Preface

This report is made as thesis of my master program in Wageningen University. The research lasted over a yeaar. My thesis puts emphasizes on real problems of companies and developing companies for international market in an academic way. For this study I traveled to Sierra Leone and stayed for two months and fifteen days. The field research was conducted in three towns in Kono districts namely; Gbense, Tankoro and Sandor. During my stay I found extra literature and created a detailed plan for the empirical research. The objective of this research is to assess the feasibility of a foreign entry in the Kono diamond alluvial market and to find out modes of Foreign Direct Investment (FDI) for multinationals. It empowers artisanal companies and contributes to the industry well-being. It shows that FDI projects for multinationals will be economically and socially acceptable for these artisanal companies. In the research we will evaluate different FDI entry modes inorder to determine an optimal entry mode for multinationals who want to use these entry modes to enter the Kono alluvial diamond market.

It would be difficult or impossible for me to sort out the names of all those who have assisted me in carrying out my research.
However, the following people contributed in no small way to the coming to fruition of this thesis.
First, I would like to express my sincere appreciation to my supervisors Dr. Harry J. Bremmers , Dr. Hagelaar and Joanna Gusc (PHD researcher) for their significant guidance and support during my research.
Secondly, my profound appreciation to the relevant managers of the various alluvial companies for furnishing me with most of the information that I needed and giving me the opportunity to interview them. Especially, I would like to say thanks to Mr. Martin and Alex Pessima for their support in contacting the right managers of the alluvial companies during this research.
Thirdly, special thanks also go to Mr. Femi, the Assistant Director of The Sierra Leone Ministry of Mine, Lansana Kormoh and Samuel Jamiru Braima, both Lecturers at the University of Sierra Leone, for their help towards the mapping of the region.

Finally I would say many thanks to all my friends and all the people who were involved and contributed one way or the other to the success of my thesis.

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Management Summary

This study evaluates the environment of Sierra Leone for Foreign Direct Investment regarding the alluvial diamond exporting. The alluvial companies were established in Kono, Sierra Leone, in the 1960's as limited liability companies. The start-up costs of operating alluvial company ranged from $10,000 and more. Their main businesses operations were direct production of alluvial diamonds or exporting alluvial diamonds. At the initial stage of the busniness, a company could register as exporting entity or direct production entity, because the law did not allow a company to engage in both activities. The production companies were directly engaged in artisanal mining to explore alluvial diamonds. Then alluvial diamond exporters exported to western countries or direct sale to a foreign agent.

The Sierra Leone alluvial companies are in dire need of FDI from prospective multinational companies who want to enter the alluvial diamond market in Sierra Leone. These needs are demarcated to what they can do with these needs of the alluvial companies in Sierra Leone for the possibility to choose for new multinational companies in entry modes. So, it is more convenient for multinationals to select entry modes that are less risky or more flexible to operate for investment planning period over five years. Firstly, the entry modes have different benefits and costs. Secondly the entry mode with the highest profit contribution is chosen as the most optimal entry mode.

Therefore, the objective of this research is to assess the optimal entry mode for multinationals who want to use these entry modes to enter Sierra Leone alluvial diamond market. In the course of doing this, the external factors on the side of the alluvial companies in Sierra Leone and the internal factors for prospective multinationals who are going to use these entry modes will be assessed in order to give a clear perspective of this potential chosen entry mode.

And the research questions are:

- What entry modes are there in Sierra Leone for foreign direct investment?

- How does the external and internal factors influence the specific entry mode?
- What entry mode is the best based on these factors?

In order to answer these questions successfully, this research has been conducted based on the theoretical models on FDI, which include:

- Factors that influence foreign entry decisions. They consist of the external and internal factors
- Benefits and Costs analysis**.** It is one of the factors that influences these entry modes. Its is used to compare the proft contribution of the specific entry modes.

The empirical part of the research is based on literature and interviews of the relevant people of the alluvial companies and data information on DE Beers international operation.

At the end of the empirical part, the following conclusions are made:

Firstly, the Sierra Leone government's desire is to re-activate the economic activities in all sectors of the economy after the war. To achieve this, the government initiated an investment Act in 2004. This Act provides the legal, economic and financial framework for investment and also provides incentives to attract private investment both domestic and foreign investors. The Act creates good opportunity for the development of production and value adding activities to improve export of alluvial diamonds and create an environment conducive to private investment as well as other related matters.The range of export duty fee of 100% foreign participation is between 2,5% -3% depending on the value of diamond export. According to the Act, companies that have a value of export up to $10million must pay 3% export duty at the time of export. While for a value of export of alluvial diamonds more $10 million can pay 2, 5% on export duties. Which is why the value of export of alluvial diamonds more than $10million at 2,5% export duty remains attractive for multinationals who want to invest in sole ventures or joint venture with local alluvial companies. The latter is not highly represented in the IPA, it is the discretion of the multinational to share the risk of investment with local alluvial diamond companies. This is due to the fact that these companies lack the financial capacity, know-how, management etc

that could attract foreign investors to have joint partnership. The former is well represented in the new Act, because it provides guarantees as well as miscellaneous matter such as expatriate, labour requirements, expatriate first arrival duty waiver, access by investors to local knowledge, settlement of investment disputes and the repeal of the non-citizens trade and business act 1969. These factors are considered to be of greater importance when choosing optimal entry mode.

Secondly, only the specific entry mode whose external factors are less risky could be a possible candidate of the optimal entry mode. This depends on whether the external factors of specific entry mode provide a higher perceived benefit or value for multinationals. Moreover, the flexibility of multinationals to invest in entry modes with alluvial companies is likely to moderate. The needs of the alluvial companies are very well limited due to the struggling economy state of Sierra Leone. The major need of these companies is financial or someone from abroad who can help them to improve their business. Now, several economically active group (alluvial companies with good financial position) don't care less about the new investment promotion Act, but rather have decided to invest in joint partnership with foreign investors from abroad under all costs with special preference attach to multinationals from the Netherlands or Belgium. The alluvial companies often control a great number of rough alluvial diamonds in the region, which at most occupies 50-60% of the total diamonds exports from Sierra Leone to Belgium, Isreal and USA and the foreign investors set the prices of these diamonds. Some even want multinationals to acquire their business with attractive prices. As a result, the price competition of alluvial diamonds is very intensive in this market.

Thirdly, a valid profitability analysis has been calculated for these entry modes, which consist of the expected benefits and costs of using these entry modes. Each element of the benefits of these entry modes is consistent with each other. The profit contribution of an entry mode maximize benefits for multinationals, especially entry mode that maximizes profit contribution due to exemptions from taxations, avoiding tariff and non-tariff barriers, access to local market and knowledge etc. In order to maximize the profit contribution of these entry modes, multinationals should choose the entry modes with the highest profitability and then invest in the entry mode with the lowest risk.

Lastly, through the profitability analysis, we can find the earnest of investing in entry modes. The licence fees, export duties, and other expenses associated with each entry mode are necessary for the profit contribution of these entry modes. This implies that all

entry modes have passed the feasibility test at the level of profit contribution when comparing the profit contributions of these entry modes. However, there are differences in both the cummulative profit contributions or cash flows between the entry modes. The entry mode with the highest profit contribution is joint venture followed by acquisition and new establishment. The cash flows of these entry modes will occur in investment activities which include, revenues from sales of alluvial diamonds, operating expenses, acquisition of companies, wages and salares, licences and government fees for a given entry mode. Based on the NPV analysis, the entry modes were discounted at 15%. Joint venture produced the highest NPV of $2,144.33 with per dollar value of investors domestic rates of return of $20.32. Acquisition produced NPV of $ 2137 with per dollar value on internal rate of return of $21.37 and new establishment produced NPV of $1,516.36 with per value of investors domestic rate of return of $15.16. therefore, for multinationals who want to maximize the internal rate of return, acquisition is a favorable candidates of entry in the alluvial market, because it produces the highest per dollar value of $21.37.

In other words, it is feasible for multinationals to use acquisition as a choice of entry mode in the Sierra Leone alluvial diamond market, although what they can do with the needs of the alluvial companies is well limited. This is because the multinationals have to bear all the expenses on their shoulder. In addition, the multinationals can hire and train local managers or consultants in order to gain the local knowledge and get access to the alluvial market

Chapter 1 General background and research objective

1.1 Introdution

The objective of this research as elaborated below is demarcated to the different FDI entry modes options for prospective multinationals. In this chapter we will discuss the background of the research which will be illustrated with information on the state of the companies and their needs.

1.2 Demarcation of Research objective

It was stated above that alluvial companies are in need of Foreign Direct Investment from multinationals in the Netherlands. The needs of these companies are, *inter alia,* financial, technological, skill-training in nature. As a result, the alluvial companies are looking for possibilities to trade with foreign investors**.** The FDI options include joint venture, acquisition and new establishment. These needs are demarcated to what they can do with these needs of the alluvial companies in Sierra Leone for the possibility to choose for new multinational companies in entry modes. However, we will focus on the factors influencing multinationals´ choice on entry modes for alluvial diamond exporting from Sierra Leone, in that these needs of these companies can be included in the external and internal factors analysis influencing these entry modes. The thoery of foreign direct investment will bring forward the external, internal and benefits and costs factors of these entry modes.

1.2.1 Description of the Research objective

The objective of this research is to assess an optimal FDI entry mode for international Dutch companies going to invest in the Sierra Leone. In the course of doing this, the external factors on alluvial companies in Sierra Leone and the internal factors for prospective multinationals who are going to use these entry modes will be assessed in order to give a clear perspective of this potential chosen entry mode.

1.3 Purpose and Research Questions

Based on the research objective and description, the research purpose is to assess an optimal entry mode for Dutch multinational companies who want to use FDI entry modes in Sierra Leone.

Inorder to achieve the purpose of this thesis, the following research were developed.

- What entry modes are there in Sierra Leone for foreign direct investment?
- How do the external and internal factors influence the specific entry mode?
- What entry mode is the best based on these factors?

1.4 Thesis Outline

This report will be divided in five chapters as shown in figure 1.1. The research background, theoretical models, methodology, analysis of results, and conclusion and recommendations.

1.The research background presents the research area through the background. It contains the overall purpose which leads to specific research questions and it clarifies the demarcation and the outline of the thesis.
2. The theoretical models will present theory on FDI and will lead to a concluding model used in this report.
3. The third chapter, methodology, will operationalize the external factors from the thoeretical models, collect informations on factors and analyze these factors.

Figure1.1 **Error! No topic specified.**

1.5 Background

1.5.1 General information on the state of alluvial companies

Alluvial companies were established in Kono, Sierra Leone, in 1960's as limited liability companies. The start-up costs of operating alluvial company can be in a range from $10,000 and more. Their main businesses operations were direct production of alluvial diamonds or exporting alluvial diamonds. At the initial stage of the busniness, a company could register as exporting entity or direct production entity, because the law did not allow a company to engage in both activities. The production companies were directly engaged in artisanal mining to explore alluvial diamonds. Then alluvial diamond exporters exported to western countries or direct sale to a foreign agent.

However, lip service was paid to strong preferences of FDI. As a result of this, most of the companies whose needs were not met were forced to go out of business. Prospective multinationals which had all the resources to meet the needs of these companies would make use of the entry modes option of FDI to enhance possibilities for new multinational companies in Sierra Leone. There are 38 registered alluvial diamonds exporting companies with eighty companies serving as agents for the major exporters and the estimates of alluvial diamonds exported was 668,655 carats worth $141,940,244 at $212,27 per carats in 2005.

An increasing number of alluvial companies were in need of FDI since end of 2000. Doing busniess in Sierra Leone alluvial industry became more and more difficult for companies after the eleven years of civil war. There are external and internal factors that influence specific FDI entry mode options of multinationals that want to use their resources to meet the needs of alluvial companies in Sierra Leone. The external factors are the uncontrollable factors of alluvial companies and internal factors are the controllable factors for multinationals which will be discuss in due course.

1.5.2 The Need of the Companies

Depending on the kind of FDI activity, commitment and resources, alluvial companies will develop within few years. The companies are looking for foreign investors who will bring capital and know-how inorder to improve their performance in their outputs and increase in their returns. In addition most alluvial diamond companies are currently presssing the government to assist in promoting good governance for companies and to provide more information on companies for wider use in attracting FDI. Therefore, the kind of FDI entry modes and its commitment and resources are crucial to companies.

Furthermore, although alluvial diamond business in Africa is cash-based, there is need for a good banking system to provide financial settlement at both export and import level for FDI, inorder to enhance transparency, limit vulnarability of money laundrying and provide increase revenue for companies and the government in the form of taxes, royalties etc

Chapter 2 Theoretical models

2.1 Introduction

In this chapter we will discuss the theoretical models for the FDI thoery based on our background and objective. The first model describes what different entry modes for FDI. The second model on the external and internal factors that influences these modes. The final is the profitability analysis as also one of the factors that influence FDI entry modes.

2.2 The theory of foreign direct investment

2.2.1 What are entry modes?

Most exporting manufacturers prefer to stay out of direct production because of high tariffs, economic factors or other imports barriers imposed by governments, and more intensive competition within a domestic market. Foreign Direct Investment entry modes require commitment to substancial financial, managerial, and technological resources to an international venture and it involves more risks than direct exporting. However (Chaim Even- Zohar, 2003), emphasized that good a system of licensing all production manufacturing rights, government policies towards taxes and royalties, state of the economy, price etc, will increase the revenue for companies in Sierra Leone. FDI by MNC's in domestic production company marks a critical step in its revolution as an internationalization of alluvial companies in Sierra Leone. Foreign direct investment entry modes include joint-venture, new establishment (sole venture) or acquisition (sole venture) (Root). Below, we discuss the different FDI entry options.

2.2.1.1 Joint-venture

The joint venture can be used both as export and direct investment in production manufacturing. Besides the advantage that a lower investment is required a joint venture offers the foreign partner expertise knowledge, like example the knowledge about the national market and distribution network. Joint ventures may also provide other benefits like local connections or access to distribution channel which both may be relationship depended. The obvious downside of a joint venture is most importantly the loss of control and the possibility for disagreement. The potential of learning is important and when combining resources of two companies there are excellent possibilities to do that with low investments. (Karel, 1991)

When using joint-venture as an FDI entry mode, high entry barriers can be avoided without losing the control. In some countries there may be a limit for foreign ownership for some companies and joint-venture is a suitable way to circumvent that.

2.2.1.2 New Establisment (sole venture)

New establishment is a risky operation, in that skills and knowledge about the local markets still may have to be acquired by hiring nationals or consultants. (Brouthers and Brouthers, 2000). New establishment in developing countries involved high start-up costs or high initial cash outflow and it is very difficult to disinvest in the event of failure or change in strategy. In addition, new establishment requires earlier knowledge about the target market and its local characteristics, because the entry process is mainly based on hiring nationals or consultant's earlier knowledge.

2.2.1.3 Acquisition (sole venture)

An acquisition is a business operation where one company buys a one hundred percent control over another company with intent to make the acquired company to be a subsidiary business within its business portfolio (Hitt, Ireland and Hoskisson, 2003: 260). Acquisition of local companies by foreign investors can be seen as way of taking over the industry by foreign investors. For instance, in Sierra Leone, the popularity of acquisitions is not common. The process can be complex and usually government approval is needed to make the acquisition possible.

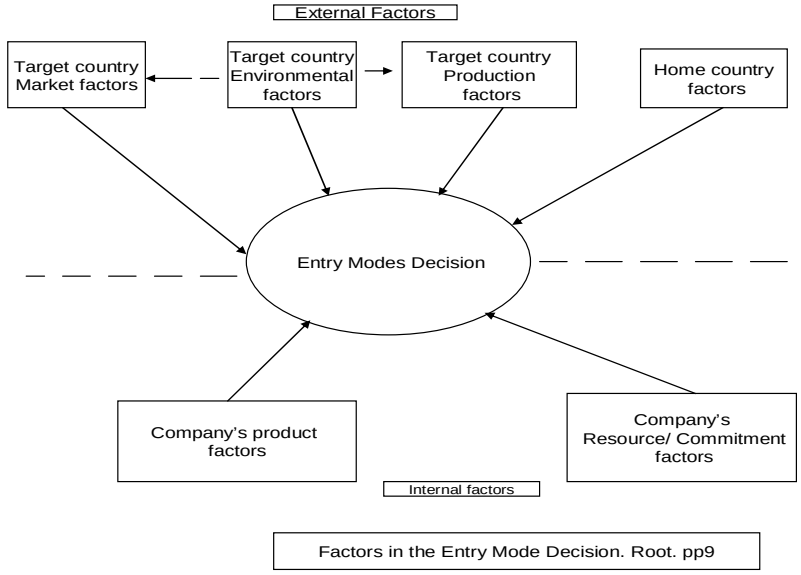
2.2.2 How to choose mode of entry?

Choosing any entry modes for a foreign market depends naturally on the commitment and the availability of resources.

Available Resources. There must be available resources, because some of the choices might be unavailable because of the costs entailed.

Commitment. It is difficult for small or medium size companies rarely to have the capacity to engage in heavy FDI activities and constraints in resources might even prevent companies to engage in FDI (Roots).Therefore available resources and commitment can be the base on which mode of entry to choose.

Moreover, choosing any entry modes is influenced by both external and internal factors. The external factors are the uncontrollable factors and these consist of the market factors in the target market, production factors, environmental factors and home country factors, and the internal factors (controllable factors) consist of product factor and resource commitment. To handle such situation managers should use analytical models to make comparison. This model will enable managers not only to understand the current environment situation of a target country but allow business to become international (Roots). Figure (2.1) below shows the external and internal factors influence the decision making on mode of entry.



Factors in the Entry Mode Decision. Root. pp9

Therefore, the external and internal factors will be discuss. The external factor and internal factors analysis is necessary to obtained relevant information on the benefits and costs of entry modes . In addition to collecting informations on external factors analysis, it is necessary to operationalize the external factor analysis through the PESTEL analysis (Roots). The PESTEL analysis will be introduced in the methodology.

2.2.2.1 External Factors

2.2.2.1.1Target market factors(alluvial diamond market)

The first indicator here is the sales potential of the market for specific FDI entry mode options. If the market is identified with low sales potential but have future prospect, FDI joint venture entry mode can be a good option. This entry mode is less risky than new establisment because it share can share risks if the sales potential turn out to be negative. Conversely, if the market is identified with high sales potential then all the specific FDI entry modes are options.

Also, the competitive structure of the foreign market has influence on specific FDI entry modes (Root). If the market is dominated by few strong companies(oligopolistic), new multinationals that have no idea of the market might prefer joint venture to new establishment entry mode. To explain this further, established oligoplistic companies will not see a new multinational as threat but as a partner in business. This will augur well for a smooth cooperation between the local companies and the new multinational. The new joint venture multinational will profit many ways. It can have access to the local market of the local companies. Moreover it can benefit from the technology, if any, of the already established companies. On the other hand, if a new multinational wants to enter the market as a new establishment, it may come up against a lot of obstacles in the form of sabotage from the already oligopolistic markets and government bereaucracy.

2.2.2.1.2 Environmental factors in target country

This category covers very wide area of analysis as it is defined by the economic, sociocultural, and political environment of the target country (Roots). As such the potential elements to be mentioned here are endless. However, one thing we obviously need to look out for is trade barriers, be they tariff or non-tariff in nature for any FDI entry mode options. High tariff and non-tariff barriers may favor joint venture than acquisition and new establishment (Rea,1997). If there is high export tax for instance, it will discourage multinationals to invest, but if it is low it will encourage multinationals. Because high tariff will have negative effect on profits and costs of the business. If there is high tariff it will increase prodution costs and reduce total revenue of the investment. Conversely if there is restrictive non/tariff barries such as restricitive license it will encourage joint venture and acquisiton than new establishment, because they already have people with licenses than new establishment who might have to start from scratch. As a result, low tariff barriers, and high non-tariff barriers may favor joint venture and acquisition than new establishment when making choices on the cost of using specific FDI entry modes.

2.2.2.1.3 Production factors in the target market

Moreover, production costs influence entry mode in no small way. However, production costs in a target market favor certain FDI entry modes. If the factors of production are low, all options are good options. Low production costs encourage prospective investors to use all the entry modes, because total cost of production will be low while total revenue will increase. This will maximalize profit for multinational companies. For instance if labor costs are low it is cheaper for the cost of production and this may encouarge multinationals to invest more. But, If the factors of production are costly it will be expensive to start new establishment or even acquisition.

2.2.2.1.4Home country factors (of investor)
Lastly we have the conditions of the home country (i.e. the domestic base). The market of the product in the home country of the investor have great influence on these entry modes. Because if home country of investor has policy towards importing the product that involved high documentation and certification standards, it is profitable for the investor to export to other destinations where the procedure requires less documentation and certification.

2.2.2.2 Internal factors

Now we turn over to the internal factors of the company which exert influence on the decision of FDI entry mode.

2.2.2.2.1The product
The product complexity and differentiation may very well influence specific FDI entry mode options. This can happen when technology transfer and exisiting know-how will bring risk. Costs of using new establisment entry mode option might be unbearable if the product involves high costs to, for example import machines that are indespensible to exporting companies. Moreover, new establishment entry is not a good option if local consultants or experts are too expensive. Hence, if product costs are

high and it is expensive to pay for consultant knowledge, new establishment may not be favorable for multinationals due to heavy operating costs involved.

2.2.2.2.2Resource and commitment factors (of investor)

These factors have been mentioned above which is the pre-requisite for engaging in specific FDI entry modes in Sierra Leone.

2.2.2.2.3 Risk

Risk is defined as the level of expected benefits (returns) and costs connected to a specific foreign entry modes during an investment period (Sanjeev Agawar, 1990). The risk connected to joint venture is low as compared to new establishment and acquisition. The latter involve high costs. The reason for this is that joint venture risk is spread between the local company and the joint venture company. Whereas new establishment and acquisiton wholly and squarely bear the risk on their shoulder. Below, we will categorize the level of risks of these entry modes based on the expected benefit (returns) and costs to produce by the different FDI entry modes for future analysis:

- Low level risk . This level of risk is coupled to the entry mode that is less expensive and has low expected return of all entry modes. So any entry mode that has low level of risk are less expensive and has low expected return.
- Medium level risk.The medium level risk entry mode is tied to entry modes with high investment costs and has high expected return.
- High level risk. The high risk level entry mode is connected to need of higher operating costs and higher expected return on investment of the specific entry modes during the five years of investment. In addition, high level risk entry mode gives the highest control on international business than the other entry modes. The reason is that you owned 100% of the company.

Hence, the levels of risk discussed above exhibit that the potential return of the specific entry modes rises with an increase in risk . Low levels risk are associated with low potential returns, whereas high levels of high risk are associated with high potential returns

(Peter Widen, 2007, pp10-25). In other words, the risk-return trade-off says that invested money on specific entry mode can render higher profits only if it is subject to the possibility of being lost.

2.2.2.2.4 Flexibility

Furthermore, the flexibility associated with each specific entry mode has to be weighted up, because the level of commitment across the entry modes increases with risk. Flexibility is therefore, defined as the level of commitment multinational companies attach to the level of risk of specifc entry mode. Below we will categorize the level of flexibility of these entry modes.

- Most flexible entry mode. Joint venture is considered as the most flexible entry mode, because the costs are considered low, multinationals may overlook the risk of sharing the costs with alluvial companies.

- Flexible entry mode. Acquisition can be flexible or not depending on the state of the company. If the multinationals acquire a company that is in good condition, it is possible they may overlook the risk of acquring the company. But if the acquired company is dilapidated, multinationals will find it impossible to use the infrastructure of the company. So multinationals will be inflexible to acquire a company that under bad condition.
- Least flexible entry mode. New Establishment is the least flexible entry mode. Since it involve high costs, multinationals will be critical to start such an investment. So multinationals will be least flexible to undertake such investment decisions.

2.2.3 Relationship between factors and the specific entry modes

The reason of making these relationships with the specific entry modes, is to help us to operationalized these factors and find out what forces will affect them given a specific entry modes.

External factors

Market factors. The revenue potential of entering the domestic market for joint venture or acquisition and new establishment entry modes will increase the revenue level of domestic companies as well as multinationals (UNCTACD, 2005). This is related with the attraction of the FDI entry mode above that presents potentially higher and more direct impacts to the needs of alluvial diamond companies. For instance, sole venture in new establishment in Sierra Leone is settled by either imported cash, or more often, foreign investors. None of these add value (profits) for alluvial companies because the alluvial diamonds companies don't directly benefit from new establishment of FDI .

Environmental factors. High tariffs barriers (such as taxes, licenses fees, export duties etc) is connected to high operating costs for new establishments or acquisition entry modes than joint venture (see analysis above). An example is the alluvial mining joint venture between the National Mining Company (NDMC) and the Government of Sierra Leone in the period 1962-1967. The company paid a corporate tax rate of 60 % on taxable profits plus 5 % service fees. If the NMDC was once willing to pay a 65% tax rate including license fees, export duties etc, it is because the Sierra Leone diamond production remains attractive to foreign investors and is related to the profit contribution of the joint venture. Therefore, high tariff barriers is important factor on decision joint venture FDI or new establishment.

Production factors. The product cost is related to the finance needed for inputs of specific entry mode options. The cash needs for local inputs for starting new establishment of alluvial company is relatively estimated at $40-$60 millions annually which is 10-15% of the alluvial diamonds output of the industry. For that reason, production costs is linked to cash needs for local inputs of specific entry mode, if there is stable political situation it will lead to low cost of production and it will be cheaper for all the specific FDI entry mode options.

Home country factor (investor). The company's resources is correlated to skills, financial capacity, etc needed by host country companies' inorder to start fully established establishment or joint venture. Therefore, home country factor of investor are related to the skills, financial needs for new establishment or joint venture.

2.2.4 Profitability analysis of FDI entry modes

The profit contribution analysis regarding FDI entry modes is intended to allocate resources for specific FDI entry modes and is one of the factors that influence these modes. Profitability analysis requires that managers make estimates of both incremental costs and incremental revenues projected over the life of a proposed FDI entry modes. The profitability analysis involved benefits and costs analysis of the different FDI entry modes options. The profit contribution of the venture is then calculated by subtracting all incremental costs from incremental revenues. Thus, Comparative profit contribution analysis requires five steps (Roots), these steps are illustrated in figure 2.2

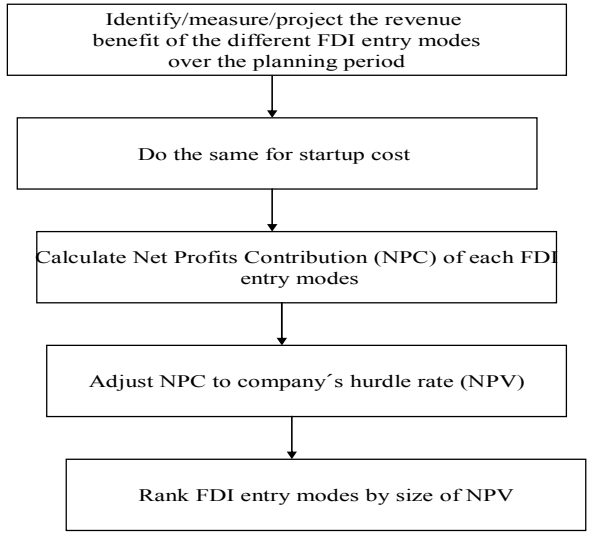


Figure (2.2), Steps in profitability analysis.

Source: F. Root, Entry strategies for international market pp165.

2.2. 4.1 Benefits identification, measuring and forecasting of the different FDI entry options.

The table below illustrate the differences in benefits for the different FDI entry mode options based upon the external and internal factors that influence them.

Benefits\ FDI entry modes	Joint venture	Acquisition	New establishment
lower investment	x	-	-
high sales potential	x	x	x
Avoiding high entry/trade barriers	x	-	-
Potential for learning	x	x	x
Faster start	x	x	-
Choice of the acquire firm or partner	x	x	-

table 2.1 Source: Peter Widen (2007). Differences between internal and external factors that influence entry modes pp20-50.

The (x)signs identified that a specific FDI entry modes is positive for a given benefits and the (-) identified that the specific FDI entry mode is negative to that benefit. For example, in forecasting of expected revenues benefits of a FDI joint venture should demonstrate the following characteristics; profit lower investment, profit form from high sales potential, lower trade barriers, choice of a partner and potential for learning . The loss of of profit cntribution is a constraint to the venture. Therefore, the

benefits of FDI entry modes are measured based on their profit contribution, that is to say the incremental revenues. Below these benefits are discussed in detailed.

Lower investment. Joint venture requires lower investment because of investment sharing between two companies and partner may earn more profit depening on the resources and skills they provide.

High sales potential. Because there is big investment on the part of the multinationals, the specific FDI entry mode options has the potential to provide a very large sales volume of product and profit.

Avoid high trade barriers. The potential to benefits from government incentives, taxes and viewed as an insider will create savings for specific FDI entry mode.

Faster start. The faster entry mode to enter the market.

Potential for learning. The specific FDI entry mode options will make multinationals have greater knowledge about the local market.

Choice of the acquire firm or partner. Multinationals can now choose their own partner or the business they wants to acquire.

2.2.4.1.1 Project benefit contribution

The benefits of the different FDI entry modes are dependent mainly on the external and internal factors. The company's expected benefits on the specific FDI entry modes is the basis for projecting the incremental revenues. Its revenues are limited to the factors mentioned above, additional revenue may come from royalties, government incentives etc.

Oneway to start the projection of sales revenue benefits of the different FDI entry modes more realistic is to incorportate the knowledge of current trends by people who are directly involved with the market environment, such as local managers of alluvial companies. Local managers are not only familiar with the current trend of external envionment of their business, but also the internal factors that affects their businesses such as, product competitveness, financial commitment etc. They can help in prediciting or forecasting the sales potential for using specific FDI entry modes in Sierra Leone. The other way is to evaluate the country's export sales volume or manufacturing volume of alluvial diamonds and then predict the specific FDI entry mode workable for the market, because their differences from benefits and costs perspective are similar with each other.

2.2.4.2 .Startup and operating costs identification.

The level of sales will have an influence on many other items in the profitability analysis with foreign entry modes, including start-up costs. The term start up costs include both fixed and variable costs, and these costs describes how a cost reacts in activity (Drury, 2004), such as revenue/sales.

- Fixed costs remain constant over wide range of activity for a special time period. The total fixed costs are constant for all levels of activity (Drury, 2004). Some costs are depreciation, rents, insurance, etc may stay fixed during the period, irrespective of the level of sales.

- Variable costs vary in direct proportion to the value of activity. Total variable costs are linear and unit variable costs is constant (Drury, 2004). Varibale costs may include short-term manufacturing costs such as piecework labor, administrative expenses, direct mataterials and energy to operate machines (Drury, 2004).

- Semi-fixed costs. The distinguishing feature of semi-fixed costs is that within a given time period. They are within specified activity levels, but eventually increase or decrease by a constant amount at various critical activity level.

- Semi-variable costs include both fixed and variable costs (Horngen, 1994). For example annual business registration and license costs would be a variable costs with respects to the number diamonds manufactured or exported by the business, but registration and license costs for a particular business is a fixed costs with respect to the number of output of diamonds the business can covered during the year.

The distinguishing feature of both fixed and variable costs is that, they eventually increase or decrease with activity level. Variable costs and fixed costs are elements of total cost and they are most frequently recognized for their cost behaviour patterns in relation to activity level (Horngen, 1994). Therefore, the total costs is projected both in variable and fixed costs elements.

The forecast of revenue and costs for each entry mode will provide the bases for projecting the operating revenue and costs of a particular entry mode for the period. Each item of costs will be listed in table….. sample projected operating revenue and costs of a project.

Table showing projected operating revenue and operating costs for a particular entry mode.

Year	(1) Production	(2) Price	(3) Sales Revenue	(4) Cost per unit ($)	(5) Operating costs ($)
1.					
2.					
3.					
4.					
5.					

Forecasting cash flow items

costs\ FDI entry modes	Joint venture	Acquisition	New establishment
Business registration and documentation cost	-	-	x
license fees	x	-	x
taxes	x	x	x
Contribution of machinery and equipment	x	x	x
Wages and salaries	x	x	x
Litigation and legal cost (ongoing costs)	x	x	x
Acquisition costs of local companies	-	x	-

table 2.2 1 Source: Peter Widen (2007). Differences between internal and external factors that influence entry modes pp20-50.

The (x)signs identified the costs involved for a specific FDI entry modes and the (-) identified that the particular costs is not included for a specific FDI entry mode. For example, the costs for acqusition includes, cost of contribution on machinery and equipment, wages and salaries of employees, litigation costs, taxes, acqusition costs and so on. These costs of FDI entry modes are measured on the base of incremental costs of using a specific FDI entry modes. Below these costs are discuss in detailed.

Business registration and documentation cost. To conduct business in any FDI entry modes, it must be registered as a business name and its involved paying fees for the documentation.

License fees. The business will need government licenses and permits before it can start for any of the different FDI entry modes.

Taxes. The tax level of specific FDI entry mode options.

Contribution of technology and know-how. The cost of machines or equipment of some specific FDI entry mode options can be too high

Acquisition costs of local companies. This is the amount the multinational will pay for acquiring a alluvial diamond company.

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2.2.4.2.1 Projecting the Incremental costs.

The next step in profitability is an estimation of all costs incurred for any of the different FDI entry options in using them by the prospective company over the investment period. The FDI entry modes running costs depends on the availability and costs of all inputs needed to achieve the planned level of production. Table (2.2) above depict the possible cost factors necessary of projecting the costs of a specific FDI entry mode.

A 'workable' FDI entry mode is a mode that offers a company acceptable profits at an acceptable risk over its planning period. The profit contribution formula can be formulated as:

$$PC = \sum_{t=1}^{t=n} (R_t - C_t)$$

where PC is profit contribution, R_t is revenue in period t, and C_t is the cost in period t. R_t and C_t are summed over all n planning periods.

2.2.4.3 Net profit contribution (NPC)

Th profit contribution of FDI entry modes is identical to its incremental cash flows and is the net revenue its will earn for a company over the planning period. Now that we have projected the incremental revenues and costs, we will present a table which depicts the profit contribution which is just the same as cash flows. The planning horizons of the different FDI entry modes can always be same by using terminal values (Roots), but here we assume 5-10 years time horizon for the specific FDI entry modes. Below Table 2.3, shows a sample of the incremetnal cash flow.

A sample profit contribution (cash flows) of specific FDI entry modes (in thousands of dollars)
All cash flows will occur at the end of the year.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Profit contribution:						
(1) Sales revenue						
(2) Start-up costs						
(3) Depreciation						
(4) income before taxes [(1) – (2) – (3)]						
(5) Taxes						
(6) Total net profit contribution [(4) + (5)						

The table 2,4 below illustrate a comparative profit contribution analysis in a situation where two or more FDI entry modes are feasible. This example is simplified, because we are only dealing with FDI entry modes. The planning horizons of the different FDI entry modes options are assumed to be identical.

Estimated Net Profit Contributions of the different FDI entry modes by each year of the plan: Sierra Leone.
($000)

	End of year					
	0	1	2	3	4	5	commulative
Joint Venture							
Acquisition							
New establishment							

table 2.4

2.2.4.4 NPV analysis

Net Present Value technique is the best one for evaluating capital budgeting projects for firms because it uses all cash flows of projects and discounts a set of cash flows from projects at an appropiate risky rate (Ross, pp 140). Its requires that managers have to discount all incremental costs and benefits for using specific FDI entry modes. Acquisition entry, for example will ordinarily bring quicker returns than new establishment. Therefore, the different FDI entry options will have a different time profiles for revenue and costs. Table 2.5 will illustrate the FDI entry modes that offers the highest NPV of the estimated net profit contribution by discounting at a company's hurdle rates.

NPV of Estimated Net Profit Contributions of the different FDI entry modes by each year of the plan: Sierra Leone.
($000)

	End of year					
	0	1	2	3	4	5	commulative
Joint Venture							
Acquisition							
New establishment							

Source: F.Root (1996). Entry strategy for international markets Pp. 165-167.

2.2.4.4.1 Discounted Cash flow analysis

The results of the investigation outlined in the previous section need to be brought together in a financial analysis of the different FDI entry modes.The recommended form of capital budgeting is discounted cash flow analysis that takes into account the time value of money (Ross). It is not the purpose of this research to trace the financial analysis of a FDI entry modes, but rather discuss the special external and internal factors that distinguishes their capital budgeting for the different FDI entry modes from international perspective.

Table (2.4) presents the summary cash flow analysis of the different FDI entry modes in dollars, that is to say, for the purpose of this research. The investors time horizon is 10 years, but estimated cash flows are shown only for 5 years, with terminal value indicating the FDI entry modes market value at the end of the fifth year. The estimated net post-tax cash inflows are the financial expression of a specific FDI entry modes ten-year operation plan, involving estimates of both operating revenues and costs. The negative cash inflows in year 0 represent the FDI entry modes outlay in dollars.

2.2.4.4.2 Discount rates

The FDI entry modes which offers the highest profit contribution after discounting at a company's hurdle rate is a feasible FDI entry mode (Roots, 166). However, most cash flows from real-world capital budgeting projects are risky (Ross). It is necessary to

determine the discount rate when cash flows are risky inorder to determine the preferred entry mode. There are two factors influencing when dicounting profit contribution of feasible investment or FDI entry modes, which is depicted in figure 2.3.

Source: Source: F.Root (1996). Entry strategies for international markets Pp. 165-167.
Hurdle rate. To choose a preferred FDI entry modes that maximizes profit contribution, company´s can discount that FDI entry mode which offers the highest profit contribution after discounting at the company´s hurdle rate (Roots). So hurdle rate is all the capital a company needs for any specific FDI entry modes.

Return on investment. Rates of return is useful to ration capital for a preferred FDI entry mode and rank them according to their rates of return. Firstly, the cummulative net present value can be calculated per value of FDI entry modes base, which is the profit contribution per dollar of their initial outlay. Another way is to discount at the internal rate of return, which is a discount rate at which the net present value of an investment is zero. So the internal rate of return is all the company's require for specific FDI entry modes expenditures proposals.
The simpler approach will be chiosen based on the data and charateristics.

The NPV formula can be formulated as:
NPV= [F1 /(1+d) + F2/(1+d)2 + …….Fn /(1+d)n _ In]
Where F represents net cash inflows;I, the original investment and d, the discount rate or hurdle rate.
Steven A. Ross, Randolph W.Westerfield and Jeffery Jaffe (2002), Corporate Finance, Sixth edition, McGraw-Hill, London.

2.2.2.5 Ranking the FDI entry modes

Rea (1997) emphasizes that, the complexity of the FDI entry modes makes all the more desirable an analytical framework that facilitates systematic comparisons among alternative entry modes. The benefits and costs analysis of which foremost includes comparing projected cash inflows and outflows, net cash flows, NPV(time adjusted cash inflow) and risk preference of specific FDI entry modes. The framework presented (table 2.6) here assumes the profitability of the different FDI entry modes over the planning period.

	Projected cash inflow	Projected cash outflow	Net profit contribution	NPV of NPC	Recommended entry mode
New establishment					
Joint venture					
Acquisition					

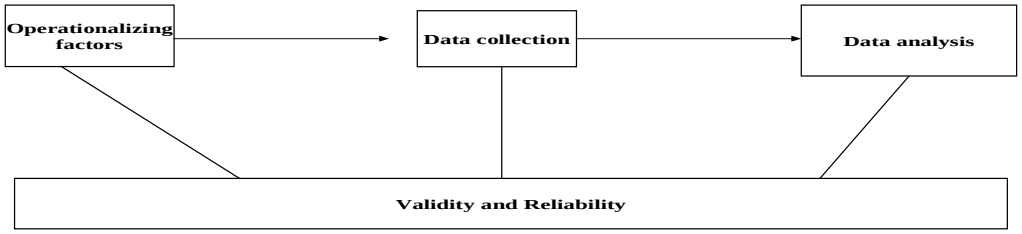
Source: Peter Rea, Harold Kerzner (1997), Strategic planning guide, a practical guide, ISBN: 978-0-471-29197-8 Paperback.

- The projected cash inflow is based on the unit sales and other projected cash inflows (such as royalties, contract fees, management fees, Sierra Leone taxes and foreign repatriation in Euros).
- The projected cash outflow is based on projections of FDI entry mode operating costs borned by these entry modes.
- The net cash inflow is the difference of the projected cash inflow less projected cash outflow.
- The time adjusted cash inflow is the net present value.

Part 2 Emperical survey and analysis

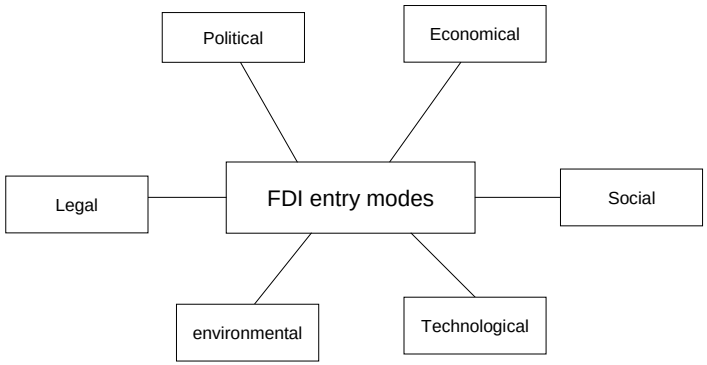
Chapter 3 Methodology

In this chapter the methodology used in this thesis will be discussed. This chapter presents and motivates how, the data will be collected inorder to find answers to our research questions and by that fulfilling the objective of this research. Its starts with operationalizing the factors that influence specific FDI entry modes followed by data collection and data analysis. Finally, the means of how to increase validity and reliability are discussed. The presentation of the methodology is presented below in figure 3.1



3.1 Operationalizing

The external and internal factors by root is too broad to ,so the PESTEL analysis seek to evaluate how the forces of these factors affects the specific FDI entry modes and assist in deciding on the optimal FDI entry mode. At a macro level, these factors are divived into six categories: Political, Economical, Social, Technological and Legal (Anna Nilsson, 2006). Roots emphasizes that the PESTEL framework develops this statement by explaining: Political, Economical, Social,Technological, Legal, and Environmental forces and the acronym PESTEL can be basically use to operationalized these factors on the specific entry modes. Figure 3.2



Therefore, the external forces should be systematically monitored. The PESTEL analysis will be used to operationalized these factors and obtain relevant data on political, economical, social, technological and legal factors on these different FDI entry modes and to interpret them. Having identified the different categories, investors must be able to recognize the existing benefits and costs of these different FDI options.

3.1.1 Political

The political environment in which the multinationals operate is mainly influenced by the politcal forces in an industry or country. The politcal forces refer to political trends, government policies and interventions and political risk (Johnson, G, 2005). Johnson also states that the main emphasis should be put on the forces that are most likely to be the drivers of change and that have the most severe impact on the external environment of a company. Therefore, the factors of the political environment are crucial to a international business, because the forces of the political environment will actually determine the chances of multinationals access to the alluvial market resources and especially established relationships with government and the alluvial companies.

In addition, government regulations on taxation and foreign trade will affect multinationals that want to invest in sierrra Leone. Through these regulations, the government can encourage foreign investments through incentives. On the other hand, deterrent to engage in foreign production (Johnson, G,2000). The taxation systems vary both in content and interpretation. However, firms are also attracted to countries with low taxes on income, given that such political polices are stable. Moreover tariffs may play an important role, but the effects of tariff policies might have two sides. Firstly, as high tariff barriers and non-tariff barriers may make it expensive for foreign firms to invest in a market. If the tariff barrier and non-tariff barriers are high it will increase the expected costs of specific entry mode. Secondly, having production in a high tariff barriers and non-tariff barriers country can lead to high production costs if the inputs cost prices are high. And, this will make it very expensive for multinationals to invest in some specific entry mode. In such case only low level risk entry mode can be used to approach such market since it is cheaper and a more flexible entry mode than the other two entry modes. Typical tariff and non tariff barriers are as follows:

Tariff bariers

- Export tax
- Export duties
- licence fees

Non-Tariff Barriers:

- Employment law

- Restrictive license
- Bribery and corruption
- Unfair custom procedure
- Documentation standard
- Inadequate infrastrucutre

3.1.2 Economical

Furthermore, the economic environment both at local and international level has significant impact on the economic factors. Because exhange rate net effect will reflect the internal rate of inflation and this may have negative or positive effect of the state of the economy. If the local exchange rate increases, inflation will increase and the local currency will become more available to foreign investor due to his holding of strong dollar/euro curreny. As a whole, it will be economical for the multinationals to use all entry modes irrespective of the risk level because it is less expensive for them to operate. Conversely, if exchange rate increases, companies will struggle with lower profitability due to increased costs of inflation. Typical examples economic factors are follows:

- currency rates
- interest and inflation rates
- restrictions on repatriation
- cost of raw materials
- GDP
- Labor cost
- Unemploment rates

3.1.3 Social

Moreover, the social forces can be defined as the ways in which FDI entry modes are influenced by changes in the social forces (Aubert, 2007). The differences in culture distance, income distribution, level of education, economical development etc, becomes

an economic issue for entry modes. For instance, if the level of income distribution is low, production might be needed in certain countries. And multinationals will get access to cheap costs of production and work force which lower the cost to produce the product for the company (Anna Nilssen, 2006). Inorder words, it is less costly for the multinationals to operate in a country where there is access to cheap labour input . Social factors include the following;

- Language
- Demographics
- Life style
- Custom

3.1.4 Technological

The need for know-how, machines and equipment have great effect on technological factors of specific entry modes, because the costs of these needs are for most part paid from the pocket of the foreign investor. If the product involves high technological manufacturing costs, it will be favorable for multinationals to invest in entry modes that will establish their relationsips with the alluvial companies. This will create opportunities like, training program for employees to improve their skills and knowledge on alluvial mining and multinationals will gain from the local knowledge. This will allow companies to compete at lower cost advantage and maintain a large scale production. But if technological costs are low it is good for all the specific entry modes, because multinationals can provide all needs needed by the market environmeint. The technological factors include the following;

- Spending on technology
- Skilled labor
- Infrastructure
- Roads
- Communications

3.1.5 Environmental

This apply to those companies who wants to engage in mechanized mining of alluvial diamonds. It is important for companies to consider the government regulations concerning environment of certain investment entry modes (Aubert, 2007). Issues such as;

- Environmental protection laws
- Energy consumption

3.1.6 Legal

Finally, the Legal forces refer to governmental policies that affect the entry of foreign companies. If there is high labor cost due to the protection of employees, may lead firms operating in an industry with low profit because of high cost. For instance, if the labor protection law is too strict as in Europe, it will be very costly for multinationals to hire or to employ employees. For the former, if there is high labor protection law to protect the work force in Sierra Leone, it is inflexible for multinationals to sack employee when the business is not doing good. For the latter, because of strict rules it will be also costly to employ expatriates needed for the specific entry modes. As a result, these factors will have great effect on the legal environment of the business because it will increase the operating cost and reduce the benefits of a venture. The legal factors will be favorable for multinationals, if employment law is less stringent. A less strigent employment law can lead to multinationals using all the entry modes options in Sierra Leone. This is because they will be able to employ and dismiss a worker when the need arises. The legal forces depend on factors such as:

- Import policies
- Local laws
- Local competition law
- Consumer protection laws
- Employment laws

3.2 Internal factors (company environment)

For the internal factors forces we don't have special framework to operationalized the factors.Therefore, any factor we derive from this analysis so far is based on the theory on FDI earlier discussed in this thesis. The information of multinational diamond company will be discussed later during the course of this research. Information to operationalize some internal factors on specific entry modes are discussed below;

3.2.1 Product forces

Any product that incurred high technological cost with a high sales potential to exports give the company the advantage to set the price level. This in turn gives the company the possibility to choose specific entry mode such as new establishment. If the product is low in technological cost and the price of the product is low due price competition in the local market, multinationals can still enter the market by using entry modes that are less risky.

3.2.2 Level of commitment

The level of managers commitment determines the choice of the specific entry mode. Here the flexibility of management and the company´s corporate strategy set the degree of international business. And success in a foreign market of specific entry modes encourages more commitment which in turn leads to more expertise knowledge (Root**).** So, flexibility of speficic entry mode increases as the company gain more knowledge in new market.

3.3 Profitability analysis

For the benefits and costs factor changes of specific entry modes, we don't also have special framework to operationalized the factors. The factors derived so far are the source of the external and internal factors on specific entry modes. The theory on FDI focused on benefits and costs factors of specific entry mode and the external factors are the source of benefits of these specific entry modes.

3.3.1 Benefits

The benefits factors forces of specific entry mode increase as the level of company's fleixbility to invest in specific entry mode increases when the political sitaution is stable. The higher the benefits of the specific entry mode, the more company's are flexible to undertake high risk entry modes.The benefits factors of joint venture include, lower investment, high sales potential, faster start, avoid some tariff barriers,etc and new establishment include higher sales potential and potential for learning.

3.3.2 Costs

The costs factor forces of specific entry mode increase as the inputs factors increases due to changes in tariff barriers and non-tariff barriers, technological cost etc in the host country of the FDI (Aubert, 2007). The changes in tariff and non-tariff barriers, and technological cost will have either positive or negative effect. It is positive when the changes reduce the costs of production for multinationals. But it is negative when the government levied costs on taxes.

3.3.3 Benefit/costs tradeoff

The benefits of the specific entry mode should outweigh the costs of that entry mode. Benefits/costs tradeoff of specific entry mode depend on the net present value of the net present contribution of the specific entry mode and the entry mode with the highest NPV contributes the highest profit contribution.

3.4. Conclusion

The PESTEL framework is used to operationalize the external factors forces of the specific entry modes in order to be able to use it and design the survey questions of the research. This model will be used as basis to pursue further investigation on the internal factors forces effect on specific entry modes of the multinational company. In addition, it seems to have included many factors and rightly emphasizes the great influence on these specific entry modes and its possible relation with these entry modes. The limitation is that the model ignores the internal factor forces of multinational companies.

As already mentioned above there is no special model to operationalize the internal factors. The operationalization of these factors are base on the benefits and costs factors earlier discussed in the FDI theory. The internal forces of the specific entry mode affect the international businesses of multinationals when multinationals use these modes to make decision to enter the alluvial diamond market. The information on internal factors operationalization will be used to investigate specific entry mode of a prospective multinational company operation (DE beers).

The benefits and costs of the specific entry mode is one of the factors that influence these entry modes and the source of these factors are from the external and internal factors analysis. The benefits and costs factors will be used to make comparison between entry modes. The entry mode with the highest net profit contribution will be consider after forecasting 5 years of FDI.

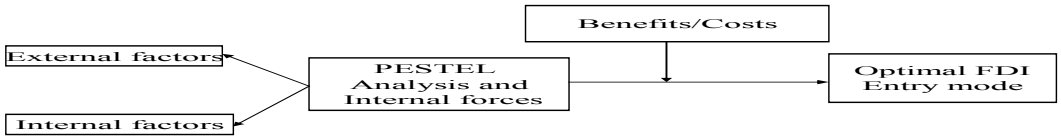


Figure 3,3 New establishment Assessing applicable FDI entry mode

The above model is a concluding model for this section. This model looks into what factors influence specific FDI entry mode, when a multinational company from the Netherlands plans to invest in FDI entry modes in Sierra Leone. As a result the multinational company will want to know the optimal FDI entry mode.

The model starts with external and internal factor; political, economical, social, technological, environmental, legal, level of commitment and company's product which foremost includes the benefits and costs profile of these specific entry modes. Both factors then influence the ways entry modes are chosen. The net present value technique is used to do comparative analysis of these entry mode inorder to decide on the entry modes with high net present value.

3.5 Data Collection

In the emperical survey, firtsly, because there are many aspects among the PESTEL factors that affect the different FDI entry modes, with the nature and the purpose of this thesis, information will be gathered through a literature study as well as a study of already existing reports and documentation about the Sierra Leone alluvial diamond market and its business system, marketing periodicals, OECD reports, previous studies, etc of the Sierra Leone alluvial diamond market. It will help us to understand the political factors, and focus on some important aspects of the economic factors in order to make the comprehensive and emphasized interviews. Through our understanding of this data, an interpretation and explanation will be made that will lead to the result of this thesis, which is a discussion regarding the optimal FDI entry mode for a diamond exporting multinational company in Sierra Leone.

Secondly, the interviews with alluvial companies in Sierra Leone and other relevant agents will ensure the result of the interview. The results of these interviews will be put together which will help to show how the exisitng factors and the needs of the alluvial companies' effect on specific entry modes.

Lastly, Secondary data is conducted through a search information regarding the internal factors effect on specific entry modes for a known diamond multinational company (in this case the De Beers). The searh is conducted through website, documents, branch of trade reports etc. Therefore the data regarding De Beers situation and the way they operate are conducted through reports on OECD countries, journals, web documents of South Africa etc. The reason is that, collecting primary data is time consuming and costly and should therefore be avoided when trustworthy and accessible data exist. Together with the use of this data and the FDI theory will then be abled to show how the existing factors and flexibility of a firm affect entry mode choices. There are some overlaps

among the survey questions in these interviews and conducting the secondry data of the Beers. Inorder to examie the objectivity of the results of the interviews and conducting secondary data, we obtained the data from different angles to ensure the validity of this research.

3.6 Data analysis

The data analysis is typically oriented to answer the research question in all researches (Hardy & Bryman, 2004). Therefore, the data from the different angles will be used to investigate the external factors of the Sierra Leone alluvial diamond market. The data can be obtained from internet and internal documents of the industry. The keyword data used in the analysis are shown in table 3.1

Alluvial diamond export Tariff and non-tariff barriers Corporate tax Partner Expertise knowledge Political risk	License fees GDP Salaries Level of income distribution Technological costs Type of establishment

Interviews with alluvial alluvial companies in Sierra Leone alluvial diamond industry

Firstly, there are few dominant diamond exporting companies among the many alluvial diamonds production companies in Sierra Leone. They should be familiar with the political factors, the social factors, the technological factors, etc. They should also understand the benefits and costs of the specific FDI entry mode because their needs are strong for propective FDI multinationals. Secondly some exports agents who have license to export alluvial diamonds from Sierra Leone to Antwerp or other foreign destinations, have made great deal of this research on the external factors that influence these entry modes. Therefore, the relevant people of the alluvial diamond exporting companies' will be selected to make the individual interviews which will be made to discuss the PESTEL factors and the necessary benefits and costs of specific entry mode in the Sierra Leone alluvial diamond market. And they will be interviewed respectively in order to obtain the information through different angles and be objective and critical to answer the questions. The internal factors will give the necessary information on De Beers in due course of this research.

The main interview questions are defined based on FDI theory, which is shown as follow:

- Political factors

1. How likely is general political instability in Sierra Leone over investment planning period of 5 years?
2. What are the tariff or non tariff barriers of foreign direct investment in Sierra Leone ? (such as documentation standards of foreign company, export duties, and tax incentives)
3. What foreign direct entry modes are there that are influenced by these tariff and non-tariff barriers in Sierra Leone? (such as joint venture, acquisition and new establishment)
4. What are the kinds of taxes for prospective multinational companies in Sierra Leone? Can you list the rate of these taxes? (such as corporate income tax, export taxes, profit repatration tax etc)
5. What is the minimun registered capital for establishing a limited liability company in Sierra Leone?

- Economical

6. How is the currency exchange rates of Sierra Leone during the last 5 years affect alluvial diamond businesses?
7. How does the financial needs of alluvial diamond companies' affect the use of specific entry modes?

- Social

8. How much is the income distribution of the work force of the alluvial companies will affect the entry modes mentioned in question 3?
9. What are the Sierra Leone alluvial companies' attitude about foreign direct investment from Dutch multinational companies' or other Western countries in choosing companies in entry modes?

- Technological

10. How important is technology for companies in the alluvial market?

- Legal

11. Is there any restrictive policies on emploment for alluvial diamond exporting that may discourage multinationals?

- Benefits

12. What are the sales benefits of alluvial diamonds for companies in Sierra Leone and multinational companies?
13. Can you forecast sales volume of a alluvial diamond investment of the specific entry modes if multinationals enter the industry?
14. What is the probability of multinationals achieving forecasted sales volume in question 6? (please give a % and state reasons)

- Costs

15. What are the operating expenses per year of using specific entry modes in Kono, Sierra Leone? (Such as licencee fees, government charges, wages, miscellaneous)

- Net present value contribution

16. What is the expected rate of return of multinational if they invest in any of these entry modes?
17. What entry mode is the best based on the NPV value and the risk connected to these specific entry modes?

Now that we have analyzed the external environment factors of Sierra Leone, we will continue with our investigation on the secondary data of the Beers.

Internal: the Beers

The company

De Beer was established in1888 in South Africa and is the world's leading diamond company with unrivalled expertise in the exploration, mining and marketing diamonds. De Beers and its joint venture partners operate in more than 20 countries across five continents employing nearly 22,000 people. In the period 1962-1967 the alluvial mining joint venture between the National Diamond Mining Company (Sierra Leone) Ltd.and the government of Sierra Leone was operating, and its output was sold at market value to DICOR (i.e. De Beers) and a handful of other exporters, the joint venture paid a corporate tax of 65% on its taxable profit.Their initial sales of the diamond product into the market are well documented and settled through bank transfers. By contrast, the bulk of small-scale alluvial-production centers in Africa share the dubious distinction of being about the last places in the world. Because the initial sales of the diamond product are both poorlydocumented or not documented at all, and in cash.

However, from the company's 15 mines across Botswana, Namibia, South Africa and Tanzania, De Beers produces approximately 40 percent of the world's rough diamonds and markets approximately 45%. The company's robust portfolio of future mining projects includes two mines in Canada set to begin operations in 2007 and 2008. As part of the company's operating philosophy, the people of De Beers are committed to living up to diamonds by making a lasting contribution to the communities needs in which they live and work. De Beers encourages sustainable working to ensure long-term positive development for Africa and returns approximately US$4.9 billion to the continent every year. The commitment efforts reflect De Beer wish to be recognized as a major joint partner for many companies. Furthermore, De Beers wants to be perceived as serious and long term. Therefore, the comprehensive secondary data collection on De Beer will be used to understand the internal forces of specific entry modes and home country forces for multinational companies' (http://www.debeersgroup.com/debeersweb), accessed, 18/01/2008.

The main survey questions are defined based on the theory of FDI based on mixed factors of internal and external factors which are shown in the following below:

- Social

1. How much is the income distribution of the work force of the alluvial companies affect a joint venture or new establishment?
2. What are the Sierra Leone alluvial companies' attitude about foreign direct investment from Dutch multinational companies' or other western countries in choosing companies in entry modes?

- Technological

3. What is the technological contribution need on alluvial diamonds improvement on joint venture or new establishment?

- Legal

4. Is there any restrictive policies on tight quotas for alluvial diamond exporting that may discourage joint venture or new establishment?

- Benefits

5. What are the sales benefits of alluvial diamonds for companies in Sierra Leone or multinational companies?
6. Can you forecast sales volume of a alluvial diamond investment of the specific entry modes if multinationals enter the industry?
7. What is the probability of multinationals achieving forecasted sales volume in question 6? (please give a % and state reasons)

- Costs

8. What are the operating expenses per year of using specific entry modes the alluvial diamonds in Kono, Sierra Leone? (Such as licencee fees, government charges, wages, miscellaneous)

- Net present value contribution

9. What is the expected ROI of multinational if they invest in these entry modes next year?
10. What entry mode is the best based on the NPV value and the risk connected to these specific entry modes?

3.7 Research Unit

In order to obtain the opinions through the different angles, the interviews will be hold among the relevant people of alluvial companies and the data records of De Beer to confirm and augment evidence gathered from these sources. For the sake of this research, out of the 40 interviews only 10 respondents will be used, because there is limited time to handle more respondents and the budget is small.

Noroma Diamond Exporting Company

General Manager : Mr. Kai Noroma, is the founder and general manager of the company. He is responsible for the market opportunity development of the company.
Type of establishment: The company is a privately owned alluvial diamond exporting company located in Kono district

Ngephe Enterprises
Manager : Mr. Boima, is the manager of the company for the last 7 years. He has some expereince in trading with foreign investors.
Type of establisment : Is a Lebanese trading alluvial diamond company who main business is exporting alluvial diamonds.

Koidu diamond Enterprises
Manager:Mr. Sahr Sam is the sales agent of this company. He has opinion on foreign sales of alluvial diamonds, because of his 20 years of experience, he is familiar on exporting alluvial diamonds to Atwerp, Belgium and understand the current situation of the industry.
Type of establishment : Is a alluvial diamond trading agent organization in kono.

Dagbee Trading A gent

Sales supervisor: Mr Aruna is the sales agent of this company for the last 9 years. He has some advices on the marketing of alluvial diamonds to Belgium and the needs of alluvial companies
Type of establishment : Privately owned Gold and diamond trading company

Sonsiama group
Account manager : Mr. Tamba Yamba is the account manager. He has opinion on the costs of technology and others cost involved for alluvial mining.
Type of establishment : A less developed Mechanized diamond production company.

Yomba and Co.

Manager: Ms Siah Pesima is the head of the company and co-founder. She is responsible for export management in this company. She has opinion on the needs of alluvial companies preferences on choosing companies in foreign direct investment entry modes.
Type of establishment : Jointly Owned Alluvial diamond exporting company for the past 25 years.

Koroma Family diamond company

Manager: Mr. Alhaji Koroma: He is the main investor in this company. He is responsible for all investment opportunities of the company. He has some opinion on foreign direct investment.
Type of establishment : Jointly Owned diamond production company.

Sandor diamond investment Company
Manager : Mr Saidu Yambasu. He is familiar with marketing channels of alluvial diamonds, due to his 15 years of exporting alluvial diamonds in Isreal, Belgium, the Netherlands,USA, etc.
Type of establishment : Alluvial diamond cooperation located in Kono.

Farma cooperative

Manager : Mr. Sandy Sessay. He is junior manager of the foreign sales sector of the company. He has supervised other alluvial diamond companies' business before appointed as junior manager in this company. He has some advices for multinationals who are going to invest in Sierra Leone.

Type of establishment: Gold and diamond mining company

Mora and others

Manager: Mr Sandy Sidibay. He is responsible for any export negotiations of the company sector. He is highly interested in joint venture relations with foreign investors.

Type of establishment : A diamond manufacturing company.

3.8 Validity

Validity is defined as the extent the research data and the methods for obtaining these data are considered precise and accurate (Denscombe, 2000). In order to make interviews valid, research units are selected from different angles. The information on De Beers is obtained from websites, internet documents, periodic journals etc, which can ensure the validity of the data. And the survey is conducted based on research objective, research questions and thoeretical survey.

3.9 Reliability

Reliability is defined as the measurement that can be reproduced with similar results and that variations in the results is entirely depending on variations in the measured area and not in the instrument of measurement (Denscombe, 2000). To take into account the reliability of this research, the whole procedure of the empirical survey has been elaborated. It is possible for other researchers to repeat this research according to this procedur

3.10 Conclusion

Before investigating the data, academic standards require that methodology with respect to the empirical research needs to be confer. Firstly, data collection and analysis will be used to investigate the factors that affect the specific entry modets. The PESTEL analysis has been conducted inorder to operationalized the external factors effects on these entry modes for companies or multinationals in Sierra Leone. This data can be obtained through websites and internal documents of the industry on alluvial companies. Secondly, the interviews will be used to discuss the factors obtained from the PESTEL analysis. Lastly, the data collected on De Beer will be used to make the detailed benefits and costs analysis and assess the most optimal FDI entry mode.

Chapter 4 Results and analysis

If multinationals want to use the different kinds of FDI entry modes that will allow these multinationals to become profitable within a stable political environment, the relevant people must understand the external environment factors and the internal forces that the company is not directly abled to control, but the company have to bear that in mind during operation. Therefore, the external environment factors and internal factors of multinationals (De Beer) will be discussed in this chapter. PESTEL framework will be used to analyze the external environmental factors and the internal factors will be used to discuss De Beer operations worldwide. In addition, the profitability analysis of these factors which include the benefits and costs of these specific entry modes will be used to assess and compare these entry modes, inorder to derive the optimal entry mode.

4.1 PESTEL

The political, economic, social, technological, social and legal factors influence these different entry modes for multinationals going to use these mode to enter Sierra Leone alluvial market. The PESTEL analysis is just to operationalized these factors and obtain relevant data on these factors, which will help multinationals find opportunities for a new business and alluvial companies can choose for companies in entry modes.

4.1.1 Political

The Sierra Leone political stability and policies have been recognized as the major factors for many multinationals decisions, especially in terms of whether to invest and how to enter the market using specific entry modes. At this juncture, Sierra Leone tariff barriers and non-tariff barriers on alluvial diamond exporting operation that influence foreign direct investment entry mode will be studied.

4.1.1.1 Sierra Leone tariff barriers and non-tariff barriers on export

The following documents are of utmost importance to tariff and non-tariff barriers Sierra Leone: Investment Promotion Act by the Sierra Leone government, Memorandum on implimentation of repeal of acts no.9 of 1969, The Non-Citizen (trade and business) Act. This documents state the requirement of exporting diamonds and other products from Sierra Leone. The Sierra Leone Dimond Investment Cooperation report is a supplement to the Sierra Leone Promotion Act, Vol CXXXV, dated 5th August, 2004 (http://www.sledic-sl.org/). The Sierra Leone tariff barriers and non-tariff barriers on diamond export include, export tax, custom duty, duty payable, diamond valuation fees, license fees can be found in this Act. When we investigated the policies and laws of these tariff barriers and non-tariff barriers, all information is confirmed by the respondents. As regards rates of pay license fees and export duties the government makes distinction between companies wholly owned Sierra Leonean companies partly owned by Sierra Leonean company(joint venture). If the company is wholly owned by a Sierra Leonean, the company can pay $10,000 per annum for pay licence fees and 3% on export duty for a value of export up to $1million and 2,5%

for a value of export more than $1million. But if the company is 51 % owned by a Sierra Leonean, the company can pay licence fee of $15,00 per annum and 3% export duty on value of export up to $2 million and 2,5 % for value of export more than $2million. Also, if the company is less than 50% owned by a Sierra Leonean, the business can pay $30,000 for licence fees per annum and 3% on value of export up to $10million and 2,5% on value of export more than $10 million (**http://www.sledic-sl.org/**). But according to the results of the interviews, the licence fees is $ 30,000, which is now a standard licence fee for all companies due to the government new policy on tariff. Regarding export duty, Sierra Leone companies can pay 2,5 % on export duty while non-Sierra Leonean companies must invest $10million to enjoy the bonus of tax break. The information on the export license from the different respondents should be more practice oriented than the one from the website. Therefore, it will be applied in this research that the tariff (licence feess) of alluvial diamond exporting is $30,000 and export duty of 2,5% of the value of the export more than $10million for Non-Sierra Leonean companies.The Sierra Leone tariff barriers and non-tariff barriers on alluvial diamond exporting can be summarized in the table below.

Table 4,1 Sierra Leone tariff barrier and non-tariff barrier

Tariff barriers		
	Export duty	The export duty of the value of the export on investment over $10,000,000 owned by 100% foreign owned companies' is 2,5%. This % on export duty is different for foreign investors
	licence fees	The licensee fee of alluvial diamond exporting from Sierra Loene is $30,000 which is the standard rate for all investors
Non-tariff barriers	Restrictive licence policies	There is little restricition on the laws and rules of licences for multinational companies. The Act provide provision for the settlement of disputes.
	Standard assessment of income tax	The standard assessment of diamond mining licence is different between citizen and non-citizen. For instance, For foreign it is levied at $40,000 whilst local companies is $20,000.

Sources: All the items of this table are summarized of tariff and non-tariff barriers from the investment act. Promoting Investment Act on implimentation of repeal of acts no.9 of 1969: The Non-Citizen (trade and business) Act, stating the requirement of exporting diamonds and other products from Sierra Leone. the Sierra Leone Dimond Investment Cooperation report, supplement to the Sierra Leone promotion act, Vol CXXXV, dated 5th August, 2004 (http://www.sledic-sl.org

The Investment Promotion Act 2004 (IPA) provides wide ranging investment incentives, including 100% foreign participation although joint ventures with Sierra Leonean partners are encouraged. According to the Investment Promotional Act, the government seems to make more provision for sole venture which might include new establishment or acquision but not for 50-50% venture. The provision states that joint venture can be encouraged, which means the government can use its discretion to accept or reject it. The government can reject or accept it, taking into consideration the economic benefits of it. The government does not believe local alluvial companies have the financial and technological capacity for a joint venture. As far as the government is concerned, joint venture is not highly represented in the IPA because it is in most cases not economically beneficial to the enterpreneurial well-being of the state. Besides, it will be difficult to establish whether an investor will put the minimum level of investment into the business. Someone will have to make this judgment, which means this judgment will be discretionary. Any discretionary decisions are subject to influence and should be avoided at all costs

Moreover, Sierra Leone now offers investment protection through the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, the International Centre for Settlement of Investment Disputes (ICSID) and Bilateral Investment Protection Agreement (BIPA) with the United Kingdom. It manifests that Sierra Leone government will go on to protect provision for 100 % foreign participation, because it will benefitial for the government more than individual alluvial companies. Moreover, with the support from the United Kindgom's Department for International Development (DFID), the judiciary has undergone comprehensive reforms, providing the platform for the prompt and fair domestic settlement of investment disputes for sole venture. Furthermore, the country's membership of the African Carribean Pacific-European Community (ACP-EC) Lome Convention provides the opportunity for export duty and quota-free entry of Sierra Leonean products in the European Union. Hence, multinationals should pay more attention to the changes of the IPA on alluvial diamond export from Sierra Leone when its use sole venture to enter in the Sierra Leone alluvial diamond market.

Lastly, some corporation taxes are relevant to this research such as corporate income tax, repatriation of profit tax, payroll tax etc. The tax basis of this tax is the earning before income tax in Sierra Leone (This information is obtained through the Sierra Leone Export Development and Investment Corporation (SLEDIC, 2004): Executive summary of Sierra Leone income tax clearance report of businesses.

The corporate tax will be levied at 35% on the earnings after tax. Repatriation of profit will be levied at 5% if is 100 % foreign participation. The 5% repatriation of profit apply to only wholly Owned foreign company.

Table 4.2 The Sierra Leone promotional investment incentives ACT.

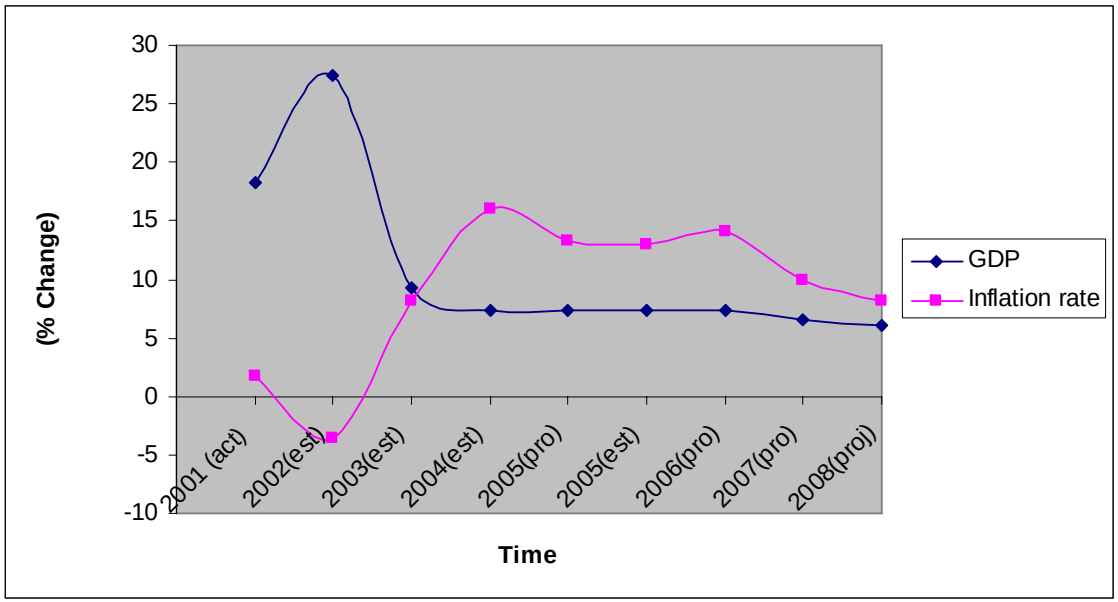
Provision for 100% foreign participation	Incentives
Business registration	The documents contains all the basic information about the business name and registration, ceritificate o incorporation and business licence certificate. A total feel of $1000 is paid to register.
Capital allowance	Capital allowance on development and production expenditure shall be an initial allowance of 40% in the year o expenditure and an annual allowance of 20% for the three years succeeding
Corporate tax	Corporate income tax is currently 35%
Expatriate	Expatriate personnel automatic quota ties to investment capital of varying amounts
Export licence obligation	No obligation to acquire export license for goods produced in Sierra Leone except for gold, diamond and any iten that may be prescribed by the Government of Sierra Leone from time to time
Minimun export capital	$Export a minimum of US$5.0m during the (12) twelve month period of the licence.
Packing	Packing materials, plants, machinery and spare parts for industries, agricultural inputs, fertilizers, seeds, pesticides tractors and spare parts for agricultural machinery shall be exempted from customs duty
Payrol tax	Exemption from payment of payroll tax for exporting $1M worth of goods, employing 30 indigenous Sierra Leoneans and 40% of Investment capital held by a single contributor
Pioneer Status	3 years tax holiday and sales tax exemption for first three years
Repatriation of profit	Repatriation of profit – 100% subject to a 5% withholding tax
Sales tax	Industries are exempted from payment of sales tax for importation of plants, machinery and spares
Settlement of disputes	Where a dispute arises between an investor and the government in respect of an investment in a business enterprise or in respect of an investment obstructed or delayed by government, the parties will use their best efforts to settle such dispute amicably.
Tax relief	Tax relief for research and development (applicable to industries) and Training and technology transfer

4.1.2 Economic Factors

It is important that multinationals should have good understanding of the economic situation of Sierra Leone and how they impinge on the FDI entry modes. The general macroeconomic environment is measured by various indicators such as export rate, gross domestic product (GDP), gross domestic investment, inflation, nominal growth rate and current account. Therefore, the data of macroeconomic indicators such as GDP, inflation rate and export growth rate from International Monetary Fund (IMF) and information from the statistic document of Sierra Leone will be used to analyze the economic factors.

Basic Macroeconomic indicators, 2001-2005

Table 4.3		2001	2002	2003	2004	2005
Real GDP growth (%)		5.4	6.3	6.5	6.8	7.1
Nominal GDP Growth (%)		11.8	10.5	13.6	11.7	10.2
Inflation		2.2	-3.1	6.6	4.8	3.5
Export growth rate		2.8	34.4	31.7	18.5	36.5
Current account		-17.2	-22.6	-27.7	-29.8	-21.3
Gross domestic investment (% of GDP)		6.1	10	17	24.2	6.3
Source: International Monetary Fund, 2004.						



Figur 4.1.Contrast the GDP with inflation rate in Sierra Leone 2001-2005 and projections to 2008.
GDP growth rate is computed to row 1 of table 4.3

It manifests that the economy state of Sierra Leone has continued to improve over the period 2002-2003, with real GDP growing at an average by around 5.9% per annum. The higher rate of inflation is attributed to a large exchange rate depreciation in respect of the US dollar (with the resultant pass-through effects), higher global fuel prices, as well as to the expansion of broad money (domestic credit). The external current account deficit, excluding official transfers, was expected to widen to about 28 percent in 2003 from 17 percent in 2001. The main source of the current account deterioration is an increase in imports,

mainly fuel and manufactured goods, as a result of the reconstruction process after the post war. At the same time, officially reported export growth has been strong over the period, mainly due to the adoption of the Kimberley Process Certification Scheme which provides a system to track diamond exports and thus has made Sierra Leone diamonds more attractive on the world market.

4.1.3 Social factors

The differences in social factors becomes an economic issue for entry modes when multinationals want to enter the market. Understanding Sierra Leone level of income distribution is crucial for multinationals to make the right choice on speicific entry modes in Sierra Leone.

Firstly, the growth and movement of the work force in Sierra Leone are important factors heralding social changes. Whereas, according to the National Statistic Office of Sierra Leone (NSOSL), out of almost 5 million people of Sierra Leone, 52.6 percent (2,621,773) are in the working age 15-64 years, with about 85.62 percent of those in the working age,(1,785,662) economically active. This translates into 1,722,460 employed and 63,262 unemployed. The age specific activity rate shows that after 54 years the activity rate declines continuously, implying in aggregate that optimal productivity cannot be achieved beyond that age. The economically active people are between ages 39-54 years and the income distribution of this group atleast $10,000 per annum. As a result of low income distribution in Sierra Leone, the government reserved in the investment code a number of businesses exclusively to citizens of Sierra Leone. The draft also provided that foreign investors could operate in these business activities, if they have a Sierra Leonean citizen as a majority partner.

Secondly, the interviews on the social factors of the Sierra Leone alluvial companies provide a picture of how alluvial companies (the economically active investors) attitude towards FDI will influence multinationals from the Netherlands. The needs of the alluvial companies will influence the preferences of FDI entry mode. The reason is that, the alluvial companies are in need of someone who will bring capital, technology, know-how, emplyment etc, to improve thier business. Many alluvial companies do not care less about the investment code incentives, because some companies preferred to own 30 % of the company and 70 % for the

multinationals. However, the Sierra Leone IPA mentioned that the government encourages domestic and foreign investors to invest in any legitimate form of business enterprise and the government will assist potential investors in identifying joint venture partners in Sierra Leone. Therefore, the choice of joint venture entry mode depends on the foreign investor flexibility in sharing the risk with the local companies.

At the present time, because of the economy state and a decrease in company's income, an increasing number of Sierra Leonean economically active investors are out of business. Some have abadoned the alluvial business and jumped into other businesses, because they find it difficult to continue with the business due to the rising costs in investing in alluvial business in Sierra Leone. The financial position and the know-how are very poor for these companies, although there is opportunity for future growth. The best trade-off between the financial position and know-how is the ideal point for multinational companies. According to the study conducted on the Beers Group, the world's leading diamond company with unrivalled expertise in the exploration, mining and marketing diamonds, financial, documentation , good governance and know-how are considered to be the most important entry criterial for joint venture or sole venture in Sierra Leone alluvial diamond market. That is partly reflected by the large corporate tax of joint parnership of De Beers and the NDMC (Sierra Leone) in the period 1962-1967, which the joint venture paid 65% of corporate tax. Generally, corporate tax for all Businesses currently stands at 35% except mining which is 30% (SLEDIC, 2004).

Age specifity acitivity rate.

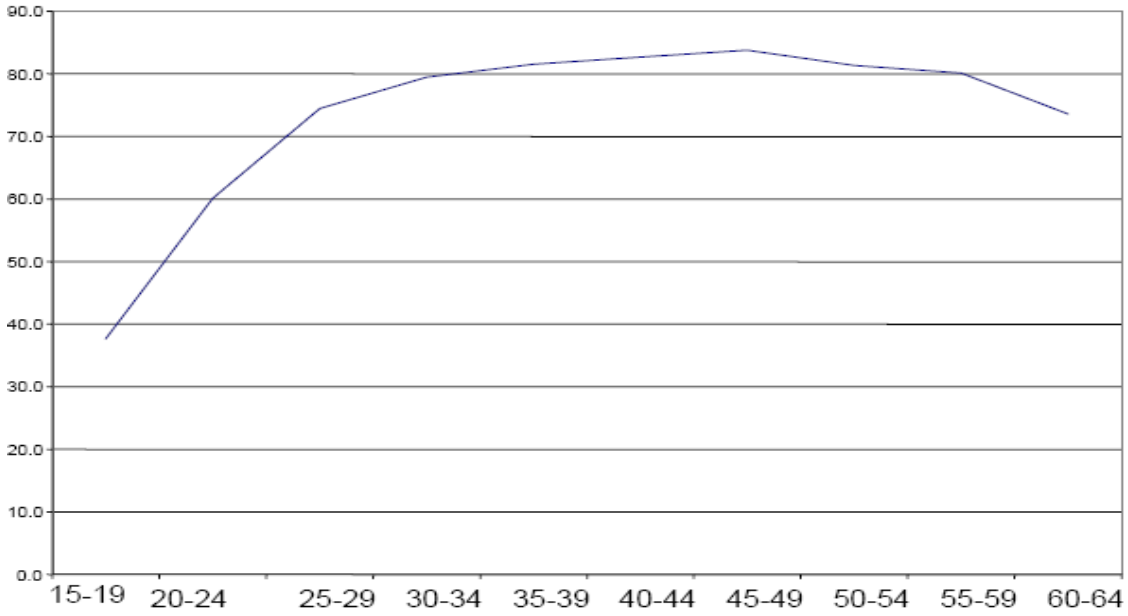

90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
15-19
20-24
25-29
30-34
35-39
40-44
45-49
50-54
55-59
60-64

Figure 4.2.

4.1.4Technological

Technological forces on the market are most important for companies that want to export alluvial diamonds from Sierra Leone. Because multinationals are aiming at the benefits and costs of using specific entry mode options, it is important to examine the technological contribution for entry modes and infrastructure condition in Sierra Leone. After 11 years of civil war, the industry has steadily declined. The Sierra Leone alluvial diamond export has dropped considerably.It has lost some of its apparent strength, as its share of GDP has dropped from 16 percent in the early 1970s to 10 percent at the current moment. This decline, however, reflects significant lack of know-how. The Sierra Leone alluvial companies are suffering from low demand of foreign investors that are interested in venture agreement. The exporting companies are in need of diamond valuator experts and machines, export parcels, computers, etc inorder to market alluvial diamonds profitably (Chaim Even-Zohar, of Tacy Ltd. Diamond Industry Consultants, 2004). USAID has already spearheaded this process in Kono District with the Peace Diamond Alliance.The Government Gold and Diamond (GGDO) valuators are trained to valuate rough diamonds, and methods of crosschecking the value of export parcels.The cooperation of the importing country should be secured to assist with the latter. Currently there is neither a legal requirement nor any desire by governments in importing countries to valuate rough diamond imports. Consequently, there is neither a mechanism nor the manpower in place to facilitate such value verification. The mechanized companies used heavy duty machines and only multinationals can afford the costs because they are quite expensive to even share the costs with the alluvial companies. So it is less relevant to talk about mechanized mining further in this research.

One result of the conflict situation is that the infrastructure in Sierra Leone is worse than the infrastructure of almost any of its neighbors. The cost of replacing and improving its infrastructure is far beyond the country's ability to fund these projects. Yet, delays in improving the infrastructure will have a direct and dramatic effect on the investment. This vicious circle must be broken. We should be clear about what comprises the nfrastructure of a country. While more obvious elements include electric power, telecommunications, water and sewerage, roads, ports and airports, investors should also consider other elements to be part of a country's infrastructure. These include availability of high quality hotels, reliable and comfortable cars and other means of transport, the availability of land and the availability of financing from local banks and other financial institutions. When any of these elements is missing or below international standards, this will affect the investor's view of the infrastructure necessary to

support the proposed investment. Therefore, it is an opportunity of the development of the infrastructure of alluvial diamond industry.

Finally, there is little doubt that current banking practices and procedures inhibit investment in Sierra Leone. On the lending side, banks are taking very little risk. Loans are made almost solely by overdraft. There is virtually no term lending. Banks rarely accept real property as security for loans, since the courts hardly ever permit a lender to perfect the security. This is true in both urban and rural areas. The result is that investors cannot use one of their most valuable assets, land and buildings, to secure local lines of financing. According to the Sierra Leone constitutional Act no. 8 of 2000, there shall be no restriction on the transfer of repayments of principal and interest on an arms length third party loan contracted Sierra Leone and registered with the Bank of Sierra Leone but interest payment due on such loans may be subject to the withholding tax obligations in the Income Tax act, 2000 if applicable. Thus, the banking system is an important factor for multinationals.

4.1.5 Legal

It is necessary for multinationals to understand the legal and regulatory framework of Sierra Leone. Therefore, through the desk research on the legal and regulatory framework of Sierra Leone: Executive Summary of Sierra Leone of Workers Right and Business Guide to Sierra Leone (2004). The legal factors of Sierra Leone such as labor legistration, trade unions and working conditions were found and evaluated. An investor wants clarity, stability, openness and fairness in a country's legal regime. All of these are important factors in assisting an investor to make an investment decision. Should the investor risk his money in Sierra Leone given the present legal and regulatory system? The evaluation of the legal factors will focus on emploment law, trade unions and working conditions in an attempt to judge if the risk is worth taking in such an environment.

4.1.5.1 Employment law

In addition, the Sierra Leone employment laws are important because of the protection of Sierra Leonean workers´ rights and the duty of the multinationals to abide by the country's national law. Based on the interviews, in this research, the most relevant Sierra Leone employment law to the business are expatriate labor, anti-union discrimination and company interference in the establishment of unions. For the latter, the law does not prohibit antiunion discrimination against union members or organizers and does not prohibit company interference in the establishment of unions; however, there were no reports of such incidents during the

year. According to the IPA of Sierra Leone, a business enterprise which requires expatriate labour shall apply to the Ministry of Labour, Social Security and Industrial Relation for consideration in accordance with any enactment relating to labour matters and union matters.

4.1.5.2 Trade unions

Moreover, the trade unions in Sierra Leone have great influence on FDI entry modes, because they have a collective bargaining power over workers in Sierra Leone alluvial diamond mining industry. The legal requirement of collective bargaining power of the unions is proctected by government in practice. According to the International Confederation of Free Trade Unions, collective bargaining was widespread in the alluvial diamond industry sector in Sierra Leone, and most enterprises were covered by collective bargaining agreements on wages and working conditions. These are some of the significant issues that multinationals should pay attention on before taking the risk to invest in Sierra Leone.

4.1.5.3 Working Conditions

In addition, the national minimum wage, covering all occupations is set at $24 (90,500 thousand Leones) per month under collective minimum agreement between the employers and unions. The wage figure can rise up to $3000 per annum depending on the kind of job. The work-week is 40 hours with two consecutive days off mandatory. Work beyond 40 hours is paid 50% overtime and required work on rest is 100% overtime.The requirement on the working hours are less restricted by the government. The government set these standards, but it lacks the funding to properly enforce them. Trade unions provided the only protection for workers who filed complaints about working conditions The Ministry of Labor is responsible for enforcing the minimum wage, but it lacked the resources to effectively execute its mandate (from Sierra Leone Investment Code, 2004).

4.2 Internal factor (De Beers)

4.2.1 Risk

De Beers encourages sustainable working operation to ensure long-term positive development in Sierra Leone during the sixties and maintained increasing profits on sales potential by spreading the risks through heavy sales of alluvial diamonds to many different and independent markets in the Western countries like Belgium, Isreal, USA etc. As an example, if the Netherlands market for alluvial daimonds demand is small, it is easy for multinationals from the Nehterlands to change to countries like the ones mentioned above. Therefore, the level of risk for multinationals will decrease if the working operation ensures long-term benefits to multinationals. This depends on the external factors that influence the decisions on foreign entry modes. Since, the level of revenues and costs of specific entry modes are inflenced by these external factors.

4.2.2 The Company's product factor.

In addition, the product factors influencing the choice of entry modes is highly important for multinationals who wants to exports alluvial diamonds from Sierra Leone to the Netherlands. This is due to the high degree of flexibility that multinationals will attach on specific entry mode investment in alluvila diamonds exporting from Sierra Leone. According to internet information, De Beers, philosophy is more directed towards lasting relationgship with the community and meeting the needs of community in which it operate. This gives you an idea about that De Beers flexibility in foreign operations where the needs of the community are met through joint venture and the government as third party. Although, the joint venture between the government, De Beers and handful of allucial companies' pays a corporate tax of 65% on taxable profits, the company was still committed to venture due the high external demand of the alluvial diamonds. This increases the profit level of the company during the period.

4.3 Benefits and Costs analysis

The profitability of any specific entry mode depends on the benefits and costs of that entry mode. The projected revenues and costs will play an important role in choosing the optimal entry mode for multinationals that want to enter Sierra Leone and in assessing the impact of internal factors decision on these entry modes. The profitability analysis includes the projected revenue benefits and

costs, profit contribution (cash flow) and Net Present Value (NPV). Hence, these factors will be used to decide on the appropiate entry mode.

4.3.1 Benefits

The main benefits of the profitability projection of the different entry modes for multinational companies are given in the table 4.4 below.

Benefits\ FDI entry modes	Joint venture	Acquisition	New establishment
lower investment	x	-	-
high sales potential	x	x	x
Avoiding high entry/trade barriers	x	-	-
Potential for learning	x	x	x
Faster start	x	x	-
Choice of the acquire firm or partner	x	x	-

When projcecting profitability for specific entry modes, possible changes in government policies, changes in economic environment, the legal system and social must be taken into account. Any change in any of these factors will positively or negatively affect the potential benefits of the entry modes. A positive change will bring less risk to an entry mode. For example, if the tax rates levied are lower due to government new policies, it will reduce the cost of production for companies. But, if the tax rates are levied at a high rate, it will be expensive for multinationals to engage in FDI. And this can drive investors away.

The benefits factors have been analyzed in the PESTEL analysis of the Sierra Leone alluvial diamond market, which will be used to make a further financial analysis for multinational companies.

4.3.1.1 Projecting Benefits Contribution of entry modes

Once the main benefits to the projection process have been analyzed, it is possible to begin projecting the individual elements of the FDI entry modes. The most common starting point is to project the revenue during the operation period of the entry modes. Revenues will normally determine the expected benefits of these entry modes. The data in table 4.3, obtained from the economic review internet document of Sierra Leone is the combined total alluvial companies output during this period. But for the sake of this research, we will assume for 10 companies combined output to project the export revenues duirng for periods.

Year	2001	2002	2003	2004	2005
Export revenue	$ 26,022.5	$41,732.1	$75,969.8	$126,652.6	$141,940.2
Carats (units)	222,521	351,859	506,723	691,757	668,655
Price	$116.94	$118.60	149.2	183.09	$212

Table 4, 5
DATA
Source: Sierra Leone Diamond Industry Annual report review (http://www.pacweb.org/e/pdf/sierraleone_pdf)

Therefore, the production by year during the first five years of operation is scheduled to be as follows: 22,252 carats (units) 35,186 carats (units), 50, 6,72carats (units), 69,176carats and 66,866 carats (units). The price of alluvial diamonds is highly competitive. According to the interview questions, the managers believe that the price of alluvial diamonds is greatly reduced during the past years due to high inflation in the country. Mr. Boima emphasized that at least $110 is a reasonable price during inflation. Prices are compared to anticipated inflation rate. The price of alluvial diamonds is according to the managers more practice -oriented, so it must be more accpeted than the one on the internet source. Hence, the price of alluvial diamond is $110 and will increase with inflation from the first year**.** In regards to this, our projected inflation rate from 2005 is 3.5% (see table 4.3).

The expected benefits can be forecasted by the local managers in Sierra Leone alluvial diamond market; because they are familiar with the current trends of the target market and they are also knowledgeable about the needs of the companies. They can project the

revenue benefits in a more realistic way. Or the revenue data of alluvial diamonds exported from Sierra Leone to foreign countries can be projected based on the exported value of alluvial diamonds from the period 2001-2005, because during this period the Sierra Leone government initiated an investment promotion Act, inorder to encourage 100% foreign participation and to some extent joint venture is encouraged. If multinationals enter Sierra Leone with a workable entry mode, the multinational will benefit from the incentives stated in the Act.

Risks and Revenue Issues

- **Joint Operating agreement structure**

According to Michael P.G. Taylor (1992), the liability of some firms (limited partners) is limited to the amount contributed by them in cash or property to the partnership**.** In this regard, this form of joint venture is a risk and revenue sharing arrangement whereby two or more parties participate in the development of allvuvial diamonds exporting in this research. As a result, the joining of the two companies capital will increase the investment value of the venture. A capital investment of $ 10,550 millions ($10millions + $550,000) is projected for future financial analysis of the joint venture. The $10millions capital investment is based on the amount allowed by the 2004 Act, for the 100% foreign participation by the government order for the multinational to enjoy from export duties reduction. The advantage for this is that, the export duties will reduced to 2,5% export duties on capital of investment more than $10 millions from the 3% export duties on capital of investment less than $10 million . In addition, the $550,000 cash is from the alluvial company as his part of payment in the venture. This will increase the total investment. Hence, the total amount in this joint venture investment is $ 10,550 millions ($ 10m + $550). Based on the initial investment amount, the profit sharing on agreed basis or equalization payments between the multinationals and alluvial companies will constitute a joint partnership, if the business incurs a loss or disproportionately low profit compared with the other. So, the multinationals proportion to alluvial companies on capital investment is the ratio 94.79% (10,/10,550) : 5.2133% (550/10,550). This ration will be applied to the joint agreement between the multinationals and the alluvial companies on profit and costs sharing of the new venture.

- 100% foreign participation

One important reason for sole venture is that a combined firm may generate greater revenues than seperate firms for the multinational.The investment capital of $10 million is projected for future investment in 100% foreign participation which is based on the investment Act incentives (see table 4.5).The increase in revenues will come from increased prices of alluvial diamonds over historical market prices of alluvial diamonds receieved by companies.

4.3.2 Costs

Table 4.6. The costs factors have been analyzed in the PESTEL analysis of the Sierra Leone alluvial diamond market, which will be used to make a further financial analysis for multinational companies. The table below is the summarized costs of the specific entry modes.

costs\ FDI entry modes	Joint venture	Acquisition	New establishment
Business registration and documentation cost	-	-	x
license fees	-	-	x
taxes	x	x	x
Contribution of machinery and equipment	x	x	x
Wages and salaries	x	x	x
Litigation costs (ongoing costs)	x	x	x
Acquisition costs of local companies	-	x	-

4.3.2.1 Projecting the costs

Moreover, the costs associated with each entry mode is rapidly becoming expensive. Because of this, production cash outflows are expected to also rise. Our assumption here is that the costs of the first-year production will rise with increased in GDP . We will discuss the kind of costs associated with these entry modes below;

- Business registration and documentation cost. To conduct business in Sierra Leone, you must be registered as a business name and its involved paying fees for the documentation. The investor must open a business account in any of the Commercial Banks. Minimum deposit - Le500,000/= Foreign Currency minimum deposit - US$1,000. This fee will the registration fee for new establishment.

- License fees. The business will need government licenses and permits before it can start for any of the different FDI entry modes. Currently the government has levied the licence fees to $ 30,000 flat per annum irrespective if you are a citizen or not. However, multinationals who acquire firms do not actually need to pay licence fees again to export alluvial diamonds, because the acquired firm already has a licence to export alluvial diamonds.
- Litigation cost. This is the cost to settle disputes estimated at $5,000.

- Taxes. It is stated in the Act that the current corpoate tax is 35%. This **%** will be used in further analysis.

- Depreciation. The depreciaition of the capital investment reflects the amount of export value of alluvial diamonds allowed by the Act. In this reseach, a straight line depreciation is apllied on the capital of investment.

Costs Issues

Joint venture. Each party will be responsible for funding its share of the development of the venture and absorbing its own share in costs in relation to labor costs, licence fees, spending on technology,etc.

We have calculated the necessary costs included in each entry mode below;

100% foreign participation = ($10,000,000 * 1.025)/10 = $1,025,000

Joint venture = [($ 10,000,000+ 550,000) *1.025] /10 =$ 1,081.375. The $550,000 is the payment in cash by the local investors in order to increase the value of the venture. As a result initial outlay of capital investment increases with the depreciaiton.

Acquisition = ($ 10,000,000 *1.025)/10 = $1,025,000

Acquisition expense = $ 55,000(550,000/10). For tax purposes the assets of the local company have been depreciated using straight-line method over 10 years, and have no salvage value. The annual expense has been set at $55,000.

- Salaries. The general legal maximum for work hours are 40 hours per week in Sierra Leone (see working conditions). However, multinationals should keep open for 60 hours per week and a manimum of 30 employees. The minimum salary for emplyees is $24 per month. The salary of skilled workers per month can be up to $3,000, although is not a legal requirement. The end of year salaries are paid in the beginning of december. Multinationals will have to emply two skilled workers from Sierra Leone. They are also consultants for the sake of this research. The annual salaries including payroll exmption will be $ 80,640 (24*30*12+ (3000*12) * two skilled employees) less 40% exemption, because of employing 30 Sierra Leoneans or more is $ 48,384. hence this amount will be considered as the amount to pay salaries and wages per annum.

- Contribution of technology and know-how. The independent government diamond valuator cliamed that alluvial companies lacked the accurate information on the ways foreign companies value the alluvial diamond and the necessary equipment used to value the diamonds. In the Investment Act, training government diamond valuator, satellite computers and equipment costs were mentioned, but no estimates of these costs were given. However, according to internet sources regarding the costs of these tools and training is at least $150, 0000 including exemption on tariff for importing equipment. Therefore, this estimates will apply to this research for the contribution of technology and know-how.
- Acquisition of local companies (cost). This is the amount the multinational will pay for acquiring a alluvial diamond company. The acqusition of local alluvial companies depends on the discretion of the multinationals. In relation to the Act, any investor, local or foreign, can invest in any legitimate form of business and shall be entitled to the incentives contained in the applicable law including as the case may be those listed for 100 % foreign participation and joint venture. In the interview survey, Mr Sandy Sidibay who is the owner of a diamond company in Sierra Leone commented that, he is looking

for a pontential investor to acquire his company or to have a joint venture with a foreign partner. He proposed $ 550,000 as the worth of his company or part of his payment for any future FDI. The multinational will benefit from the company's infrastructure which is still in good condition. And also the profile of the company's foreign customers will be available for the multinationals. The needs of this company looks familiar for joint venture and acquisition. Therefore, the amount of $3 million will be used as the cost to acquire a alluvial company that is in good condition or the share of the alluvial company in the venture.

Table 4.7, Summary of the operating costs of the entry modes

	costs\ FDI entry modes	Joint venture	Acquisition (in $000)	New establishment(in $000)
Variable costs				
	Office Rents	$ 6,635.3 (7,000* 0.9479)	$ 7,000	$ 7,000
	Wages and salaries	$ 45,863.19 (48,384 *0.9479)	$ 48,384	$48,384
	Litigation costs (ongoing costs)	$ 4,739.5 (5,000 *.9479)	$ 5,000	$ 5,000
	Miscelleneous	$ 28,437 ($30,000*.9479)	$30,000	$30,000
Total variable costs		$ 85,674.99	90,384	90,384
Fixed costs				
	Business registration and documentation cost	No cost	No cost	$1,000
	license fees (per year)	No cost in the first year	No cost in the first year.	$ 30,000
	Spending on technology and know-how	$ $142,185 (150,000*0,9479)	$150,000	$150,000
	Aquisition expense	-	$ 55,000	-
Total fixed costs		$142,185	$205,000	$271,384
Total costs		$227,859.99	$295,384	$361,768

In addition, the estimates of revenues and costs follow from assumptions made earlier in this research. In other words, the estimates critically depend on the fact that product price will increase with when there is a rise in inflation. And this will affect the cost of production to rise for companies' for multinationals who want to enter Sierra Leone alluvial diamond market. Conversely, production cash flows are expected to grow at a real GDP growth rate of the country. Since, the Sierra Leone economy is steadily growing, we assumed that the costs to produce the diamonds will grow at the GDP growth rate which is aveargely 5.9% per annum

(see table 4.8-4.10). This 5.9% of the GDP will be applied in this research to determine the units cost of production of our scheduled production of this project. The unit cost of the entry modes in the first year of production are as follows:
Sole venture. The unit cost of new establishment and acquisition is given as, total fixed costs/units expected to produced in the first year. The cost per units if new establishment per carat of alluvial diamond is $16.26 (361,768/22,252), acquisition is $ 6.7 (205,000 -55,000 = $150,000/22,252) and joint venture is $10.24 ($227,859.99/22,252)

4.4 Net Profit Contribution

Having projected for the various elements of the profitability analysis in projecting the expected revenues and costs of specific entry modes, the next step is to put these elements into a projected net profit contribution. The projected net profit contribution will provide an insight of a workable entry mode of future profit over a year. A workable entry mode is a mode that offers a company acceptable profits at an acceptable risk over the planning period.

Symbolically:

$$PC = \sum_{t=1}^{t=n} (R_t - C_t)$$

where PC is profit contribution, R_t is revenue in period t, and C_t is the cost in period t. R_t and C_t are summed over all n planning periods.

The tables 4.1.1 to 4.1.3 below illustrate a comparative profit contribution analysis where all the entry modes have passed the feasibility test. This example is simplified, because, as we know, there are three entry modes used in this research. The planning horizons of the different entry modes can always be made the same way by using terminal values, but here we assumed identical time horizons. The estimated net present contribution during the planning period do not favor joint venture. In table 4.14, the Net PC of joint venture produced impressive amount of $9,500.3, while acquisition is $ 9,191 and new establishment with positive Net PC of $8,519. At this stage we will not disregard any entry mode, because all the entry modes have produced positive net profit contribution.

4.5 The Net present value of the estimated net profit contribution

The estimated net post-tax cash inflows are the financial expression of the FDI ten-year operation plan. The negative cash inflow in year 0 represents the initial investment outlay in Sierra Leone. It is impossible to find information on the hurdle rate or internal rate of return on domestic investment in Sierra Leone. Therefore, any discount we have taken is just an assumption. This interpretation implicitly assumes that a company can obtain at its hurdle rate all the capital it needs to ration capital, they may prefer to rank entry modes by their rates of return on investment. Oneway to do this is to calculate the cummulated net present value per dollar of specific entry mode base. Another way is to calculate the internal rate of return. In table 4.1.5, the estimated net present per dollar value profit contribution of joint venture entry mode is $ 20.3 (21644/10550) acquisition entry is $21.3 ($2,137/10,000) and new establishment is is $15. 16 ($1516.36/10,000). The results shows that all the entry modes are somehow feasible, because the investment will be recover in the first five years of production**.** However,the internal rate of return is higher for acquisition than joint venture or new establishment for managers trying to maximize the rate of return. And therefore, would prefer acqusition to new establishment or joint venture.

4.6 Conclusion

PESTEL framework can be used to operationalized the external environment factors influencing FDI entry modes and the internal factors are used to understand the daimond business operation of multinational companies (De Beer).

In the PESTEL analysis, the political factors, economical factors, social factors and technological factors are studied.

- Political Factors. Although the licence fees are now levied to a stanadard rate, multinationlas will still find it difficult to enter the Sierra Leone alluvial market. The tariff barriers on foreign entry are included the new investment code in 2004. The tariff on licence fees is now levied at $30,000**.** The government divested the local company owners of this privilege they were misusing the use of the export licence fees. It was unveiled that Sierra Leoneans normally would apply for export licence and then would sell it to foreigners like the Lebanese living in Sierra Leone. The Investment Act provides opportunities for 100% foreign participation and is discretional and risk taking on the part of the multinationals whether to join in partnership with local alluvial companies**,** since joint venture partnership with alluvial companies was not properly represented by the new IPA of Sierra Leone. Some restrictions on export duty and export tax will also influence the entry of multinationals in Sierra Loene alluvial industry. For instance, The export duty on investment outlay more than $10million can pay export duty of 2,5% on wholly owned foreign participation investment and a 5% tax on foreign profit repatriation can encourage multinationals to pour their money in alluvial diamond exporting .
- Economical. The Sierra Leone economy state is struggling, because inflation is high, domestic needs continue to rise Therefore, the Sierra Leone economy is still declining. But at the same time, officially diamond export growth has been strong over the period, due to the adoption of the new diamond process certification plan in the Act. In which the plan provides a system to track diamonds exports to foreign customers.
- Social factors. Because the economic state of Sierra Leone is still declining, increasing number of the economically active group(39-54 years) are abandoning their businesess or want someone from abroad to help them with their businesses. It is a good opportunity for multinationals to pay attention to the needs of the individual alluvial companies. According to the study conducted on De Beers Group, the world's leading diamond company, with unveiled expertise in the exploration, mining and marketing diamonds, financial, good governance, documentation, banking and know-how is much in need for the economically active group of investors in Sierra Leone. However, the alluvial diamond market is still a productive market, due to the large group of workforce and the alluvial companies positive attitude toward foreign direct investment. The companies do not care less about the IPA provided the mltinational can owe at least 70% of the venture and the companies' 30%.

- Technological . Because alluvial companies need equipment and experts to value diamonds, the costs will be reasobaly high for entry modes.The cost is fixed at $150,0000 in this research. This include training people in the company to value diamonds, computer technology to follow the current prices of alluvial diamonds and customers, importing diamond valuator equipment etc.
- Legal. Lastly, some policies on employment law,working conditions, trade unions etc are important for this research. The Sierra Leone employment law does not discriminate against foreign investors or expatriates. Moreover, the national minimun wage is set at $24 under collective bargaining power with the employer. The wage figure can rise up to $3,000, depending on the skill required for the job in Sierra Leone. lastly, trade unions have great influence on the workforce in Sierra Leone, since they can bargain on wages and salaries of employees.

Profitability analysis

The profitability is intended to allocate the benefits and costs of the specific entry modes as one of the factors that influenced these entry modes in Sierra Leone. The expected revenues and costs were calculated and the entry mode that provides the highest benefits is considered a feasible entry mode. The feasible entry modes justify three kinds of entry modes of comparative analysis on the profit contribution objective. The results brought together in an overall comparative assessment to rank the feasible entry mode. However, the estimated net present contribution during the planning period favored all entry modes**.** In table 4.14, the Net PC of joint venture produced impressive amount of $9,500.3, while acquisition is $ 9,191 and new establishment with positive Net PC of $8,519. In the NPV analysis of the entry modes at 15% discount rate or hurdle rate, joint venture produced the highest NPV of $2,144.33 with per dollar value of investors domestic rates of return of $20.32. Acquisition produced NPV of $ 2137 with per dollar value on internal rate of return of $21.37 and new establishment produced NPV of $1,516.36 with per value of investors domestic rate of return of $15.16.

Table 4.8Joint venture

	Production	Price	Operating Revenues	Cost per unit	Operating costs
1	**22,252**	**110**	**2,447,720**	**10.24**	**227,860.48**
2	**35,186**	**113.85**	**4,005,926**	**10.84**	**381,562.61**
3	**50,672**	**117.83**	**5,970,922.45**	**11.48**	**581,692.26**
4	**69,176**	**121.96**	**8,436,633.45**	**12.26**	**848,097.76**
5	**66,866**	**126.2**	**8,440,401.57**	**12.98**	**868,144**
6	**70,000**	**130.6**	**9,145,262.07**	**13.75**	**962,207.4**

Table 4.9 (New establishment)

year	Production	Price	Sales revenues	Cost per unit	Operating costs
1	22,252	110	2,447,720	16.26	$361,817.52
2	35,186	113.85	4,005,926	17.22	605,902.92
3	50,672	117.83	5,970,922.45	18.24	924257.28
4	69,176	121.96	8,436,633.45	19.31	1,335,788.56
5	66,866	126.2	8,440,401.57	20.45	1,367,409.7
6	70,000	130.6	9,145,262.07	21.66	$1,515,997.14

Table 4 .10 Acquisition

Year	Production	Price	Sales Revenue	Cost per unit	Operating costs
1	**22,252**	**110**	**2,447,720**	**6.7**	**149,088.4**
2	**35,186**	**113.85**	**4,005,926**	**7.0973**	**249,655.22**
3	**50,672**	**117.83**	**5,970,922.45**	**7.16**	**380,852.81**
4	**69,176**	**121.96**	**8,436,633.45**	**7.59**	**524,522.87**
5	**66,866**	**126.2**	**8,440,401.57**	**8.038**	**537,468.9**
6	**70,000**	**130.6**	**9,145,262.07**	**8.5**	**595842.85**

	1	2	3	4	5
Revenues	$ 2,447,720	$ 4,005,926	$5,970,922.45	$ 8,436,633.45	$8,440,401.57
Total operating costs	149,088.44	249,655.22	380,852.81	524,522.87	537,468.90
Depreciation	1,081,375	1,081,375.00	1,081,375	1,081,375	1,081,375
Eanings before tax	1,217,257	2,674,895.78	4,508,694.64	**6,830,735.58**	**6,821,560.57**
Corporate tax (35%)	426,039.95	936,213.5	1,578,043.12	2,390,757.45	2,387,546.2
Net profit contribution	791,217.05	1,738,682.26	2,930,651.51	4,439,978.12,	4,434,014.37
Depreciation	1,081,375	1,081,375	1,081,375	1,081,375	1,081,375
Net Cash Flow	1,872,592.05	**2,820,057.62**	**4,012,026.51**	**5,521,353.12**	**5,515,389.37**

Table4.11
Profit contribution of New establishment (in $000)

	1	2	3	4	5
Revenues	$ 2,447,720	$ 4,005,926	$5,970,922.45	$ 8,436,633.45	$8,440,401.57
Total operating costs	361,817.52	603,902.92	924,257.28	1,335, 788.56	1,367,409.7
Aquisition expense	0	0	0	0	0
Depreciation	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000
Eanings before tax	1,060,903	2,377,023.08	4021664.72	7,100,844.89	6,047,991.87
Corporate tax (35%)	371,316.05	831,958	1,407,582.65	2,485,295.7	2,116,797,155
Net profit contribution	689,586.95	1,545,065	2,614,082.1	4,615,549.18	3,931,194.16
Depreciation	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000
Net Cash Flow	**1,714,586.95**	**2,570,065**	**36390821.1**	**5,640,549**	**4,956,194.16**

Profit contribution of Acquisition table 4.12

	1	2	3	4	5
Revenues	$ 2,447,720	$ 4,005,926	$5,970,922.45	$ 8,436,633.45	$8,440,401.57
Total operating costs	149,088	249,655.22	380,852,81	524,522.87	537,468.9
Depreciation	1,025,000	1,025,000	1,025,000	1.025,000	1,025,000
Aquisition expense	55,000	55,000	55,000	55,000	55,000
Eanings before tax	1,217,632	2,676,270.78	4,565,069.64	6,832,110.58	6,822,932.4
Corporate tax (35%)	426,171.2	936,694.77	1,597,774.3	2,391,238.7	2,388,026.34
Net profit contribution	**791460.08**	**1,739,576.01**	**2,967,295.27**	**4,440,871.90**	**4,434,906.06**
Depreciation	$1025,000	1,025,000	1,025,000	1,025,000	1,025,000
Net Cash Flows	**1,816,460.08**	**2,764,576.01**	**3,992,295.27**	**5,465,871.9**	**5,459,906.06**

Table 4.14 Estimated Net Profit Contributions of the different FDI entry modes by each year of the plan: Sierra Leone. ($000)

	End of year						
	0	1	2	3	4	5	commulative
Joint Venture	(10,550)	1,872.6	2,820.1	4,012	5,521.4	5,515.4	9,191.5
Acquisition	(10,000)	1,818.5	2,764.6	3,992.3	5,465,9	5,459	9,500.3
New establishment	(10,000)	1,714	2570	3,639	5,640	4956 ,	8,519

Table 4.15Estimated Net Profit Contributions of the different FDI entry modes by each year of the plan: Sierra Leone. ($000) discounted at 15 %

	End of year						
	0	1	2	3	4	5	commulative
Joint venture	(10,550)	1628.34	2132.4	3033.65	3156.88	2743.98	2144.37
Acquisition	(10,000)	1581.3	2090.43	2625	3125.12	2715.92	2137.34
New Establishment	(10,000)	1490.43	1943.29	2,392.7	3,224.7	2,465.67	1516.36

Chapter 5 Conclusion and recommendations

In this chapter, the results of the analysis on the entry modes will be summarized to answer the research questions. Also, recommendations on the choice of the optimal entry mode in this research will be illustrated.

5.1 Choosing the optimal entry mode

Firstly, the Sierra Leone government's desire is to re-activate the economic activities in all sectors of the economy after the war. In regards to this, the government initiated an investment Act in 2004. This Act provides the legal, economic and financial framework for investment and also provides incentives to attract private investment both domestic and foreign investors. The Act confers good opportunity for the development of production and value adding activities, to improve export of alluvial diamonds and create an environment conducive to private investment as well as other related matters.The range of export duty fee of 100% foreign participation is between 2,5% -3% depending on the value of diamond export. According to the Act, the value of export up to $10million must pay 3% export duty at the time of export. While for a value of export of alluvial diamonds more $10 million can pay 2, 5% on export duties. However, the value of export of alluvial diamonds more than $10million at 2,5% export duty remains attractive for multinationals who want to invest in sole ventures or joint venture with local alluvial companies. The latter is not highly represented in the IPA, it is discretion of the multinational to share the risk of investment with local alluvial diamond companies. This is due to the fact that these companies lacked the financial capacity, know-how, management etc that could attract foreign investors to have joint partnership. The former is well represented in the new Act, because it provides guarantees as well as miscellaneous matter such as expatriate, labour requirements, expatriate first arrival duty waiver, access by investors to local knowledge, settlement of investment disputes and the repeal of the non-citizens trade and business act 1969. These factors are considered to be of greater importance when choosing optimal entry mode.

Secondly, only the specific entry mode whose external factors are considered less risky could be a possible candidate of the optimal entry mode. This depends on whether the external factors of specific entry mode provide a higher perceived benefit or value for multinationals. Moreover, the flexibility of multinationals to invest in entry modes with alluvial companies is likely to moderate. The needs of the alluvial companies are very well limited due to the struggling economy state of Sierra Leone. The major need of these companies is financial or someone from abroad who can help them to improve their business. Now, several economically active group (alluvial companies with good financial position) don't care less about the new investment promotion Act, but rather have decided to invest in joint partnership with foreign investors from abroad under all costs with special preference attach to multinationals from the Netherlands or Belgium. The alluvial companies often control a great number of rough alluvial diamonds in the region, which at most occupied 50-60% of the total diamonds exports from Sierra Leone to Belgium, Isreal and USA and the foreign investors set the prices of these diamonds. Some even want multinationals to acquire their business with attractive prices. As a result, the price competition of alluvial diamonds is very intensive in this market.

Thirdly, a valid profitability analysis has been calculated for these entry modes, which consist of the expected benefits and costs of using these entry modes**.** Each element of the benefits of these entry modes is consistent with each other. The profit contribution of the specific entry modes should be adopted because it provides some benefits for multinationals such as choosing the feasible entry mode that maximizes profit contribution due to exemptions from taxations, avoiding tariff and non-tariff barriers, access to local market and knowledge etc. Inorder to maximize the profit contribution of these entry modes, multinationals should choose the entry modes with the highest profitability and then invest in the entry mode with the lowest risk.

Lastly, through the profitability analysis, we can find the earnest of investing in entry modes. The licence fees, export duties, and other expenses associated with each entry mode are necessary for the profit contribution of these entry modes . This implied all entry modes has passed the feasibility test at the level of profit contribution when comparing the profit contributions of these entry modes. However, there were differences in both the cummulative profit contributions or cash flows between the entry modes. The entry mode with the highest profit contribution is joint venture followed by acquisition and new establishment. The cash flows of these entry modes will occur in investment activities which include, revenues from sales of alluvial diamonds, operating expenses,

acquisition of companies, wages and salares, licences and government fees for a given entry mode. Based on the NPV analysis, the entry modes were discounted at 15% . Joint venture produced the highest NPV of $2,144.33 with per dollar value of investors domestic rates of return of $20.32. Acquisition produced NPV of $ 2137 with per dollar value on internal rate of return of $21.37 and new establishment produced NPV of $1,516.36 with per value of investors domestic rate of return of $15.16. Therefore, for multinationals who want to maximize the internal rate of return, acquisition is a favorable candidates of entry in the alluvial market, because it produces the highest per dollar value of $21.37.

In other word, it is feasible for multinationals to use acquisition as a choice of entry mode in the Sierra Leone alluvial diamond market, although what they can do with the needs of the alluvial companies is well limited on account of the fact that multinationals have to carry all the expenses on their shoulder. In addition, the multinationals can hire and train local managers or consultants inorder to gain the local knowledge and get access to the alluvial market.

5.2 Recommendations

Firstly, the Sierra Leone diamond industry is vulnerable to some foreign investors and handful of Lebanese investors especially in the Kono region of Sierra Leone. This is a big concern to the government. According to the executive summary by USAID on diamond research in Sierra Leone in 2004, local business communities are not benefiting from alluvial diamonds resource. And this is leading to money laundering and smuggling in the country. As a result of this, the Sierra Leone government decided to protect the alluvial diamond industry inorder to improve the economic state of the country. Although there is now standard export duties on the value of alluvial diamonds export for all investors including domestic and foreign investors, the government should continue with the current review of non-citizen business Act. Multinationals should pay more attention to the changes of Sierra Leone policies on diamond exporting when they invest in entry modes in Sierra Leone. Since, that will influence the operating costs of the different entry modes when an investment is carried out by multinationals. For instance, the investment code reserved a number of businesses exclusively to citizens of Sierra Leone which is a bad signal to multinationals. Moreover, the Act also provides that foreign investors could operate in these business activities, if they had a Sierra Leonean citizen as a majority partner. By allowing

such structures, the desire of multinationals to invest in joint venture with local alluvial companies is at risk. These companies have no money, technology or incentives for joint venture which is not really represented in the IPA. The costs will solely on the shoulder of the foreign investor.

Secondly, De Beers has been a fine partner to date in diamond business in Sierra Leone. This is due to the fact that DE Beers is more committed in meeting the needs of the business community. In the sixties, DE Beers gained more local experienced and the relationship between DE Beers and handful of local alluvial companies improved. This led to the increase in yearly profit of DE Beers during that period. In this regard, it is reasonable for the multinationals to expect much more fexibility with other key players in the diamond industry in terms of building a long lasting business partnership. It provides some benefits to the multinationals, such as avoiding licence fees, gaining local experience and knowledge, sharing expenses with prospective companies, gaining from existing technological tools if any, etc.

Thirdly, it is necessary, to invest in new establishment entry mode for FDI in five years. Where profit contribution can compensate these costs should be taken into account. And multinationals should not neglect any new cash outflows that will influence the feasibility of new establishment entry mode. For instance, when the business registration and docmentation fees exceed the costs of license, multinationals should consider engaging in joint venture. Provided that they do not mind sharing the risk with alluvial companies.

Lastly, when calculating the cummulative net present value for new establishment entry mode, all the profit contributions suppose to happen at the end of the year. In practice, the profit contribution may happen at any time such as sales of alluvial diamonds to foreign customers or agents. Multinationals should keep in mind that the investment should provide adequate cash inflows to meet its maturing obligations.

Appendix

Date:
Location: Koidu town, Kono District
Respondents:

Company: Ngephe Enterprises
Manager : Mr. Boima, is the manager of the company for the last 7 years. He has some expereince in trading with foreign investors.
Type of establisment : Is a Lebanese trading alluvial diamond company who main business is exporting alluvial diamonds.

Company: Koidu diamond trading Company
Manager:Mr. Sahr Sam is the sales agent of this company. He has opinion on foreign sales of alluvial diamonds, because of his 20 years of experience, he is familiar on exporting alluvial diamonds to Atwerp, Belgium and understand the current situation of the industry.
Type of establishment : Is a alluvial diamond trading agent organization in kono.

Company: Dagbee Trading Agent
Sales supervisor: Mr Momodu Aruna is the sales agent of this company for the last 9 years. He has some advices on the marketing of alluvial diamonds to Belgium and the needs of alluvial companies
Type of establishment : Privately owned Gold and diamond trading company

Company: Yomba and Co.

Manager: Ms Siah Pesima is the head of the company and co-founder. She is responsible for export management in this company. She has opinion on the needs of alluvial companies .
Type of establishment : Jointly Owned Alluvial diamond exporting company for the past 25 years.

Company: Farma cooperative
Manager : Mr. Sandy Sessay. He is junior manager of the foreign sales sector of the company. He has supervised other diamond exporting companies' business before appointed as senior export manager in this company. He has some advices for multinationals who are looking for local partners.
Type of establishment: Gold and diamond mining company

Company: Mora and others
Manager: Mr Sandy Sidibay. He is responsible for any export negotiations of the company sector. He is highly interested in joint venture relations with foreign investors.
Type of establishment : A diamond manufacturing company

- Economical

1. How does the financial needs of alluvial diamond companies' affect the use of foreign entry modes such as joint venture, acquisition or new establishment?

- Mr. Boima: The alluvial companies are not satisfied with the past and current government, because there is no incentives like credits or lending from the government to alluvial companies. In this respect, multinationals have to pay attention to the type of establishment of a company before having a joint venture in partnership. Because many companies don't have that capital to invest in large scale diamond production neither the infrastructure for foreign direct investment. The best trade-off for multinationals if he wants a joint venture with a Sierra Leonean partner is to look at the infrastructure of the company rather than to believe in its financial position. Because, in the latter, a company can produce fake bankscript overstating his financial

postion. In the former, if the company is in good condition then is a well established diamond exporting company. All these factors may very well influence these foreign entry modes.

- Social

2. How much is the income distribution of the work force of the alluvial companies will affect the entry modes ?

Mr. Sandy Sessay: There is large differences income between the workforces of Sierra Leone. Low skill employee can earn up 25 per month while engineer can earn up to $3,000 per month. However, my company can afford up to 550,000 for a joint venture with multinationals especially from Belgium, Germany or the Netherlands.

3. What are the Sierra Leone alluvial companies' attitude about foreign direct investment from Dutch multinational companies' or other Western countries in choosing companies in entry modes?
   - Ms Siah Pesima: The people don't see foreign investors as threat but as partners in business.

- Technological

10. How important is technology for the alluvial companies?
    - Ms Siah Pesima: Technology is the most important need of all companies in Sierra Leone. There are no good internet facilities, power electricity, expert diamond valuators and equipment, etc . The output of diamond companies have been gradually decreasing last ten years. As a result, the contribution of diamond production to the GDP has decreased greatly from the 1970's to current. And, now, because of costs for these equipments are expensive, some alluvial companies need foreign partner with the resources. So that , they can joint together to invest in a successful venture.

- Legal

11. Is there any restrictive policies on emploment for alluvial diamond exporting that may discourage multinationals?
    - Mr Sandy Sidibay: There is no law that discriminate against foreign investors. Foreign expatriates are welcome as long as they have working permits and pay their income taxes.

- Benefits

12. What are the sales benefits of alluvial diamonds for companies in Sierra Leone if multinationals enter the market?
Momodu Aruna: The sales benefits of alluvial companies depends on two things. Firstly, a good price must be paid for the diamonds and secondly, if the company produce enough diamonds to earn profit.

8. Can you forecast sales volume of a alluvial diamond investment of the specific entry modes if multinationals enter the industry?
Momodu Aruna: It is dfficult to actually give the right amount. Because our supply depends on the diamond production companies.

9. What is the probability of multinationals achieving forecasted sales volume in question 6? (please give a % and state reasons)
- I cannot tell.

- Costs

10. What are the operating expenses per year of using specific entry modes the alluvial diamonds in Kono, Sierra Leone? (Such as licencee fees, government charges, wages, miscellaneous)

The costs of licence fees to export alluvial diamonds until recently, was $ 5,000 per annum for companies owned by Sieera Leonean. The government recent policies on licence fees has now charge at $30,000. Wages for local employees are not really fixed.

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