Marketing Strategies and Performance of Foreign Ventures in Tanzania

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Abstract

This study explores the Competitive Strategies of Foreign Ventures in Underdeveloped countries with the particular case study of Tanzania. Factor analysis was used to determine underlying measures of marketing strategies and the environment facing foreign ventures in Tanzania. These measures were then subject to cluster analysis. Successful firms were found to be relatively independent from the control of their parent company. They were also found to offer highly differentiated products at premium prices with more emphasis on promotions and many channels of distribution. Unsuccessful firms were found to by highly controlled by their parent companies with a tendency to offer lower prices with less emphasis on promotion.

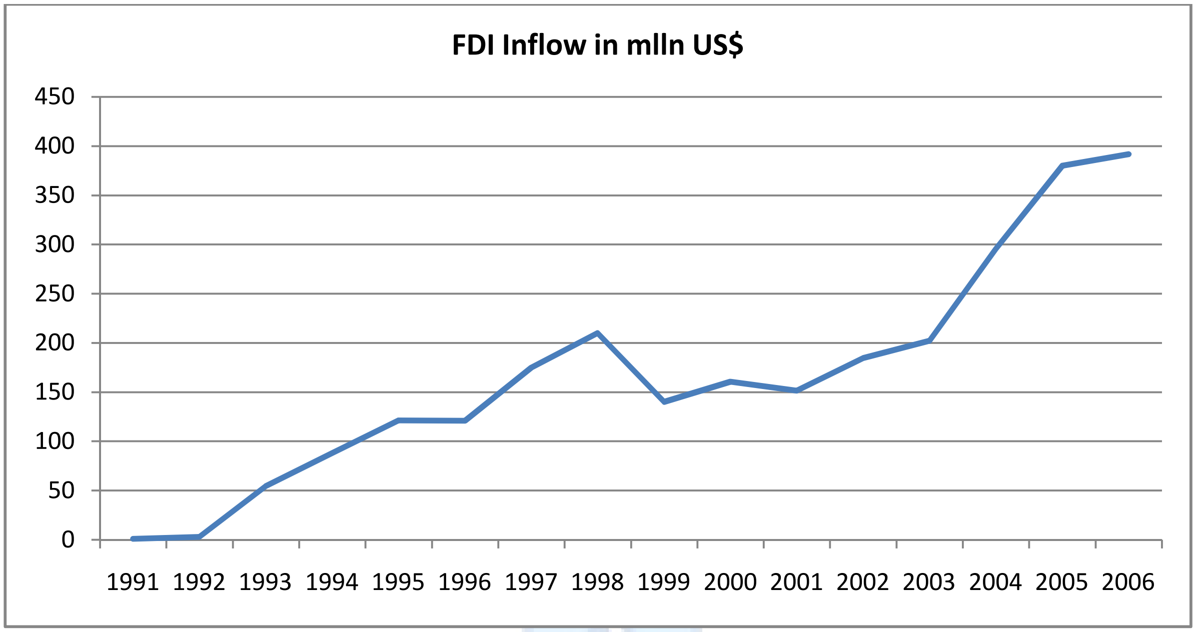
Key words: Marketing Strategies, Performance, Foreign Ventures, Institutional environment, Market Asset, Resource Asset

Introduction

The question of how foreign companies enter and adapt strategies to host country environments has been a popular area of research in international business. On the other hand there is a growing body of literature establishing that market orientation leads to better performance in organizations (Im and Workman, 2004). The shift in the global environment in the past decade, after the opening of new markets in Eastern Europe, has encouraged researchers to focus their attention towards the emerging markets (Tan and Litschert, 1994; Oxley, 1999; Peng, 2000; Meyer 2001). Even though in recent years many of the underdeveloped countries in Africa have undergone radical changes in their institutional environment with the aim of attracting foreign investment very little research has been carried out to examine strategies of foreign firms in Sub-Saharan Africa. Most of this research has been limited to the emerging markets of Europe and Asia. The overall aim of this paper is to start filling in that gap by exploring strategies and performance of foreign ventures in Tanzania.

Tanzania provides a fertile ground for research of marketing strategies of foreign firms in the least developed countries. According to the 1999 World Competitiveness Report, Tanzania was ranked as the highest country in Sub-Saharan Africa in terms of economic reforms towards providing a conducive investment environment for business development. Tanzania is one of the least developed countries that have taken radical measures to create an attractive environment for foreign investments. Such radical measures include institutional reforms such as the establishment of the Tanzania Investment Centre as a one-stops-shop for investor facilitation, new investment code, and successful macroeconomic reforms. Tanzania's effort to create conducive business environment for a private sector led economy has seen increasing inflow of foreign direct investment (Figure 1). During the last decade Tanzania's foreign investment has increased from US$ 12 million in 1992 to US$ 240.4 million in 2002. This consistent growth of foreign direct investment into Tanzania reflects the confidence that investors have in the country's successful reforms. According to the Tanzania Investment Center data, Tanzania's inward FDI stock in 2001 reached a record high of US$ 374.4 million, placing the country among the top dozen recipients of FDI in Africa 2002. Tanzania's FDI inflows have increased from US $ 23 million in 1995 rising to US$ 516.7 million in 1999, US$ 374.4 in 2001 and US$ 240.4 in 2002. This is despite the fact that the whole of Africa received only 2 percent of total global inflows in 2001 while global FDI plunged by 51 percent from US$ 1.3 trillion in 2000 to US$ 735 million in 2001. Before 1999, Tanzania was not even among the top 10 recipients of FDI in Africa. The high level of FDI flows attained during the 1999-2000 period, were on account of substantial investments in mining. **(CITE)**

Figure 1. Growth of Foreign Direct Investment in Tanzania



Source: UNCTAD 2008

Theoretical Framework

Strategy here refers to the competitive methods used by firms to establish their positions in a particular market. It reflects the firm's short-term and long-term responses to challenges and opportunities posed by the business environment. Company strategy determines how a firm attracts its customers and deals with its competitors, suppliers and other institutions for survival and growth.

The most dominant strategy frameworks in strategic management literature are those developed by Porter (1980; 1985; 1990), and that of Miles and Snow (1978). Porter's major contributions to strategy lie in identifying the generic competitive strategies to superior performance in an industry. Generic strategies have been distinguished as cost leadership, cost focus differentiation and focus differentiation strategies. Cost leadership strategies are mainly based on a firm's capacity to compete by offering lower prices than competitors. For the low cost strategy to succeed a firm has to have lower operating costs such as those arising from economies of scales. Firms with cost structures that enable them to produce below average cost compete by selling at prices lower than market average prices. Differentiation strategy is based on the ability to offer distinct products or services at a premium price. Based on the breadth of market segments cost focus and focus differentiation strategies are distinguished. Cost focused strategy is that of competing in very narrow market segments at lower costs (and prices). On the other hand focus differentiated strategy is that of concentrating on specialized types of strategy at a premium price**.(CITE)**

Miles and Snow's (1978) strategy framework uses strategy, structure and process variables to distinguish four generic strategies based on how firms respond to environmental changes. The four generic strategies are distinguished as Prospectors, Defenders, Analyzers and Reactors. Prospectors have flexible structures that they use to search opportunities from the environment. Defenders strive for stability by adapting a narrow focus while Analyzers operate by closely monitoring competitor actions and carefully choose when to introduce innovations in the changing domains. Reactors are distinguished by the way they unevenly respond to changes in markets. A number of other studies in the strategic management literature have been carried out by combining Porter's and Mile's frameworks to form different typologies (e.g. Walker and Rueker, 1987; Slater and Olson, 2001). In this study we extend Porter's generic strategy variables along with marketing strategy variables (Corey, 1991; Hunt and Morgan, 1995; Kotler, 1994; Slater and Olson, 2001). To address the foreign ventures strategic concern we include variables measuring head quarter control of foreign subsidiary. Emphasis is therefore paid to the marketing strategies of these new foreign ventures along with relationships with their parent company.

Research Method

Data for this study was collected from an initial random sample of 400 firms drawn from the Tanzania Investment Center's database. These firms were identified as having more than 20% foreign ownership. To assess non-response bias, responding firms were compared with a random sample of 30 responding firms based on number of employees, year of establishment, and size of capital investment. No significant differences were found ($p < 0.01$) and thus non-response bias is not likely to affect results.

To clarify the research questions and questionnaire design, semi-structured interviews were first held with a pilot sample of 20 foreign companies. From the discussions a refined structured questionnaire was prepared with all the strategy variables, environmental variables and performance variables were measured using a seven-point scale. Prior to the face-to-face interviews, the structured questionnaires were sent to the target companies where data was collected. From the responses, only 227 questionnaires were fully completed and were fit to use for further analysis.

The strategy variables chosen in this study have been frequently used in the business and market strategy literature (Tan and Litschert, 1994; Carter et. al; 1994; Pehrsson; 1995) they include: offering lower prices than competitors; number of distribution channels used; the extent of after sale services offered: choice of quality of products/services to offer; the extent of advertising and sales promotion costs involved; the degree attached to the importance of business location; the range of customers served; the range of products/services offered; development of new products; extent of product/service technology content. To determine the performance of these foreign ventures respondents were asked to indicate to what extent they considered their ventures were successful in terms of profit, return on investment and market share.

Variables in the analysis were first correlated and tested using the Barletts test of sphericity. The Kaiser-Meyer-Oklin (KMO) measure was also used to test the sampling adequacy. To extract the dimensions of strategy and the environment facing foreign firms in Tanzania, exploratory factor analysis was derived using principal component analysis and varimax rotation. The cut off point used to determine the number of factors was Eigen values greater than 1.00. Items with poor cross factor loading were removed from further analysis. Following Nunnally (1978), Cronbach's alpha was used to analyze scale reliability. To identify the strategy archetypes and the environment facing those firms, factors measures for strategy, environment and performance were subject to non-hierarchical K-means cluster analysis.

Cluster analysis was used to coalesce the identified strategy dimensions into distinct patterns that represent strategy archetypes. Cluster analysis was found useful for this purpose because it overcomes the pitfall of treating each dimension as having equal importance. By classifying data on the basis of patterns of observed differences and similarities, it provides one solution for different dimensions of strategy and environment. Unlike other statistical analysis techniques cluster analysis also has the advantage of not making any prior assumptions about differences in the population being studied, making it possible to explore data for patterns of strategy (Prescott, 1990; Carter et al., 1994). Following Slater and Olson (2001), the non-hierarchical K-means cluster analysis method was used to iterate and partition three clusters. The three-cluster solution was considered the best after comparing of the analysis of variance tables for the two, three and four cluster solutions with significance levels of $p<0.01$ or better.

Environment Facing Foreign Ventures in Tanzania

According to Bourgeois (1980), objective and perceived environments are considered real and relevant for a strategic management standpoint. Objective environments are relevant to primary strategy making, while perceived environments are a prime input to secondary strategy making. Since only factors that participants perceive can enter into strategy formulation behavior it therefore makes sense to use perceptual measures in a study like this where entrepreneur's strategy is the main unit of analysis. In order to capture the environment facing firms in Tanzania, this study includes both formal and informal institutions (North, 1990; Pelikan, 1992) as aspects of the environment in Tanzania. Tanzania's institutional structure is what differentiates it from other developed economies. Institutions provide the rules of the game in which new ventures are likely to act and compete. A number of studies have shown how institutional frameworks shape firm strategy and performance among such studies is Porter (1990) who demonstrated how a country's institutional structure affects its international competitiveness. A number of formal and informal institutional constraints including the lack of a property-rights-based legal framework, lack of a stable political structure and the lack of strategic factor markets as typical of markets in transition (Peng and Heath, 1996). Indicators used to map the environment facing foreign ventures in Tanzania include competitive conditions, demand conditions, supply conditions, technological conditions, economic conditions, social-cultural conditions, legal conditions, government bureaucracy, and financial resources.

Table 1: Environment Factor Measures

Variables	Institutional Environment	Resource Access	Market Access	Communality
Government constraints	**0.88972**	0.16975	0.03622	0.82173
Corruption	**0.84334**	0.0968	0.02955	0.72146
Legal constraints	**0.73739**	0.26983	0.10181	0.62691
Political stability	**0.66849**	0.15681	0.23394	0.52619
Access to Suppliers	0.21091	**0.75736**	0.19552	0.65631
Access to Material Inputs	0.18663	**0.70294**	0.1973	0.56787
Access to Human resources	0.02792	**0.69334**	-0.17766	0.51306
Transport Infrastructure	0.23809	**0.66142**	-0.06323	0.69816
Access to Financial resources	0.13744	**0.4938**	0.44401	0.65987
Competitive conditions	0.09659	-0.02952	**0.82322**	0.68789
Access to customers	0.09782	0.05451	**0.77382**	0.61134
Cronbach Alpha	0.8188	0.7321	0.683	

Competitive Strategies

When all factors measuring foreign firm strategies were subject to factor analysis, results are as shown in Table 2.

Table 2: Strategies Factor Measures

Variable	Factors					Communality
	Control	Differentiation	Innovation	Promotion and Distribution	Low Pricing	
Parent Company Policy control	**0.83027**	-0.05735	0.21966	-0.08447	0.1131	0.76081
Parent Company Financial control	**0.81269**	-0.11022	0.14291	-0.03921	0.27451	0.76993
Parent Company Production control	**0.80452**	-0.09642	-0.08208	0.06755	-0.37947	0.81184

Marketing Strategies and Performance

Parent Company Marketing control	**0.8029**	0.09496	-0.17551	0.01946	-0.16172	0.71180
Parent Company HR control	**0.60771**	0.15982	0.18486	0.20164	0.28599	0.55482
Product differentiation	0.00818	**0.77336**	-0.00237	0.04555	0.00639	0.60028
Range of products	-0.07096	**0.73434**	0.29504	-0.0095	0.08651	0.6389
Range of customers	0.04844	**0.72552**	0.0509	0.15305	0.00916	0.55482
Offer to those missed by others	-0.06649	**0.70396**	0.01717	0.30101	0.05037	0.59342
Product quality	-0.08678	**0.4844**	0.3365	0.47508	-0.25501	0.64613
Product Innovation	0.26386	0.42535	**0.65584**	-0.10194	0.2455	0.75134
Product technology	0.18502	0.33993	**0.64361**	0.25298	0.01344	0.6282
Importance of Location	0.15767	0.51256	**0.62004**	0.09812	0.24077	0.73963
Advertising and sales promotion	0.06547	0.12055	0.22619	**0.75816**	0.11435	0.65787
Range of distribution channels	0.01257	0.16225	-0.22664	**0.70574**	0.14563	0.59712
Offer lower prices	0.0337	0.05995	-0.00373	0.18632	**0.84678**	0.75649
Chronbach's Alpha	0.8509	0.7506	0.7436	0.715		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .71730 Bartlett Test of Sphericity = 635.53484, Significance = .00000						

From the rotated factor solution we find that five distinct factors emerged with Eigen values greater than one. Results of the reliability test of the factors shows a reasonable level of Chronbach Alpha above 0.70. Variables loading on factor one include: The extent of head quarter's control of subsidiary's management function, financial function, production function, human resource function. These factor-loadings suggest that this factor is measuring Parent Company Control of subsidiary.

Marketing Strategies and Performance

The second factor had variables Product differentiation, Product range, Customer range, and Offering products to those missed by others. Variables in this factor suggest that this factor measures Product differentiation by the foreign subsidiary. The third factor has variables, Product Innovation, Product Technology, and Importance of location. These loadings suggest that this factor measures Product Innovation of the foreign firm. Loadings on the fourth factor include variables, Advertising and sales promotion, and Range of distribution channels, suggesting that this factor measures Promotion strategy. On the other hand, Lower pricing has been distinguish as a separate factor measuring the extent to which foreign firms were competing using lower prices.

Performance of Foreign Ventures

To measure the performance of the foreign ventures, performance measures were subject to factor analysis. A one factor solution emerged as shown in Table 3. Chronbach alpha scale reliability was high at 0.89 indicating that we can confidently use the factor for further analysis.

Table 3: Venture Performance

Variables	Performance	Communality
Profit	0.94485	0.89275
Return on Investment	0.91192	0.83159
Sales growth	0.86169	0.74251
Cronbach Alpha	0.8912	

Table 4 shows the results of cluster analysis and analysis of variance tests for all the measures included to determine the pattern of strategies and performance of foreign ventures in Tanzania. From the cluster solution there was no significant difference between on innovation strategy measures. The first cluster of successful firms was made up of 136 firms. Firms in this group compete through product differentiation coupled with greater promotion with relatively higher prices. Ventures in this group also enjoy greater autonomy from their parent company. Firms carrying out this strategy tend to perform better than their counterparts in the second cluster. On the other hand, unsuccessful firms in the second cluster were found to compete by offering lower prices to a wide range of customers but with very little emphasis on sales promotion. Unlike ventures in the first cluster, firms in the second cluster are highly controlled by their parent company.

Table 4: Cluster Solution and ANOVA Results

Cluster	*N*	*Promotion and Distributio*	*Differentiation*	*Innovation*	*Low Pricing*	*Control*	*Performance*

		n					
High Performance	136	.3346	.2535	.0347	-.02072	-.1312	.4843
Low Performance	56	-.8042	-.6330	-.0846	.6027	.4662	-.1053
F Statistic		34.6425	17.9086	.3112	14.6589	7.5604	7.5580
Significance		0.000	0.000	0.578	0.000	0.007	0.007

Conclusion

This study has built upon Porter (1980, 1985, 1990), with that of Miles and Snow (1978), along with parent firm and subsidiary relation variables, to explore the competitive strategies of foreign ventures in underdeveloped economies. The variables were then subject to factor analysis to identify the underlying measures of the environment and strategies of foreign ventures. Results of this study find successful firms to be relatively more autonomous from their parent company and tend to use differentiated strategies by offering distinct products coupled with relatively more aggressive promotion and distribution. Successful firms were also found to compete with relatively higher prices. Unsuccessful firms were highly controlled by their parent companies and competed by offering lower prices with lesser promotion.

This study has begun to draw attention to research on competitive strategies in underdeveloped economies. Further research is needed to better understand how foreign firms compete in underdeveloped economies. Further research can build upon the framework provided in this study to explore strategies in other underdeveloped markets.

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