

Expatriate literature
Political Challenges
Political instability
Government intervention
Taxation

Culture Differences
Work place values
Communication
Concept of time

**OPERATIONAL CHALLENGES IN THE ESTABLISHMENT OF A
SUBSIDIARY IN A FOREIGN COUNTRY: CASE OF DAVIS AND
SHIRTLIFF IN SOUTH SUDAN**

Organizational Performance
Profits
Market growth
Independent variables
Dependent variables

BY

ARNOLD KIPLANGAT ROTICH

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DECLARATION

I hereby certify that this project is my original work and has not been presented for examination in any institution of higher learning.

Sign: _____

Date: _____

ARNOLD KIPLANGAT ROTICH
D61/76126/2012

This research project has been submitted for examination with my approval as the University supervisor.

Sign: _____

Date: _____

PROF. MBECHE ISAAC MEROKA
Lecturer
Department of Management Science,
School of Business,
University of Nairobi

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DEDICATION

This work is dedicated to Almighty God, my wife Jeruto Violah for her love and support; my parents Mr. and Mrs Kirui for their good upbringing, understanding and continued prayers towards successful completion of this course.

ABSTRACT

Increased competition due to globalization and internationalization of firms has made world economies increasingly borderless and interlinked allowing companies to expand their business beyond their domestic boundaries. Therefore the need to carry out this research to study the operational challenges in the establishment of a subsidiary in a foreign country. The objectives of the study were to determine the operational challenges encountered by Multinational Companies in the establishment of South Sudan Subsidiary and to determine the effects of the challenges on the performance of the parent company. The study adopted a case study descriptive research design; data was collected using questionnaires and analyzed using descriptive statistics. The study established that the company encountered human resource challenges such as lack of local expertise to support the establishment of the subsidiary and limited skills among expatriates on the local market dynamics, cultural differences such as enmity against expatriates among residents and limited understanding of purchase behaviour of local residents was also a challenge to the company. High political instability and high political influence on the residents was also a major challenge to the company

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Increased competition due to globalization and internationalization of firms has made world economies increasingly borderless and interlinked allowing companies to expand their business beyond their domestic boundaries (Cullen and Parboteeah 2005). Companies internationalize their activities in an attempt to improve competitiveness and capture greater shares in more geographic markets worldwide (Delios and Beamish 2004). As emerging market companies expand globally, one of the biggest tests they face is managing their new assets in a more efficient way. Expanding internationally exposes organizations to new risks that if now well managed can affect the performance of the mother company. One of the biggest challenges they face is how to understand the local market, quantify the additional risks it brings to the group, and find a way to translate their risk management requirements and management objectives to the new operation.

Several scholars and researchers have identified several challenges affected organizations in their quest to operate in foreign countries. Internationalization of a company can be seen as a process that enables the company to operate in foreign markets besides the domestic markets (Waudou, 2005). The first challenge for any company on the path of internationalization is analysis. The company needs to analyze the attractiveness of the target market and the company itself. The attractiveness of a market depends on the size of the market, growth potential of the market, competition and on the level of operational risk (Deresky, 1997). The political and economical situation of the target

market affects the operational risk. Company analyses are needed to find out the weaknesses and strengths of the company, opportunities and threats that the company possesses in the target market and also competitive advantages, which play a major part in forming entry and positioning strategies (Czinkota, 1982). These strategies have to be thoroughly thought because the success of the whole internationalization process depends on them (Gill & Law, 1993). The implementation of the business operations in the new market can be seen as the next challenge (Johanson & Vahlne, 1993).

One of the biggest challenges of the internationalization process is the planning and decision making concerning the process. This is the basis for the whole process and therefore it is utmost critical for the success of the company's internationalization (Wiedersheim-Paul, Olson & Welch, 1977). The planning and decision making concerning internationalization, demands both human resources and financial resources from the company. Even with adequate resources it may be difficult to start from scratch with the planning. In this chapter I will give some tools for overcoming this challenge. The planning and decision making in the internationalization process include both strategic and operational issues. Strategic issues are, for example, the choice of the target market, the branch, target customers (segments), entry modes and timing of the entry. Operational decisions concern the operations inside the target market, like for example, the product positioning, implementation of the business model, pricing, and promotion and choosing the distribution channel (Albaum, Strandkov & Duerr, 2002, 17)

1.1.1 Concept of Internationalization

Internationalizing a business plays a big role in enhancing attainment of the objectives of an organization. Business organizations majorly go international to grow their sales

volume and hence their profitability (Barlett et al, 2008). Especially where the entity's big chunk of fixed costs can be tied to its domestic operations, the organization can earn a big amount of growth gain through internationalization. The internationalized business can also capture some specific market or industries which can help the entity to earn a great return from a set of core competencies (Angouri & Glynos, 2009). An international business is able to generate economies of scale in production by virtue of its expansions in size. This is a competitive advantage to the organization. Importantly, internationalization helps an organization to enhance its competitive advantage locally by paving way to larger, more lucrative customers (Fang, 2006). This is so for situations where an organization engages into international business by directly selling its products abroad. Where the organization's local markets was dwindling, the entity is able to sustain its sales targets from its international markets (Spencer, 2011).

Internationally, international businesses create jobs, grow productivity and enhance wealth creations for nations (Goodall et al, 2006). Further, international trade enhances the pie for potential investors since business organizations relies each other in conducting business. Perlmutter and Heenan, (2000) observes that were it not for international business, businesses activity in the entire world would remain as small as it was during industrialization. However, international trade has helped insulate seasonal domestic trade by expanding potential markets for excess production capacity in different parts of the world, while ensuring continued supplies to seasonal productions in other parts of the world (Barlett et al, 2008). International trade also helps organizations exercise cost leadership strategy through global outsourcing from the markets where factors of production are relatively cheaper. This reduces excessive reliance on the existing markets.

Furthermore, most multinational establish production centers inputs are readily available and cheap. In some situations, multinationals have been able to capitalize on low taxation in some markets (Spencer, 2011).

1.1.2 Davis and Shirliff Ltd

Davis and Shirliff Ltd (D&S) was founded in 1946 by partners E.C Davis and F.R Shirliff with the original office in Westlands', Nairobi. In 1955, nine years after D & S Ltd was established, the offices moved from Westland to their current location on Dundori road in Nairobi's Industrial area. The company grew rapidly by providing water supply installations to the then burgeoning Kenyan economy. The company is founded on the design and installation of water supply equipment and maintenance. It began importing pumps in 1965 (D&S, 2006). The first were from Grundfos Ltd in Denmark and Flights Company in Sweden. Other suppliers include Davey and KSB Ajax of Australia, and Pedrollo/Linz of Italy. Latest addition to the list of suppliers is Yanmar, (D&S, 2008). "Dayliff" new branded equipment developed in Taiwan are the latest price competitive products in the market that the organization has adopted as its own brand and introducing to the market.

The company has diversified its activities from just distributing water pumps to the distribution of water treatment equipment, swimming pools equipment and renewable energy products. The company has also expanded the distribution of its product in Kenya to the sub-Saharan region. Effective distribution is vital if a large market share is to be achieved (D&S, Company plan 2008). To accomplish this, the company has opened branches in Mombasa, Eldoret, Kisumu, Nakuru, Lamu, Malindi, Kisii, Thika Downtown and Westland's and opened pump centers in many major towns in Kenya to ensure that

local distribution is efficient and timely. The company has also opened subsidiaries in Uganda (Kampala), Tanzania (Dar-es-Salam, Arusha, Zanzibar and Mwanza), Rwanda (Kigali) and Ethiopia (Addis Ababa) and lately South Sudan. The newest addition is trading activities in Sudan, Burundi and DRC. It is this network of branches and subsidiaries that have seen D & S Ltd become a market leader in the distribution industry and are a nine time winner of the Company of the Year Awards in various categories (Muraya, 2010).

D & S mission is to be a world class quality organization through the highest levels of corporate standards and professionalism. The commitment is to offer a comprehensive and competitive product range with regional availability and unrivaled technical support. The company recognizes that the provision of efficient water supplies is essential for the region's economic development and is committed to playing a major role in this vital industry (Muraya, 2010). The company has been consistently successful over many years. The fundamental reason for this has been the evolution and pursuit of a market development strategy that has been widely communicated and effectively applied. The company's key strengths are the wide product ranges and supply chain both of which are made possible through scale. These include: a wide range of water pumps, water pumps spares, water pump accessories, water pump repair department, water treatment plants, chemicals and equipment, borehole pumps and maintenance services, solar products and installation services and a pool departments that offer pool related products (Muraya, 2010) The company has retail and wholesale departments all under one roof, making it one of a kind in the distribution of water related products in Kenya. Currently, it is the only company that distributes this whole range of products, while each competitor only

distributes a few of the product range offered by D& S. The company has a large warehouse which ensures that there is sufficient stock to meet its market across the borders. Indeed it has stock of over Ksh. 400Million at any one time (D&S, 2009).

1.2 Statement of the Problem

Opening up an office in a foreign country is never an easy thing especially considering the cultural and political diversities. The multinational corporation has to reserve adequate resources and develop appropriate strategies in planning to expand its operations into a foreign country. Such expansion may even be complicated when the foreign country is experiencing fragile peace like South Sudan. Davis and Shirliff has expanded its operations into South Sudan amid frequent fighting among different clans. In its effort to have the subsidiary up and running, the Company has experienced several challenges which affected the overall performance of the group.

For instance, Rozkwitalska (2013) examined effective cross-cultural relationships in multinational corporations from a foreign subsidiaries' viewpoint and established that MNCs need to understand barriers to and facilitators of effective cross-cultural relationships. The identification of them is the goal of this paper. Colakoglu and Caligiuri (2008) examined cultural distance, expatriate staffing and subsidiary performance using the case of US subsidiaries of multinational corporations. Study findings indicated that firms rely on a greater number of parent country expatriates when they are culturally distant from the subsidiary. Mbededo (2013) studied foreign market entry strategies and challenges faced by South African Breweries Ltd in the Kenyan market. The findings indicated that the success of foreign market entry is influenced by strong understanding of the markets operations and regulations, customer loyalty and defense strategies put in

place by incumbent firms. Ndwiga (2012) studied foreign market entry strategies used by British multinational corporations in Kenya. Findings indicated that the largest number of the MNC's used the wholly owned subsidiary as their market entry strategy followed by strategic alliances, joint venture and finally indirect exporting. The management expressed confidence in the entry strategies by their respective MNC's and were of the opinion that if given the opportunity, they would choose the same strategy.

From the above explanations, it can be seen that the existing studies have generally concentrated on cultural challenges and entry strategies and none has reviewed the operational challenges. The current study therefore sought to extend literature on MNC's operational challenges by answering one research question: what operational challenges in the establishment of a subsidiary in a foreign country: case of Davis and Shirtliff in South Sudan?

1.3 Research Objective

The study was directed by the following objectives:

- i. To determine the operational challenges encountered by Multinational Companies in the establishment of South Sudan Subsidiary
- ii. To determine the effects of the challenges on the performance of the parent company

1.4 Value of the Study

The findings of this study would be valuable to different stakeholders including: managers among Multinational Companies, government of Kenya for policy formulation

and future researchers and academicians. For the managers in MNCs, the findings of this study would be of value as it would explain the different strategies adopted by MNCs to improve subsidiary performance. This would help MNC managers in their duties of formulating and implementing strategies in future to ensure high success in foreign country setting.

The study would also be valuable to the government of Kenya especially the Ministry of Industrialization and Commerce. Through the findings of this study, it is hoped that the Ministry would find relevant information that would inform its future policy framework formulation on encouraging local companies to expand their operations to other East African Community countries.

It is also hoped that the findings of this study would be valuable to future researchers and academicians as it would suggest areas for further research besides acting as a source of reference. The study as a whole would be used by future scholars in the area international business operations hence improve the level of knowledge in these areas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the already existing literatures reviewed to provide a theoretical ground for the study. It identifies the research issues to be addressed, the conceptual framework and a detailed outline of the underlying concepts and variables on the operational challenges faced by Davis and Shirliff in the establishment of a subsidiary in South Sudan.

2.2 Theoretical Framework

2.2.1 Transaction Cost Theory

The central question of transaction cost theory is whether a transaction is more efficiently performed within a firm (vertical integration) or outside it, by autonomous contractors (market governance). Transactors are assumed to be bloodedly rational and risk neutral, and at least some actors are assumed to be opportunistic. The a priori transaction cost theory assumption is that market governance is more efficient than vertical integration owing to the benefits of competition. Transactions within integrated companies may be insulated from competitive pressure and subject to bureaucratic phenomena. However, certain dimensions of transactions raise transaction costs and combine to create market failure, making vertical integration more efficient than market governance. These dimensions are asset specificity, uncertainty, and transaction frequency (Williamson, 1985). According to transaction cost theory, economic organization is an effort to align transactions, which differ in their attributes, with governance structures, which differ in their costs and competencies, in a discriminating (mainly, transaction cost economizing) way (Williamson, 1991).

Williamson (1979) suggests that minimizing the transaction costs related to an exchange between two parties is the basic determinant of organizational structure. In the case of MNC-subsidary relations, MNCs will strive to configure the structure of the subsidiaries such that transaction costs related to internationalization and controlling the operations in the host environment will be minimized (Harzing, 2003). Such costs relate to searching for relevant information in that location, enforcing the performance of subsidiary employees, and controlling and monitoring subsidiary operations (Rugman & Verbeke,

2003). Given that an MNC consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries (Ghoshal & Bartlett, 1990), controlling subsidiary operations so that they act in line with overall MNC objectives is a central issue for optimizing the transaction costs of internalization.

Transaction-specific assets are assets that are tailored to a particular transaction and cannot be easily redeployed outside the relationship of the parties to the transaction. Their idiosyncratic nature gives rise to a safeguarding problem, because market competition will not restrain opportunistic exploitation. The solution to the safeguarding problem identified in transaction cost theory is vertical integration. In contrast to markets, the authority relationships and hierarchical control procedures available through vertical integration are assumed to embody greater safeguarding capabilities. The second dimension, uncertainty, arises either when the relevant contingencies surrounding an exchange are too unpredictable to be specified *ex ante* in a contract (there is environmental uncertainty) or performance cannot be easily verified *ex post* (there is behavioral uncertainty) (Ghoshal & Bartlett, 1990)

The primary consequence of environmental uncertainty is an adaptation problem; that is, difficulties with adjusting agreements raise transaction costs, a problem that can be addressed through hierarchical governance. However, a number of authors have argued that high environmental uncertainty also encourages firms to maintain flexibility, which would argue against hierarchical governance. Different ways of splitting the environmental uncertainty construct have been proposed (Klein, 1989). Walker and

Weber's (1984) extended Williamson's basic framework by distinguishing between two types of environmental uncertainty: volume uncertainty and technological uncertainty.

2.2.2 Internationalization Theory

The internationalization theory of multinational firms proposes that direct international investment occurs when a firm has information-related intangible assets with public good properties. Firms with characteristics suggesting the presence of information-based assets experience a significantly positive stock price reaction upon announcing a foreign acquisition. On the other hand, firms apparently lacking such assets experience at best zero abnormal returns upon announcing overseas acquisitions (Morck & Yeung, 1992).

The internationalization theory perceives international transactions to be of high risk and requiring extensive management time or resource commitments. Therefore the transfer of goods and services across countries is internalized by means of setting up foreign operations. Internationalization thus occurs because of cost reductions for the company when it internalizes. Savings are possible because the firm selects the optimal locations for its activities by assessing the economic cost of its transactions. Williamson (1975) was among others suggesting this approach which is also known as the transaction cost theory.

Clearly, the internationalization theory has more relevance for larger companies. Especially for small INVs the capital requirements of setting up foreign operations are simply too high. McCauley (1999) Also the transaction cost approach does not explain internationalization activities of INVs that have little to do with reducing costs, but are directed towards other strategic objectives (Bloodgood et al., 1996). Occasionally,

decisions to set up a foreign subsidiary were driven by the aim to achieve proximity to the customer or industry-leading clusters despite the resulting considerable cost increases (McDougall et al., 1994). Lastly, it has been observed that an increased commitment to foreign markets manifested itself in the expansion towards new markets rather than by increasing FDI in the established markets (Bell, 1995). Nevertheless the internalization theory has been applied to examine the relative costs and benefits of collaboration (Shrader, 2001).

When the transaction costs of collaboration are relatively high, then internalization occurs. However, firms that forgo collaboration also face costs of internalization such as additional payroll and equipment. Especially international new ventures may also miss opportunities to move into foreign markets if they do not leverage the resources of collaboration partners. Shrader (2001) found evidence supporting one of the original claims of the transaction cost theory - that it is difficult and costly to transfer technological advantages to partners. Therefore ventures investing heavily in research and development (R&D) should use internalization rather than collaboration.

2.3 Empirical Review

Jianlian (2009) did an analysis of business challenges faced by foreign multinationals operating the Chinese market. Results showed that there are a number of different challenges that multinational company operating the Chinese market face. They are culture differences, government limitations and human resource management problems. Colakoglu and Caligiuri (2008) examined the relationship between cultural distance and the use of parent country expatriates in the wholly-owned US subsidiaries of 52 multinational corporations. The study also investigated the link between the use of

expatriates and subsidiary performance as a function of cultural distance. Results showed that firms rely on a greater number of parent country expatriates when they are culturally distant from the subsidiary. The study further demonstrated the bounded rationality problem faced by multinational corporations: cultural distance moderates the relationship between expatriate staffing and subsidiary performance such that a higher ratio of parent country expatriates is related to lower subsidiary performance, particularly in cases when cultural distance is high.

Lee, Bang, Ha, Lee and Kim, (2011) did an analysis of cultural impact on international business performance via foreign market entry mode taking the case of South Korean MNCs. The results showed that a MNC prefers a new establishment of business when it enters a market as a wholly owned subsidiary. Results also showed that the impact of cultural difference on performance of a MNC is not affected by the level of global experience of the MNC.

Locally, Kagosha (2012) studied the internationalization of Kenyan banks taking the case of indigenous Kenyan banks. Results showed that the indigenous Kenyan financial institutions face a number of challenges such as human resource problems, restrictive laws and culture barriers when going beyond borders. To overcome some of these challenges, these banks obtain feedback survey from clients, offer tailor-made products to meet clients' needs across borders and have partnership agreement with local banks or buying out an existing bank. They also employ local staff to help reduce cultural barriers they also adhere to the local laws and regulations, fostering good relations with government and regulators, and actively working with the regulator in order to improve business environment and address emerging issues.

2.3.1 Human Resource Challenges

Local employees' perceived career opportunities are subject to additional factors. Indeed, enhanced global integration of a subsidiary, possibly accompanied by regiocentric or geocentric staffing patterns, will only be perceived as being beneficial to local employees' careers if MNC units display a high extent of interdependencies. These may exist due to extensive communication, shared clients and mutual resource dependencies (Birkinshaw & Morrison, 1995). Employing indigenous managers can help MNCs to increase their understanding of the laws and value systems of different countries, to improve their ability to overcome the liability of foreignness and to meet the demands of different interest groups (George & Chan, 2006). The indigenization of subsidiary management is a means to increase the MNC's chances of survival in uncertain host country environments. Greater interdependence, a need for critical local resources, and legitimacy in the host country require MNCs to employ indigenous managers in their local subsidiary.

Some MNCs prefer host country managers because of their familiarity with the local task environment and lower costs. Furthermore, MNCs can avoid the adjustment problems faced by expatriates in culturally distant host countries by hiring indigenous managers (Harzing, 2001). Conformity to the local socio-economic environment also implies a more prominent role for indigenous managers (Kostova & Roth, 2002). Because they lack legitimacy, expatriate managers may trigger opposition and destroy the capabilities of their subsidiaries with their actions. MNCs may be able to respond effectively to local institutional constituents, such as customers, governments, and interest groups, by hiring indigenous managers (Gaur et al., 2007).

2.3.2 Culture Differences

Besides of the aspect of human resource management, there are some other challenges that foreign multinational company met in foreign countries. Culture is also an important factor which has influenced the international operation of business in foreign countries (Graham & Lam, 2003). People from different countries always have different traditions and attitudes towards business. If foreigners want to manage business in a foreign nation, they firstly need to understand the fundamentals of that foreign country though and study of their business culture (Ghauri & Fang 2001). If an MNC becomes more internationalized, cultural difference will have less impact on the performance of business in a new market. There are three effects to explain this relationship. First, a MNC is more internationalized, it will possess more experience and knowledge on international business environments and higher understanding on unique cultures of other markets. This will reduce the uncertainty from the cultural difference. Second, when a MNC is more globalized, the organization of the MNE is also globalized (Sutcliffe & Zaheer, 1998).

Cultural difference of countries can be a factor to determine the type of wholly owned subsidiary investment. Larger difference in culture requires stronger controls of business, and firms will prefer wholly owned subsidiary as an entry mode to foreign markets. To fully own a foreign firm, a firm can establish a new business or acquire an existing firm in the target market. Morosini (1998) argues that the cultural difference will increase the benefit from acquiring an existing firm in a new market, since the MNC can learn the different norms and routines on the target country from the acquired subsidiary. Jemoson and Sitkin (1980) show the similar results. Meanwhile, Klein, Frazier and Roth (1990)

suggest that MNCs will establish a new venture when they enter a new market with larger cultural difference to have higher level of control to fully utilize its superior knowledge and experience on its products. It also wants to minimize risks and costs to coordinate management and business from the different cultures.

2.3.3 Political Interference

Political risk for multinational companies is a very common. For example the nationalizations and forced contract renegotiations faced by foreign investors in Bolivia and Venezuela; or the kidnappings suffered by foreign employees in places like Nigeria, Yemen, Colombia, and the Gulf of Aden; the civil war in Central African Republic or South Sudan; or the lackluster judicial protection that multinational companies (MNCs) enjoy in many parts of the world. There are also other events in the realm of global politics, like international terrorism, or the sanctions against resilient Iran that have recently hurt a large number of energy multinationals (Busse & Hefeker, 2007). There was a scare when a South Sudan government directive through its Labor Ministry published a circular in newspapers, ordering NGOs and privately held businesses to fire foreign workers in specific jobs. Those jobs included top management positions such as executive directors' positions and personnel officers (Voice of America, 2014). The government has since denied this, saying that it was only intended to protect its locals from being pushed out of employment by foreigners.

Each possible country example of political risk usually exhibits its own unique combination of sources, effects, and actors. In Bolivia, the combination was particularly complex. In other nations, we find different mixes: In Nigeria, kidnappings and acts of sabotage directed against the oil industry by rebel groups or grievance-ridden local

communities constitute the main risk; in Iran, it is currently mostly about economic sanctions being implemented by foreign states because of Tehran's purported nuclear ambitions; in Burma, a military dictatorship, the actions of (often foreign-based) activists caused severe problems for Western multinationals. The events causing harm to investors the risk effects – vary greatly, as do the actors responsible for realizing the risk, and as do the root sources of the events. These incidents directly affect the profits or other goals a company may have (Ross, 2004).

2.4 Research Gap

Jianlian (2009) did an analysis of business challenges faced by foreign multinationals operating the Chinese market, Colakoglu and Caligiuri (2008) examined the relationship between cultural distance and the use of parent country expatriates in the wholly-owned US subsidiaries of 52 multinational corporations, Lee, Bang, Ha, Lee and Kim, (2011) did an analysis of cultural impact on international business performance via foreign market entry mode taking the case of South Korean MNCs while Locally, Kagosha (2012) studied the internationalization of Kenyan banks taking the case of indigenous Kenyan banks. Although these studies explored the challenges faced by MNCs in foreign countries, none of them focused on a country such as South Sudan which is new, unstable and still developing, a gap that this study aims to bridge.

2.5 Conceptual Framework

Figure 2. Conceptual Framework

Source (Researcher, 2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter discussed the methodology that was used in gathering the data, analyzing the data and reporting the results. It specifically presents the research design, population of the study data collection and data analysis.

3.2 Research Design

The study adopted a case study descriptive research design which included making inferences about relationships between variables from independent and dependent variables. This method is chosen because it best provides a large pool of information which would otherwise had taken long to collect if it was collected through observation. Further, the design was suitable for collecting data across many units in the organization at one point in time. This design has been successfully applied by other scholars including Ochieng' (2014) and Mbae (2014).

3.3 Respondents

This study was conducted at the Davis and Shirtliff in South Sudan. Target population comprised all the 15 employees as per the Human resources office records as at December, 2014. Since the target population of the study is small, the study incorporated all staff into the study hence a census study was conducted.

3.4 Data Collection

The study collected both primary and secondary data. Primary data was collected using a semi structured questionnaire. The open ended questions were used in order to allow respondents to provide information which they may deem relevant for the study. Closed ended questions were used in order to standardize the responses and save on the respondents' time taken to fill in the questionnaire. The researcher maintained a register of questionnaires, which was sent, and received. The researcher interviewed all the 15 respondents cutting across all the management categories in the organization.

In preparation for the data collection exercise, a pretest of the data collection instrument will be conducted on the Nairobi office of the same organization. This ensured that the questions are understandable and provide relevant information for the study. The secondary data was collected from publications, academic libraries and financial statements of the organization.

3.5 Validity and Reliability of Research

This section presented a discussion on the validity and reliability tests carried out by the researcher in order to achieve the study's objectives which were to determine the operational challenges encountered by Multinational Companies in the establishment of South Sudan Subsidiary and to determine the effects of the challenges on the performance of the parent company.

3.5.1 Validity of the Instruments

Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are (Joppe, 2000). Validity is high if the

study contains what one wants to study and nothing else. Validity takes three forms: construct, internal and external. Construct validity refers to data collection, internal validity is a link between theory and empirical research and external validity refers to the domain to which the findings can be generalized. Construct validity was addressed by administering the questionnaires to Davis and Shirliff Southern Sudan. Internal validity was addressed by considering existing theories and external validity was addressed by studying the firms in the research area.

3.5.2 Reliability

Reliability demonstrates that the study can be repeated and give the same outcome. Joppe (2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study. If the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. The researcher used clear and well defined questionnaire as a method of data collection. Questions by the respondents were also be clarified. This could easily be applicable to another sample to test the reliability of the results. However, subjectivity that may distort responses cannot be over ruled.

3.6.3 Pilot Study

A pilot study was conducted to test the reliability and validity of the research. According to Orodho (2003), a pilot test helps to test the reliability and validity of data collection instruments. If a measurement is valid, it is also reliable (Joppe, 2000). According to Mugenda and Mugenda (2003) a pilot study can comprise of between 4-10 members of the target population. To ensure that the study findings are not compromised, the respondents who took part in the pilot study were not included in the final study.

3.6 Data Analysis

The data collected was grouped into two categories and analyzed differently and separately depending on the category. The data was categorized as either qualitative or quantitative. Data analysis used also depended on the type of data to be analyzed, whether qualitative or quantitative. The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences (SPSS V 21.0). Content analysis was used to analyze the qualitative data. Descriptive statistics includes mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. In addition to measures of central tendencies, measures of dispersion were used to gain insight into the data on the operational challenges in the establishment of a subsidiary in a foreign country: case of Davis and Shirliff in South Sudan. Data was presented using graphs, charts and table to present the findings of this study before drawing conclusions and making necessary recommendations.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presented research findings, analysis of the data and interpretation of the data collected from the respondents. It also presents findings and the discussion about the operational challenges encountered by Multinational Companies in the establishment of South Sudan Subsidiary and the effects of the challenges on the performance of the parent company. Data was collected and reports were produced in form of tables and figures and qualitative analysis done in prose.

4.2 Response Rate

A total of 15 questionnaires were administered out of which 13 were filled and returned giving a response rate of 86.7% as presented in Table 4.1. This response rate was made a reality after the researcher dropped the questionnaires and made personal visits and phone calls to the respondents who then completed the questionnaires.

Table 4.: Response Rate

	Frequency	Percentage
Response	13	86.7
Non Response	2	13.3
Total	15	100

4.3 Reliability Analysis

A pilot study was carried out to determine reliability of the instrument used in the collection of data. This was to ensure that the instrument collect reliable and valid data. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Reliability refers to the extent to which a measuring instrument contains variable errors that appear inconsistent from observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument. Construct validity is established by relating measuring instruments to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions they are employing (Nachmias & Nachmias, 2008). Easy Reg International a statistical programme was used as the tool of analysis to test the relationship between the dependent variable and the four independent variables as indicated in the table below. Cronbach's alpha of well above 0.7 implies that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, the construct validity of the instruments was considered reasonable (Brown, 2000).

Table 4.: Reliability Analysis

Variable/Construct description	Item Means	Coefficient Alpha Reliability
Human Resource Challenges	6	0.638
Cultural Differences	5	0.712
Political Interferences	6	0.724

4.4 Demographic Characteristics of the Respondents

4.4.1 Gender

The study sought to find out the gender of the respondents. The results were as shown in the Table 4.2.

Table 4.: Gender

	Frequency	Percentage
Male	9	69.2
Female	4	30.8
Total	13	100.0

From the findings shown in the Table 4.3, 69.2% of the respondents were women while 30.8% of the respondents were men. These findings show that there were more men than female in the offices outside Kenya.

4.4.2 Age of the respondents

The study sought to find out the age of the respondents. The results were as shown in the Table 4.4.

Table4.: Age of the respondents

	Frequency	Percentage
28-37years	2	15.4
38-47 years	4	30.8
over 48years	7	53.8
Total	13	100.0

From the findings in Table 4.4, 15.4% of the respondents were aged between 28-37 years old, 30.8% of the respondents were aged between 38-47 years old, while 53.8% of the respondents were over 48 years old. However there was no respondent aged between 18-28 years old. These shows that the respondents covered in this study were of different ages.

4.4.3 Level of Education

The study sought to find out the level of education of the respondents and the findings were as shown in Table 4.4 below.

Table 4.: Level of Education

	Frequency	Percentage
College	5	38.5
Bachelors	5	38.5
Others	3	23.
Total	13	100

From the results shown in the Table 4.5, 38.5% of the respondents were educated up to the college level; another 38.5% of the respondents had a bachelor’s degree while 23.1% of the respondents had other qualifications beyond the bachelor’s degree.

4.4.4 Period worked

The study further sought to establish the number of years that the respondents had worked at Davis and Shirtliff. The results were as shown in the Table 4.6.

Table 4.: Number of years worked

	Frequency	Percentage
Less than one year	1	7.7
1-5 years	3	23.1
6-10 years	4	30.8
Over 10 years	5	38.5
Total	13	100.0

From the findings shown on Table 4.5 above, 7.7% of the respondents had worked for a period of less than one year, 23.1% had worked for a period of between 1-5 years,30.8% of the respondents had worked for a period of 6-10years while 38.5% had worked for a period of over 10 years.

4.5 Human Resource Challenges

The study sought to find out the extent to which various human resource challenges encountered by the Multi National Companies. The findings are as shown in the Table 4.7:

Table 4.: Human Resource Challenges

	Mean	Std. Dev
--	------	----------

Lack of local expertise to support the establishment of the subsidiary	2.7692	.43853
Limited skills among expatriates on the local market dynamics	3.1538	.80064
Limited employees with pre-requisite skills for the South Sudan market	2.6923	.48038
Difference in the recruitment process	2.6923	.48038
Unfamiliar rules governing compensation and benefits	2.9231	.95407
High operational costs	2.6923	.48038

Asked on the extent to which the companies encountered experienced lack of local expertise to support the establishment of the subsidiary the respondents showed that it was to a moderate extent as supported by a mean of 2.7692 and a standard deviation of 0.43853. Asked on the extent which the company encountered Limited skills among expatriates on the local market dynamics the respondents indicated that it was to a moderate extent which was shown by a mean of 3.1538 and a standard deviation of 0.80064. Asked on the extent which the companies encountered Limited employees with pre-requisite skills for the South Sudan market the respondents showed that it was to a moderate extent which was supported by a mean 2.6923 of and a standards deviation of 0.48038.

Asked on the extent the company encountered differences in the recruitment processes the respondents showed that it was to a moderate extent as shown by a mean of 2.6923 and a standard deviation of .48038. Regarding the extent to which the company encountered Unfamiliar rules governing compensation and benefits the respondents indicated that it was to a moderate extent as supported by a mean of 2.9231 and a standard deviation of 0.95407. When asked the extent to which the company encountered

high operational cost the respondents indicated that it was to a moderate extent as shown by a mean of 2.6923 and a standard deviation of 0.48038.

4.6 Cultural Differences

The study sought to establish the extent to which various cultural challenges were being encountered at Davis and Shirtliff in South Sudan. The results were as shown in the Table 4.8.

Table 4.: Cultural Differences

	Mean	Std. Dev
Different religious beliefs in the Country	3.4692	.83853
Limited understanding of purchase behaviour of local residents	4.2308	.83205
Limiting cultural beliefs among the residents	4.6769	.24051
Enmity against expatriates among residents	4.0769	.95407
Difference in ways of communicating with employees	3.3846	1.50637

When asked on the extent which the company encountered different religious beliefs in the foreign country, the respondents indicated that it was to a moderate extent as it was indicated by a mean of 3.4692 and a standard deviation of 0.83853. Asked on the extent to which the company had encountered Limited understanding of purchase behaviour of local residents in the foreign country the respondents revealed that it was to a great extent which was shown by a mean of 4.2308 and a standard deviation of 0.8320. Regarding the extent which the companies encountered Limiting cultural beliefs among the residents the respondents indicated that it was to a very great extent as supported by a mean of 4.6769 and a standard deviation of 0.24051.

Asked on the extent to which the company encountered Enmity against expatriates among residents the respondents showed that it was to a great extent which was supported by a mean of 4.0769 and a standard deviation of 0.95407. Asked on the extent

to which the company encountered difference in ways of communicating with employees, The respondents showed that it was to a great extent which was supported by a mean of 3.3846 and a standard deviation of 1.50637. These findings were concurrent with Ghauri & Fang (2001) who observed that People from different countries always have different traditions and attitudes towards business.

4.7 Political Interferences

The study further sought to establish the political interferences encountered by the company in South Sudan. The results were as shown in Table 4.9

Table 4.: Political Interferences

	Mean	Std. Dev
High political instability in the Country	4.7098	.10534
High political influence on the residents	4.0000	.70711
High level of insecurity in the Country	4.5538	.50064
Difficulties in registration with relevant authorities	3.4286	1.15787
Limited foreign currency in the country	3.4571	1.13146
High level of reliance on donor funding	4.0000	.81650

When asked on the extent to which the company encountered high political instability in the country the respondents showed that it was to a very great extent which was supported by a mean of 4.7098 and a standard deviation of 0.10534. Asked on the extent to which the company encountered high political influence on the residents, the respondents indicated that it was to a great extent as shown by a mean of 4.0000 and a standard deviation of 0.70711. When asked on the extent the company experienced high level of insecurity in the country, the respondents indicated that it was to a very great extent as shown by a mean of 4.5538 and a standard deviation of 0.50064.

Regarding the extent which the company experienced difficulties in registration with relevant authorities, the respondents showed that it was to a moderate extent as indicated

by a mean of 3.4286 and a standard deviation of 1.15787. When asked on the extent which the company experienced limited foreign currency in the country, the respondents showed that this was to a moderate extent as indicated by a mean of 3.457 and a standard deviation of 1.13146. When asked on the extent to which the company encountered high level of reliance on donor funding in the foreign country, it was established that it was to a great extent as supported by a mean of 4.0000 and a standard deviation of 0.81650. All these findings agreed to these findings of Busse & Hefeker (2007) who observed that there are various events in the realm of global politics, like international terrorism, or the sanctions that hurt a large number of energy multinationals.

The study further sought to establish any other challenges that the company encountered and the respondents said that the difference in the taxing system, the working hours and the level of expertise from the residents of south Sudan was mentioned as the other challenges that Davis and Shirliff encountered in Southern Sudan.

4.8 Performance

The study further sought to establish the effect of the various operational challenges on the performance of Davis and Shirliff. The findings were as shown in the Table 4.10.

Table 4. : Performance

	Mean	Std. Dev
The profitability of the Company	2.3077	1.85485
The market share of the Company	3.3692	1.09914
Customer confidence in the Company	2.4231	1.34051

Asked on the extent which the challenges had affected the profitability of the Company the respondents showed that it was to a great extent with as shown with a mean of 2.3077 and a standard deviation of 1.85485. On the extent which the challenges affected the

market share of the Company the respondents showed that it was to a moderate extent which was supported by a mean of 3.3692 and a standard deviation of 1.09914. Asked on the extent the operational challenges had affected the Customer confidence in the Company the respondents showed that it was to a little extent with a mean of 2.4231 and a standard deviation of 1.34051.

4.9 Discussion of Findings

The study established that the Company faced a number of challenges in the establishment of A subsidiary in a foreign country. Among the key challenges were: Lack of local expertise to support the establishment of the subsidiary which is consistent with the findings by Birkinshaw & Morrison (1995) that when organizations expand into foreign countries, they carry along with them some local employees to offer quality services and products to the foreign market. This also enhances the skills transfer to local staff in the foreign country who can also take up managerial positions in the future. Davis & Shirliff also experienced limited skills among expatriates on the local market dynamics. George and Chan, 2006 argues that whenever countries expand to other regions, they may face a challenge in accessing skilled employees suitable for their market. This may greatly affect the manner in which they deliver services and goods in that market. Limited employees with pre-requisite skills for the South Sudan market influenced the organizations recruitment from local south Sudanese residents. Difference in the recruitment process; Unfamiliar rules governing compensation and benefits; High operational costs.

On cultural differences, the study established that the company encountered different religious beliefs in the foreign country; limited understanding of purchase behaviour of local residents in the foreign country and limiting cultural beliefs among the residents. The company encountered enmity against expatriates among residents and difference in ways of communicating with employees. These findings are consistent with Ghauri & Fang (2001) who observed that People from different countries always have different traditions and attitudes towards business.

On political interferences encountered by the company in South Sudan, the company encountered high political instability in the country. The Company further encountered high political influence on the residents besides high level of insecurity in the country. Difficulties in registration with relevant authorities, limited foreign currency in the country, and high level of reliance on donor funding in the foreign country. These findings agree to the findings of Busse & Hefeker (2007) who observed that there are various events in the realm of global politics, like international terrorism, or the sanctions that hurt a large number of energy multinationals.

On the effect of the various operational challenges on the performance of Davis and Shirliff, the findings show that the challenges had affected the profitability of the Company; affected the market share of the Company and Customer confidence in the Company. These findings are consistent with those of Lee et al. (2011) who established challenges in the foreign market can affect the performance of the parent organization to a large extent. Busse and Hefeker (2007) established that there are also other events in the realm of global politics, like international terrorism, or the sanctions against resilient Iran that have recently hurt a large number of energy multinationals.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendations made there-to. The conclusions and recommendations drawn were were focused on addressing the purpose of this studyor achieving the research objectives which were To determine the operational challenges encountered by Multinational Companies in the establishment of South Sudan Subsidiary and to determine the effects of the challenges on the performance of the parent company.

5.2 Summery of Findings

The study established that multinational companies face various human recourse, cultural and political challenges. The study established that Davis and Shirliff encounters lack of local expertise to support the establishment of the subsidiary to a moderate extent. It also established that the company encounters limited skills among expatriates on the local market dynamics to a moderate extent. The study found out that there are Limited employees with pre-requisite skills for the South Sudan market to a moderate extent. The study established that Davis and Shirliff encounters differences in the recruitment processes as from that in Kenya to a moderate extent. The study also established that there are familiar rules governing compensation and benefits to a moderate extent and that the company encountered high operational cost to a moderate extent.

The study established that the company encounters different religious beliefs in the foreign country a moderate extent. The study also established that there is limited understanding of purchase behaviour of local residents to a great extent. The study established that there exists limiting cultural beliefs among the residents to a great extent. The study found out that the company encounters Enmity against expatriates among residents to a great extent. The study also found out that the company encounters difference in ways of communicating with employees to a moderate extent.

The study found out that the company encounters high political instability in the country in south Sudan at a very great extent. The study also found out that the company encounters high political influence on the residents. It was established that to a very great extent the company the company experiences high level of insecurity in the country. The study also established that the company experiences difficulties in registration with relevant authorities. It was found that the company experiences limited foreign currency in the country to a moderate extent. According to the findings the company also experiences high level of dependency on donor funding in southern Sudan. The study established that the company experiences other difficulties such as difference in the taxing system, the working hours and the level of expertise from the residents of south Sudan. The study found out that the challenges affect the profitability of the Company to a great extent, Customer confidence in the Company to a moderate extent and the market share of the Company to a great extent.

5.3 Conclusion

The study concludes that Davis and Shirliff southern Sudan encounters Human recourse challenges Lack of local expertise to support the establishment of the subsidiary, Limited

skills among expatriates on the local market dynamics, Limited employees with pre-requisite skills for the South Sudan market, High operational costs, Unfamiliar rules governing compensation and benefits and Difference in the recruitment process from that in the mother country to a moderate extent. The study also concludes that there are various cultural differences that Davis and Shirliff encounters such as Different religious beliefs in the Country, limited understanding of purchase behaviour of local residents, Enmity against expatriates among residents, difference in ways of communicating with and employees limiting cultural beliefs among the residents in Southern Sudan to a great extent. The study concludes that political interference is one of the operational challenges facing Davis and Shirliff. challenges such as high level of reliance on donor funding, limited foreign currency in the country, difficulties in registration with relevant authorities, high level of insecurity in the Country, high political instability in the Country and high political influence on the residents area experienced to a very great extent.

5.4 Limitation of the Study

The study faced a myriad of limitations. Confidentiality by the respondents hindered the collection of data. Also some respondents had to be reminded several times of the past deadlines of collection of the duly completed questionnaires. The study was limited in scope since it covered only the south Sudan subsidiary as such the recommendations of this study may only be applicable to a different county at a minimal extend.

The study was a case study of one organization and therefore it may not be expanded to include more organization. Therefore the application of the study findings is limited to one organization.

5.5 Recommendations for the Study

The study recommends that Davis and Shirtliff employ more residents of south Sudan in the management team so as not to encounter so many challenges in terms of culture differences. The company should also learn more about a country before setting up a subsidiary so as to avoid encountering unexpected challenges. The study also recommends that the company should focus on investing in countries that are more stable politically in order to avoid opening subsidiaries that will not be profitable or that may not last long before they collapse

5.6 Recommendations for Further Study

This study concentrated on operational challenges of setting up a new strategy Davis and Shirtliff. This study therefore recommends that a detailed study be done on strategies adopted by Davis and Shirtliff to overcome the challenges.

Further, this study recommends that future studies be conducted on the effects of operational challenges on performance of the subsidiaries so as to verify the effectiveness of the strategies adopted.

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APPENDIX I: RESEARCH QUESTION

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your gender?

Female [] Male []

2. Your age bracket (Tick whichever appropriate)

18 – 27 Years [] 28 - 37 years []

38 – 47 years [] Over 48 years []

3. What is your highest education level? (Tick as applicable)

College [] Bachelors’ degree []

Others-specify.....

4. Years of service/working period with D & S (Tick as applicable)

Less than 1 year [] 6-10 years []

1-5 years [] Over 10 years []

5. Please indicate your position in the organization _____

Section B: operational challenges

Below are several operational challenges encountered by Multinational organizations when expanding to open subsidiaries in other countries. Kindly indicate on a scale of 1-5 where 5= very great extent, 4= great extent, 3= moderate extent, 2= little extent and 1= no extent how each of these challenges affected the establishment of D&S.

HUMAN RESOURCE BASED CHALLENGES **1 2 3 4 5**

Lack of local expertise to support the establishment of the subsidiary

Limited skills among expatriates on the local market dynamics

Limited employees with pre-requisite skills for the South Sudan

market

Difference in the recruitment process

Unfamiliar rules governing compensation and benefits

High operational costs

CULTURE

Different religious beliefs in the Country

Limited understanding of purchase behaviour of local residents
Limiting cultural beliefs among the residents
Enmity against expatriates among residents
Different ways of communicating with employees

POLITICAL CHALLENGES

High political instability in the Country
High political influence on the residents
High level of insecurity in the Country
Difficulties in registration with relevant authorities
Limited foreign currency in the country
High level of reliance on donor funding

In your opinion, what other challenges affected the establishment of D & S in South Sudan? Kindly list a few

To what extent these challenges affect the performance of the Company? Kindly indicate on a scale of 1-5 where 5= very great extent, 4= great extent, 3= moderate extent, 2= little extent and 1= no extent how each of these challenges affected the performance of D&S.

Performance

1 2 3 4 5

The profitability of the Company
The market share of the Company
Customer confidence in the Company

THANK YOU