial conditions from DM customers and there is also a greater threat of litigation, mainly in the US market
11	There is a requirement for socially acceptable practices, in terms of environmental, such as emissions and carbon footprint, labour practices, such as the use of under-aged labour, and procurement practices. The overall requirement is that the supplier is expected to be ethical in their operations and dealing.

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The first finding in the results was that the overall requirement of DM customers in terms of DDM projects was very similar to EM customers, but that DM customers are more sophisticated and more mature than EM customers when it comes to DDM projects, due to their understanding of the requirements of the process.

Also, the specification documentation from DM customers is also much detailed and refined than documentation from EM customers, and it also had a “thud” factor to it. It was also found that the requirements in these specifications were generally quantifiable and had a measureable pass or fail criteria. DM specifications also go through a review process which includes the supplier, so that there are multiple inputs from many parties.

It was also found that DM customers are also much more risk adverse, and have a much lower tolerance for design and quality flaws, as well as projects that overrun the project plan. It was found that this was because DM customers felt they had provided their suppliers with enough time to complete the project, as well as allowed them to give input to the requirements.

DM customers were also found to have quantifiable specifications on the quality requirements of the systems. This links to one of Leonidou’s (2004) internal barriers that DM products were required to meet higher quality standards than generally found in EM.

It was also found that DM customers were more demanding on price, mainly due to the greater competition, and thus suppliers available, as well as an

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understanding that they operate in a larger market and thus have an economy of scale to provide them with more cost effective products.

DM MNE customers also tend to have a lengthy and detailed supplier approval process, in which many quality and social aspects are evaluated, which the supplier is expected to meet. This was to ensure that the supplier will not bring the customer's name into disrepute. This can be linked to the finding of Brouthers *et al.* (2005) that EMF's need to reduce the COO effect if they are to supply the DM.

DM customers also have a requirement for product support for the duration of the products life cycle. Thus in order to win DDM projects, the supplier must either have a support network, or access to a support network in the area where the product is expected to operate. This can be difficult for an SME to accomplish, as it either requires them to have a global footprint, and thus probably moving them out of the SME classification, or to partner up with a company who has a support network. It may be difficult, as the partner may also be a competitor on certain projects.

It was also found that DM customers also have a greater requirement for document control and expect a supplier to have some sort of quality management system in place. It was for this reason that the host company found it advantageous to have ISO9001 in place, where its competitors found that the required efforts did not warrant its implementation.

It was also found that there is a greater requirement in terms of commercial conditions from DM customers, which was also found by Ewald (2006). While

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SA companies may be increasing their requirements for certain commercial conditions, DM commercial conditions are still far more detailed and complex than EM conditions.

Coupled with the above contractual conditions, it was also found that there was a greater threat of litigation, mainly in the US market. This was also stated in Ewald's (2006) paper on US market entry.

DM customers also have a requirement for socially acceptable practices, in terms of environmental, such as emissions and carbon footprint, labour practices, such as the use of under-aged labour, and procurement practices. This is essentially a requirement that the supplier is expected to be ethical in their operations and dealing.

6.1.3 EM versus DM Requirements for DDM Projects

It was found that the main difference between EM and DM customers, with regards to DDM projects, is the corresponding maturity and understanding of the design process as well as towards the specification documentation provided for projects. DM customers are very detailed in their requirements, while EM customers tend to be vague and not fully understand what they need to specify to meet their end requirement.

The overall differences in the requirements of DM customers over EM customers are listed in Table 6-3.

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Table 6-3 – Requirement Differences Between EM and DM customers	
1	There is a difference in the understanding the specifications of the customers. DMF DDM specifications tend to be more detailed than the EMFs, thus EM suppliers need to learn to interpret the specifications and be able to respond to these requirements, as opposed to being able to respond to an overall requirement as normally given by EM customers.
2	DM customers are more risk adverse and less tolerant of design flaws and quality issues in DDM projects. Thus EMFs need to improve on their internal quality checking processes, their design process, if they are to successfully compete in the DM. They will also need to have some sort of management system in place, in order to track these processes, as well as provide a continually improving product and service.
3	DM customers are more demanding on price, due to the increased competition. Thus EM suppliers of DDM projects, need to improve on their approach to their design methodology as well as their procurement practices
4	There is a greater requirement for contractual conditions and offsets, as well as an increased threat of litigation, especially in the US, if these contractual conditions are broken.

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5	DM MNE customers tend to have a more detailed and lengthy supplier approval process, in order to ensure that the supplier is supplying a product that the customer can puts name behind. This approval process evaluates both quality issues and socially responsible issues.
6	There is a similar requirement in that both EM and DM customers require product support for the life cycle of the product. But, due to the geographic location of SA, this may be difficult for an SA company to provide for DM customers. Thus they must either have a support network, or access to one.
7	There is an unwritten requirement that EM products have to be comparable with those of the DM. Thus EM firms need to reduce the negative COO effects created in the DM customers minds and this needs to done with the limited resources available to SME's.

6.1.3.1 The Advantages of DMs over EMs

The research also tried to determine if there were any reasons the host company chose the DM and if they felt that there were certain advantages of DMs over EMs. These are listed in Table 6-4 and discussed in the following paragraphs.

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Table 6-4 – The Advantages of DMs over EMs	
1	The main attraction of the DM was the sheer size and volumes available
2	The DM also had a greater respect for and protection of IP
3	The DM also allowed the host company a link to customers who understand the value-add they create
4	There were no major language barriers in the DM countries the host company was attempting to enter

Based on responses given in the interviews, the main attraction of the DM was the sheer size and volumes available in these markets. This would allow the firm to increase its profits due to the increase in volume. This was also found in literature by Zafarullah *et al.* (1998), and Raymond *et al.* (2001), who found that DM offered a greater potential for growth and EMFs chose to move there to take advantage of sales opportunities and increase productivity.

As stated in the literature by both Xu and Shenkar (2002) and Leonidou (2004), other barriers that EMF's can face when internationalising is a cultural difference between the home and host country as well an operational barrier towards communication. The host company avoided these by selecting countries that had a greater respect for and protection of IP, allowed a link to customers who understand the value-add they create, and are more willing to pay for this value add and where there were no major language barriers.

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6.2 Proposition 2: Competencies Required for EMF Entry in the DM

6.2.1 Competencies Acquired from Competing in EMs

Based on the interview results, the competencies listed in Table 6-5 were determined to be competencies of the host company with regards to DDM projects, based on the three following requirements stated by Prahald and Hamel (1990); they provide access to a wide variety of markets, make a significant contribution to the perceived customer benefit of the end product, and are difficult for competitors to imitate. Each of the eight points below has met these requirements. The competencies are then discussed in the paragraphs following the list.

Table 6-5 – Competencies Acquired from Competing in EMs

1	The host company has an ability to go from a clean sheet of paper to a working prototype in a relatively short time span. This allows them to produce a result in a relatively short amount of time
2	They have developed a competency for risk mitigation on short timescale DDM projects
3	They have a very good understanding of what it can do, and what it can't do
4	They are very customer centric and have defined KPI's geared towards customer satisfaction

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5	SA engineers tend to be better at practical engineering, when compared to DM engineers
6	They are extremely action orientated towards finding a way of giving the customer what he wants, or at least guiding them to understand that they will have to compromise on certain aspects for a system that will meet the overall requirement of the project
7	The culture amongst its employee's, namely the tenacity, interaction of its staff and the values and ethical standing of the firm
8	The host company is able to operate from an extremely well managed balance sheet. This enables them to offer their customers extended payment terms as well as to make decisions from a competitive point of view, and not survival point of view.

Due to constantly being squeezed into tight timescales by EM customers, the host company has developed a competency in that they are able to produce a result in a relatively short space of time. This is felt to be a very useful competency and is felt that it will provide the host company with a competitive advantage over other DM suppliers.

Based on the above competency, the host company has also developed a competency for risk mitigation, in order to avoid the failure of rapid

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development projects. This means that the host company can tackle a rapid development project with relatively high levels of success.

When evaluating the two competencies discussed above and based on the timescale requirements of many military projects, these competencies definitely provides the customer with a perceived benefit in that it is able to produce a result relatively quickly while limiting the amount of risk in the project. These competencies have also been rolled out to its other markets and are also providing the customer with a perceived benefit.

One of the ways the host company is able to mitigate the risk in its DDM projects, is that is has a very keen understanding of its abilities, in that it knows where it can add value and where not. Thus the company knows where it can add value and also where it needs to improve its capabilities in order to improve the services and expertise it offers to its customers. Because of this, the company also knows where to focus its efforts in terms of improvements. This also ties in with Porter's and Prahald and Hamel's (1990) view that in order to sustain a competitive advantage, a firm needs to ensure that it improves and expands on its core competency base faster than its competitors can.

The host company was also very customer centric and many of the internal processes and KPI's were geared towards this. This links to Armario *et al's* (2008) finding that SME's who wanted to improve on their international performance and competitiveness, needed to develop their market orientated behaviour.

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The final competency observed was felt to be due to the CSA of SA companies, in that they are able to "make a plan" to solve problems, as SA engineers tend to be better at applying principles and practical engineering, when compared to DM engineers. It is felt that this competency was acquired due to SA's exclusion from the world economy during the Apartheid era.

When the above competency is coupled with the host companies dogged determination towards its customers and solving problems, it has a very good ability to provide its customers with a solution. This also gives them an advantage in that they do not back away from problems and will always try to develop a solution for their customers, and not simply stated that their current products will not be able to meet the specified requirements.

The competency of the host company's culture amongst its employee's is one that could not easily be re-created. It included its tenacity, the interaction of its staff as well as the values and ethical standing of the firm. This competency helps them ensure that ethical practices are utilized throughout the firm and that people raise their hands when there is a problem.

6.2.1.1 Advantages of Host Company over other EM Suppliers

The host company has also developed the following advantages over its competitors in SA, and it is felt that these advantages will assist them in being competitive in DM. These advantages are listed in Table 6-6 and discussed in the following paragraphs. These points are listed separately, as it is felt that while they may provide an advantage currently, they can be replicated in a relatively short period of time and because while they might not provide a

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competitive advantage in EM's, they do fill a general requirement of DM customers.

Table 6-6 – Host Company Advantages over other EM suppliers	
1	They are the only competitor within their market in SA with a recognised quality management system, namely ISO9001
2	The host company has highly developed operating procedures and structures
3	They are able to make decisions and operate from an extremely well managed balance sheet thus it does not have to make survival decisions.

While many SA customers do not require a supplier to have some form of a quality management system, many DM customers do. Thus as the host company already has ISO9001 in place, it is far easier for it to market itself to DM customers, as it does form one of their general requirements.

In response to the internal need to be customer centric, the host company has also set up its internal processes and KPI's to achieve this goal. Thus if they are starting to slip in this area, they will be alerted to it and thus be able to respond accordingly.

It is also a great help that for an SME company, the host company does operate from an extremely well managed balance sheet. But because the company is

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not operating in survival mode, it does not need to rush the process and take potentially rash decisions without doing the necessary investigations.

6.2.2 Competencies Acquired to Compete in the DM

The research also tried to determine what competencies the host company had already acquired in order to compete in the DM or as a result of competing in the DM. These were areas the host company's key decision makers felt would benefit the company most in the DM. These are listed in Table 6-7 and discussed in the following paragraphs.

Table 6-7 – Competencies Acquired to Compete in the DM	
1	The host company stated that they had to change their way of thinking when it came to design and costing
2	There for an improvement in procurement practices and sourcing components from around the world in order to ensure cost competitiveness and the sourcing from socially responsible suppliers.
3	Their technical capabilities were on par with, if not exceeding, many of the global competitors in the market, thus reducing the negative COO effects
4	There was also an improvement in the host company's processes, in terms of design, quality checking and production control

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5	There was an improvement in the quality and social management of the host company in order pass the DM MNE's supplier approval processes.

It was noted in the requirements of the DMs, that they are very cost sensitive, and that there was far more competition in the DM, as opposed to the EM for the host company. Thus in order to remain cost competitive, the host company had to change its way of designing, in that systems had to be designed to a budget, while still ensuring that the product was fit for purpose, rather than designed to purpose, and then budgeted.

Another area the host company realised it would need to improve on its competencies, was its procurement practices. This was also in response to the above requirement of cost competitiveness and the requirement for sourcing from socially responsible suppliers. Thus the procurement department of the host company would need to understand the requirements for global sourcing, using the limited resources available to it as an SME, as opposed to an MNE.

In response to the heightened competition that the host company felt it would experience in the DM, it realised that a long term strategy would be for it to improve on its technical capabilities. This helped to put them on par with the other DM suppliers, as the DM customers initially felt that the host company would not be able to compete against. This helped to reduce the negative COO effect, as discussed by Magnussen *et al.* (2008).

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Also, in order to meet the higher quality expectations, as well as in response to the DM lower tolerance towards quality issues, the host company realised that it would need to improve in its processes, in terms of design, quality checking and production control. This also helped to reduce the negative COO effect, as discussed by Magnussen *et al.* (2008) and Brouthers *et al.* (2005).

6.2.3 DM Entry Strategies

Leonidou and Katsikeas (1996) found that EMF's primary means of DM entry is through exporting. This links to how the host company initially attempted to enter the DM through exporting.

Another correlation found with the host companies strategy and the literature was towards Johansson's (2003) finding that EMF's tended to enter the DM as an OEM. While the host company did not enter as an OEM, they did enter on the backs of an OEM, and used this to establish their presence. This also helped with them reducing the COO effect by establishing their brand, which both Magnussen *et al.* (2008) and Brouthers and his colleagues (Brouthers and Xu, 2002; Brouthers *et al.*, 2005) found would ordinarily have a negative effect on the EMF's product. This also ties in with Ewald's (2006) findings about establishing a presence in the US.

Another strategy which links to the literature was the host company's ability to maintain special relationships with its customers, which was also found by Etemad (2004b), that one distinct competency that SME's had was towards maintaining these special relationships.

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6.2.4 CSA's of EM suppliers over DM suppliers

This research also tried to determine if there were any CSA's that SA companies had over to DM suppliers, and thus what would make them more competitive. The CSA's determined have been listed in Table 6-8 and discussed in the following paragraphs.

Table 6-8 – CSA's of EM Suppliers over DM Suppliers	
1	The host company is able to produce prototypes faster than most of its DM competitors as it is far more used to going from a clean sheet of paper to finished design in fewer steps
2	An individual's technical knowledge tended to be broader and more versatile than the corresponding technical person in the DM

While it is thought that the first advantage listed may be unique to the host company, it is potentially a CSA for SA, based on the requirements of the SA market. Thus due to the lower volumes, SA DDM companies are more comfortable with shorter design times, as opposed to DM suppliers, and thus are able to produce prototypes faster than many competitors. This is especially helpful for military rapid development projects.

The second advantage is also thought to be due to the market characteristics of SA, in that it is smaller than DMs, and thus there is not as much room for specialists, as in the DM. Thus engineers and other technical people are forced

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to have a wider technical knowledge than the corresponding technical person in the DM.

6.3 Proposition Outcomes

Table 6-9 – CSA's of EM Suppliers over DM Suppliers

Proposition	Outcome	Future Research Thoughts
1 - The expectations and requirements placed on suppliers for DDM projects differ for EM and DM customers.	Supported	More research is needed into legal and contractual requirements when comparing the EM and DM.
2 - EMF's need to improve and adapt their current competency set, if they are to enter and be competitive in the DM, in terms of DDM projects.	Supported	Are other SA firms that have these competencies and that are successful in the DM? Is the host company still competitive in the DM in the future?

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7 Conclusion

This research has attempted to answer the following problem: What are the competencies required for an EM SME to compete in the DMs for DDM projects? This problem was unpacked through exploring the research questions proposed in Chapter 3 and analysing the various requirements of each market. Once the requirements of each market were known, the differences between the two could be determined, as well as the competencies needed to meet those requirements.

The methodology used was a case study of a single SME firm in SA that was in the process of entering certain DMs, and the subsequent interviews with its key personal and various customers. This allowed the researcher to conduct an in depth investigation of the host company, and due to this focus, was able to carefully determine and study the events, and concentrate on identifying the relationships between these events, the individuals, their functions and the entities.

7.1 Differences between EM and DM Requirements

The main differences between the two markets has been discussed in Chapter 6.1.3, as well as summarised in Table 6-3. The overall difference between the two markets is the level of sophistication of each. DMs tend to be far more developed than the EMs, and have a far better understanding of their requirements for DDM projects. Thus the specifications that DM customer release are far more detailed and have quantifiable requirements, as opposed

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to EM specifications, which tend to have an overall desired state which they wish to achieve. Both customers have the same end result in mind, except DM customers tend to understand what is required in order to achieve this end result.

DM customers also tend to be much more risk adverse and less tolerant of design flaws and quality issues, as opposed to EM customers. This was determined to be due to the SA trait of “making a plan”, as they tend to more practical when solving problems, as well as the DM trait of wanting to fully understand the requirement before specifying their needs. Subsequently, once the DM customer has an understanding of his need, as well as their competency to transfer this information, any mistakes to achieve this requirement are not tolerated because of the level of detail given. This is further compounded by the increased level of competition between suppliers in the DM, thus DM customers can demand this.

The above point on the increased competition is also reflects in the DM demands on the price on the units. EM customers also tend to be demanding on price, but tend to compare a custom designed limited production units cost to that of a mass produced unit. This creates problems for EM suppliers, as they need to alter this perception, before getting a buy in from the EM customers. DM customers pricing demands come from a full understanding of their requirements and an understanding of the market, in that it is larger, creating an economy of scale and increasing the number of suppliers, thus reducing margins and price.

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The contractual conditions are also more detailed for DM customers, and when this is coupled with the increased threat of litigation in the US, this is of very serious concern for SME EM suppliers, who can't afford to take on the large corporate of the DMs. Thus there is an increased need for the understanding of the various commercial conditions and the actions needed to prevent litigation.

The DM supplier approval process is also more lengthy and detailed than EM customers. This was due to the social requirements and brand positioning requirements of the DM firms, in that they have to appear ethical in their dealings and can't afford to let suppliers supply their brand which they will have invested in as well as spent a considerable amount of time building.

While there may be a similar requirement in terms of product support for DDM projects, when an SA company supplies an SA customer, support is easier, as the company can have one office, from which it can dispatch support staff within two days of the request. For DM customers, who tend to geographically far from SA, this requirement becomes more difficult to support, especially for an SME company. Thus SA companies will either be required to set up a global support network, which is expensive and will most probably move them out of the SME classification, or to partner with a supplier who already has this network. The latter option is also problematic, as the partner may also be a competitor on other projects.

One other option to support the above requirement could be for the SME to acquire a company with a support network, but this could prove to be costly,

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especially considering the acquiring company is an SME, with limited access to funds.

There was also an unwritten requirement, and more potentially a barrier, that EM product's had to be comparable with those of the DM, thus there is a large requirement for EM firms to reduce the negative COO effects placed on them. This needs to done with the limited resources available to an SME, thus creative ways of overcoming this problem need to be found.

7.2 Competencies Required for an EM SME Entry into the DM

Based on the requirements determined due to the investigation, the competencies acquired by the host company, as well as various mechanisms used to overcome certain barriers, were determined. These can be found in chapter 6.2.2.

The first set of competencies was in response to the increased levels of sophistication of the DM, as well as the requirement for more competitive pricing. While the host company already had a competency in the DDM process, this was specific to the requirements of the EM, thus this competency needed to be improved. There needed to be a shift in the approach to DDM projects, in that they needed to be designed to a budget, ensuring that they were fit for purpose, rather than designed for purpose and then costed. This will no doubt help the SA economy, as it will raise the level of competition, forcing SA suppliers to improve their processes.

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Also, with the increased quantities being purchased, the host company found it advantageous to source globally, as many other DM suppliers were doing. Thus the host company needed to gain a competency in this area in terms for where certain components could be found and what needed to be specified in order to ensure that the correct component was purchased.

In response to the DMs lower tolerance towards faults, both in design and quality, the host company also needed to improve its processes in terms of design, quality checking and production control. This also served in reducing the COO effects, which is discussed in the following paragraphs.

There were also various mechanisms used and competencies acquired, in order to overcome the negative COO effects associated with EM suppliers. These included an improvement in technical competencies, as well as the method of entering the market in order to establish their brand, with the limited funds available, as they are an SME.

The improvement in the technical ability competency was possibly one of the ore difficult competencies to improve on, as due to specialised nature of the host companies market, it is difficult to purchase, thus has to be grown internally. This was revealed to be a requirement some time before the host company attempted to enter the DM's, and thus as been nurtured for a period of time. By improving this competency and showing the DMs that the host company's technical abilities were on par with, if not exceeding, other DM suppliers and customers, the negative COO effects are reduced.

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There was also an improvement in the quality and ethical management of the host company, in order to meet the higher standards placed on them by the DM MNE's. This was especially important for global sourcing.

The final mechanism was how the host companies brand was introduced into the DM. Johansson (2003) found that EMF's tended to enter the DM as an OEM, but because the host company was an SME, this would prove costly, thus they attempted to enter and establish their brand by supplying to other SA OEM's who were entering the DM's. Thus by attaching themselves to OEMs' that they considered to be successful or able, their brand was introduced into the markets. Once this had happened, they were able to market themselves to other DM customers, who were already exposed to their products, thus reducing the COO effect.

7.3 Advantages of SA Suppliers over DM Suppliers

There were two specific advantages that the host company felt would provide it with a competitive advantage in the DM. These were its ability to develop prototypes in a relatively short period of time, as well as an ability to mitigate risk in these projects.

It is felt that the first competency would not provide a competitive advantage, if it was not coupled with the second competency of risk mitigation for these types of projects. Thus the host company would be able to meet the rapid development project requirements more easily than other DM suppliers.

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7.4 Areas for Future Research

Based on the findings of this research, the following topics were felt to be areas for future research. These were based on the opinion of the researcher as to where the research was lacking, or areas where it opened up avenues for future research. These areas are follows:

7.4.1 Future Research Question 1

- Are other SA firms that have these competencies and that are successful in the DM?

Due to the nature of the research, being that is was a single case study, it would be prudent to determine if other SA SME's that have these competencies are able to successfully enter the DM.

7.4.2 Future Research Question 2

- Is the host company still competitive in the DM in the future?

The second question is based on whether or not these competencies really do provide an SME with capabilities to be successful in the DM's. This would also help to strengthen the findings of this study.

7.4.3 Future Research Question 3

- More research is needed into legal and contractual requirements when comparing the EM and DM.

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The final area found was in response to an area that the researcher found was lacking in the findings. This was the legal and contractual requirements and corresponding competencies needed to meet those requirements, especially in the US market, where there is a greater threat of litigation.

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9 Appendix

9.1 Interview Guide Questionnaires

Table 9-1 - Key Decision Makers Interview Guide	
1	What are the requirements that EM customers have placed on your company?
2	Besides SA firms, what are the requirements that other EM companies have placed on your firm?
3	What does your company do differently that makes it competitive in EMs?
4	Do you believe that these same competencies will make you competitive when operating on the DMs?
5	Do you believe there are FSA's that are specific to SA companies when they internationalise?
6	What are the requirements that DM customers have placed on your firm?
7	By what means did your company attempt to enter the developed market?
8	What competencies did your company have to acquire in order to meet the requirements of DM customers and to become competitive in the DM market?
9	Is there something you feel that your company is doing differently to other EM firms when attempting to enter the developed markets?
10	What were the host country advantages that made it an attractive choice to enter?
11	What supporting data was gathered when attempting to enter the new market?
12	What challenges did you face as an organization in achieving the goals, that is, what barriers have you had to overcome?

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13	What were some of the key operational issues that you had to focus on that were different from the domestic market?
14	Were there any other reasons for selection of the host country?
15	Is there a formula for success that you would like to share?

Table 9-2 - Customer Interview Guide	
1	What are the requirements that Emerging Market (EM) customers have placed on your company?
2	What do you feel that are the competencies that an SA firm need to compete in an EM?
3	What are the requirements that Developed Market (DM) customers have placed on your firm?
4	What internal requirements does your company place on its suppliers?
5	What are the external requirements placed on your company, by the market that your company operates in, which you pass down to your suppliers?
6	What do you feel are the competencies that firms need to compete in a DM.
7	What competencies did your company have to acquire in order to meet the requirements of DM customers and to become competitive in the DM market?

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9.2 Interview Schedule

Table 9-3 – Interview Schedule

Company Name	Contact Person	Contact Details
Host Company	Jeremy Pougnet (C.E.O.)	+27 (0)11 974-8640
Host Company	Pieter de Koning (Managing Director)	+27 (0)11 974-8640
Host Company	Richard Smith (Financial Manager)	+27 (0)11 974-8640
BAE Systems (South Africa)	Thys Meyer (US and UAE Contract Manager)	+27 (0)11 747-3300
General Electric – Transportation (United States and South Africa)	Roger Bown (Global Commodity Leader - Engineered Systems)	+1 814 875-5145 / +27 (0)11 237-0000
Noske Kaeser (Germany)	Harald Carstens (Head of Division Commercial / Contractual Affairs)	+49 (0)40 8544-2253

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