

The analysis of ghanas business environment economics essay

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Introduction

Liberalization of international markets have made it possible for businesses to upsurge the geographic range of their trade activities (Glaum and Oesterle, 2007; Lu and Beamish, 2004). The liberalization of Ghana's telecommunication sector and the willingness of the government to develop and modernise the telecommunication industry has attracted foreign multinational companies like China's Zhongxing Telecommunication Equipment Corporation (ZTE). This paper studies the prospects of doing business in Ghana, and how a multi-national company like ZTE can be successful in the Ghanaian market in the introduction of its modem with emphasis on entry mode, scale and timing of entry and future international strategies.

Analysis of Ghana's business environment

The Economic System

Ghana's average GDP has gotten to 4. 2% over the last decade, and as a result, Ghana has set itself a minimum 8% growth target in order to reach middle-income status by 2020. According to Ghana Statistical Service 2013, inflation was recorded at 10 per cent in February 2013. Ghana is an African, Caribbean and Pacific (ACP) country and enjoys the preferences the European Union affords other ACP countries. Ghana is also a member of ECOWAS and allows easy access to markets of member countries. Appendix 1 shows Ghana's growth and economic progress; Remarkable data for GDP growth and increases in FDI shows a lot about Ghana's economic improvement, whilst the country receives continuous praise as being a role

model for African development. Appendix 2 shows Ghana's inflation rate figures.

Technological Infrastructure

The privatization in telecommunications of the post and telecommunication infrastructure has enhanced the industry and as such, foreign mobile phone firms and Internet providers operation in the country. Mobile telephony is one of the fastest growing industries in Ghana. MTN, Tigo, Airtel, Vodafone, Expresso and Globacom are the six current operational service providers in the country, with mobile phone subscribers exceeding 12 million. The launch of 3Generation services has made the range of services provided by cellular operators increase (Southwood 2009). The harbours in the country have seen extensive rehabilitation improving its capacity. Import and Export has sped up due to upgrading of port facilities. Appendix 3 depicts the state of Ghana's telecommunication sector as at December 2011, the sub-sector had 2 fixed line operators plus 6 mobile cellular operators authorized to operate. Out of 165 Internet Services Providers (ISPs) authorized, 29 were in operation. The Sector also seen 13 DTH satellite Service providers, , 99 Public/Corporate Data operators, 176 Data Operators, 140 FM stations and 32 TV Stations given permissions to operate with 8, 29, 25, 84 and 13 of them respectively actually working. A study by the Africa Business Panel confirmed that Ghana is set to be a key force in the African ICT sector in the subsequent five years. The use of the Internet has amplified though connectivity is though costly.

Social-Cultural

Kinship, loyalty and family pride are central to Ghanaian society. Family defines social status and can determine values and behaviours. Ghana is extremely diverse with more than 100 different ethnicities. Akan, the largest tribe accounts for 45% of the Ghanaian population. Christianity, an influence of the British colonisation, is the most dominant religion in the country and practised by nearly 70% of the population. Islam is second most popular religion practised by around 15% of the population. Majority of customs in the country are influenced by traditional tribal beliefs and Christian or Muslim traditions. Titles are essential and should be used to show respect to those with authority. Shaking hands is the most common way to greet foreigners. Elderly people should at all times be greeted first as a sign of respect.

Demography

In July 2012, Ghana's population was estimated at 25, 241, 998 people, 2, 269, 000 of which lived in Accra, and divided by age as follows: The population growth rate was estimated in 2011 to 1, 787%. 51% of the population lives in urban areas, with an urbanization rate of 3. 4% for the period 2010-2015. Life expectancy at birth is 61. 45 years, 60. 22 years for men and 62. 73 years for women (CIA 2013). Appendix 4 shows the Population of Internet users in Ghana. The Internet users in Ghana were last reported in 2010 to be 2329419. 10.

Environmental System

Ghana is regarded as the gateway to West Africa with a diverse culture and a vibrant economy. Its environment is classified as one of the most attractive for doing business in Africa. The Government's commitment to attain a steady macroeconomic environment has increased the confidence for foreign direct investment. Ghana has a competitive business environment and is now one of the top performing economies in Africa (IDA, 2007).

Legal System

The legal system of Ghana is based on the English common law, and customary law. The Supreme Court, High Court of Justice and the Court of Appeal which constitute the superior courts makes up the court system of Ghana. The 1992 Constitution which is the basic law of the land guarantees an independent judiciary. The National Communications Authority (NCA 2004) and the Ministry of Communications established the needed regulatory and legal structure which assures the security of investments in the ICT industry.

Political

Ghana is one of the most stable nations in Africa, with a decent record of power changing hands peaceably. After ten-year interruptions, in mid-1992, political parties became legal. John Mahama is the Ghana's current president. Ghana is 2nd least failed state in Africa and the 53rd least failed state in the world according to the Failed States Index 2009, the country is graded 124th out of 177 of all countries on the index (Cited in Foreign Policy 2009).

Timing of Entry

Though pioneers sell more than late movers in lots of markets (e. g., Kalyanaram and Urban 1992; Robinson 1988; Robinson and Forell 1985; Urban et al. 1986), a rising body of proof proposes late movers outsell pioneers in some cases (e. g., Golder and Tellis 1993; Lieberman and Montgomery 1988; Lilien and Yoon 1990). Since Huawei has already entered the market, ZTE will enter as a late-comer. It might lose first mover advantages to Huawei i. e. Huawei might have built a strong image, but ZTE can outsell Huawei through innovation and branding its modem to meet unmet needs of customers.

Scale of Entry

ZTE will enter in a small scale to be able to acquire vital information without exposing itself to the Ghanaian market. The problem with this entry scale is the lack of commitment. Still, the idea of entering in a small scale makes sense because the company will enter as a late mover. Choosing a small scale entrance will give ZTE the chance to review how best to enter the market.

Mode of Entry

A firm wanting to enter a foreign market must make a vital strategic choice on which entry mode to adopt. According to Hill (2007), the six key modes of entering a foreign market are franchising, licensing, exporting, turnkey projects, setting up a wholly-owned subsidiary and joint venture with host country firm. Diverse modes of entry infer a different level of control on foreign operation (Anderson and Gatignon, 1986; Calvet, 1984; Caves, 1982;

Davidson, 1982; Root, 1987). Licensing: It involves two parties, the licensee and the licensor who are bound together by a certain agreement that tend to benefit both parties. The know-how right of the licensor is sold to the licensee for a period of time. Franchising: It possesses similarities with licensing but the difference here is that the franchisee pays a royalty fee in order to gain access to the business know-how through an agreement with the franchiser. Joint venture: It is a mode used whereby two or more independent firms come together in an alliance with the aim of achieving a better position in the market. Wholly-owned subsidiaries: It implies the firm has full ownership and control of the foreign entity. The firm can set up a new operation in that country known as a green field venture or acquire an existing company which is known as Acquisition. Turnkey Project: means that the project is assembled with the aim of selling it to any buyer as a finished product. Exporting: refers to the transportation of goods and services from one a one country to another.

Exporting can be divided into two parts:

Direct exporting

This involves the firm selling through an independent unit that is situated outside the home country of the exporter.

Indirect exporting

This involves the firm selling through an independent unit that is sited inside the home country of the exporter. Direct Exporting will be used by ZTE in entering the market.

Advantages

I. It is less risky than foreign based since manufacturing is done home. II. A chance to study foreign markets in advance before investing.

Disadvantages

I. Other low cost manufacturing locations may be missed. II. Trade barriers and transportation cost can make it uneconomical III. There can be opportunistic behaviours by agents abroad. The risk with exporting is high, but compared to the other entries in terms of resource commitments, risk, cost and control is easier.

Factors for ZTE's choice of entry mode

Firm Strategy

Ghana's market has private and public owned service providers. ZTE can export to Ghana partnering with a private company; MTN. Penetration will be in Greater Accra Region, where majority of people have fairly good split between the rural and population speed. Entry level modems for urban populations can be targeted at teens and later to other segments of the population.

Transport Cost

Ghana's public transportation sector comprises of four main modes namely; Road, Air, Rail and Sea. According to the World Bank Group 2010, Ghana leads West Africa in transit reform. As 2006, the country's transport changes had shortened the time to process and transport goods crossing the country and have significantly reduced cost. Transportation cost is cheap in Ghana and will not hinder ZTE's exporting operations.

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Political Risk

Ghana is moving towards a more stable government. The economy is seeing significant progress which is underlined by the relative political stability.

Political corruption in Ghana is though increasing but is better than most African countries.

Cost Strategy

A low cost price strategy should be adopted by ZTE at the initial stage of its entry; it can provide the modem at a low price with maximum features. The Ghanaian market has a high end usage and is very sensitive to price. The low cost strategy can be a weapon for intense competition and price war for a low cost and squeezed profit.

Trade barriers

Ghana is a member of the World Trade Organization (WTO). According to Torian R. 2010, the Ghanaian Ministry of Communication's Information Technology Enabled Service puts effort to attract foreign firms attracted in exporting business processes to Ghana. Also, Ghana has reputable free trade zones that removes or decrease tariff charges and offer other incentives.

Future International Strategy

There are 4 basic strategies to compete in the international market.

Internationalization is the process in which businesses upsurge their involvements in international operations (Welch and Luostarinen 1988). A

global standardization strategy centres on increasing profit growth and profitability by gaining the cost discounts that arise from location economies, economies of scale and learning effects. A transnational strategy is when a

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company tries to concurrently exploit location economies, experience-based cost economies by transferring distinctive abilities within the company and been attentive to pressures for local responsiveness. Localization strategy emphasizes on customizing the firm's services or goods to increase profitability so that they offer a good matched to preferences and tastes in different national markets. Initially Internalization will be the strategy to adopt because ZTE starts on a small scale with a low cost business strategy. Ghana has a relatively less developed telecom industry and will enable ZTE have more advantages in technology usage to be able to satisfy the demand of its customers. Johanson and Vahlne (1977) suggested the Uppsala model of internalization that revealed how the process develops through phases where the business export first through an agent, and then starts a sales subsidiary and in the long run . ZTE can now move from providing the modem for not only MTN but to all six service providers in Ghana. It can then move to Joint Stock and can later in the future set up wholly owned subsidiaries to control local marketing sales and services in Ghana. The measures for internationalization can be developed further (Sullivan, 1994). In the Long-run, the international strategy may not be viable so ZTE will adopt the globalization standardization strategy which will focus on the realization of experience and location curve economies. At this stage there will be pressures of cost reduction due to competition. A challenge ZTE may face in globalising is the lack of human resource talents. It can strategize by enticing skilled R&D staff in specific technological areas which will make it tap in areas that would otherwise be unavailable to late comers.

Conclusion

All entry modes comprise resource commitments and the business early selection of a specific mode is hard to change without substantial loss of money and time. Exporting will be vital in ZTE success and will help the company learn how to lessen risks related with its early stages of entering the Ghanaian market. ZTE's internalization strategy can offer a brand model of its modem which will satisfy the needs of Ghanaians. Its globalization strategy will also help the company earn greater profit than other foreign competitors. ZTE's involvement in Ghana's telecoms sector will be significant if it can gain experience in the Ghanaian market which will be transferred to other markets abroad.