**BUSINESS INTERNATIONALISATION EFFORTS IN DEVELOPING ECONOMIES: THE CASE OF ARKAY PLASTICS LIMITED IN MALAWI**

**ABSTRACT**

The paper studies Malawian manufacturer Arkay Plastics Limited’s potential for internationalization. Making use of Kenichi Ohmae’s ‘Five Stages of Globalisation’ framework the paper tracks and assesses the benefits, problems, and potential key issues to be faced and tackled by the firm at each stage in its internationalization efforts. It is observed that there are factors within the region that provide a supporting backdrop for the firm’s internationalization. Hence Arkay Plastics Limited is encouraged to look, and invest, beyond its current national borders.

**INTRODUCTION AND LITERATURE REVIEW**

As world-wide travel and communication becomes even cheaper, easier, quicker, and more reliable growth in international trade and business has increased (Maruca, 1994). Firms enter international markets in order to reduce dependence on their home market for the factors of production, and to take advantage of opportunities offered by markets globally (Hout *et al*., 1992).

By having access to resources such as capital, raw materials, managerial and technical talent, low cost labour, and technology found in other countries firms can minimize their risks and potentially improve the efficiency of their processes and operations. At the same time internationalization enlarges the market for a firm’s products and/or services thus increasing the possibility of scale and scope advantages.

In sum, having international operations potentially improves a firm’s cost structure, product/service offering, market base and offers it the benefit of what Bartlett and Ghoshal (2003) term ‘worldwide learning’ (Bartlett and Ghoshal, 2003, cite the breadth and significance of ‘worldwide learning’ in the following quote: “An international company enjoys a big advantage over a national one. It is exposed to a wider and more diverse range of environmental stimuli. The broader range of customer preferences, the wider spectrum of competitive behavior, the more serious array of government demands, and the more diverse sources of technological information represent potential triggers of innovation and thus a rich source of learning for the company”).

A number of models and frameworks have been devised for the process of firm internationalization. Porter (1990) developed the Diamond Theory of National Competitive Advantage. In this theory four (presence of related and supporting industries and suppliers; presence of sophisticated and demanding customers; presence of appropriate and cost-efficient factor inputs e.g. human capital, physical resources; level of domestic inter-firm rivalry and firm strategic focus) conditions determine the competitive advantage of a nation and its industries. When the “critical underpinnings of competitiveness” are not available at home firms internationalize so as to “tap selectively into the sources of advantage in other nation’s diamonds” (Porter, 1990). Though Porter’s work is comprehensive and broadly accurate the present reality in international trade (especially flows of foreign direct investment) does slightly contradict some of the concepts in his theory. For example, it is to be noted that large amounts of foreign direct investment have gone, and are still going, into countries and regions with underdeveloped national diamonds contrary to expectations based on the national diamond theory. Secondly, Porter does not take due cognizance of the influence of certain government policies and regulations such as tax breaks or subsidies to attract international investment.

Ohmae (1993) outlines a five stage process to becoming a global firm. The stages run from being an export-oriented firm up to eventually becoming a global firm itself. A somewhat similar framework, albeit with three stages, was developed by Lierberthal and Lierberthal (2003). The stages start with ‘entry’ (“the key goals are to establish a presence, begin to build a brand, and learn about the operating environment” in the entering country), ‘country development’ (“the company should be more fully establishing its brand, developing a market, and following a geographic expansion strategy”), and lastly ‘global expansion’ where country “operations are fully integrated into regional and global efforts” (Lieberthal and Lieberthal, 2003).

Hout *et.al.* (1992) write that “not all companies can or should forge a global strategy”. Indeed. Hence the final stage in both Ohmae’s (1993) and Lieberthal and Lierberthal’s (2003) models may not be applicable to all industry segments nor all companies. In addition, Lieberthal and Lieberthals framework was developed based on their study of international investment in China only so it might not be universally applicable.

All in all, the above three frameworks tend to come up short on practical details as to the appropriate structure and reporting relationships the globalised firm should take. Porter (1990) in particular comes up short in this area even though he acknowledges organizational structure and reporting relationships to be the ‘Achilles heel’ of the global firm. Ohmae (1993) and Lieberthal and Lieberthal (2003) do offer some constructive advice but it tends, to borrow a phrase from Hamel and Prahalad (1985), to be “long on exhortation… but short on practical guidance”.

This paper will analyse the potential costs and benefits that may accrue to Arkay Plastics Limited as it tries to expand its domestic operations to a wider international playing field. The paper will start by giving background to the firm; its history, industry, and competitive advantages. The paper will then have a step-by-step analysis of the stages that the firm will need to go through as it enters the international arena. Finally, the paper will make appropriate recommendations to the firm based on the analysis.

**BACKGROUND TO ARKAY PLASTICS**

Arkay Plastics Limited is a Malawian firm that manufactures assorted plastic products ranging from plates, spoons to chairs, dustbins etc. The firm’s factory is in the commercial city of Blanytre. It mainly distributes its products using its own outlets (sixteen outlets are spread throughout Malawi) which act as both retail and wholesale shops- these outlets are supplemented by the use of independent wholesalers and retailers throughout the country. Goods are shipped from the factory to the outlets using the firm’s own vehicles.

The plastic products market in Malawi (see Table 1 below) is characterized by, among other features, highly price sensitive customers, easy availability of substitute products. Though Arkay Plastics is the sole manufacturer in Malawi of most of its product line it does face stiff competition from imported products (mainly from China and India).

**Table 1: SWOT Grid for Arkay Plastics Limited with Focus on the Firm’s Potential for Internationalisation in the SADC and COMESA Regions.**

|  |  |  |  |
| --- | --- | --- | --- |
| STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
| * Strong market position in home country.
* Highly developed distribution system in home country.
* Brand very strong in home country.
 | * No prior international experience.
* Limited organizational resources.
* Process inefficiencies e.g. high inventory levels.
 | * Regional and bilateral trade agreements.
* Likely common demand among consumers in the region.
 | * Increasing competition (in home country market) from imported products.
* Potential for political instability and/or economic stagnation in some countries in the region.
 |

Arkay Plastics does not currently export its products (any exporting that could be there will be by individual independent traders) though most countries in the surrounding Southern Africa Development Community (SADC- member countries are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe) and Common Market for Eastern and Southern Africa (COMESA- member countries are Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Egypt, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe) regions have, like Malawi, low per capita incomes which potentially entails a similar demand for low priced plastic household utensils (see Table 2 below).

**Table 2: Conducive Factors for Firm Internationalisation within the SADC Region**

|  |  |
| --- | --- |
| **FACTOR** | **CHARACTERISTIC/FEATURE** |
| Population | 170 million potential customers |
| Per Capita Income | Most countries in the region have low per capita incomes thus facilitating similar consumer demand patterns. |
| Trade Agreements | In addition to generic region wide trade agreements Malawi has bilateral agreements with a number of countries in the region. |
| Language | Though there are plenty of local languages, English is the lingua franca of the region. |
| Legal Systems | Most countries in the region are former British colonies and thus have similar legal systems. |

**AVENUES FOR ARKAY PLASTIC’S INTERNATIONALISATION**

As pointed out above, feasible opportunities for international expansion for Arkay Plastics currently exist.

This part of the paper will make use of a framework for internationalization to assess the potential challenges, opportunities, and problems that the firm could face as it moves stage by stage into the international arena. The framework to be used (notwithstanding its weaknesses as outlined above) is Ohmaes’ ‘Five Stages of Globalisation’. The five stages are as follows:

1. Export-Oriented Firm
2. Overseas Branches
3. Relocation of Production
4. Insiderisation
5. The Global Firm

Porter (1998) writes that “the best opportunities for true international strategies emanating from developing countries often lie within the region and with other like economies. .. firms must take advantage of the opening of neighbouring markets to build regional networks”. In agreement with this viewpoint the analysis will limit its focus to Arkay Plastics potential international expansion into the SADC and COMESA regions.

***Export-Oriented Firm***

By exporting its products to countries in the region Arkay Plastics will gain scale advantages that will reduce cost of production and generate extra revenue for research and development, acquiring new technology etc. As the products are very light in weight, and most are compact, transport expenses will not be burdensome. Besides, the type of product manufactured by Arkay Plastics is already in use in neighbouring countries and thus there will be no need for the expensive process of educating consumers on the use and benefits of the product.

Malawi and most of the countries in the region are former British colonies, hence in most countries: English is the official language and is spoken and understood by a great majority of the population; culture and lifestyles tend to follow western trends; the legal systems are based on English law. Such commonalities will help to minimize the difficulties and problems of market entry into these countries.

As the firm moves from operating in a single country to being a multinational new challenges and problems will creep up. First and foremost the Arkay brand is not known in foreign countries. Access to distribution will be a problem. In most cases use of local distributors for market entry will be inevitable but, as pointed out by Lieberthal and Lieberthal (2003), most local distributors in emerging markets “often do not have adequate market knowledge”.

More likely than not, there will already be a strong local competitor which will have had a head start over newcomers like Arkay Plastics. Government policies and regulation such as tariffs will affect the firm’s competitiveness in foreign markets. In addition, a key potential stumbling block will be the firm’s lack of international experience. As a result, probability of making mistakes will increase, loses could skyrocket, opportunities could be missed, and the increasing problems and challenges of internationsalisation could divert managements’ attention away from the firm’s home market.

Key Issues

The following are the key issues that will need to be dealt with in this stage:

*Firm Strategy*: “Entering a new market means significant change in the current boundaries of… business, which, in turn, will likely warrant changes in how the company achieves competitive advantage” (Bartness, 1994). Before the firm enters new countries it will need to have a broad strategic understanding of where it is going, what it wants to do, when it is going to do it and where.

*Organisational Capacity*: As the firm internationalises it will become more complex to manage. New skills and capabilities will have to be built and constantly developed both before entering international markets and whilst internationalizing.

*Financial Wherewithal*: In order to ensure eventual success of internationalization efforts firms need to “have the capacity to support a move abroad from current operations” (Kuemmerle, 2001). “They have to be willing to sustain loses in-order to establish beachheads… be they in the form of… distribution networks, or consumer awareness of their products” (Vanhonacker, 1997). The moral is simple: a financially strong home base is necessary to support entry into foreign markets.

*Choice of Partner*: Inevitably Arkay Plastics will have to find local distributors in each country it enters. Local distributors act as “insurance against the vagaries of doing business on unfamiliar turf” (Maddy, 2000) as they have (to varying degrees) “unique expertise and knowledge of their markets” (Arnold, 2000). They also enable an investor to minimize the investment (and thus risk) needed to start operations. Therefore the firm’s choice of partners(s) in each country will greatly determine whether its entry efforts are successful or not.

***Overseas Branches***

In this stage the firm opens branches in a number of foreign countries it exports to. These branches will be responsible for distributing the firm’s products.

Advantages to be accrued in this stage are the improved “ability to sense changes in market needs and industry structure occurring away from home” (Bartlett and Ghoshal, 1986) as the firm will be in direct contact with the country markets. Secondly, the firm will be better able to exercise control over marketing strategy in each country.

On the other hand, as the firm opens its own branches in other countries firm management will become more complex and the firm will have to face the tumultuous challenge of effectively coordinating its different country units. Managing a diverse workforce will also bring its unique problems as Emmott (1993) points out: “managing an international staff is arguably the biggest single problem faced by multinational firms”.

Key Issues

*Independence from Local Distributors*: In this stage the firm will reduce (if not completely do away with) its reliance on independent local distributors. But a “transition from indirect to direct sales is usually costly and disruptive” (Arnold, 2000). It can even require the involvement of outside legal authorities. The firm will need to develop plans (preferably long before invoking any contract with distributors) for the proper parting with independent distributors.

*Organizational Glue*: Having employees from different cultures and countries, and with different worldviews lays a challenge to “providing the right glue to hold companies together” (Lierberthal and Prahalad, 2003). The firm will need to develop and define what Whitwam (see Maruca, 1994) calls a ‘unifying philosophy’ that will properly guide and coordinate the efforts of its diverse national unit managers and employees.

*Performance Measures*: To ensure maximum output from each unit performance measures will need to be developed. The firm will need to decide on what basis it will measure unit performance and if the performance targets will apply uniformly across the units. If the targets will differ, then on what basis will individual unit targets be made? How and what incentives will be offered to managers and employees from different units?

***Relocation of Production***

As a firm becomes more internationalized, as evidenced by its non-home country volume of sales and revenues, it opens production facilities outside its home nation.

The benefits to be attained from opening factories in foreign countries are reduction/removal of tariffs (and other non-tariff barriers), having an alternative source of product supply (which reduces the risk of depending on manufacturing in one country only), hedging currency risk. In addition a firm can benefit from incentives given to foreign investors (tax breaks, subsidies etc.) by governments of various countries, and be able to develop managers with international experience (which can provide competitive advantage to a firm).

Whilst development of international managers brings benefits to firms it also has costs. Black and Gregerson (1999) write that “on average, expatriates costs two to three times what they would in an equivalent position back home”. Expatriates’ lack, or limited understanding, of local cultures, nuances, and policies can also result in conflicts.

Key Issues

*Capital requirements*: Development of new production facilities (especially outside of the home country) needs a lot of capital. It will be essential that the firm raise adequate capital without adversely hindering developments in other sectors of the firm. It will also be necessary to ensure that opening of any new production facilities does not affect the scale and cost efficiencies of the present facility.

*Mix of Local and Expatriate Staff*: With any major new investment abroad it will be inevitable to assign some expatriates in managerial and technical positions. “Expatriates from the multinationals… country play multiple roles” but local managers “have a much better appreciation of local nuances and a deeper commitment to the … market than any expatriate managers could have” (Lierberthal and Prahalad, 2003). Getting the right balance of expatriate and local managers will be critical.

*Location*: Once the firm decides to open production facilities abroad it will then need to decide on the locations of the facilities. Factors to consider will include: Is the facility to produce mainly for the local market or for export? What factor advantages does a new facility require e.g. low cost labour?

***Insiderisation***

In this stage the individual country units are essentially a clone of the head office. More and more functions are transferred to the country units, most of the managerial and technical posts are held by locals.

As the firm has more functions locally (e.g. design, market research) it is better able to understand and anticipate local market needs, and respond in a timely manner. The firm is also able to access, and put to use, human talent from numerous countries.

At the same time increased expansion of the firm’s activities and functions internationally necessitates, and leads to, “cross-border adaptation, complexity, and size” which can “actually increase costs” (Ghemawat and Ghadar, 2000).

Key Issues

*Development of local Managers*: In this stage “the central job of … headquarters operation” will be “the development of good people at the local level” (Ohmae, 1989). The firm will need to develop strategies for the recruitment, training, advancement, and retention of capable local personnel.

*Unit Influence Versus Headquarter’s*: The firm will need to balance the importance of allowing “managerial initiative, motivation, and capability in its overseas operations” (Bartlett and Ghoshal, 1986) with the need for central coordination and control.

*Synergies*: In-order to maximize cross-country synergies and create a “network of interdependent centers that learn from one another” (Ferdows, see Bartmess, 1984) a good organizational structure, appropriate reporting relationships (between individual units and between the units and headquarters), and effective information systems will need to be developed.

*Standardisation versus Localisation*: The firm will need to find the right balance between the counter-acting forces for cost reduction and those for local responsiveness in product/service offering.

***Globalisation***

In this phase a firm moves from being a multi-domestic player to become a global firm that can pit “its entire worldwide system of product and market position against the competition” (Hout et.al., 1992).

The global firm has tremendous scale efficiencies; a global brand(s); a worldwide distribution network; and can effectively preempt, defend its position and retaliate against, competitors.

A unique challenge for the firm in this stage will be having adequate number of managers with the capacity to both ‘think local’ (managers able to develop and defend the country market) and ‘think global’ (managers willing to learn from, and assist, other units of the firm).

Key Issues

*Nature of Industry*: First and foremost, the firm will need to study its industry and find out if it lends itself to being global, multi-domestic, transnational, or international.

*Differentiated Tasks*: In order to avoid duplication and enhance specialization the firm will need to assign responsibility for specific tasks (through development of centers of excellence, lead-country markets etc.) to country units with advanced skills and knowledge in key areas.

*Resource Allocation*: The firm will need to develop policies and strategies for the allocation of resources to individual units. (Allocation policy/strategy could be based on the firms’ competencies, envisaged future opportunities, market needs, competitor activities). The policies/strategies will need to be communicated to, and be co-opted by, the individual units.

*Equidistance of Perspective*: Managers will need to “consciously try to set plans and build organizations as if they saw all key customers equidistant from the corporate center” (Ohmae, 1989).

**Recommendations**

This part of the paper will attempt to come up with recommendations and advice to Arkay Plastics Limited on the main issues and challenges it will likely face as it enters international markets.

In the export-oriented firm stage the firm will need to choose local distributors with what Arnold (2000) calls ‘company fit’ i.e. a distributor with a culture and a strategy that Arkay Plastics will feel comfortable with. In order to have early influence over marketing strategy the firm should ideally take minority equity stakes in the independent local distribution companies.

A likely battleground during overseas branches stage will arise at the time of parting with local distributors. Good, clear contracts will help to assuage the conflict. But, more positively, the firm should still make use (albeit on a smaller scale) of its local distributors even as it develops its own distribution network. The firm can control the key accounts and distribution in the main cities and towns whilst letting local distributors control distribution in outlying parts of the countries it enters. Apart from easing tensions this move will have two additional benefits: Arkay Plastics will continue to make use of the knowledge and experience of the local distributors; it will reduce the overall cost and investment needed to open branches in foreign countries.

Development and opening of new production facilities will mainly depend on the level of demand for the firm’s products. On a somewhat conservative note, the author suggests that manufacture of the firm’s current product line be carried out- for the foreseeable future- solely in the current single factory. Productivity in the manufacturing and industry sector in Malawi is low, technology used is old and archaic. The firm would do well to acquire new technology and constantly improve current factory productivity as a way of meeting increased regional demand. Besides, there are numerous multi-country trade agreements and non-tariff barriers are going down (in addition to transport costs for the products being low) hence the firm can function efficiently and effectively using its current single factory.

The likelihood of opening a foreign factory (preferably in South Africa) arises if the firm wants to enter the high-end market for plastic products. There is a positive demand in some countries for designer (as opposed to purely functional) plastic household utensils and this demand can only increase within the region. As it is a market in which the firm has no experience entering it could be risky, but with good planning and management the potential returns should outweigh the risks.

With overseas branches broadening their functions and expertise, and a factory opened in a key country market, the firm will increasingly act like an insider in the foreign-country markets. To keep abreast of the latest research, design, and process technologies the firm should open a research unit in South Africa. This, plus the potential opening of a new factory, will enable the firm to take advantage of that country’s highly developed research and academic institutions, state of the art technology, advanced suppliers, demanding customers, world class competitors, and highly competent researchers and technicians.

In the final stage of internationlisation the firm will have to decide whether its industry requires global, multi-domestic, international, or transnational strategies. As things currently stand, the author is of the opinion that the industry is international hence the firm does not necessarily need to develop global strategies. Granted, the firm should take advantage of cross-country synergies and leverage scale and scope advantages but it will, on the whole, remain an international player.

The firm’s center of excellence for research and design should be in South Africa whilst for manufacturing (and possibly marketing and logistics) it should be in Malawi. In order to encourage country unit initiative and creativity at the same time as ensuring coordination and control the firm should “combine a decentralized structure… with a degree of centralized control. In other words.. strive for unity in diversity” Maljers, 1992).

It is also in this stage that the firm will take its first tentative steps into markets outside of the region. Naturally, it will enter these markets as an export-oriented firm.

**Conclusion**

“Global expansion tends to be a long, drawn out war” (Schiffman, see Kuemmerle, 2001). On its journey Arkay Plastics will need to constantly analyse its internal capabilities and external opportunities and threats, and make requisite adjustments and responses. Change will be continual: to organizational structure; reporting relationships; performance measures and targets; managerial skills.

The risks involved in internationalisation are high, but the potential rewards are higher. In the final analysis, in today’s borderless world “corporations need to take risks- or risk being left behind” (Barney *et.al.*, 2003).

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