ROLE OF IMPORT AND EXPORT MANAGEMENT STRATEGIES IN FOREIGN MARKET ENTRY AND PRODUCTION METHODS. CASE FOR FOREIGN DIRECT INVESTMENTS STRATEGIC ALLIANCES

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ABSTRACT
Organizations, which can select the appropriate market entry and product line strategies, and measure their development program performance consistent with their strategy, will have greater chances of success, even in the face of tougher international competition and dramatic economic cycles. Any organization that aspires to go global faces various options from which to choose from as an expansion or market entry strategy. These options basically vary on costs involved, associated risks and degree of control expected. The objective of this paper is to evaluate the role of import and export management strategies in foreign market entry and production methods. Case for foreign direct investments strategic alliances. There are 2 main entry strategies used by firms enter into foreign markets, that is, domestic production and foreign production. Export management companies are used when companies establish dedicated firms to specially deal with export businesses. The special purpose export companies can act for a couple of companies or products. FDI refers to a composite bundle of capital stocks, know-how and technology which has a direct impact on the growth of a country. The paper confirms that there are very clear reasons for an entity to go global market whereas the advantages have been well enumerated. Going global requires capital muscle to make the expansion worthwhile. However, for such firms to deliver value to their stakeholders, they must be willing to soak in some risks and must therefore take time to calculate what strategy will be most appropriate to enter into any given market.

INTRODUCTION
The world has become a global village (Dixon, 2009). This has enabled businesses to expand beyond their home countries and in the process become global corporate giants transcending across different geographies. Organizations are under increasing competitive pressure to actively expand their markets beyond their home markets. Organizations, which can select the appropriate market entry and product line strategies, and measure their development program performance consistent with their strategy, will have greater chances of success, even in the face of tougher international competition and dramatic economic cycles (McPhaul et al, 2010). Some of the successful multinationals become so big that they generate revenues bigger than economies of medium sized countries. In December 2012, the value of Apple Inc. was estimated to be larger than the GDP of Poland, Belgium, Sweden, Saudi Arabia and Taiwan which are big economies in their own right, (Daily Mail UK, March 2012). To create such global corporate behemoths, entities have to mobilize sufficient capital resources, be willing to partner with like-minded corporate and overcome inherent risks associated with globalization among other strategies, in order for them to succeed in venturing into new markets. This paper focuses on two key areas within global business strategies. These areas are foreign market entry strategies with a special focus on import-export management versus foreign production and foreign direct investments strategic alliances. While the foregoing areas are diverse, the paper will attempt to comprehensively discuss the mentioned key thematic areas and create the relevant linkages to global businesses.

Global Foreign Market Entry Strategies
Any organization that aspires to go global faces various options from which to choose from as an expansion strategy (Meyers et al. 2009). These options basically vary on costs involved, associated risks and degree of control expected. The simplest form of entry strategy is exporting using either a direct or indirect method such as an agent, in the case of the former or countertrade, in the case of the...
latter (Morschett, Schramm-Klein and Swoboda, 2010). More complex forms include truly global operations which may involve joint ventures and foreign production within export processing zones (Porter, 1980). Settling appropriate market entry strategy, the organization must then carefully decide on the channels to use in penetrating the new market.

An organization willing to venture into international business faces three major issues:

i) **Marketing** - which countries, which segments, how to manage and implement marketing effort, how to enter - with intermediaries or directly, with what information?

ii) **Production** - whether to obtain products-make or buy (import-export)?

iii) **Investment and control** - what type of strategic alliances; joint venture, global partner, acquisition?

Research by Peter et al (1996) has identified five general strategies which has been used by firms seeking to enter into foreign markets, these includes;

i. **Technical innovation strategy** - This is when a firm seeks to create an innovative image so that they are perceived to have superior products.

ii. **Product adaptation strategy** - This is when a business modifies an existing product to suit a new market.

iii. **Availability and security strategy** - This is when a firm seek to overcome transport risks by countering perceived risks.

iv. **Low price strategy** - This is when a firm use a low price strategy to penetrate a new market.

v. **Total adaptation and conformity strategy** - This is when a firm uses a foreign producer to manufacture their products

There are two main entry strategies used by firms enter into foreign markets as either domestic production or foreign production. Domestic production is where an entity uses the parent company to mass manufacture the goods and then distribute the finished product into the international market while on the other hand; foreign production refers to the approach where an entity basically invests in erecting a production facility in the new market. Under domestic production, an organization can either use a direct or indirect approach while there are various alternatives if a firm decides to pursue the foreign production approach (Dunning & Rugmann, 1985). An organization that seeks to go international must therefore carefully select the strategy that best suits its business model which has minimal risks.

Foreign production offers the entry strategy with the lowest risks and least market control. Foreign production entails managing the import-export management processes as captured in the illustration by Testra & Sarathy (2001).

### Domestic Production - Import-Export Management - Directly

Imports and exports can be managed using either direct or indirect strategies. Direct strategies involve the sharing of risk and knowledge and may be the only means of entry into an international market (Dunning, 1985).

Direct entry which is basically exporting goods or services to a new market can be implemented using agent, distributor, government or an overseas subsidiary. The disadvantages of this approach is that partners may not have full control of the business which makes it impossible to recover capital in case of an exit. There could be disagreements between partners may have different views on the exported benefits of the goods or services in question.

In comparison, indirect approach realistically a cheaper and less complex option that enables an entity to first test a new market before committing investments in an environment whose success cannot be guaranteed upfront. The approach creates mechanism for other parties to import your goods into a new market while indirect approach involves activities like creating trading companies, export management companies, piggybacking, bartering and countertrading (Glowik & Smyczek, 2011).
Piggybacking
Piggybacking is best used by an organization that has lacks requisite structures and competencies hence relies on another entity which has the required infrastructure and competencies to sell their goods or services in a new market. Piggybacking is a viable alternative for firms with limited exporting activities, limited resources and lack of foreign market knowledge.

Countertrading
This refers to entities trading using goods for goods which is a form of formal contemporary barter trade. Countertrade as a generic term is used to describe a variety of trade agreements wherein some forms of reciprocal purchasing obligation associated with the export of goods, commodities or services. The bilateral nature and strict government control, countertrade is regarded as inefficient form of trading resulting in the increase of transaction costs and reduction of trade. Countertrade can prove an effective alternative strategy to reduce imports while delaying economic development and losing markets. Countertrade can provide important opportunities to enter new foreign markets, expand foreign sales, procure necessary raw materials or intermediate products on favourable terms and help operate production facilities optimally, (Cho, 1987).

Under countertrade, a customer agrees to buy goods on condition that the seller buys some of the customer’s own products in return (Kotler and Armstrong, 2006). In order to determine the best approach, a firm will need to ascertain if there is a demand of their product from their partners, they will need to identify potential partners from which they make purchases and they will need to ascertain if their earnings will be advantageous from adopting this market entry strategy (Buckley & Casson, 1988). The advantages of this approach is that it is a method of obtaining sales by retaining a seller and it is an effective method of breaking into a closed market. However, the disadvantages are using variety differences between products and locations.

Bartering
This is defined as the direct exchange of one good for another (Kotler and Armstrong, 2008). In order to determine if this is the best approach, a firm will need to ascertain if there is a demand for their product, they will need to identify potential partners with whom they may barter goods and they will need to ascertain if their earnings will be advantageous from adopting this market entry strategy. The disadvantages of this approach are that it may involve short-term investments, capital or employment movements, transaction costs and benefits, the business is not part of economy so it may be aliened, laws may be different or create more bureaucracy. However, they are simple to administer, there is no currency and they are commodity based valuation or currency based valuation, so there are also a number of advantages to adopting this approach.

For manufacturing companies dealing with mass market products, direct entry strategy is often preferred to domestic production due to certain benefits like standardization, quality control, R&D among others.

Domestic Production/Manufacturing- Indirectly
There are various ways of exporting/importing indirectly as indicated in the diagram above:

Casual exporting is when a good is sold to a customer one off, there are no proper established mechanisms for facilitating trade.
Trading companies is where the parent company establishes a trading company in the foreign country. The best example is in motor industry e.g. Toyota Kenya which trades on behalf of Toyota Motor Company or Firestone East Africa that used to trade using local partner Sameer Africa.
Export management companies are used when companies establish dedicated firms to specially deal with export businesses. The special purpose export companies can act for a couple of companies or products. This approach is common in consumer packaged goods and those dealing with pharmaceutical products.
In direct exporting, the firm becomes directly involved in marketing its products without delegating it to a third party. This approach requires more corporate resources and entails greater operational risks. The benefits associated with this approach include increased sales, greater control and better market information.
To implement a direct exporting strategy, the firm must have representation in the foreign market. This can be achieved in a number of ways:

- By sending international sales representatives to directly negotiate sale contracts. This is common in firms dealing with rare and expensive items like expensive computer Softwares or specialized machinery
- Selecting local representatives or agents to prospect the market, to contract potential customers and to negotiate on behalf of the exporting firms. This is common in IT software reselling e.g. Simba Telecoms, InfoTech, LITES (Laptrust)
- Using independent local distributors who will buy the products to resell them in the local market
- Creating a fully owned commercial subsidiary to have greater control over foreign operations

Foreign Production
In certain cases, a firm may find it impossible or undesirable to supply foreign markets from domestic sources. This is usually due to challenges ranging from transportation costs being prohibitive for bulky or heavy products, customs rates and import quotas, and government policies designed to make locally produced goods preferable relative to imported ones. There are also positive factors that can make a company prefer foreign production. This could be, for example:

- The size and the attractiveness of the foreign market e.g. Indian market which is very attractive due the big population
- Low production costs e.g. previously China, Bangladesh and other Asian countries have had an advantage of low production costs relative to established markets
- Economic incentives given by governments foreign investments in Tanzania where the first 5 years of operations are free from corporate taxes

The most companies expanding abroad specially to emerging markets, export processing zones provide the best option for setting up localized operations.

Export Processing
Export processing zones are defined as legally constituted physical areas within a country, exempt from tax and
duties, for the processing or reprocessing of goods for export (Croft, 1994). The foreign market entry strategy is derived from the use of licensing, joint venture, contract manufacture or ownership. In order to determine the best approach, a firm will need to ascertain if there is a demand for their product, identify potential partners and ascertain if their earnings will be advantageous from adopting this market entry strategy. The advantages of using this approach are that the host country obtains technical know-how, there is capital, technology or employment opportunities created within the country in question, there could be foreign exchange earnings and foreign internationalization is enabled more easily (Gwartney et al. 2009). However, the disadvantages of this approach are that partners do not have full control or management of their business, it may be impossible to recover capital, there could be disagreements between parties as they may have different views on exported benefits or other business topics (Lane, 2006).

Approaches to Foreign Production
Organizations that decide to internationalize their operations by establishing foreign manufacturing or production are faced with various options which includes;

Assembling- this is a compromise between exporting and foreign manufacturing. The firm produces domestically all or most of the components or ingredients of its product and exports them to foreign markets to be put together as a finished product. By shipping Completely Knocked Down, CKD components, the firm saves on transportation costs, tariffs, taxes and the firm is able to use local cheap labour in assemblage.

Contract Manufacturing- the firm licenses a local producer to manufacture their good under contract. Since the contract only covers manufacturing, the parent company conducts the Research & Development and marketing in order to remain in control.

Licensing- is another way to enter foreign markets which is different from contract manufacturing in that the contracts are designed to last for longer and involves greater responsibilities for the local producer. It is similar to franchising only that the organization tends to be more directly involved in the development and control of the marketing programmes. The parent firm gives the licensee patent rights, trademark rights, copyrights or know how on products and processes.

Joint Ventures, JV, have much in common with licensing the difference being that under JV the parent company holds some equity position and has a management responsibility in the local firm. This arrangement gives the foreign firm some form of control over the local enterprise and gives it access to local market knowledge and networks. Cooperative Bank of Kenya foray into South Sudan is a joint venture between cooperative Bank Kenya (owning 51%) and the Government of South Sudan (49%).

Direct Investments- under these arrangement international firms makes direct investment in a production unit either through direct acquisition or merger in the host market or develop a completely new entity from the ground up-sometimes referred to as green field approach. The parent firm owns the new entity 100%. In some countries, this form of ownership is restricted by law and expanding firms are forced to use other strategies to make entry in such markets. Equity Bank’s entry to Uganda was through acquisition of Uganda Microfinance Limited (UML), while expansion to other countries; Tanzania, Rwanda and South Sudan, has been through green-field establishment of new entities. Whichever strategy is adopted by the growing organization, the management must agree on the most appropriate ownership structure to adopt in order to sustain the operations and at the same time safeguard shareholders value. There are various strategies in which these dual strategic objectives can be achieved by international companies.

Ownership Strategies in the international Business
Ones an entity has decided on the strategy to adopt in establishing themselves in the foreign market, the sponsors must decide on the type of ownership of the new business. There are three main types of ownership available for international business.

i. Wholly owned
This entails establishment of an entity where the parent company is deeply involved in its day to day and strategic operations. Most organizations establish new fully owned subsidiaries otherwise referred to as green-field or acquiring an existing entity and converting it into a fully owned subsidiary. Advantages of this approach is that, it reserves full control on the new entity, enjoys all the profits, avoids trade barriers and has access to hitherto unreachable raw materials. The main underside of fully owning the subsidiary is that the venture can be very expensive and therefore requires sufficient capital outlay.

ii. Owned by others
This is where a company uses an existing entity as an agent to sell their products for a share of the profits. This is most common in fast moving consumer goods type of entities.

iii. Partially owned
This can either be a joint venture or strategic alliance. A Joint venture is where two or more partners share assets, profits and risk in establishing a new entity. Partners are usually a local company or government. The advantages of this approach are that there are greater synergies leading to better returns and require smaller capital outlay while the disadvantages are that the parent company loses some degree of control, there is slower decision making, there are chances of organizational conflicts and there could be challenges of incompatibles legislations.

Strategic alliance is where interested parties share key resources in their operations; these could be research and development, logistics, general operations, marketing and distributions etc. An alliance may or may not end in a new entity. The main objective in establishing an alliance is the ability to combine and gain benefits out of each other's skills and resources. A good example of a strategic alliance is the KLM-Kenya Airways alliance that benefits both entities in terms of logistics, marketing and routing. According to the CEO Titus Naikuni, the alliance has enabled 'KLM and Kenya Airways to jointly implement further commercial synergies optimize networks and schedules to better jointly serve these markets and further enhance customer experience and travel options.

Foreign Direct Investment Strategic Alliances

Foreign Direct Investments (FDI)
FDI refers to a composite bundle of capital stocks, know-how and technology which has a direct impact on the growth of a country. This usually flows between technologically advanced and developing countries. FDI is investment into production or business in a country by a company into a foreign market, either by buying a
company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. The ultimate impact of FDI on output growth in the recipient economy depends on the scope for efficiency spillovers to domestic firms, by which FDI leads to increasing returns in domestic production and increases in the value added content of FDI related production. Multi-national companies, MNCs, can transfer and diffuse technologies of many kinds, including a wide range of hard and soft elements (UNCTAD, 2012)

The possibility of getting access to modern technology is perhaps the most important reason why countries wish to attract foreign investment. By inviting multinational corporations (MNCs), host countries may get access to technologies that they cannot produce by themselves. Foreign direct investment can also lead to indirect productivity gains for host country firms through the realization of external economies. Generally, these benefits are referred to as ‘spillovers’, which indicates the importance of the way in which the influence is transmitted.

From a purely entrepreneurial perspective, FDI is important to any organization which plans to globalize due to the following perspectives:

- The increasing need to exploit global markets e.g. to cover for escalating research and development (R&D) costs
- Competitive pressures to procure raw materials from the cheapest possible sources
- Taking advantage of regional integrations that have created better market efficiencies
- Growing ease of cross border communications and reduced transport costs
- Heightened oligopolistic competition among leading firms
- Opening up new territories and
- Need to balance globalization with localization

**Forms of FDI**

According to International Commercial Policy Multinational Firms and Foreign Direct Investment there are two common forms of FDIs: Horizontal and Vertical FDI

- **Horizontal FDI** which occurs if a firm invests in the same industry abroad in which it operates domestically e.g. Toyota building an auto manufacturing plant in the US or in India. The new entity established in a foreign market is a complete replica of the mother company.

- **Vertical FDI** occurs if a firm invests in a supplier industry abroad – e.g. Intel builds a chip assembly plant in Malaysia

**Effects of FDI in International Businesses**

The graph below shows the world FDI flows up to 2012 (source UNCTAD World Economic Report, 2012)

The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than $10 billion in the 1970’s to a yearly average of less than $20 billion in the 1980’s, to explode in the 1990s from $26.7billion in 1990 to $179 billion in 1998 and $208 billion in 1999 and now comprise a large portion of global FDI. Driven by mergers and acquisitions and internationalization of production in a range of industries, FDI into developed countries has continued to grow as shown in the illustration below (Source: UNCTAD).

**Strategic Alliances**

Emerging economic regions especially in Africa have been playing a critical role in global economies. Since their market liberalization and privatization policies were formally set forth in the 80’s, these areas have attracted many foreign investors (UNCTAD, 1997). The successful set up of a business in a frontier or new market is a core concern for any organizations that wishes to internationalize its business. Such ventures are replete with uncertainties around local demand conditions, the availability of supporting industries and infrastructure, property rights protection, and general economic and political stability (Isobe, Makino &Montgomery, 1998)

An organization planning to venture into new markets must decide on the timing of entry (early or late entry)
and amount of resources it is willing to commit in the venture. One common approach to entry into new market is through strategic alliances. Strategic alliance is an agreement between two or more organizations to cooperate in specific business activities in a way that each of the partner businesses benefits from the strengths of the other and gains competitive advantages. Strategic alliances involve sharing of knowledge and expertise between partners as well as the reduction of risks and costs in areas such as relationship with suppliers and the development of new products and technologies. According to Isoraitis (2009), a strategic alliance is sometimes equated to a joint venture and is a critical strategy to any expanding organization due the following justifications:

- Organic growth is often not sufficient for an entity that wants to rapidly expand
- The speed to market is critical given the position of a competitor
- Complexity of business- no single organization has the required total expertise to best serve the customer
- Alliances help defray research and development costs associated with foreign ventures
- Alliances are a short cut to accessing global markets

There are various types of strategic alliances some of which include joint ventures-where each of the business has an equal stake and share profits, risks and resources, outsourcing, affiliate marketing and franchising

### Advantages of Strategic Alliances

Strategic alliances offer advantages to businesses entering into such alliances for many reasons; nevertheless, the foremost reason is increased revenue if the venture works out. Some reasons include regardless of their size, establish strategic alliances;

- Access to new technologies,
- Access to improved management techniques,
- Gain knowledge and guidance provided as a result of the venture,
- Access to greater financial resources,
- Reduction in risks and financial burdens associated with a new venture,
- Opportunity to establish new business segment,
- Establish mature relationships with the partner firm or firms,
- Access to marketing experts,
- Access to well-established distribution channels,
- Establishment of an entry into new markets, and
- Development of new product lines.

Some drawbacks to strategic alliances include;

- Loss of control of a firm,
- Transfer of advanced or state of the art technologies,
- Loss over hiring/firing and retention of staff,
- Transfer of proprietary business information, and
- Loss of reputation and credibility.

Strategic alliances are typically used by large and medium-sized businesses. Increasingly, small companies are forming strategic alliances with larger firms or with multiple small firms as partners. Small businesses entering into strategic alliances do so with the primary intent of gaining experience and technical knowledge so as to;

- Improve the firm’s performance,
- Improve finance and management skills, and
- Expand core business competences and refine technical skills within the firm.

In an emerging economy context, strategic alliances aid small businesses in expanding business development efforts through providing:

- Access to greater financial resources the firm otherwise would not have
- Expanded services as a result of the skills and knowledge acquired through the venture
- Increased visibility and credibility (brand building)
- Greater access to markets
- Access to state-of-art or advanced technologies.

Despite their drawbacks, strategic alliances are increasingly being preferred by expanding businesses regardless of their sizes.

### Conclusion

The discussion confirms that there are very clear reasons for an entity to go global market whereas the advantages have been well enumerated. Going global requires capital muscle to make the expansion worthwhile. However, for such firms to deliver value to their stakeholders, they must be willing to soak in some risks and must therefore take time to calculate what strategy will be most appropriate to enter into any given market. The various strategies highlighted will be optimal based on circumstances and geographical location; expanding to developed markets such as Europe or Asia is very different from venturing into developing markets. The leadership must evaluate the best formulae to export or import their goods and services as appropriate. They must also evaluate the most appropriate method of investing into the new markets as dictated by their preferred duration in the new market i.e. be it short term or long term, level of perceived risks, host government legislation and market dynamics. Emerging economies offer tremendous potential for organizations seeking to expand globally and to attain the associated rewards. However, organizations differ in their entrepreneurial tendencies to enter new markets and to introduce new products in emerging economies. Organizations also differ in their abilities to manage their development programs, that is, their execution of different types of projects that lead to success in emerging markets. Finally, organizations differ in which overall measures of program performance are consistent with their strategic objectives.

### RECOMMENDATIONS

The paper recommends that by adopting strategic alliances as a tool for improving import and export performance, government agencies would have chosen a path that will bring progress. The possibility of getting access to modern technology is perhaps the most important reason why countries wish to attract foreign investment. By inviting multinational corporations (MNCs), host countries may get access to technologies that they cannot produce by themselves. Foreign direct investment can also lead to indirect productivity gains for host country firms through the realization of external economies. Generally, these benefits are referred to as ‘spillovers’, which indicates the importance of the way in
which the influence is transmitted. In certain cases, a firm may find it impossible or undesirable to supply foreign markets from domestic sources. This is usually due to challenges ranging from transportation costs being prohibitive for bulky or heavy products, customs rates and import quotas, and government policies designed to make locally produced goods preferable relative to imported ones. There are also positive factors that can make a company prefer foreign production.

The paper also recommends that an organization planning to venture into new markets must decide on the timing of entry and amount of resources it is willing to commit in the venture. One common approach to entry into new market is through strategic alliances. Strategic alliance is an agreement between two or more organizations to co-operate in specific business activities in a way that each of the partner businesses benefits from the strengths of the other and gains competitive advantages. Strategic alliances involve sharing of knowledge and expertise between partners as well as the reduction of risks and costs in areas such as relationship with suppliers and the development of new products and technologies.

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