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An Institution-Based View of the Competitive Environment of Firms in Angola: The Case of Portuguese Manufacturing Exporters

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Abstract

The present study aims to investigate the exporting firms' perception on the formal institutional quality of a country destination and, from an institution based perspective and through a qualitative approach, evaluate the competitive environment that such companies face at the destination. For this, a panel set of 67 observations is analyzed. The sample chosen is exclusively composed by Portuguese firms that are part of the Food and Beverage sector. The analyzed sector has faced multiple challenges during and after the financial crisis that started in 2008. It is in this context, and to complement the existing literature on the institution topic, that this thesis intends to observe the institutional environment of Angola and test the robustness to what extent there is a link between foreign institutions quality and export performance of Portuguese firms. Angola has been a witness of the paradoxical situation in which a country with rich natural resources do not achieve a sustainable economic growth and experience less democracy and political development. Angola, relief back in 2002 from a civil war that devastated the country for 27 years, has been often considered one of the classic examples of the resource cursed relying heavily on oil as export commodity (Word Bank, 2011: Oil Rents), which represents about 50% of the GDP, more than 70% of tax revenues and more than 95% of exports[1]. Although the food and beverage processing sector is expanding, the country imports the majority of its products and presents low industrial capabilities. The betting in the emerging market assent on the needs of Portuguese firms, more concretely, reinforce the internationalization, as the national market was contracting, consequence of the adjustment of the Portuguese economy. Despite the number of Portuguese exporting companies to Angola evolved in the last five years, the paradigm is changing, as the Angolan imports of Portuguese products are suffering a tremendous fall, due to the economic slowdown that Angola is going through due to the decline in oil prices. Annual inflation reached 40% by the end of 2016 and keeps accelerating, reflecting on the depreciation of the kwanza against the dollar, situation that has not been reversed since 2014[2], making it difficult the repatriation of capital. The empirical

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[1] Data from World Bank website in *Angola: Country overview*
[2] INE Angola - 2016

results of this thesis mostly corroborate the evidence that Angola is the owner of poor economic governance in areas such as rule of law, including property rights and contract enforcement, control of corruption and government effectiveness, fundamental pillars for the creation of a favorable business environment. From the qualitative analysis, the country shows a very low score on the formal rules of the game. Portuguese firms need to analyse carefully the constrains of exporting before committing resources, and reflect its international strategy in the country.

Abbreviations

IB (International Business)

IBV (Institution-Based View)

INE (National Institute of Statistics)

AIECEP (Agency for Investment and Portuguese Foreign Trade)

WBG (World Bank Group)

BP (Bank of Portugal)

GDP (Gross Domestic Product)

FIPA (Federation of Portuguese Agro-Food Industries)

WGI (World Governance Indicators)

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Introduction

International trade involves contracts between parties operating in different institutional environments, laws and cultures and there's relatively little literature concerning that weak institutional environment reduce the likehood that a firm export directly and efficiently to that destination. The trend toward globalization of trade and sales activities has increasingly accentuated the importance of understanding what drives the firm in IB, as they face directly more risks and uncertainty in overseas. It is factual that companies seek to establish position in the international markets as it represents viable strategic option for firms to protect themselves against domestic downturns, achieve corporate growth and ensure long term survival. Although there are numerous empirical studies analysing the influence of managerial and organizational factors on export strategy in general and on export mode choice in particular, most of them ignore the role of environmental factors, especially the institutional ones (Hessels and Terjesen, 2010; Peng et al., 2009). Past literature already suggested that in addition to industry and firm level conditions the strategic choices that a firm make is inherently affected by the formal and informal of given institutional framework (North, 1990; Oliver,1997), enabling them to use more efficiently the market. It is within this context that this study takes place, as institutional environment invariably affects firms' internationalization process, trade performance and consequent growth.

This paper aims to investigate, by applying the institution-based view[3] theory, in which Angola is suitable for examination, the formal institutional quality's perception that influences Portuguese Food and Beverage firm's export performance in the African country. Adjustment of the strategy due to different institutional environments is relevant for the success in international markets. As researchers increasingly differ significantly from those in developed economies, there is an increasing appreciation that formal and informal institutions, commonly known as the "rules of the game" (North 1990), significantly change the shape of the strategy and performance of firms – both domestic and foreign - in emerging economies.

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[3] Peng et al. (2009) first proposed this new concept, the institution based view, for the strategic management oriented research field, to differentiate the management-oriented researches from existing work in economics and sociology

This leads to the **following problem formulation**: *What is the institutional quality that characterizes Angola and the importance for Portuguese firms' export performance?*

The decision to focus on this type of trade was because of the findings of Meon and Sekkat (2006) that manufacturing export is negatively affected by high levels of corruption, bad rule of law, poor government effectiveness and political violence. Companies in the Food and Beverage sector reflect the need and the opportunity that the European economies feel, which leads them to enter the emerging economies, which in turn grow at a faster rate than the rest of the world. The economic recession in Portugal had a major impact on the sector, largely due to the sharp decrease in domestic demand. The number of companies decreased from 11 038 in 2004 to 10 485 in 2012 (FIPA, 2012). If Angola was one of the many markets outside the European community which offered many opportunities, the recent economic slowdown and the consequences for the depreciation of kwanza and repatriation of profits, means that Portuguese firms need to rethink strategies and evaluate the country not only through macroeconomic and financial data, but also to carefully evaluate the evolution of the Angolan institutional quality that can jeopardize the invested resources over the time. Angola, which represented, back in 2014, 6.6% of the total volume exported by Portuguese companies (4th largest client), represents now, 2016, 4.2% (6th largest client).

The research has the specific objective of provide empirically supported hypothesis about the impact of institutional quality on export performance. In addition, the findings of this paper are intend of give continuity to the hypothesis set forth by Peng (2003,2006) that a firm's strategy and performance in international business are also a reflection of the institutional frameworks in which firms are embedded. To explore the research question, this study hereby presented is structured as it follows. First, it will be present the emerging institution-based view in strategy develop by Peng et al. (2002, 2003, 2008). Second, to pursue to answer to the problem formulation, the analysis will start with an outlook of the formal institutional quality that characterizes Angola, based on qualitative data, provided different indexes. Finally, it will be presented an analytical discussion based on the findings, in order to fully answer our problem formulation. Using a qualitative approach, it was analysed

the institutional quality of Angola, through an online survey forward by email to Portuguese exporter in the manufacturing industry, more specifically, to the **Food and Beverage sector**. The results of Angola's institutional evaluation and how it constrains exports performance were opposed to the institutional quality of the country drawn from reports by NGOs, such as the World Governance Indicators, the Global Competitiveness Index and the Corruption Perceptions Index. For the spectrum of Angola´s institutional quality, three analytical indicators are going to be addressed: **rule of law**; **control of corruption** and **government effectiveness**.

Theoretical Perspective and Literature Review

The rise of emerging economies across the globe is creating great opportunities to extend and develop the **institution-based view** (Meyer & Peng, 2005). The new set of opportunities that arise, transcend notions of risk and reward, which leads the business models and internationalization to be rethought. It is undisputable that each emerging market has unique features/ needs and hard to predict parameters that companies must understand and prepare to meet. As the awareness of the importance of the relationship between organizations and institutions increased through time, strategic management researchers increasingly realized that institutions are more than background conditions (Olive, 1997; Peng & Heath, 1966). In the past, drivers of firm differences were just focused, by researchers, on industry conditions (Porter, 1980) and firm resources (Barney, 1991), leading to industry- and resource-based perspectives, respectively. In addition, "a firm also needs to take into account wider influences from sources such as state and society when crafting and implementing its strategies (DiMaggio and Powell, 1991; Oliver, 1997)"[4]. Anderson and Marcouiller (2002) and de Groot et al. (2004) stated that "trade expands when supported by strong institutions – specifically, by a system capable of enforcing commercial contracts and by transparent and impartial formulation and implementation of government economic policy"[5].

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4 Peng, Mike W. (2002) Towards and Institution-Based View of Business Strategy
[5] Anderson, J.E. and D. Marcouiller (2002), 'Insecurity and the Pattern of Trade: An Empirical Investigation', Review of Economics and Statistics, 84,2:345-352.

Importance of Institution-based view on Exporting

For companies initializing the process of internationalization, major concerns are related to the minimization of entry risks and maximize the control of all the international operation. Exporting reveals to be the safest process of operating abroad and a path of learning that which enables later more sophisticated and risky forms of internationalization, mainly because it allows for lower start-up costs, less risk and higher profits. In the context of globalization, the environmental conditions of both the home and host markets change rapidly and directly influence the firm 's strategy (Peng et al., 2009). Necessarily, firms need to evaluate carefully the advantages and challenges of exporting before committing resources, reflect whether their international strategy can be extended and adapted to emerging economies[6]. Nation's differ in political risk, which affects the stability of their markets (Simon, 1984). The complexity of the environments, is often related do incomplete information or asymmetric information and uncertainty in exchange (North 1990,1995). He defines institutions role as "is *to reduce uncertainty by establishing a stable (but not necessarily efficient) structure for human interaction*". Moreover, David and North (1971:6) define institutions as "the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange, and distribution" and institutional frameworks are made up of both **formal** and **informal constraints** (North 1990). Formal Institutions are derived from writing and enforcing constitutions, laws, contracts and regulations, whereas informal institutions include socially sanctioned norms of behaviour, which are embedded in culture and ideology (Scott, 1995). An institution-based perspective contributes to the understanding of how formal institutions such as explicit incentives, authority, contracts, and ownership can be aligned to exchange conditions to increase organizational performance[7].

De Groot et al. states that quality of formal rules that govern economic interaction is an important determinant of the uncertainty and opportunism in market exchange.

6 Peng, M. W., Wang, D., & Jiang, Y. (2008). An institution based view of international business strategy: A focus on emerging economies. Journal of International Business study, 39 (5), 920 – 936 pg.77

[7] Empirical evidence, in particular the series of papers by La Porta, Lopez-de-Silanes, Shleifer and Vishny (e.g. 1997, 1998), and Acemoglu, Johnson and Robinson (e.g. 2001, 2002), suggests that and institutions matter a great deal for economic performance, shape the pattern of comparative advantage across countries. Also the impact of

Formal Institution approach

To measure the risk and the transaction costs associated, humans created institutions, which can be classified either as formal or informal institutions. Formal institutions derived from writing and enforcing constitutions, laws, contracts and regulations (Meanard and Shirley, 2005:2). In determining the level institutional quality, this paper will use as a measure for institutional quality, indicators presented in Kaufman et. al database: **Rule of Law**; **Control of Corruption** and **Government Effectiveness.** This approach is intended to give continuity on the social science literature on new institutionalism, meaning, that the exclusion of institutional analysis from an IB perspective, enhances the error of assuming zero transaction cost or constant institutional factors when trading in the real world, because hidden transaction costs also constitutes a significant proportion of the total cost of any good and an impact on trade's performance.

Methodology

Contextualization of the Portuguese Exports scheme

The year of 2008 presented the world with one of severest financial crisis since the 1930 Great Depression (The Economist, 2008). The European area has not been an exception and Portugal one of its most affected. The crisis began in the financial system and then moved on to the real economy. Economies soon started shrinking, ranging from recession to depression, with the consequent worsening of unemployment and the emergence of deep social problems. The black scenario of a harsh recession was fostered by the fall of the private demand due to a combination of credit constraints, negative effects of wealth from lower house prices and lower assets and loss of confidence. The Portuguese economy was highly affected by this downturn [Table 1] and led to the bankruptcy of some non-financial corporations as a consequence of reduced credit availability and reduced production. Portugal's

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institutions on transaction costs has received a lot of attention in the literature on economic growth and development (e.g., Hall and Jones 1999, Olson 1996, Knack and Keefer 1995).

sovereign debt crisis escalated in early 2011 and brought a hard economic adjustment. By the end of 2013 GDP per capita was down to its 2007 level (while the EU as a whole was gradually getting back to the pre-crisis level) and the "unemployment rate was reaching a historical height of more than 18% (contrasting with the 4,5% registered in the turn of the century)".[8]

Table 1: Average Annual Growth Rate of Real GDP Per Capita

(In percentage)

74-86	1986-95	1995-00	2000-07	2007-11	2011-15
1.8	3.7	2.9	0.7	-0.6	-0.4

Source: INE, 2016

The adjustment program agreed between the Portuguese government and the IMF, the ECB and the European Commission brought fiscal restraint measures (austerity measures), which led to an increase in the unemployment rate and, a significant decrease in real household income [Table 2]. In addition, salary cuts, increases in direct and indirect taxes, cuts in pensions, reductions in unemployment benefits (in monetary terms and in terms of time), other social supports and the reduction of public investment contributed to this.

Table 2: Household Final Consumption Expenditure (% GDP)

	2007	2008	2009	2010	2011	2012	2013	2014
Real Change (%)	2.3	1.2	-2.4	2.3	-5.9	-1.2	2.2	2.8

Source: World Bank national accounts data and OECD National Accounts

A structural improvement in the balance of the current account has been defined as a way to reduce Portugal's external debt and international investment position. The promotion of the growth of the country's export activity [Figure 1] and its contribution to the competitiveness and productivity of the Portuguese economy, has been a measure of strategic orientation in various sectors.

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[8] Eichenbaum, Martin, Rebelo, Sergio, Resende, Carlos in *The Portuguese Crisis and the IMF* (Independedet Evaluation Office of the International Monetary Fund)

Figure 1: Exports of Goods and Services (% GDP)
source: World Bank National Accounts Data, 2016

According to data released by the Bank of Portugal, the word exports became omnipresent, as the exports of goods and services, registered in the period 2010 - 2015, an annual average growth rates of 4.9% and 1.2%, respectively[9]. In addition to global economic crisis and consequent decrease in the investment (public and private) and the purchasing power of consumers, the paradigm of the main importers of products from Portugal also changed. Back in 2012, Spain, France and Germany, were the buyers of more than 46.6% of goods in Portugal [see Appendix 1], but the diversification strategy due to Europe's unstable economy was already being implemented: non-EU exports increased grown by 11.3% since 2008 [Figure 2], reaching in 2013 the highest value of this post-crisis period.

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[9] Data published by AICEP in *Portugal Global, March of 2015*
(http://www.portugalglobal.pt/pt/biblioteca/livrariadigital/portugalfichapais.pdf)

International Trade of Goods in Portugal -Exports Annual Evolution (2008-2013)

Milhões de euros

Comércio Intra-UE
Comércio Extra-UE
Taxa de variação anual do Comércio Internacional

INE-International Trade Statistics, Jan 2014

According to INE data, compiled by AICEP, the Agency for The Investment and Foreign Trade of Portugal. the share of exports in GDP should continue to increase in the coming years, ranging from 40% in 2015 to 42% in 2018[10]. Portuguese companies should continue to strengthen internationalization, since greater dispersion of export destinations reduces the risk of the firms. The increasing exports to countries outside EU, in particular, to PALOP (Portuguese Speaking Language Countries) justify, to a large extent, the overall increase in total volume of Portuguese exports since 2010. It is in this context that Angola shows preponderances. According to the Bank of Portugal and INE, more than half (53.7%) of Portuguese companies that sell goods to Angola only export to this market[11]. The Angolan current account deficit intensified considerably in 2015, reflection of the falling oil prices, leading to a moderation of the public investment and with consequences in the depreciation of the kwanza that, in turn, conditioned the purchasing powers of the consumers. The impact on Portuguese exports is significant: exports of Portuguese companies to Angola fell 249M euros (-45%) in the first quarter of 2106 compared to the same period of 2015, the biggest drop among the top 10 markets outside the European Union this year.

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[10] AICEP – Portugal Global, March of 2013 (http://www.portugalglobal.pt/pt/biblioteca/livrariadigital/portugalfichapais.pdf)

[11] AICEP – Portugal Global, March of 2016 Available at
http://www.portugalglobal.pt/pt/biblioteca/livrariadigital/portugalfichapais.pdf

Characterization of the Food and Beverage Sector in Portugal

The choice of the Food and Beverage[12] sector not only underlies on the professional proximity to sector, but also to relevance within the Manufacturing Industry, since it represents the largest industrial sector (19%) in Portugal and in Europe. Within the 11 000 companies that represent the sector, 23% have export activity. As mentioned previously, the economic recession in the country led to the bankruptcy of companies in the sector, as the business environment was characterized by restrictions and increase in credit costs, fall of the domestic demand, as well as the drop in global investment. It took until 2014, for the values of business volume in the sector return to the same as ones before the world crisis [Table 3].

Table 3: Evolution of the Food and Beverage sector in terms of volume, gross value added and number of companies

	2008	2009	2010	2011	2012	2013	2014	2015
Business Volume (millions of euros)	15181	13992	14052	14752	14600	14960	15139	15308
Gross Added Value (millions of euros)	2822	2875	2889	2720	2588	2673	2752	2864
Number of Companies	10835	10461	10513	10537	10485	10649	10948	10996

Source: FIPA, 2016

The performance of the Food and Beverages sector fits in the country context. The sector suffered a great fall due to the reduction of the welfare of the families [Table 4]. In the period 2008-2014, the growth rate Annual average of exports of the Food and Beverage sector was 7.9%, while average annual growth of the economy's exports (Goods) was 3.4% [Figure 3]

Table 4: Rate of Change of Food and Beverage Consumption in Portugal (base 2011)

2008	2009	2010	2011	2012	2013	2014	2015
9.4	-8.4	0.4	6.3	2.1	1.7	-1.5	0.7

Source: Bank of Portugal

Exports in the sector under analysis show a positive evolution over the years [Figure 3], more sharply than in the total economy. In the period 2008-2014, the

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[12] The Food and Beverage sector includes all the activities related to the transformation of raw materials into foodstuffs or beverages and their availability to the final consumer.

growth rate Annual average of exports of the Food and Beverage sector was 7.9%, while average annual growth of the economy's exports (Goods) was 3.4% [Figure 3]

Figure 3: Portugal's Food and Beverage Total Export Volume (Million of euros)
Source: GPP, ENEI - National Research and Innovation Strategy for a specialization Intelligent 2014-2020
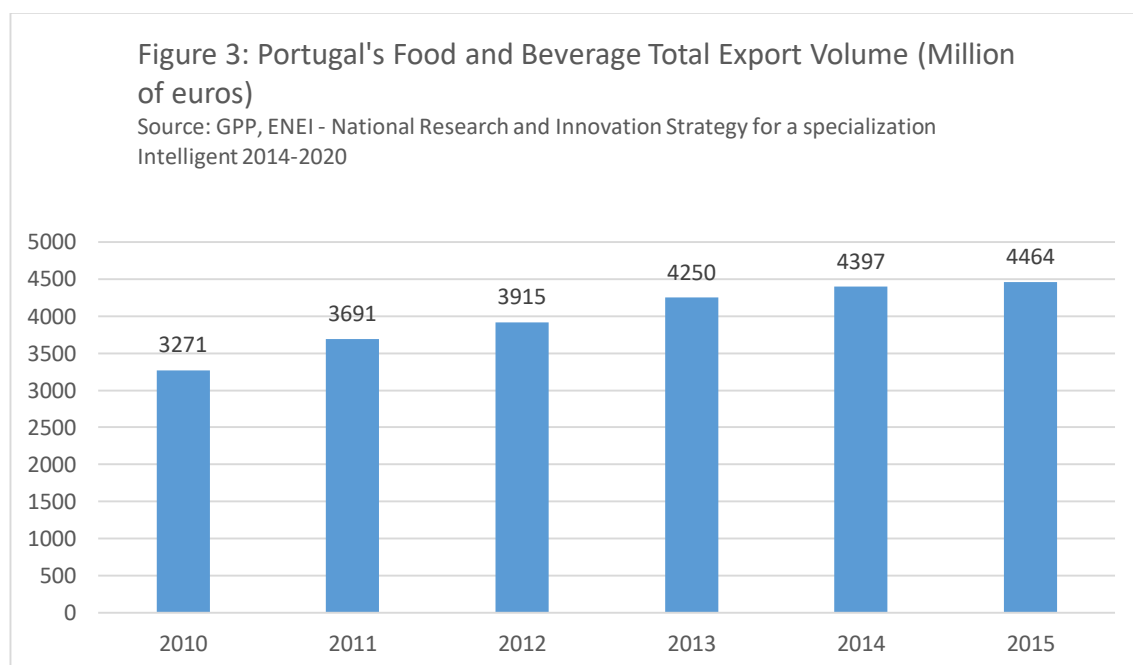
Although the preponderance is not the same in 2012, the sector analyzed continues to have the largest share of total Portuguese exports to the African country.

TOP 10 EXPORTS FROM PORTUGAL TO ANGOLA (2015)

	Value (€)	Share (%)	Real Change (%) 10-15
Food Products	362 895 342	17.3	10.9
Machines and equipment	254 211 795	12.1	2.6
Electrical Equipment	227 692 729	10.8	3.2
Beverages	155 445 374	7.4	-4.7
Processed metal products, except machinery and equipment	141 920 406	6.8	-4.4
Chemicals	116 831 989	5.6	5.5
Rubber and plastic products	96 717 179	4.6	7.5
Computer, electronic and optical products	92 187 977	4.4	-3.6
Furniture	86 156 863	4.1	-0.5

Other non-metallic mineral products	77 858 735	3.7	-3.2

Source: INE, 2015

Empirical Analysis

In this chapter, this research presents the results of a survey conducted with Portuguese exporters firms within the Food and Beverage sector to assess the perceived quality of the institutional environment. This section will be after divided into subchapters, which draws upon the analytical indicators referred previously.

The reason I chose to focus on this industry, goes beyond that within the context, internationalized firms allow us, in the immediate, to better analyze the institutional environment in Angola. The main reason is due to the fact that Angolan economic situation, resulting from the oil crisis in 2015, presents serious challenges trading overseas to the number one Portuguese sector that exports to the country, making firms need to analyse not only political and economic developments, but the risks that the host environment presents, before committing.

Measuring institutions quality impact on the firms' export performance is no easy task, due to the fact that institutional quality is not something tangible. However, by using various data collected by organizations and firms that operate in this context, it will be presented the institutional environment that Portuguese export firms face when operating in the sub-Saharan country.

Data Collection and Method

The inductive investigation, was conducted using a qualitative approach, through an online survey [Appendix 3] sent by email to companies within the Food and Beverage sector that export their products to Angola, in order to understand the sector's perception about the institution quality of the sub-Saharan country and how it constrains its export performance. The questionnaire, in the form of multiple choice answer, was forward to 100 companies within the sector, with a detail question about the hypothetical impact of several institutions in the export and additional questions covering the following areas: (1) Business Regulations, (2) Crime and Theft, (3) Government and Property Rights, (4) Corruption, (5) Risks and Challenges of

Exporting to Angola. The data gathered will then be organized around 3 institution indicators, more specifically, *Rule of Law*, *Corruption* and *Government Effectiveness*. Concerning the quantitative data, as mentioned before, it will be drawn from different reports by NG0's, in order to put our finding from the qualitative analysis into perspective. The measure of the indicators of rule of law and government effectiveness will be given by the World Governance Indicators by the World Bank. The indicators regarding the quality of governance are measured by this index based on almost 40 data souces produced by dozens of organizations worldwide and it has been the results have been published since 2002. The WGI ranks countries around the indicators through a percentile rank, where 0 corresponds to the lowest rank and 100 corresponds to the highest rank. To evaluate the level of corruption in Angola, it will be apllied the "Corruption Perceptions Index of Transparency International. Property rights and the indicator of independent judiciary system and will be addressed together with the indicator rule of law. The first one score will be derived from the Index of Economic Freedom by the Heritage Foundation) and the second from the World Economic Forum, more specifically. The organization ranks, in its published published *Global Competitiveness Report,* different indicators regarding a country's institution quality among other pillars[13]. Respondents evaluate, on a scale of 1 to 7, aspect of their business environment, where 1 represents the worst possible situation and at the other end of the scale, 7 represents the best.

Sample

69 responses were obtained, of which 67 match the intended profile, that is, operate in the Food and Beverage sector and export to Angola for more than 3 years. Although the companies surveyed represented a small percentage of the total industry volume, 65% of the companies presented a business volume of over 100M / year. The survey was forward to members of the Board of Directors or Commercial Directors. The 67 respondents are the only ones considered for analysis hereafter. In more detail,

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[13] 1- Institutions; 2 - Infrastructure; 3 – Macroeconomic environment; 4 – Health and primary education; 5 - Higher education and training; 6 – Goods market efficiency ; 7 – Labour market efficiency; 8 – Financial market development; 9 – Technological readiness; 10 – Market size; 11- Business sophistication; 12 – Innovation. The CGI uses more than 110 variables picked from publicly available sources like international agencies such as United Nations or the International Monetary Fund

67.2% of the respondents export direct to end customers in the destination country, as 25.9% export through agents or distributors abroad. Only 7.4% of the firms export through direct investment and only one case (1.9%) is not in charge of the exports of the own products. The majority of the respondents recalls that the main reasons to choose Angola has an export destination were economic growth and the fact the consumer profile is suitable for r the exported product, in opposition to the political and social stability and customs simplification [Figure 4]. The responses are presented as an average weighted of an ordinal scale of 1 to 5 where 1 represents *Totally disagree* and 5 represents T*otally agree.*
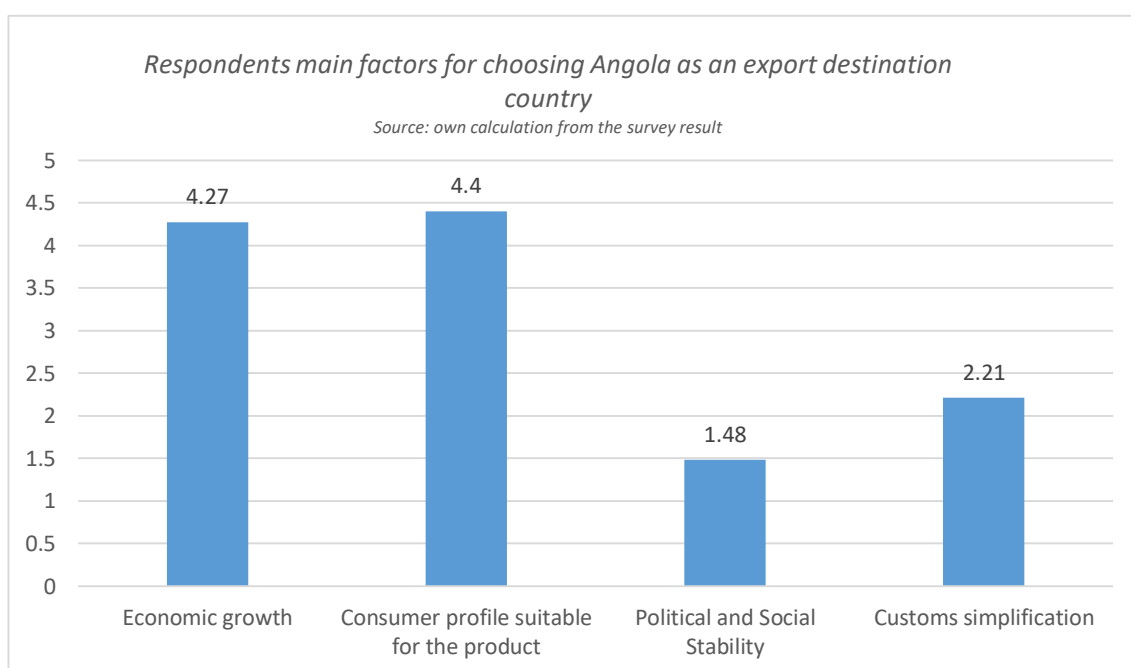
Summary and descriptive statistics

Although the Food and Beverage sector constitutes the main imports by Angola from Portugal (INE, 2015), the sector appears to be following of the Angolan economy, which has returned, in 2016, to growth below expectation, and at the slowest pace since 2009. The results of the survey show us that 46.3% of the exporting firms surveyed had a negative rate of growth in the last three years [Figure 5].

Figure 5: Exports' growth rate [2013-2016]
Source: author's own calculation from the survey
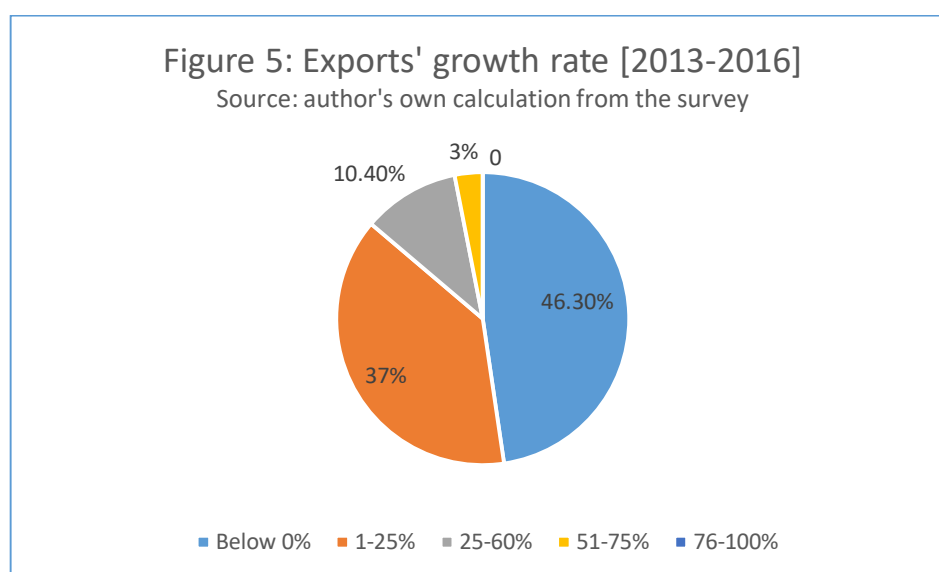
More than try to assess the direct impact of macroeconomic, infrastructure, financial or institutional variables on the export performance, this study intends to contribute to the literature on institutions by empirically investigate the relationship between foreign institutional quality and export. For firms operating in IB, as challenges and constrains arise in the host country, it is mandatory an evaluation on how government can provide a stable environment for economic growth when it can be depended upon to maintain the stability of the currency, enforce and defend property rights.

The figure below [Figure 6] presents an average weighted scale of the responses regarding a list of institutions and the impact in their international operations in the country. The responses are scaled from 1 to 5 where 1 represents *very weak* impact and 5 represents *very strong* impact, the perceived institutions quality decreases as the rank order increases. As it is evident from the figure below,

the institutions perceived that impact the most the export performance and poses as the first threat for export business in the country are the *security in transactions and contracts* and *transfer of capital*, with an average of response of 4.27 and 4.13, respectively.

Figure 6: Perception of the impact of 8 institutions on firms' export performance
source: author's own calculation from the survey
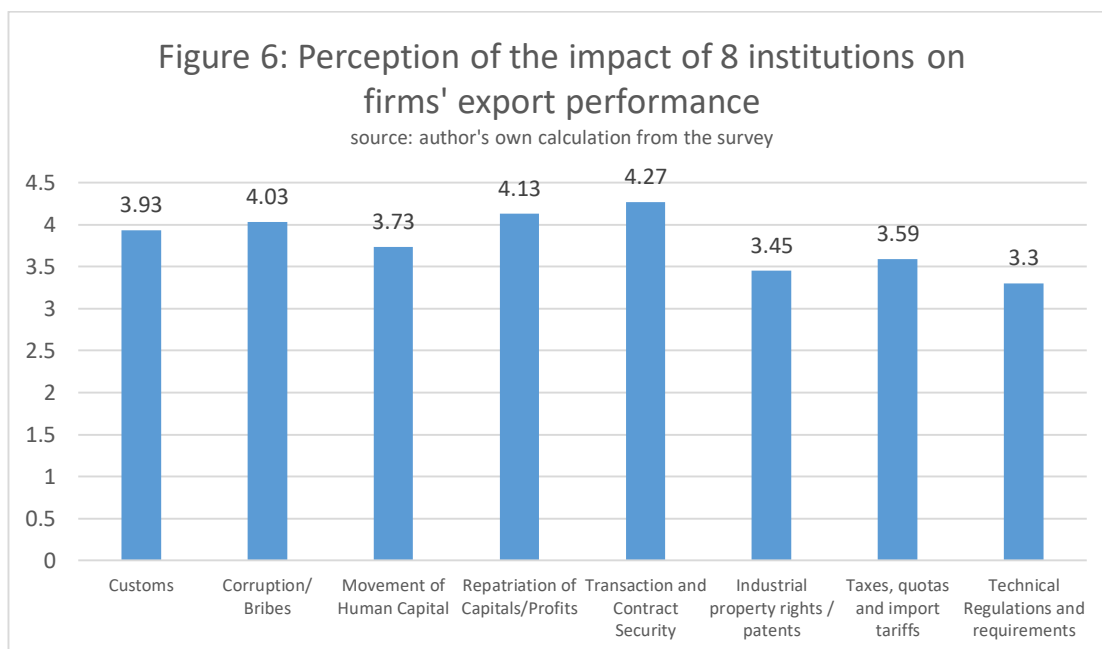
The Rule of Law indicator

Kaufman et al. (2010) define *Rule of Law* as the captured perception that law governs a country, as opposed by arbitrary decisions of individual government officials and agents, "including particular the quality of contract enforcement, property rights, the police and the courts, as well the likehood of crime and violence"[14].

Based on the survey, Portuguese firms find lack of rule of law in Angola, in fact, in terms of crime and violence, firms consider that incidence of crime and violence imposes in great extent costs to the firm. 66.1% of the respondents claim that the Government isn´t incapable of protection, either human or private property. Regarding property rights and contract enforcement, the respondents point out that the country's weak when it comes to this two institutions, as their average perception about property rights is 4.03 and about contract enforcement is 3.95. [Figure 7] below

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[14] Kaufman, D. & Kraay, A. & Mastruzzi, M. (2010) *The World Wide Governance Indicators: Methodology and Analytical Issues,* Global Economy and Development at Brookings

presents an average weighted scale on how strong is the legal framework for private companies in solving disputes and how strong is the protection of property rights in the country. Responses are classified on a scale from 1 to 5 where 1 represents strong institutional quality and 5 weak institutional quality.

Figure 7: Portuguese firms' perception of Angolan Contract Enforcement and Property Rights
Source: author's own calculation from the survey
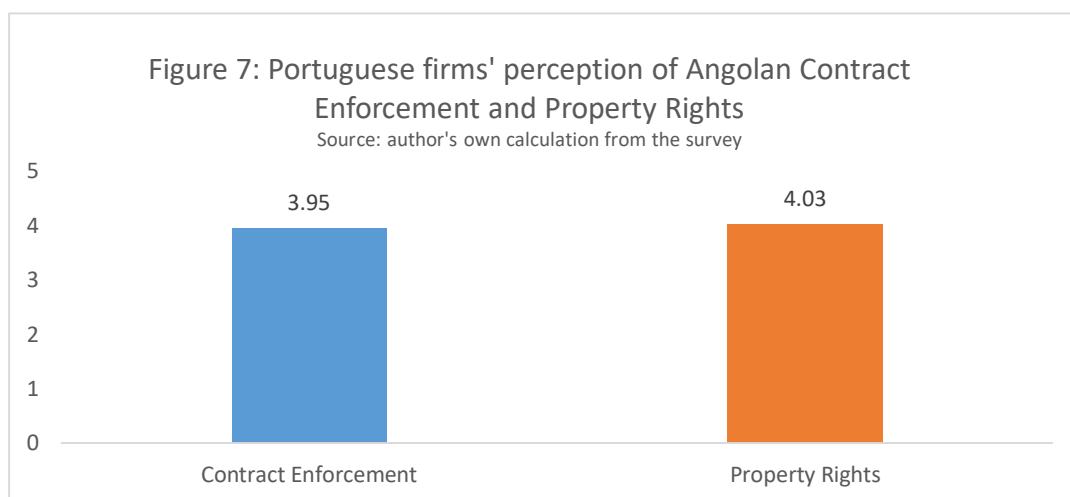
A strong rule of law requires that law and regulations are enforced effectively and are enforced without improper influence of government agents or private interests. Portuguese exporters' opinion is that business environment in Angola does not offer the judiciary system without political interference by the government, president, or other political powerful agents within the ruling party [Figure 8], as 38.6% of the respondents state the judiciary system is completely influenced by government officials, individuals and businesses.

Figure 8: Level of Perception of the influence of government agents on the judiciary sistem
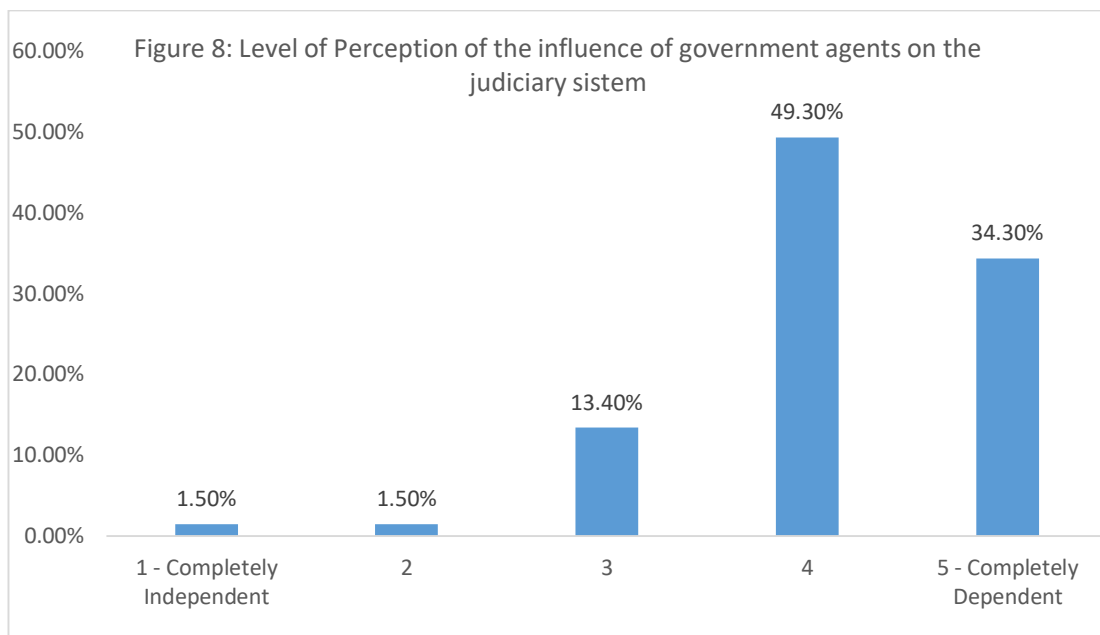
The analysis made by the export managers of the Portuguese companies surveyed matches the rank given by the World Governance Indicator (WGI) to the country's indicator rule of law. Since 2010 until 2015, Angola's score has been negative, reaching once again the last percentile, with a rank around 12. For a closer to the property rights indicator and the independency of the judiciary system indicator, it was considered the scores given by the Economic Freedom Index 2016 and by the Global Competitive Index 2015, respectively. The scale of Index of Economic Freedom measures the indicators in the range of 0 (worst) to 100 (best), as the Global Competitive Index scale from1 to 7 where 1 represents the worst and 7 represents the best. Is given to the former Portuguese colony a poor evaluation regarding Property Rights, with a score of 15/100 and poor evaluation regarding independence of judiciary system.

The Control of Corruption Indicator

The analytical indicator of corruption captures the perception of the extent to which public power is exercised for private gain (Kaufman et al., 2010), including the prevalence of grand and petty corruption exercise by government agents. Portuguese exporters' perception regarding this indicator is that the country shows a high degree of corruption, making them deal daily with untrustworthy and badly functioning public institutions. The figure below [Figure 9] shows us the frequency that the

respondents are face with extortion situations or have to make "irregular payments". The respondents were surveyed in five different situations: exports and imports; utility services; payment of annual taxes; award of public contracts, obtaining favourable court decisions. The results obtained show a high frequency in "irregular payments" regarding the process of Export the products into the country.

Figure 9: Frequency with which Portuguese exporters make irregular payments
Source: author's own calculation from the survey
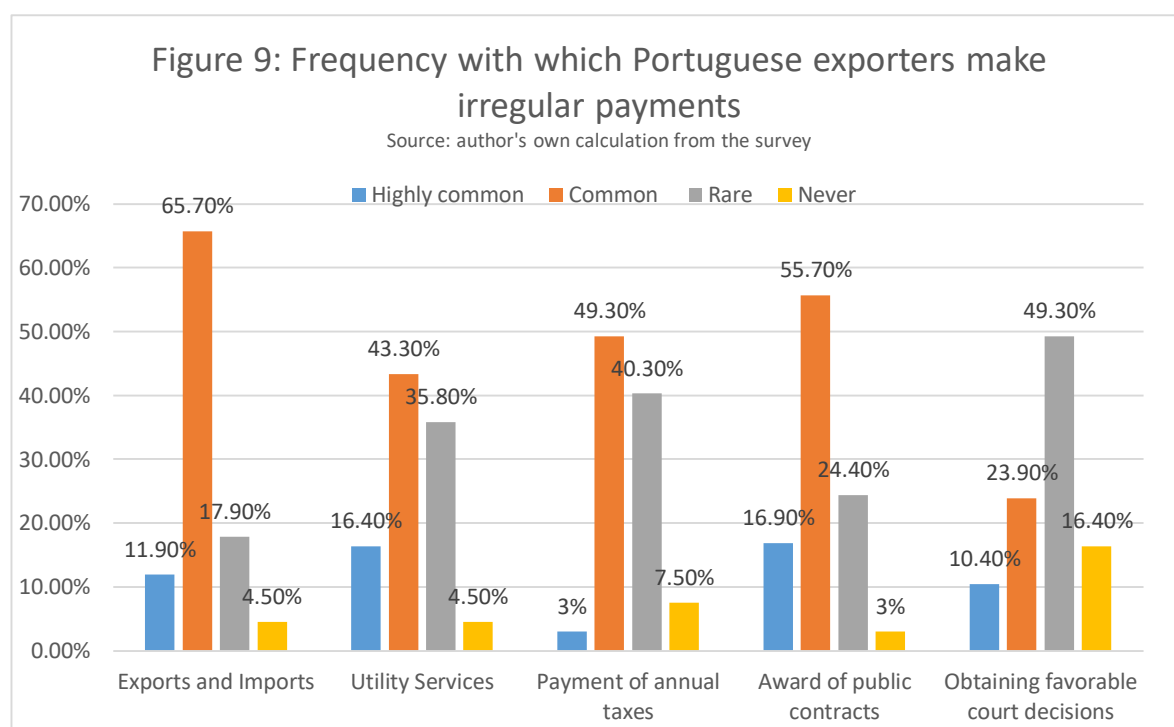
Additionally, 88% of respondents classify the ethics of the government as *weak* or *very week*. The analysis made reflects the score given by the ONG Transparency International to the country's indicator corruption, as it scores 18 out of 100, dropping from 22 back in 2012. The score "indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean)"[15], ranking the country as one of the most corrupts in the world (164th position out of 176th).

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[15] http://www.transparency.org/country/Angola

Government Effectiveness Indicator

Organizations in the public and private sector rely on the quality of the public service and on the bureaucracy to function. Kaufmann and Kraay (2002: 6) define government effectiveness as the "perceptions of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies". To access the quality of this indicator, it will be narrowed to the perception of Portuguese exporters regarding the burden of government regulation/ bureaucracy, the existence of a legal framework in challenging regulation/institutions, and the government commitment to laws and regulation. Attending the respondents, the sub-Saharan country shows a high bureaucracy burden and high inefficiency of the customs, as Portuguese firms evaluate both indicator with 4.06 and 3.42. [Figure 10] below presents average weighted scale the level of difficulty that companies have dealing government administrative requirements (permits, regulations, reports, etc.) and dealing with country's customs. Responses were classified on a scale from 1 to 5 where 1 represents strong institutional quality and 5 weak institutional quality.

Figure 10: Perception of bureaucracy burden and customs innefiency in Angola
Source: author's won calculation from the survey
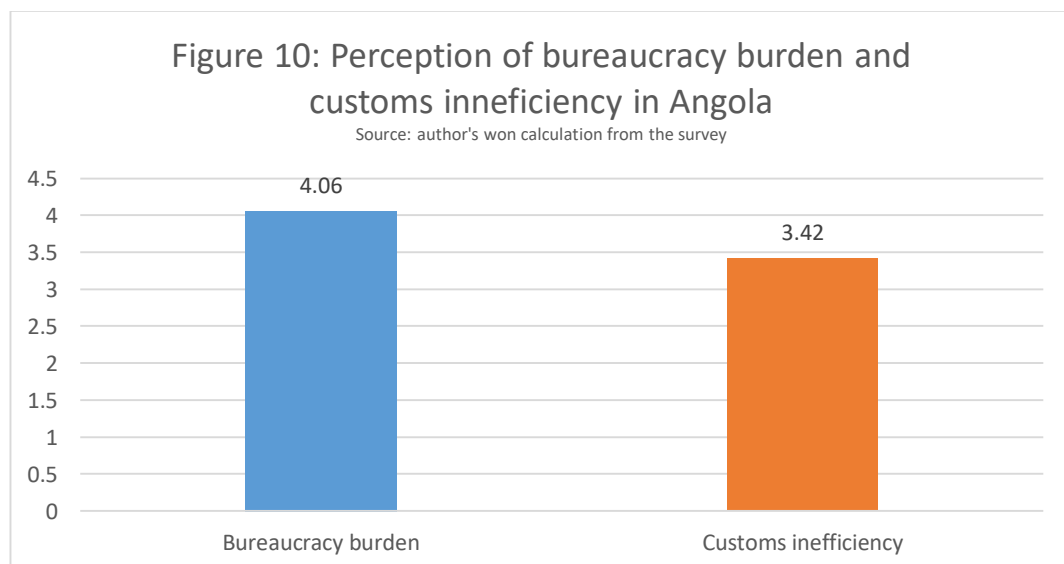
It is important to note that 65.6% of the respondents *most of time*/*always* fear about retroactive changes in Laws and Regulations that are important for the

operations of the business. By showing intensive, unstable and commitment to business regulation, Angola tends to be less attractive for investment. In fact, 80.6% of the respondents point out that in the past have been restricted from large investments due to issues related to compliance with government regulations. Allied to fact that the country has poor law enforcement, Portuguese firms fell no absence of legal framework in challenging regulation/institutions, as 37.3% of the respondent's state that when a government institution act against the rules, there's a higher level institution to which the case can be exposed [Figure 11].

Figure 11: " If a government institution acts against the rules, does it usually have another hierarchically superior institution where it can expose the case?"
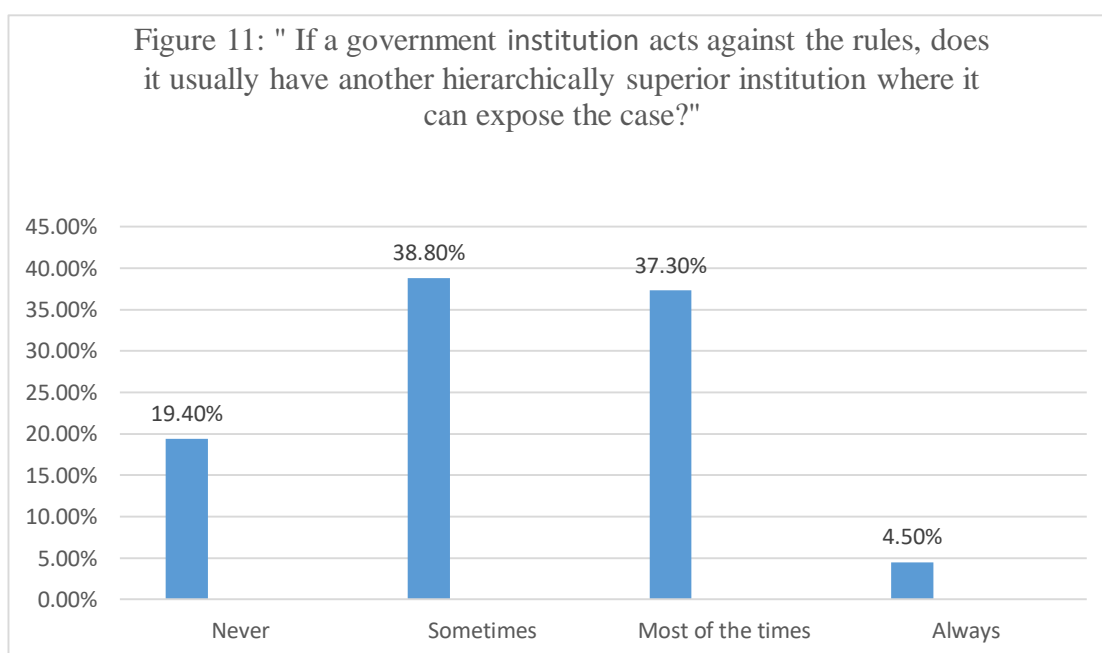
The indicator of Government Effectiveness matches the score given by the World Governance Indicator (WGI). Since 2010 until 2015, Angola's score has been negative, reaching once again the last percentile, with a rank around 15/100.

Conclusion

The present thesis evaluates the institutional environment that characterizes Angola. Overall, the results obtained are mostly in line with the research on this topic. As literature have realized that institutions matter when speaking about firm internationalization, firms need to interiorize the practical benefits of using an institutional-based approach in emerging economies. From the qualitative analysis, there is empirical evidence that Angolan business environment is characterized by

corruption, weak rule of law (including weak property rights) and low judiciary independent system, making the country score low on the formal rules of the game. The research suggests that the "exporter's perception about the institutional environment of the country is an important determinant of the decision to expand export. It is possible to conclude that any industry is necessarily associated with the context of the country. If in the past there was a need to diversify the markets, the recent economic slowdown and the consequences for the depreciation of kwanza and repatriation of profits, means that firms need to rethink strategies and evaluate the. In general, this study suggests that exporters in Food and Beverage sector are highly influenced by bad institutional environment of the country supporting the hypothesis that Angola, presents a powerful challenge to the traditional export strategy in the country. Evidence is supported by the institutional quality given by international organizations, the country ranked as one of the 15% worst institutional quality countries category [Appendix 4].

Limits

The paper has clearly established the institutional quality of Angola by means of the perception given by Portuguese exporting firms within the Food and Beverage sector. Although they outline constraints that poor institutions in the sub-Saharan cause to their international operations, it is impossible to measure the real impact on the export performance. The literature on institutions and trade, suggests that the quality of institutions has a positive impact on trade performance, but such linkage can't be established by taking to account empirical literature. Models that can analyze flow of capitals, use cross-sectional analyzes, or time-series regressions on trade data of a countries presents a better approach. Also, the paper doesn't take into account informal institutions, which can play an important role as well and require attention beyond the scope of this paper.

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Appendix

Appendix 1 – Portugal Top 10 Export Destination of Goods
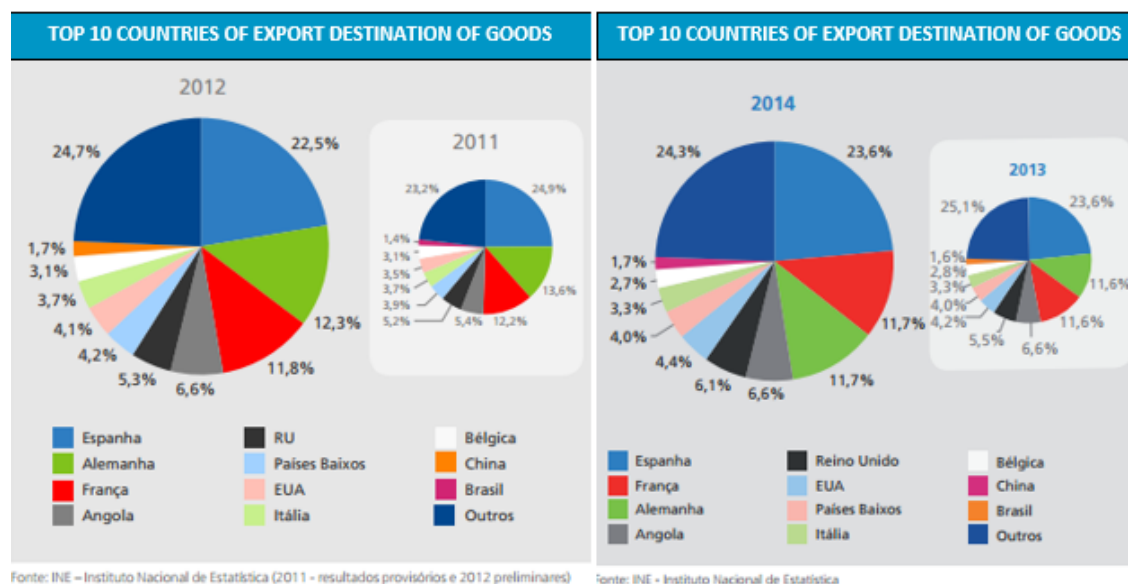
Appendix 2 - Composition of the Food and Beverage sector
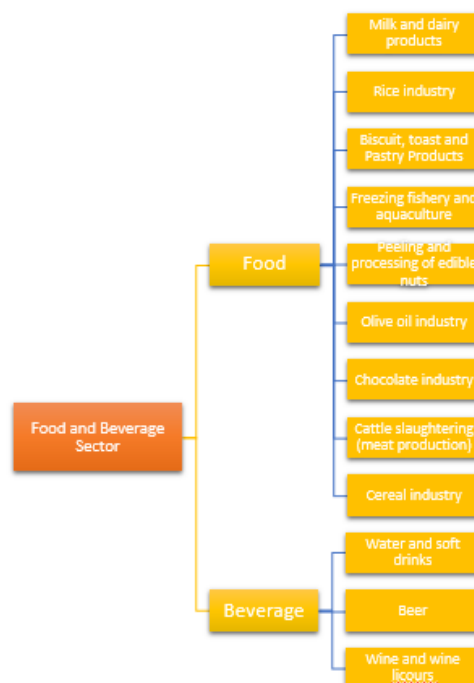
Appendix 3 – Survey forward to Portuguese companies in the Food and Beverage sector

GENERAL QUESTIONS

1. Do you export to Angola?

a) Yes ☐   b) No ☐

2. With regard to international trade, which is the company's model of operation?

a) Export direct sales to end customers in the destination country ☐

b) Only works with the national market ☐

c) Export through agents or distributors abroad ☐

d) Direct investment ☐

e) Indirect exports – not in charge of exports ☐

3. What were the main factors for choosing the Angolan market?

	Do not agree completely (1)	Do not agree (2)	Neither agree or disagree (3)	Agree (4)	Agree completely (5)
• Economic growth	☐	☐	☐	☐	☐
• Consumer profile suitable for the exported product	☐	☐	☐	☐	☐
• Political stability and social	☐	☐	☐	☐	☐
• Knowledge of the target country import procedures	☐	☐	☐	☐	☐
• Knowledge of the main products imported by country	☐	☐	☐	☐	☐
• Customs simplification	☐	☐	☐	☐	☐

- Open target market for exports from other countries

□ □ □ □ □

- Ease of expatriation of capitals

□ □ □ □ □

- Existence of specific support mechanisms exports to the target country

□ □ □ □ □

- Agreements and tax treaties

□ □ □ □ □

How do you evaluate the performance (rate of export growth) e of the last three years?

a) Less than 0% □   b) 1-25% □   c) 26-50% □
d) 51-75% □   e) 76-100% □   f) 76%-100% □

Evaluate the impact of the following institutions have in your company's export performance?

	Very weak (1)	*Weak (2)*	*Moderate (3)*	*Strong (4)*	*Highly strong (5)*
Customs	□	□	□	□	□
Corruption / Bribes	□	□	□	□	□

Human Capital Movement (obtaining visas or permits for residence and work, restrictions on domicile and nationality, requirements for hiring local workers, factors relating to working conditions)	☐	☐	☐	☐	☐
Transfer of capital; Repatriation of profits; Functionality of payment transactions and related regulations.	☐	☐	☐	☐	☐
Security in Transactions and Contracts	☐	☐	☐	☐	☐
Industrial property rights / patents	☐	☐	☐	☐	☐
Taxation, quotas and other taxes on imports	☐	☐	☐	☐	☐
Technical regulations, standards, conformity assessment procedures, certification requirements	☐	☐	☐	☐	☐

BUSINESS REGULATIONS

Evaluate (1-5**) how easy your company can obtain information about changes in Politics and Regulations that affect your activity?**

1- Extremely difficult	2	3	4	5- Extremely easy

Evaluate (1-5) how predictable do you consider that in Angola, changes in Politics and Regulations are:

1- Completely predictable	2	3	4	5- Completely unpredictable

Evaluate (1-5) how is your fear about retroactive changes in Laws and Regulations that are important for the operations of your business?

1- Never	2	3	4	5- Always

CRIME AND THEFT

In Angola, to what extent does the incidence of crime and violence impose costs on businesses?

Great measure ☐

Small measure ☐

None ☐

"I do not trust the state authorities to protect my person and my private property" - How much do you agree with this statement?

1- Totally Disagree	2	3	4	5- Totally Agree

Government / Bureaucracy / Property Rights

How do you assess / recognize the relationship between government and / or bureaucracy and private companies?

Helpful ☐

Neutral ☐

Oppositor ☐

Evaluate your overall perception of customs efficiency in that country?

1- Very efficient	2	3	4	5- Very Inefficient
☐	☐	☐	☐	☐

How do you evaluate the ethical standards of politicians / government in Angola?

1- Very Week	2	3	4	5- Very Strong
☐	☐	☐	☐	☐

To what extent does the judiciary consider independence from the influences of government officials, citizens, or businesses?

1- Completely independent	2	3	4	5- Completely influenced
☐	☐	☐	☐	☐

In Angola, how do you consider how strong is the legal framework for private companies in dispute resolution is?

1- Extremely weak	2	3	4	5- Extremely strong
☐	☐	☐	☐	☐

In Angola, how expensive/difficult is it for companies to comply with government administrative requirements (eg permits, regulations, reports)?

1- No costs	2	3	4	5- Highly expensive/difficult
☐	☐	☐	☐	☐

Have you ever been restricted from a large investment due to issues related to compliance with government regulations?

yes ☐

no ☐

If a government institution acts against the rules, does it usually have another hierarchically superior institution where it can expose the case?

Always ☐

Most of the times ☐

Sometimes ☐

Never ☐

In the last 5 years, the difficulties in dealing with government agents / institutions have (has) been ...

Increasing ☐

The same ☐

Decreasing ☐

No idea ☐

In Angola, how strong do you consider the protection of property rights, including financial assets?

1- Extremely Strong	2	3	4	5- Extremely week
☐	☐	☐	☐	☐

Corruption

"It is common for companies in my line of business to make some additional "irregular" payments for things to happen?"

Highly Common ☐

Common ☐

Rare ☐

Never ☐

In Angola, to what extent is it common for companies to make irregular payments or extra bribes in connection with

	Highly Common	*Common*	*Rare*	*Never*
Import / Exports	☐	☐	☐	☐

Public Utility Services	☐	☐	☐	☐
Annual Tax Payments	☐	☐	☐	☐
Award of public contracts and licenses	☐	☐	☐	☐
Obtaining favorable court rulings	☐	☐	☐	☐

RISK AND CHALLENGES OF EXPORTING TO ANGOLA

In Angola, what do you consider the main risks / challenges that companies face when exporting?

	No importance	*Relative importance*	*Important*	*Highly Important*
Knowledge of the importer	☐	☐	☐	☐
Legal Security	☐	☐	☐	☐
Difficulty of access to commercial / market channels	☐	☐	☐	☐
Difficult access to credit lines	☐	☐	☐	☐
Specific rules for product entry	☐	☐	☐	☐
Adequacy of the product / service to the buyer's requirements	☐	☐	☐	☐
The lack of adequate representation in the distribution of	☐	☐	☐	☐
Lack of information on the formation of export prices	☐	☐	☐	☐
Lack of training on foreign trade issues and procedures	☐	☐	☐	☐

Issues related to network access infrastructure in the export destination country	☐	☐	☐	☐
Internal competition	☐	☐	☐	☐
The costs of the negotiation process	☐	☐	☐	☐
Improvement of infrastructure for access to ports, airports and other transport networks	☐	☐	☐	☐

Appendix 4 – Overall institutional quality of Angola regarding *Rule of Law*, *Control of Corruption* and *Government Effectiveness* (Source: WGI, 2016)