Internationalization of CR Moulds to South Africa: Post entry strategy

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Case Study submitted as partial requirement for the conferral of Master in International Management

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ABSTRACT

The present study presents the internationalization of CR Moulds to the South African market.

The aim of the study is to understand the motivations and factors that propelled CR Moulds to venture in South Africa and its plan in the market after opening a production plant in South Africa. To this end, the case study examines factors that drove CR Moulds to the South African market including dynamics encountered by the company in the market after its internationalization process to South Africa.

In the main, qualitative data research was used in the case study with some primary and mostly secondary sources from government, academia and private entities.

In this study, it is determined that South Africa as a market possessed general and industry specific attributes that attracted CR Moulds. Furthermore, it is also determined that institutional support including support from business associations, government, public institutions, trade and investment agencies and some monetary support is critical to small and middle sized companies such as CR Moulds especially in the immediate post entry period in foreign markets.

1. Key words: Internationalization, Post entry, non-lusophone,

SUMÁRIO

O presente estudo versa a internacionalização da CR Moulds no mercado sul-africano.

O objectivo do estudo é compreender as motivações e os fatores que levaram a CR Moulds a aventurar-se na África do Sul e os seus planos para o mercado após a abertura de uma fábrica no país. Para este fim, o caso de estudo examina os fatores que influenciaram a CR Moulds a estabelecer-se no mercado sul-africano, incluindo as dinâmicas que a empresa encontrou no mercado durante o processo de internacionalização.

Em termos gerais, foi utilizado neste caso de estudo pesquisa de dados qualitativa, com algumas fontes primárias e maioritariamente secundárias a partir de entidades governamentais, académicas e privadas.

Neste estudo, estabelece-se que o mercado sul-africano possuía atributos gerais e específicos da indústria que atraíram a CR Moulds. Conclui-se ainda que o apoio institucional, incluindo o apoio de associações empresariais, instituições governamentais e públicas, agências de comércio e investimento, assim como algum apoio financeiro, são essenciais às pequenas e médias empresas como a CR Moulds, particularmente no período imediatamente após a entrada no mercado estrangeiro.

1. Palavras chave: Internacionalização, após entrada, não lusófono

1. CASE STUDY-PROBLEM

1.1 Internationalization of Portuguese companies to South Africa

Over the last couple of years Portuguese companies have registered their presence in the South African market. Amongst these firms are Small and Medium Enterprise (SME) firms. Traditionally, the PALOP market (Portuguese speaking countries) have been the focus of business and were usually considered priority destinations for internationalisation of Portuguese firms, mainly due to linguistic, cultural and historic links (Ribeiro, 2015).

According to the *Environmental Scan* by the South African Embassy in Lisbon, in general, the internationalisation of Portuguese companies to South Africa is not a new phenomenon. There are approximately twenty-five Portuguese companies that have a notable presence in South Africa. These companies differ in size and structure (Mission Environmental Scan, 2016*).* Big Portuguese companies such as Sonae and Amorim have been in South Africa for more than twenty years. Sonae has factories in different regions of South Africa, whilst the Amorim group, the world leader in the production and exportation of cork has expanded on to other business areas including estate, tourism and high quality natural sustainable products (Mission Country Profile report, 2017).

Most companies in Portugal have an SME dimension, and engage in some form of internationalisation (Trigo *et al*, 2009). Furthermore, according to the article titled: *Portugal approves economic internationalisation plan by end of the year,* the internationalisation agenda in Portugal has become a serious economic and political objective (The Portugal news, 2017). Similarly, highlighting the prioritisation of SME companies by governments, Ferreira (2016 cited Culkin & Smith 200p) indicates that SME's contribute the largest sector of the world economy hence the keen interest by national governments to support SME firms.

Through the Portuguese Trade and Investment Agency (AICEP), the Portuguese government provides financial assistance of European Union (EU) structural funds and actively promotes the internationalization of Portuguese companies to international markets as part of its economic diplomacy policy, a joint venture between the Portuguese Embassies worldwide and the AICEP representatives (Mission Environmental Scan, 2016).

According to the analytical report on bilateral trade by the South African Embassy in Lisbon, Trade and Investment relations between South Africa and Portugal are making steady progress (Country Profile report, 2016). Trade in the form of exports for Portuguese companies is usually the first form of internationalisation and contact with the South African market. From the period between 2010 -2016, Portuguese exports to South Africa have consistently registered an increase and the numbers have been growing. The main exports of Portuguese products to South Africa include machinery, vehicles aircraft & vessels (automotive), plastics & rubber, textiles and prepared foodstuffs (as it is shown in Figure1).

Figure 1-Bilateral Trade between Portugal and South Africa

	2010	2011	2012	2013	2014	2015	2016 (Jan-Nov)
Exports to Portugal	**R 1 104 053 338** **EUR 6 636150**	**R 872 878 612** **EUR 52 466,200**	**R690 945 762** **EUR41 530,800**	**R1 200 358 299** **EUR72 150 ,100**	**R1 476 050 492** **EUR 88 721,200**	**R 1 612 062 378** **EUR 9 681,000**	**R 1 930 113 548** **EUR 116 014,000**
Imports from Portugal	**887 001 667** **EUR 53 315,100**	**1 012 587 485** **EUR 60 823,700**	**1 295 608 812** **EUR77,875,300**	**2 114 379 756** **EUR 77,875,300**	**2 150 830 181** **EUR 129 280,000**	**R 2 569 032 646** **EUR 154 417,000**	**R 2 851 853 654** **EUR 1 714 170,00**

Source: South African Revenue services (SARS)

Top Portuguese exports to South Africa

1. Vehicles aircraft & vessels
2. Machinery
3. Textiles
4. Plastics & Rubber
5. Products Iron & Steel

Top South African exports to Portugal

1. Vegetables
2. Live animals
3. Vehicles aircraft & vessels
4. Mineral Products
5. Plastics & Rubber

Portuguese companies start by exporting their products to the South African market mainly due to the factors such as geographic distance followed by a foreign venture project in the market, usually in partnership with a local enterprise in South Africa (Country Profile report, 2017).

Moreover, according to the Mission Country Profile Report (2017) due to its well-developed infrastructure and strategic location in the southern tip of the African continent, South Africa has become a base for Portuguese firms and business a specially for third country collaboration approach within the Southern Development Community (SADC) region with a special focus on servicing the Angolan and Mozambican markets or evening targeting other markets in the region. Therefore, a company such as Mota&Engil, a Portuguese construction group with a very relevant operation in Angola and Mozambique as well as other African countries, created Mota Engil Africa and opened an office in South Africa to accommodate the growing African business. Similarly, a leading fruit- based preparations producer Frulact established a plant at the end of 2011 in Pretoria to access the South African market as well as neighbouring markets (Mission Economic Report, 2016).

Angola and Mozambique are the biggest targets for Portuguese business in Africa and particularly in SADC region. Most of Portuguese firms have established branches, operations and production facilities in Angola and Mozambique. However, according to Young (2012) many companies also choose to set up their operations in South Africa due its developed infrastructure. In accordance with the behaviour of these firms, Michel Porter in his Diamond Model outlined competitive advantage of nations based on certain factors and attributes that attract companies to choose to do business in certain countries (Porter, 1990).

Observations based on the trends by Portuguese firms entering South Africa also indicate either an individual company approach or an aircraft carrier approach in which big Portuguese companies play a role in influencing or even creating space for smaller companies to venture in the South African market. Moreover, the younger generation of Portuguese entrepreneurs is usually better qualified than their predecessors and therefore does not face language barriers anymore (Mission Economic report, 2017).

Portuguese companies that are present in South Africa operate in different sectors within the market. These sectors include banking, bio-technology, energy, agro-processing, ICT and

Tooling as illustrated by the Gauteng Growth and Development Agency (GGDA). The GGDA was also able to specify the number of jobs created by the Portuguese investment in the said period as illustrated in Figure2.

CR Moulds is one of the small to middle sized Portuguese firms that internationalized to the South African market in 2015. In 2017 CR Moulds approached the South African Embassy in Lisbon to request for assistance in dealing with challenges in the market that affected and stifled its growth. The aim of the study is to understand the motivations and factors that encouraged CR Moulds to internationalize to South Africa, its challenges in the post- entry phase and the basis of its post -entry strategic plan in the South African market.

Figure 2-Portuguese investments to South Africa between 2011 and 2013

Entity	Sector	Type of investment	Size of investment	Number of jobs created
Mota-Engil	Construction	Greenfield	€20m-€30m	100
Efacec	Energy & transport	Greenfield	€5m-€10m	5
Sodecia	Automotive	Greenfield	€15m	20-30
Groupo Proef	Energy transmission & renewables	Greenfield	€5m-€10m	20
Odebrecht	Construction	Greenfield	€1m-€5m	10
Frulact	Food	Brownfield	€10m	83
Gesto	Renewable energy	Brownfield	€1m	3
Grupo Procme	Energy transmission and renewables	Brownfield	€5m	100
Galp Energia	Oil & energy	Brownfield		The first investment was in Mpumalanga

Investments from the Portuguese community in South Africa between 2011-2013

Entity	Sector	Size of investment	Number of jobs created
Primolitos	Food industry	ZAR250m	176
Paramount Trailers	Automotive	ZAR160m	200
Vivian Regina	Fibre Glass	ZAR50m	20-30
TMM	Real Estate	ZAR400m	500
ACDC	Electric equipment & electronics	ZAR300m	400

Source: Gauteng Growth and Development Agency (GGDA)

1.2 INTRODUCING CR MOULDS

1.2.1 Company profile

CR Moulds is a Portuguese firm based in Marinha Grande and it specialises in the design and manufacture of moulds for injection of thermoplastics, die casting and tools for the automotive sector.

The firm was established in Portugal in 2000, then known as JR Moulds and was later renamed to CR Moulds as part of its marketing and international growth strategy. The firm has since achieved many milestones in the domestic and international markets.

CR Moulds first started exporting to the South African market from 2012 and gradually gained confidence on the South African market. In 2015 CR Moulds established a plant in South Africa in the province of the Eastern Cape in Port Elizabeth. The company supplies several automotive manufacturers such as (Volkswagen) VW, Skoda, Bavarian Motor Works (BMW), Ford or Toyota, as well as other brands such as Siemens, Miele or Bosch.

In South Africa, the name of the company is CRM Tooling SA (Pty) Ltd an extension of the CR Moulds Group. The company managed to secure contracts with several first-tier suppliers while also ensuring support to all seven OEMs in South Africa. CR Moulds Ltd managed to secure commercial contracts with several first-tier suppliers while ensuring support to all seven OEMs in South Africa (CR Moulds internal report, 2016).

The Chief Executive Officer (CEO) of CR Moulds Joaquim Rodrigues began working in the moulds and tooling industry since he was young. Initially he worked as a Training Toolmaker. He then moved to Germany in 1980, whilst working in Germany in the town of Agen, he acquired experience in the Automotive Industry, particularly in the design and manufacture of Robust Injection Moulding Tooling.

In 1999, Mr. Rodrigues and his family returned to Portugal and set up his first company. In the year 2000 Mr. Rodrigues and his wife Mrs Ana Tome started their very first company in 2000.

Together they successfully managed to grow the company to a fully-fledged plant with high tech machinery for the design and production of injection moulding tooling. Due to his international exposure and experience, while in Germany he had an objective to take his company beyond the frontiers of Portugal. Therefore, driven by this objective in mind seeking opportunities for growth, CR Moulds began its internationalisation process to various Global Markets.

According to the company report on foreign markets, CR Moulds has registered its presence in international markets, operating in Europe, the USA, Mexico and Brazil. The recent milestones achieved by the company include opening an office in Hong Kong, partnerships established in Mexico, Iran, Algeria, Germany and the office and production facility in South Africa. The current global footprint of CR Moulds extends to different continents and regions. In Asia CR Moulds HK has offices in Hong Kong, in Europe CR Moulds Head Quarters are in Marinha Grande in Portugal. Moreover, the company also has a partnership with Phi-Gmoh in Germany, a joint venture in Mexico and a production facility in South Africa operating as CRM Tooling (pty) Ltd. In addition to these markets, CR Moulds exports to other markets such as USA, China, Algeria and Iran.

The CEO of CR Moulds Group is a proponent of innovation and research into new tools of technology particularly in moulds injection and tooling. CR Moulds has built extensive networks locally and abroad to foster cordial relations and business. The firm currently exports to five continents.

CR Moulds has approximately forty-two employees in Portugal. The company also invests in Research and Development and has recently invested in young previously disadvantaged individuals as well as in skills development programmes (CR Moulds report, 2016).

1.2.2 Internationalization of CR Moulds to SA

According to the Portuguese Moulds Association (Cefamol) " the Portuguese mould industry has been growing and consolidating its reputation in the international markets, driven by external demand and competitive, integrated and innovative solutions quality, price and time to market" (Cefamol, 2011:2).

A critical consideration that drove CR Moulds to setup operations in the South African market was the strong presence of OEMs as major customers that could contribute substantially to the firm's margins and the realisation of its growth. The unique characterisation of OEMs in South Africa presented an opportunity for the growth of the company. In the paper presented by the Industrial Development Cooperation (IDC) the setup of OEMs in South Africa is described in the following manner (Maia, 2017):

- European light motor vehicle manufacturers represented in South Africa include Mercedes Benz, BMW, and Volkswagen and these are wholly owned subsidiaries.
- Japanese and American manufacturers –Toyota, Nissan and Ford are also 100% controlled subsidiaries.
- Other major models imported from Europe (Peugeot/Citroen, Volvo), Japanese (Daihatsu, Honda, Subaru), Korean (Hyundai/Kia), Indian (Tata, Mahindra), with Chinese brands also growing in the SA market.
- The market has opportunities for Engine parts/components, vehicle interiors, electronic, drive train components, body parts and exterior finishes, aluminium forgings.

Another important consideration for CR Moulds to venture into the South African market was an identified industry gap in the tooling sector in South African. This gap was created by the exodus of human capital resource with the tooling skills to Australia in the 1980s (CR Moulds report, 2016). The brain-drain meant that South Africa was left with very little technical tooling resources. CR Moulds sought to take advantage of this niche in the tooling sector since the firm possessed the necessary capabilities to address this need in the South African market.

The South African Embassy in Lisbon played a pivotal role in the facilitation of CR Moulds to enter into the South African market. In 2014 The Embassy facilitated meetings with the Gauteng Growth Development Agency (GGDA) in Gauteng, Automotive Industry Development Centre (AIDC), Rosslyn Park, COEGA (Coega Development Corporation) and the Eastern Cape Development Corporation (ECDC). The final investment was made at the end of 2015, with a plant established in Port Elizabeth to supply the local VW plant (Mission Economic report, 2014).

The seven OMEs present in South Africa include: BMW, Ford, General Motors, Mercedes-Benz, Nissan, Toyota and Volkswagen. Apart from the seven main OMEs that manufacture in South Africa, there is a presence of other major brands that are imported as fully-built-units and these include European brands such as Renault, Porsche, and Peugeot/Citroen. Japanese brands, Honda, Mazda, Subaru, Suzuki, Korean brands Hyundai, and Kia, Indian brands Tata, Jaguar, Mahindra, Chinese brands Chery, Foton, GWM and Italian/American, Fiat and Chrysler. Furthermore, several heavy commercial and bus manufacturers in South Africa assemble vehicles: Iveco, FAW and TATA (Maia, 2017).

In Portugal, most companies in the moulds sector are clustered in one region and must share clients and compete. Given the limited size of the domestic market and the fact that potential and target clients for most small companies in this sector are not located in the home country, this prompts the companies to look for growth opportunities in foreign markets *(*Cefamol, 2011).

2 South African context

2.1 General country overview

As a country, South Africa is situated in the southern tip of the African continent (South African Year book 2014).

According to the United Nations Economic Commission for Africa (UNECA), South Africa is the most developed and industrialized economy in Africa (UNCA Country Profile 2016). As a country, it is ranked 47th out of 138 nations internationally according to Overall Economic Index of The World Economic Forum's Global Competitiveness Report 2016-17 whilst the World Bank report on South Africa ranked it 74th out of 190 economies (Marto, 2017).

South Africa has a well-developed transport infrastructure, world class roads including modern day highways and national roads and the largest air, rail networks and ports in the African continent. Other factors and attributes such as a well –developed and sophisticated financial, legal and telecommunications sectors have attracted many international firms to base their offices and operations in South Africa. Moreover, labour costs are less than half of the European countries. In addition, South Africa has political and macro -economic stability, and abundant supply of semi-skilled and skilled labour. For professional jobs labour jobs, labour costs are less than half of the costs of European countries (South Africa -Portuguese Chamber, 2017).

However, despite the abundance of natural resources, South Africa has high rates of inequality and poverty is widespread (UNECA Country Profile, 2016).

South Africa is a member of the Southern African Customs Union (SACU), which comprises markets such as Botswana, Lesotho and Namibia (BLN). In SACU South Africa is a dominating economy and largely supports BNL countries. In addition, South Africa is a member of the Southern African Development Community (SADC), a group of 15 countries and markets whose regional integration process is advanced (Davies, 2013).

South Africa is also a member of BRICS (Brazil, Russia, India, China and South Africa) recognised worldwide as emerging economies and powers.

In terms of the political and legal system, South Africa is a young yet stable democracy and there is separation of powers between the legal and executive authorities. As in any foreign market, Esefoso (2014) advices that any foreign companies intending to set up in South Africa must procure good and credible advice. The legal system in South Africa is based on Roman Dutch Law (SA investor handbook, 2011).

South Africa has the third largest Portuguese community with around 600 000 people. Many Portuguese have followed in the footsteps of the explorers and immigrated to South Africa, mostly from Madeira on shipping liners that sailed to Cape Town regularly. Angola and Mozambique are our close neighbours and strategic partners (Mission Country Profile, 2017).

2.1South Africa: Economic Overview

South Africa is described as the most advanced and sophisticated economy in Africa. In 2017 Its Gross Domestic Product (GDP) was recorded at USD 349.4 billion (SA investment conference, 2018). Finance, Real Estate and Business are the largest industries with a contribution of 20.7 % to the GDP. The manufacturing in industry is equally recognisable and contributes 16.4 %. Overall, the South Africa economy is relatively well diversified with a strong service sector (Asefeso, 2014).

The South African economy has developed to reply more on the tertiary sector since the 1990s including retail, tourism, telecommunications and the wholesales. However, the South Africa economy is also dualistic in nature, with a sophisticated industrial and financial sector existing side by side an underdeveloped informal sector (SA Investor handbook, 2011).

At the government level, various policies and programmes have been introduced to improve and change the structure of the economy. The notable programme is the Industrial Policy Action Plan (IPAP) which seeks to address of economic and industrial growth. The IPAP programme has been implemented according to successive annual iterations. Currently, the South African government has introduced IPAP 2018. According to the Department of Trade and Industry (DTI), some of the targets of the IPAP 2018 are outlined as follows:

- Strengthen efforts to raise aggregate domestic demand - mainly through localisation of public procurement and intensified efforts to persuade the private sector to support localisation and local supplier development.

- Step up South Africa's export effort.

- Strengthen ongoing efforts to build a less concentrated, more competitive economic and manufacturing environment in which barriers to entry for new entrants are lowered.

- Build a stronger system of industrial finance and incentives to support and secure higher levels of private sector investment in the productive sectors of the economy and grow exports.

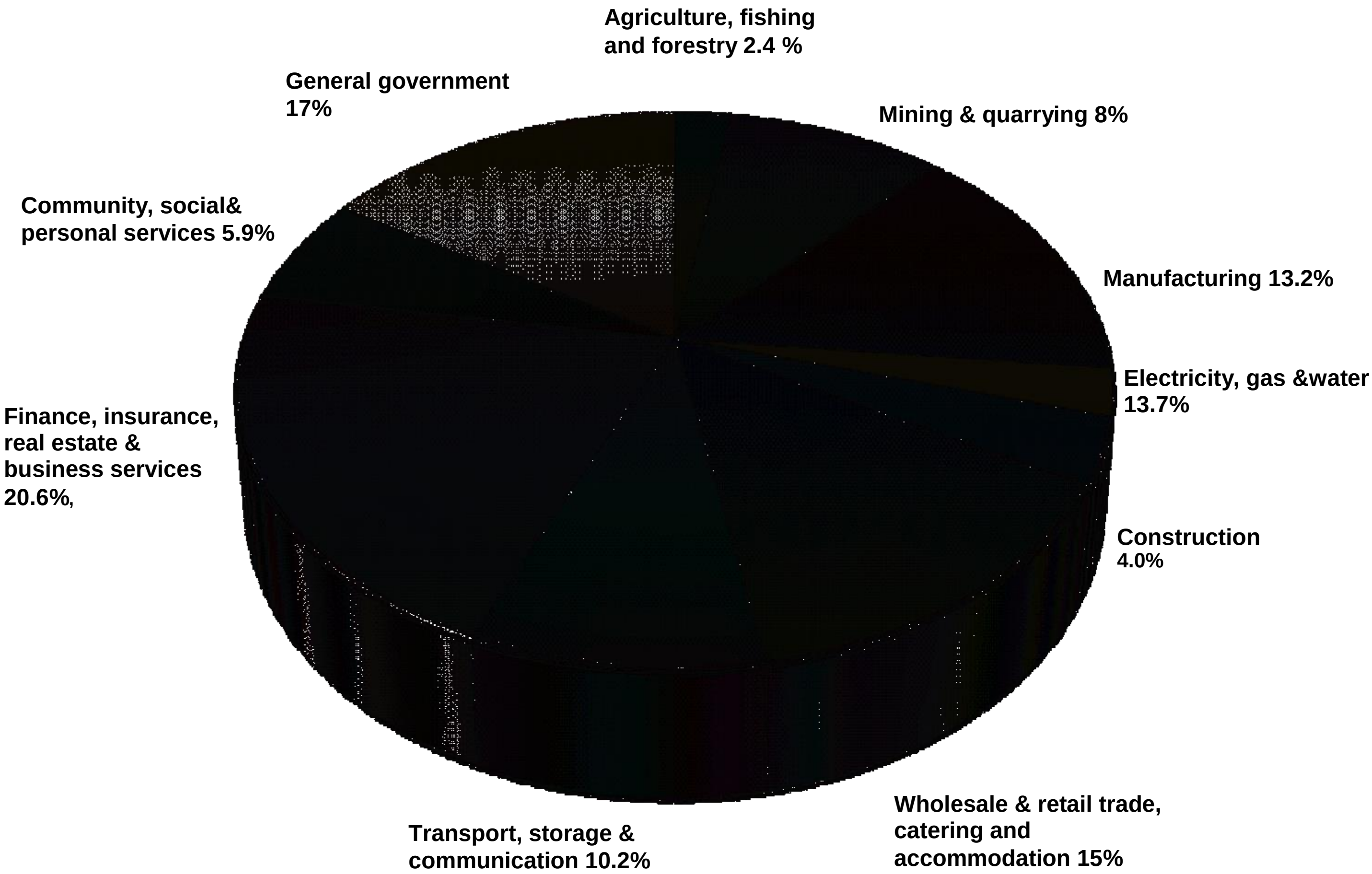
- Press ahead with technology-intensive, value-adding beneficiation projects which fully leverage SA's comparative resource endowment advantage into a global competitive advantage.

- Optimise technology transfer and diffusion and, working closely with the Department of Science and Technology, further ramp up the effort to commercialise 'home-grown' R&D in key sectors.

- Understand, grasp and prepare for the foreseeable effects of the Digital Industrial Revolution and emergent disruptive technologies, collaboratively adapting SA's productive and services sectors to meet the challenges, including those relating to employment displacement

The sectors that contributed to South Africa’s GDP in 2017 are Agriculture 2.5%, construction 3.8%, electricity and water 14.6%, Finance Real Estate and business services 21.52%, government services 16.1 %, manufacturing, mining 9.2%, transport storage and communication 9.1% and wholesale retail trade and accommodation 13,9% as described in Figure 3.

Figure 3-South African sector share in 2016



Source: IDC, compiled from stats SA

2.2 **Industry profile: Competitive & market analysis tooling sector**

A strong automotive industry in South Africa facilitates favourable conditions for firms and tool shops to be internationally competitive and at the same time attract foreign companies in the moulds and tooling industries in South Africa (Maia, 2017). The South African tooling industry mainly manufactures for the domestic market and bordering countries of the sub-Saharan continent. The focus of most tool companies lies on the injection moulding for the consumables and appliance industry. This is a niche area for CR Moulds which has the competency of injection moulding tools for the automotive industry.

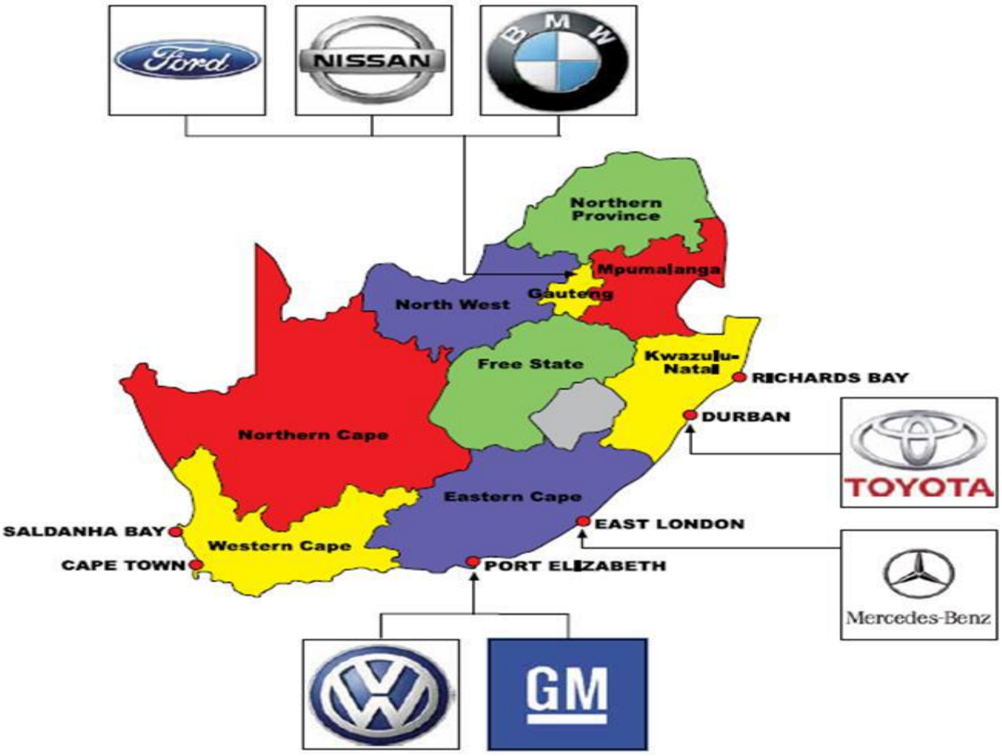
The Tool Making Association of South Africa (TASA) reported that the tooling industry in South Africa represent a R15 billion market, whilst 90% of the current demand is represented by packaging and the automotive industry. TASA further indicated that the largest customer for the automotive sector is Tool, Die and Mould industry (TDM) with demand of 50-55% of TDM (TASA, 2017).

More than 12% of South Africa's manufacturing exports are accounted by the automotive industry while the manufacturing industry contributes 5 % to the GDP and jobs. Due to the favourable conditions created by the in the automotive sector and cluster, the Beijing Investment Automotive Cooperation invested R12.5 billion ($ 893 million) to the car industry in South Africa.

CR Moulds strategically opened a production plant located in the one of the biggest automotive cluster in the Eastern Cape. The seven OEMs based in South Africa have a combined production capacity of approximately 850 000 units per year (Maia, 2017).

The South African automotive components manufacturing industry is clustered into four primary geographic areas. The automotive industry is mostly conglomerated in in Gauteng around Pretoria and Johannesburg and in the Eastern Cape around Port Elizabeth. Those regions also feature a strong tooling industry with a mix of tool shops/ companies focusing on small sheet forming tools or injection moulding tools. Manufacturing and tooling can also be found in Kwazulu Natal around Durban and Pietermaritzburg and the Western Cape Province around Cape Town. In those areas the, the focus of industry lies predominantly on injection moulding (CR Moulds report, 2014).

Figure 4-Representation of OEMs by region in South Africa



Source: IDC presentation 2017

In terms of direct rivalry, CR Moulds identified two major direct competitors in market namely Cook E& Sons Manufacturing CC and Spec, Tool &Die.

-Cooke& Son Manufacturing CC

The company Cooke& Son Manufacturing CC specialises in the design and manufacture of tooling for a variety of businesses including injection moulding production. Cooke & Son has tool design experience gained over the years has developed into the core business of the firm. The company is well established as a reliable and key supplier of high quality, technically excellent and cost efficient components to a range of customers in the following industries: Automotive, Appliances, Transport, Medical and Safety, Building and Point of Sale Marketing and Wholesale (CR Moulds report, 2016).

SPEC Tool & Die,

The competitor’s analysis by CR Moulds points out that Spec Tool and Die is well recognised in the sector and has invested in high standard equipment to stay ahead of its competitors and to produce high quality products and accuracy. This company acquired different technical equipment for tooling including the Deckel system which uses data from CNC operators (CR Moulds report, 2016).

3. Post Entry challenges for CR Moulds

3.1 In South Africa: BBBEE, Funding, Labour &Skills

After the first democratic elections in 1994, the South African government introduced several legislative frameworks to redress some of the inequalities that were created during the apartheid. In the economic sphere, the South African government introduced the Black Economic Empowerment (BEE) legislative framework to transform the economy of South Africa. Sanchez (2008) indicates that governments are usually responsible for driving and regulating policies that are aimed at addressing economic inequalities of the past and that similar programmes have been implemented in the U.S and Malaysia. The BEE legislative framework sought to redress the imbalances created by the apartheid system and open opportunities for most of the black population that was previously marginalised. Foreign companies doing business in South Africa are expected to comply with the legislative and regulatory requirements of BEE. The BEE programme was implemented in 2003.

To avoid focusing on a narrow stratum of previously disadvantaged groups, in 2007 the BEE legislative framework was modified, and the end results was the Broad Based Black Economic Empowerment (BBBEE) to include all Previously Disadvantaged Communities (PDCs) in the activities of the main economy (Marto,2017). According to XX Act, the PDC group includes women of all races, people of colour and people with disabilities. Later, the definition of PDCs was extended to include Chinese South Africans who were citizens before 27 April 1994 including their descendants." (Marto, 2017: 21)

Asefeso (2014) points out that there is an exception in the implementation of BBBEE with reference to exports. The BBBEE legislative framework does not apply to firms exporting goods to South Africa and manufacturing goods from South Africa to any international market. He further points out that a company that intends to set up operations or conduct business in the South African market whose annual revenue is above R 5 million (approximately 312 500 euros) or seeks to do business with government departments and or public entities will be expected to provide a BBBEE status (Asefeso, 2014).

The main objective of the BBBEE Act is to promote the achievement of constitutional right to equality, increase broad based and effective participation of black people in the economy and promote a higher growth rate, increased employment and more equitable income distribution and establish a national policy on broad black economic empowerment so as to promote the economic unity of a nation, protect the common market and promote equal opportunity and equal access to government services. The BBBEE programme and strategy is implemented throughout all sectors of the economy and is not limited to those enterprises that derive income from government procurement or those were the sector is regulated by government (Marto, 2017: 20).

Marto (2017) further states that there are five key elements in the BBBEE score card used as a yardstick to measure the compliance, these elements include: Ownership, Management, Skills Development, Enterprise and Supplier development and Socio-Economic Development.

The Ownership element has various aspects to it such as the rights granted to PDC groups to vote at shareholder meetings, entitlement of dividends and other economic rights that shareholders might have. To score well for this element, an entity should strive to achieve a minimum black ownership of 25 percent. While a company is not penalised for having a low BEE score it is unlikely to be awarded tenders, contracts and in certain cases licences by government (Marto,2017).

CR Moulds grappled with the Ownership element of BBBEE. Given the fact that CR Moulds is a family company, opening up of ownership rights was not a viable option for the company. CR Moulds could not meet the ownership requirements of the BBBEE. Therefore, this challenge meant that CR Moulds had to find alternative means of contribution to the BBBEE requirements.

3.1.2 Access to Incentive funds

The second challenge faced by CR Moulds was to leverage the local incentives for securing funds to purchase machines for the plant in Port Elizabeth to increase production. The company has embarked on the process to apply for different types of foreign incentive grants. South Africa like many other countries uses investment incentives to attract investment. The investment incentives take form of measurable economic advantages afforded to companies with the aim of steering and directing investment into strategic sectors and regions for the country. In order to support business development and competitiveness, loans and rebates are also forms of incentives granted to companies.

The Department of Trade and Industry (DTI) provides various investments incentive financial and non- financial investment support across various industries to companies that meet specific criteria. The purpose of providing incentives to foreign firms is to create an environment that fosters development and expansion of business in different sectors of the South African economy. Generally, incentives fall into five categories in South Africa namely, infrastructure improvement, tax concessions, training of employees, below market sites and buildings and below market financing (Marto, 2017).

The different types of incentives available in the manufacturing industry include Manufacturing Investment Programme (MIP) which offers a cash grant between 15 to 30 % of the value of the qualifying costs in land and buildings, equipment, machinery, and commercial vehicles. The capped value is R30 million cash per project. The second incentive, the Manufacturing Competitiveness Enhancement Programme (MCEP) offers financial support that covers capital investment, green technology and cluster competitiveness. The MECP value is capped at R7.5 Million cash incentive and currently under review (Marto, 2017).

Lastly, Marto (2017) highlights that the tax incentive (section 12 incentives) comes in the form of allowance for industrial policy projects including training allowance to employee and 75 percent of costs if the company is situated in an Industrial Development Zone (SAPCC).

3.1.3 Labour conditions/ Skills Development

After landing in the South African market, CR Moulds also confronted the challenge of skills shortage. According to the firm's initial proposed plan, due to skills shortage in technical injection moulding and tooling, it was necessary to embark on a capacity building and technical training support programme for locally recruited staff to ensure optimal performance and quality production on par with the European and Portuguese standards. According to Coulson –Thomas, (1992: 174)"skill requirements should be determined and developed closely with other players in the value chain".

Secondly, labour regulations in South Africa encourage companies and organisations to transfer technical skills. Such transfer of skills by companies is in accordance with the Skills Development Act of 1998 which is aimed at improving productivity at work and the competitiveness of both employers and employees.

3.1.4 In Portugal: VISA requirements

To meet its skills development objectives as well as to transfer the company culture and modus operandi, CR Moulds has to bring some employees from South Africa for intense training in its plant in Marinha Grande. The company has on many occasions struggled with the challenge of onerous documentation and bureaucracy to comply with the Portuguese Immigration and Borders Service (SEF) requirements to bring in employees from South Africa for training purposes. SEF has a mandate to conduct checks to all people at the boarders including monitoring of foreigners inside the national territory of Portugal. The mandate of SEF also extends to the residency permits, notification and verification of accommodation.

CR Moulds brought up the challenge of tight and onerous requirements and bureaucracy it experienced when the company embarked on bringing some employees from the South African plant to be trained further in technical operations of the company. Therefore, as a result CR Moulds incurred many costs, delays in operations and disruptions in predetermined plans of the company. CR Moulds reported the matter to AICEP and the South African Embassy in Portugal for intervention (CR Moulds report 2016).

3.3 Post-Entry Experience: Lessons and strategy

In light of the post entry phase market dynamics, CR Moulds reviewed its operational plans and incorporated the following five critical elements for incorporation in its strategy to foster its growth, relevance and possible expansion in the market:

(1) Improve the BBBEE status of the company

The CR Moulds revised strategy takes advantage of Equity Equivalent Programmes (EEP). Due to the fact that many foreign companies have global policies in place that restrict the level of ownership and control that can be transferred to local parties, alternative means of contribution to the ownership element of BBBEE have since been introduced and recognized by the codes of good practice by allowing foreign companies to retain their BBBEE by contributing through EEPs instead of direct sale equity.

The requirement as set by the DTI is a contribution of 25 % of the value of the operations that exist in South Africa or a 4 percent of the total revenue from the company operations over a set period. Moreover, such a programme needs to be approved by the Minister of Trade and Industry in order to qualify for ownership points on the score card (Marto, 2017).

(2) Secure relevant machines to improve production

CR Moulds is currently in need of a large CNC machine centre. The New 650 T Batten field machine will enable the firm to do house tool trials. The main purpose of this equipment is to improve productivity and deliver on time to customers. According to CR Moulds company presentation on its strategic plan, the machining of medium to large tooling will maximise on AIS scheme for OEMs the estimated investment of approximately R 9 million (approximately 565 500 Euros).

The necessary machines also ensure tooling competence and speed. Wolgang *et al* (2014) point out that "the pursuit of a highly efficient production is achieved by avoiding waste like waiting, over production or inefficient movements." In the case of CRM Tooling, providing services on time for demanding OEMs is critical for business. Moreover, Wolgang also add that customers appreciate short lead times, high due date reliability and responsiveness of tool shops higher than the price of a tool (Tooling SA: p 16). OEMs are highly demanding as customers and securing the necessary equipment in order to ensure smooth production and timely delivery has been incorporated in CRM Tooling's strategy to ensure the survival and continuation of its business in the market.

(3) *Establishment of a Tool Shop company*

On the last quarter of 2018 CR Moulds will launch an opening of a BBBEE, Level 2 Company called "CR Fast Tooling". Recently the management team in Marinha Grande decided to pursue this option as means of attaining needed capital equipment for the plant in Uitenhage in the Eastern Cape. Not only is this tool company intended to raise the capital required to purchase the necessary equipment for CRM Tooling but it is also geared towards taking advantage of the gaps in the Tooling industry in South Africa.

In a comprehensive analysis of the tooling industry in South Africa, Boos et al (2014) found that most manufactured tools do not exceed the size of 250x250mm and that a high percentage of those are for single injection Moulds. Furthermore, the study found that the industry for large sheet metal press tools does not exist. CRM Tooling seeks to address this existing niche in the market given that CRM tooling has European standards and international partnerships and is better positioned than most local firms to address this gap.

(4) *Appointment of skilled expert responsible for the foreign office and company production.*

CR Moulds decided to hire a local expert who knows the market as well as the tooling and the automotive industry in South Africa. Mr Rodwell van Wyk was appointed to work for the company and to provide the critical support required by CR Moulds. In 2016, Mr van Wyk was transferred from the Port Elizabeth plant to Portugal as a Commercial Manager responsible for the South African market.

The company views the appointment of an expert who knows the South African market and the automotive industry as critical to the running of operations in South Africa. This view is supported by Boos *et al* (2014) who note that a lot is required once a venture is live, this includes monitoring the business, dealing with a second production site or third party supplier. Therefore, Boos et al state that such an operation could be difficult to maintain and could also require staff to be resettled to new locations. Furthermore, the appointment of staff or a director with a set of skills such as diplomacy, hedging or foreign languages is also a necessary prerequisite for the company. Alternatively, a company may consider outsourcing (*Internationalisation of European SMEs: p 24*).

(5) *Leverage support from AICEP, the South African Embassy in Portugal and the Portuguese Embassy in South Africa.*

SME companies have been found to need support whether in terms of finance or finding an introducer in the form of a government body or a company that already specializes in such an activity or industry. This support can also be offered by export promotion agencies who actively support trade missions to help local companies to meet foreign business partners (Internationalisation of European SMEs: p 23).

AICEP's strategy towards the South African market is to promote Portuguese exports and attract Foreign Direct Investment (FDI) to Portugal. Moulds and Tooling with specific emphasis on the automotive, renewable energy and food (fruit and meat) were referred as one of the main sector focus for South Africa for the next few years.

Through regular interaction with the South African Embassy in Portugal and the Portuguese Embassy in South Africa, CR Moulds noted that it could leverage on the fact that both Embassies are responsible for advancing the economic diplomacy strategies of their countries and have also strategically opened channels for joint complimentary efforts.

3.4. Case Study Questions

Provide answers to the following questions, taking into consideration the case described in the study regarding the internationalisation process and the experiences encountered by CR Moulds in terms of doing business after setting up an Office and a Production facility in South Africa.

Question 1: Provide the reasons that led CR Moulds to select the South African market?

Question 2: Point out some of the motivations in Portugal that influenced CR Moulds internationalization strategy?

Question 3: Characterize the South African automotive and tooling industries?

Question 4: Describe the features that are directly relevant to CR Moulds as a company and the industry it operates in?

Question 5: What unexpected problems arouse for CR Moulds in the South African market?

Question 6: How has the firm reacted to the post entry experience? and which solutions were adopted by the firm?

4. Teaching Review

4.1 Case Study Targeting

This is a case study about the internationalisation process of a Portuguese firm in the moulds and tooling sector. The case study may spark a better understanding particularly of the dynamics experienced by small to middle sized firms such as CR Moulds after establishing operations in a foreign market.

The case study is directed to the following target audience:

-Higher education students, especially those following a Masters level course in the area of International Management, International Business, Marketing or Strategy. The case might be used as learning material.

-Company Executives responsible for strategic planning and involved in internationalisation process.

-Economic Diplomats involved in the facilitation and promotion of Investment and Trade.

-Commercial or Country Managers in companies responsible for foreign markets.

-Officials in Investment and Trade Agencies such as AICEP

-Public Officials responsible for processing Business/Company Visas and permits.

4.2 Learning Objectives

The learning objectives of the case study are the following:

- Understanding the motivations and factors that attracted CR Moulds to internationalize to the South African market.

- understanding the challenges experienced by CR Moulds in the market after setting up a live venture in South Africa.

-understanding the solutions adopted by the firm as the basis of its post entry strategic plan in the market.

4.3 Literature overview

4.3.1 Introduction

The review of literature concerning internationalization provides different approaches to understanding reasons firms decide to set up operations in foreign markets and the mode of entry in such markets. The purpose of this literature review is to acquire conceptual and theoretical apparatus to solve the case.

The following key questions and considerations in the discourse of internationalisation process of a firm also underpin and inform the themes in this literature review:

- What is internationalisation?

-Why do firms decide to internationalize?

- When to internationalize?

-Where to internationalise?

- How to internationalise to foreign markets?

In light of these considerations, an overview of theoretical approaches such as the Eclectic Paradigm, the Uppsala Model and Michel Porter's Diamond Model are reviewed. Whilst the first three theoretical approaches are highlighted and provide some explanation regarding the internationalization process of companies, Michael Porter's Diamond Model is the most relevant theoretical model applied to answer the research questions for the case CR Moulds. Therefore, for this reason, emphasis is placed on Porter's Diamond Model.

4.3.2. Internationalization Decision, Theories & Models

While a variety of definitions for internationalization have been suggested in literature, this paper adopts the following definitions of internationalization:

Internationalisation "is a process by which firms both increase their awareness and indirect influences of international transactions on their future and establish and conduct transactions with other countries" (Beamish,1990 cited in Coviello & Muntro, 1999).

Furthermore, internationalisation includes “all types of intervention in foreign markets qualitatively advanced, covering all stages, from old exports to direct investment” (internationalization barriers of Portuguese companies: p6).

Listing some of the benefits of internationalization for SME firms, Abel-Koch *et al* (2018:19) point out the following advantages that could be benefited by an SME when it ventures abroad:

- SMEs benefit from economies of scale as a result of expanding sales to international markets
- An SME company can save on the production and distribution costs while simultaneously being closer to foreign customers
- An SME can diversify its sources of revenue and thus develop resilience against shocks

4.3.2.1 The decision to Internationalise

When it comes to examining the reasons that lead companies to take a decision to internationalize, authors focus on different aspects of internationalization motives. Holleson (2012) and Albaum (1994) cited by Martins (2016) both agree that there are proactive motives such as foreign market opportunities, profit growth, economies of scale and tax benefits and reactive motives such as small and saturated domestic market, pressure caused by local competitors and proximity to foreign customers.

In contrast to Hollesen (2012) and Albaum (1994) Gruning & Morchett (2012) categorize the reasons firms internationalize differently. Gruning & Morchett (2012) identify seven drivers of internationalization namely:

- Need to find new customers
- need to realize cost economies
- Access to low cost raw material and access to labor
- balancing risk
- desire to gain new competencies
- access to internationally active customers
- Strategic power

Gruninig & Morchett (2012) group the first four reasons under the heading " counter measures against threats" as these emanate from a declining domestic market and the last three drivers are classified under the heading "opportunity seizing"

4.3.2.2 Internationalization theories and models

There are various theories that endeavor to explain how firms internationalize to foreign markets. This section highlights three such theoretical approaches namely the Eclectic Paradigm, the Uppsala Model and Porter's Diamond model.

Although these approaches offer some explanation as to how firms internationalize, emphasis is placed on Porter's Diamond Model as the most relevant for this case study particularly taking into consideration CR Moulds trajectory and venture to South Africa as well as salient factors that attracted the firm to the South African market.

The Eclectic Paradigm

The Eclectic Paradigm is a model that was developed by Henry Dunning in the late 1970s (Glowik, 2009). Dunning distinguished three types of specific firm advantages, that influences market entry strategy. These three advantages were described by Dunning as Ownership specific advantages, internalization advantages and location specific advantages.

Ownership advantages or a firm’s competitive advantages possessed by a company may take a form of commercial monopoly, trademarks, patents, legal rights or brand names (Glowik, 2009). Regarding ownership advantages, the argument is that the more ownership specific advantages possessed by a firm, the greater the likelihood to internationalize them and the wider the attraction of foreign production rather than a home country production base.

Internalization advantages speak to the core competencies, capabilities and skills of a firm. The reasoning regarding internalization advantages is that when a firm has internalized its activities to a greater degree it is more likely to directly participate in foreign production instead of licensing such a right.

The location Specific Advantages deal with a question of where? Or why firms produce in country instead of another. Glowik (2009) cites Dunning’s examples of location specific advantages such as transportation, communication infrastructure, market volume and government policy including investment incentives.

The Uppsala Model

The Uppsala Model holds a different approach to how firms internationalize. Initially a firm will make a decision to expand to a country closer to where the company is based, especially with a similar language and with a similar language and political system. Secondly the firm will go overseas but will choose one country because there is similar culture and the same currency that is used as our origin country (Glowik,2009). In this model experiential knowledge is very important. The model highlights the importance of the experience encountered from past performance. Secondly a firm will venture to foreign markets but will choose one country due to similarity in culture and currency.

According to the Uppsala Model, the steps followed by a firm during the process of internationalization are buildup in stages that lead up to the next advanced step. In this regard, a firm may start with firstly acquiring knowledge from the home country, followed by exports to a foreign market and subsequently engage in sales through a sales representative and ultimately create a manufacturing subsidiary in a targeted market.

-*Porter's Diamond Model*

Glowik (2009) point out that Porter describes location effects available in countries as competitive advantage of nations.

Porter (1990: 77) argued that there was a need for a theory that explains "why a nation provides a favorable home base for companies that compete internationally and why some nations provide an environment that enables companies to improve and innovate faster than rivals". Therefore, for Porter, classical theories were lacking in this regard and were surpassed by technological advancement and how competition was globalizing.

Porter conducted a four-year study of ten major trading nations and hundred industries that covered 50% of the total world exports. The study found that successful international industries tend to be located within cities, region or clusters. These industry clusters are geographical concentrations of interconnected business, suppliers and associated institutions in a specific field (Porter, 1990).

As a result of the study Michael Porter proposed the Diamond Model which explains the competitive advantage of nations. This model consists of four main attributes that shape the national environment in which local, connected firms compete. These attributes are Factor conditions, Demand conditions, Related and Supporting industries and Firm's strategy and rivalry.

According to Porter, factor Conditions are important determinants of national competitiveness and nation's relative position in vital industrial production factors such as skilled labour, raw material availability, and infrastructure. Factor conditions can be exploited by companies in each nation; these include highly skilled work force, linguistic abilities, rich amount of raw materials and work force shortage. The basic factors are built upon by companies to more advanced factors of competition.

In terms of the Demand conditions, the argument made by Porter is that a demanding home market is a driver of growth, innovation and quality improvements (Glowik, 2009).

Regarding Related and Support Industry, the presence of internationally competitive suppliers and other related industries is a key factor. When local supporting industries and suppliers are competitive, companies get more cost effective and innovative parts and products, Porter (1990) indicated as an example that the Italian industry benefited from a highly competent pool of related business and industries, which has strengthened the competitiveness of the Italian shoe industry worldwide. Furthermore, Porter argued it was the presence of related and supporting industry that drove Italian exports advertisements from magazines and architectural and design publications increased the quality image of Italian tiles. As a result, tile makers also capitalised on Italy's "world leading export" positions in other related industries such as washbasins, home appliances, sinks, furniture, marble and building stones (Porter, 1990:81).

According to Glowik, (1990) Porter further argued that goals, strategies and ways of organising firms in industries vary among nations". Therefore, the argument presented is that rivalry at home plays an important role in encouraging innovation "and in the ultimate prospects for international business" (Glowik, 2009:35). Other essential factors included the hierarchical structure of the company, management and customer relations. Collectively these formed the fourth factor in Porter's diamond model.

When rivalry in the domestic market is fierce, companies build up capabilities that act as competitive advantages on a global scale. Therefore, a firm's strategy, structure and rivalry is more or less based on a particular mission because national conditions determine how companies are created, organised and managed as well as the nature and extent of domestic rivalry. Domestic rivalry creates pressure to launch new products, to improve quality, to reduce cost and to invest in new and advanced technologies.

Later on Michael Porter identified two additional attributes that indirectly influence the demand namely government through the choice of policies and chance which develops outside the control of firms or governments.

In terms of government, successful government policies work where underlying determinants of national advantage are present. Moreover, governments can raise the odds of gaining competitive advantage but lacks the power to create advantages on its own (Porter, 1990).

The chance factors allow new players to exploit opportunities arising from a reshaped industry structure such as radical innovations, unexpected oil price changes, revolutions or wars. According to Porter, these six attributes promote or impede the creation of competitive advantage of firms, clusters and nations.

4.3.3 Foreign -Market selection & Entry Strategy

A firm that intends to expand into foreign markets must decide on which markets to enter. This is called a market selection process. For this, there are certain factors to be considered. In the case of CR Moulds, the firm considered certain factors that made South Africa attractive from its perspective as an investor.

In internationalization literature, there is no single method for evaluation of the attractiveness of markets. Gruning and Morschet (2012) proposed three ways in the identification process of attractive markets that a firm may follow:

1. A firm should consider conducting a survey of prospective markets and be open to every possibility. In this stage, a firm will first draw a broad list of markets, followed by the second step of elimination and the final step of a comprehensive analysis of each remaining attractive market.

2. The firm to make use of its own established personal contacts or draw from the experiences of other firms. In this way the firm can only focus on the best markets and save time from drawing a long broad list of markets.

3. A firm knows on the spot which markets to target. This is an intuitive approach from the firm and does not require a selection process.

Gruninig & Morschet (2012) further point out that the selection of attractive markets requires criteria. Gruning & Morschet (2012:100) state that markets have two dimensions "the geographic boundary and the industry dimension". Consequently, the first criteria is the entire country and the second one is a specific industry identified in the country (Gruning & Morschet, 2012).

A criterion proposed by Gruning & Morschet (2012) for evaluating the geographical markets covers the following elements:

- ✓ Key figures- Development of population, development of GDP, development of GDP per capita
- ✓ Legal restrictions for foreign economic activities-Possible legal forms, Conditions for profit repatriation, conditions for sales (e.g. local production), Operation risks

- ✓ Society- Political system, ethnic and religious groups, languages, demographic structure, cultural distance, political risks
- ✓ Infrastructure- Traffic infrastructure, telecommunications infrastructure, health system

The second criterion relates to the industry market and is described by Gruning& Morschet (2012) as follows:

- ✓ Key figures- Development of quantities in total and per sub- market, development of prices in total and per sub market, development of market volume in total and per sub market
- ✓ Market system- players, flows of products and services, flows of information
- ✓ Producers and traders- Sub markets, national and international competitors, wholesalers and retailers, competitive intensity
- ✓ Customers- Customer segments, link between customer segments and sub markets, industry segments, demand similarity

4.3.2.4 Foreign market entry modes

When a company finally made a choice of which foreign market to target through analysing a country's attractiveness along with other crucial factors, it also must decide on the choice of entry mode to the foreign market. There is different entry modes that could be employed by into foreign markets can fall into one of the three groups described by Grunig&Morschet (2012:123):

- ✓ Exporting modes are employed when a firm sends its products that it produced from the home country to a target market.
- ✓ A mode of entry in which the production of a firm takes place in a targeted country through a local company based in the target country or by the firm itself
- ✓ Cooperative modes such as franchising a business concept and brand to companies in the target market

There are two distinct types of export modes:

Indirect exports- When the firm uses an independent middleman either in the form of a domestic exporting company or an export specialist located in the home country. The middleman arranges the transfer of products and sells them to foreign markets (Glowik, 2009:74)

Direct exports- The firm directly sells its products to customers in a foreign market without the use of a middleman (Grunig&Morschet, 2012:125).

Entry modes with production in the host country:

Licensing: Is a contract in which a company with knowledge and intellectual or industrial assets sell these to an individual or a company the right to use these assets for a defined period and purpose (Glowik, 2009:77). Under this type of agreement a foreign company or licensee firm's products within a host country's market is allowed to purchase the right to manufacture and sell a firm's products within a host country's market.

Describing the circumstances under which licencing becomes an option, Grunig&Morschet (2012:134) state that licencing could be an option for companies with lack of financial resources to fully open a facility in the target market but have an attractive process or production technology.

Acquisition: involves a firm from one country acquiring a stake in or purchasing 100% of a firm located in another country. Acquisition allows for quick access to the market, a purchase of an existing firm will usually have existing facilities, manufacturing plant, strong network with suppliers, distributers and retailers. Limitations relate to integration difficulties, complex negotiations and transection requirement and it is costly.

New wholly owned subsidiaries: A firm invests directly in another country or market by setting up an owned factory. According to Glowik (2009:86) "the term wholly owned subsidiary an enterprise that owns all of the capital invested abroad such as procurement, R&D, sales or production facilities".

The benefits of a wholly owned subsidiary include possible incentives from the local government, short delivery times and reduction in transport costs (Grunig&Morschet, 2012).

Strategic Alliances: involves any form of collaboration with a partner firm for international market entry. It involves shared risks resources. It also facilitates development of core competencies (learn from the partner) and leverage these new-found skills and knowledge and capabilities back across your own firm. The limitation for this type of entry mode includes lack of trust between partners and difficult to manage.

Franchising: is a type of licensing where a firm (franchisor) uses a franchise as a contractual relationship to describe and control the sharing of its resources and capabilities with partners (franchisees). Glowik (2009) states that the franchisee is attracted to the fact that the business model is available, the brand is established, training and systems are usually provided, and it has demonstrated success.

4.4. Methodology

The foundation of this research methodology is mostly qualitative analysis. According to the definition provided by Denzin and Lincoln (200:4-5) is a situated activity that locates the observer to the world. It consists of a set of interpretive material practices that make the world visible and then transform it.

When conducting qualitative research, there is a variety of empirical tools to be used by the researcher. Such tools involve the use of case studies, interviews, written text, presentations and observations (Schurink, 2008).

Case studies are useful in studying in investigating and studying a current phenomenon (Yin, 1994 cited by Ferreira, 2016). In the case study of CR Moulds, the researcher in his capacity as an economic diplomat, was directly involved in certain phases of the facilitation of CR Moulds to the South African market hence the interest in studying the internationalisation of the company to South Africa and its plans in the market.

The literature review was developed from primary and secondary sources. The primary sources included company presentations, minutes of meetings and written reports. The secondary sources included *Books*, journal articles, newspapers, magazines and periodic publications served as sources for secondary literature.

4.5 Analysis of tools

Although the analysis of this study is qualitative, in certain instances there has been some quantitative information that supplements the analysis. These include:

- ✓ Presentation of information related to the South African market, such as country characteristics.
- ✓ Bilateral Trade figures (Exports and imports)
- ✓ Macro –economic indicators of the South African market

The literature review served as a useful analysis tool to understand characteristics of the internationalization process and to equip with conceptual tools to analyse the case.

4.6. Animation Plan

Session	Goals	Tasks	Time
1st Session	Introduction session	Give the case study to students	30 min
		Presentation of the case	
		Explanation of what is required	
Out of Session	Understand the case	Reading and highlight aspects of the case	30/45 min
2nd session	Understand the case	Divide the students in groups of 3 or 4 elements	45 min
	Understand the internationalisation process of the company: Entry mode and market selection	Evaluate and analyse the internationalisation process of CR Moulds Ldt to South Africa	
Out of Session	Understand the most relevant facts of the case study	Complimentary information research about the case	30 min
3rd Session	Resolution of the case, assuring that all the pedagogical goals are reached	Groups presentation of the case	90 min

4.7 Proposal of Study questions

The answers provided in this section are examples of key points that should be mentioned by the reader or students for the resolution of this case study.

Provide the reasons that led CR Moulds to select the South African market?

The great performance of the automotive industry in South Africa contributed in the development and germination of support industries such as the moulds and tooling sector. Furthermore, the presence of OEMs and their unique location in various regions of South Africa was a major business opportunity for CR Moulds growth due to the fact that its home market was already saturated. The seven OEMs based in South Africa have a production capacity of approximately 850 000 units per year.

Some studies of internationalisation suggest that "the most substantial motives behind the decisions of domestic firms internationalisation relate to markets. This may result in a mix of several factors: objectives of growth (penetration in foreign markets), access to productive resources, maintenance or strengthening of social networks in order to respond to competitors movements, to track customers and access to resources and or skills" (p7: internationalisation of Portuguese companies).

The benefits of internationalisation are in fact located in pursuing the objectives of growth and geographic diversification as well as in having access to resources (reducing production costs). That business does not have at the domestic market (p8: inter of Portuguese firms).

The South African automotive and components manufacturing industry is clustered into four primary areas, namely Gauteng around Pretoria and Johannesburg and in the Eastern Cape around Port Elizabeth, Kwazulu Natal around Durban and Pietermaritzburg and Western Cape around Cape Town, thereby offering an opportunity to do business in one or more of these regions. Portugal is roughly the size of KZN province, which is the seventh largest province in South Africa.

Furthermore, given the fact that the focus of most local firms and tool shops lies on the injection moulding for consumables and appliances industry, CR Moulds stood at an advantageous position due to its technological and technical knowledge of injection moulding specifically for the automotive industry. Therefore, CR Moulds was better conditioned to leverage this environment.

In terms of the factor conditions of Porter's Diamond Model, South Africa offered low labour costs. For professional jobs labour costs are less than half of the costs of European countries. For manufacturing jobs labour costs are around one third of the cost of Europe.

The physical infrastructure to do business was also available. The level of infrastructural development in South Africa in terms of roads, rail, air transport, internet and telecommunications are some of the largest and most advanced in Africa, and this meant that access and logistics were viable in this environment.

Point out some of the motivations in Portugal that influenced CR Moulds internationalisation strategy?

Small size limitations of the domestic market have been a source of most of the decisions to internationalise (p7: inter of Port companies).

The Portuguese mould industry is concentrated in the region of Marinha Grande where the industry was born and is by far the largest cluster and Oliveira de Azemeis, the second largest after Marinha Grande. Although this agglomeration may be good in terms of business cooperation, supply related factors and learning best practices, company growth is however limited and stifled in this situation and competition is often rife. CR Moulds grappled to grow in this saturated market. Secondly, real growth with impact in the medium to long term could be possible in a market with a size bigger than Portugal and where there was opportunity for business and demand. These were among the strong motivations for CR Moulds to internationalize to South Africa.

Domestic rivalry in the home market exerted pressure on CR Moulds to innovate, invest in R&D and form partnerships with German enterprises that are renowned for engineering technology. This behaviour is in accordance with Porter's argument that (1990) that domestic rivalry in home markets encourages companies to innovate.

Another related factor was the prioritization of the internationalisation agenda by the Portuguese government. The Portuguese government has since embarked on several programs aimed at supporting Portuguese firms, most of which have an SME dimension to increase exports to stimulate economic growth.

Characterise the South African market and the automotive industry?

The South African market

Roux (2008) provides an analysis of the South African market that covers its positive and negative features in a balanced fashion. According to Roux (2008:178) South Africa "is medium sized economy, upper middle income country" and has a "sophisticated financial services. It is diversifying its economy, is committed to monetary and fiscal discipline" and is "able to attract far more direct investment than during the 1980s and early 1990s". pointing out the negative aspects Roux (2008:178) points out that South Africa is "still coming to grips with the ice-cold winds of international competition, it is characterised by a highly unequal distribution of wealth and income and has high levels of unemployment".

Automotive industry

The resilient and performing sector has been the automotive industry (South African Business, 2018).

According to TASA, the automotive industry accounts for about 10% of South Africa's manufacturing exports, making it a crucial part of the economy.

The sectors contribution to South Africa's GDP in 2011 amounted to 6.8%. A compounded annual growth rate of 20.5% in Rand value terms for completely built-up vehicles (CBU) and automotive components exports has been achieved since 1995, through to 2011.

The automotive and components industry is perfectly placed for investment opportunities for foreign firms. Vehicle manufacturers such as BMW, Ford, Volkswagen, Daimler-Chrysler and Toyota have production plants in the country, while component manufacturers (Arvin Exhaust, Bloxwitch, Corning, Senior Flexonics) have established production bases also. (SA Investor handbook: 2019-3-14)

There is a natural and interdepend relationship between the tooling and the automotive industries in the South African market.

Describe the features that are directly relevant to CR Moulds as a company and the industry it operates in?

Despite its global footprint, which includes, the office opened in Hong Kong, partnerships in countries such as Mexico, Brazil, Iran, Algeria, and Germany and the recently established company in South Africa, CR Mould falls in the category of small enterprises. In Portugal the total number of employees is 50 thereby characterising a medium sized enterprise.

CR Moulds is also a family company that was found by Mr Rodrigues and his wife Mrs Ana Tome in 2000, CR Moldes Lda is a company specializing in the design, management, manufacture and optimization of moulds for thermoplastics injection and die casting.

Like many SME companies that experience the positive impact of internationalisation on their growth chances of survival and productivity, a category of small to middle sized companies such as CR Moulds quire institutional and financial support (Abel-Koch *et al,* 2018).

CR Moulds is based in Marinha Grande, the largest mould cluster in Portugal. While there is general cooperation amongst moulds companies in the region, competition and growth is equally a critical objective for the survival of these companies. The moulds sector is very advanced in Portugal and continues to adopt newer technologies and innovation.

In South Africa CR Moulds under the trading name CRM Tooling has a plant in Port Elizabeth in the Eastern Cape Province. CR Moulds main customers are the OEMs with supplies mainly in moulded tools for automotive sector and solutions such as Phi-CAE in Germany, and Busmann in Mexico. There main direct competitors for CR Moulds are Spec Tool & Die and Cooke& Son Manufacturing CC.

What unexpected problems arouse for CR Moulds in the South African market?

Once CR Moulds managed to successfully establish operations and open a production plant in Port Elizabeth, there were a significant number of hurdles that the company confronted.

Firstly, once the venture was successful, financial constrains associated with running and monitoring the business surfaced. The company had to ensure the availability of staff, transport, maintenance and equipment to run a successful operation. In addition, gaining the required certificates and tests to prove compliance with local technical safety standards had an impact on time and company resources.

Secondly, CR Moulds had to understand comprehensively the country legislation and regulations that pertain to doing business in South Africa including compliance with B-BBEE policies which are aimed at redressing economic imbalances among historically disadvantaged communities, labour conditions, skills development act and the tax regime.

Thirdly, to cope with customer demands, OEM requirements as well as to increase production while ensuring timely delivery, CR is currently in need of a large CNC machine centre. The latest 650 T Batten field machines will also enable the firm to do house tool trials.

The fourth challenge relates to access to investment incentives. In order to qualify for substantial investment incentives, CR Moulds has to meet a number of criteria including compliance to BBBEE requirements and obtain the necessary score.

The fifth challenge was in relation to tackling copious and bureaucratic procedures and requirements to obtain work visas for company staff that needed to travel to Portugal for work as well as training and skills development.

How has the firm reacted to the post entry experience? And which solutions were adopted by the firm?

In response to the challenges encountered after setting up operations, the first step adopted by CR Moulds was to review its operational strategy in the market. This process entailed identifying new ways of operating aligned to the broader legislature and government policy whilst simultaneously creating additional income generating mechanisms to finance and support the main operation of the firm.

The following solutions were identified by CR Moulds as practical steps towards the realisation of its growth objective:

- Creation of "CR Fast Tooling ", a tool shop company that will help attain the desperately needed capital equipment for the plant in Uitenhage.
- The strengthening the staff bandwidth by hiring a local expert in the automotive and tooling sector in the company to manage and advise the firm. The appointed expert is well experienced and is proficient many of the South African languages and has also built an extensive business network with many local business associations and had previously worked for and with most OEM companies.
- Secure new CNC 650 Batten Field machines either through local investment incentives, company contribution, including capital generated from the newly launched "CR Fast Tooling". These machines will increase production and ensure timely delivery to the main critical customers, the OEMs.
- Improve the BBBEE status of CR Moulds especially through participation in EE programmes and skills development initiatives for local employees falling within the BBBEE groups.
- Leverage on partnerships and public institutions such as AICEP, the Portuguese Embassy in South Africa and the South African Embassy in Portugal to further open opportunities and benefit from the support that may be provided by these entities.

4.7 Case –Resolution Slides

Case study problem

- Saturation of the domestic market for CR Moulds
- Moulds firms in Portugal concentrated in one region thereby increasing competition from local companies
- CR Moulds sought to find new customers
- Given the limited space for growth in the home country, CR Moulds plans for growth targeted international markets
- CR Moulds identified business opportunities in other markets especially moulds for the automotive sector in South Africa

2

CR Moulds and products

3

CR Moulds internationalisation to South Africa

- CR Moulds was established in Portugal in 2000 as JR Moulds . The firm has since achieved many mile stones in Portugal and internationally
- CR Moulds first contact with South Africa was through exports in the period between?
- Attracted to the market by major OEMs and the existing skills gap specifically in mould tools for the automotive industry
- In 2015 CR Moulds opened an office and a production facility in South Africa in Port Elizabeth
- Local partner in South Africa?

4

Country profile & Industry Conditions

Country profile

- Country located in Southern most tip of the African continent
- Eleven official languages. Main language of government and business is English.
- Capitals: Pretoria/Tshwane (administrative seat of government),Cape Town (legislative), Bloemfontein (judicial)
- GDP (US $ Billions) 313,0
- GDP per capita (US$) 5694,57
- Sophisticated financial services
- Developed infrastructure with ports, roads, rail network and telecommunications

Automotive industry

- The automotive industry is South Africa's largest manufacturing industry, accounting for approximately 5.7% of manufacturing output.
- The industry and all associated activities upstream and downstream (including manufacturing of vehicles, components and parts; sales; maintenance; and repairs) contributed 7.2% of South Africa's GDP in 2015 (Econometrix).
- South Africa is the dominant market in Africa, accounting for 64% of the continent's vehicle production in 2015. The country is considered to be a "Gateway to Africa".
- The 7 OEMs based in South Africa have a combined production capacity of approximately 850 000 units per year.

5

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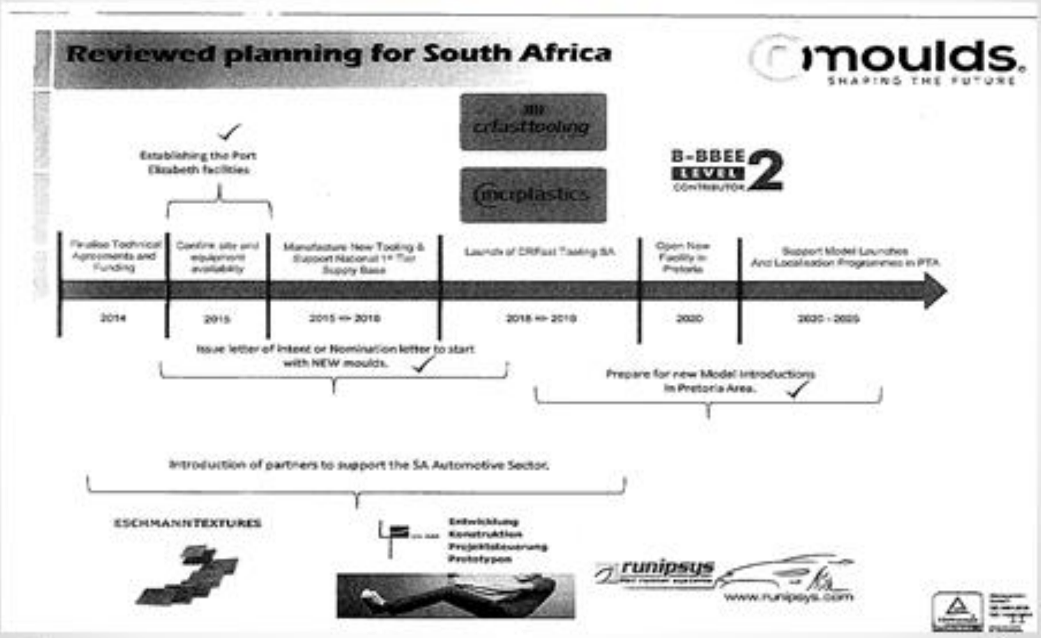
Post Entry Challenges

- compliance and implementation of the B-BBEE policy and legislation
- Access to investment incentives
- cope with customer demands, OEM requirements as well as to increase production while ensuring timely delivery. Therefore ,CR Moulds is in need of a large CNC machine centre. The latest 650 T Batten field machines will also enable the firm to do house tool trials.
- tackling copious and bureaucratic procedures and requirements to obtain work visas for company staff that needed to travel to Portugal for work as well as training and skills development.
- financial constrains associated with running and monitoring and sustaining the production plant in Port Elizabeth

6

New Strategic Steps



7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Next strategic steps
Open a tooling company in South Africa (CR Fast Tooling) that will supply tooling products that are in demand at cost effective prises compared to the tool imports mainly from China. Generated revenue will be used to raise needed capital
Strengthen staff bandwidth and hiring an expert in the automotive and tooling industry
Secure new CNC 650 Batten Field machines through capital generated from CR Fast Tooling or through local investment incentives
Leverage on partnerships and public institutions such as AICEP and Embassies
Improve the BBBEE status of CR Moulds through participation in EE programmes
8

5. Key Learning -Points and limitations

The case study of CR Moulds presented in this paper allows for an understanding of its internationalization process to South Africa. The following objectives of the study were addressed and fulfilled: Understanding the motivations and factors that attracted CR Moulds to internationalize to the South African market, understanding the challenges experienced by CR Moulds in the market after setting up a live venture in South Africa and lastly understanding the solutions adopted by the firm as the basis of its post entry strategic plan in the market.

Underpinning the theoretical framework of the study, were key questions and considerations in the broader context of internationalisation process of firms to foreign markets such as what is internationalization? Why do firms decide to internationalize? When do firms internationalize, and how to internationalize?

Furthermore, the analysis of the main internationalization theories specifically in relation to the present case study of CR Moulds and its trajectory highlighted the relevance of theoretical approaches such as the Uppsala model with its gradual and incremental stages to enter foreign markets and acquiring experience and knowledge including through exports , the eclectic paradigm addressing the internalization advantages, in the case of CR Moulds the European competence and location specific advantages such as the necessary infrastructure available in South Africa.

However, Porter's Diamond model was flagged as the most relevant theoretical approach in the analysis of CR Moulds case study. Porter's diamond model addressed the location effects that were critical to attracting CR Moulds to South Africa including a strong automotive industry characterised by established OEMs servicing the South African market and the African region, a well-developed automotive cluster covering various regions of South Africa thereby supporting industries such as moulds and tooling products. Moreover, a consideration of factor conditions such as infrastructure including road systems, logistics, housing, telecommunications, physical resources in the form of availability of land and a facility to use as a production plant was undertaken by the company.

Intense rivalry at the domestic front encouraged CR Moulds to invest in new markets while looking for innovative ways of growth. In this regard, CR Moulds formed strategic partnerships with internationally recognised companies such as Phi-CAE in Germany and

Busmann in Mexico. CR Moulds entered the South African market as a group with international partnerships. This marketing/positioning tactic, it encouraged the OEMs to be open to doing business with CR Moulds.

The progressively growing presence and success of Portuguese firms in the South African market also contributed in influencing the decision by CR Moulds to venture into the market despite the psychic distance in terms of language, culture and geography.

The investment follows trade logic seems to have been the scenario in the case of CR Moulds. Firstly, starting with exports as initial entry mode in South Africa and ultimately setting up a production plant in the market.

Having successfully internationalised in the South African market, CR Moulds encountered new realities different from its home country and other markets where it has presence. The market realities included compliance with the BBBEE legislative framework, demand from OEM customers that necessitated increased production and timely delivery of services, skills development for employees, the needs for CNC machines to ensure production and quality products, access to funding and huddles with visa requirement for employees and obtaining work permits for South African staff deployed in Portugal.

In response to these challenges a well-defined post entry strategic plan addressing the new realities in the market to was launched. In his article titled the comparative advantage of nations, under the theme how companies can succeed in international markets, Michael Porter argued that companies achieve competitive advantage by focusing on innovation. Porter further posited that such innovation can be achieved by companies through technologies and new ways of doing things (Porter, 1990:75). In line with this argument, CR Moulds developed a post entry strategy guided by a new approach of conducting business in the South African market including the formulation of new strategic partnerships with governmental bodies and public institutions, improving its BBBEE status, opening a parallel tool shop company to support the big operation and to raise funds for new technological equipment in the form of CNC machines.

Taking the psychic distance into account, CR Moulds investment also included strengthening of staff bandwidth in terms of a senior manager from Portugal to monitor the running of the operation in South Africa and hiring an expert in the automotive industry to assist in strategic plan development of the firm in the market

A key success factor for a moulds company that supplies and offers services to OEMs is the capacity to meet customer demands and deliver services timely. This builds good professional reputation and ensures continuity of business.

The case study and narrative presented in this paper is not without limitations. The first limitation emanates from the fact that most interactions with the firm were done with the Commercial Manager responsible for the South African market; even information from the CEO was solicited through the commercial manager due to language barrier and at times clashing schedules in terms of availability. The second limitation is related to using and sifting information primary sources such as Embassy reports that is not classified. The third limitation was reliance on secondary sources and presentations that the company was willing to provide. Therefore, when studying the postulations presented in this study these limitations should be taken into consideration.

In conclusion, an examination of post entry realities such as the ones described in the case study of CR Moulds highlight the need for continued financial support for small to middle sized companies from Portugal that internationalise to foreign markets, stakeholder support including support from relevant business associations, trade and investment agencies, Embassies, ministries of economy and trade and industry and chambers of commerce not just during the pre-internationalisation phase characterised by trade missions to foreign markets but also during the post entry phase when a live venture has been established. To this end, a future study that looks at the development of a post entry support mechanism for small to medium sized Portuguese firms in foreign markets is recommended.

Annexes of the case study

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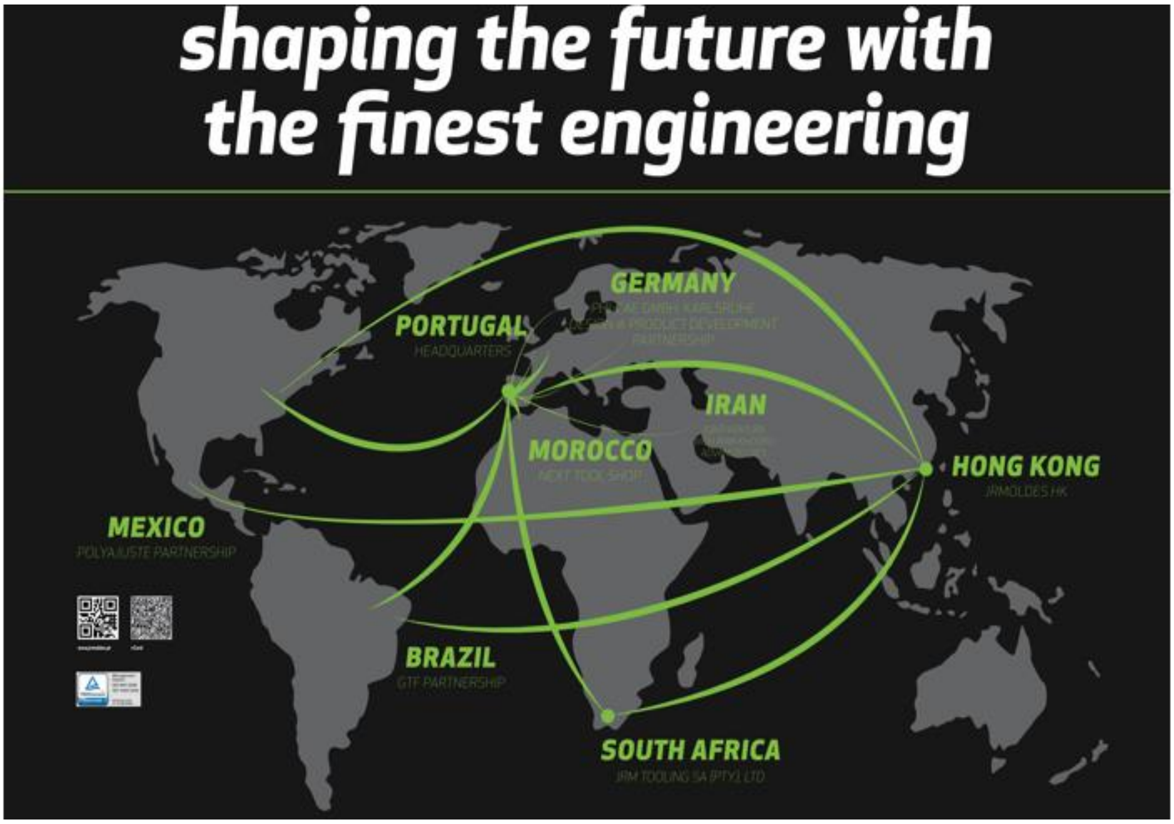
The CEO – CR Moulds Group

Photo:

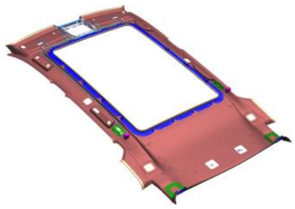
Mr. Joaquim Rodrigues and his Wife Mrs. Ana Tome on a recent visit to the Volkswagen South Africa´s Manufacturing facility in Uitenhage in the Eastern Cape

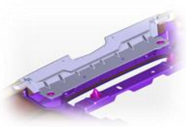


shaping the future with
the finest engineering
GERMANY
PORTUGAL
HEADQUARTERS
IRAN
MOROCCO
NEXT TOOL SHOP
HONG KONG
JRMOLDES HK
MEXICO
POLYAJUSTE PARTNERSHIP
BRAZIL
GTF PARTNERSHIP
SOUTH AFRICA
JRM TOOLING SA (PTY) LTD

Recent company projects in South Africa

BMW G01_SA





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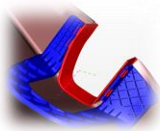

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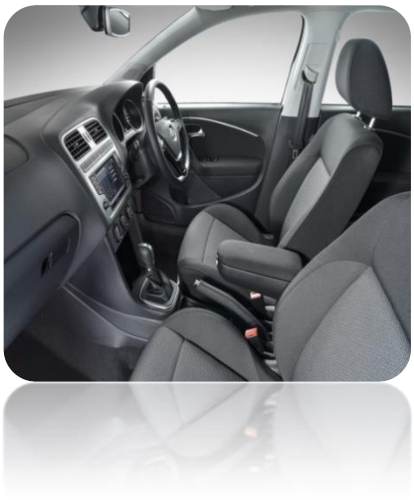

Large CNC machines to manufacture large injection moulds locally

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