Factors Affecting the Choice of Market Entry Modes in the African Telephony Industry

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ABSTRACT

This paper investigates the factors that influence the choice of market entry modes in the African mobile telephony industry—currently, a popular international investment destination. Using the survey methodology, the study focuses on six key enterprises, which account for over 60% of the cell phones in Africa. The empirical evidence suggests that market size in terms of population of the destination country and not psychic distance is the most important market selection criteria for enterprises entering Africa. The dominant entry market strategy for these enterprises is strategic alliances with a view to reduction of financial and commercial risk. Focused strategy is uncommon on the continent. More interestingly, and contrary to extant literature, political risk was not considered a market entry barrier. In any case, politically unstable countries tend to bring in higher returns. These findings are important in informing investors engaged in or with intentions to enter Africa and in enriching international literature. The Stages model and the Eclectic framework individually, are unable to explain the choice of market entry mode in Africa. The key contributions of this study are both theoretical and practical insights on the process of internationalisation.

Keywords: Africa, Choice of Market Entry Mode, FDI, International Expansion, Internationalisation, Mobile Telephony Industry

1. INTRODUCTION

The continuous interaction of individuals, enterprises and nations through globalisation has resulted in enterprises moving out of their domestic markets to the international stage to achieve growth, among other objectives (Porter, 1980). The decision to expand across borders, commonly referred to as internationalisation, is one of the most important strategies in the advancement of an enterprise. Internationalisation is an issue that is becoming relevant to the majority of firms, without respect to their market orientation, industry sector or size (Havnes, 2002).

The implementation of an international diversification strategy involves the choice of a foreign market entry mode (Root, 1987). Root (1987, p. 5) defines a foreign market entry mode (or strategy) as “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management, or other resources into a foreign country.”

In Africa, the mobile telephony industry represents, perhaps the fastest growing indus-
trial sector on the continent (Ndukwe, 2005). From banking, education to entertainment, the mobile industry has transformed the way people live by affecting almost every facet of their lives. Subsequent to market liberalisation initiatives, the operating environment in the mobile telephony industry in Africa has undergone significant changes over the last decade.

As a result, Africa witnessed a dramatic rise in the number of customers, 234 million specifically, between 2002 and 2007, a 632% growth rate. In the same period, the mobile penetration rate rose from 4.5% to 28.1% (ITU, 2008). The emergence in the last five years or so of predominantly African based, pan regional mobile network operators is another reason for the high mobile growth on the continent.

Key strategic investors in the mobile telecommunications industry in Africa are Etisalat (via Atlantique), Zain Africa (a subsidiary of Zain, formerly MTC), Econet Wireless International, Millicom, Mobile Telephone Networks (MTN), France Telecom (through its subsidiary Orange Telecom), Orascom, Vodafone and Vodacom. Between them, these enterprises account for over 65% percent of mobile customers on the continent.

In view of the high level of activity on the continent, exemplified by the entrance of international players in this industry in the last decade, it is important to step back and reflect on a number of crucial points. What market entry modes have been used by these enterprises as they enter Africa, and more importantly, what factors influence those decisions?

1.1. Research Problem

This study aims to answer these questions, by examining the choice of market entry modes and the rationale that investors use in expanding into the mobile telephony industry in Africa. The key question in this enquiry is: What market entry modes do mobile network operators use in their internationalisation efforts in Africa and what factors affect those choices? The question is important because it has both theoretical and practical relevance to international literature and international business.

1.2. Purpose

The purpose of this study is to analyse the choice and rationale of market entry mode in internationalisation in the mobile telephony industry in Africa. The study provides useful insights into internationalisation activities in Africa – an important perspective given the cross-cultural nature of internationalisation.

1.3. Importance of the Study

The study focuses on market entry mode because of two reasons:

a) There is little agreement on which conceptual framework best explains a firm’s market entry mode (Andersen, 1977). Consequently, the theory of internationalisation remains poorly described causing both terminological and theoretical confusion (Fletcher, 2001; Bell, Crick, & Young, 2004).

b) Relatively few researchers (Makhaya & Roberts, 2001; Gebreab, 2002) have focused on developing countries, particularly Africa. This study is important in that it contributes to international theory, using studies derived from the continent, where there is a dearth of empirical research of this nature.

2. LITERATURE REVIEW

Internationalisation is a complex, multidimensional and dynamic process (Laine & Kock, 2001; Wattanasupachoke, 2002). To obtain a holistic understanding of internationalisation it is important to understand what exactly drives the process, sometimes from a situation where an enterprise had no international operations to a situation where the enterprise becomes a multinational. Welch and Luostarinen (1998) argue that in developing any overall explanation of internationalisation it is necessary to
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